Amundi ASSET MANAGEMENT | ETF

Focus

Rising US Inflation: An opportunity for investors

The inflation moment

The global economic recovery is gathering pace, but it is also fuelling a debate on inflation. Particularly so in the US where prices have been rising for many months, unsettling the financial markets and stoking fears of an impaired economic recovery.

April's headline inflation numbers hit the market by surprise when the Consumer Price Index (CPI) - the most widely used measure of inflation - soared from 2.6 to 4.2%, its highest level since 2008 and well above market forecasts of 3.6%. The trend continued in May with the CPI jumping to 5%, against market forecasts of 4.7%.

US Inflation – temporary or structural?

The big question, which won't be answered for many months to come, is whether this is fleeting or structural.

There are those, including Fed officials and many economists, who attribute the current rising inflation to "temporary factors". These include supply chain disruptions, pent up demand, especially for services, and so-called "base effects", i.e. inflation was extremely low during this time last year as the Covid-19 pandemic precipitated a lockdown of the US economy, meaning that year-on-year comparisons will be distorted for some months to come. They believe these factors are transitory and as such that their impact will fade over time, allowing inflation to simmer back down to the Fed's 2% target.

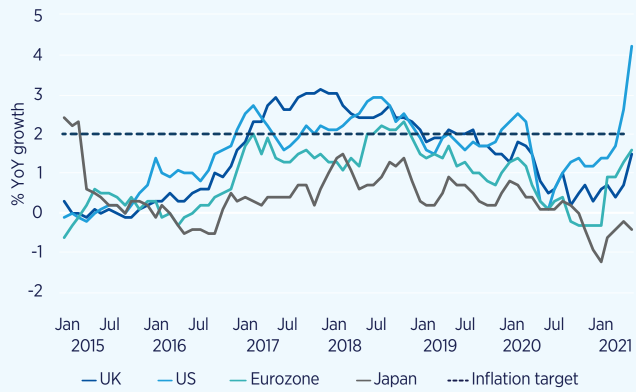
Others though, warn of the possibility that inflation will turn structurally higher than initially thought because of strong economic growth, upward pressure on wages, huge fiscal and monetary stimulus, strong consumer demand and rising supply constraints.

Investor fears were further stoked in early May when US Treasury Secretary Janet Yellen conceded that rates may rise if Biden's spending splurge starts to overheat the economy. Yellen has since downplayed these comments that roiled Wall Street, clarifying that she was not expecting an inflation problem.

Our view

We believe that inflation is structural, and that it is unlikely it will pick up only for a few months and then cool back down to around 2%. Rather, we think the coexistence of the monetary narrative, coupled with the consequences of Covid-19 is creating a fertile ground for a shift towards a higher inflationary regime, a sort of back to the '70s scenario. In this context, low inflation and low rates will eventually become things of the past.

G4: Consumer Price Index (CPI) over time



Source: Amundi, Bloomberg. Data as of 24 May 2021.

How to benefit from rising inflation

Inflation can have a negative impact on portfolio values, especially the fixed income component. But it can also be considered as an investment opportunity for investors, using the right instruments. Accordingly, investors looking to benefit from rising inflation may wish to consider adding inflation-linked bonds and uncorrelated sources of returns to safeguard their portfolio and even increase their returns.

Amundi offers two cost-efficient strategies, designed to capture the US-inflation rebound and long-term inflation expectations:

The Amundi Index Barclays US GOV Inflation-Linked Bond UCITS ETF DR enables investors to benefit from an exposure to the US Treasury Inflation Protected Securities (TIPS) market.

The Amundi Index Breakeven Inflation USD 10Y - UCITS ETF DR enables investors to gain exposure to US 10-year breakeven inflation by entering into long positions in US Treasury Inflation-Protected Securities (TIPS) with the closest possible maturity to 10 years, and a short position in the Ultra 10-Year Treasury Note futures contract. It provides exposure to inflation expectations, without interest rate risk. ■

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Our solutions to capture the US Inflation rebound

AMUNDI INDEX BARCLAYS US GOV INFLATION-LINKED BOND UCITS ETF DR – USD (C)	
Inception Date	29/11/2016
ISIN Code	**LU1525419294**
Bloomberg Code	Euronext Paris: UIFL FP Borsa Italiana: ATIP IM
ETF Base Currency	USD
Ongoing charges	0.09%[1]
Coupon Treatment	Reinvested
Legal Form	Luxembourg SICAV
UCITS V compliant	Yes

AMUNDI INDEX BARCLAYS US GOV INFLATION-LINKED BOND UCITS ETF DR – HEDGED EUR (C)	
Inception Date	14/06/2021
ISIN Code	**LU2339917168**
Bloomberg Code	Xetra: UIFH GY
ETF Base Currency	EUR
Ongoing charges	0.11%[1]
Coupon Treatment	Reinvested
Legal Form	Luxembourg SICAV
UCITS V compliant	Yes

AMUNDI INDEX BREAKEVEN INFLATION USD 10Y - UCITS ETF DR – USD (C)	
Inception Date	15/10/2019
ISIN Code	**LU2037750168**
Bloomberg Code	Euronext Paris: BINFU FP Euronext Amsterdam: BINFU NA Xetra: AFI1 GY Borsa Italiana: BINFU IM
ETF Base Currency	USD
Ongoing charges	0.16%[1]
Coupon Treatment	Reinvested
Legal Form	Luxembourg SICAV
UCITS V compliant	Yes

1 Ongoing charges: Ongoing charges - annual, all taxes included. The ongoing charges represent the charges taken from the fund over a year. Until the fund has closed its accounts for the first time, the ongoing charges are estimated. **Transaction costs and commissions may occur when trading ETFs.**

About Amundi ETF, Indexing & Smart Beta

Amundi is a recognised European leader in the ETF market and offers over 150 ETFs[2] across all main asset classes, geographic regions and a large number of sectors and themes. Amundi is leading the ESG transformation and its ETF, Indexing and Smart Beta platform is known for its wide range of high-quality, cost-effective ESG solutions spanning equity and fixed income and a range of levels of ESG intensity.

2 Source: Amundi ETF as of end of March 2021