



# Inflation finally reappears – why now and what's next?

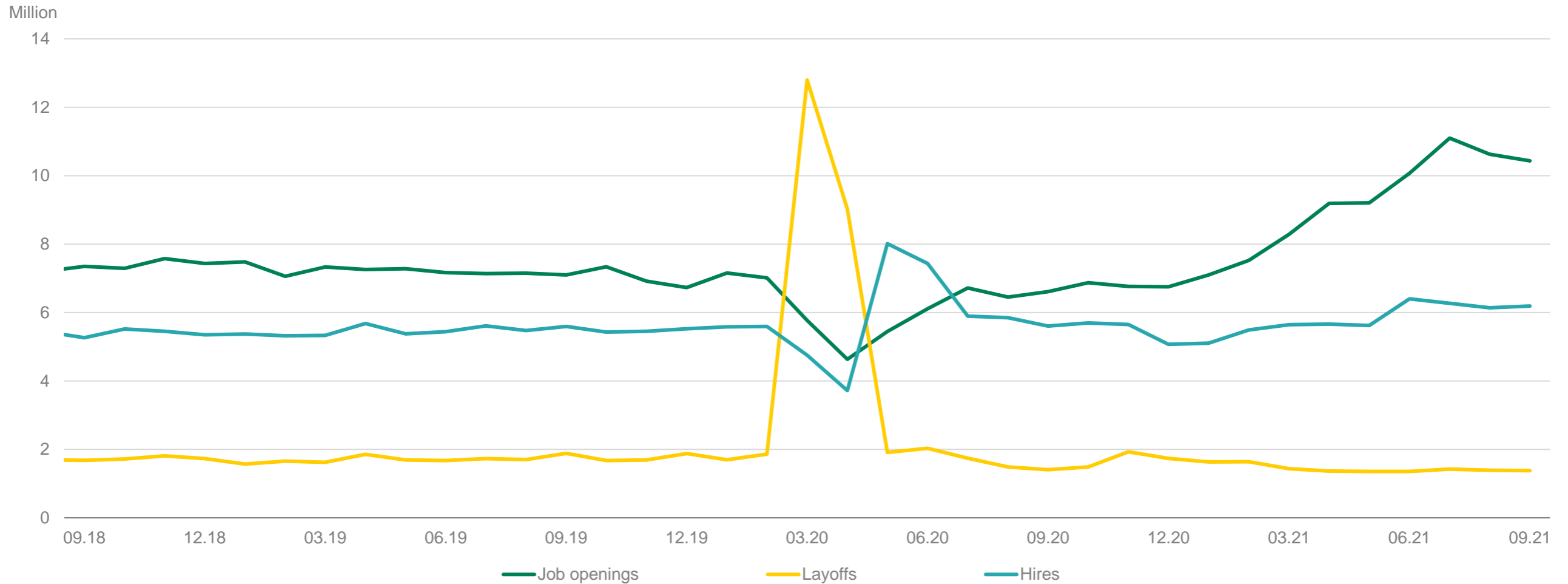
Private and Public Pensions Summit  
November 2021

# Factory Inputs



**Surge in demand as output restarts – is lumber the exception or rule?**

# US labour market – short term pressures?



## Evidence that companies are not able to find workers

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Data source: Bloomberg, as of 15 November 2021.

# Regional scorecards

	US	Germany	UK
CPI	6.2%	4.5%	4.2%
Core CPI	4.6%	2.9%	3.4%
PPI	8.6%	14.2%	6.1%
Unemployment	4.6%	5.2%	4.3%
First priced in hike	06/22	None for 3 years	02/22
Second priced in hike	11/22	None for 3 years	05/22
Mandate	Output + Inflation	Inflation	Inflation

# Gilt vulnerability

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## Brexit as a force multiplier

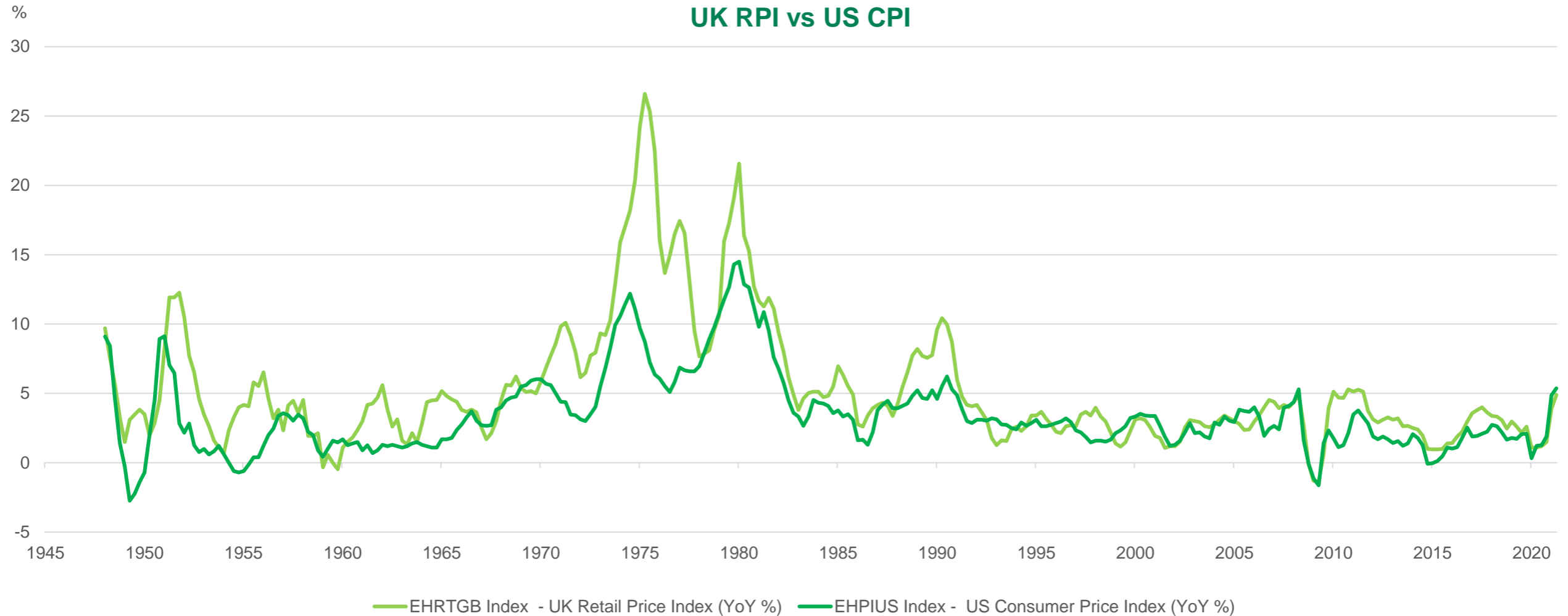
### Supply chains left in disarray

- Island more susceptible
- Sterling imported weakness
- EU-UK rule book heightens bottleneck risks

### Labour market shock

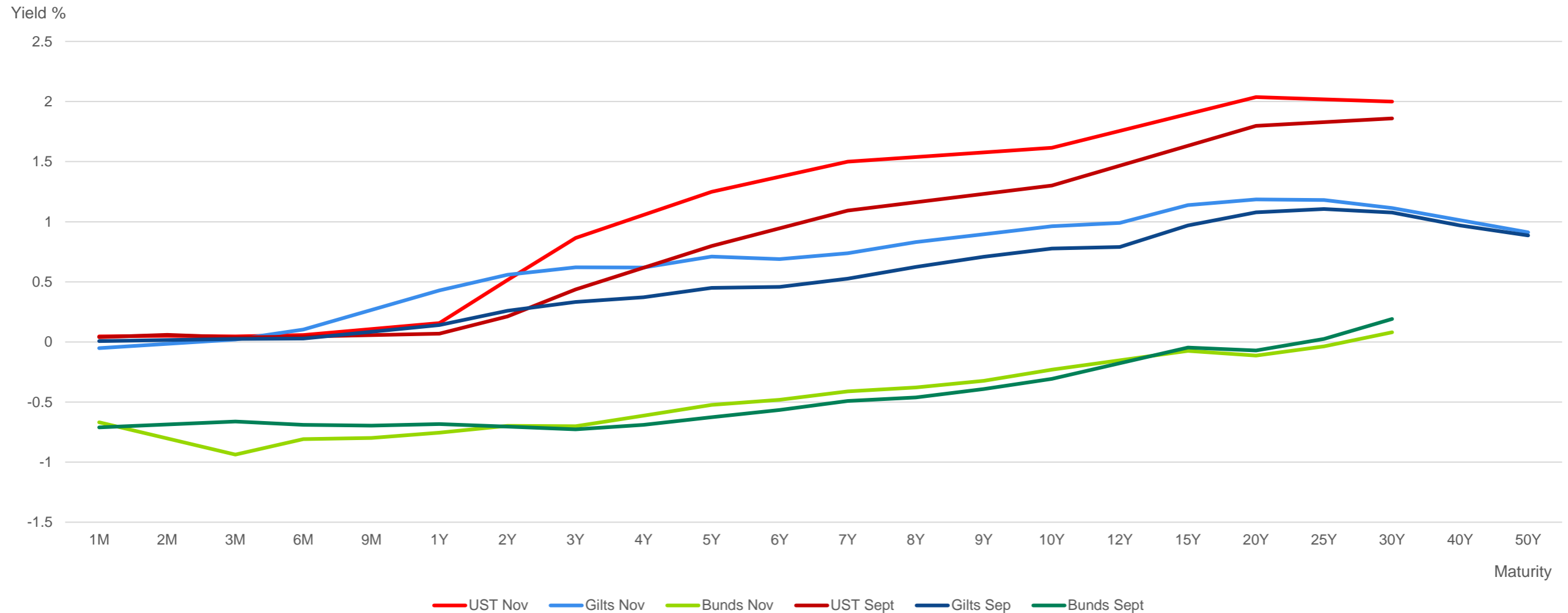
- Benefited from cheap foreign labour
- Migrant workers accounted for 60% of UK net employment growth
- Net migration of EU workers down 75% between 2016 and 2019
- How many EU nationals will return?

# UK more susceptible to bouts of inflation



Source: Bloomberg, November 2021.

# Curve shifts over last two months



**Past performance is not a reliable indicator of future performance.** The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. It is not possible to invest directly into an index and they will not be actively managed.

Source: TwentyFour, Bloomberg, 15 November 2021

# Mitigation and downside protection recommendations

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## Invest in short-dated bonds to minimise duration

- Duration measures sensitivity of a bonds price to changes in yield
- Bonds close to maturity are less sensitive to value erosion from rising inflation
- Credit curves are flat so opportunity cost is low
- Attractive yields still possible

## Asset Backed Securities

- ABS are floating rate notes – coupons with fixed spread over Sonia
- Sonia effectively tracks the Bank of England's base rate
- Refixing coupons at higher Sonia rate increases income
- No impact on market prices given no duration
- Short-dated credit exposure

## Mitigate with higher levels of spread

- Credit fundamentals are strong – default outlook is particularly benign
- Additional Income is scare commodity
- Potential for capital gains from spread contraction
- Consider high yield and subordinated financials



## Contact details

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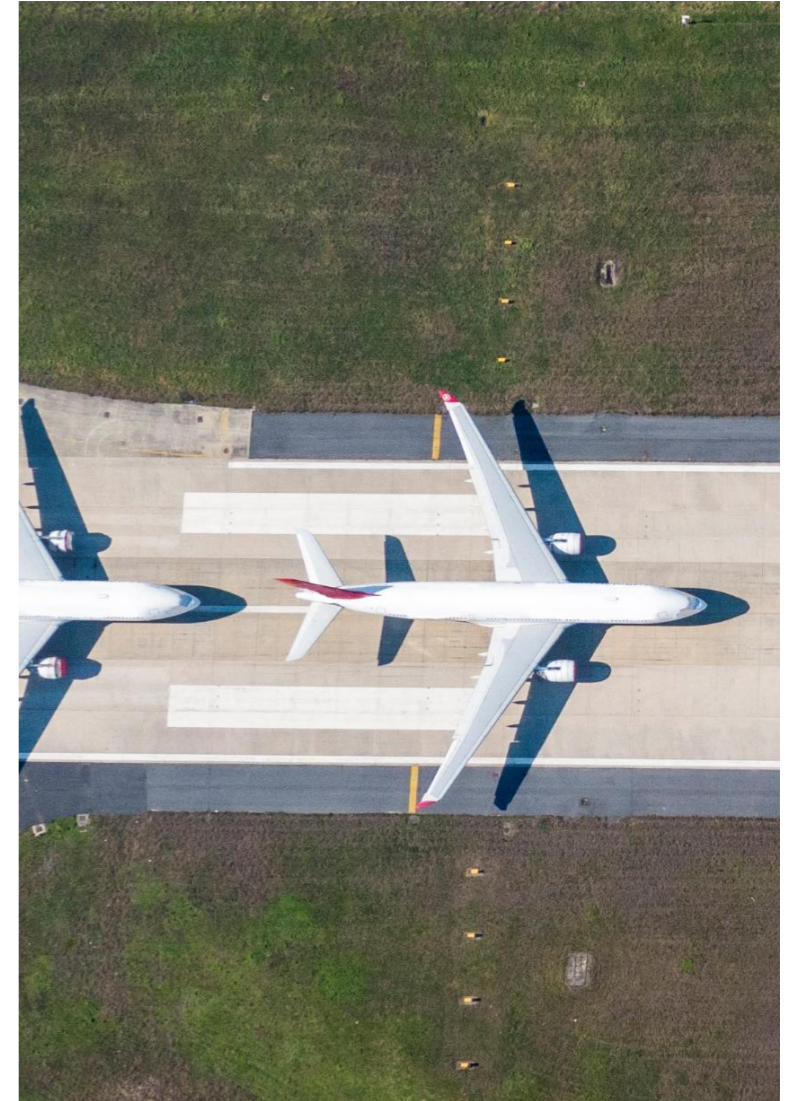
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