

# US inflation hits a 30 year high - how worried should markets be?

## Six Minute Strategy

November 2021

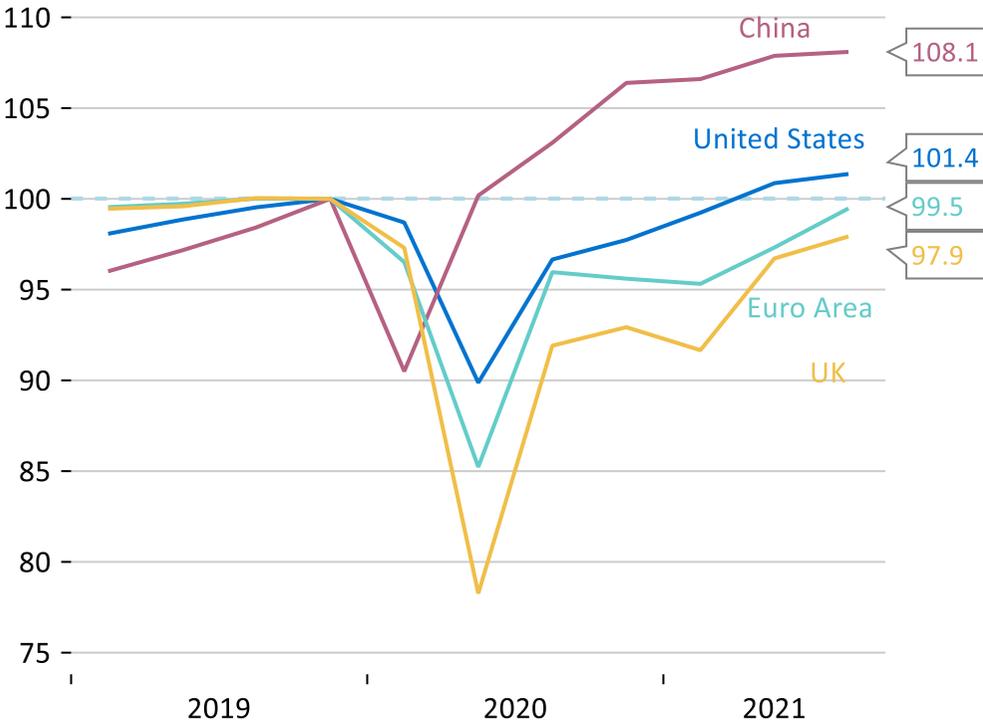


# Global GDP expected to be above pre-COVID levels by end of 2021 - US inflation soars

 The US & Chinese economies already larger than pre-COVID

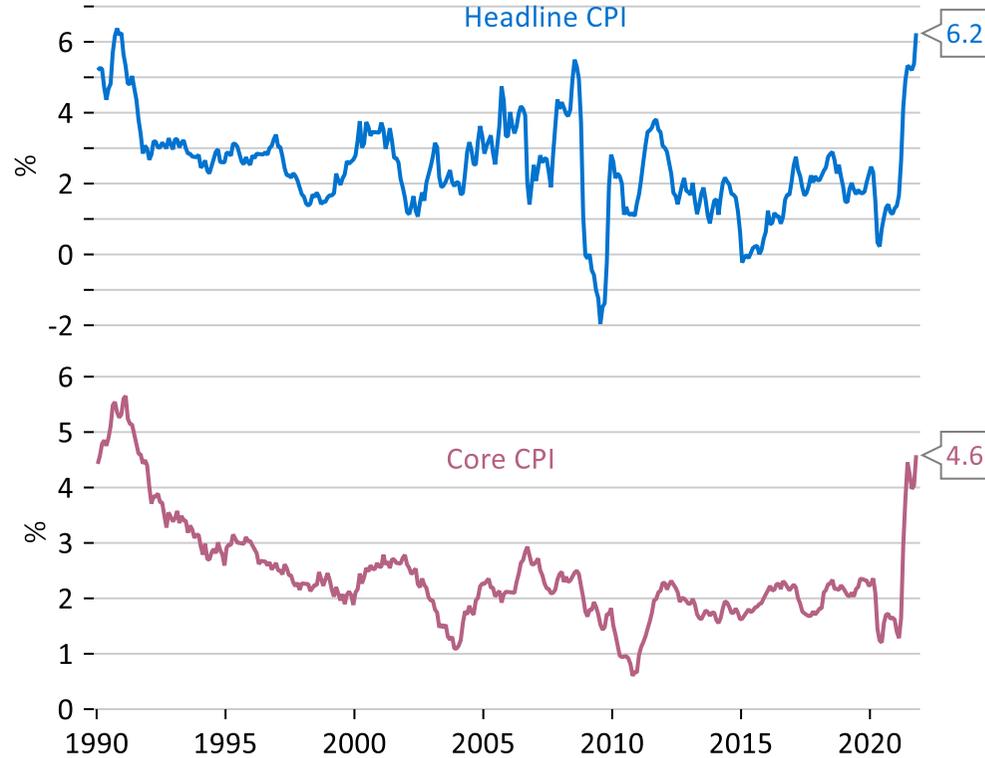
 US Inflation now at a 30 year high – above expectations

GDP in selected countries  
Indices: 2019 Q4=100 (the start of COVID)



Source: Macrobond, 11.11.21

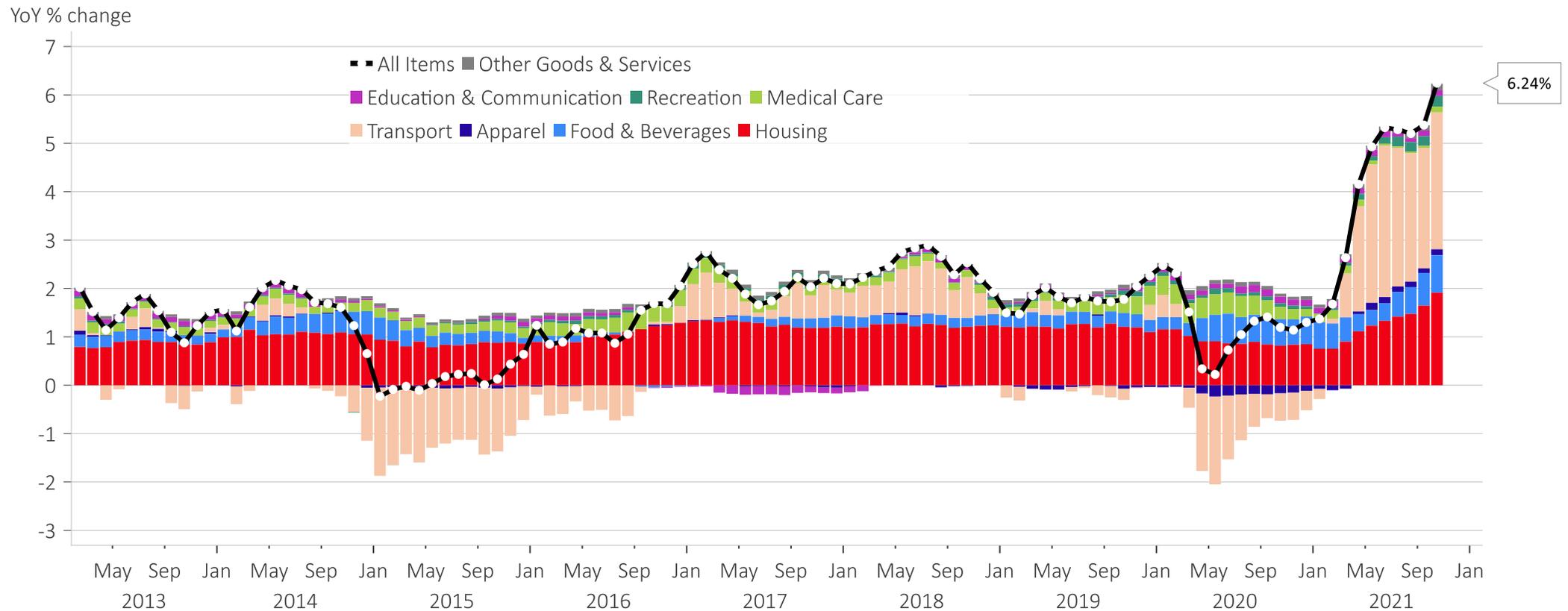
US Inflation



Source: Macrobond, 11.11.21

# Transport and housing are the main drivers of US inflation ...

## US inflation- decomposition



Source: Macrobond

# Last time US inflation was 6.2% was 30 years ago – bond yields then were 8% and interest rates were 7%

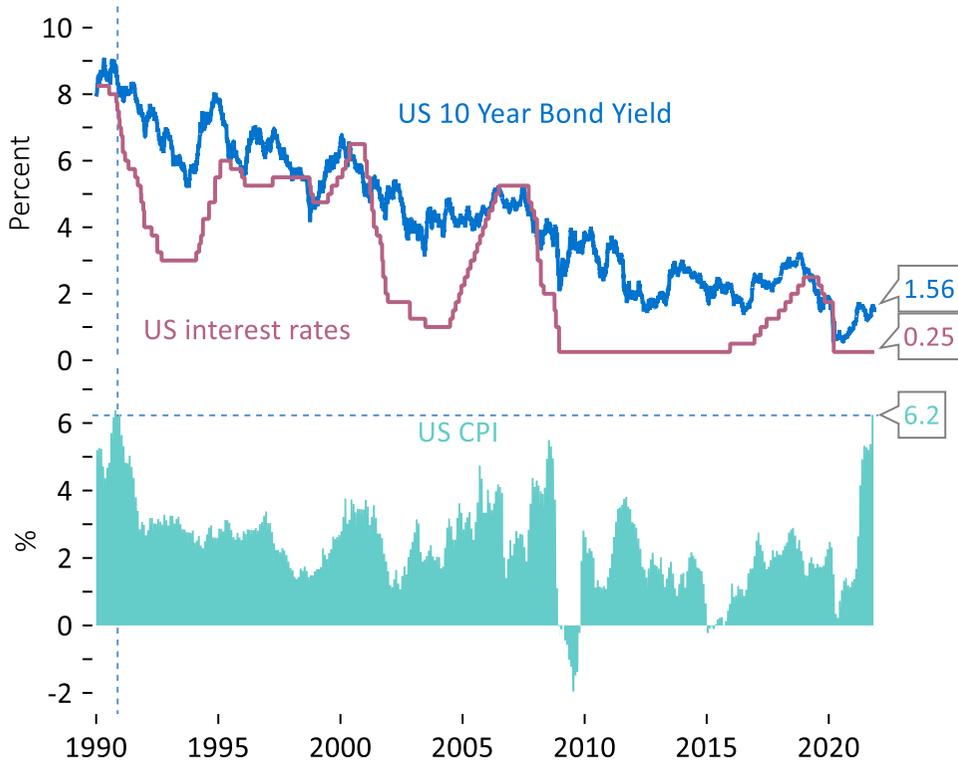


Last time US inflation was 6.2%, interest rates were 7%



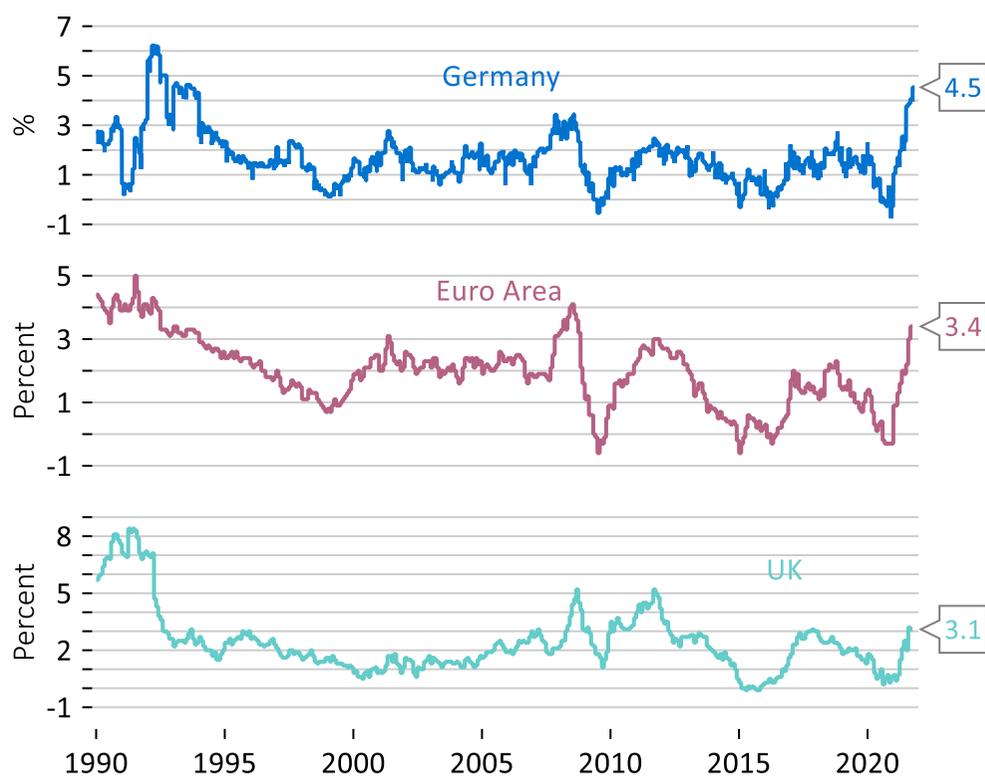
Inflation surge in Europe now led by Germany...

US Interest Rates and Inflation



Source: Macrobond, 11.11.21

Global Consumer Price Inflation



Source: Macrobond, 11.11.21

# So why are 10-year bond yields little changed from 6 months ago?

Long-dated bond yields stable - The Bank of England's poor communication hits the short-end

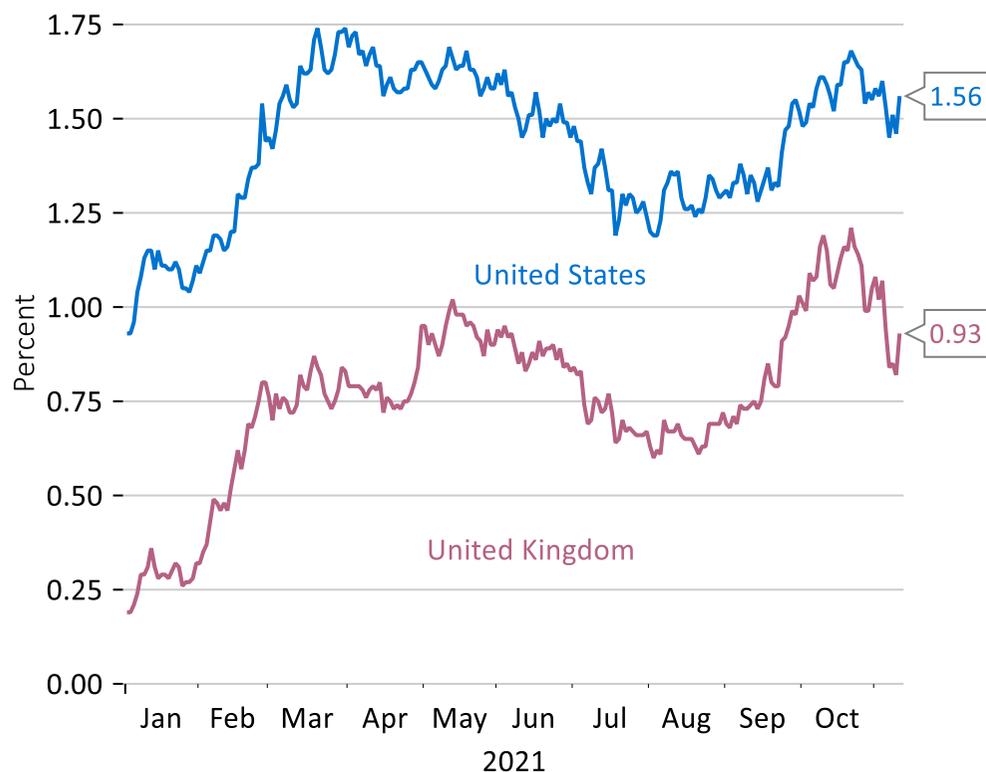


UK and US 10-year yields fall sharply



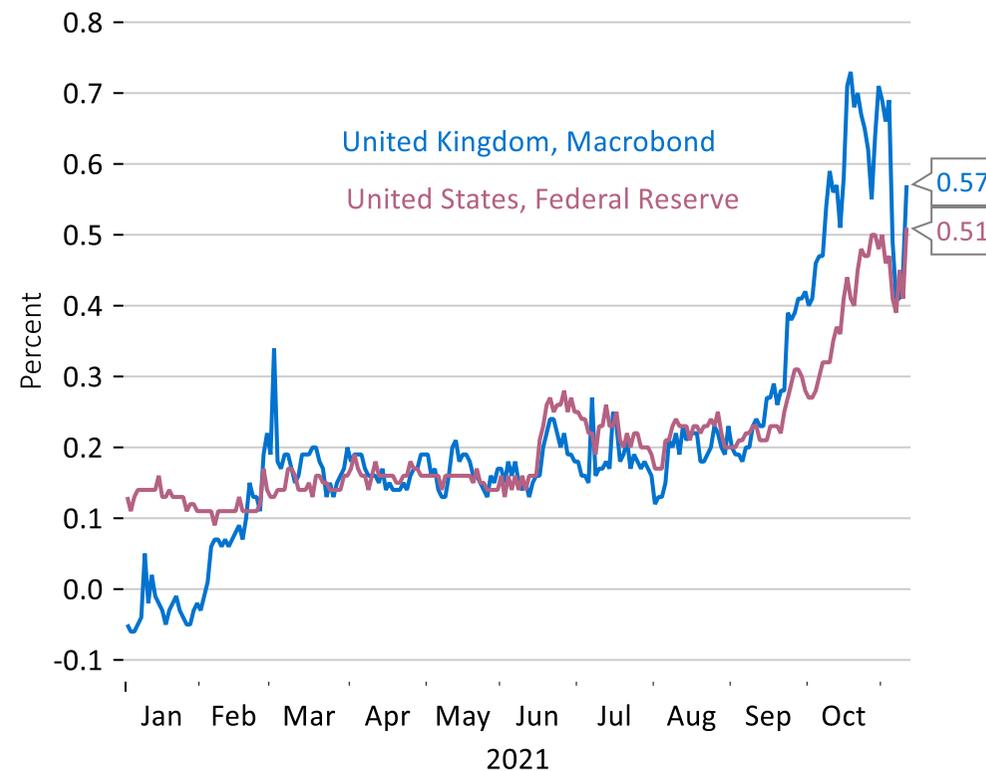
Bank of England's poor communication adds to volatility

### Government 10 Year Bond Yields



Source: Macrobond, 11.11.21

### Government 2 Year Bond Yields



Source: Macrobond, 11.11.21

# 1. US Inflation - Base effects are extreme plus *some* signs of moderation in wider commodities and shipping

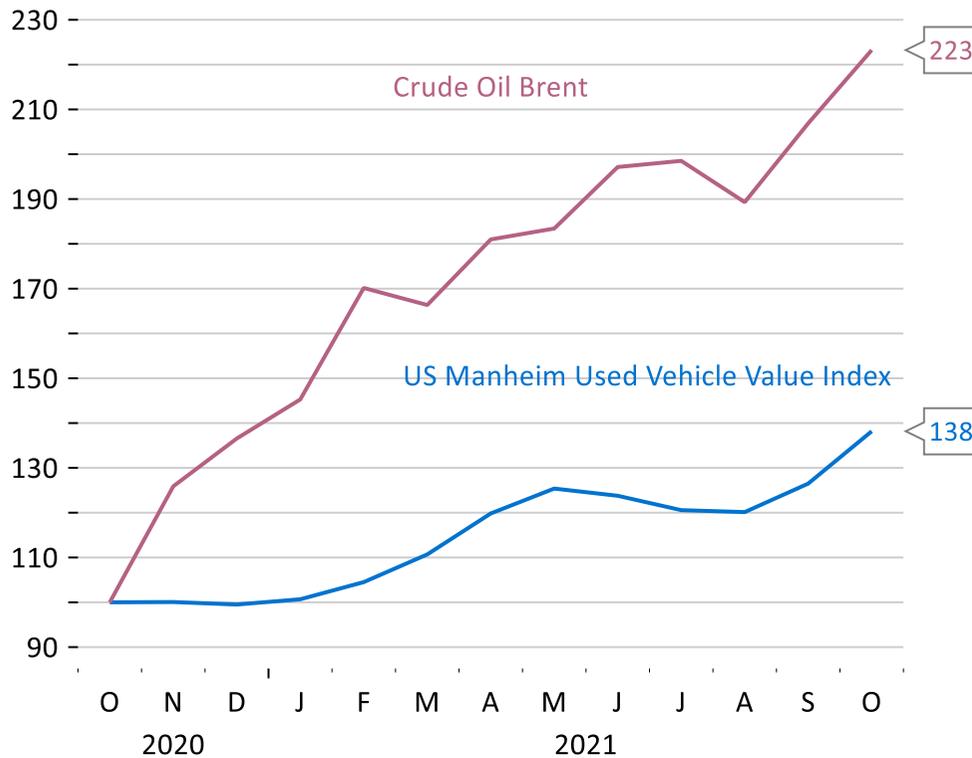


Oil prices up 120% and used-car prices up 38% YoY



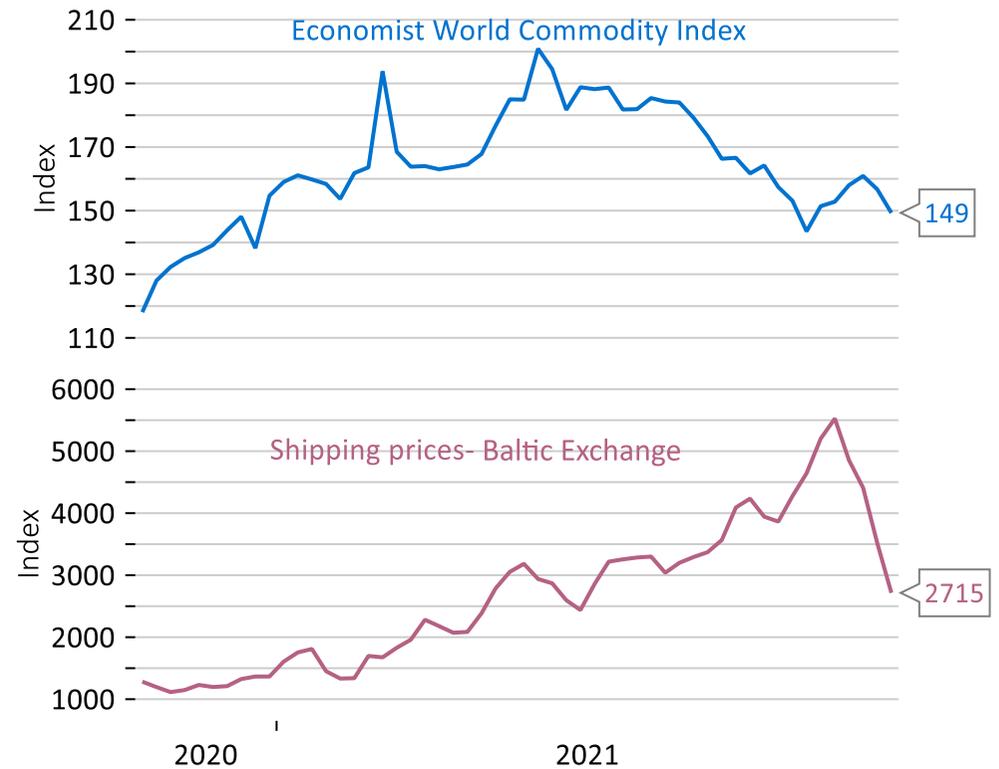
Some signs of moderation in shipping and commodity prices

Oil and Autos (-1Y=100)



Source: Macrobond, 11.11.21

Commodity Prices and Shipping Costs



Source: Macrobond, 11.11.21

## 2. Lower Bond Supply: US tax receipts are soaring as economies recover

 Total US tax receipts up 18% from FY 2020 and 17% greater than 2019 (pre-COVID)

### Total Receipts: Up by 18 Percent in Fiscal Year 2021

Receipts totaled \$4,047 billion during fiscal year 2021, CBO estimates—\$627 billion more than during the same period last year. In large part, that change reflects the general strength of the economy over the past year.

Table 2.

#### Total Receipts

Billions of Dollars

Major Program or Category	Actual, FY 2019	Actual, FY 2020	Preliminary, FY 2021	Estimated Change From 2020 to 2021	
				Billions of Dollars	Percent
Individual Income Taxes	1,718	1,609	2,052	443	27.5
Payroll Taxes	1,243	1,310	1,308	-2	-0.2
Corporate Income Taxes	230	212	370	158	74.8
Other Receipts	271	289	317	27	9.4
<b>Total</b>	<b>3,462</b>	<b>3,420</b>	<b>4,047</b>	<b>627</b>	<b>18.3</b>

Note: In the UK net issuance of Gilts for the remainder of the year to April 2022 is *negative £8-20bn* depending on APF reinvestments. RBC Nov 2021

Source: US Congressional Budget Office October 2021

## 4. China: Economic slowdown meets rising political risk

Domestic activity slows, driven by COVID restrictions, power shortages and regulation



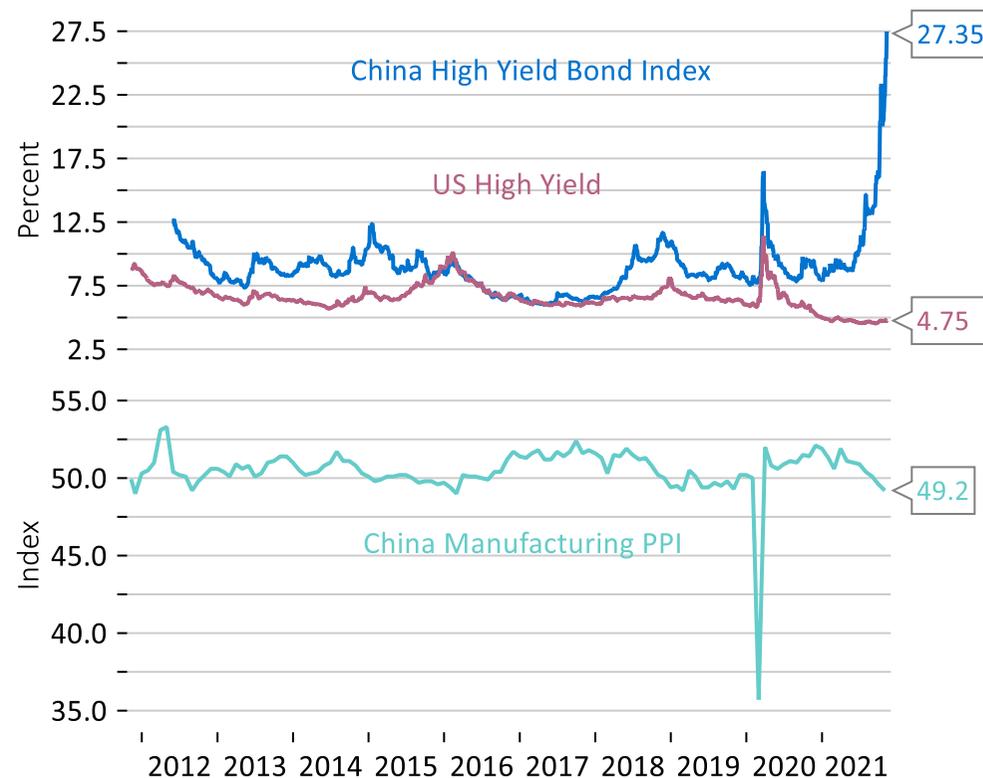
Chinese data weakens and regulatory uncertainty rises

1. **Economic weakness appears broad-based across** sectors such as property and infrastructure-related industries, amid policy tightening.
2. **Retail sales, industrial production and manufacturing sentiment** softened. Note exports remain robust.
3. **'Common Prosperity Agenda'** risks slowing economic activity across internet and gaming while **'Three Red Lines'** restrictions on leverage in real estate means bankruptcies are possible (Evergrande and others).
4. **China-Taiwan tensions** rising worryingly.



Strains in the highly-leveraged property sector

China slowing while high yield bond spreads climb



Source: Macrobond, 11.11.21

# Asset class performance 2021-to-date

Equities lead, value modestly outperforms and volatility remains contained

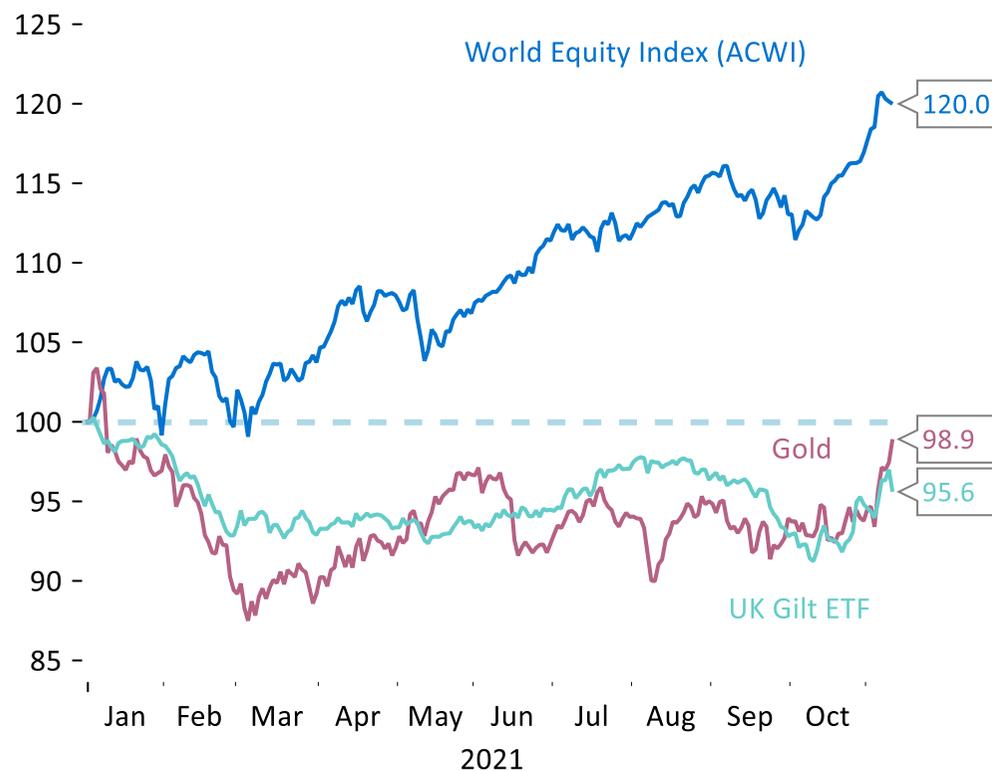


Equities rally, bonds and gold decline



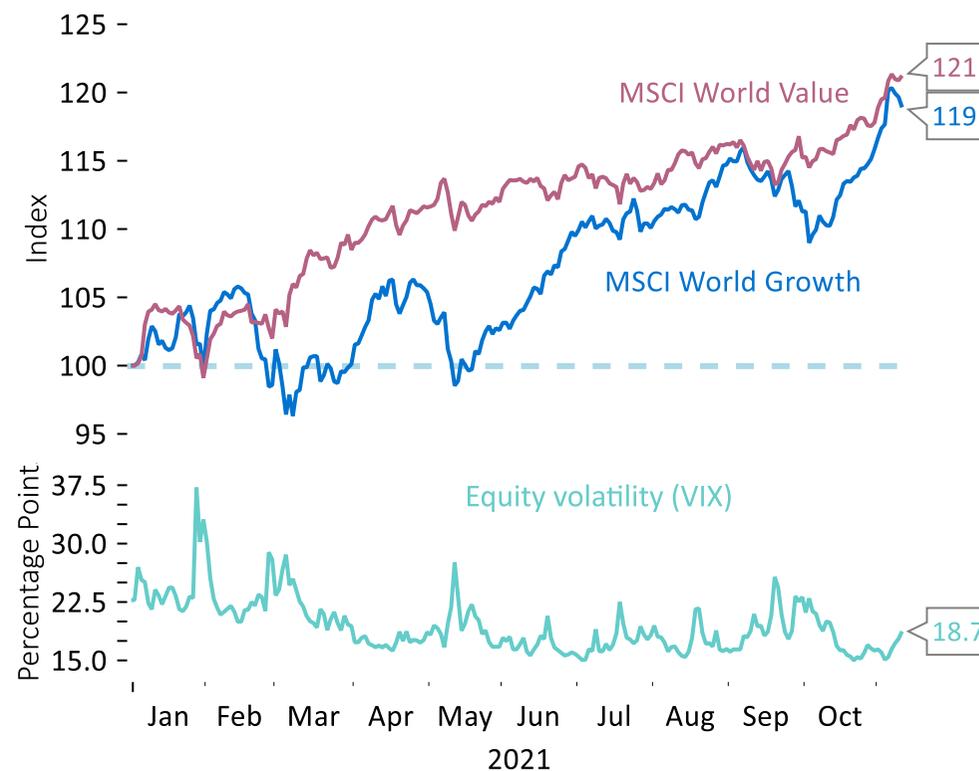
Growth catches up to value as volatility falls

### Global Asset Class Returns 2020 (GBP) to date



Source: Macrobond, 11.11.21

### World Equity Style 2021



Source: Macrobond, 11.11.21

# Important information

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