

Six Minute Strategy

Inflation vs. Omicron

December 2021



The last time US inflation hit 6.8% was the year of the Commodore Personal Computer & Michael Jacksons *Thriller* (1982)

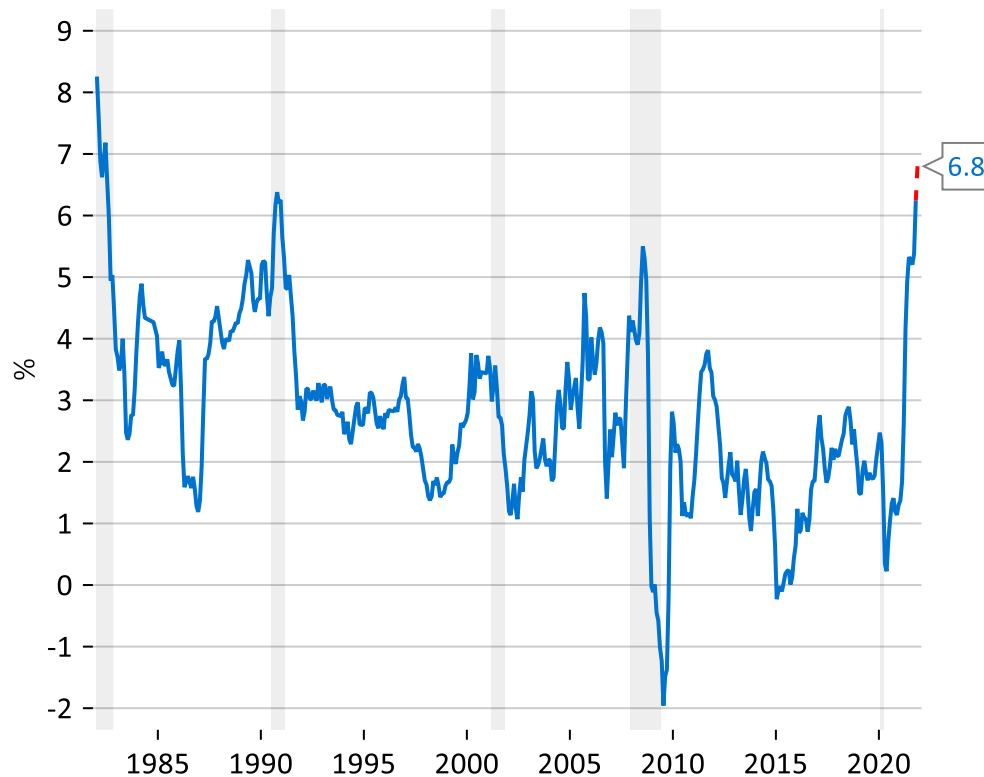


US inflation is forecast to reach 6.8% - the highest since 1982

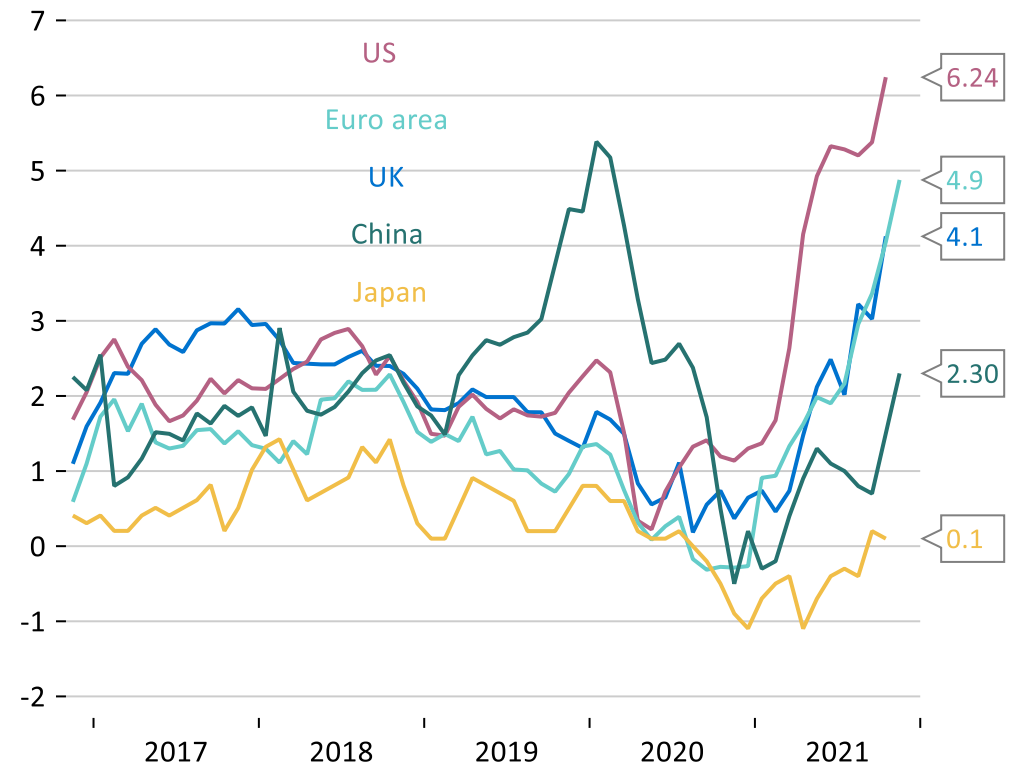


Inflation rising globally even now in Asia

United States, Consumer Price Index



Global Inflation Rates



Source: Macrobond, 09.12.21

US Federal Reserve already shifting its inflation narrative

Earlier end to taper and start of rate hikes on the table – rates already on the rise globally



FOMC Chair Jerome Powell
& Vice Chair Lael Brainard



Federal Reserve considers faster taper

“At this point, the economy is very strong and inflationary pressures are higher, and it is therefore appropriate in my view to consider wrapping up the taper of our asset purchases, which we actually announced at the November meeting, perhaps a few months sooner”

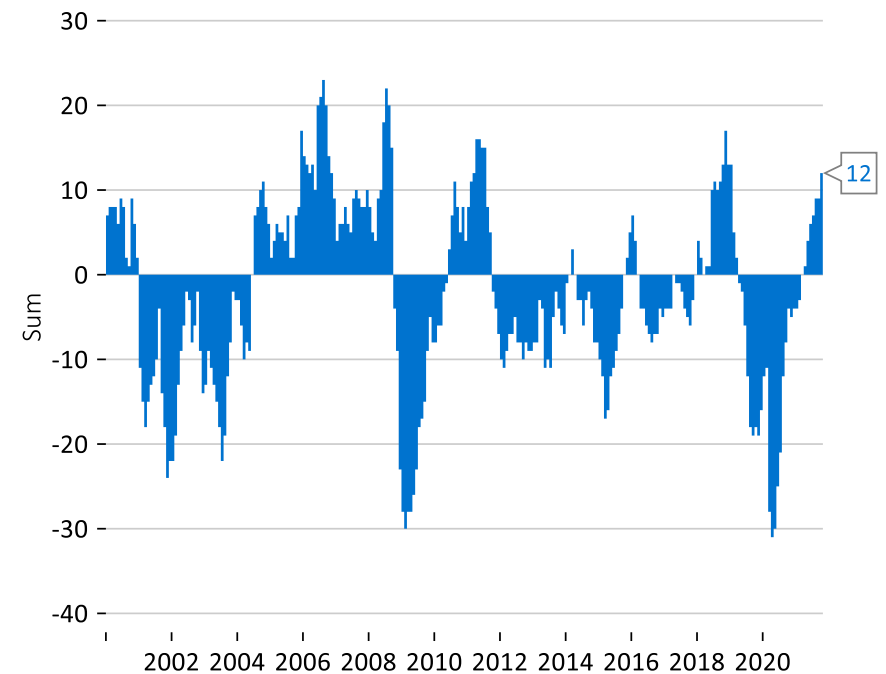
“I think it’s probably a good time to retire that word” (Transitory)

*Jerome Powell, Chair Federal Reserve
November 30 2021*



Monetary policy starting to tighten around the world

Number of Central Banks raising rates less those lowering



Source: Macrobond, 09.12.21

Second rate rises this year from New Zealand & South Korea

Risk 1: Factoring in Omicron



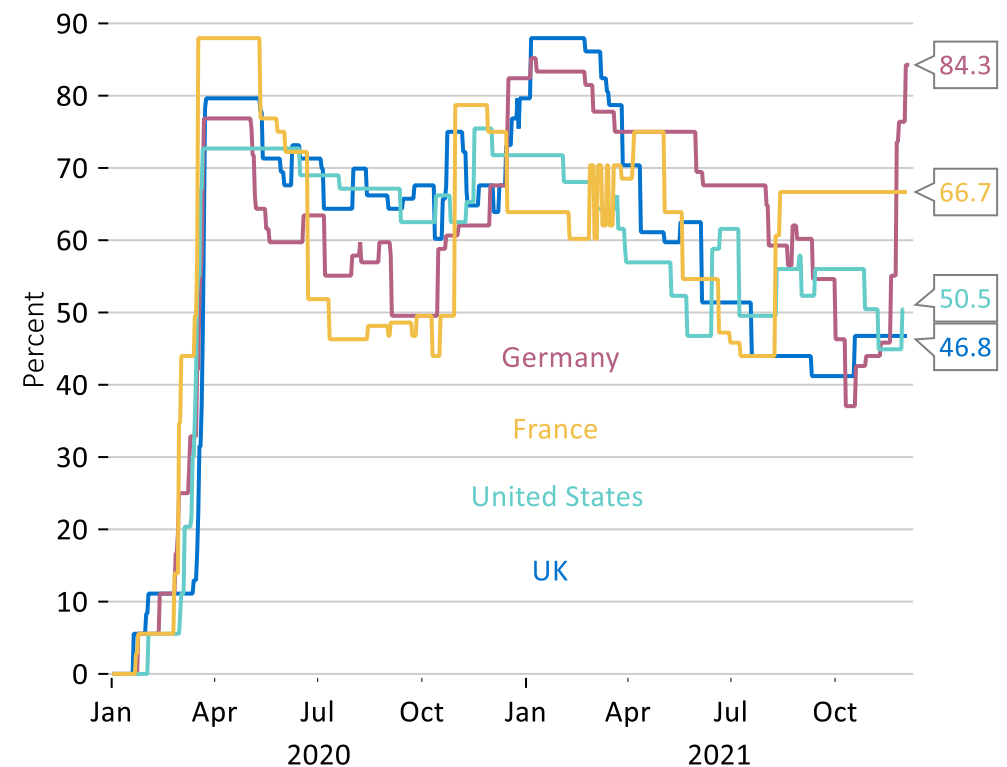
Classification of Omicron
(B.1.1.529): SARS-CoV-2
Variant of Concern
26 November 2021

1. **Demand shock:** some pull back in services consumption on account of restrictions.
2. **Supply shock:** planes and ships to face further disruption from border closures. Labour shortage will get exacerbated. Fall in energy prices, if sustained, can ease some headline pressures.
3. **Policy choice:** do nothing, accommodate or continue tightening
 - Initial conditions are different to 2020: inflation has been running high for a year.
 - US Policy will likely keep to original timetable:
 - Taper by end by Q2
 - Two US rate hikes in 2022 and 3 in 2023
 - Holding terminal rate at 2.00-2.25 (for now).



Lockdowns tightening across Europe

COVID-19 Global Stringency Index

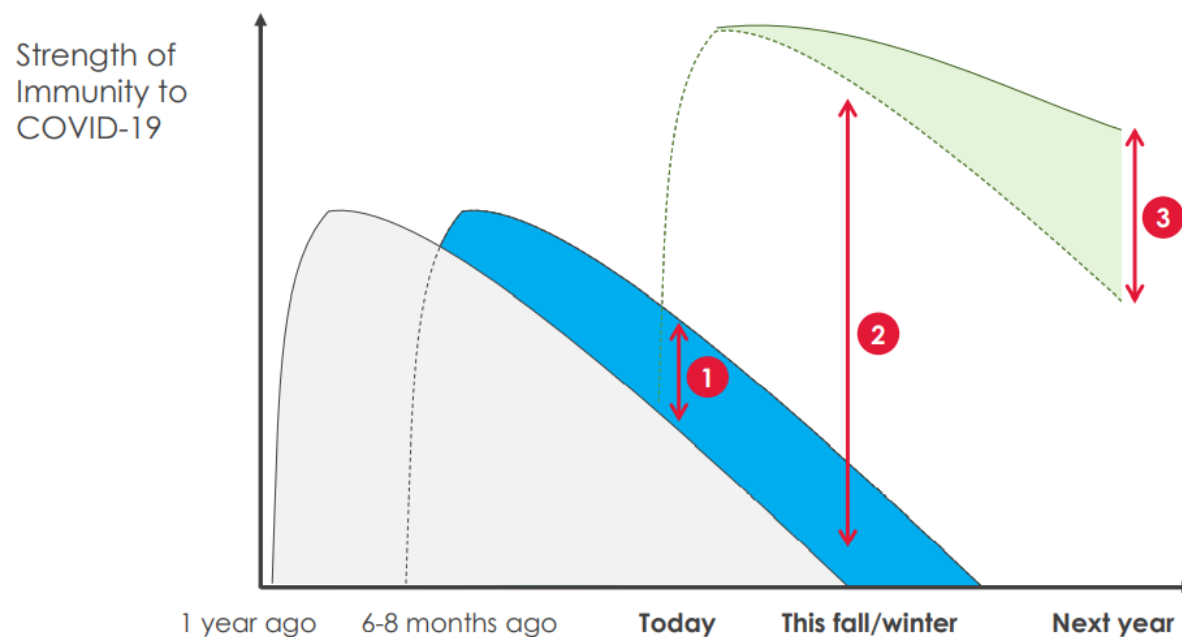


Source: Macrobond, 09.12.21

3rd doses appear to help significantly

We believe a third dose (booster) will reduce the risk of COVID-19 for people >6 months from their primary vaccination

ILLUSTRATIVE



- 1 We know that **waning immunity between 8 and 13 months leads to increased breakthrough in Phase 3** COVE study, equivalent to 150,000 incremental cases of COVID-19 per month in the US alone
- 2 We know that a 50 µg booster **increases titers to 1.7-fold above the Phase 3 benchmark**, counteracting waning immunity. We believe this will reduce COVID-19 cases to an even greater extent this fall and winter
- 3 Finally, we believe that a third dose could also significantly **extend immunity** throughout next year as we seek to end the pandemic. We will collect and share data on durability of protection from our clinical trials to confirm this benefit

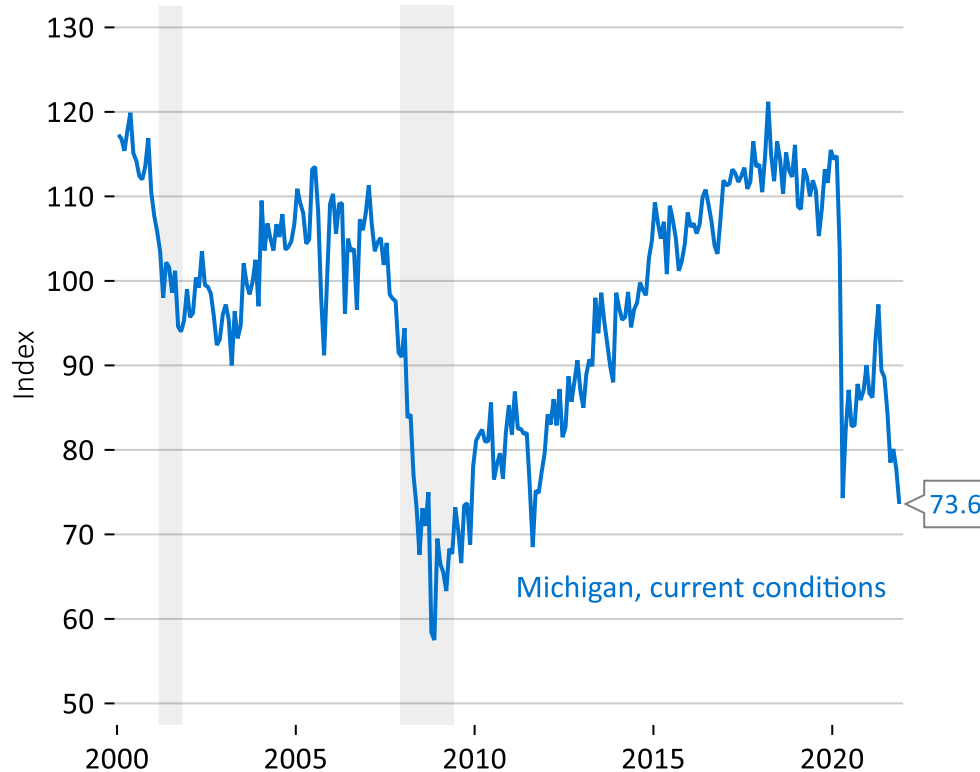
Source: Moderna September 2021

Risk 2: Inflation already damaging consumer confidence - consumers are cash rich



Michigan survey slumps

Michigan US Consumer Sentiment Index

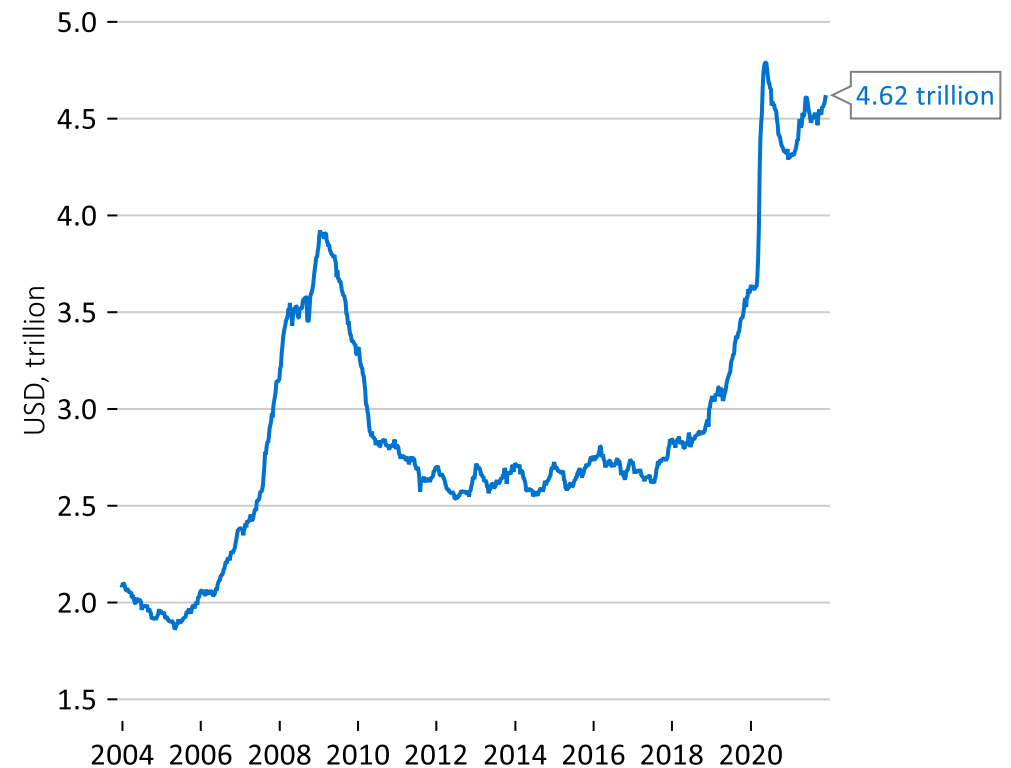


Source: Macrobond, 09.12.21



Personal liquidity levels still very high

US Money Market Fund Assets, USD



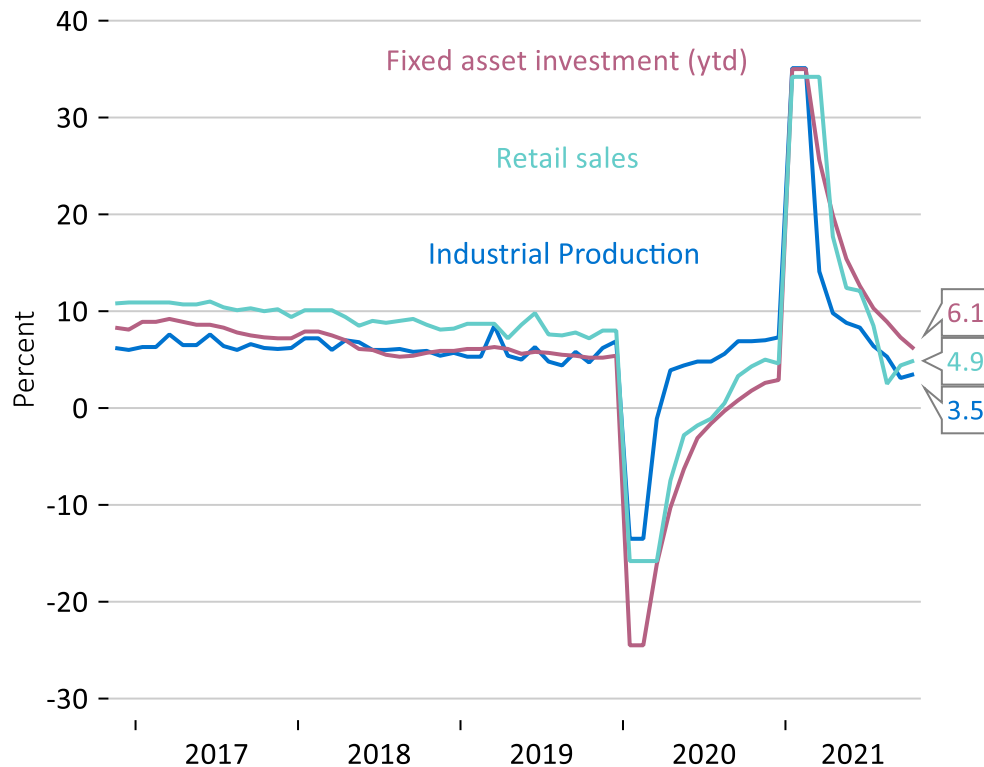
Source: Macrobond, 09.12.21

Risk 3: China seeing a confluence of shocks –Evergrande default, Debt contagion, Regulation, Energy, Omicron/Delta Variant



Retail sales, investment and industrial production

China Economic Indicators



Source: Macrobond, 09.12.21



Strains in property sector spread across bond market

China and US High Yield Bonds



Source: Macrobond, 09.12.21

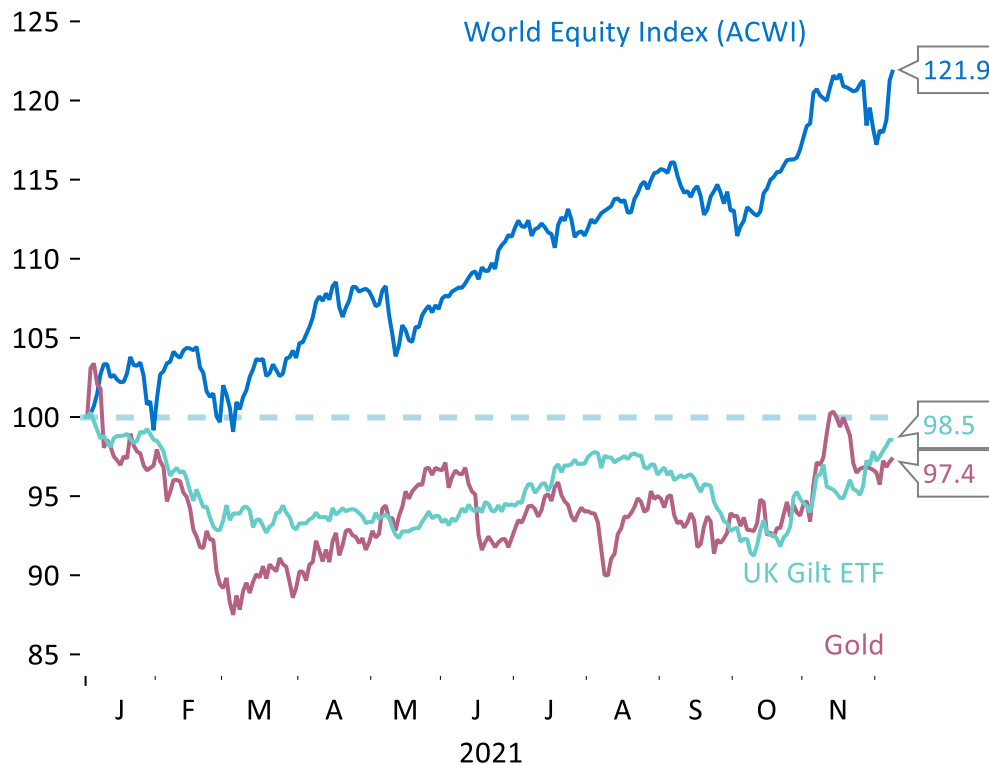
Asset class performance 2021 to-date

Equities still supported by strong earnings & generous monetary conditions but risks are rising



Equities rally, bonds & gold decline

Global Asset Class Returns 2020 (GBP) to date

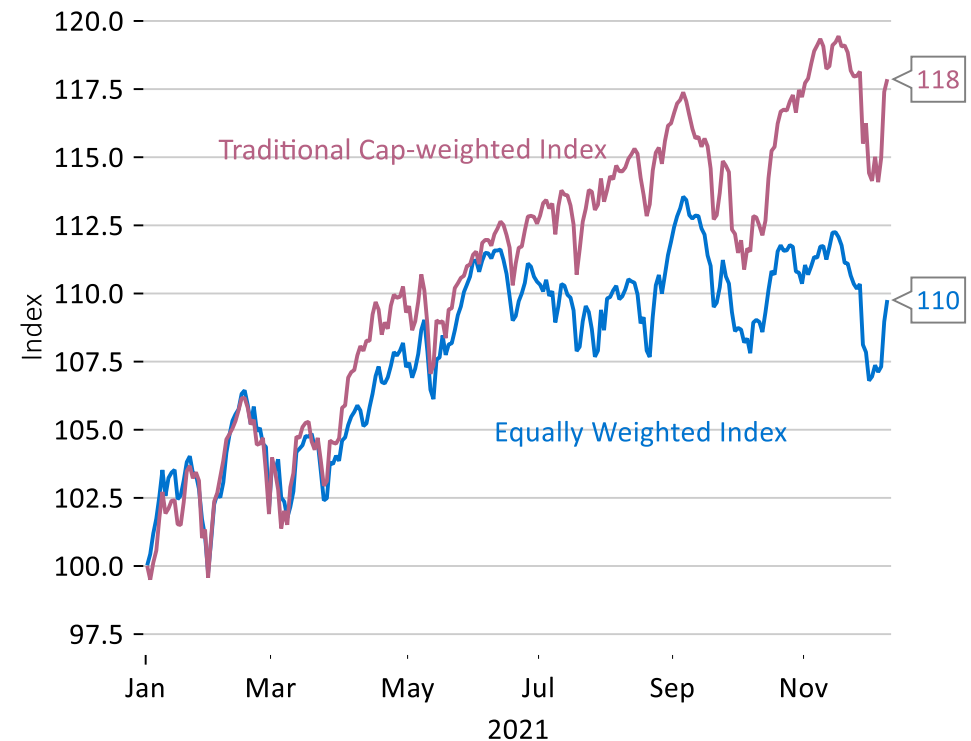


Source: Macrobond, 09.12.21



Note gap between Market Cap & Equally Weighted indices

MSCI World ACWI



Source: Macrobond, 09.12.21

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