

Six Minute Strategy

So how bad is the inflation shock?

15 October 2021



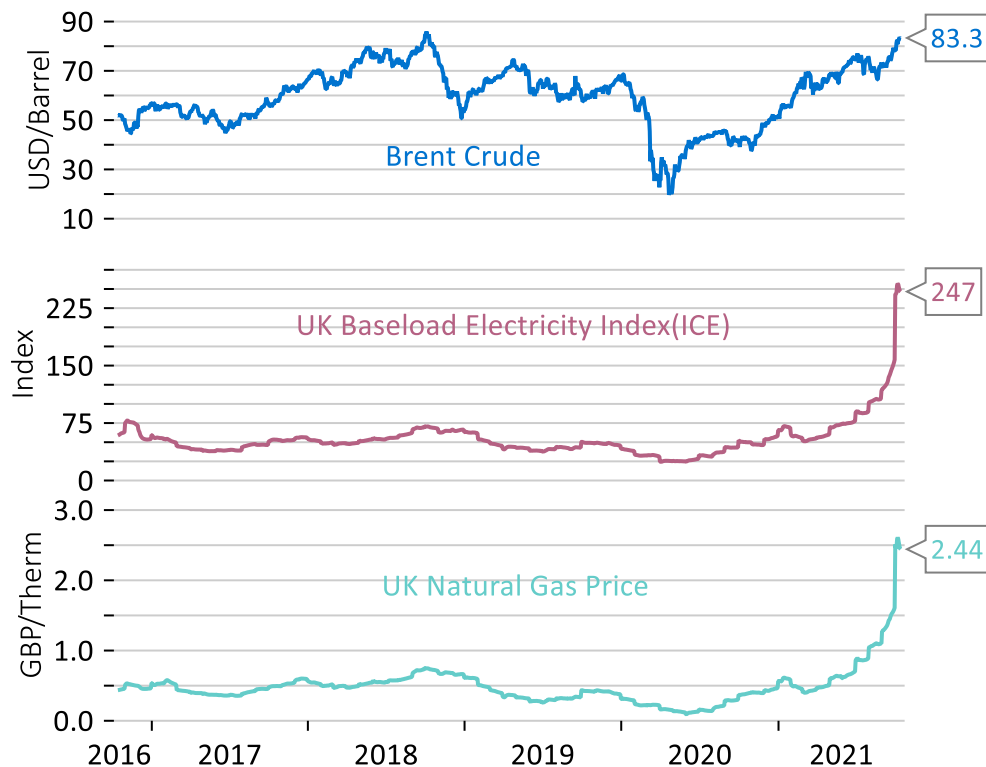
Why is inflation rising?

(1) Energy costs (2) Supply chain disruptions (3) Base effects



Prices rising across all energy sources

Energy Costs

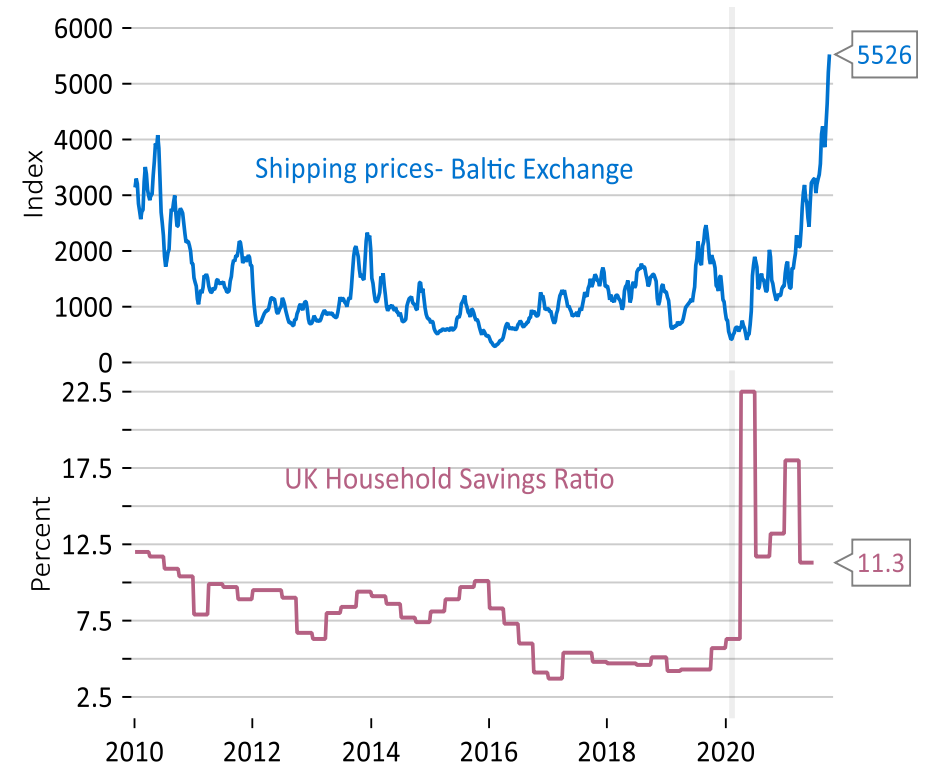


Source: Macrobond, 14.10.21



Supply chain challenges meets savings rich consumers

Supply Chain Disruptions & Excess Savings



Source: Macrobond, 14.10.21

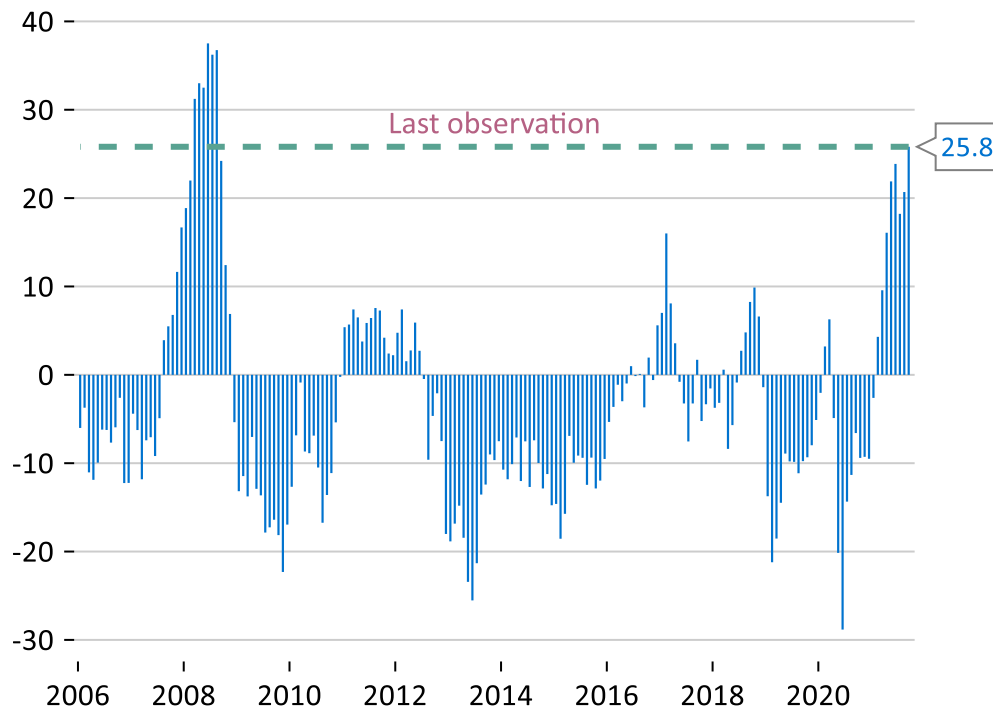
Rising global inflation risks are already prompting central banks to lift rates...



Global inflation risks are rising

Inflation surprise hits highest level since 2008

Source: Citigroup

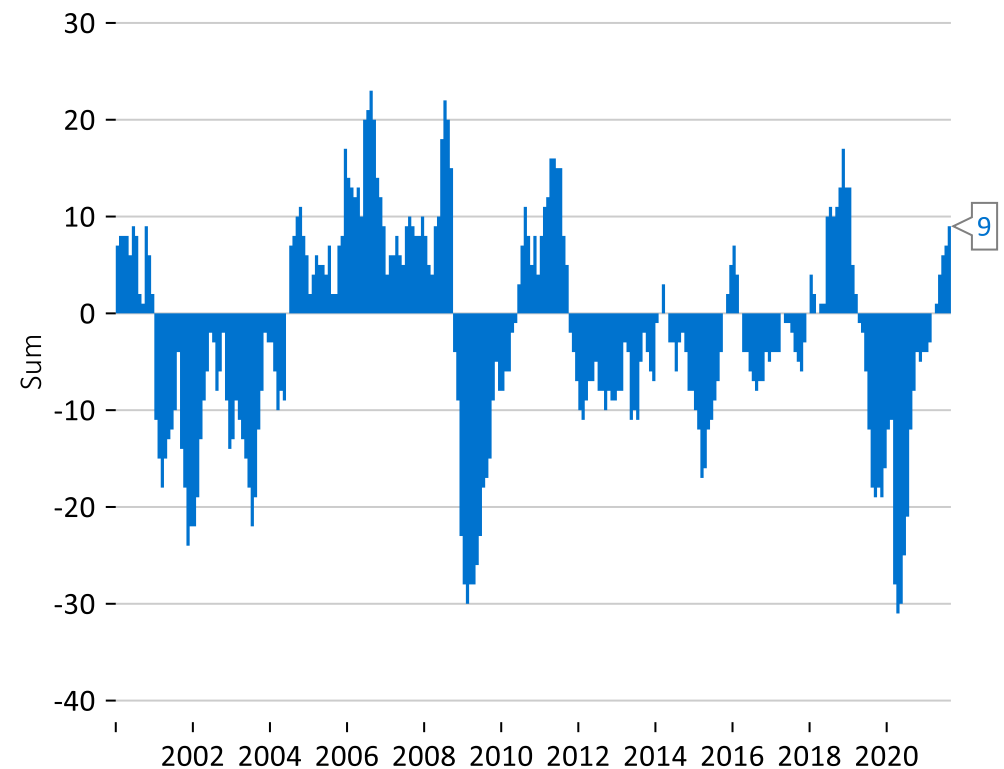


Source: Macrobond, 14.10.21



Global monetary policy now starting to tighten

Number of Central Banks raising rates less those lowering



Source: Macrobond, 14.10.21

Rate rises already seen in 2021 include Norway, Brazil, Mexico, S Korea and New Zealand

Could the UK be the first G7 Central Bank to lift rates?

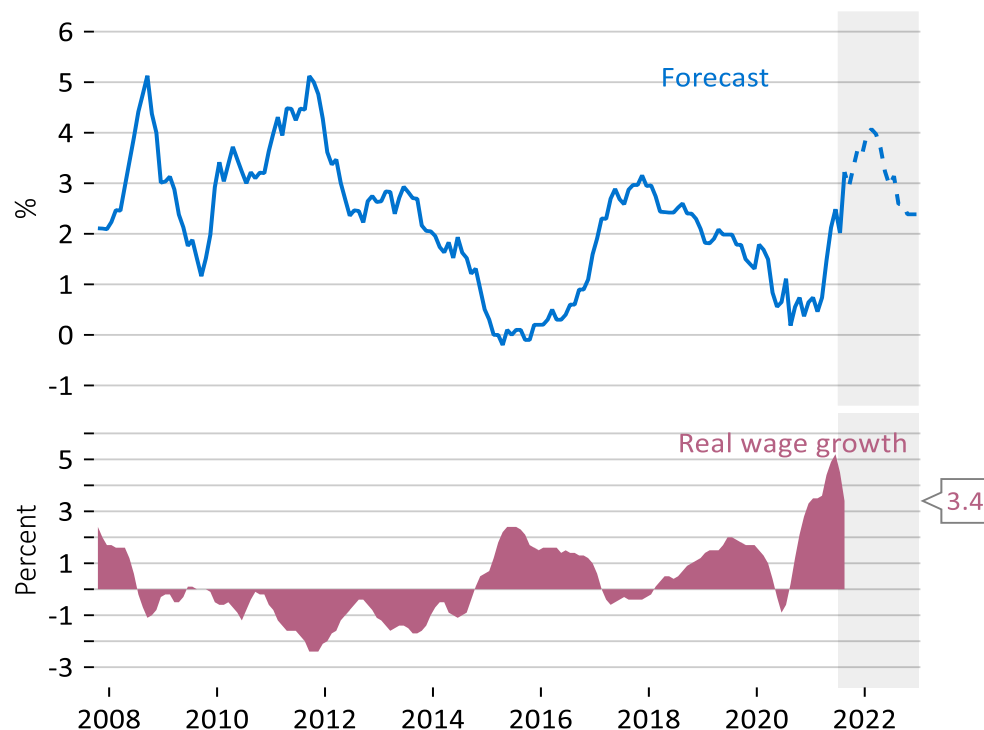


Expect inflation to reach 4% by end 2021



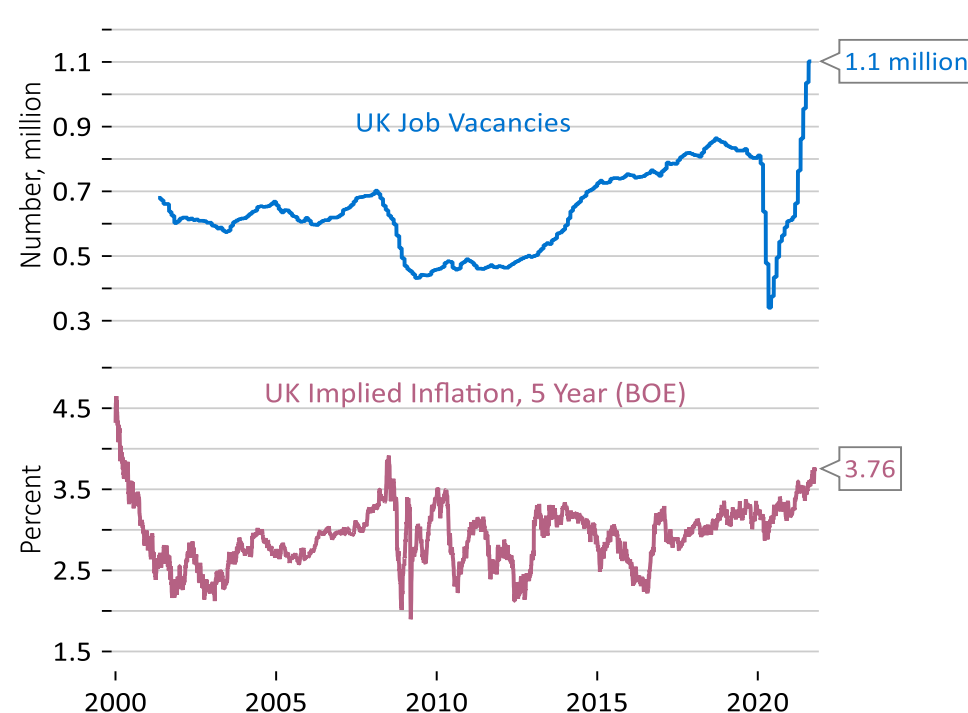
Tight UK labour market as inflation expectations climb

UK CPI growth



Source: Macrobond, 14.10.21

UK Job Vacancies and Implied Inflation



Source: Macrobond, 14.10.21

“We have got some very big and unwanted prices changes”

Andrew Bailey Governor BoE 9/10/21

“Increases in the bank rate... do not need to wait for the end of the current asset purchase programme” (end 2021)

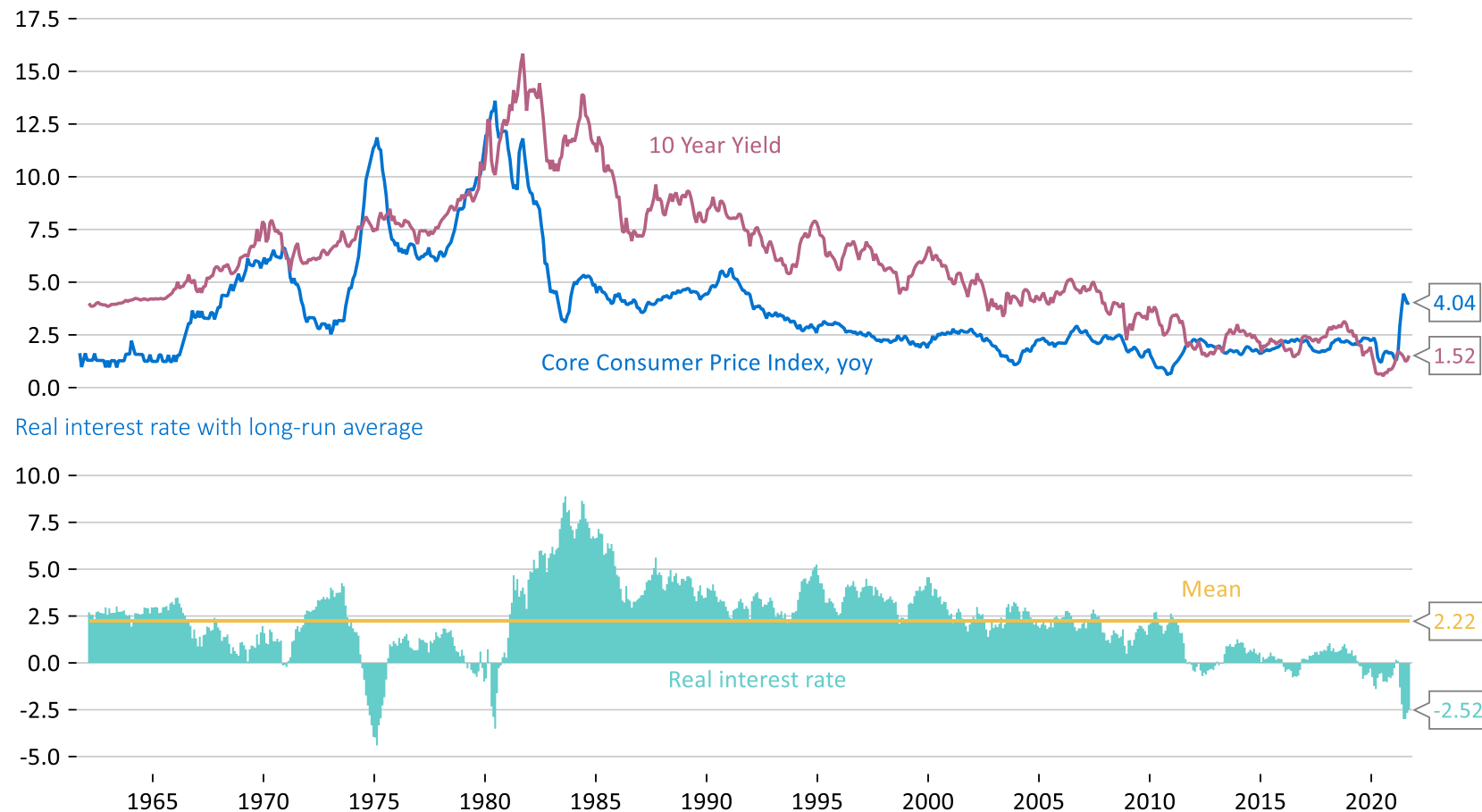
Andrew Bailey 27.9.2021

Bonds: Except for a brief period in the 1970's US real bond yields have never been lower...

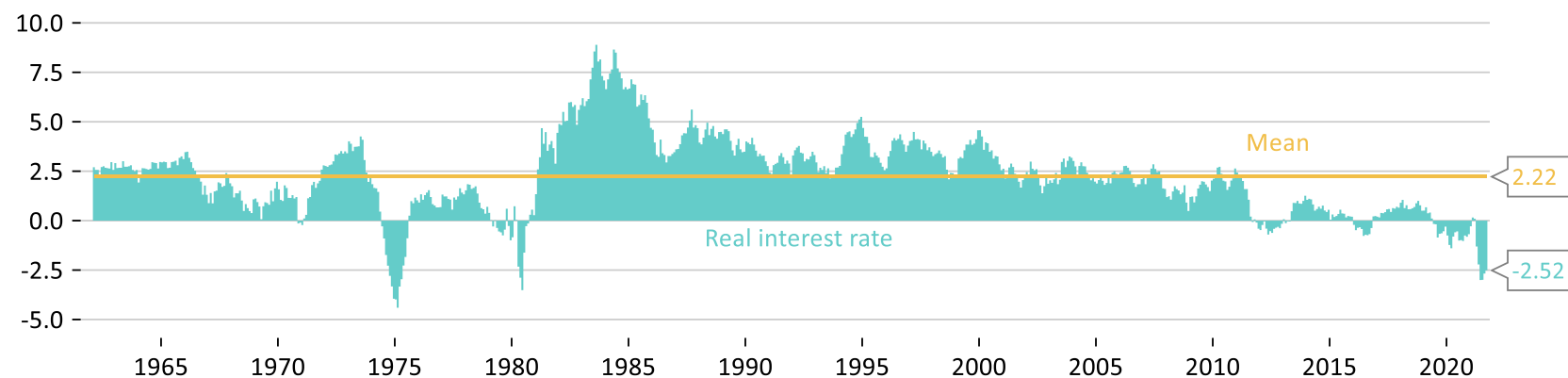


Today's real bond yields are almost 5% below their 60 year average

US: Core CPI and 10-year yield



Real interest rate with long-run average



Source: Macrobond, 14.10.21

Bonds: US growth and T-bond yields

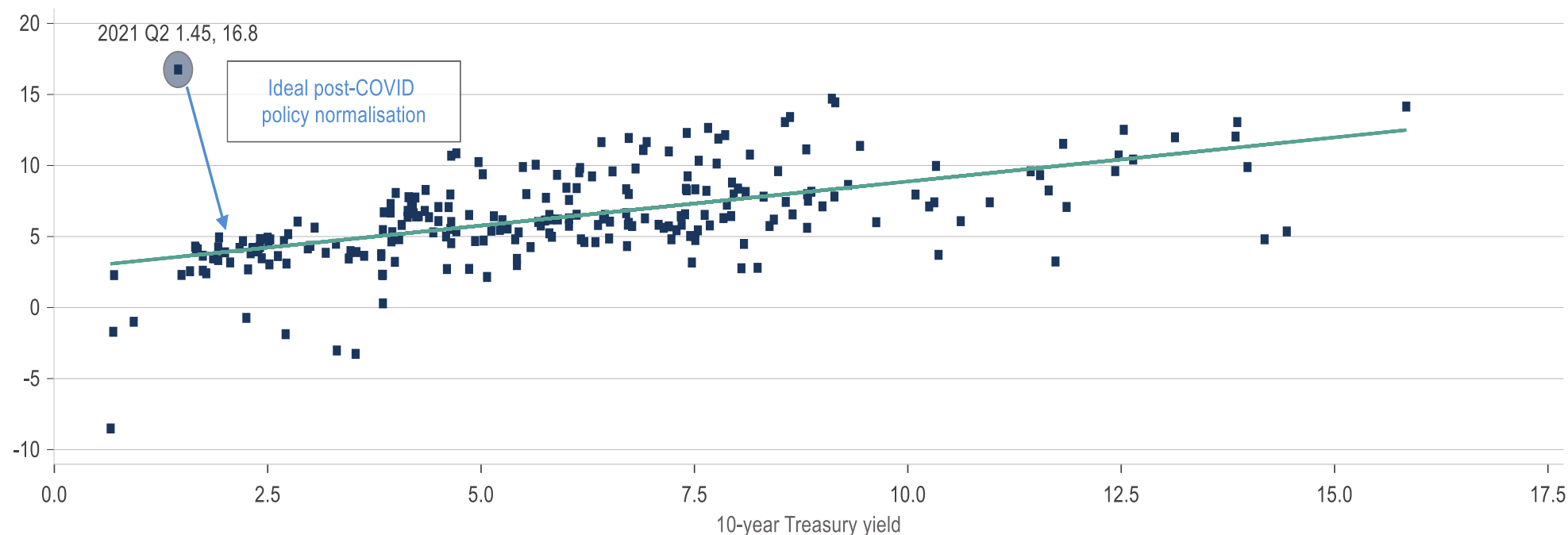
A strong recovery & record levels of central bank bond purchases leaves T-bonds mis-priced



Journey back to post COVID normalisation means higher bond yields on almost any scenario

US nominal GDP growth vs 10-year yield (since 1960)

Nominal GDP growth
yoy, %



Source: Macrobond and Sarasin & Partners

The Federal Reserve is facing an ethics challenge

Personal dealing probe may derail Powell re-nomination



FOMC Meeting Washington

- **Boston Fed:** Eric Rosengren resigned on Sept 27 following disclosure that he traded stocks and other investments related to the real-estate industry.
- **Dallas Fed:** Robert Kaplan resigned on Sept 27 following disclosures that trading in stocks, stock-market futures and interest-rate funds.
- **Vice Chair:** Richard Clarida disclosed that he traded funds the day before Mr. Powell issued a statement signaling a potential interest-rate cut.
- **Chair:** Jerome Powell did not trade based on interest rate decisions, but held municipal bonds as the Fed introduced the Muni bond facility

Implications:

1. Fed out of touch, shows a failure of Governance.
2. Powell's re-nomination will likely struggle
3. **Possible contenders: Lael Brainard, Raphael Bostic – strong candidates but a clear move to the left for the Fed with a reversal of the bank de-regulation agenda.**
4. **Fed leadership changes are always turbulent**

Source: Sarasin & Partners and Wall Street Journal

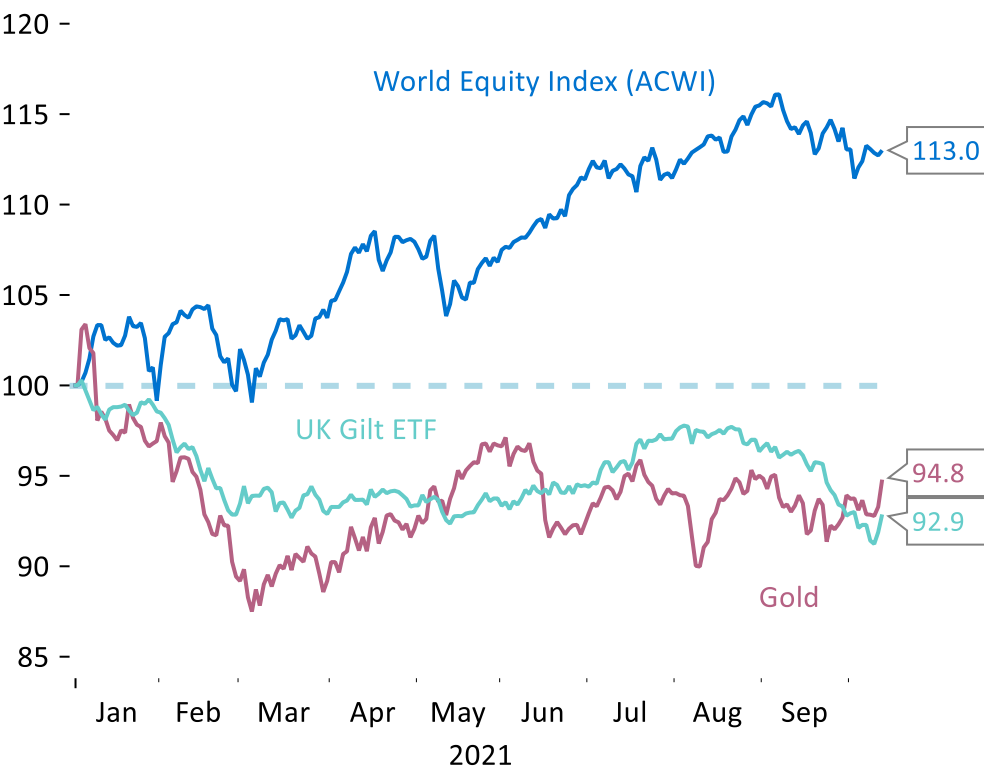
Equities: Market performance 2021-to-date

Equities lead global asset returns – growth style catches up – volatility rises

 Equities rally fades - bonds & gold decline

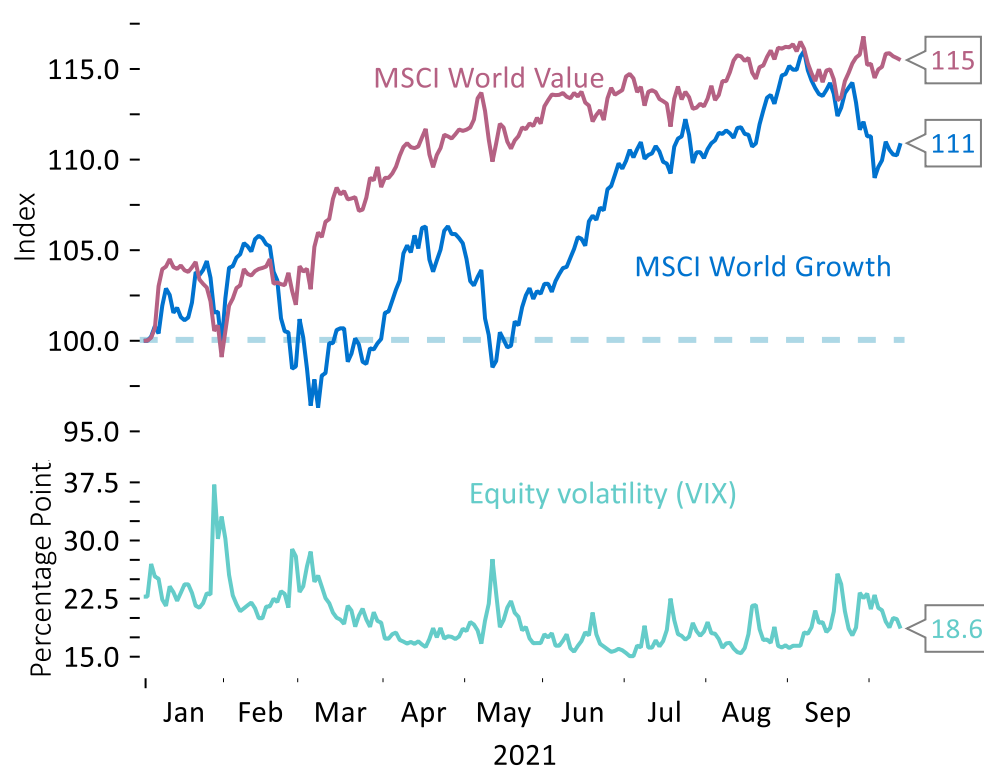
 Growth style underperforms

Global Asset Class Returns 2021 (GBP) to date



Source: Macrobond

World Equity Style 2021



Source: Macrobond

Important information

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SARASIN

& PARTNERS

Juxon House
100 St Paul's Churchyard
London
EC4M 8BU

T: +44 (0) 20 7038 7000
www.sarasinandpartners.com

