



Global Inflation in an uncertain world

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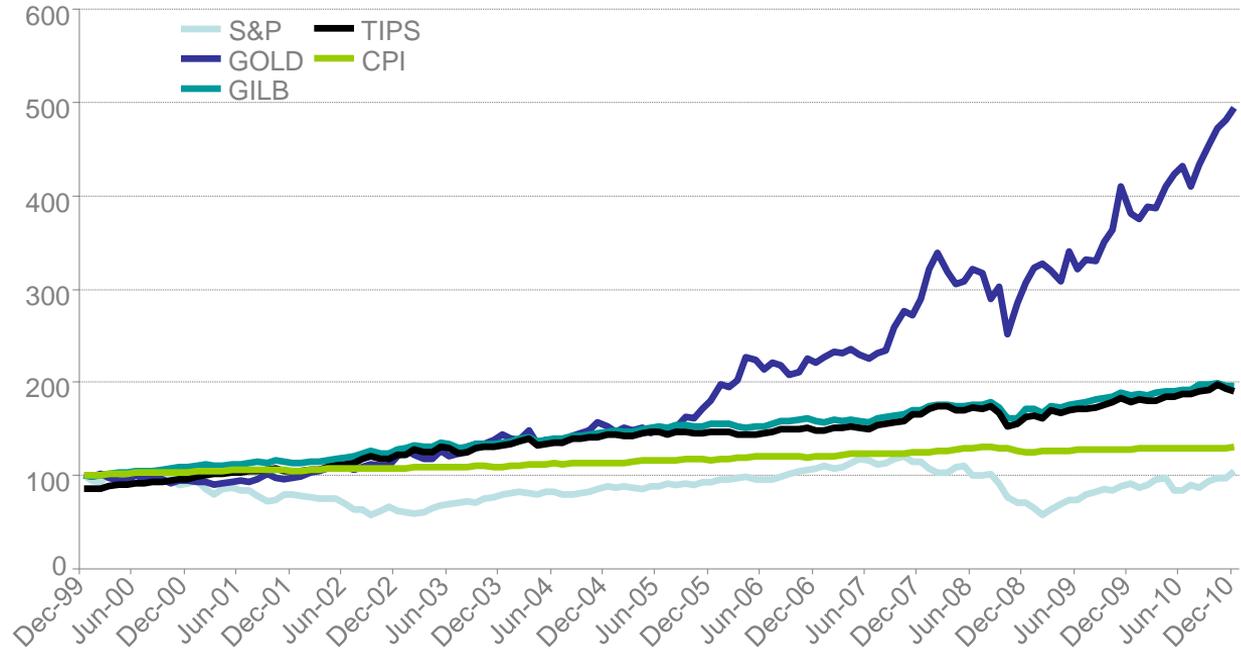
Divergent prospects for economies and markets

- Stability, predictability and homogeneity are in short supply
- Replaced by volatility, uncertainty and divergence
- This intensifies the need for well diversified risk
- Global inflation gives that diversification while mixing well with other real asset classes





Real assets and Inflation



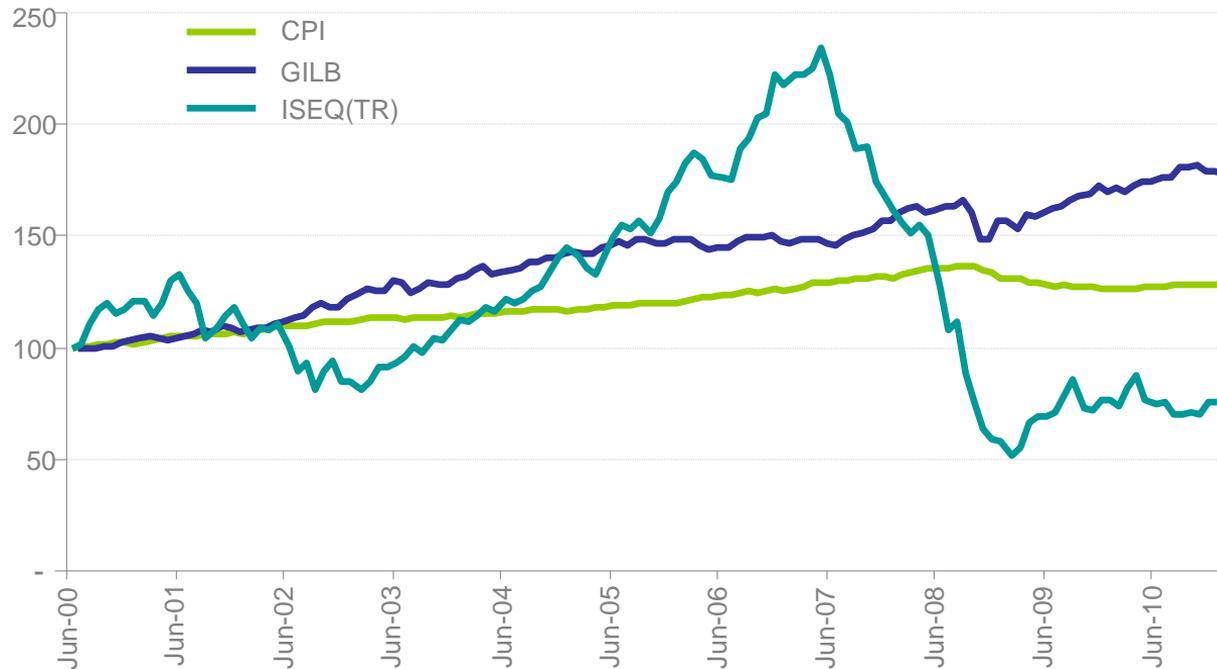
Source: Bloomberg February 2011. All figures in USD. CPI is US all items (nsa) index

A hedge should be correlated *and* be similar in volatility





Hedges for Irish inflation



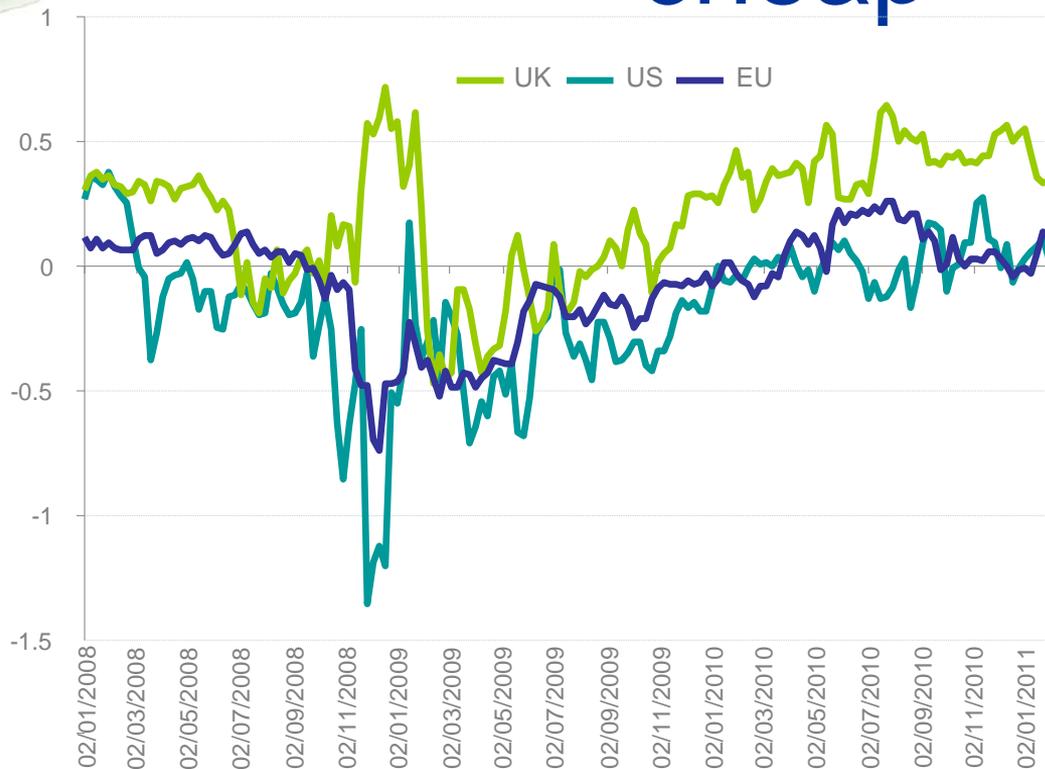
Source: Bloomberg March 2011. Irish CPI, ISEQ total return and Barclays Global Inflation (EUR hedged)

Hedged global inflation-linked offers the best domestic inflation protection





Inflation insurance remains cheap

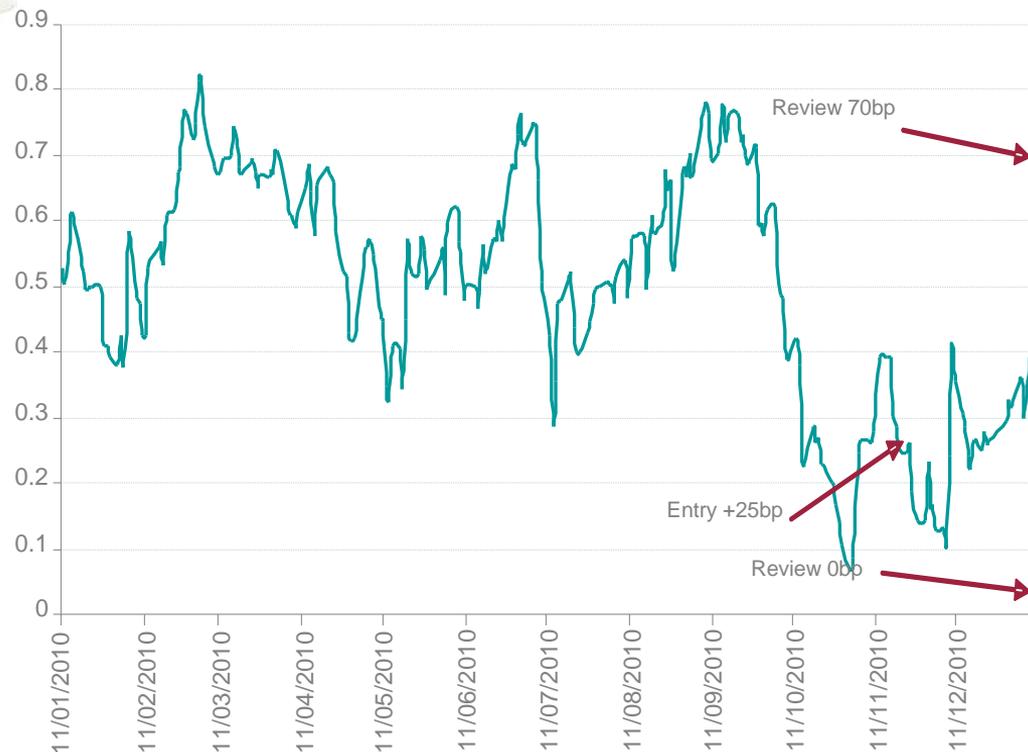


- Despite increased levels of uncertainty, risk premia have barely returned to pre-crisis levels
- US risk premium close to zero is very anomalous
- Inflation is subdued for now, but risks are very mixed

Source: Barclays RVI, February 2011. Data is 10yr 10yr forward minus 5yr forward



Exploiting the divergence



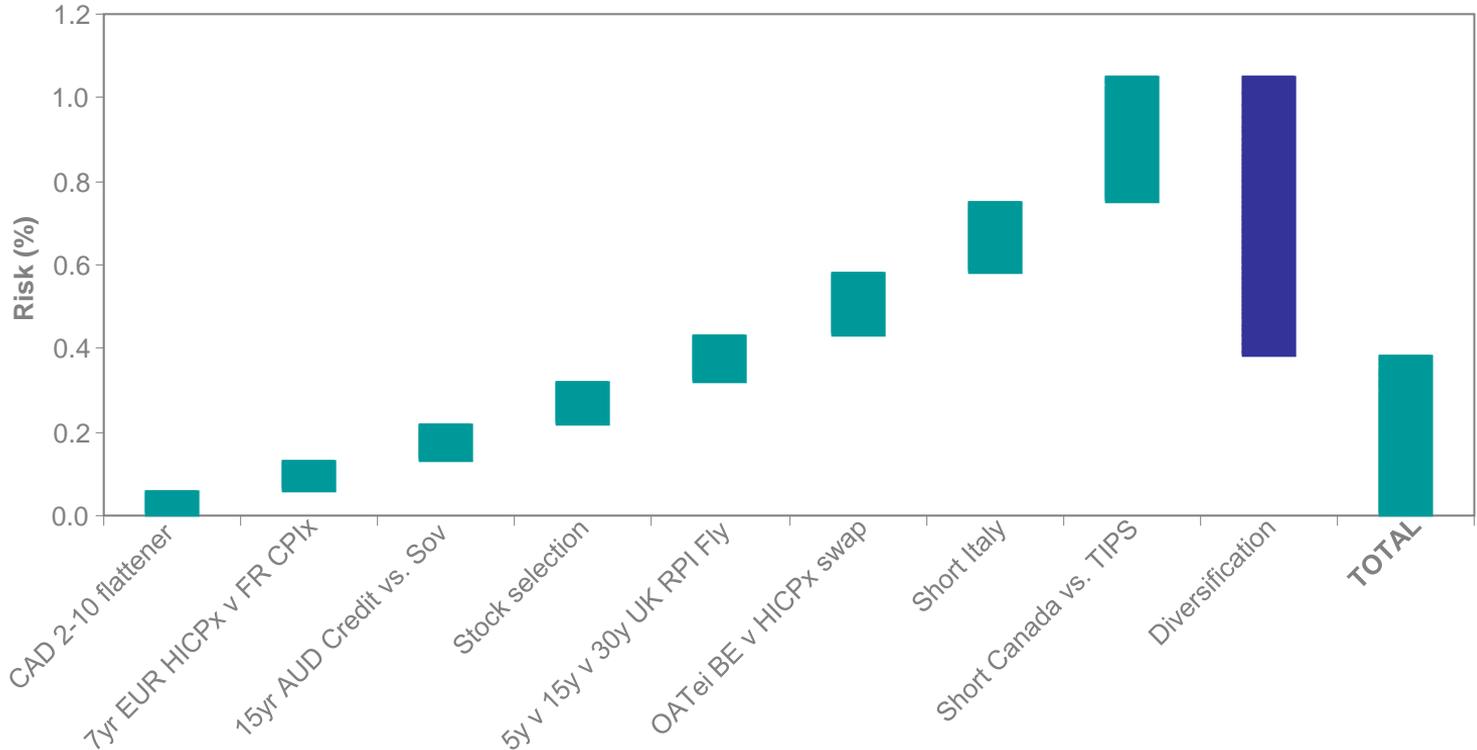
- UK has far clearer signs of large output gap than UK
- Yet inflation expectations had tightened to new lows
- Expect previous range to re-establish itself in time



Source: Barclays RVI, January 2011



Volatility vs. benchmark



Source: UBS Delta, data as of 8 March 2011





Conclusion

- Economic recoveries require heavy weightings in real assets
- This recovery is far less certain than normal cyclical recoveries
- This demands a more cautious mix of real assets
- Global inflation delivers strong diversification and steady real returns





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PANEL DISCUSSION Q&A





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