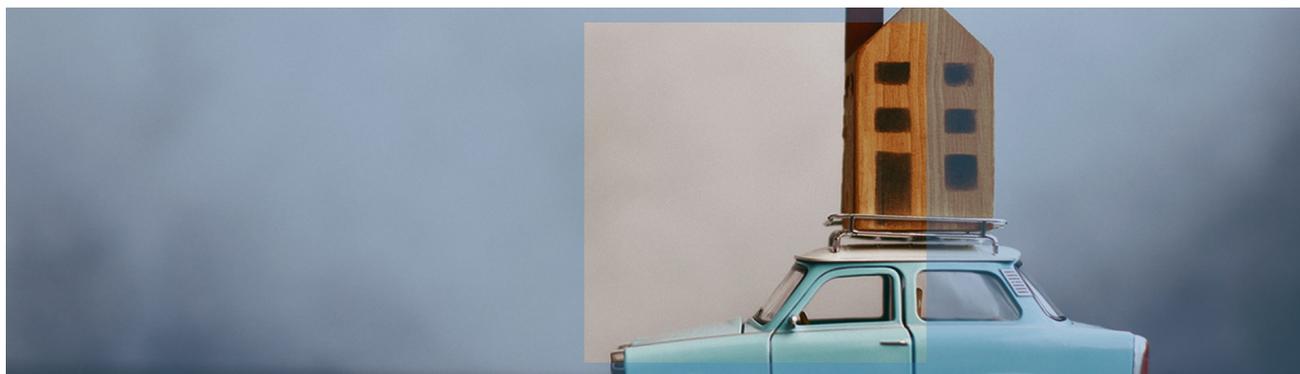


Don't downsize your dreams

Inflation: beyond transitory

by Stefan Hofrichter, CFA, Martin Hochstein, CFA | 04/11/2021



Summary

Inflation has made a forceful comeback recently, and we believe it will last longer than the financial markets and many investors currently anticipate. In part one of a two-part paper, we look at the factors that may cause a more persistent rise in consumer price inflation – and why it matters to investors.

Key takeaways:

- The recent inflation spike has been amplified by several extraordinary and temporary factors – including the post-Covid rebound and base effects
- But there are other reasons why consumer price inflation may turn out to be “sticky” – including continued accommodation from central banks, less globalisation and an aging population
- We also expect the fight against climate change and economic inequality to contribute to upward inflationary pressure

The inflation spike is real – and it may last for some time

After years of subdued price pressure and a brief disinflationary bout early in the Covid-19 pandemic, global inflation has made a forceful comeback. Consumer prices in OECD countries rose by 4.3% from August 2020 to August 2021 – the fastest pace in 13 years.¹

But contrary to the market consensus, we believe that only part of the inflation spike is transitory. To be sure, some of the recent rise in inflation is a byproduct of the sharp post-Covid economic recovery, powered by unprecedented monetary and fiscal stimulus, lingering pent-up demand and surging commodity prices. The inflation spike has also been amplified by several extraordinary and temporary factors – including base effects, tax effects and supply-side bottlenecks.

Yet in our view, there are cyclical and structural forces at work that could lead to a more persistent rise in goods and service inflation in the years ahead. Importantly, we believe this increase could be notably more than what the financial markets and many investors currently anticipate. We expect inflation to regularly reach and at least temporarily overshoot central banks' targets over time. That makes it worthwhile to take a deeper look at the factors that are driving inflation higher.

Eight factors driving inflation higher

[Expand All](#)

2. Excessive policy stimulus is threatening the independence of central banks



3. "Slowbalisation" and protectionism are growing



4. Favourable demographics are in decline as populations age



5. Much-needed efforts to reduce inequality could also be inflationary



6. Housing-related consumer price inflation hasn't yet surged – but it may soon



7. Stronger economic growth means more jobs – but also higher inflation



8. The fight against climate change could lift medium-term inflation



Learn more about the implications for investors

Taken together, these eight factors make a compelling argument as to why consumer price inflation may turn out to be more sticky than what the market currently anticipates. As a consequence, it may be a good idea to hedge against the risk of a persistent rise in inflation. In [part two](#) of this two-part paper, we share the results of our proprietary analysis into the asset classes that may provide an optimal inflation hedge.

[→ FIND OUT MORE ABOUT HOW INVESTORS CAN GUARD AGAINST LASTING INFLATION](#)

[↓ DOWNLOAD THE PDF VERSION](#)

¹ Source: OECD as at August 2021. OECD is the Organisation for Economic Co-operation and Development.

² When consumers, corporations and other parties expect inflation to remain steady, their "anchored" inflation expectations help central banks maintain price stability. If inflation expectations are de-anchored to the downside, the markets think inflation will be lower than the central banks' target level.

³ In the US, the multi-year growth in broad money supply now exceeds the multi-year growth in real GDP by a wide margin. Historically, this measure of excess liquidity has also coincided with a rise in consumer-price inflation.

⁴ They do this by pegging interest rates at artificially low levels to reduce the costs of servicing sovereign and private debt.

⁵ This also has the added political aim of helping countries ensure the domestic supply of critical products, which increases their strategic self-sufficiency.

⁶ For a deeper discussion of the demographic impact on inflation see, for example, Goodhart, C., Pradhan, M. (2020): "The Great Demographic Reversal" and Juselius, M. and Takáts, E. (2018): "The enduring link between demography and inflation"

⁷ The precise mechanism linking high inequality and low inflation remains unclear, but one driver is that lower-income households tend to consume more. Higher consumer spending tends to push up inflation, all else equal.

⁸ Other factors pushing up gas prices include supply-side constraints and a generally higher demand for energy.

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Equities have tended to be volatile, and do not offer a fixed rate of return. Investing in the bond market is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bond prices will normally decline as interest rates rise. The impact may be greater with longer-duration bonds. Credit risk reflects the

issuer's ability to make timely payments of interest or principal—the lower the rating, the higher the risk of default. Emerging markets may be more volatile, less liquid, less transparent, and subject to less oversight, and values may fluctuate with currency exchange rates. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

This material has not been reviewed by any regulatory authorities. In mainland China, it is used only as supporting material to the offshore investment products offered by commercial banks under the Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of his document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances does not arise from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional/professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP (Australian Registered Body Number 160 464 200) is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors U.S. LLC, an investment adviser registered with the U.S. Securities and Exchange Commission; Allianz Global Investors Distributors LLC, distributor registered with FINRA, is affiliated with Allianz Global Investors U.S. LLC; Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424, Member of Japan Investment Advisers Association and Investment Trust Association, Japan]; and Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan.

1868719 | COMM-432

Don't downsize your goals

How investors can guard against lasting inflation

by Stefan Hofrichter, CFA, Martin Hochstein, CFA | 04/11/2021



Summary

How can investors reposition their portfolios in the face of a persistent rise in consumer price inflation? In part two of a two-part paper, we share the results of our proprietary analysis into the asset classes that may provide an optimal inflation hedge.

Key takeaways:

- Given our view that inflation is set to last longer than many market watchers expect, we conducted our own analysis into how different asset classes performed in a range of inflation environments
- Our research found that with moderate inflation (2%-4%), equities were the top-performing asset class, and sovereign and corporate bonds both generated decent positive annual real returns
- Perhaps surprisingly to those who consider gold to be the ultimate hedge against inflation, gold's returns were mixed across different inflationary environments
- Commodities consistently generated solid positive returns in times of high and rising inflation, but their longer-term outlook may be obscured by the transition away from fossil fuels

↓ LOAD MORE

Active is: Allianz Global Investors

Value. Shared.

Our firm

Career

What we do

Our history

Our culture

Inclusion & diversity

Corporate responsibility

Our experts

Our leadership team

Our offices

Insights

Allianz Global Investors
Academy

Outlook & commentary

The Investment Intelligence
Podcast

A new investment era

Growth. The China Way.

Don't downsize your dreams

Capabilities

Alternatives

Equity

Fixed Income

Multi Asset

Sustainable Investing

Digital Investment Solutions

Development Finance

Research

risklab

Press centre



Allianz Global Investors is comprised of the [AllianzGI Affiliated Entities](#) worldwide. Product availability will vary by jurisdiction.