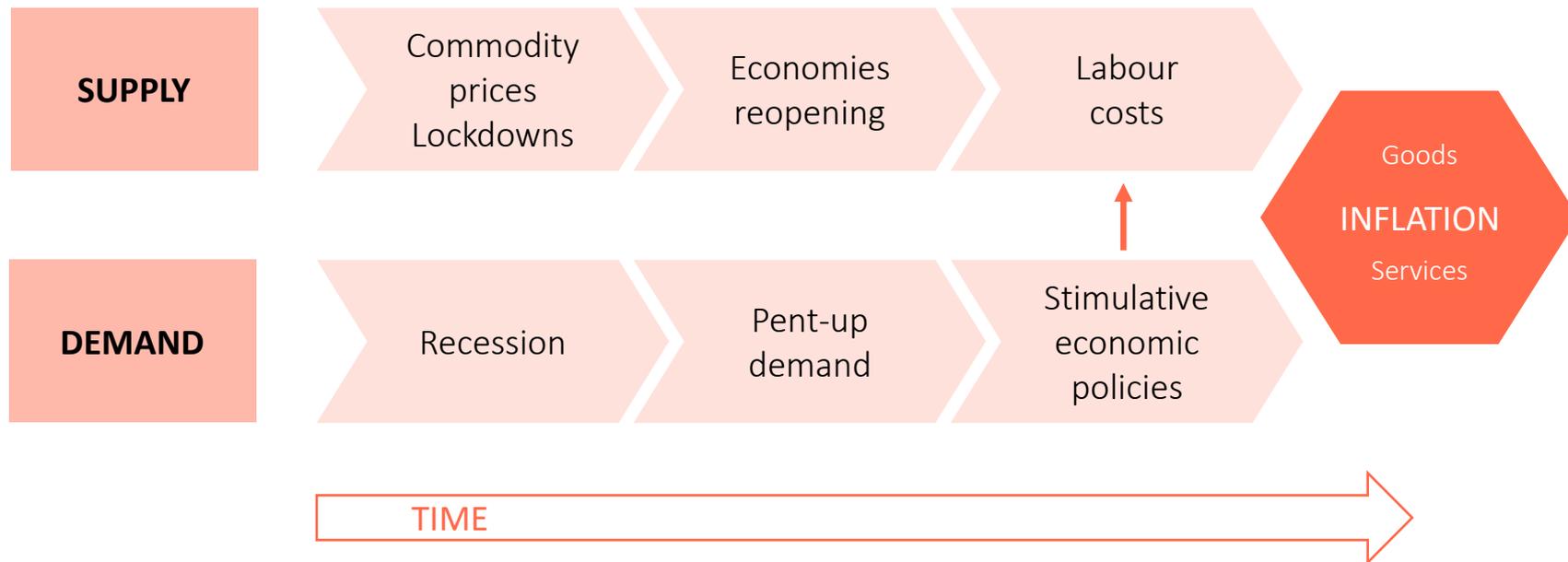


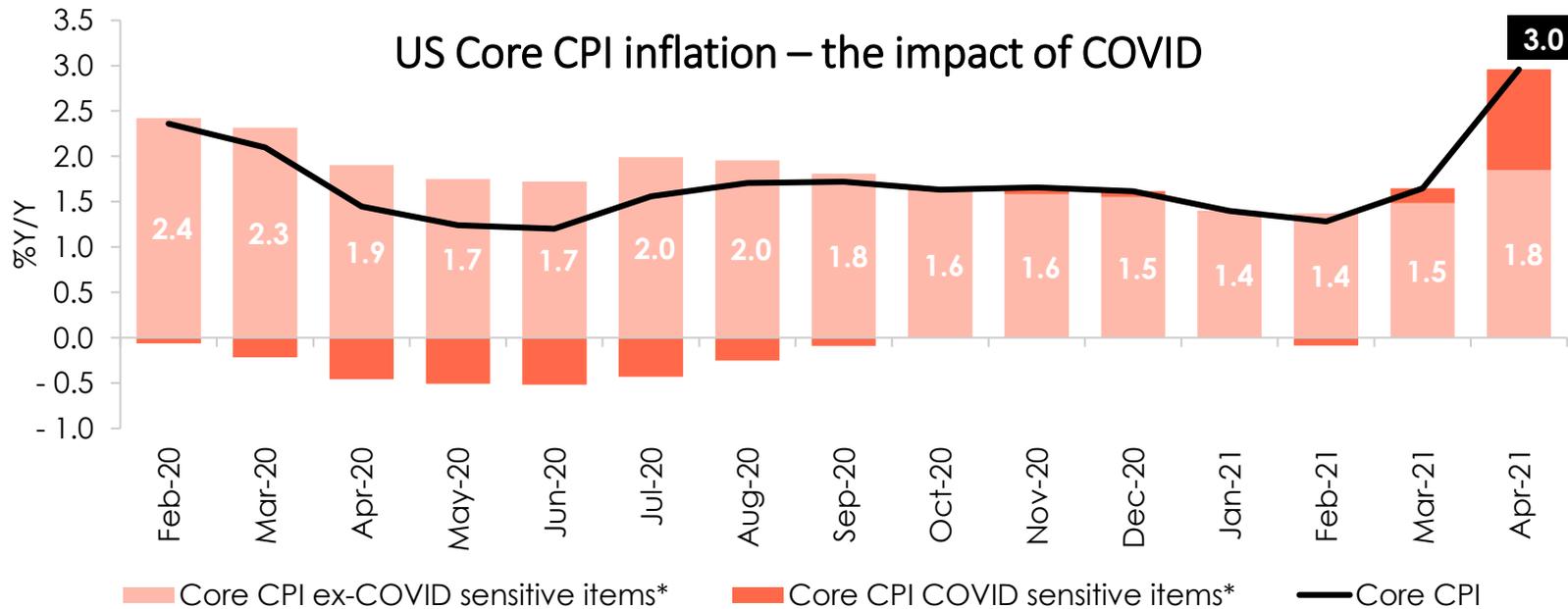
INFLATION: THE QUESTION ON EVERYONE'S LIPS

Patrick Zweifel
Chief Economist
Pictet Asset Management

Inflationary pressures over time

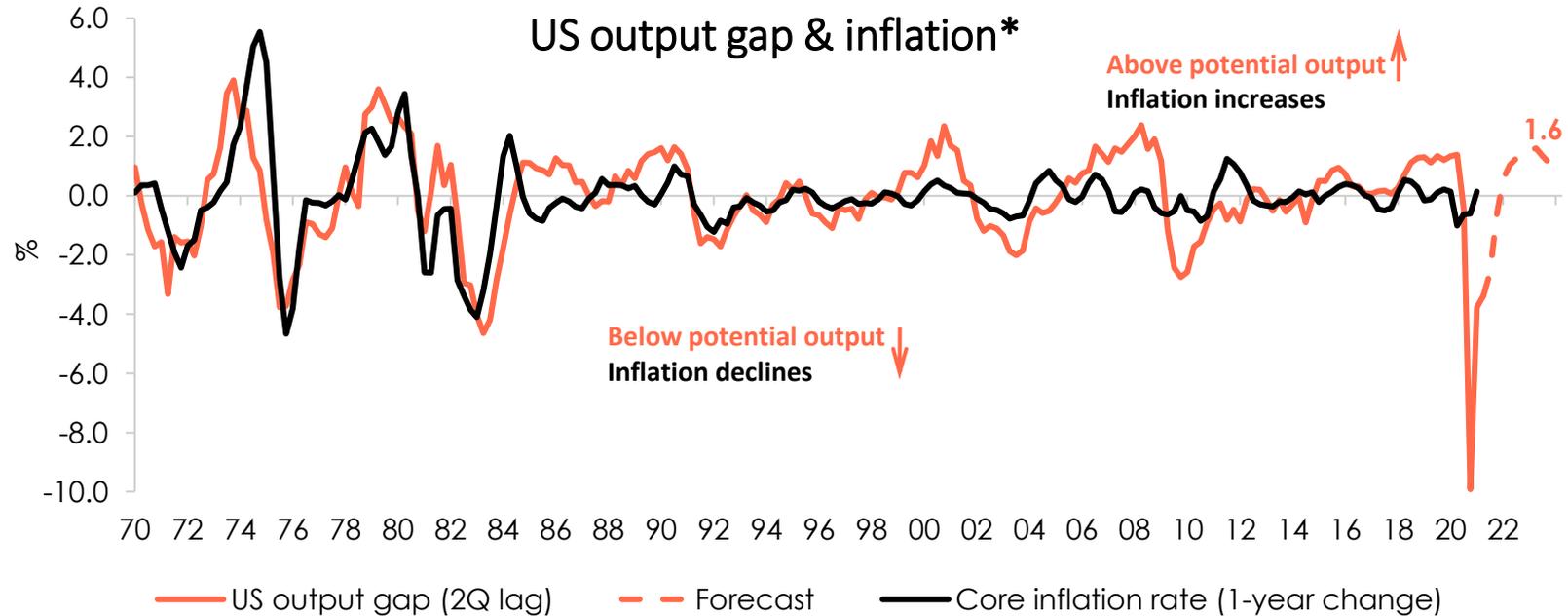


Rising pressure on US prices



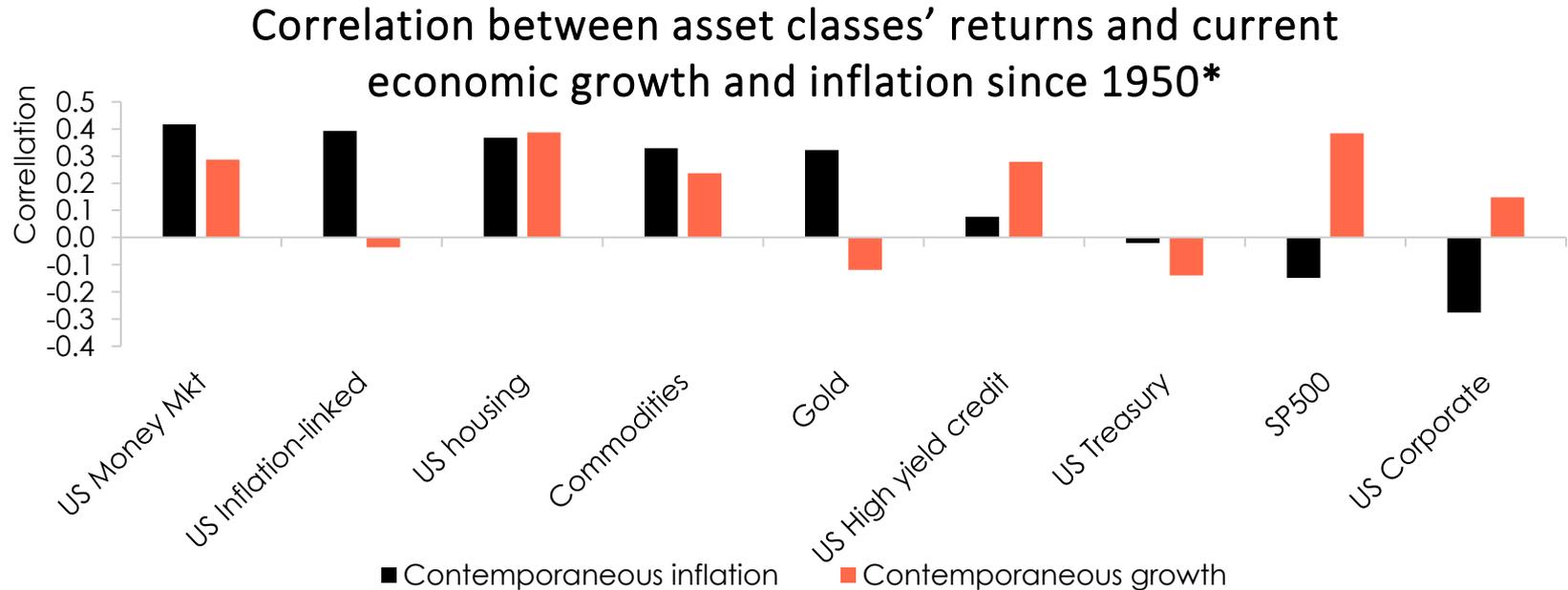
Source: Pictet Asset Management, CEIC, Refinitiv Datastream; May 2021. *7 items: Lodging away from home, used cars, car rentals, airline fare, televisions, toys, personal computers

US closing output gap will drive inflation higher



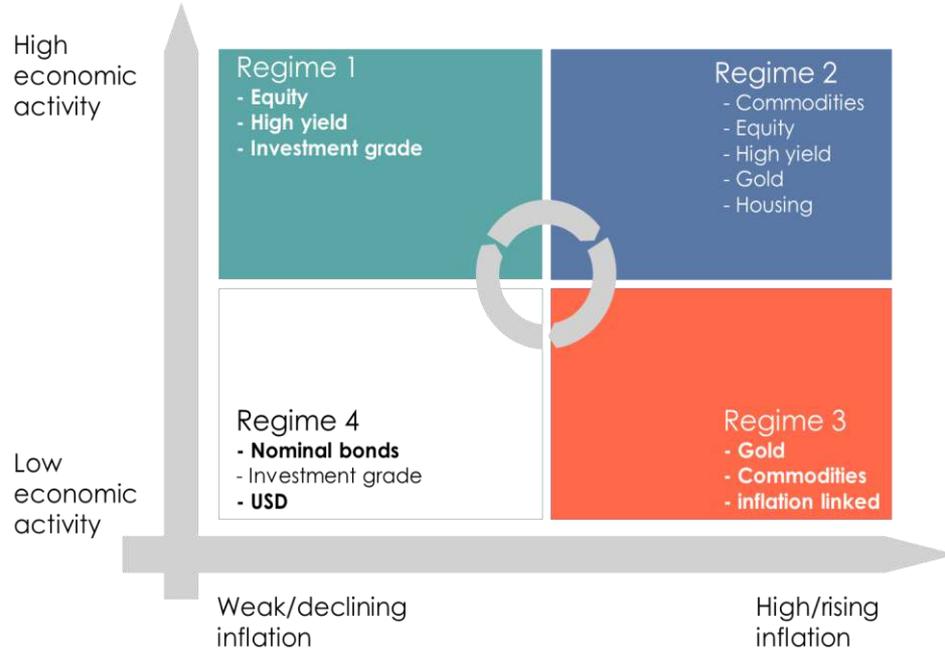
Source: Pictet Asset Management, CEIC, Refinitiv Datastream; May 2021. *US output gap (realised GDP to potential GDP ratio) & inflation (1-yr change in core PCE inflation rate).

Best hedges against inflation: TIPS, housing, gold & commodities



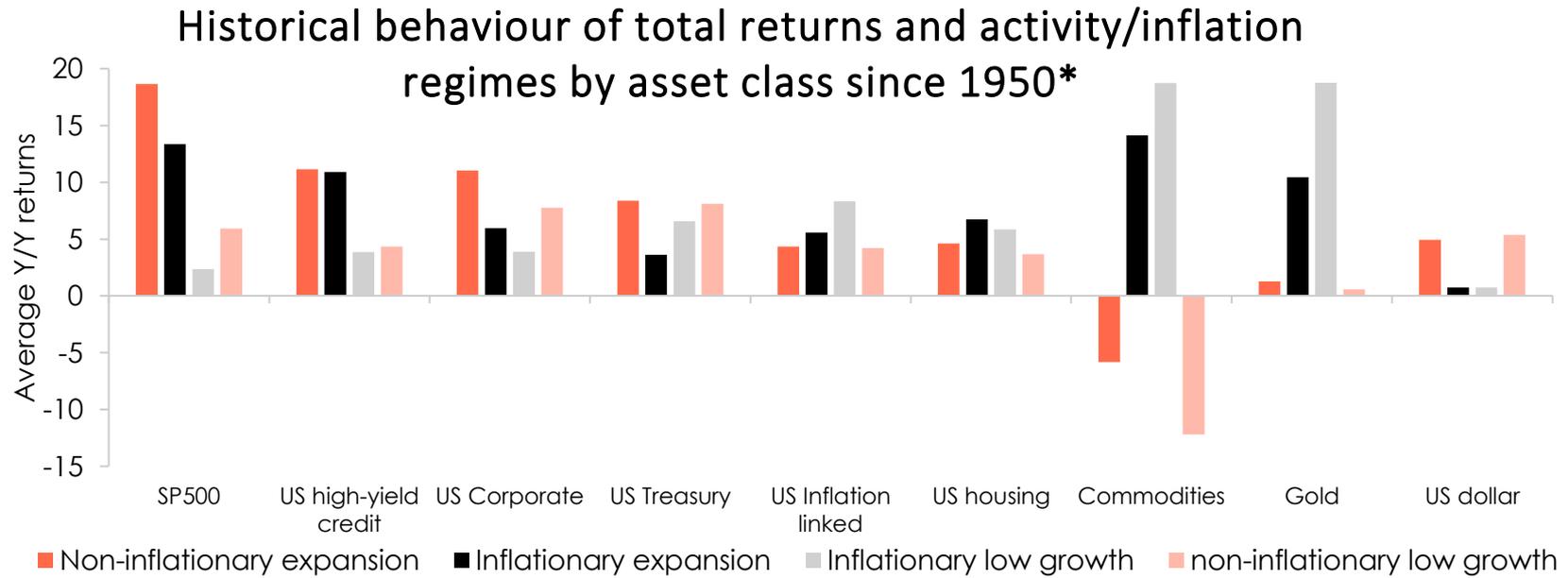
Source: Pictet Asset Management, CEIC, Refinitiv Datastream; May 2021. *Based on USD returns. Date ranges for data are as follows: US Treasury 01.01.1979 - 31.12.2020; Gold: 01.01.1969 - 31.12.2020; US inflation-linked: 01.03.1998 - 31.12.2020; US corporate: 01.01.1974 - 31.12.2020; Commodities: 01.12.1970 - 31.12.2020; US high yield: 01.09.1987 - 31.12.2020; US money market: 01.01.1996 - 31.12.2020; S&P 500: 01.01.1950 - 31.12.2020; US housing: 01.03.1971 - 31.12.2020.

Total returns* & activity/ inflation regimes in the US



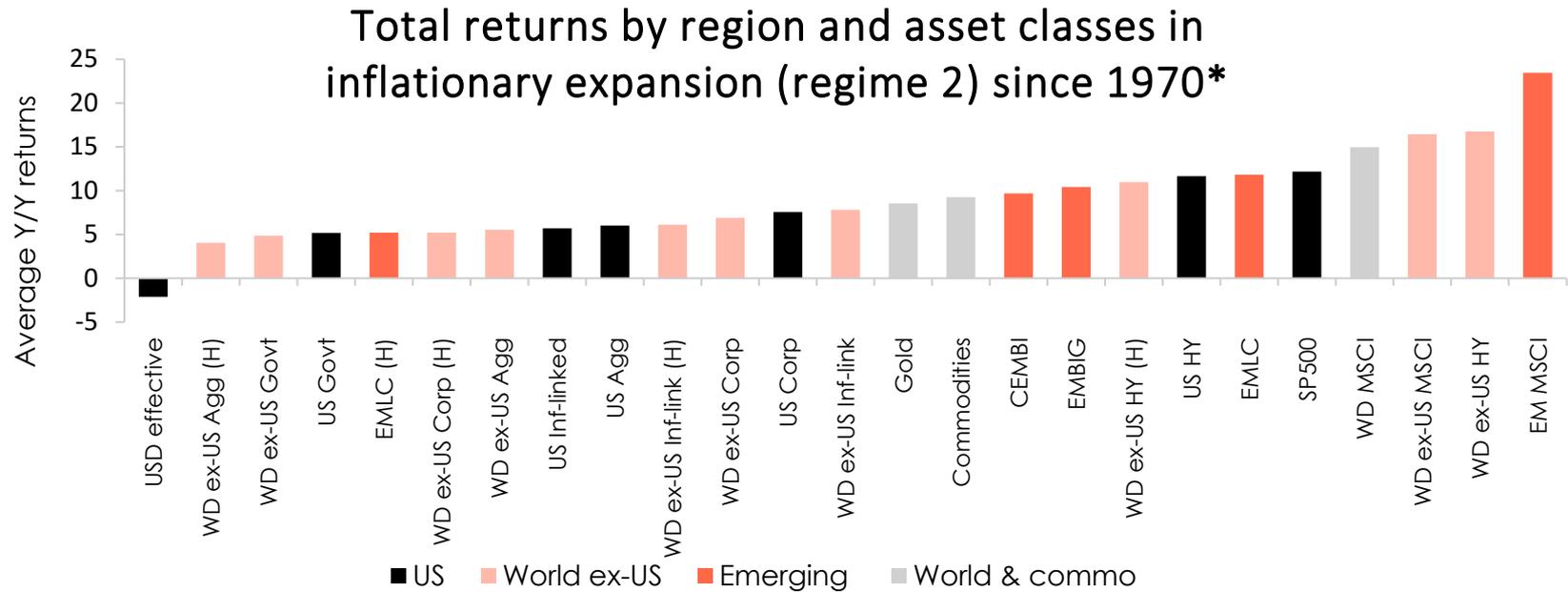
Source: Pictet Asset Management, CEIC, Refinitiv Datastream; May 2021. *Based on average annual year on year returns in USD under four US economic scenarios. Date ranges for the periods considered are as follows : US Treasury: 01.01.1979 - 31.12.2020; Gold: 01.01.1969 - 31.12.2020; US inflation-linked: 01.03.1998 - 31.12.2020; US investment grade: 01.01.1974 - 31.12.2020; Commodities: 01.12.1970 - 31.12.2020; US high yield: 01.09.1987 - 31.12.2020; US money market: 01.01.1996 - 31.12.2020; S&P 500: 01.01.1950 - 31.12.2020; US housing: 01.03.1971 - 31.12.2020.

Total returns and regimes: historical behaviour by asset class



Source: Pictet Asset Management, CEIC, Refinitiv Datastream; May 2021. *Based on USD returns. Date ranges for the periods considered are as follows: US Treasury: 01.01.1979 - 31.12.2020; Gold: 01.01.1969 - 31.12.2020; US inflation-linked: 01.03.1998 - 31.12.2020; US Corporate: 01.01.1974 - 31.12.2020; Commodities: 01.12.1970 - 31.12.2020; US high yield: 01.09.1987 - 31.12.2020; US dollar: 01.01.1976 - 31.12.2020; S&P 500: 01.01.1950 - 31.12.2020; US housing: 01.03.1971 - 31.12.2020.

EM total returns do well in inflationary expansion

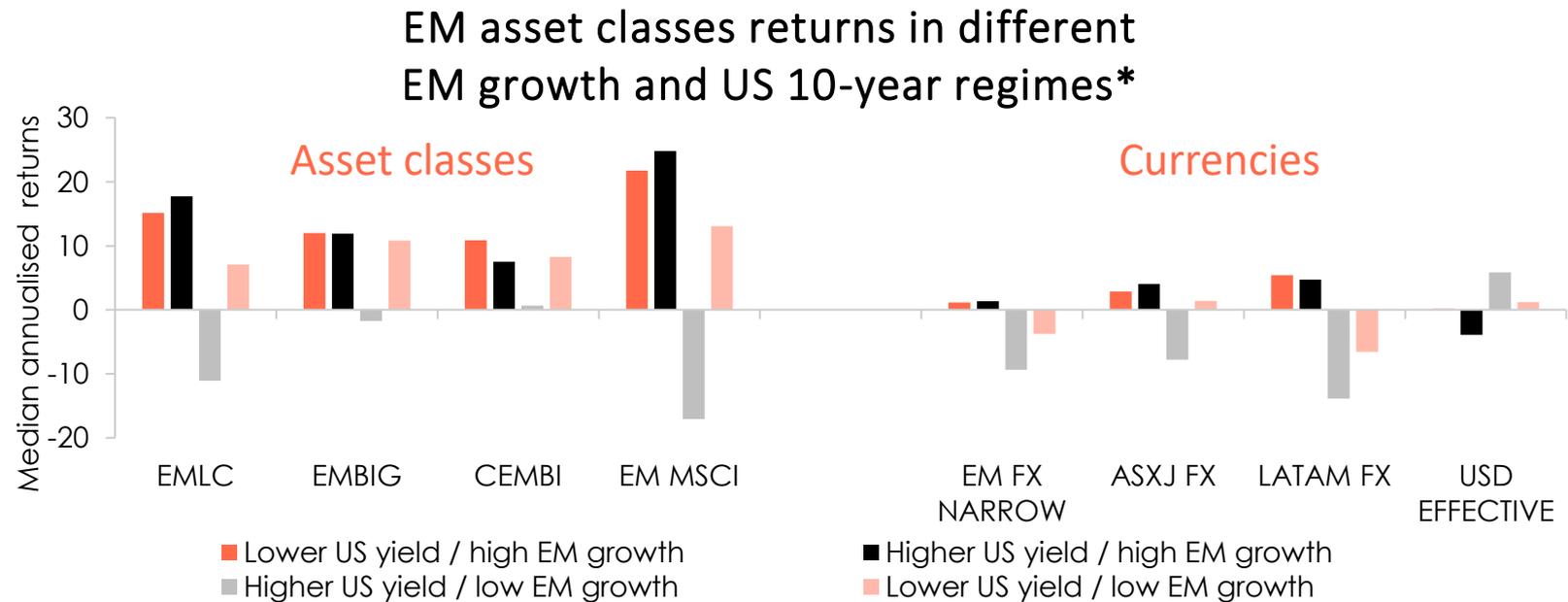


Source: Pictet Asset Management, CEIC, Refinitiv Datastream; May 2021. * Based on USD returns. To 31.12.2020; start dates for the periods considered are as follows: USD effective: 01.01.1997; WD ex-US Agg (H): 01.01.1990; WD ex-US Govt: 01.01.2000; US Govt: 01.01.1973; EMLC (H): 01.12.2002; WD ex-US Corp (H): 01.01.2001; WD ex-US Agg: 01.01.1990; US Inf-linked: 01.03.1997; US Agg: 01.01.1976; WD ex-US Inf-link (H): 01.12.1997; WD ex-US Corp: 01.01.2001; US Corp: 01.01.1973; WD ex-US Inf-link: 01.12.1997; Gold: 01.01.1970; Commodities: 01.01.1970; CEMBI: 01.12.2001; EMBIG: 01.12.2002; WD ex-US HY (H): 01.12.2011; US HY: 01.09.1986; EMLC: 01.12.2002; SP500: 01.01.1970; WD MSCI: 01.01.1970; WD ex-US MSCI: 01.05.2004; WD ex-US HY: 01.12.2011; EM MSCI: 01.12.1987.

Can emerging markets really do well?

- EM growth underperforms DM, but strong EM growth is what matters
- EM benefits from very supportive drivers
 - Global trade
 - Commodity prices
- US rising 10-year Treasury yield:
 - Not a risk when strong EM growth
 - Strong EM growth & rising 10Y UST yield is best for EM
 - External financing needs have massively declined

EM asset returns in different EM growth and US yield regimes



Conclusion

- Inflationary pressures likely to remain over 2022-2023
 - Central Banks' reaction will be key
- Some asset classes perform well in this environment
 - E.g. equities, commodities, gold and high yield
- Emerging Markets: a strong hedge, especially under Regime 2
 - The economic environment looks set to stay very favourable for EM assets.

For more information

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www.assetmanagement.pictet

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