

IAPF WEBINAR

'The role of Diversified Growth in an inflationary World'

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Jerry Moriarty
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SPEAKER



David Greene

Head of Multi-Asset Investment Specialists – Absolute
Return and Fund Solutions
Amundi Asset Management

The Role of DGFs in an Inflationary Environment

David Greene – Head of Multi-Asset Investment Specialists

Poll & Results

1. *What is your personal experience of inflation over the past 3 months?*

A. *Rising – 29%*

B. *Static – 73%*

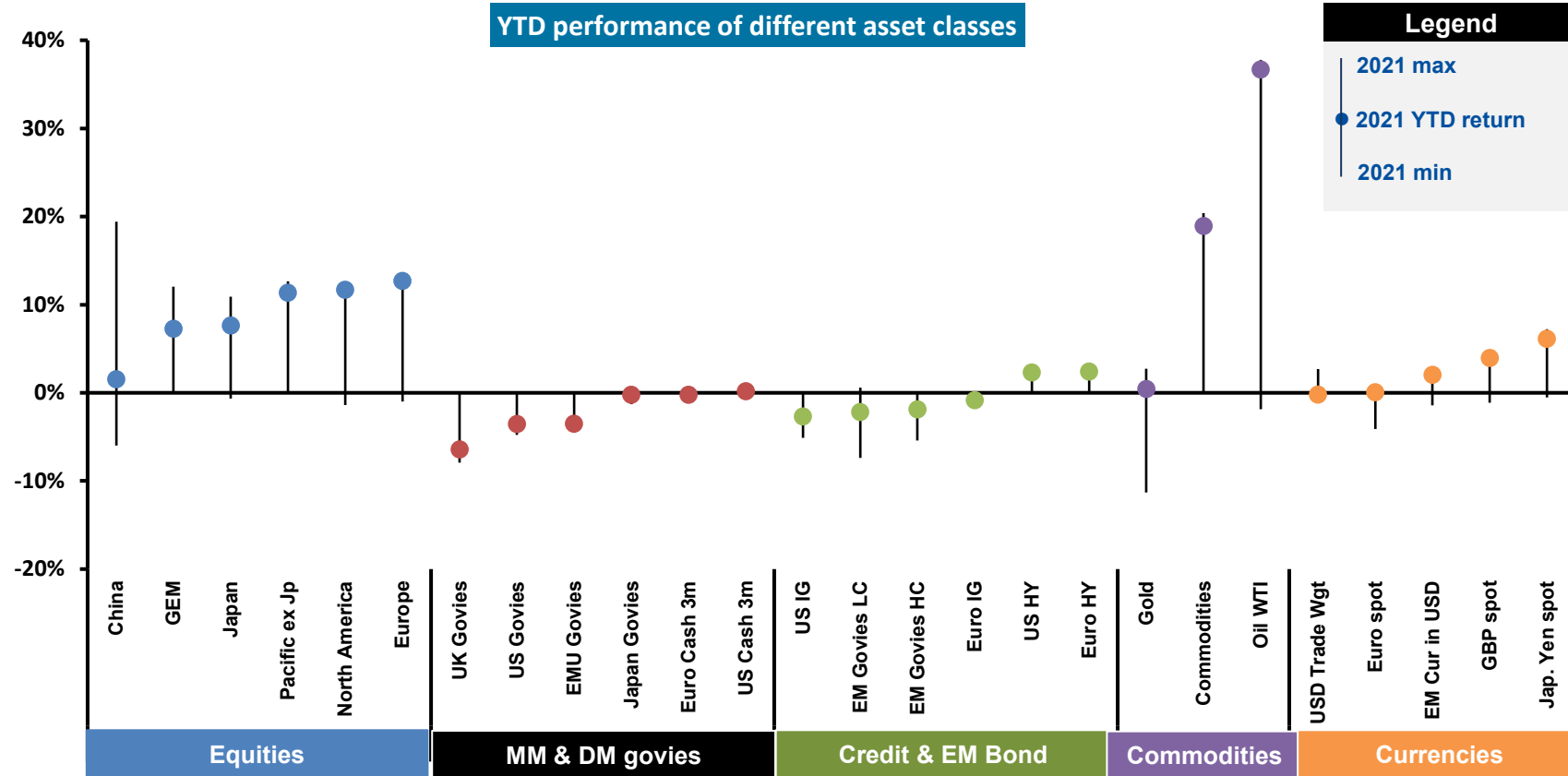
C. *Lower – 0%*



01

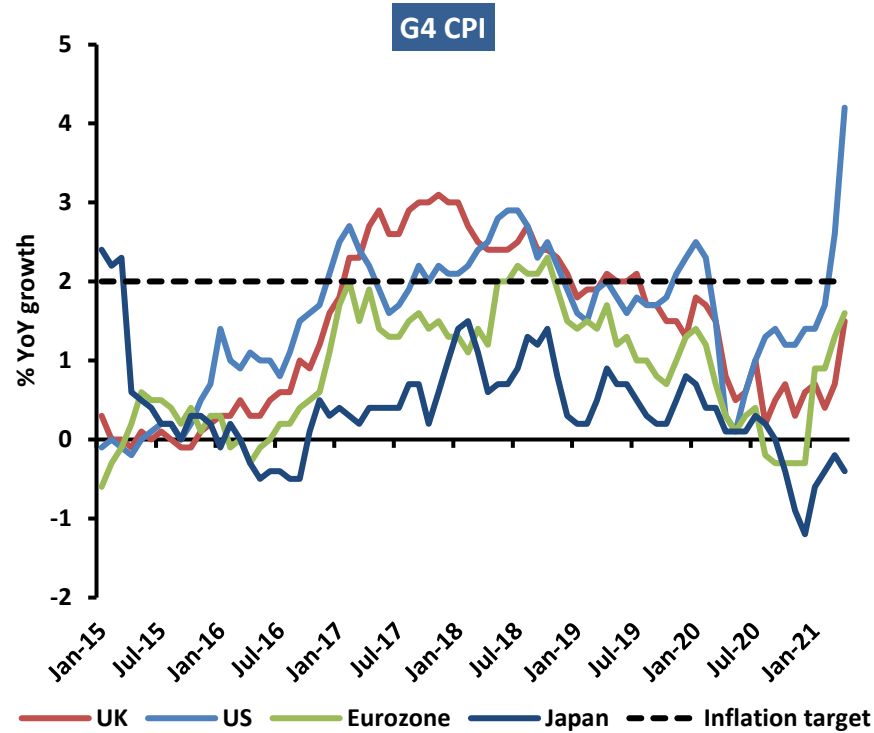
MACRO OUTLOOK

DM equities close to 2021 highs, pressure on bonds amid higher inflation

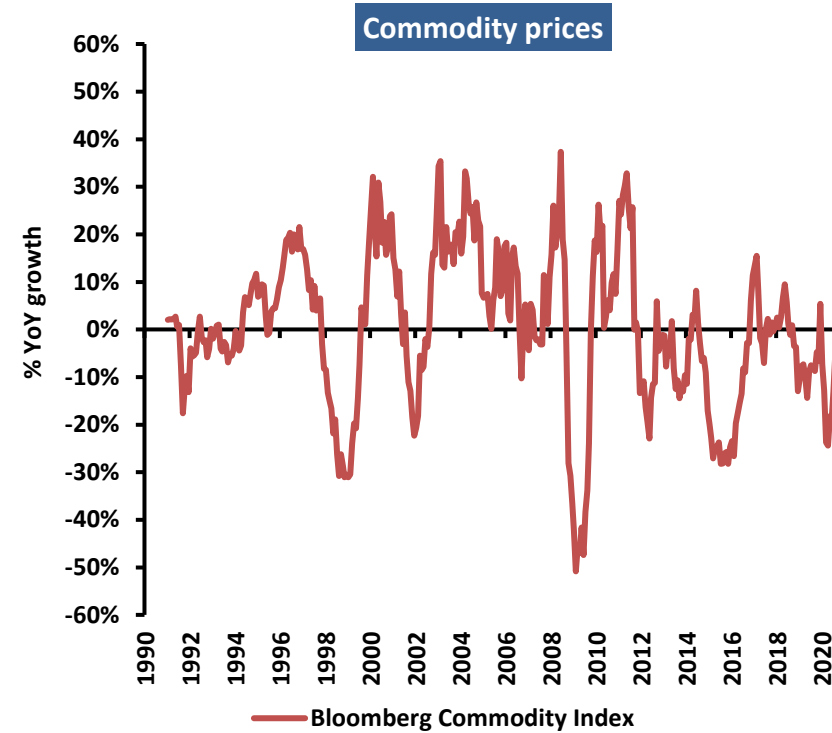


Source: Bloomberg, analysis by Amundi of 26 asset classes and FX. Data as of 31 May 2021. MM: money markets. DM: developed markets. Index providers: cash, government bond and EM bond indices are from JPMorgan; corporate bond indices are from BofA; equity indices and EM currency indices are from MSCI; commodities indices are from Bloomberg Barclays. All indices used to represent asset classes are in local currency. **Past performance is no guarantee of future results.**

The inflation moment has arrived in the United States

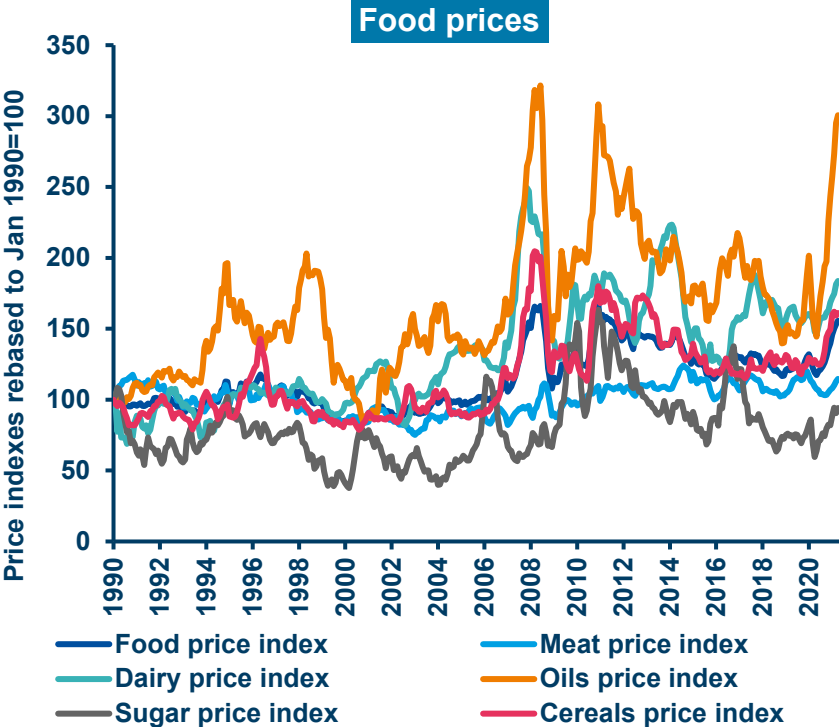


Source: Amundi, Bloomberg. Data as of 24 May 2021.

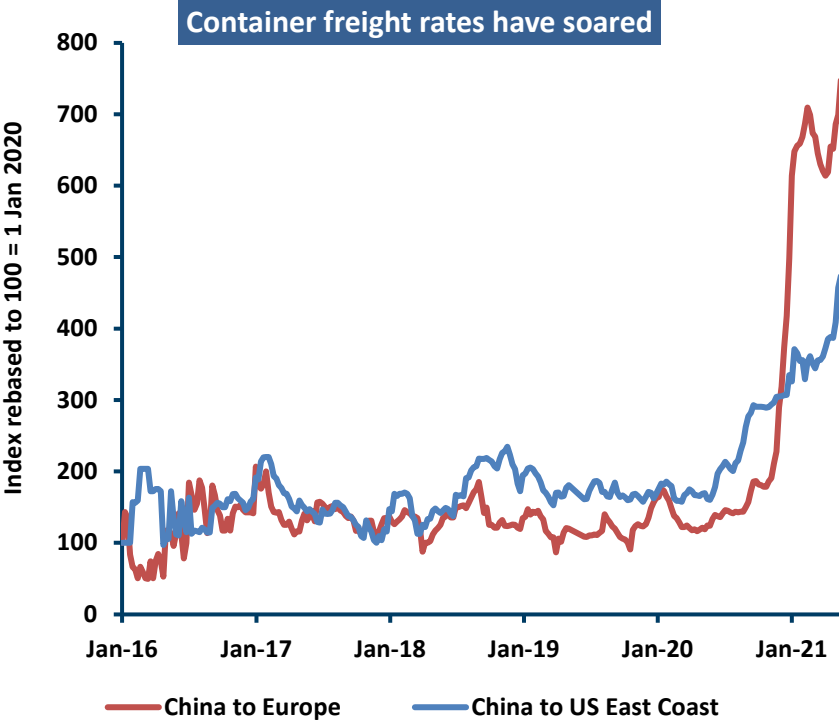


Source: Amundi, Bloomberg. Data as of 24 May 2021.

Price pressures building everywhere

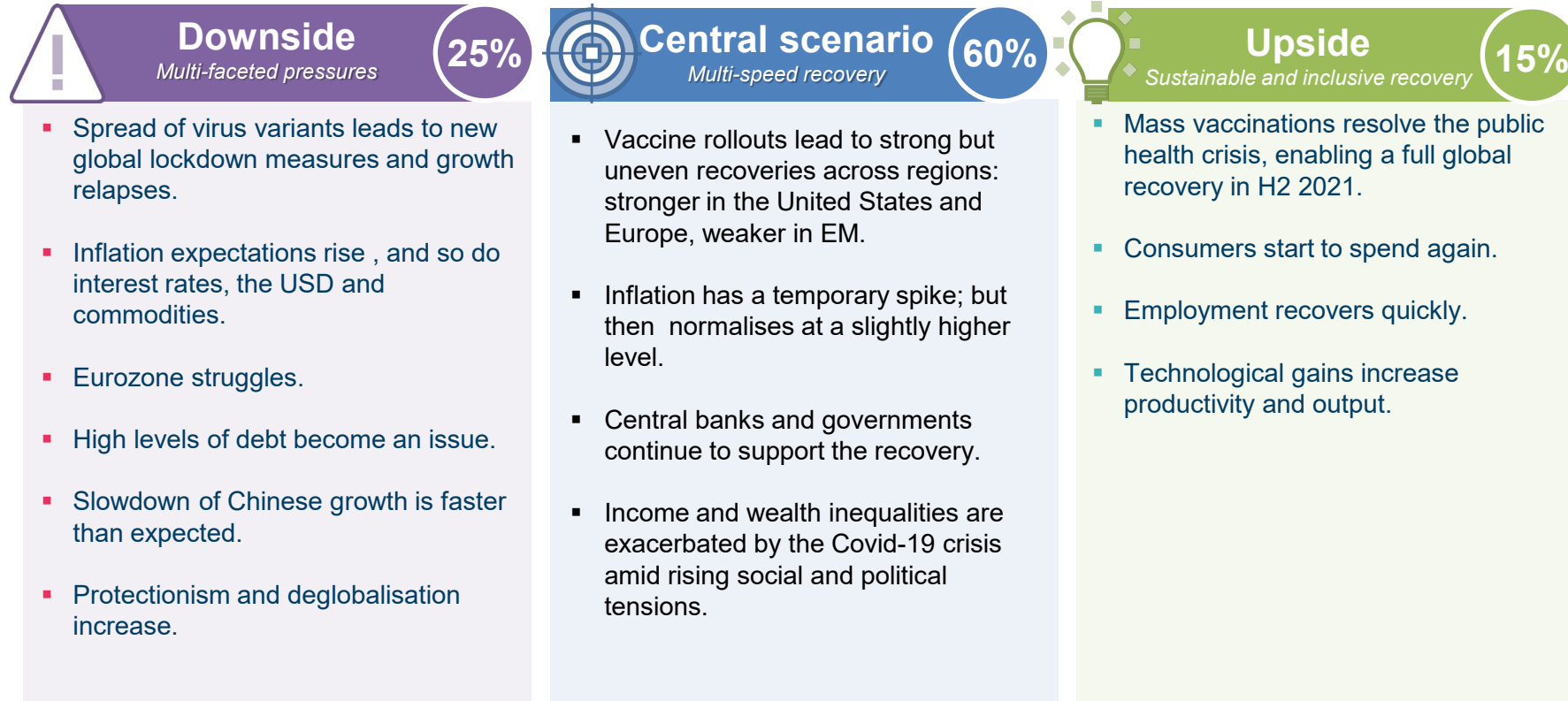


Source: Amundi, FAO. Data as of 24 May 2021.



Source: Amundi, Bloomberg. Data as of 28 May 2021.

Central and alternative scenarios for H2



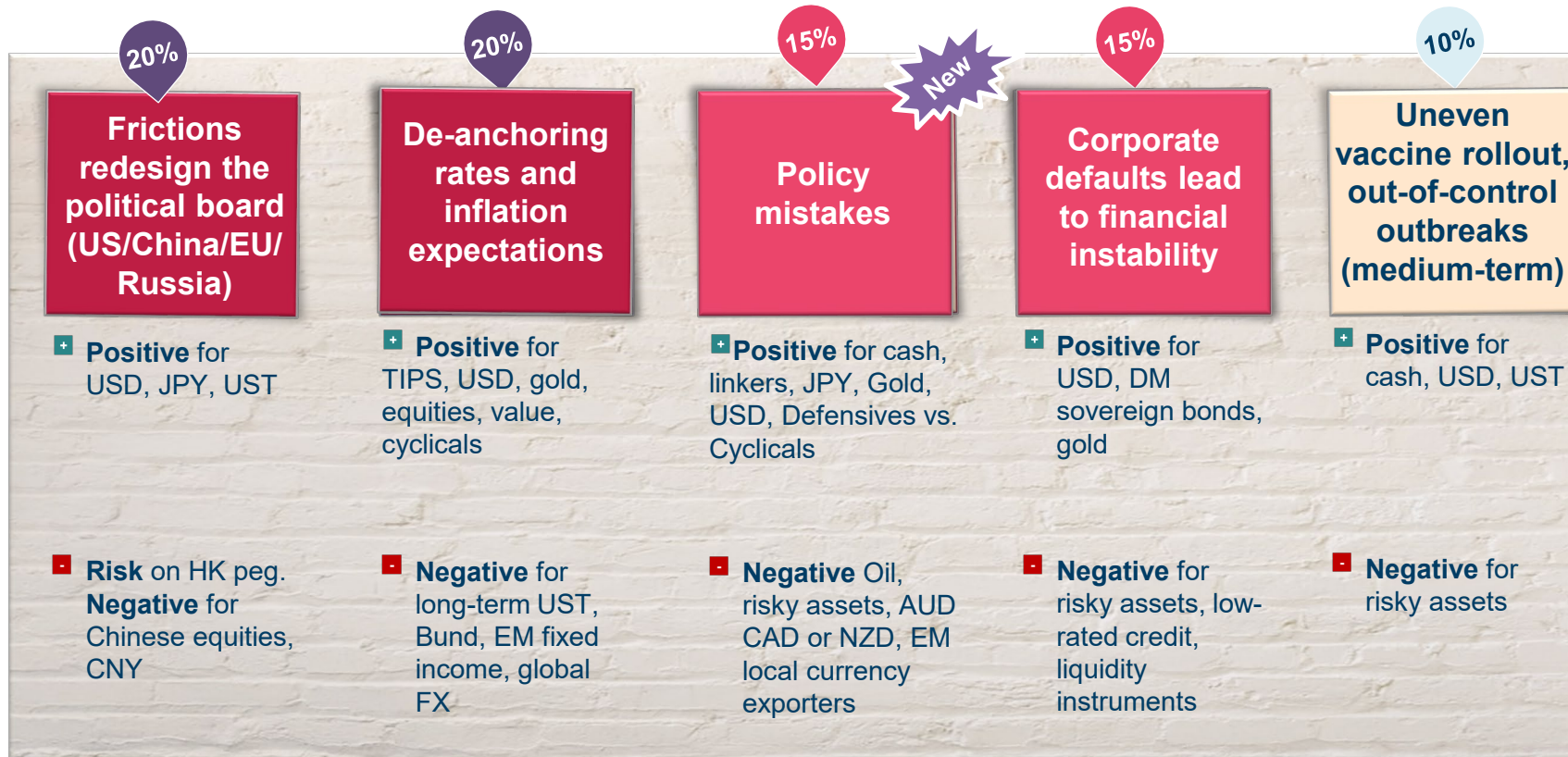
Source: Amundi as of 31 May 2021. DM: developed markets, EM: emerging markets. USD: US dollar.

Risks to the scenario

High

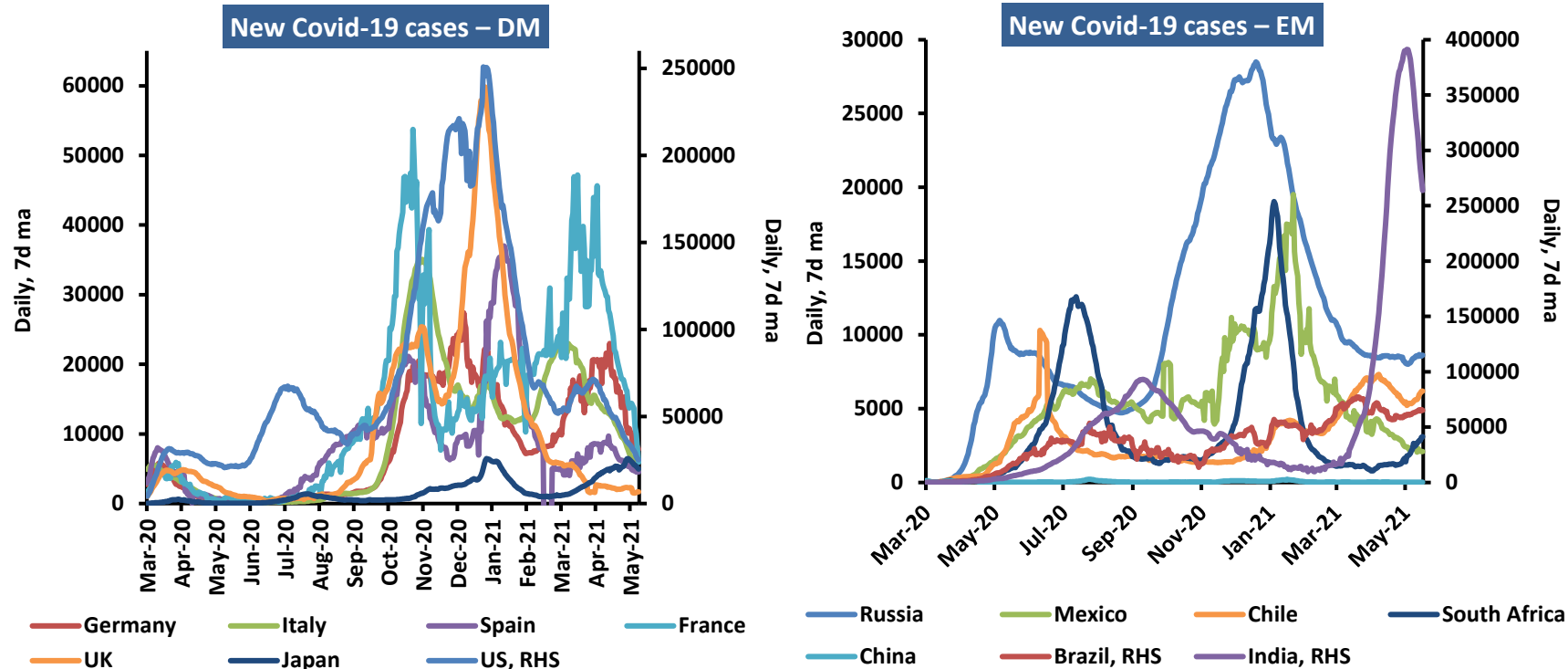
Probability

Low



Source: Amundi as of 31 May 2021. DM: developed markets. EM: emerging markets. USD: US dollar. JPY: Japanese yen. CNY: Chinese yuan. CHF: Swiss franc. UST: US Treasury. TIPS: Treasury inflation-protected securities.

Virus cycle is improving in DM, further room to go for EM

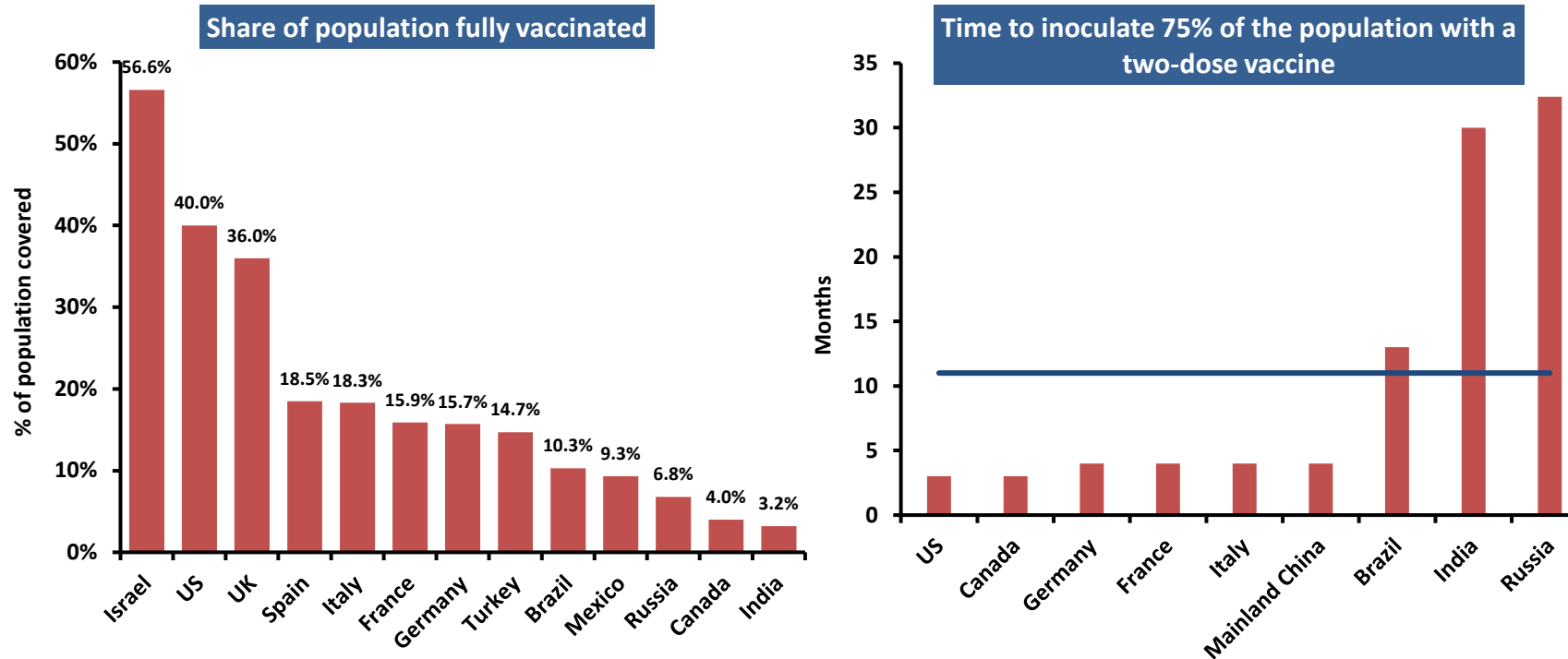


Source: Amundi elaborations on Bloomberg data as of 24 May 2021.

Source: Amundi elaborations on Bloomberg data as of 24 May 2021.

» The third wave has been softening across Europe, with the United Kingdom suffering from a spread of the Indian variant which might slow the economic reopening. The vaccination campaign is progressing quickly across DM. Among EM, India has passed the peak of new cases, while other EM, such as South Africa, have been experiencing some resurgence of the pandemic. The virus cycle is not yet completely under control.

Uneven vaccination pace across DM and EM

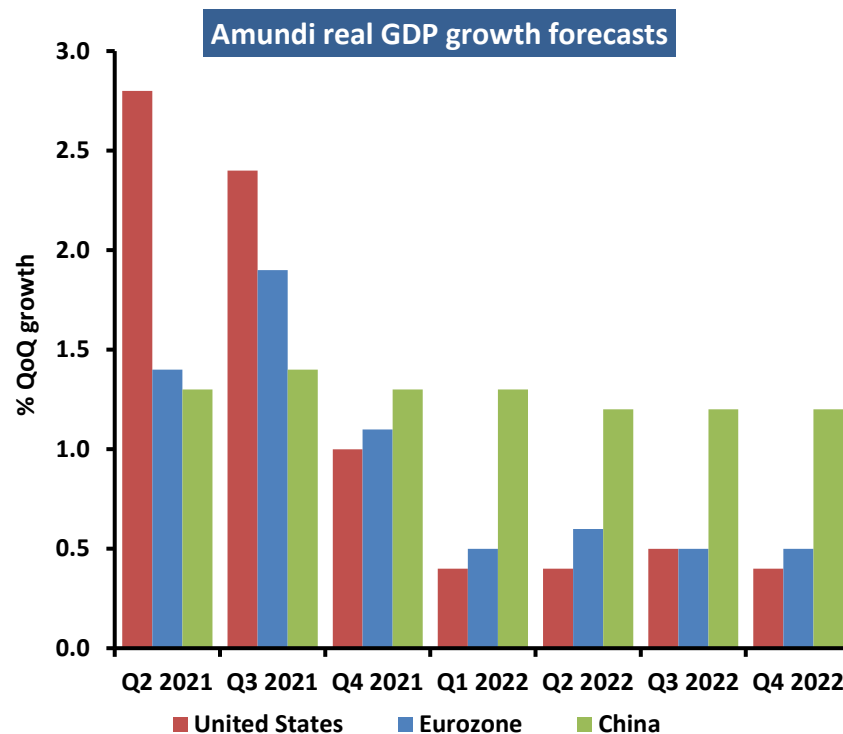


» Over 1.6bn doses have been administered across 176 countries, enough to fully vaccinate about 11% of the global population. High-income countries are vaccinating quicker than low-income ones. At the current global daily pace, it would take almost one year to achieve a significant level of herd immunity. India and Russia are lagging behind.

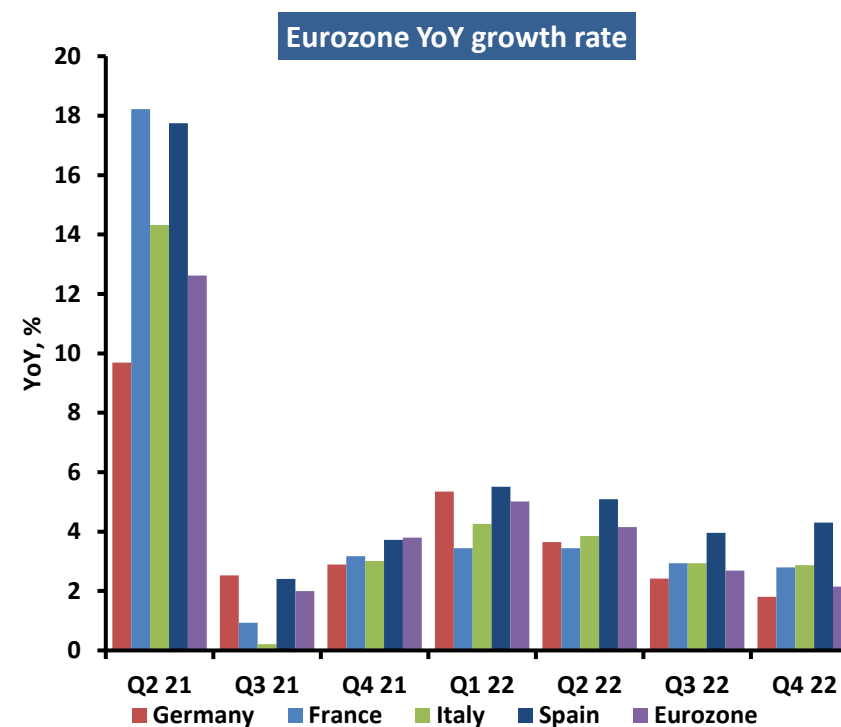
Source: Bloomberg News as of 28 May 2021. Population coverage accounts for the number of doses required for each vaccine. For countries that do not report daily, the last-known average rate is used. Russia reports only the number of people who have received at least one dose and does not break down the total number of doses administered, which would be higher.

Source: Bloomberg. Data as of 24 May 2021. Immunity calculations take into account the number of doses required and the current rate of administration for each vaccine type.

China passed the peak in 2020, US is likely to do so in Q2, Eurozone in Q3

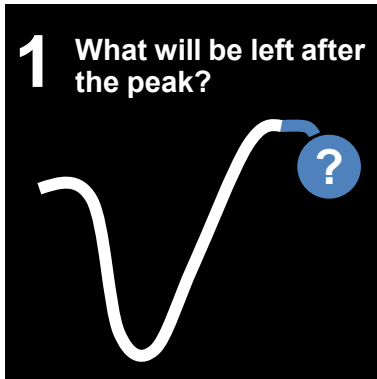


Source: Amundi Research. Data as of 25 May 2021. Forecasts are by Amundi Research.

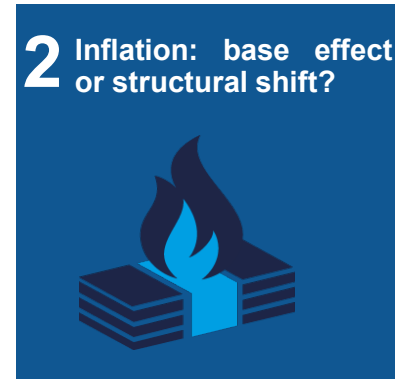


Source: Amundi Research. Data as of 25 May 2021. Forecasts are by Amundi Research.

Four questions for investors in H2 2021



Chines growth has peaked.
US growth peaks in Q2.
European growth peaks in Q3/Q4 2021.



Inflationary pressures found mostly in the US.
Inflation trends are supported by the economic recovery and pent-up demand.
Governments see higher inflation way as a way out of the debt crisis.
This will have key implications in three-to-five years' time.



Developed markets central banks keep rates as low as possible for as long as possible.
Markets will start pricing in some rate hikes in 2022.
Volatility may rise over the summer.
A key risk is that bond yields rise from current levels.



EM are likely to see improving economic and health conditions at end-Q3/Q4.
China, and part of Asia, will remain the most favoured regions and markets.

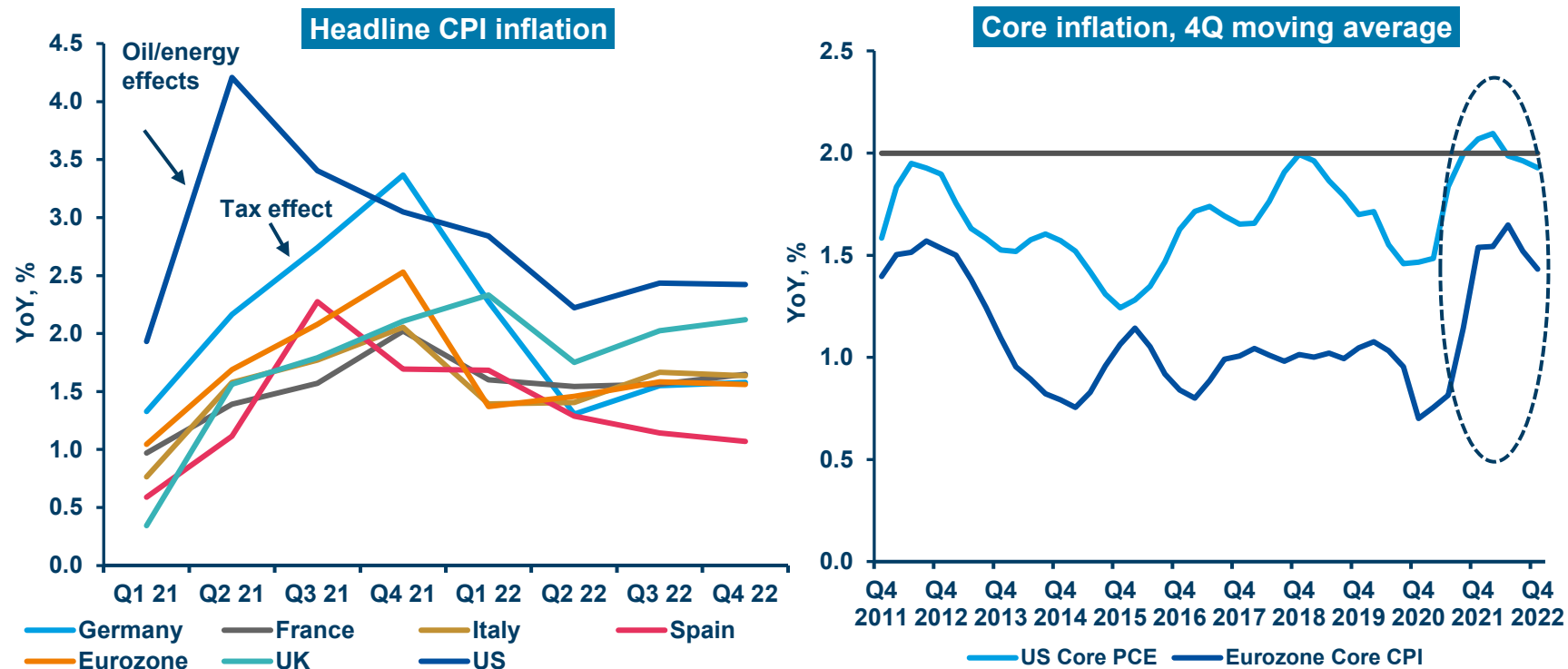
Source: Amundi as of 31 May 2021. DM: developed markets. EM: emerging markets. CEMEA: Central Europe, Middle East and Africa. Latam: Latin America.



02

INFLATION – TRANSITORY OR STRUCTURAL?

DM inflation to head higher this year, especially in the US

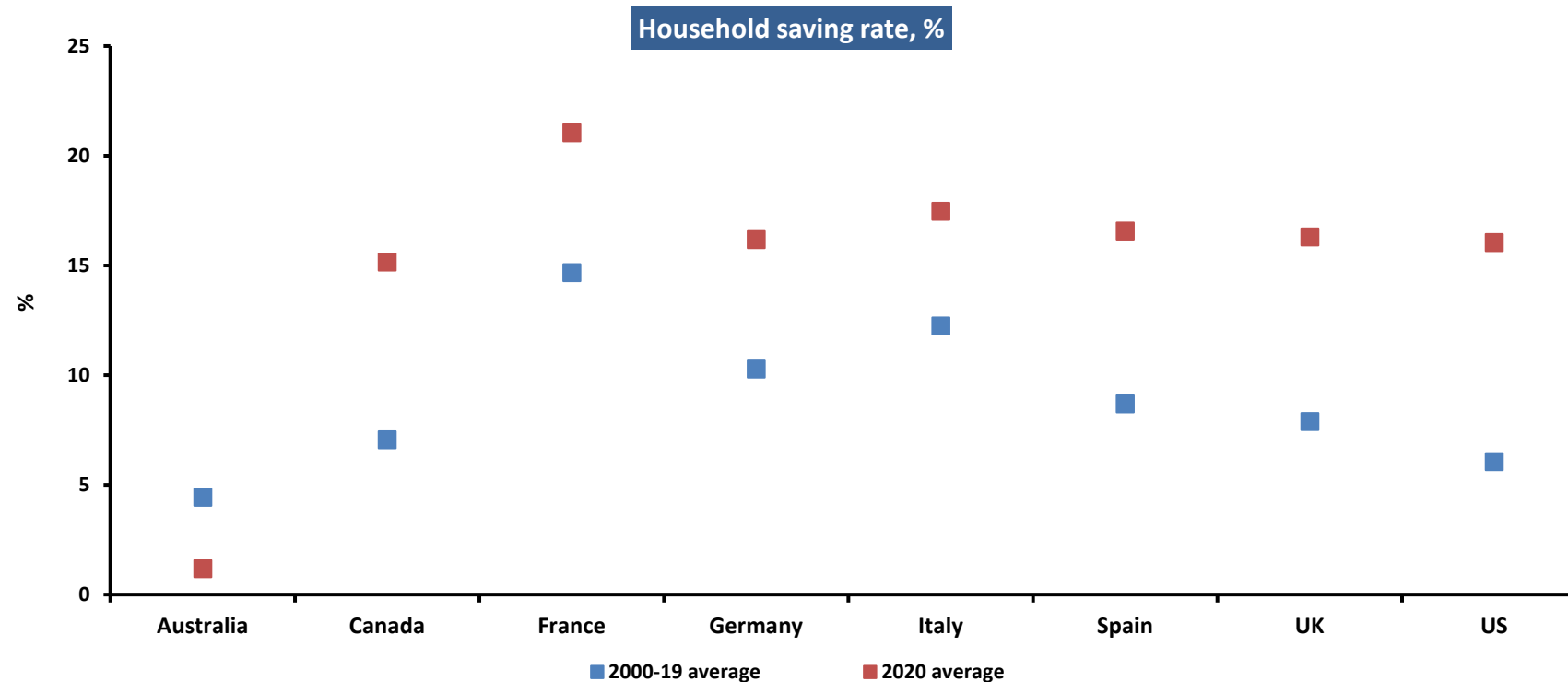


» US CPI jumped in April to its highest level since 2008, driven by base effects and re-opening-related price rises due to strong pent-up demand and supply bottlenecks. Some core components proved strong as well, such as shelter. Eurozone inflation data is more subdued, but on the rise, including core components.

Source: Amundi Research. Data as of 25 May 2021. Forecasts are by Amundi Research. CPI: consumer price index.

Source: Amundi Research. Data as of 25 May 2021. Forecasts are by Amundi Research.

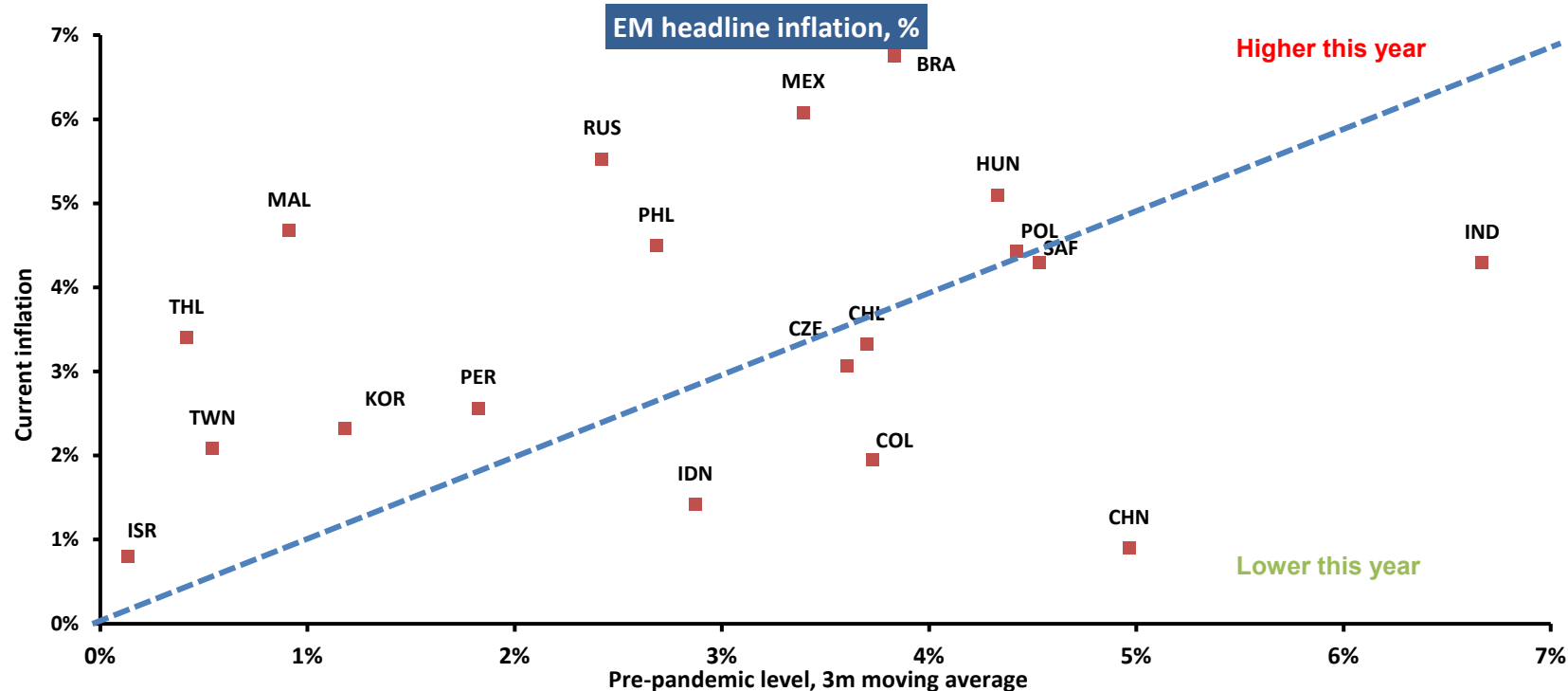
High extra savings could unleash pent-up demand



» Households across DM have accumulated an unusual amount of savings in 2020, as fewer spending options were available due to containment measures. These savings could fuel some strong pent-up demand once restrictions are lifted, adding to inflation pressures.

Source: Amundi on Bloomberg data as of 25 May 2021.

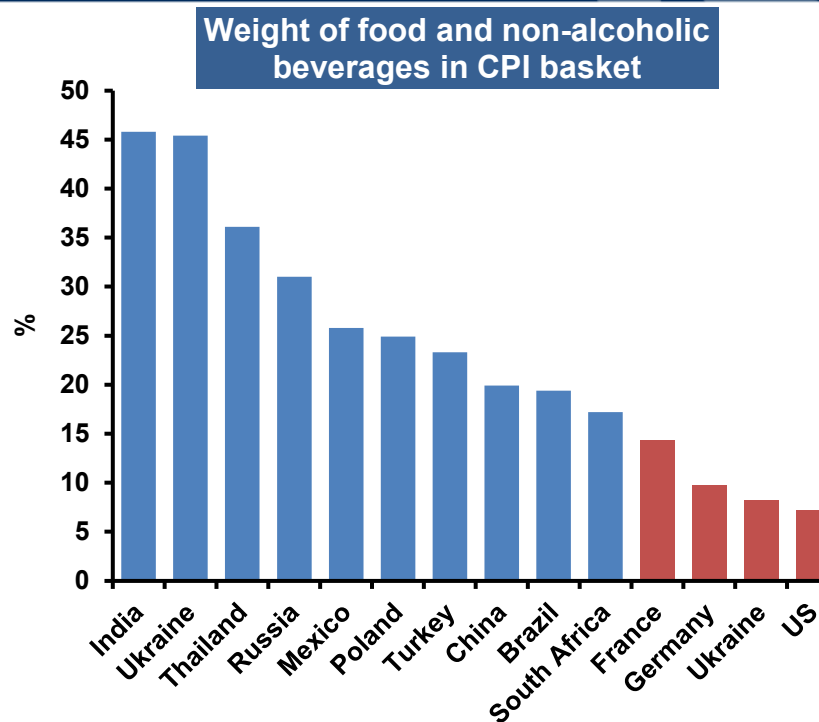
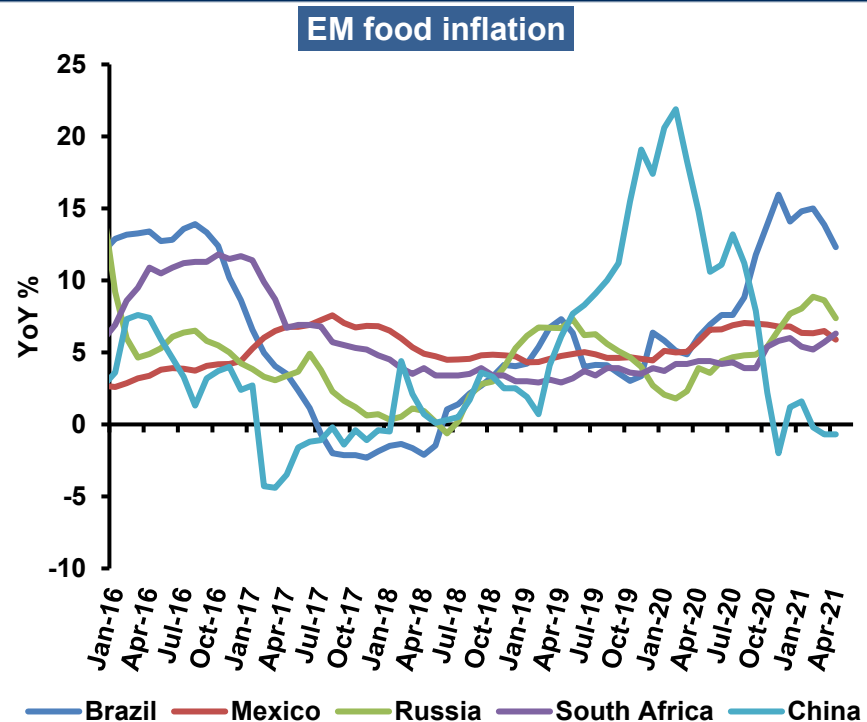
Rising inflation is spreading across EM countries



» Many EM countries are facing inflation pressures coming from food and synchronised price rises on commodity markets. Some EM policymakers have already started to reverse their policy easing stance in order to limit new inflation forces.

Source: Amundi Research. Data as of 25 May 2021. CB: central banks. Current data refers to CPI headline inflation as of April 2021, CPI pre-pandemic level refers to the median of December 2019, January 2020 and February 2020. Note: Turkey is not included in the chart (inflation picked up from 10.9% to 17.1% YoY).

EM CPI is highly sensitive to relative food price shocks



» Across EM, CPI baskets tend to have a higher weight of the food component than in DM. This could add volatility to inflation data which may prove sensitive to supply shocks or temporary shortages. This is one of the main reasons why developing countries are experiencing rising inflation pressure.

Source: Amundi on Bloomberg data. Brazil CPI by Products Food and Beverage NSA YoY, Mexico CPI Food Beverages and Tobacco YoY, Russia CPI Food & Nonalcoholic Beverage YoY, South Africa CPI Food and Non Alcohol YoY and China CPI Food YoY. Data as of 26 May 2021.

Source: Amundi on IMF and Statistic offices data. China's data is estimated by Bloomberg Intelligence. China's National Bureau of Statistics has not disclosed its CPI basket weights. Data as of 2018 and 2019.

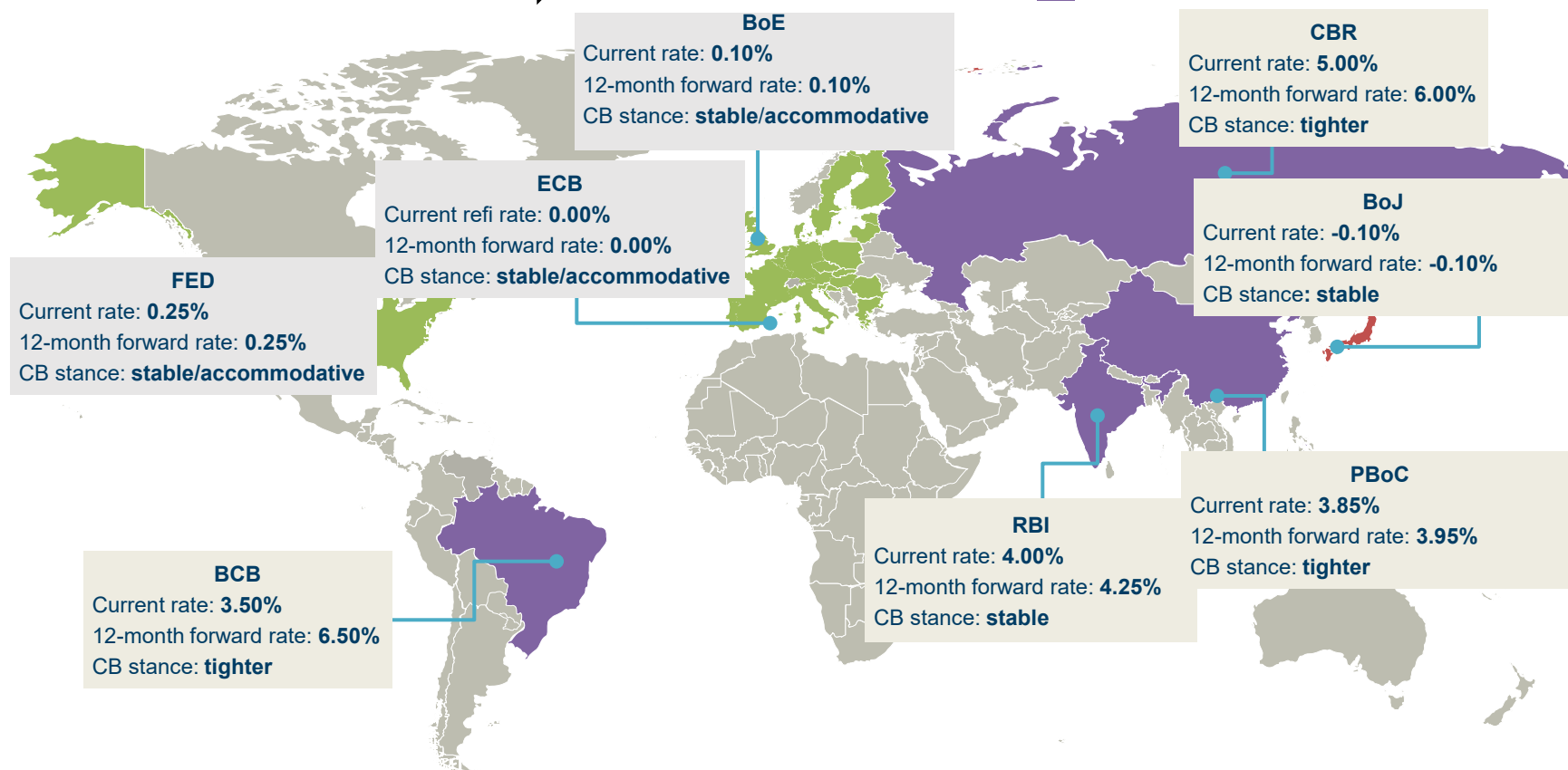
DM central banks will stay accommodative, while in EM they are reversing policy easing

Amundi's projected policy bias in 2021

Stable

Accommodative

Tighter



Source: Amundi Research as of 26 May 2021. Illustrative map for monetary policies. Central bank stance refers to expected changes on QE or unconventional tools position throughout 2021 and early 2022. Fed: Federal Reserve; BoE: Bank of England; PBoC: People's Bank of China; BoJ: Bank of Japan; BCB: Central Bank of Brazil; CBR: Central Bank of Russia; ECB: European Central Bank; RBI: Reserve Bank of India.

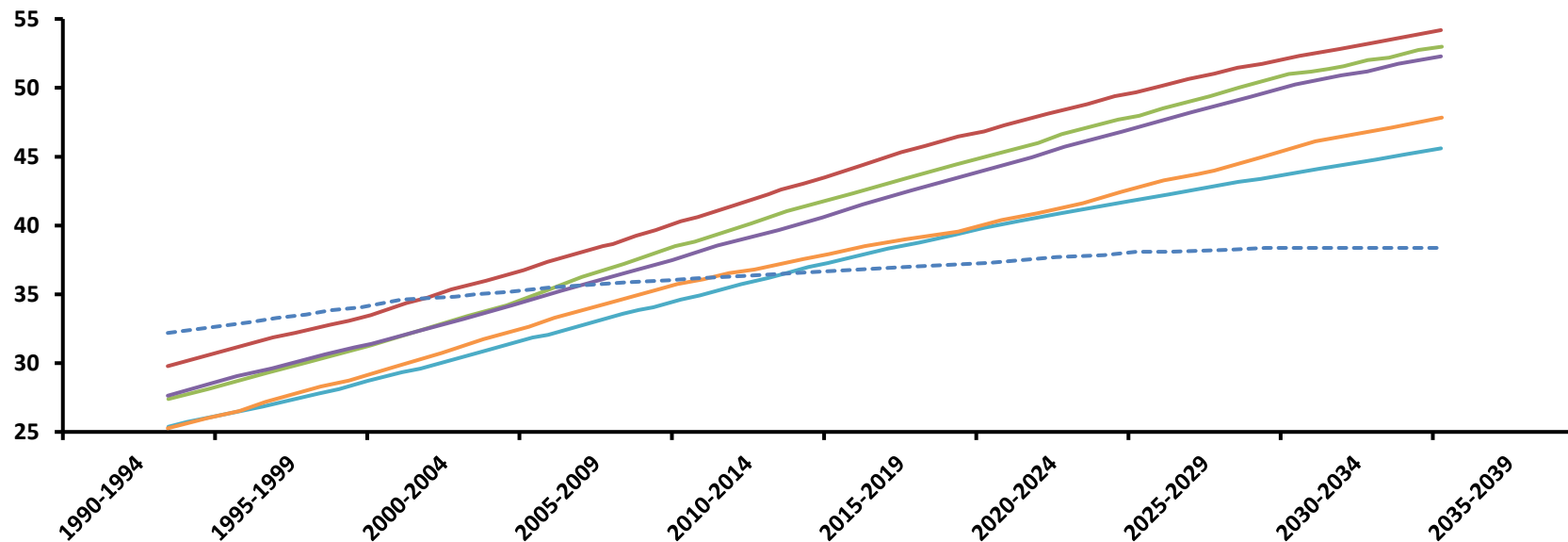
Inflation Outlook

- **Short-term (i.e. next 12 months) inflation dynamics are known, and priced.**
 - Reduced globalization
 - Increased onshoring
 - Base effects
 - Disrupted and shortened supply chains

- **So we should focus on the true drivers of secular inflation:**
 - Asia could move from being a deflationary force to an inflationary source, as Asian growth slows, wages rise, and currencies appreciate.
 - A re-distribution of wealth from Capital to Labour as MMT and Universal Basic Income concepts become popular.
 - Monopolistic business models have killed competition and now have the pricing power to raise prices (think Facebook, Amazon, Google, Apple etc).
 - The cost of greater ESG integration leads to previously “hidden costs” now showing up in traditional CPI measures.

Asia: Moving from a deflationary force to an inflationary force

Median Age in Asia versus the U.S.

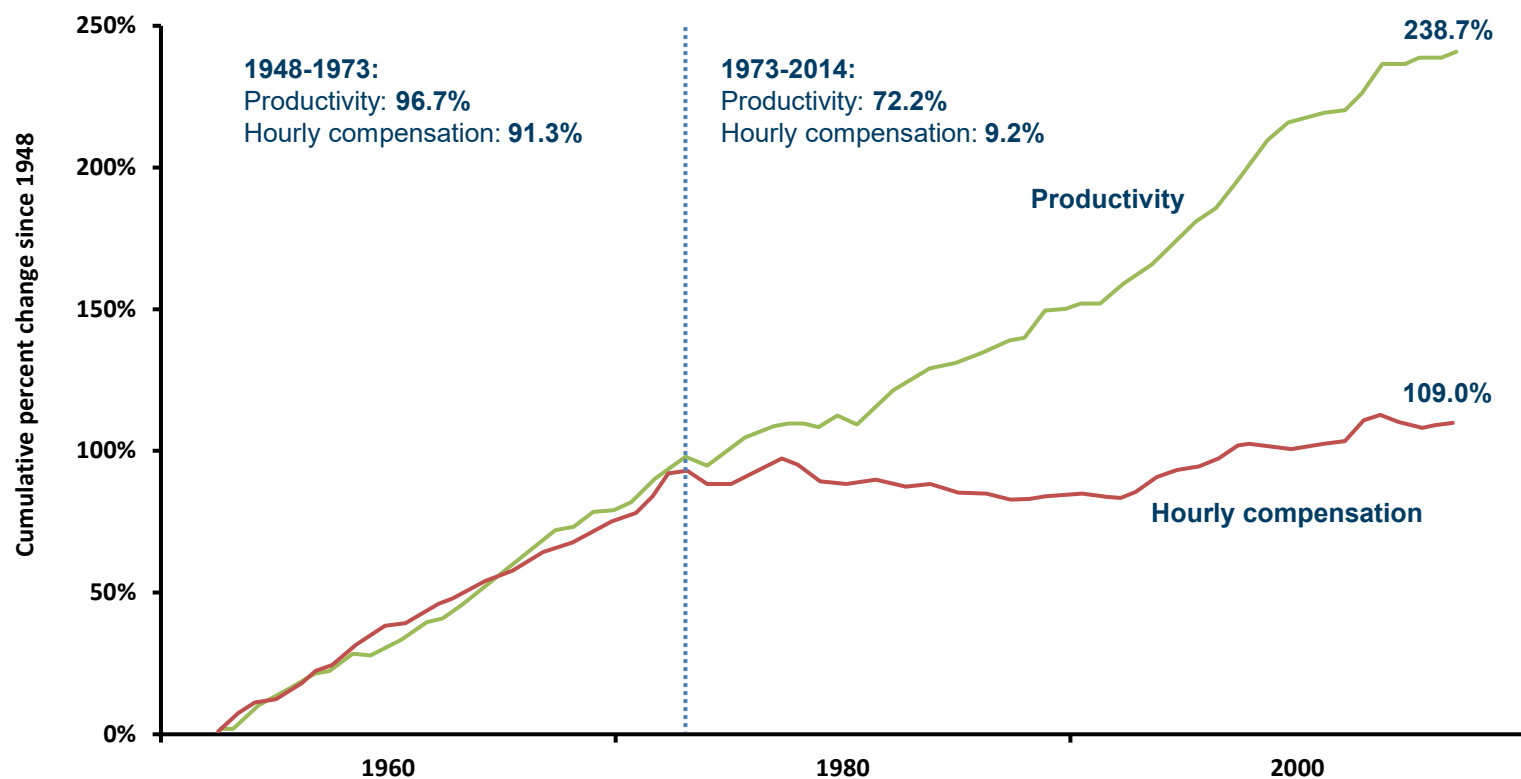


Last Price

■ United States Median Age Male Midyear Population	37.700	■ Thailand Median Age Both Sexes Midyear Population	44.900
■ China Median Age Both Sexes Midyear Population	47.100	■ Taiwan Median Age Both Sexes Midyear Population	51.500
■ South Korea Median Age Both Sexes Midyear Population	52.100	■ Singapore Median Age Both Sexes Midyear Population	53.300

Redistribution of Wealth away from Capital to Labour?

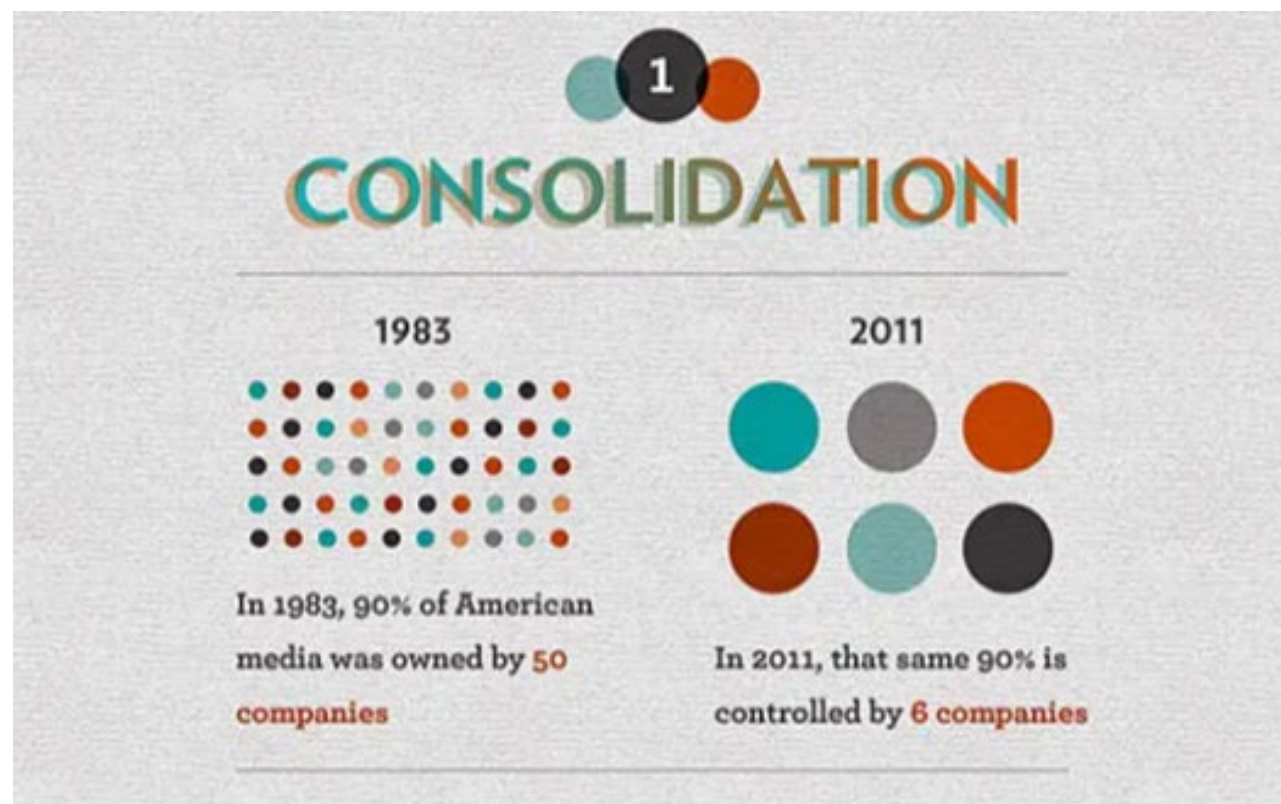
Disconnect between productivity and a typical worker's compensation, 1948-2014



Note: Date are for average hourly compensation of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services minus depreciation per hour worked.

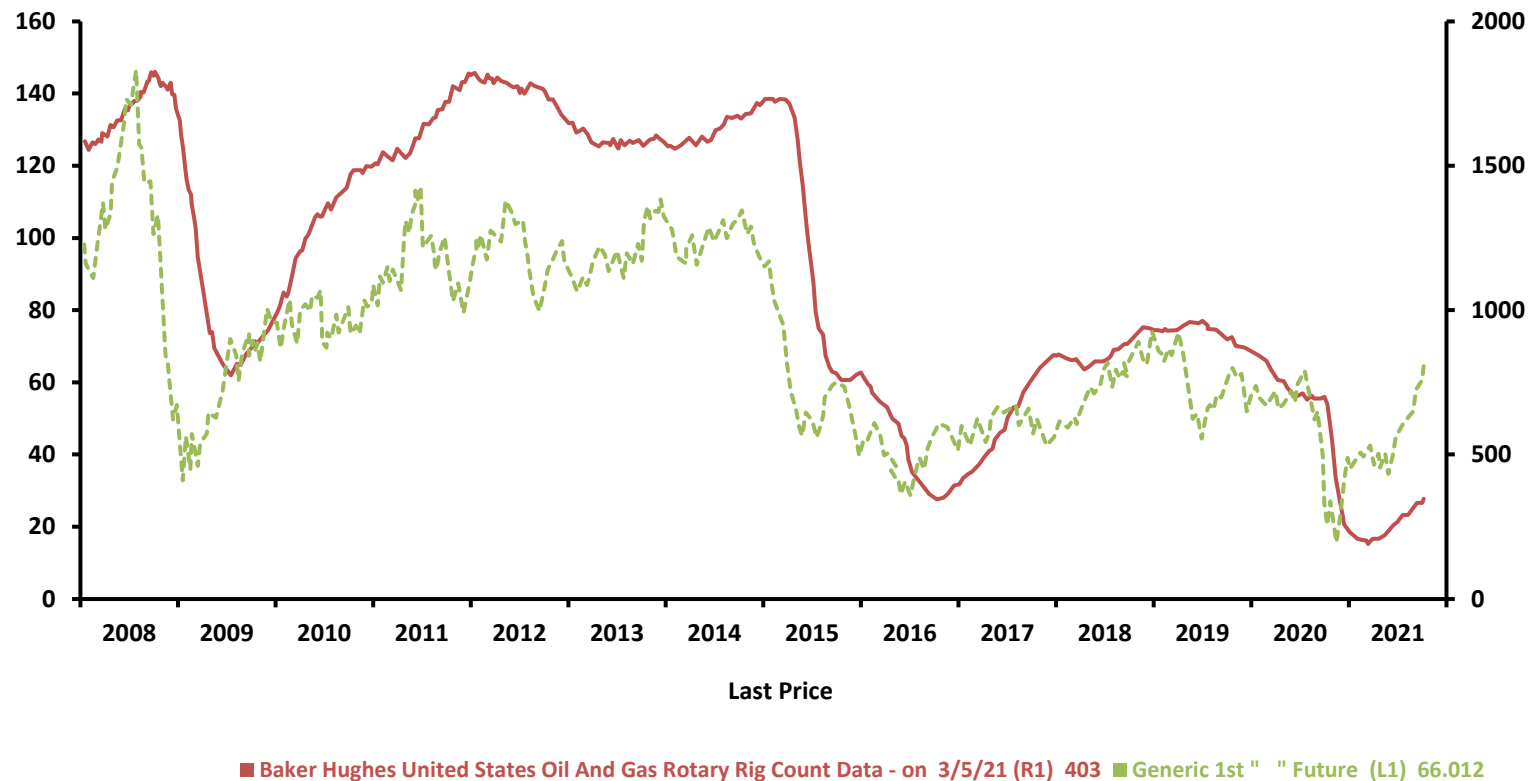
Source: EPI analysis of data from the BEA and BLS (see technical appendix for more detailed information)

Monopolies: A Hidden Inflationary Risk?



Could ESG cause a stagflationary environment?

WTI Price versus Baker Hughes US Oil Rig Count

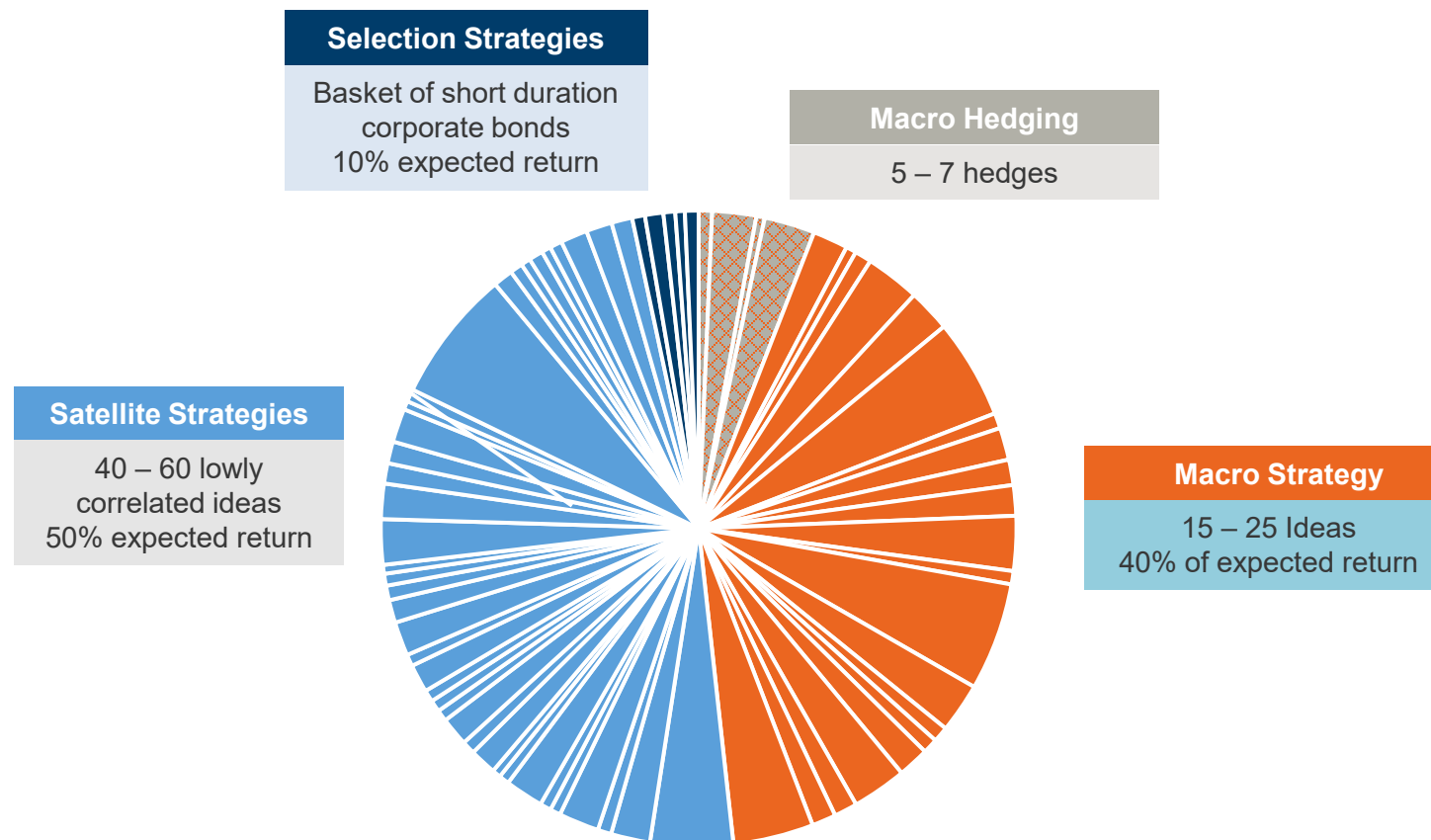




03

PORTFOLIO CONSTRUCTION IN AN INFLATIONARY WORLD

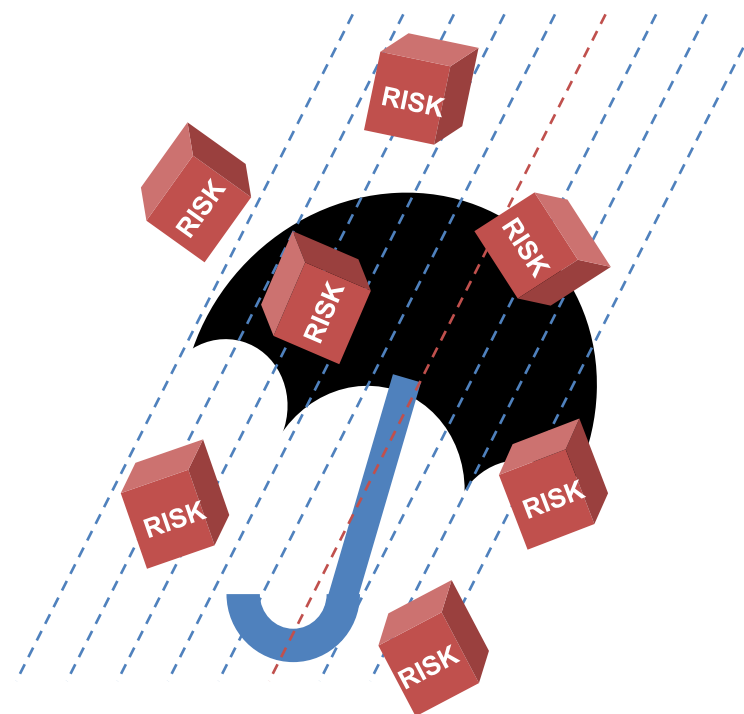
Look for A Highly Diversified Portfolio of Investment Ideas



With lowly-correlations between positions

	Macro - Hedging	Macro Strategy	Satellite	Satellite - Comm Infl & Vol	Satellite - Equity	Satellite - FX	Satellite - Interest Rates	Satellite - Quant Models	Satellite - Spread	Selection
Macro - Hedging	1.00	-0.92	-0.50	-0.45	-0.22	-0.09	-0.10	-0.57	-0.39	-0.22
Macro Strategy	-0.92	1.00	0.52	0.54	0.16	0.29	-0.01	0.59	0.39	0.27
Satellite	-0.50	0.52	1.00	0.52	0.31	0.55	0.65	0.67	0.29	0.07
Satellite - Comm Infl & Vol	-0.45	0.54	0.52	1.00	0.06	0.14	0.11	0.24	0.31	0.24
Satellite - Equity	-0.22	0.16	0.31	0.06	1.00	0.00	-0.02	0.23	0.05	-0.01
Satellite - FX	-0.09	0.29	0.55	0.14	0.00	1.00	0.11	0.51	-0.03	0.02
Satellite - Interest Rates	-0.10	-0.01	0.65	0.11	-0.02	0.11	1.00	0.11	0.03	-0.08
Satellite - Quant Models	-0.57	0.59	0.67	0.24	0.23	0.51	0.11	1.00	0.14	0.05
Satellite - Spread	-0.39	0.39	0.29	0.31	0.05	-0.03	0.03	0.14	1.00	0.17
Selection	-0.22	0.27	0.07	0.24	-0.01	0.02	-0.08	0.05	0.17	1.00

And With Multiple Layers of Risk Management



Portfolio Implications

Overweight	Underweight	Rationale
Low duration	Long duration	Bond yields are likely to rise
Asian govt bonds	Western govt bonds	Higher real rates in Asia
Real assets	Financial assets	Commodities / Real Estate / Emission credits / Crypto?
Long-dated Inflation trades	Nominal bonds	Long-dated inflation yields are lower than short-dated yields, meaning the market expects inflation to be temporary
Value	Growth	Value outperforms in periods of higher inflation
Rest of the World	USA	RoW is seen as more Value-oriented than US
Financials	General Market	Higher yields should benefit financials
High Yield Bonds	Investment Grade Bonds	Higher inflation benefits more indebted companies
Commodity currencies	Non-commodity currencies	Commodity currencies will benefit from inflationary conditions

Key Messages For Investors

1. We remain concerned that inflation may become a structural issue, and that the market is not priced for this outcome.
2. Diversification of risk is important, as we expect considerable volatility in H2 2021 with numerous risks (vaccine rollouts; market valuations etc).
3. Portfolio construction in a low-inflation world is very different from that of a higher-inflation world.
4. DGFs act as an “all-weather” solution, aiming to deliver positive returns over a market cycle no matter what the market does.

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Poll & Results

2. *What do you feel is the most important attribute of a DGF fund?*

- A. *Experienced Management Team – 25%*
- B. *Historical track record – 13%*
- C. *Proven Risk Management – 31%*
- D. *Diversified Portfolio – 31%*

Q&A

Delegates pose questions/add comment via the 'Questions' feature on your device



David Greene

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Jerry Moriarty

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THANK YOU



David Greene

Head of Multi-Asset Investment Specialists – Absolute
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