

# Six Minute Strategy

## Should we be worrying about inflation?

5th March 2021

If you are a private investor, you should not act or rely on this document but should contact your professional advisor.



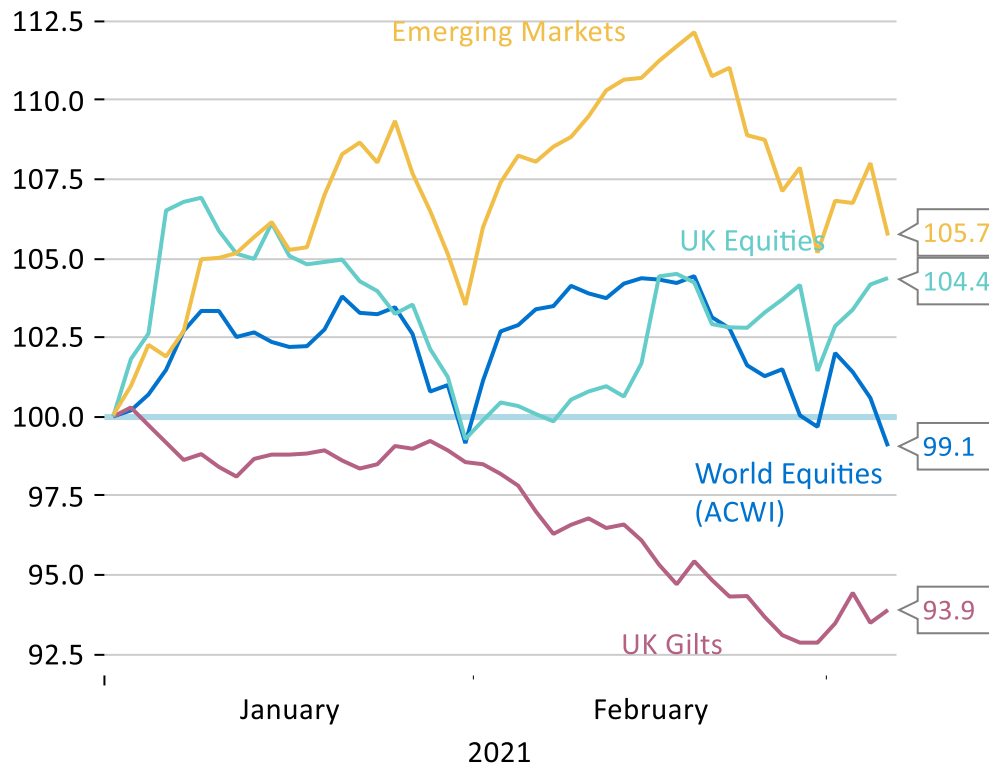
# Markets 2021

Emerging Markets & commodities lead - UK equity recovery begins – bonds fall



Equity rally fades - bonds decline

Global Asset Class Returns 2021 (GBP) to date

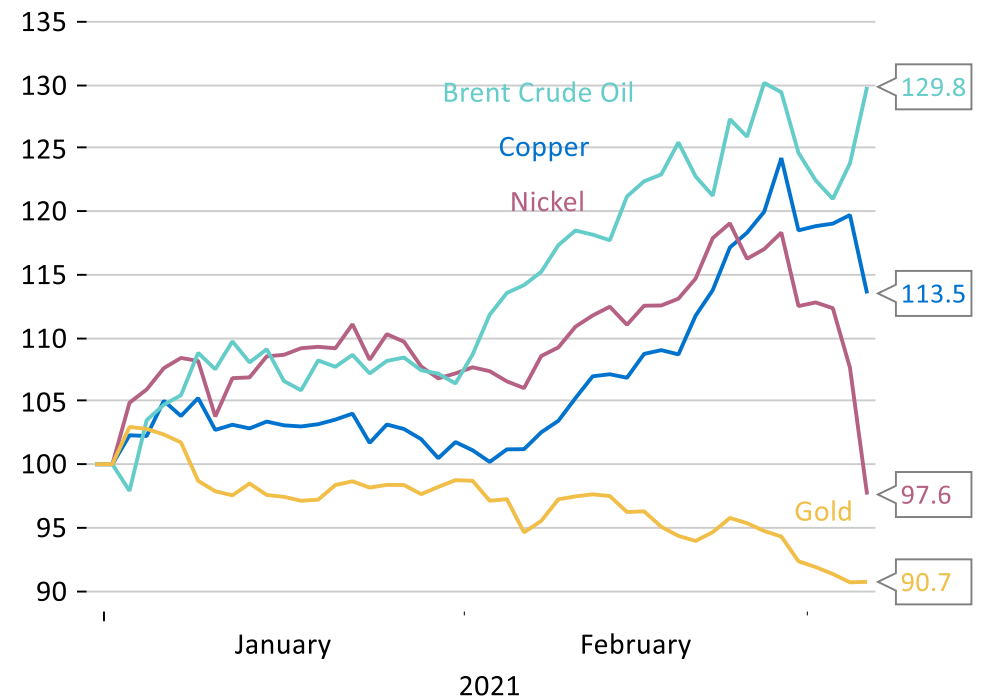


Source: Macrobond, 05.03.21



Oil & metals surge - does this signal inflation ahead?

Metals & Energy 2021 to date (rebased to 100)



Source: Macrobond, 05.03.21

# US inflation backdrop



- Upgrading US GDP growth to at least 6% from our December forecast of 4.2%.
- In late December, Trump administration passed a \$900bn package - we upgraded US growth to around 5.5% in 2021. Currently, Congress is on track to pass \$1.6-\$1.9tr package – some 7.5% -9% of GDP.
- Biden, Powell and Yellen are aligned on creating sufficient momentum to minimise scarring and eliminate any permanent loss of output which were features of the recovery from the financial crisis:
  - Biden / Yellen are seeking to create space to push through tax hikes
  - Powell is seeking to fulfil inclusive growth objectives
- At least \$2.5 trillion in savings and further fiscal stimulus will unleash very strong momentum

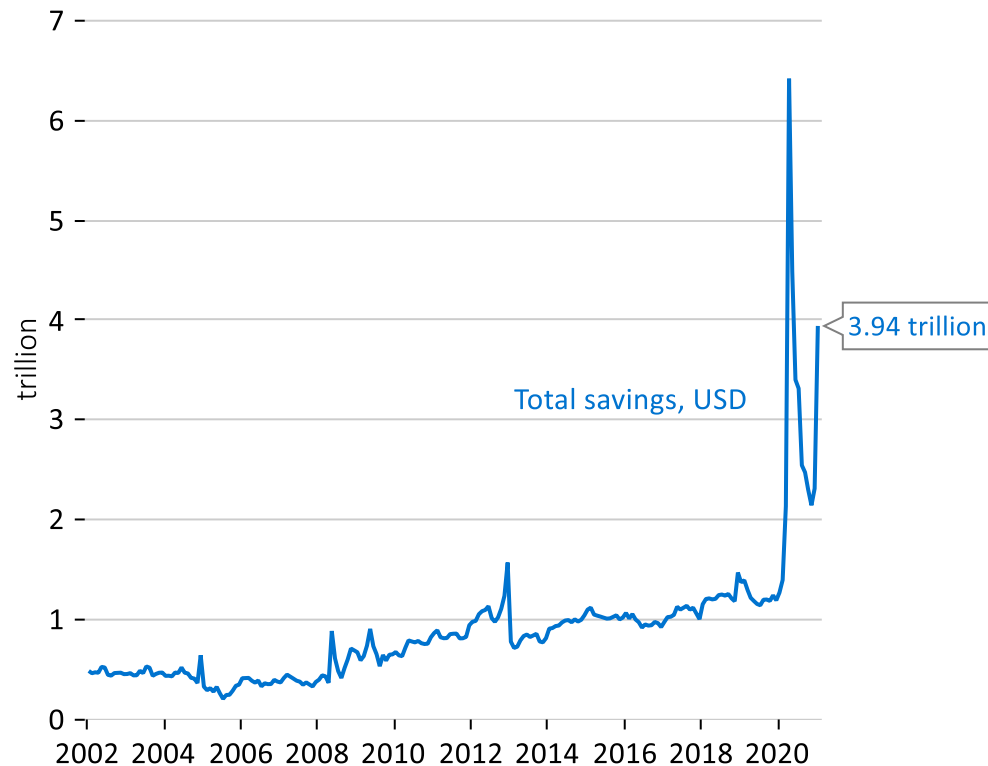


# 1. Fiscal stimulus will hit the economy at the same time as it reopens



Roughly \$2.5 trillion of additional savings

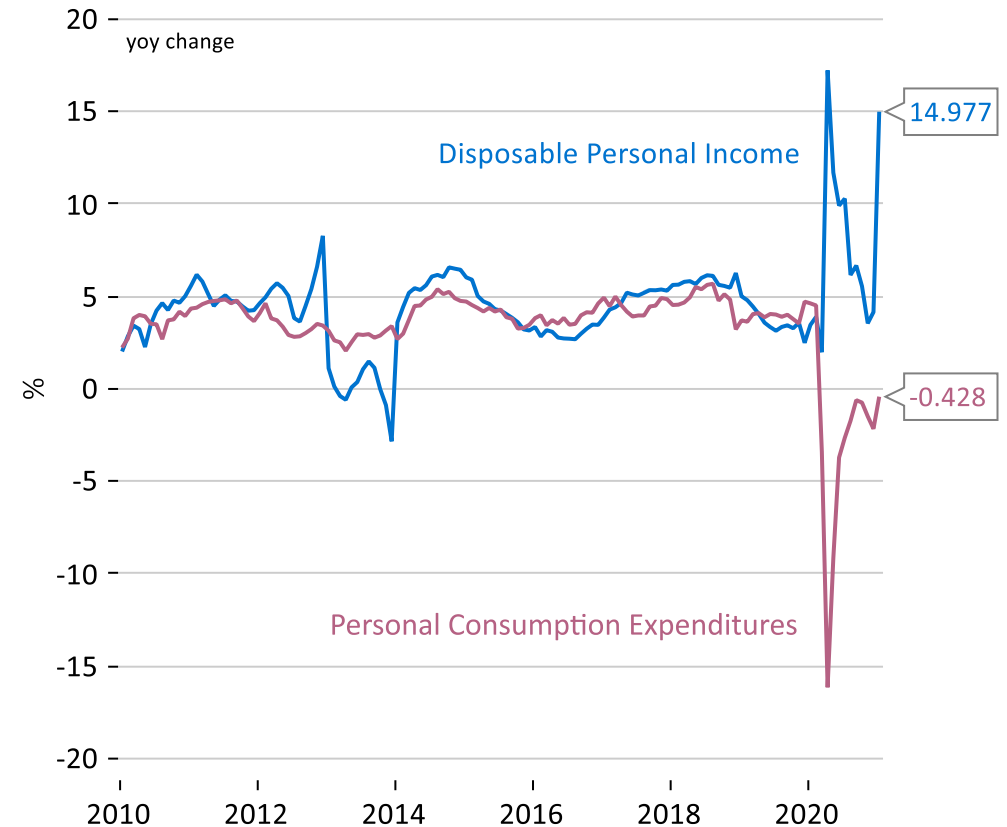
## Total Savings



Source: Macrobond, 05.03.21



Pent up demand as the economy recovers



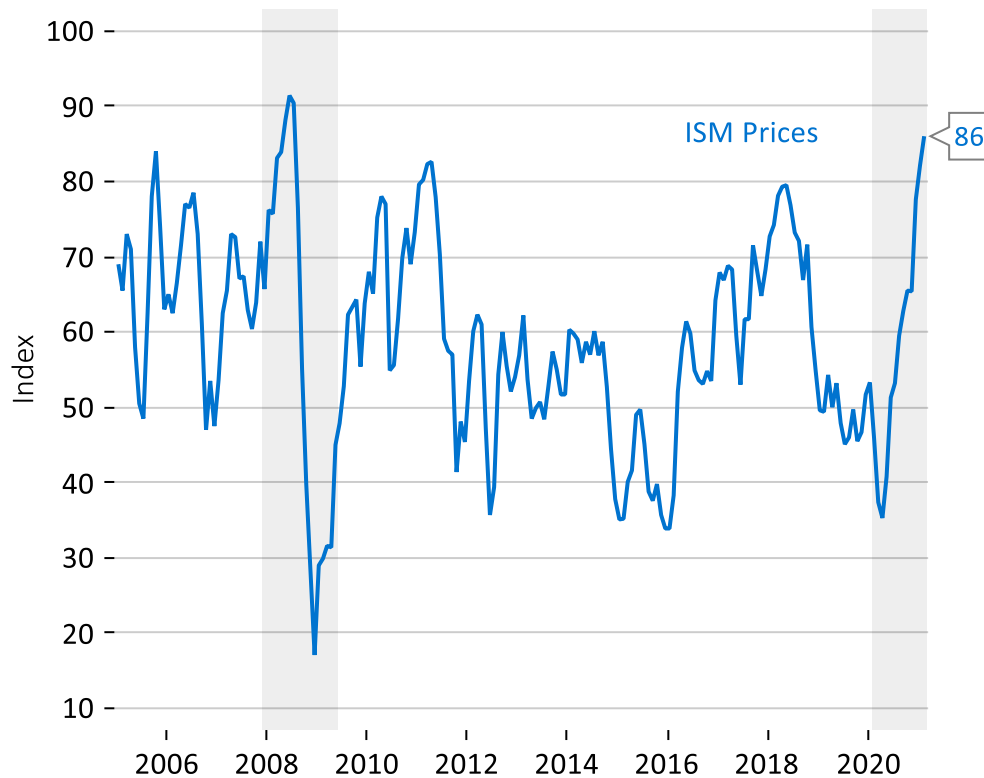
Source: Macrobond, 05.03.21

## 2. Inventories are scarce, supplier deliveries are lengthening and input prices are rising



Pricing pressures rising across manufacturing

ISM Prices



Source: Macrobond, 05.03.21



Inventories falling fast

Inventory / Sales ratio



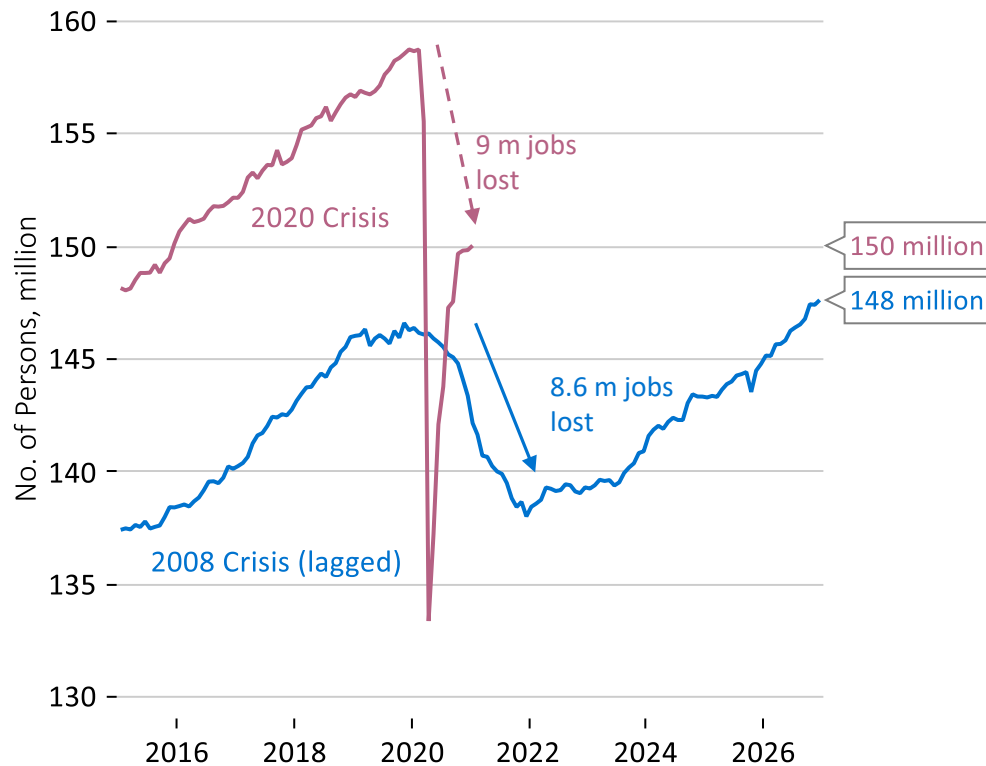
Source: Macrobond, 05.03.21

# 3. There are still material scars from the Pandemic



## Unemployment GFC and COVID crises

### United States Number of People in Employment, 16 and Over

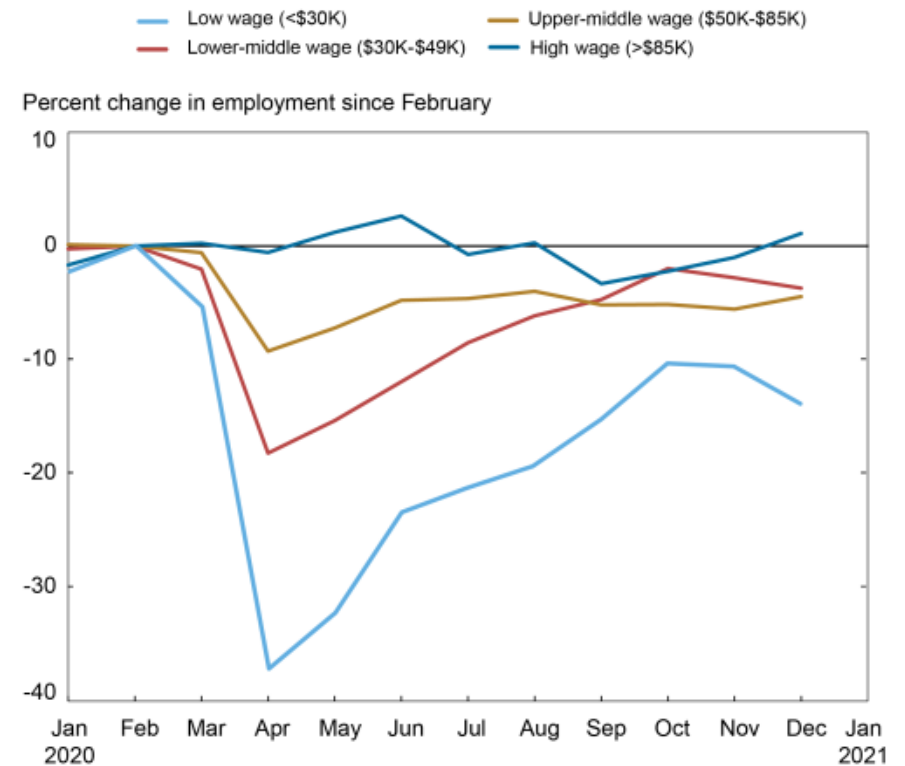


Source: Macrobond



## Low wage workers suffer higher unemployment

### Steeper Job Losses Seen for Lower-Wage Workers



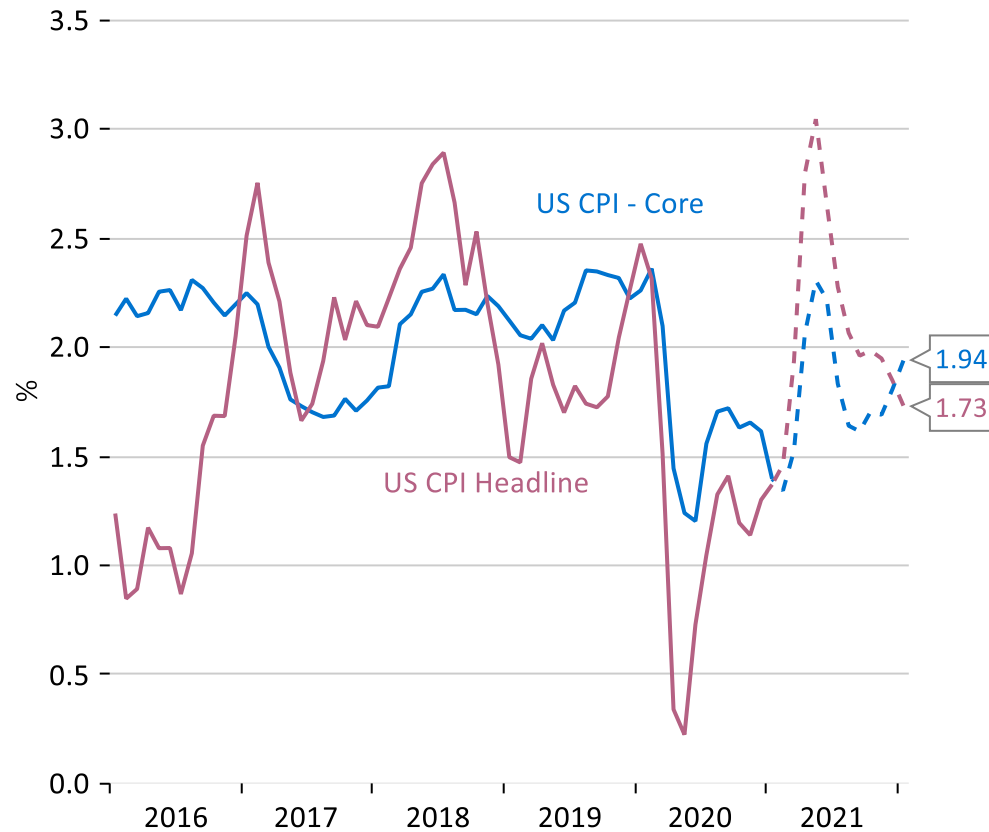
Source: IPUMS-CPS and IPUMS-USA, University of Minnesota, [www.ipums.org](http://www.ipums.org).

Source: Federal Reserve Bank of New York Feb 2021 & Resolution Foundation Feb 2021

# US CPI to hit 3% by May as base effects from oil pass through...edging down to around 2.25% by end of year



## Base effects lift US inflation measures

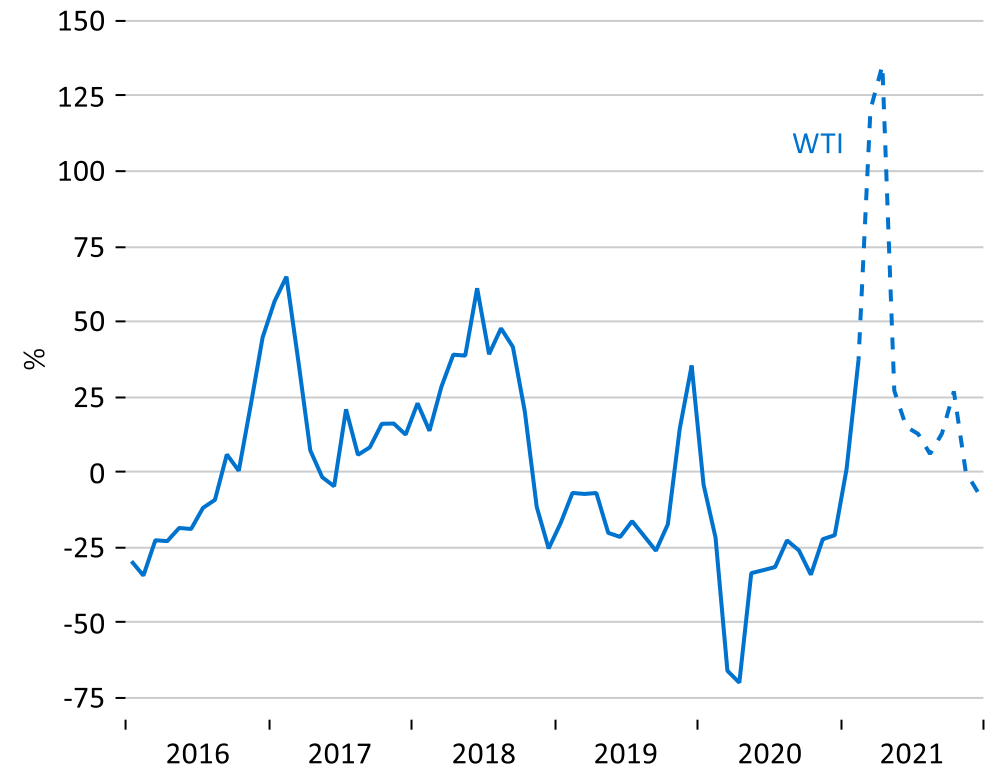


Source: Macrobond, 05.03.21



## Led by surge in year-on-year gains in oil prices

### WTI



Source: Macrobond, 05.03.21

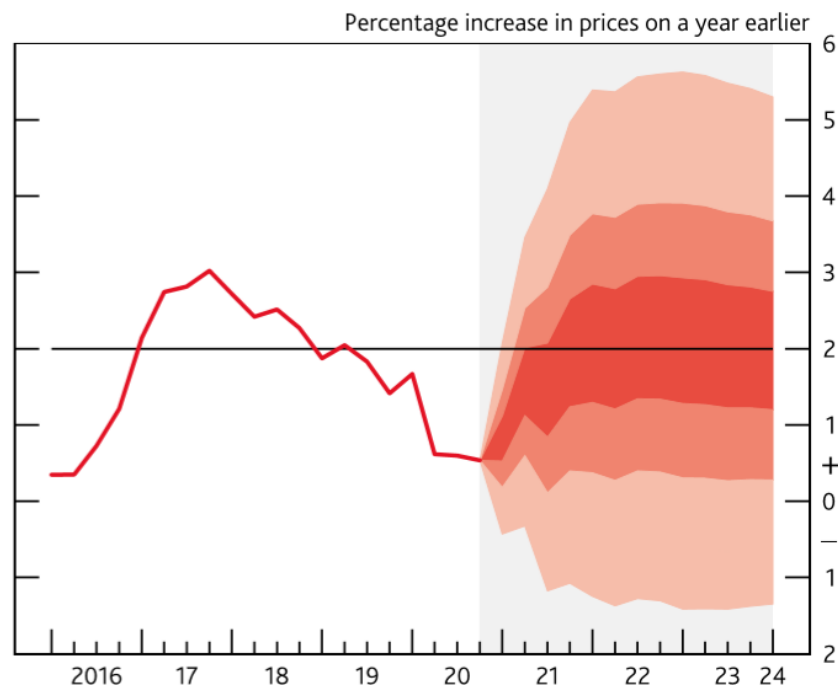
# In the UK inflation risks are more broadly balanced

Tighter post-Brexit supply chains, 4.7m people on furlough & sterling will influence all prices



## UK Inflation projections

**Chart 1.4:** CPI inflation projection based on market interest rate expectations, other policy measures as announced



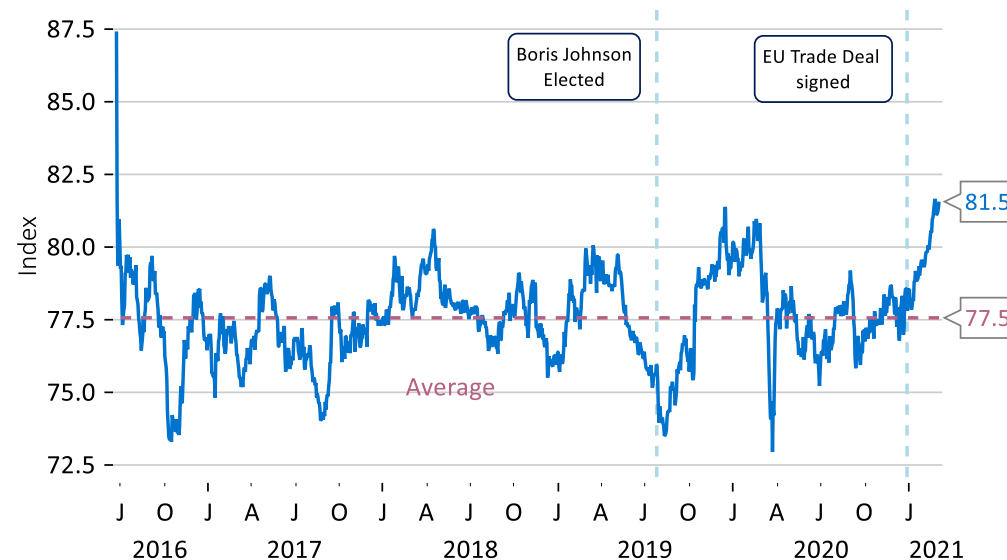
The fan chart depicts the probability of various outcomes for CPI inflation in the future.

Source: Bank of England Monetary Policy Report, February 2021



## Sterling strength likely as fund flows return post Brexit

**Bank of England Sterling index since Brexit Vote**



Source: Macrobond, 05.03.21



# Important information

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