

Pathfinder Investment Outlook

For the week ending February 12th, 2021

Inflation taking headlines

We will dive right into a four-part series on inflation that should take us to the end of earnings season. There were two interesting discussions that we had this week during our Investment Committee meeting and morning desk chats. One was related to the fact that there seems to be a very wide differential between the earnings results reported by companies and expectations published from brokerage research analysts. We will write more about that after the earnings season is complete in March, but we believe this creates a great opportunity for investors. The other item is related to inflation. This week, we started to notice a significant amount of chatter and financial headlines concerning inflation. This is a significant question that has implications for all asset classes so we thought that we would spend the next few issues discussing our thoughts. We present data which we believe confirms that investors are starting to price inflation expectations into their investment portfolios. Bond rates, expectations and commodities prices are up!

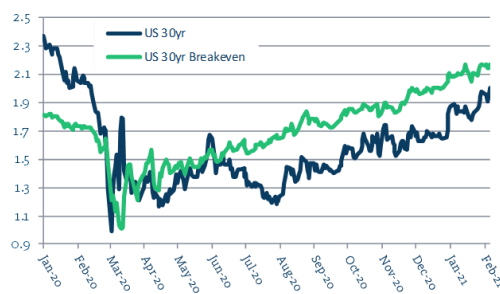
- Figure 1 presents yields for 30-year US Treasuries and 30-year US Breakevens. The long bond rates have increased past 2% and breakevens (the difference between regular and inflation protected bond rates) have reached new highs as well. We follow breakevens because they show investor expectations for inflation and plotted against the 30yr bond rate, you can see that investors are reacting. This is also true of European rates, so it is a global issue.
- Figure 2 presents returns over the last few months for a number of different commodity prices. Real assets, like commodities, will react to inflation expectations as a group so seeing both rates and commodities move in correlation indicates that investors are starting to price in inflation.

“This means that” while we have yet to see actual inflation results present in broad data metrics globally (CPI, PPI across many countries is still low), we are starting to hear anecdotally from company conference calls that input resources are becoming scarce and more expensive. It does appear that investors are starting to price this new information in, and we will discuss some of those reasons for this in our next issue

Michael Rudd, CFA | President, CEO & Portfolio Manager

Figure 1: US Inflation Expectations

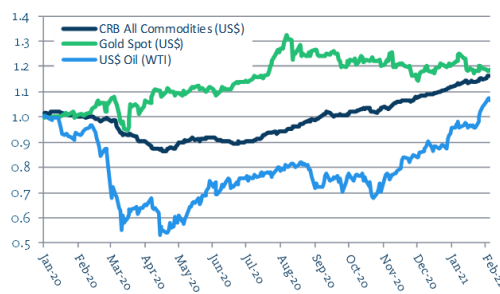
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Source: Bloomberg Markets LP, Pathfinder Asset Management Limited

Figure 2: Commodity Prices and Inflation

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Source: Bloomberg Markets LP, Pathfinder Asset Management Limited



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Sources: Bloomberg, Pathfinder Asset Management Limited

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