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Amundi ASSET MANAGEMENT

January 2023

What is inflation?

A brief guide to inflation

Inflation is persistent

7.7%
USA YoY[1] CPI[2]
October 2022
Vs 6.1% in October 2021
*US Bureau of Labor Statistics**

10.6%
Eurozone YoY CPI
October 2022
Vs 4.1% in October 2021
*Eurostat**

9.6%
UK YoY CPI
October 2022
Vs 3.8% in October 2021
*Office for National Statistics***

3.0%
Switzerland YoY CPI
October 2022
Vs 1.2% in October 2021
*Swiss Federal Statistical Office**

2.1%
China YoY CPI
October 2022
Vs 2.3% in October 2021
*National Bureau of Statistics of China**

High inflation is a global phenomenon, due to the coexistence of several factors.

Inflation runs well above Central Banks targets for 2022 and marks the end of the era of low inflation and low interest rates.

(1) year-over-year;
(2) Consumer Price Index – tracks a 'basket' of commonly purchased goods & services;
(*) as of 9 December 2022

FACTORS CURRENTLY BOOSTING INFLATION

Source: Amundi Institute as of December 2022

Geopolitics fuel inflation through commodity prices

The Russia-Ukraine war has exacerbated pre-existing inflationary pressures, by catalysing significant disruptions in commodity markets.

Supply-chain pressures

We believe still robust consumption, strong labour markets in the US and persistent supply chain pressures would keep inflation above central bank targets.

Psychological dimension is starting to kick in

Inflation has a critical psychological dimension. While consumer demand and labour markets are strong, **we remain particularly aware of the wage-inflation loop, which may become self-fulfilling.**

Structural factors: the greenflation

Structural factors like **the energy transition may add to inflationary trends in the medium-long run**. Limited renewable energy production capacity and high commodities demand will likely lead to a surge in related energy bills and commodity prices

Inflation and Investing

Inflation makes a dollar worth less today than in the future, and can erode purchasing power over time. In response to this, Central Banks often raise interest rates to curb the inflationary trend. We believe this environment can have a significant impact on investments where most of the value lies in long-term expectations or in cases where the instrument rate is fixed.

Less sensitive to inflation and/or rising interest rates		**More sensitive** to inflation and/or rising interest rates
floating-rate notes	versus	fixed-rate notes
2-yr bond	versus	30-yr bond
value stocks	versus	growth stock

For illustrative purposes only

" The current regime shift is characterised by sticky inflation, a shallow recession and global divergences. This underpins the need to focus on inflation-adjusted returns and high quality assets in portfolio building."

Monica DEFEND
Head of Amundi Institute, November 2022

How to protect your portfolio against inflation?

Equities

Value, dividend, and stock selection as lenses to seek resilience to inflation. Equities can be resilient to higher inflation if the inflation is combined with (GDP) growth.

Source: Amundi Institute as of December 2022

Combine value with quality

In times of high inflation coupled with slowing growth, investors should include quality and value assets in portfolios and rely more on selection.

Dividend*

In times of high inflation, dividends and share buybacks can boost total shareholder returns.

We believe investors should complement their search for income by exploring businesses with a tendency to reward through dividends even during times of an economic downturn.

US looks resilient

Although we are seeing growth deceleration in the US, our central scenario remains of a soft landing because of the resilient consumption environment.

As a result, US companies should be able to pass on high costs to consumers, providing selective opportunities in the country.

Fixed Income

Fixed income strategies to cope with higher rates. At a time when high inflation and hawkish Central Bank stance (upward pressure on yields) meet with investors' flight to quality (downward pressure on yields), bond prices and credit spreads can move fast.

Source: Amundi Institute as of December 2022

Government bonds are back

Higher yields offer interesting entry points and bonds, particularly US Treasuries, could be seen as a strong source of portfolio protection and diversification* against recession fears.

*Diversification does not guarantee a profit or protect against a loss.

Quality and Flexibility

Agility may be key in fixed income where search for yield at all cost is over. Thus, investors should focus on high quality credit in US investment grade and explore selective opportunities in emerging market bonds.

Floating-rate notes

In our view, floating rate notes do not suffer as much from increased price volatility caused by being 'locked in' a certain interest rate when rates move.

Floating rate notes may offer stability amid a quickly evolving environment.

Multi-Asset & Diversifiers

Real income assets and enhanced diversification**. The Fed's indications that it will take "necessary steps" to ensure price stability has been pushing core yields up, both in the US and Europe. This is also increasing market volatility. As correlation dynamics evolve, investors may consider alternative investment strategies that exhibit low correlation.

Source: Amundi Institute as of December 2022

Commodities

While oil prices may remain capped by growth fears in early 2023, supply issues (tight OPEC+ production, EU ban on Russian crude, low oil stocks) could return to the fore. On the other hand, commodities linked with transition towards green energy could also do well.

Gold can also act as a diversifier and an inflation hedge particularly when the Federal Reserve shows signs of a dovish pivot.

Absolute returns

Multi-assets absolute returns solutions may offer an attractive investment case due to their cross-asset flexibility and dedicated focus on real, absolute returns

Multi-Asset real return solutions can offer real income and enhanced diversification.

Real Assets

Inflation may increase the potential replacement costs of Infrastructure and Real Estate over time. Further benefits may also come from higher revenues if contracts are inflation-linked.

Real Assets can benefit from increased inflation.

**Dividends are not guaranteed; **Diversification does not guarantee a profit or protect against a loss;*
Opinions, estimates, views, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without prior notice. There can be no guarantee they will be met.

Important Information

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