

Pathfinder Investment Outlook

For the week ending July 2nd, 2021

Inflation Revisited

In February, we wrote a series of *Investment Outlooks* dealing with our view on inflation. Please follow the link [here](#) to the *Information Worth Sharing* section of the Pathfinder website for the history of those notes. We wrote that the potential for increase in inflation is a significant question that has implications for all asset classes. The level of interest rates is one of the major inputs used to calculate the intrinsic value of assets, and inflation is a critical part of determining interest rates. This is why market participants pay such close attention to inflation.

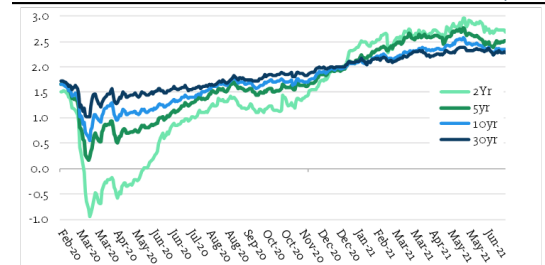
We concluded that inflation would be transitory and eventually return to central bank targets. We believe this because the broad impacts from COVID and government mitigation factors will ultimately subside. This means that, in our view, inflation will increase over the coming years and then subsequently normalize. We noted that the major concern for inflation expectations arose from the way businesses have adjusted operating processes, year on year data comparables, central bank activity and global government fiscal response. However, these are ultimately temporary measures and, over time, the situation should normalize.

- Figures 1 and 2 updates the data that we have previously presented. Note in Figure 1 that **inflation** expectations have **shifted** from higher to lower as the length of the term increases (blue lines and green lines have swapped places over the last year). This confirms our thesis that increased expectations have been focused on **mid-term and not long-term inflation** concerns.
- Figure 2 presents inflation data for various parts of the world. As you can see, the latest readings show some dispersion in inflation in different parts of the global economy. While the US, Canadian and Japanese numbers are expected, we are surprised that we see limited inflation in Europe, although there has been much lower fiscal stimulus there.

“This means that” we are still following the data very closely. So far, our thesis has played out and it seems the market has priced in the same thesis into fixed income markets. We will continue to be laser focused on this going forward.

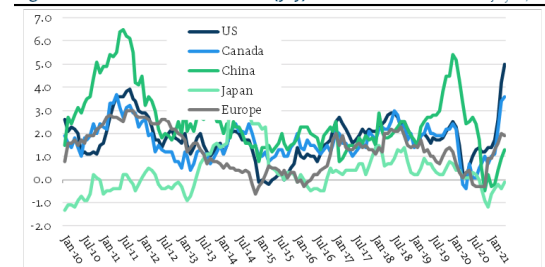
Michael Rudd, CFA | President, CEO & Portfolio Manager

Figure 1: US Breakeven Rates July 02, 2021



Source: Bloomberg Markets LP, Pathfinder Asset Management Limited

Figure 2: Global Consumer Price Index (yoy) July 02, 2021



Source: Bloomberg Markets LP, Pathfinder Asset Management Limited



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Sources: Bloomberg, Pathfinder Asset Management Limited

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