

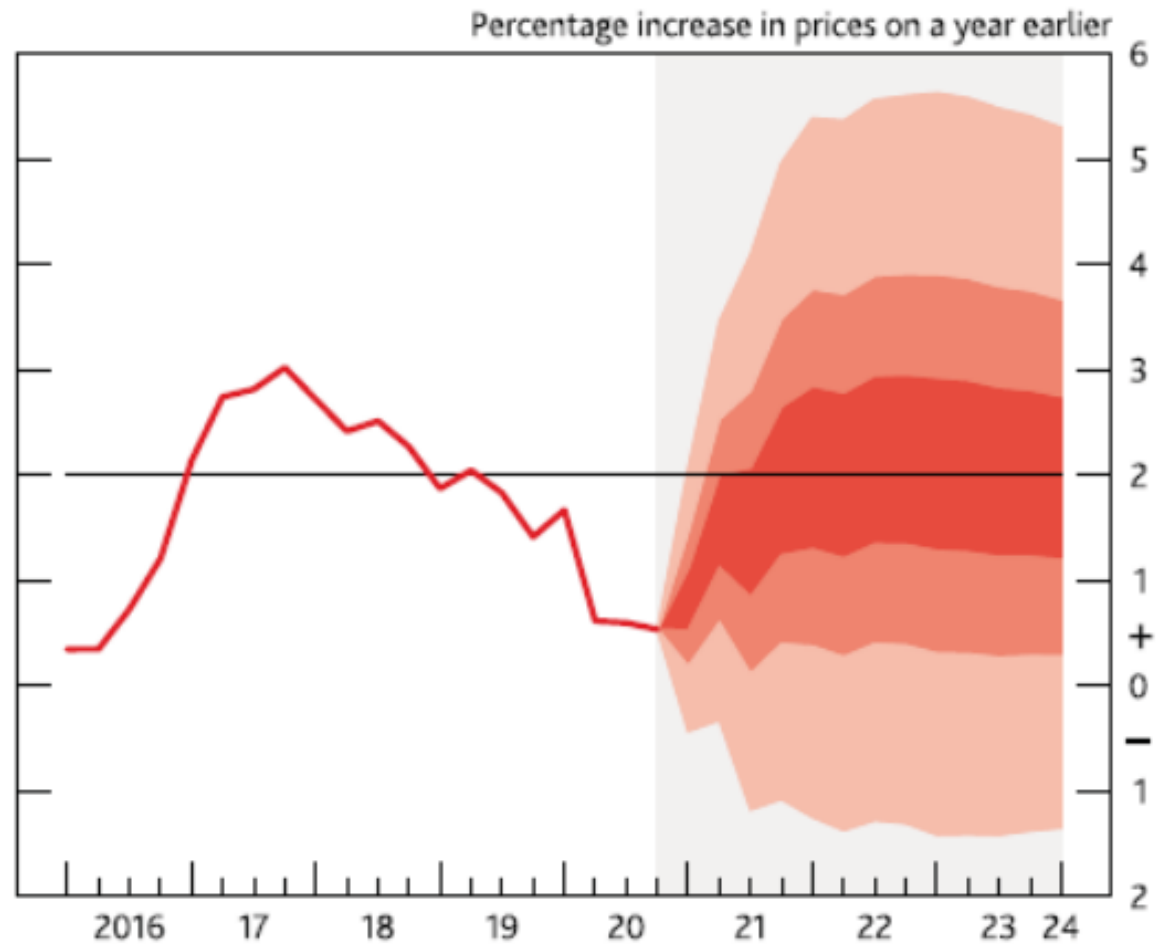
Professional investors only

Tabula talks | An inflation revival

3 March 2021



UK CPI inflation projection



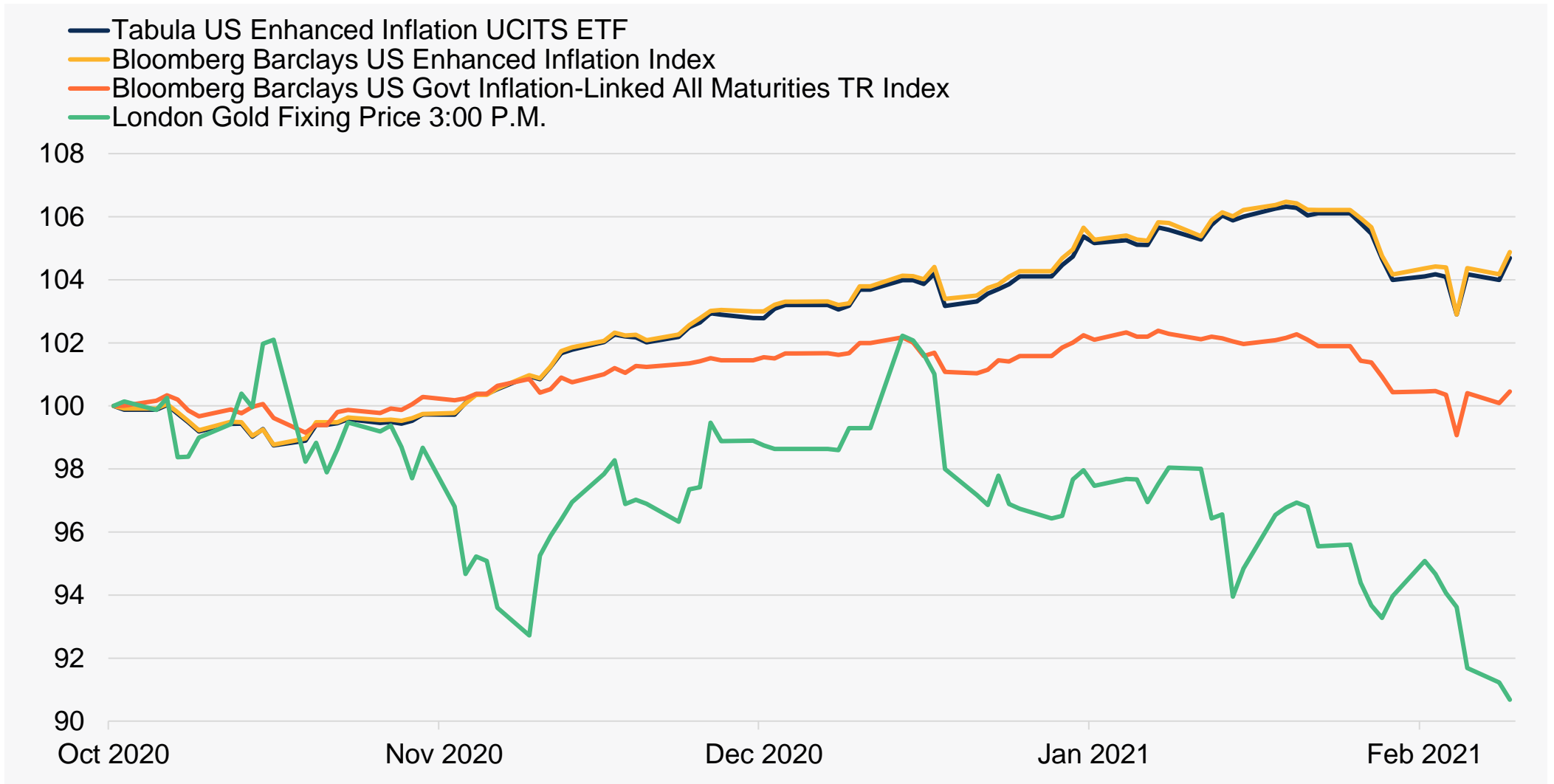
Our inflation solution

Combining 100% exposure to US TIPS portfolio with 100% exposure to US Breakevens



Capital is at risk. You may not get the amount you invested. Leverage can magnify gains and losses, particularly in periods of abnormal and adverse market conditions.

TINF - Performance since inception



Index performance is simulated by Bloomberg. Past performance (actual or simulated) is not a reliable indicator of future results. For illustrative purpose only. Capital is at risk.

Tabula US Enhanced Inflation UCITS ETF (USD)

USD 50m

AUM

(3 March 2020)

Available share classes

London Stock Exchange	TINF	USD
London Stock Exchange	TING	GBP-Hedged
SIX Swiss Exchange	TINC	CHF-Hedged
Borsa Italiana	TINE	EUR-Hedged
BX Swiss	TINF	USD

Capital is at risk. You may not get back the amount you invested.

The Great Demographic Reversal: Ageing Societies, Waning Inequality, and an Inflation Revival

By

C.A.E. Goodhart

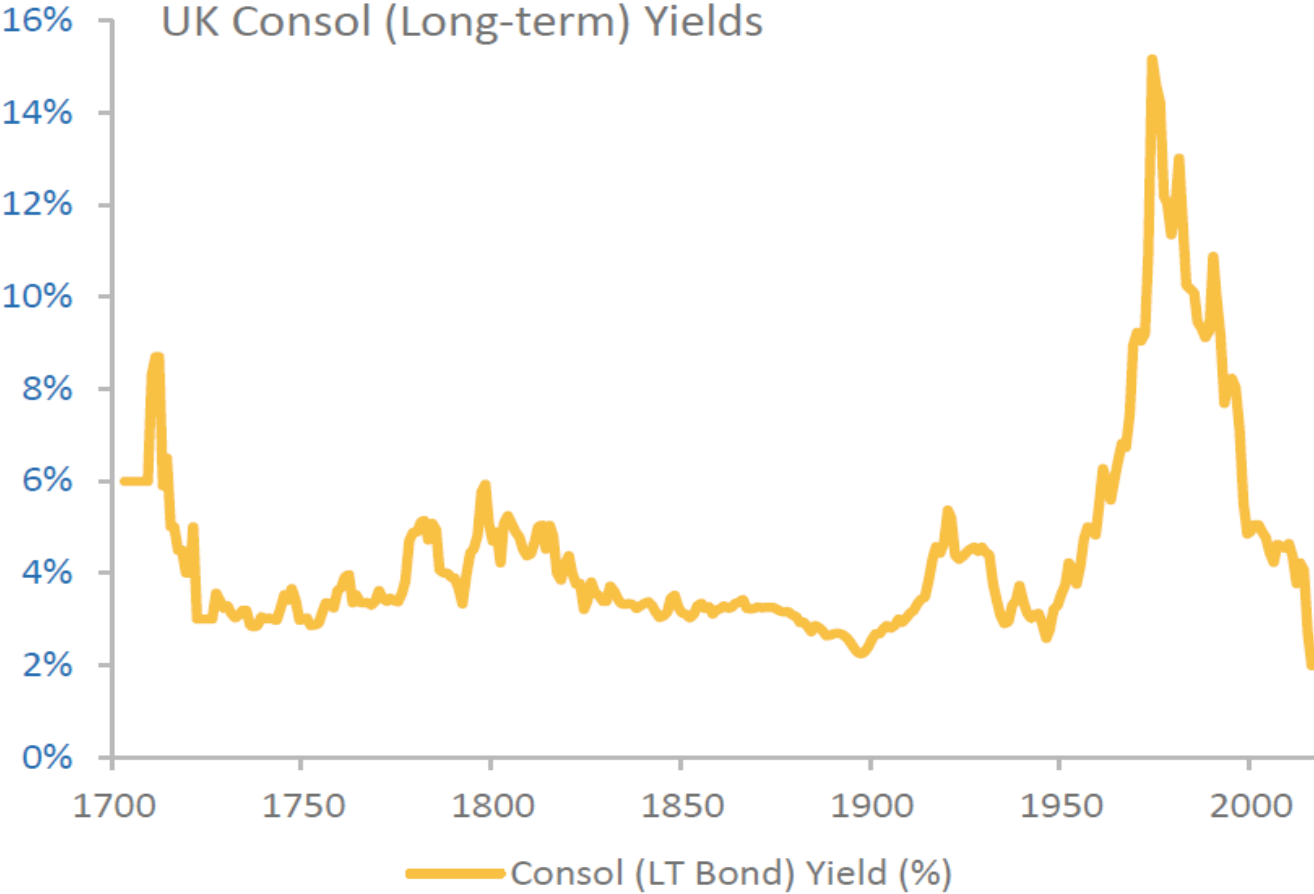
Financial Markets Group, London School of Economics

and

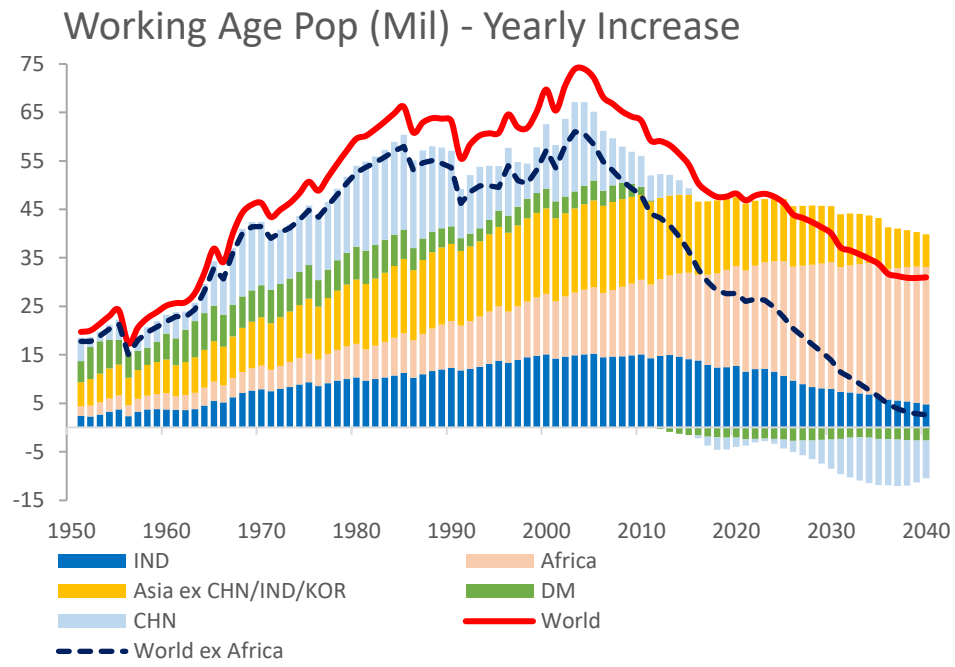
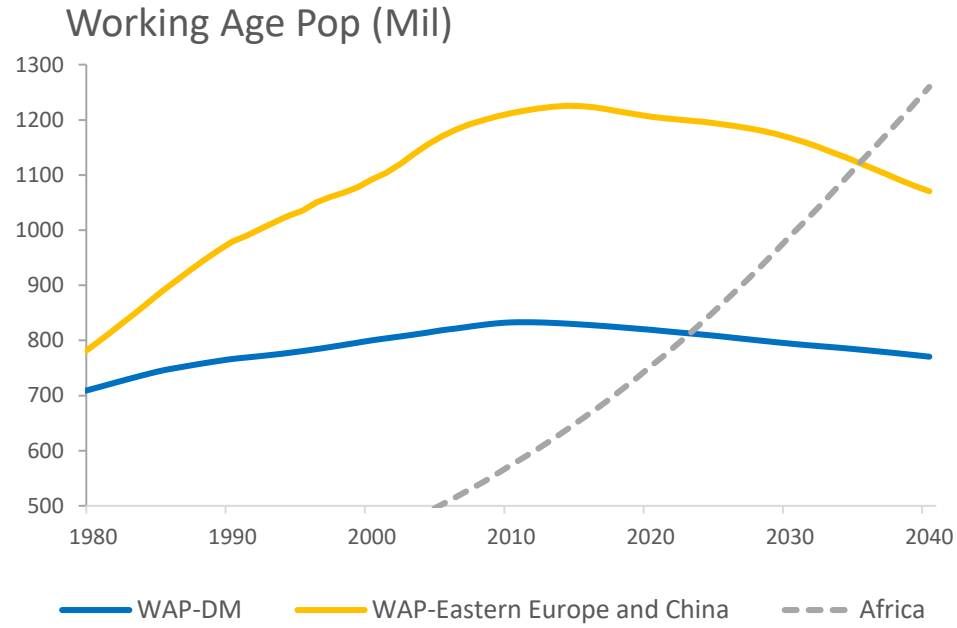
Manoj Pradhan

Talking Heads Macroeconomics

The extraordinary period since the 1950s



Working age populations falling globally – Africa is the key exception, and India to a lesser extent



Inequality has narrowed across countries, particularly the EMEs

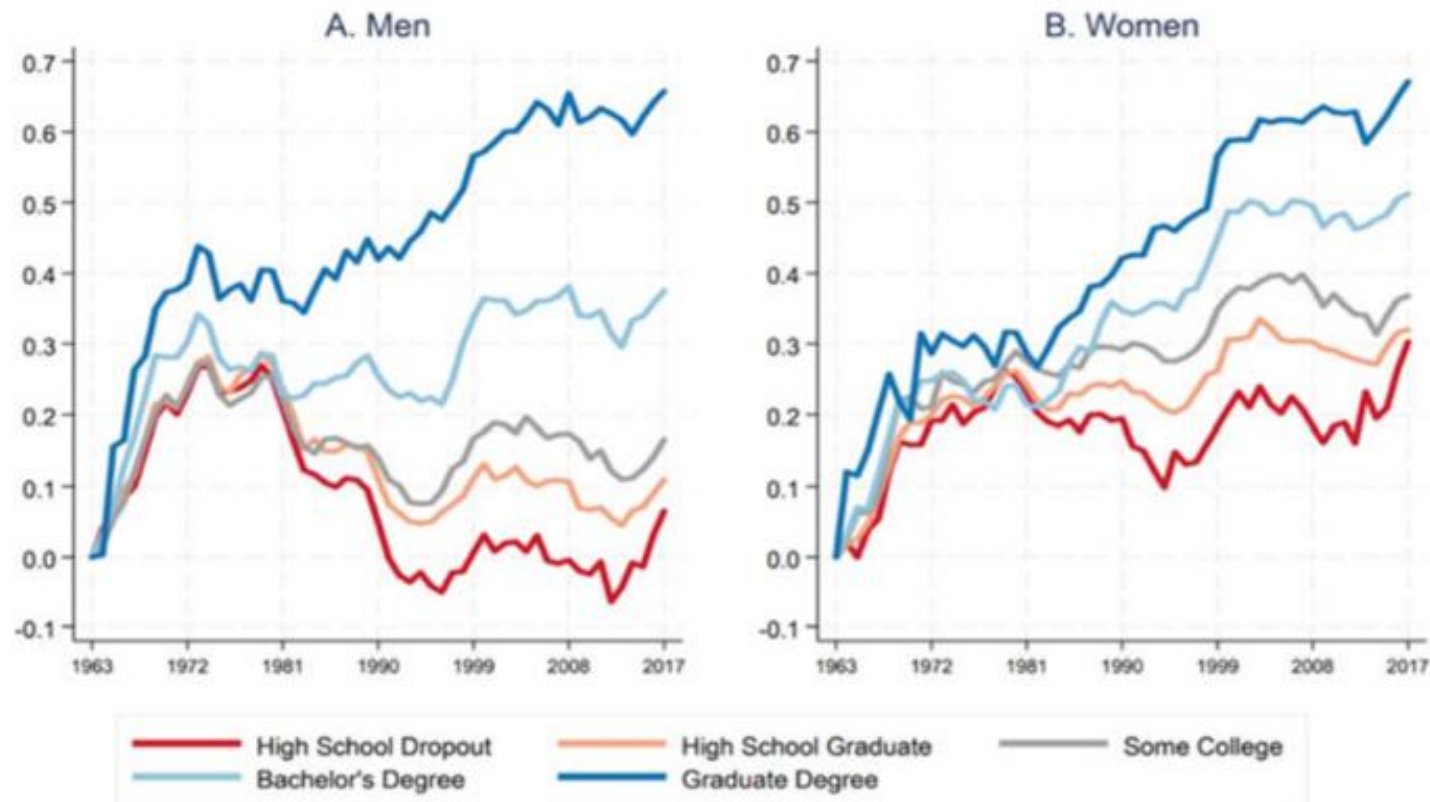
Ratio of the wages of workers

	USA/China	France/Poland
2000	34.6	3.9
2001	30.6	3.3
2002	27.4	3.5
2003	25.0	4.0
2004	22.9	4.2
2005	20.4	3.8
2006	18.1	3.7
2007	15.2	3.5
2008	12.2	3.0
2009	10.8	3.7
2010	9.7	3.3
2011	8.4	3.3
2012	7.5	3.4
2013	6.7	3.4
2014	6.3	3.3
2015	6.0	3.4
2016	5.9	3.4
2017	5.6	3.2
2018	5.1	2.9

Source National Sources

Inequality has fallen within the advanced economies

Cumulative change in real weekly earnings at working age adults aged 18-64, 1963-2017



Source: American Economic Association

The return of inflation

Dependents (Young, Old) Consume
But Don't Produce



Dependents
Inflationary

Workers Consume + Produce
Wages < Production

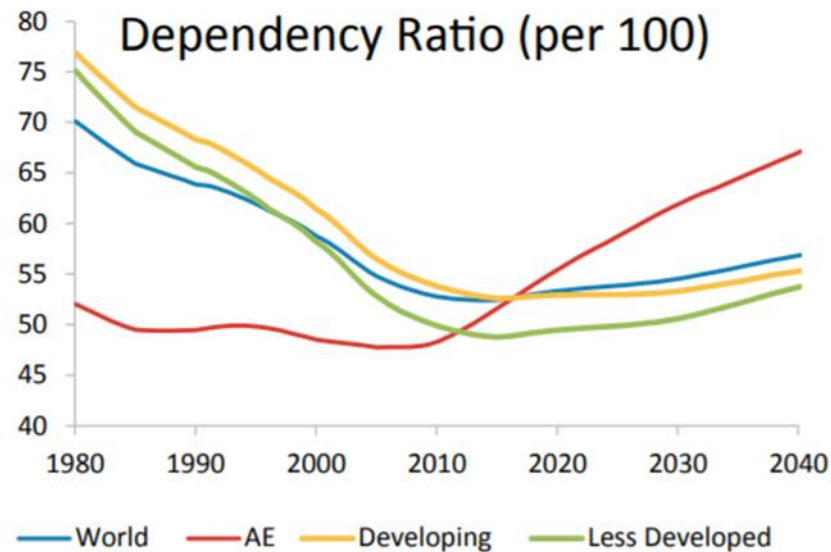


Workers
Deflationary

More Workers
Than Dependents

=

Inflation Falls

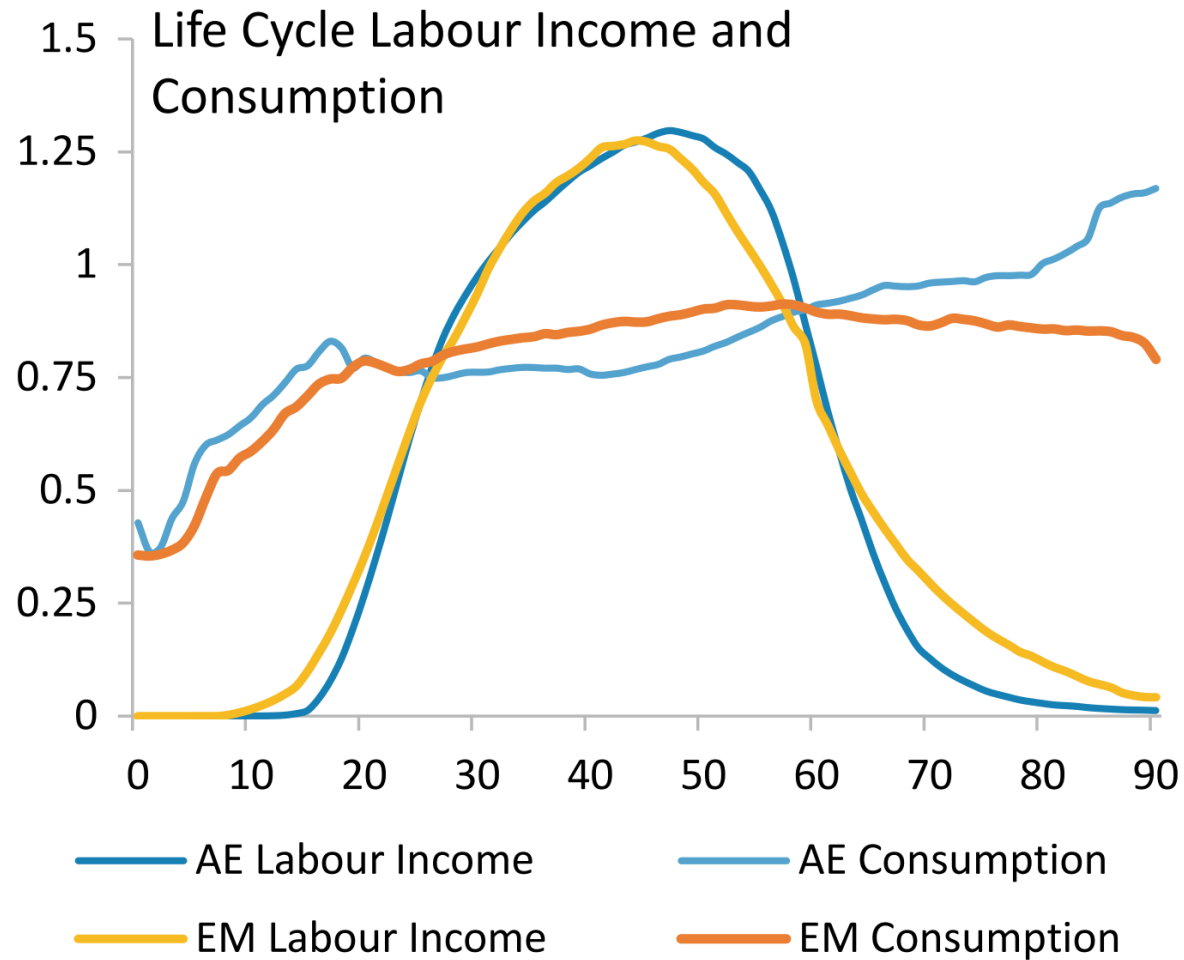


More Dependents
Than Workers

=

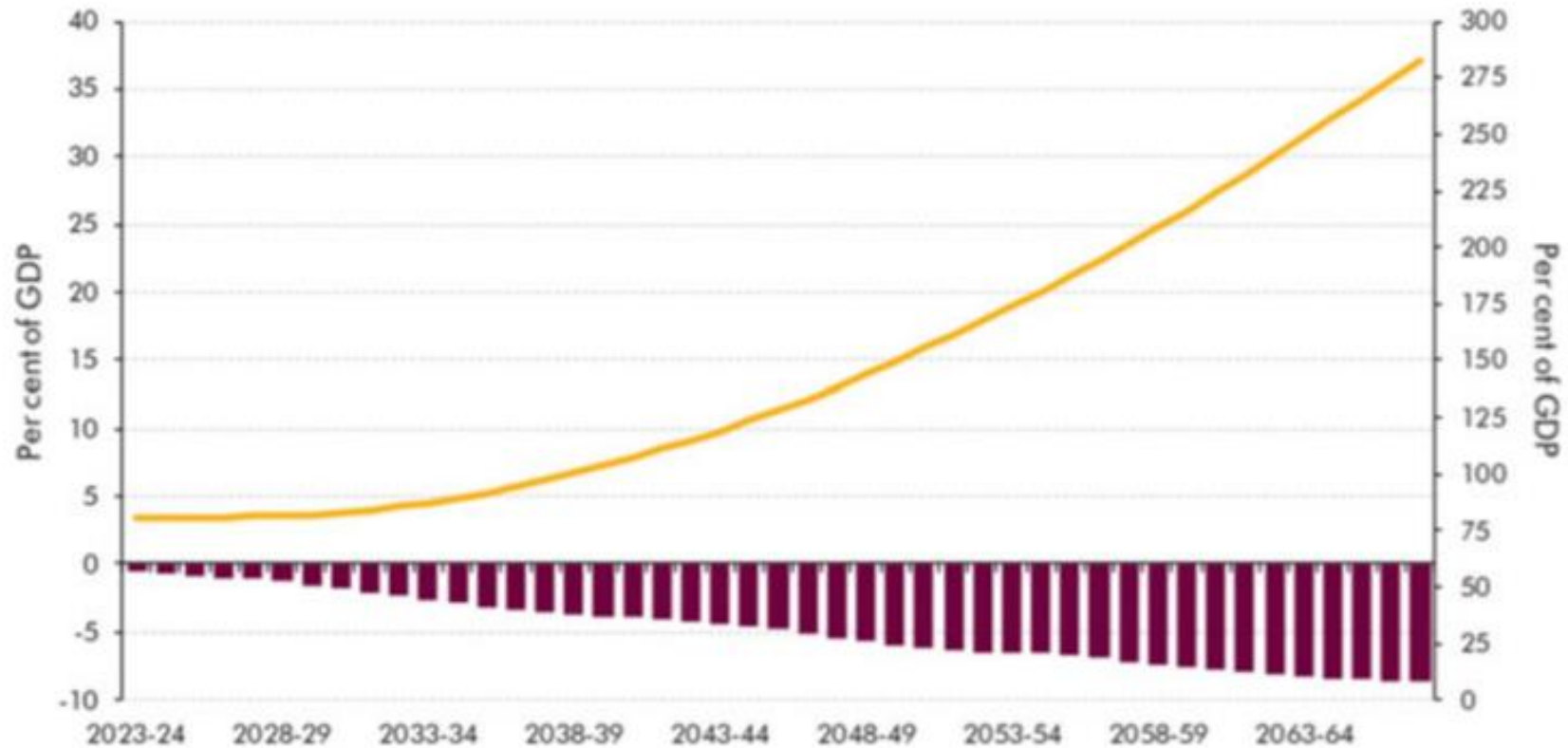
Inflation Rises

Consumption of the old *increases*



Ageing will lead to a massive rise in deficits and borrowing

Baseline projections of the primary balance and PSND



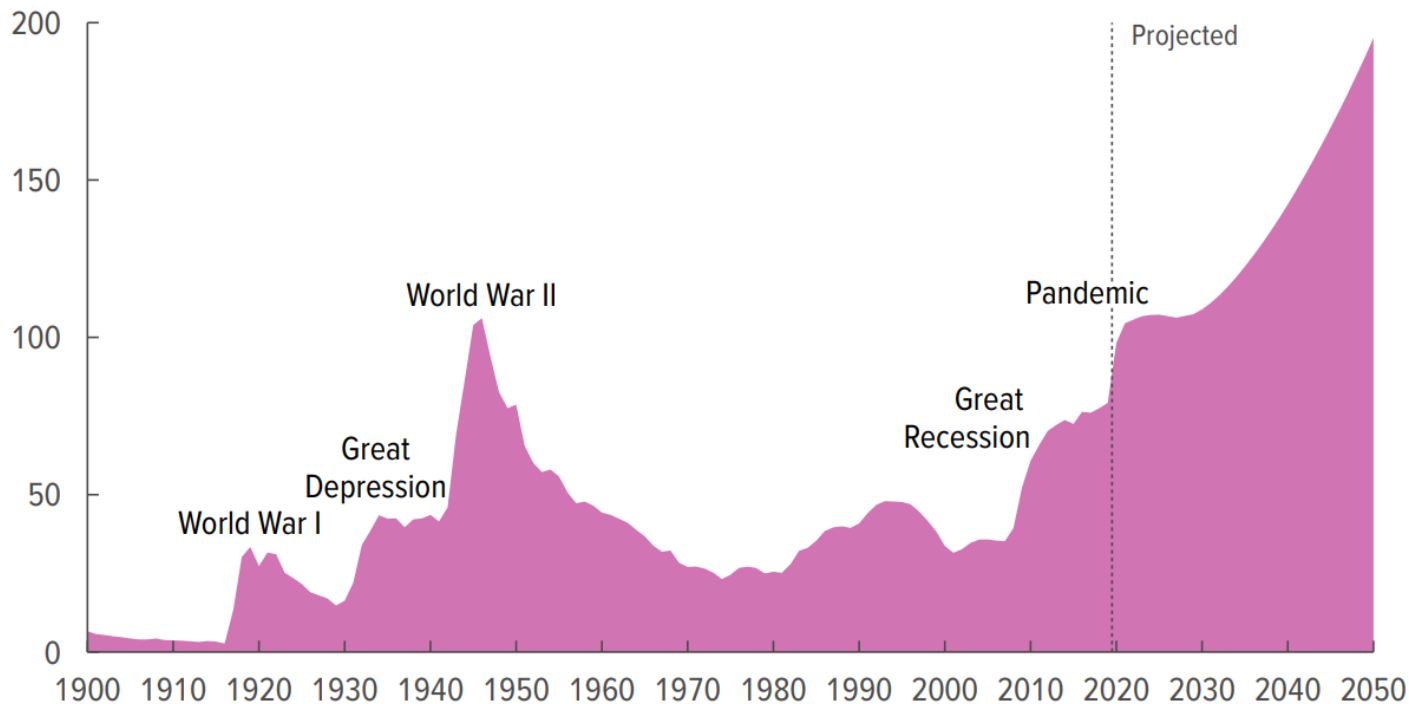
Source: OBR

Debt falls after wars, but that will not apply to ageing

Debt and deficits

Federal debt held by the public is projected to equal 195% of GDP in 2050, and the deficit is projected to equal 13% of GDP

Percentage of Gross Domestic Product



In CBO's projections, federal debt held by the public surpasses its historical high of 106 percent of GDP in 2023 and continues to climb in most years thereafter. In 2050, debt as a percentage of GDP is nearly 2.5 times what it was at the end of last year.

The endgame? Inflation

Dealing with Debt

- Growth – unlikely
- Productivity – yes, but modest
- Taxation – the ‘right’ solution, but is it likely?
- Inflation – unattractive, but necessary

Environmental focus

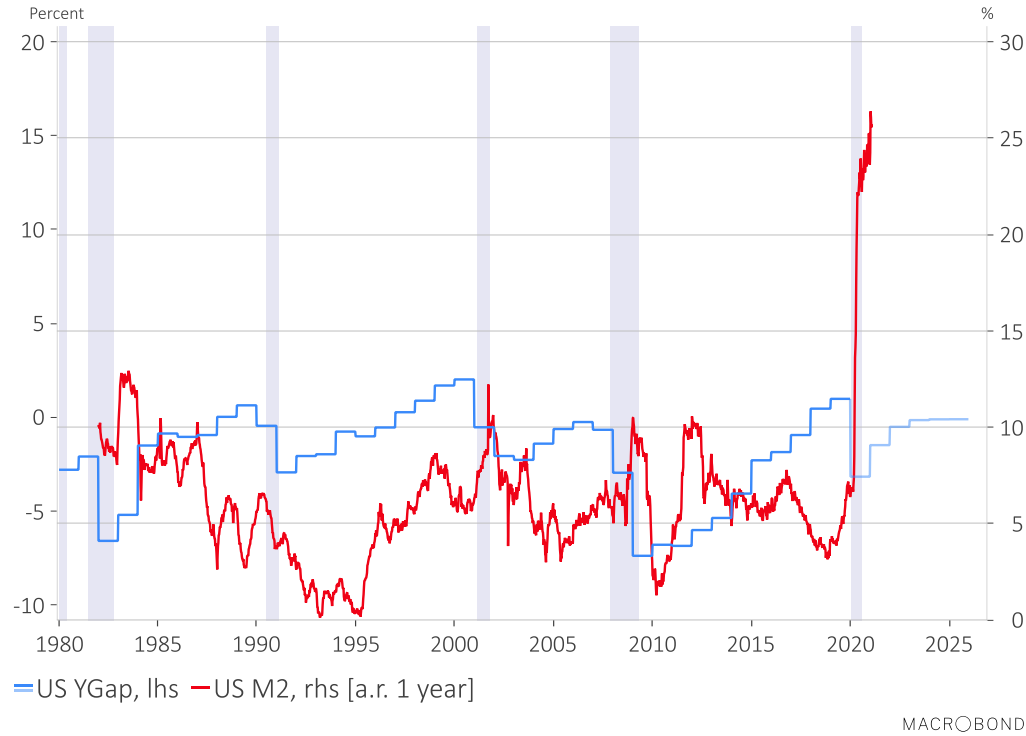
- Inflationary?

The Pandemic

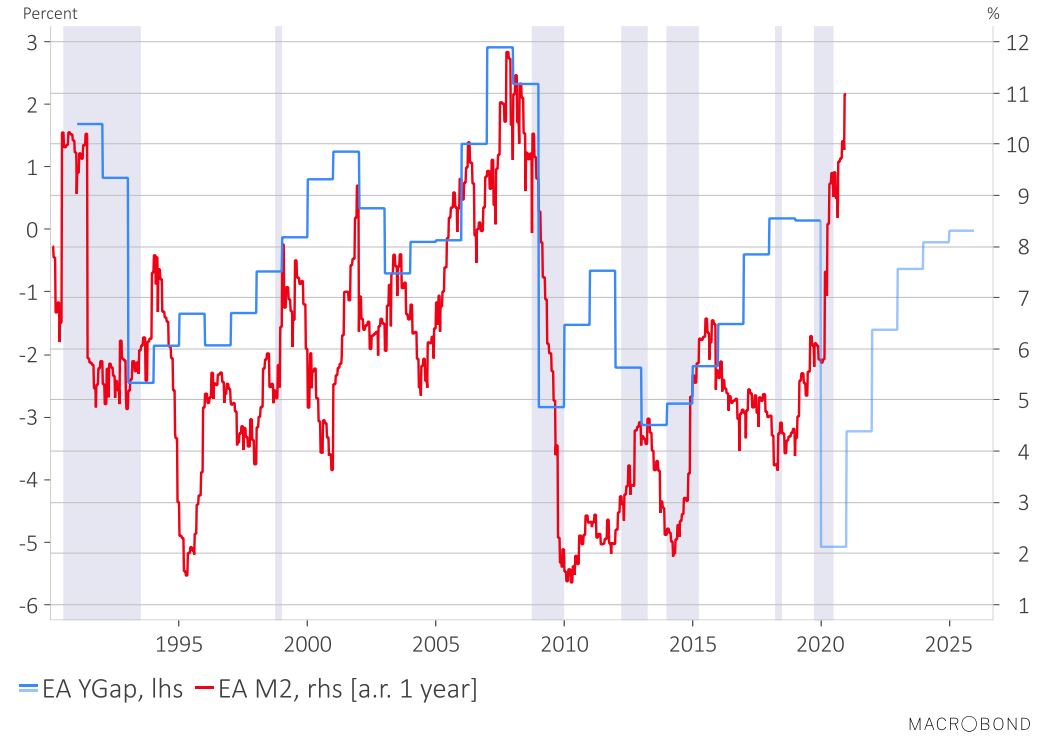
- Monetary Aggregates and Markups

Friedman vs Phillips – A historic divide

US: M2 Growth vs Output Gap



Euro Area: M2 Growth vs Output Gap



Collapse in velocity vs forced savings: Common driver?

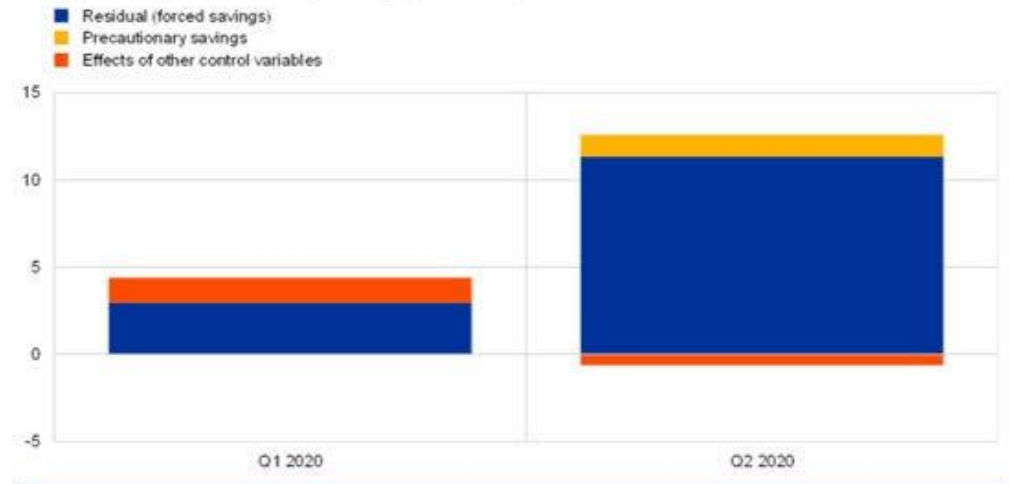
Velocity has collapsed...



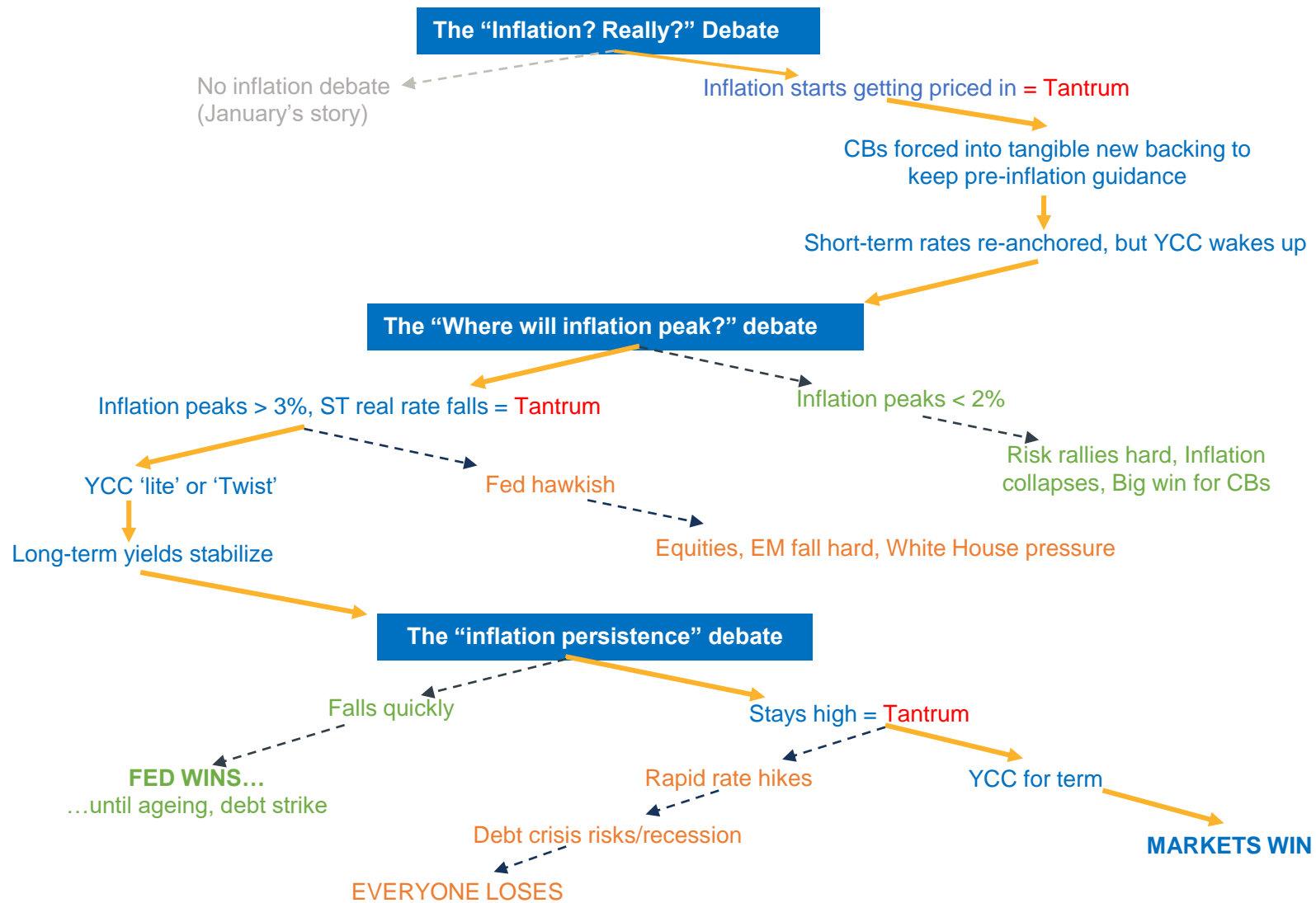
Personal savings are 'forced', not precautionary

Drivers of the increase in the household saving rate

(change with respect to Q4 2019, percentage points of disposable income)

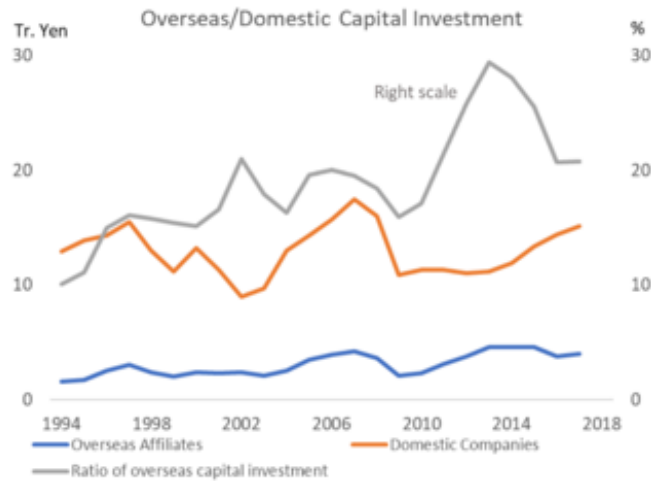


Markets vs Central Banks: An inflation user's guide

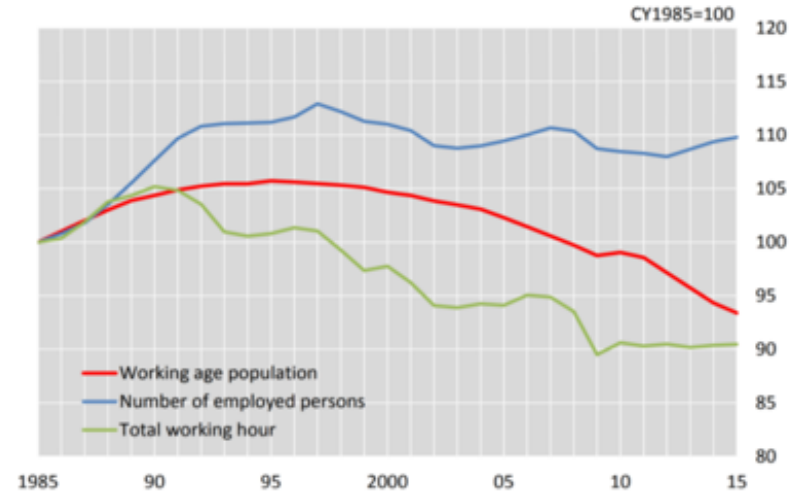


“Why didn't it happen in Japan”

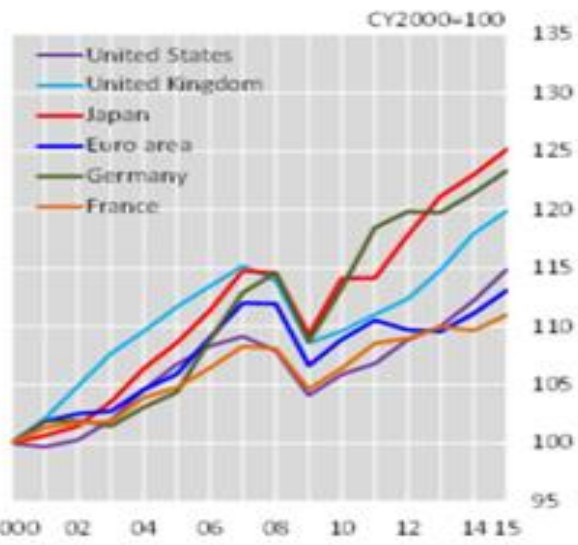
Japan Inc. Invested Heavily Abroad



Labour Adjustment via Hours, Not Wages

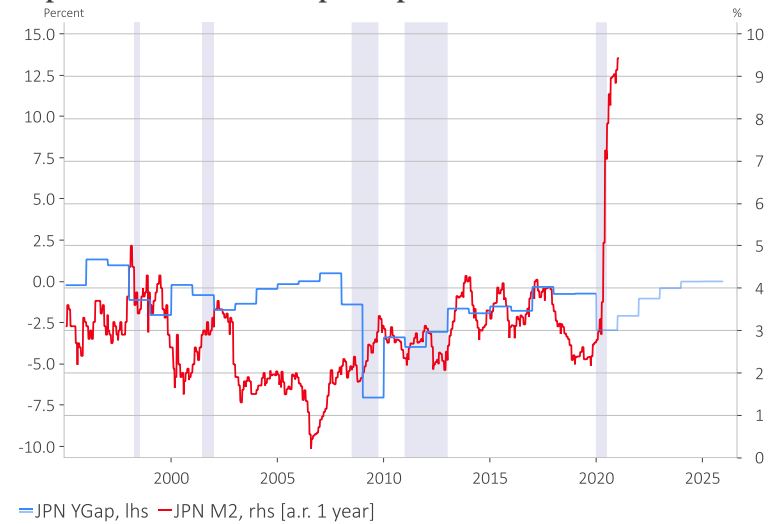


GDP per worker



Sources: OECD; Eurostat.

Japan: M2 Growth vs Output Gap



MACROBOND

Conclusions

- Inflation is coming – unlike the post-GFC central bank-led recovery, fiscal stimulus has gone to the real economy. Monetary policy will become increasingly procyclical
- The yield curve will steepen – if ‘Yield Curve Control’ is imposed, it will act in a procyclical manner to push inflation even higher – Breakevens vs nominals today
- Asset returns will be harder to extract
- Lower within-country inequality
- Central bank independence under increasing threat



Tabula Investment Management offers a range of UCITS funds delivering passive exposure to fixed income.

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