Uncommon truths

Inflation risks and investment consequences

Rising energy costs are leading to fears of higher inflation; historically a difficult environment for financial markets. We suspect any jump in inflation will be short-lived but that will ultimately depend on how long energy prices stay high and whether other prices and wages follow them upward.

Investor conversations are naturally dominated by the situation in the Middle East. It is hard to give definitive answers when resolution of the conflict relies on the decisions of three actors that are not always acting in ways that follow military and economic logic (emotions are running high). However, the global economy and financial markets have to live with the consequences.

For the moment, markets are focused on energy price developments. When oil is up, literally everything else is down and vice-versa. This once again shows the strategic diversification properties of broad commodity exposures, a point that I emphasised last July in The strategic role of commodities. We had been Overweight energy since March 2025, in the belief that global economic acceleration would support industrial commodities. However, we recently took advantage of the jump in prices in early March to reduce the energy allocation to zero (see **Figure 6**).

Whether that proves to have been the appropriate decision will depend, I think, upon how long it takes to restore a reasonable flow of energy from the Middle East. The cleanest way for that to happen would be a cessation of hostilities as part of a three way peace plan (US/Israel and Iran). Another would be if Iran allowed more ships to pass through the Strait of Hormuz (and/or a coalition of countries were able to ensure safe passage), at the same time that Saudi Arabia was able to fully use its Red Sea Gateway Terminal at Yanbu (it's pipelines can carry around 7 million barrels a day to that port -- around 70% of its early 2026 output). That latter point relies on Houthi rebels not attacking those ships.

For the moment, the gain in oil prices is a concern, with Brent up around 58% since the end of February 2026 and WTI up around 51% (as of 27 March 2026, based on first futures contracts as reported by Bloomberg). Natural gas markets are more regional than oil, so the price gains have varied enormously. For example, UK natural gas is up around 73% (first future), while US natural gas is up only around 5%.

The short-term impact on inflation rates will depend on the weighting of energy within CPI indices, and that varies by country and region. For example, energy had a weighting of 6.3% in the latest US CPI release (roughly half energy commodities and half energy services such as utilities, according to US Bureau of Labor Statistics data), whereas in the eurozone it is around 9.0% (according to Eurostat data). The latter is interesting in light of the fact that Spain is one of the few countries to have so far published March CPI data, with a rise in the year-on-year rate from 2.5% in February to 3.3% in March (using EU harmonised data). Other countries to have published March data (Brazil, Iceland and Zambia, for example) have seen smaller (if any) rises in inflation rates.

Of course, the effect on inflation will also depend on the duration of the rise in energy prices. **Figure 1a** shows that previous similar spikes in WTI led to a rapid but temporary uptick in US headline inflation. Looking at the 2015-20 period, in episodes in which the y-o-y gain in oil approached 50% (as now), the uplift in US CPI inflation was in the region of one percentage point.

Figure 1a – US oil price and inflation

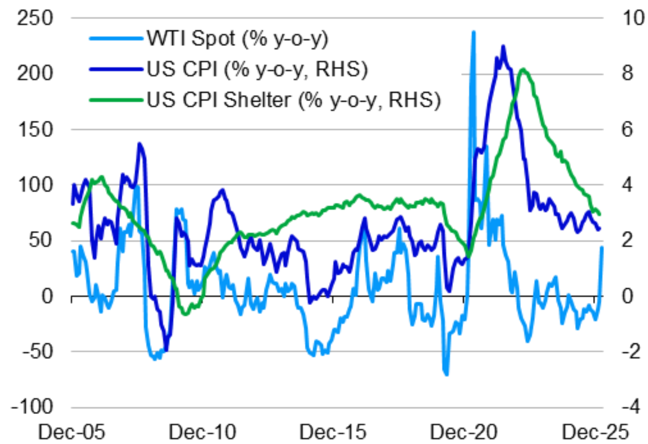
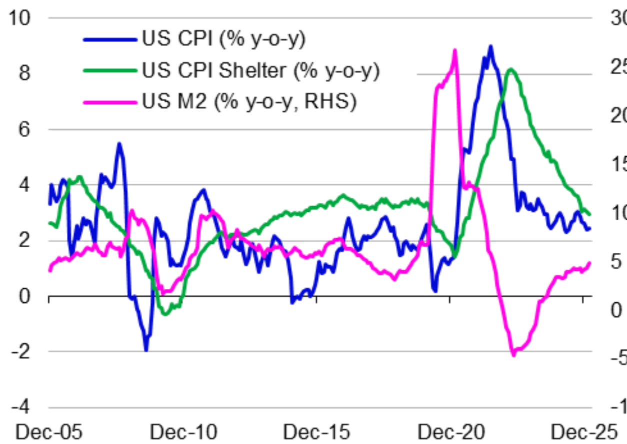


Figure 1b – US money supply and inflation



Note: **Past performance is no guarantee of future results.** Based on monthly data from December 2005 to March 2026 (as of 27 March 2026). Source: LSEG Datastream and Invesco Strategy & Insights

If repeated this time, that could see US headline CPI inflation at around 3.5%. That doesn't sound encouraging, as it would take inflation further from the 2.0% target level. However, if the uplift in energy prices only lasts for a few months, I suspect that headline inflation would soon fall back below 3.0%.

There is evidence that markets remain of the same opinion. Medium to long-term US inflation breakevens have hardly moved during March. The 5-year breakeven had risen to 2.56% as of 27 March 2026, from 2.40% at the end of February, taking it to near where it was at the end of January (as measured in the treasury market). The 10-year breakeven has moved even less and is now at 2.34% (below the end-January level). That should be a comfort to the Fed.

One reason for the relative comfort about the inflationary impact of the recent surge in oil prices could be that the oil forward curve is in steep backwardation. Though the Brent 1-month future is $112.5 (as of 27 March 2026), the 1-year Brent future is at $94.8 (+34% since the end of February) and the 3-year future is at $75.7 (+15%). Hence, the oil market itself is suggesting the oil price hike will be short-lived. I think that makes sense, if for no other reason than a lengthy rise in price could dampen economic activity, thus reducing the demand for oil.

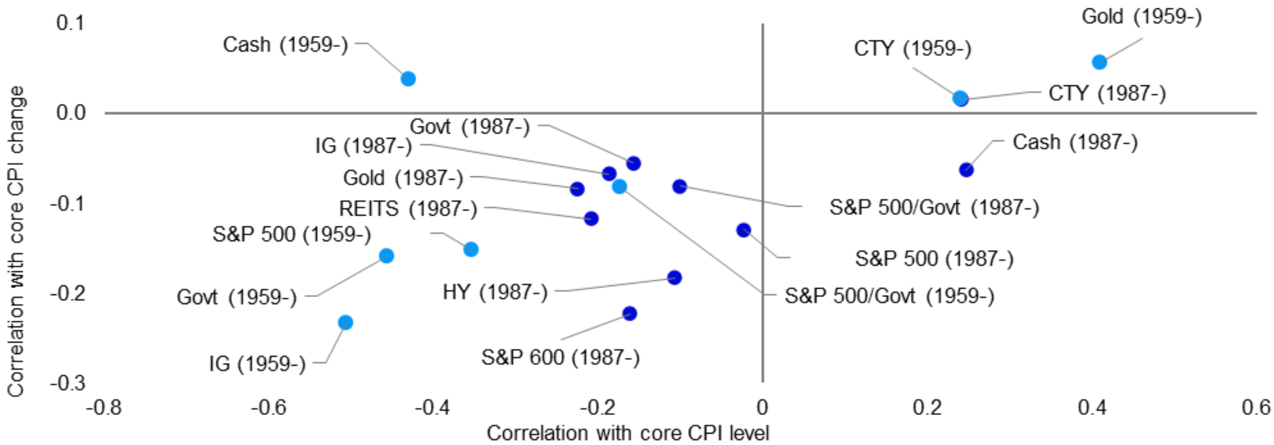
More worryingly, **Figure 1a** also shows the example of 2022, during which Russia's invasion of Ukraine led to a much bigger increase in oil and gas prices than we are currently seeing. The US oil price more than tripled (y-o-y) and US CPI inflation touched 9.1% (UK inflation rose to 11%, boosted by the effect of rising gas prices on electricity tariffs). However, I would contend that inflation was already on the up at that time, after government and central bank policies led to an acceleration of monetary aggregates (see **Figure 1b**). I doubt the uplift in inflation will be anything like the 2022 episode, partly because I don't expect a tripling of the oil price and partly because the monetary backdrop is nowhere near as accommodative of inflation as it was then. Even better, US shelter inflation is no longer acting as a brake on disinflation, as it had over recent years (see **Figure 1**), suggesting that once energy prices fall, headline and core inflation can continue downward.

However, if I am wrong and inflation goes much higher for much longer, **Figure 2** suggests it will be hard to find assets that perform well. Historical correlations show that most US assets have suffered when inflation is high and/or rising. The few exceptions are commodities (but I suspect the causality runs from commodities to inflation) and gold (though not for the shortened period since 1987). Surprisingly, cash has done better than most other assets, probably because its lack of duration is useful when rates are rising.

Finally, when looking for signs that inflation will be more durable than suggested above, I will be watching: how long energy prices remain elevated (oil above $100, say); the transmission to non-energy components of consumer price indices (i.e. the generalisation of inflation) and signs of a rise in wage inflation. Absent those signals, I expect markets to recover much of the recent losses during Q2.

All data as of 27 March 2026, unless stated otherwise.

Figure 2 – Correlation of CPI adjusted US asset returns with core CPI inflation (1959-2025)



Note: **Past performance is no guarantee of future results**. Based on calendar year data, showing two periods: 1959-2025 and 1987-2025. "Core CPI Level" shows the correlation of CPI-adjusted asset returns in a calendar year with the level of US core inflation during that year (calculated as the average between inflation at the end of the year and that at the end of the previous year, based on the US CPI index excluding food & energy). "Core CPI Change" shows the correlation of CPI-adjusted asset returns in each calendar year with the change in core inflation during that year (calculated as the difference between core inflation at the end of the year and that at the end of the previous year). See appendices for asset definitions and sources. Source: CRB, Global Financial Data, GPR, ICE BofA, LSEG Datastream, Robert Shiller, Standard & Poor's, S&P GSCI and Invesco Strategy & Insights

Figure 3 – Asset class total returns (%)

Data as at 27 Mar 2026	Index	Current Level/RY	Total Return (USD, %) 1w	1m	QTD	YTD	12m	Total Return (Local Currency, %) 1w	1m	QTD	YTD	12m
Equities												
World	MSCI	966	-1.5	-8.4	-4.4	-4.4	16.7	-1.3	-7.6	-3.9	-3.9	15.9
Emerging Markets	MSCI	1437	-1.7	-10.6	2.7	2.7	30.6	-1.6	-8.3	4.7	4.7	31.3
China	MSCI	76	-1.2	-6.5	-7.8	-7.8	3.1	-1.2	-6.3	-7.4	-7.4	3.0
US	MSCI	6065	-2.1	-7.3	-6.9	-6.9	13.1	-2.1	-7.3	-6.9	-6.9	13.1
Europe	MSCI	2519	0.3	-11.1	-4.0	-4.0	15.7	0.7	-8.9	-2.6	-2.6	8.9
Europe ex-UK	MSCI	3069	0.3	-11.7	-5.4	-5.4	13.8	0.7	-9.2	-3.8	-3.8	6.1
UK	MSCI	1580	0.6	-9.0	0.6	0.6	22.3	0.7	-7.9	1.8	1.8	19.3
Japan	MSCI	5007	0.3	-9.9	4.3	4.3	24.7	0.8	-7.5	6.6	6.6	32.3
Government Bonds												
World	BofA-ML	3.74	-0.5	-3.9	-2.0	-2.0	2.2	-0.3	-2.7	-1.1	-1.1	1.1
Emerging Markets	JP Morgan	3.78	-0.4	-2.9	-0.1	-0.1	8.4	0.0	-1.0	0.0	0.0	4.0
China	BofA-ML	1.59	-0.3	-0.7	1.7	1.7	6.7	0.1	0.1	0.6	0.6	1.4
US (10y)	Datastream	4.43	-0.3	-3.4	-1.1	-1.1	4.1	-0.3	-3.4	-1.1	-1.1	4.1
Europe	Bofa-ML	3.36	-0.7	-5.8	-3.3	-3.3	7.4	-0.5	-3.5	-1.4	-1.4	0.7
Europe ex-UK (EMU, 10y)	Datastream	3.07	-0.6	-5.8	-2.9	-2.9	7.3	-0.4	-3.4	-1.0	-1.0	0.5
UK (10y)	Datastream	4.98	0.1	-5.7	-3.2	-3.2	6.7	0.2	-4.6	-2.1	-2.1	4.1
Japan (10y)	Datastream	2.35	-1.4	-4.4	-4.0	-4.0	-9.7	-0.8	-1.9	-1.9	-1.9	-4.2
IG Corporate Bonds												
Global	BofA-ML	4.84	-0.4	-3.5	-1.8	-1.8	5.8	-0.3	-2.7	-1.2	-1.2	3.7
Emerging Markets	JP Morgan	6.69	-0.4	-2.2	-0.7	-0.7	5.2	-0.4	-2.2	-0.7	-0.7	5.2
China	BofA-ML	2.16	-0.3	-0.6	1.8	1.8	7.5	0.1	0.2	0.7	0.7	2.2
US	BofA-ML	5.27	-0.3	-2.8	-1.2	-1.2	4.7	-0.3	-2.8	-1.2	-1.2	4.7
Europe	BofA-ML	3.85	-0.6	-5.0	-3.2	-3.2	8.4	-0.4	-2.6	-1.3	-1.3	1.6
UK	BofA-ML	5.89	0.1	-5.0	-3.5	-3.5	7.1	0.2	-3.9	-2.4	-2.4	4.4
Japan	BofA-ML	2.18	-1.0	-3.2	-2.6	-2.6	-6.4	-0.4	-0.7	-0.5	-0.5	-0.8
HY Corporate Bonds												
Global	BofA-ML	7.60	-0.5	-2.6	-1.6	-1.6	6.6	-0.4	-2.1	-1.2	-1.2	5.2
US	BofA-ML	7.83	-0.5	-1.9	-1.3	-1.3	5.7	-0.5	-1.9	-1.3	-1.3	5.7
Europe	BofA-ML	6.30	-0.6	-5.0	-3.5	-3.5	9.3	-0.4	-2.6	-1.7	-1.7	2.5
Cash (Overnight rates)												
US		3.62	0.1	0.3	0.8	0.8	4.2	0.1	0.3	0.8	0.8	4.2
Euro Area		1.93	1.4	-1.6	-1.1	-1.1	8.8	0.0	0.1	0.4	0.4	2.0
UK		3.73	0.9	-0.8	-0.2	-0.2	7.1	0.1	0.3	0.8	0.8	4.1
Japan		0.73	0.3	-2.6	-1.5	-1.5	-6.1	0.0	0.1	0.2	0.2	0.5
Real Estate (REITs)												
Global	FTSE	1685	-1.5	-10.2	-0.2	-0.2	9.1	-1.3	-8.0	1.7	1.7	2.2
Emerging Markets	FTSE	1243	-1.7	-14.1	-4.2	-4.2	10.4	-1.5	-11.9	-2.3	-2.3	3.4
US	FTSE	3214	-0.5	-7.4	3.0	3.0	5.8	-0.5	-7.4	3.0	3.0	5.8
Europe ex-UK	FTSE	2514	-2.4	-17.2	-6.8	-6.8	12.2	-2.2	-15.2	-5.0	-5.0	5.2
UK	FTSE	831	-3.5	-18.2	-10.8	-10.8	1.7	-3.4	-17.3	-9.8	-9.8	-0.8
Japan	FTSE	2563	-4.2	-13.1	-1.0	-1.0	20.7	-3.6	-10.8	1.1	1.1	28.0
Commodities												
All	GSCI	5437	0.5	23.5	38.8	38.8	43.3	-	-	-	-	-
Energy	GSCI	1102	0.2	53.2	82.5	82.5	68.8	-	-	-	-	-
Industrial Metals	GSCI	2201	2.4	-2.8	3.3	3.3	25.4	-	-	-	-	-
Precious Metals	GSCI	5077	-1.6	-15.5	3.0	3.0	49.5	-	-	-	-	-
Agricultural Goods	GSCI	492	0.3	4.3	4.3	4.3	-2.9	-	-	-	-	-
Currencies (vs USD)*												
EUR		1.15	-0.5	-2.6	-2.0	-2.0	6.6	-	-	-	-	-
JPY		160.33	-0.7	-2.7	-2.3	-2.3	-5.8	-	-	-	-	-
GBP		1.33	-0.1	-1.1	-1.2	-1.2	2.5	-	-	-	-	-
CHF		1.25	-1.4	-3.8	-0.8	-0.8	10.4	-	-	-	-	-
CNY		6.91	-0.4	-0.8	1.2	1.2	5.1	-	-	-	-	-

Notes: **Past performance is no guarantee of future results.** *The currency section is organised so that in all cases the numbers show the movement in the mentioned currency versus USD (+ve indicates appreciation, -ve indicates depreciation). Please see appendix for definitions, methodology and disclaimers.
Source: LSEG Datastream and Invesco Strategy & Insights

Figure 4 – Global equity sector total returns relative to market (%)

Data as of 27 Mar 2026	Global				
	1w	1m	QTD	YTD	12m
Energy	**3.6**	**17.6**	**29.3**	**29.3**	**13.2**
Basic Materials	**4.2**	**-7.2**	**9.2**	**9.2**	**19.7**
Basic Resources	4.4	-11.5	7.4	7.4	34.2
Chemicals	3.7	4.3	13.6	13.6	-2.7
Industrials	**0.2**	**-2.7**	**3.3**	**3.3**	**1.0**
Construction & Materials	1.5	-4.8	2.0	2.0	2.2
Industrial Goods & Services	0.0	-2.4	3.5	3.5	0.9
Consumer Discretionary	**0.3**	**-1.8**	**-6.5**	**-6.5**	**-11.4**
Automobiles & Parts	0.9	-4.3	-8.8	-8.8	2.0
Media	0.4	0.9	-7.6	-7.6	-19.2
Retailers	0.7	1.1	-2.0	-2.0	-7.9
Travel & Leisure	-0.8	-2.1	-6.2	-6.2	-14.9
Consumer Products & Services	-0.2	-5.7	-12.2	-12.2	-22.1
Consumer Staples	**1.7**	**-1.6**	**4.3**	**4.3**	**-10.3**
Food, Beverage & Tobacco	2.4	-0.5	6.0	6.0	-8.7
Personal Care, Drug & Grocery Stores	0.4	-3.5	1.5	1.5	-13.1
Healthcare	**1.3**	**-1.6**	**-2.8**	**-2.8**	**-10.7**
Financials	**0.4**	**0.2**	**-2.2**	**-2.2**	**-2.6**
Banks	0.9	-0.3	-0.1	-0.1	7.4
Financial Services	-0.6	0.4	-5.7	-5.7	-11.8
Insurance	0.8	1.1	-1.8	-1.8	-10.6
Real Estate	**-0.4**	**-3.1**	**0.7**	**0.7**	**-8.1**
Technology	**-3.0**	**-0.1**	**-6.7**	**-6.7**	**7.5**
Telecommunications	**-0.2**	**2.1**	**14.2**	**14.2**	**10.6**
Utilities	**2.0**	**3.0**	**8.1**	**8.1**	**3.7**

Notes: **Past performance is no guarantee of future results.** Returns shown are for Datastream sector indices versus the total market index. Source: LSEG Datastream and Invesco Strategy & Insights

Figure 5a – US factor index total returns (%)

Data as of 27 Mar 2026	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	-3.0	-8.9	-7.2	-7.2	4.7	-0.9	-1.8	-0.6	-0.6	-7.6
Low volatility	0.4	-6.8	-0.2	-0.2	-2.8	2.5	0.6	7.0	7.0	-14.2
Price momentum	-0.7	-7.6	1.7	1.7	20.6	1.4	-0.4	8.9	8.9	6.4
Quality	-1.2	-8.6	-5.6	-5.6	9.4	0.9	-1.4	1.2	1.2	-3.5
Size	-0.1	-8.5	-2.6	-2.6	6.4	2.0	-1.3	4.4	4.4	-6.0
Value	1.1	-6.3	2.4	2.4	17.9	3.3	1.1	9.7	9.7	4.1
Market	-2.1	-7.3	-6.7	-6.7	13.3					
Market - Equal-Weighted	-0.6	-7.6	-1.1	-1.1	10.0					

Notes: **Past performance is no guarantee of future results.** All indices are subsets of the S&P 500 index, they are rebalanced monthly, use data in US dollars and are equal-weighted. Growth includes stocks in the top third based on both their 5-year sales per share trend and their internal growth rate (the product of the 5-year average return on equity and the retention ratio); Low volatility includes stocks in the bottom quintile based on the standard deviation of their daily returns in the previous three months; Price momentum includes stocks in the top quintile based on their performance in the previous 12 months; Quality includes stocks in the top third based on both their return on invested capital and their EBIT to EV ratio (earnings before interest and taxes to enterprise value); Size includes stocks in the bottom quintile based on their market value in US dollars. Value includes stocks in the bottom quintile based on their price to book value ratios. The market represents the S&P 500 index. Source: LSEG Datastream and Invesco Strategy & Insights

Figure 5b – European factor index total returns relative to market (%)

Data as of 27 Mar 2026	Absolute					Relative to Market				
	1w	1m	QTD	YTD	12m	1w	1m	QTD	YTD	12m
Growth	-0.3	-7.5	-5.5	-5.5	1.4	-0.8	1.4	-3.3	-3.3	-6.8
Low volatility	0.7	-8.1	0.8	0.8	6.6	0.1	0.8	3.1	3.1	-2.1
Price momentum	-0.3	-8.2	-0.3	-0.3	24.8	-0.8	0.7	2.0	2.0	14.7
Quality	0.0	-6.6	-0.1	-0.1	16.5	-0.6	2.4	2.1	2.1	7.1
Size	0.3	-10.7	-7.2	-7.2	2.0	-0.3	-2.1	-5.1	-5.1	-6.3
Value	0.8	-11.1	-4.7	-4.7	15.1	0.3	-2.5	-2.5	-2.5	5.8
Market	0.6	-8.8	-2.2	-2.2	8.8					
Market - Equal-Weighted	0.4	-8.7	-3.0	-3.0	8.5					

Notes: **Past performance is no guarantee of future results.** All indices are subsets of the STOXX 600 index, they are rebalanced monthly, use data in euros and are equal-weighted. Growth includes stocks in the top third based on both their 5-year sales per share trend and their internal growth rate (the product of the 5-year average return on equity and the retention ratio); Low volatility includes stocks in the bottom quintile based on the standard deviation of their daily returns in the previous three months; Price momentum includes stocks in the top quintile based on their performance in the previous 12 months; Quality includes stocks in the top third based on both their return on invested capital and their EBIT to EV ratio (earnings before interest and taxes to enterprise value); Size includes stocks in the bottom quintile based on their market value in euros; Value includes stocks in the bottom quintile based on their price to book value ratios. The market represents the STOXX 600 index. Source: LSEG Datastream and Invesco Strategy & Insights

Figure 6 – Model asset allocation

	Neutral	Policy Range		Allocation	Position vs Neutral	Hedged	Currency
Cash Equivalents	**5%**	**0-10%**		**4%**			
Cash	3%			0%			
AAA CLOs	2%			4%			
Bank Loans	**4%**	**0-8%**	↓	**5%**			
US	3%		↓	4%			
Europe	1%		↓	1%			
Bonds	**40%**	**10-70%**	↓	**31%**			
Government	25%	10-40%	↓	18%			
US	8%		↓	5%			
Europe ex-UK (Eurozone)	7%		↓	5%			
UK	1%			2%			
Japan	7%		↓	2%			
Emerging Markets	2%			4%			
China**	0.2%			0%			
India**	0.1%			1%			
Corporate IG	10%	0-20%	↓	8%			
US Dollar	5%		↓	3%			
Euro	2%			1%			
Sterling	1%			2%			
Japanese Yen	1%			0%			
Emerging Markets	1%			2%			
China**	0.1%			0%			
Corporate HY	5%	0-10%		5%			
US Dollar	4%			4%			
Euro	1%			1%			
Equities	**45%**	**25-65%**	↑	**53%**			
US	25%		↑	25%			
Europe ex-UK	7%		↓	9%			
UK	4%		↓	5%			
Japan	4%			7%			
Emerging Markets	5%		↓	7%			
China**	2%		↓	3%			
India**	1%			1%			
Real Estate	**4%**	**0-8%**	↓	**5%**			
US	1%			0%			
Europe ex-UK	1%			2%			
UK	1%			2%			
Japan	1%		↓	1%			
Emerging Markets	1%			0%			
Commodities	**2.0%**	**0-4%**	↓	**2.3%**			
Energy	1.0%		↓	0.0%			
Industrial Metals	0.3%			1.0%			
Precious Metals	0.3%		↑	0.3%			
Agriculture	0.3%			1.0%			
Total	**100%**			**100%**			

Currency Exposure (including effect of hedging)			
USD	51%	↑	45%
EUR	20%	↓	21%
GBP	7%	↓	11%
JPY	14%	↓	10%
EM	9%	↓	13%
Total	**100%**		**100%**

Notes: *This is a theoretical portfolio and is for illustrative purposes only. It does not represent an actual portfolio and is not a recommendation of any investment or trading strategy. **China and India are included in Emerging Markets allocations. Cash is an equally weighted mix of USD, EUR, GBP and JPY. Currency exposure calculations exclude cash. Arrows show direction of change in allocations. India has been added in this edition. See the latest The Big Picture document for more details. See appendices for definitions, methodology and disclaimers. Source: Invesco Strategy & Insights

Figure 7 – Model allocations for global sectors

	Neutral	Invesco	Preferred Region
Energy	**5.3%**	**Overweight**	**US**
Basic Materials	**3.8%**	**Neutral**	**Europe**
Basic Resources	2.7%	Underweight	Europe
Chemicals	1.2%	Overweight	US
Industrials	**12.9%**	**Neutral**	**US**
Construction & Materials	1.7%	Neutral	Europe
Industrial Goods & Services	11.1%	Neutral	US
Consumer Discretionary	**13.6%**	**Underweight**	**Europe**
Automobiles & Parts	2.7%	Underweight	Europe
Media	1.1%	Underweight	Europe
Retailers	5.2%	Neutral	US
Travel & Leisure	1.8%	Overweight	EM
Consumer Products & Services	2.8%	Underweight	Europe
Consumer Staples	**4.4%**	**Neutral**	**US**
Food, Beverage & Tobacco	2.8%	Neutral	US
Personal Care, Drug & Grocery Stores	1.6%	Overweight	Europe
Healthcare	**8.0%**	**Neutral** ↓	**US**
Financials	**16.7%**	**Overweight** ↑	**US**
Banks	8.4%	Overweight	US
Financial Services	5.3%	Overweight ↑	Japan
Insurance	3.0%	Neutral	US
Real Estate	**2.5%**	**Overweight**	**Japan**
Technology	**26.3%**	**Underweight**	**US**
Telecommunications	**3.4%**	**Underweight**	**US**
Utilities	**3.2%**	**Neutral**	**Europe**

Notes: These are theoretical allocations which are for illustrative purposes only. They do not represent an actual portfolio and are not a recommendation of any investment or trading strategy. See the latest Strategic Sector Selector for more details.
Source: LSEG Datastream and Invesco Strategy & Insights

Appendix

Methodology for asset allocation and expected returns

Which asset classes?

We look for investibility, size and liquidity. We have chosen to include equities, bonds (government, corporate investment grade and corporate high yield), bank loans, REITs to represent real estate, commodities and cash (all across a range of geographies). We use cross-asset correlations to determine which decisions are the most important.

Neutral allocations and policy ranges

We use market capitalisation in USD for major benchmark indices to calculate neutral allocations. For commodities, we use industry estimates for total ETP market cap + assets under management in hedge funds + direct investments. We use an arbitrary 5% for the combination of cash and AAA CLOs. We impose diversification by using policy ranges for each asset category (the range is usually symmetric around neutral).

Currency hedging

We adopt a cautious approach when it comes to currency hedging as currency movements are notoriously difficult to accurately predict and sometimes hedging can be costly. Also, some of our asset allocation choices are based on currency forecasts. We use an amalgam of central bank rate forecasts, policy expectations and real exchange rates relative to their historical averages to predict the direction and amplitude of currency moves.

Definitions of and data sources used for asset returns in the analysis of correlations between US assets and core CPI inflation (Figure 2)

All data is sourced from LSEG Datastream and Global Financial Data, unless stated otherwise

All asset returns are CPI-adjusted (using headline CPI) and are in total return format, unless stated otherwise: “Cash” is the 3mth US T-bill total return calculated by Global Financial Data (GFD) until Dec 2018 and then the ICE BofA 0-3mth treasury total return index; “Gold” is the London bullion market spot price in USD/troy ounce (from GFD and LSEG Datastream); “CTY” is the Reuters CRB Total Return Index until November 1969 and then the Standard & Poor’s Goldman Sachs Commodity Index (S&P GSCI) from Dec 1969; “Govt” is an Invesco calculated total return index based on 10 year treasury yield (provided by Robert Shiller and LSEG Datastream) until Jan 1978 and is based on ICE BofA US treasury index thereafter; “IG” is based on GFD’s AAA Total Return index until Feb 1976 and then the ICE BofA US Corporate Index; “HY” is based on the ICE BofA US High Yield index; “REITS” is based on the GPR General US total return index; “S&P500/Govt” is based on the ratio between the S&P 500 and Govt total return indices, as defined above.

Definitions of data and benchmarks for Figure 3

Sources: we source data from LSEG Datastream unless otherwise indicated.

Cash: returns are based on a proprietary index calculated using the Intercontinental Exchange Benchmark Administration overnight LIBOR (London Interbank Offer Rate). From 1st January 2022, we use the euro short term rate, the UK Sterling Overnight Index Average (SONIA), the US Secured Overnight Financing Rate (SOFR) and the uncollateralised overnight rate for the Japanese yen. The global rate is the average of the euro, British pound, US dollar and Japanese yen rates. The series started on 1 January 2001 with a value of 100.

Gold: London bullion market spot price in USD/troy ounce.

Government bonds: Current levels, yields and total returns use Datastream benchmark 10-year yields for the US, Eurozone, Japan and the UK, and the ICE BofA government bond total return index for the World and Europe. The emerging markets yields and returns are based on the JP Morgan Global Emerging Markets Government Bond Index.

Corporate investment grade (IG) bonds: ICE BofA investment grade corporate bond total return indices, except for in emerging markets where we use the JP Morgan Corporate Emerging Market Broad Bond Index.

Corporate high yield (HY) bonds: ICE BofA high yield total return indices

Equities: We use MSCI benchmark gross total return indices for all regions.

Commodities: Goldman Sachs Commodity total return indices

Real estate: FTSE EPRA/NAREIT total return indices

Currencies: Global Trade Information Services spot rates

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

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