



INFLATION: MIRAGE OR OASIS?

Agenda

- Inflation factors
- Deflation factors
- How to invest in inflation
- Investment outlook



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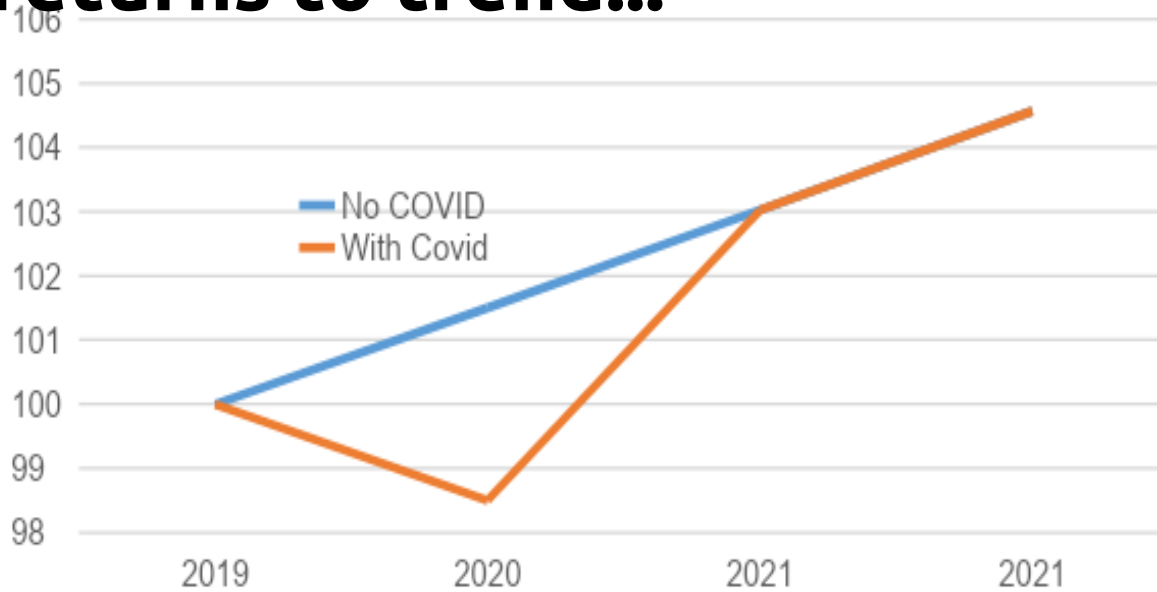
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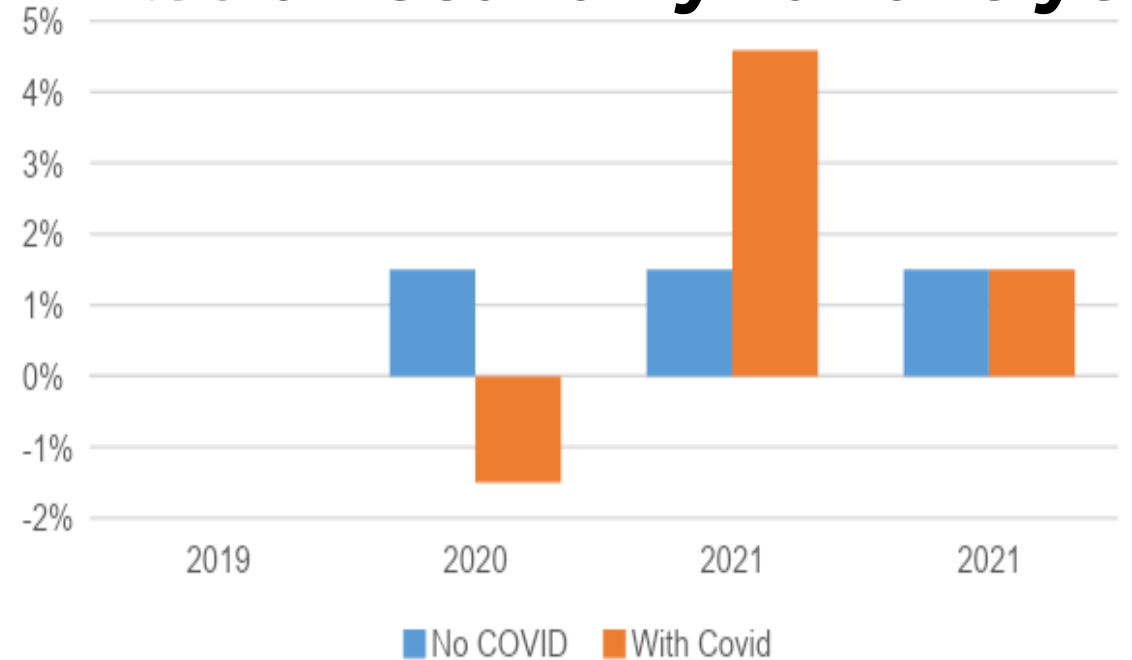
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Inflation Factors: Returning to Trend

A low inflation economy that returns to trend...



... looks a lot like a high inflation economy for one year.



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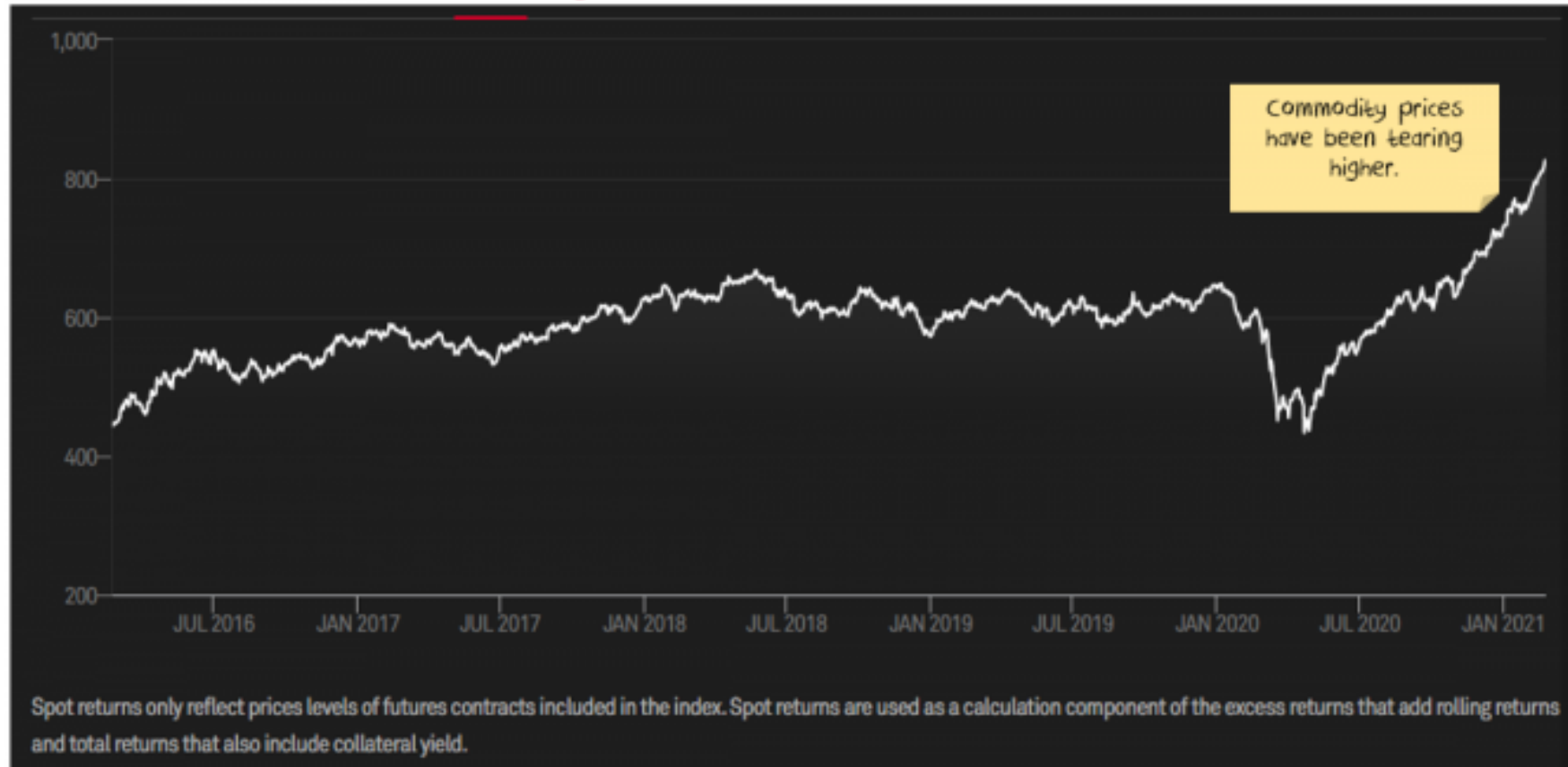
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Inflation Factors: Commodity Prices

Dow Jones Commodity Index



Source: nucleuswealth.com, S&P Capital IQ



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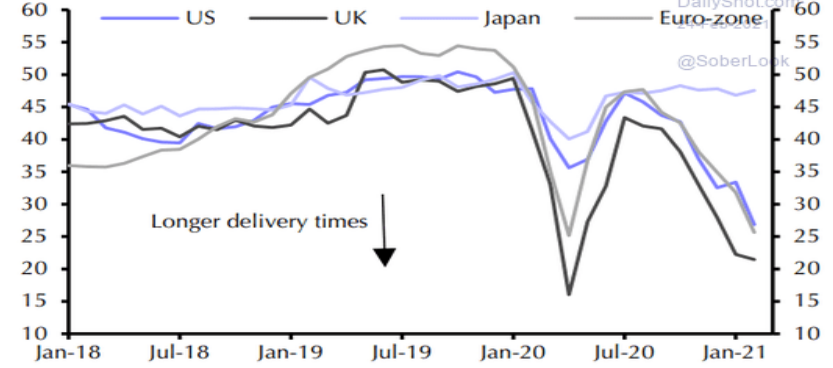
Inflation Factors: Supply disruptions

Box of Pain

Container Rates from Asia to U.S. and Europe remain elevated

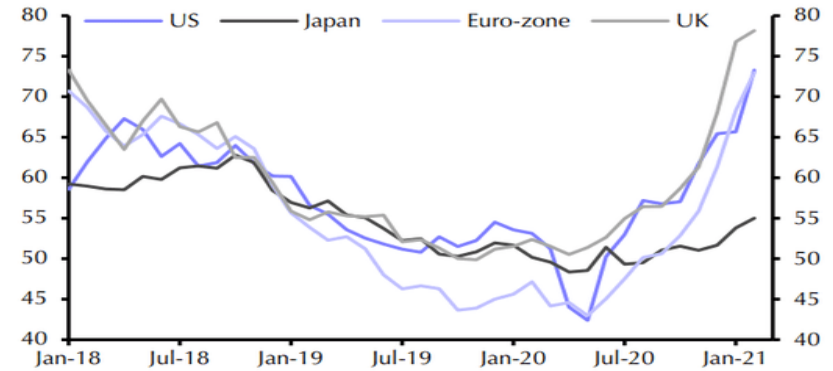


Chart 3: Manufacturing PMI: Suppliers' Delivery Times



DM PMI data for February are CE estimates based on US, EZ, JP & UK

Chart 4: Manufacturing PMI: Input Price Indices



Sources: IHS Markit, Capital Economics



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Inflation Factors: Cyclical

- **Changes in consumption following COVID**
- **Inventory cycle rebuild**
- **Government stimulus**
- **Lower US dollar**



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Inflation Factors: Structural

- **Onshoring in strategic goods**
- **MMT and fight against inequality**
- **US minimum wage rises**
- **Chinese deglobalisation**
- **Ongoing virus disruptions**



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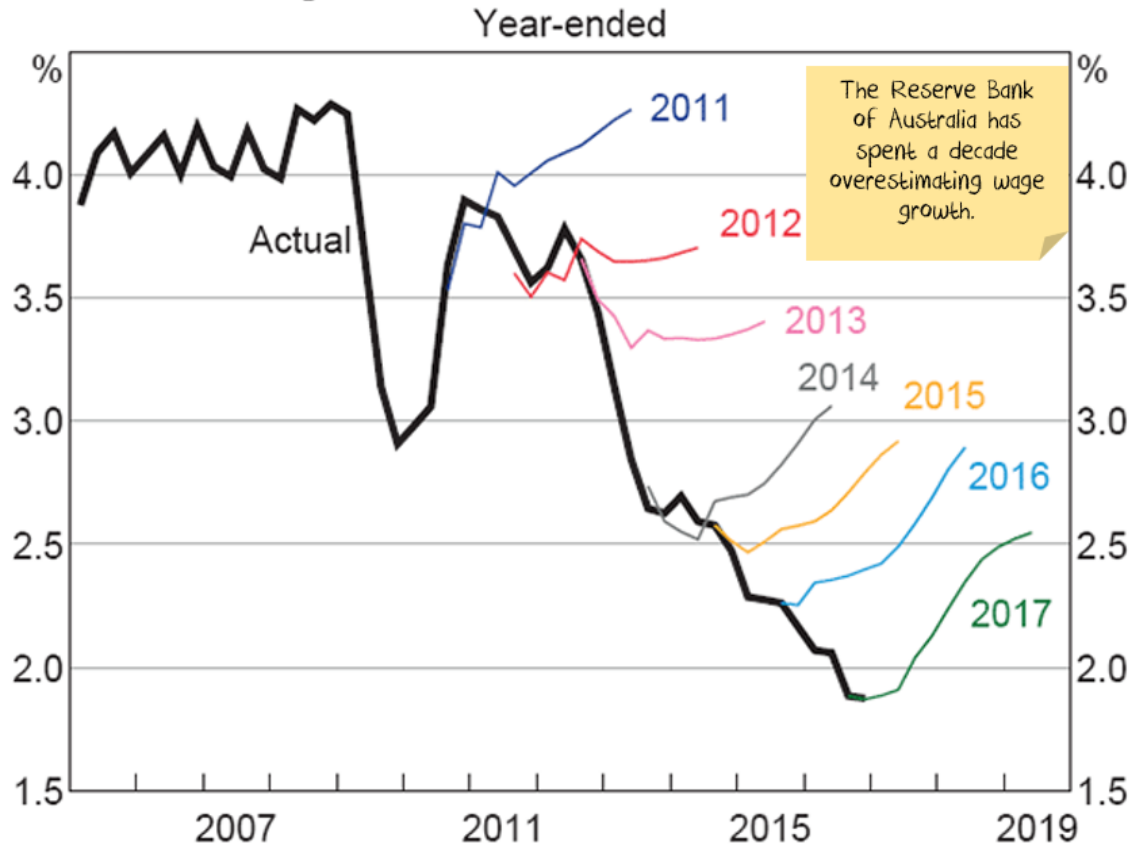
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Deflation Factors: Wages

Wage Price Index Forecasts*



* February SMP forecasts

Sources: ABS; RBA



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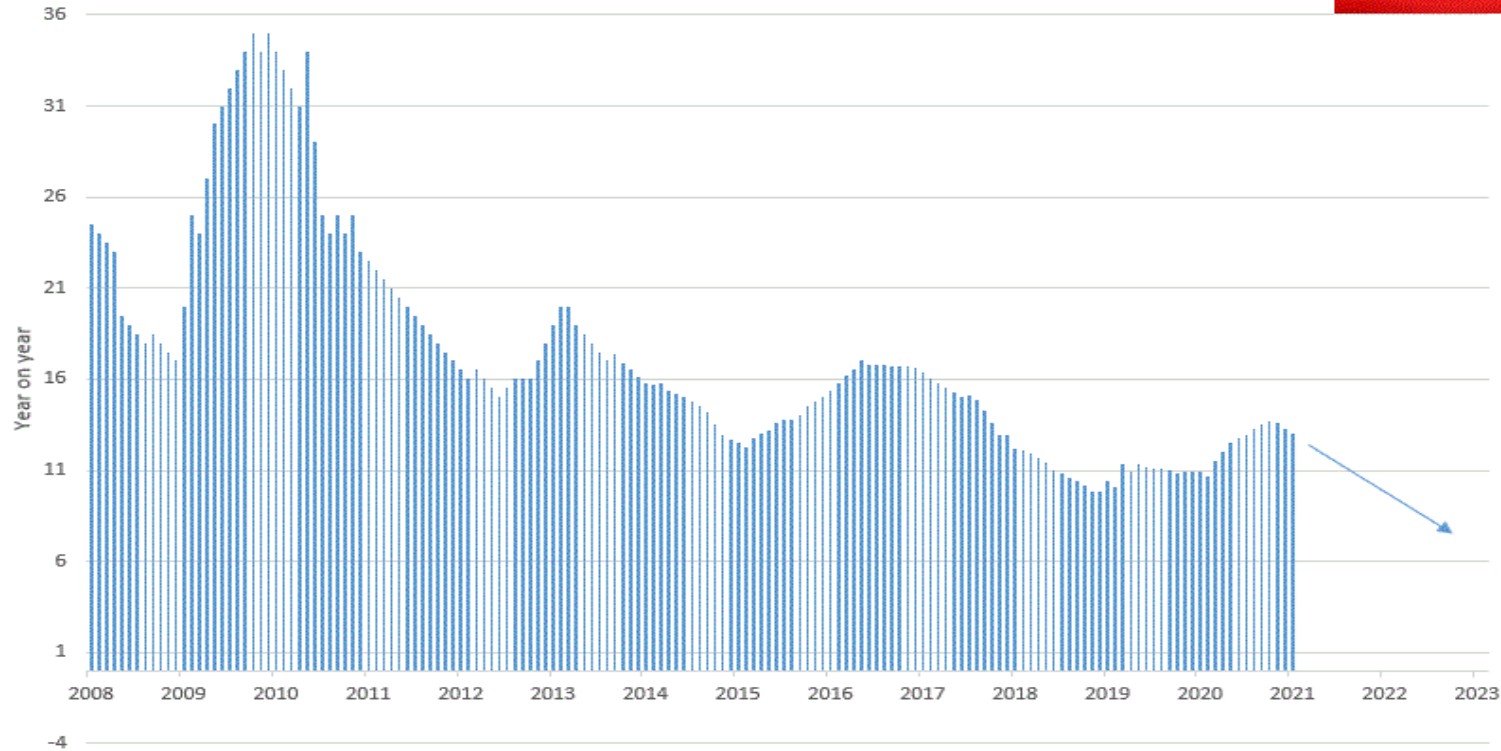
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Deflation Factors: China

China broad credit (TSF including bonds)

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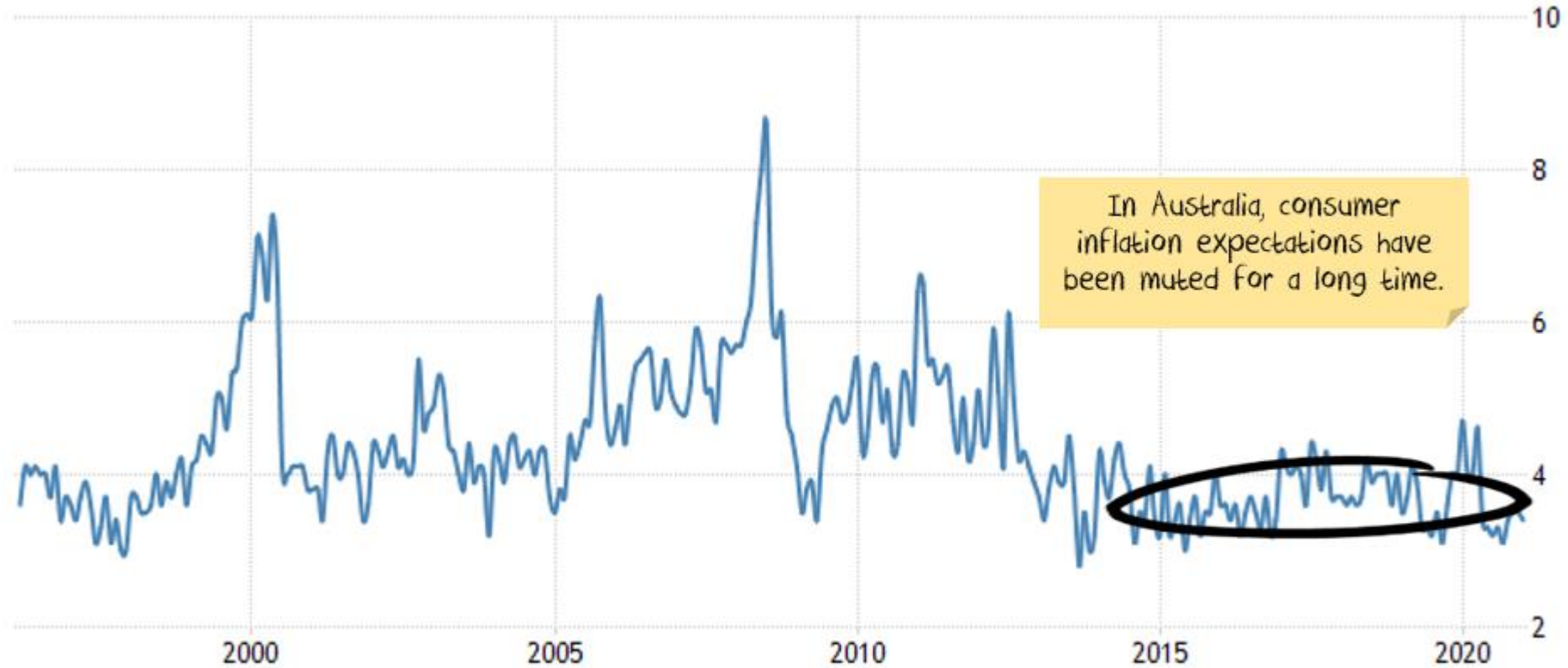


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Deflation Factors: Expectations



SOURCE: TRADINGECONOMICS.COM | MELBOURNE INSTITUTE

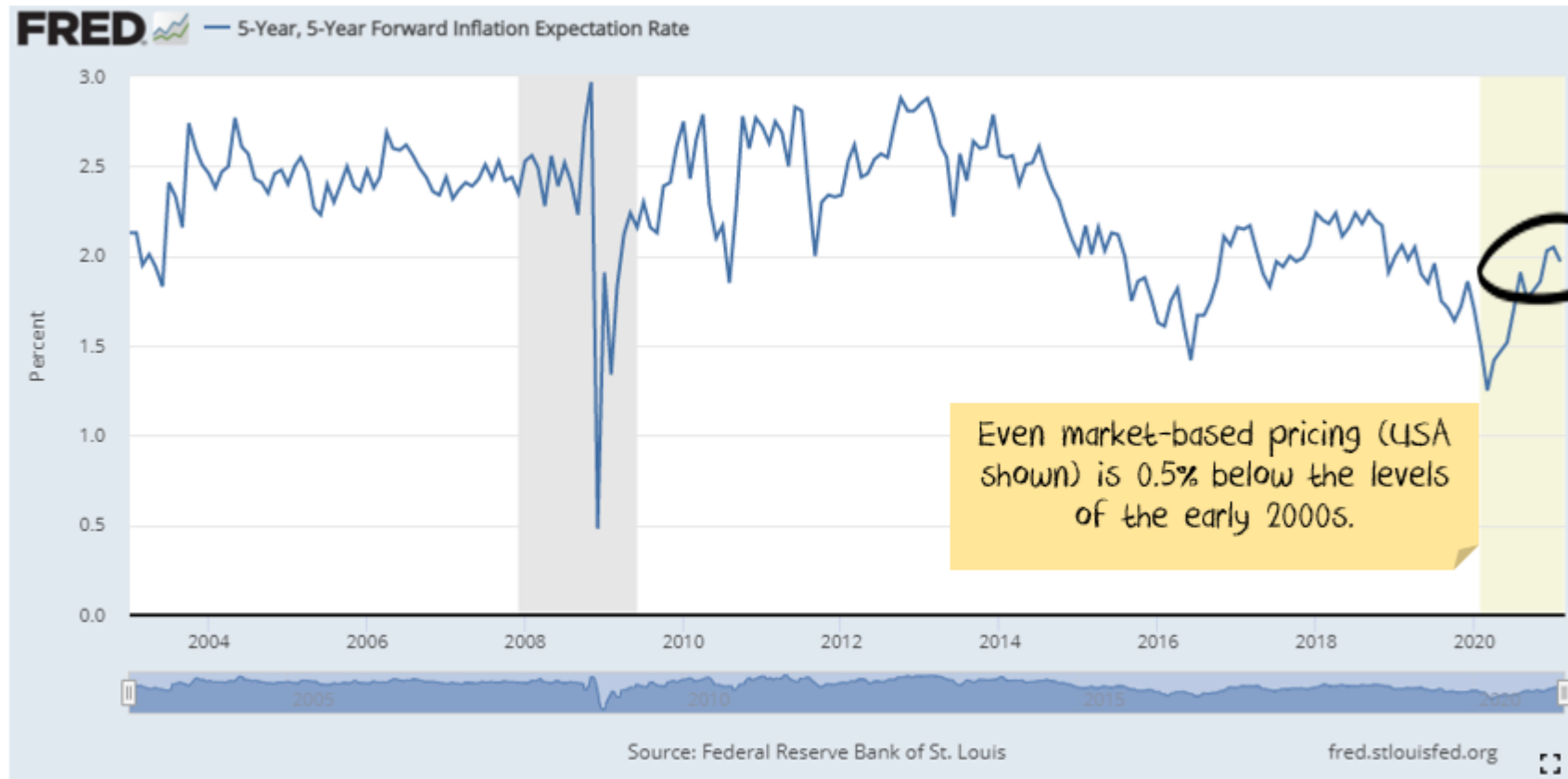


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Deflation Factors: Expectations



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Deflation Factors: Other

- **Technology**
- **Unwind of commodity speculation**
- **Zombie hangover**
- **Flat supply curve**
- **High levels of debt**
- **Inequality**
- **US outperformance**



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How to invest

- Bonds
- Value / Growth
- Exceptions
- AUD



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Investment Outlook

Structural downturn lurking, acute or chronic?

Key positive factors

- Government stimulus
- Low probability of US tax hikes
- Earnings very good
- Inequality to increase

Other positive factors

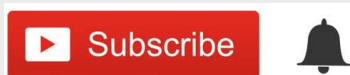
- Bankruptcies limited
- Evictions limited
- Mortgage repayment holidays
- Wage growth very low
- Capital efficiency
- Low oil prices
- Vaccine hope
- Policy certainty
- Structural change in industries leading to cost efficiencies

Key negative factors

- Virus in Northern Hemisphere
- Valuation
- Latent bankruptcies
- Low genuine credit growth

Other negative factors

- Short term gap in US economic conditions
- Inequality longer-term effects
- Effects gradually rolling off
- Structural change in industries leading to weak demand
- Cycle
- Demand weak
- Australian stimulus badly targeted



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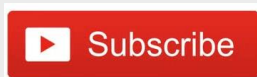
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Viewer question of the week:

What is the biggest risk to a bull market in 2021?

Drop your answers in the comments



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