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Investments - Flash

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A NEW INFLATION REGIME IS ESTABLISHING

When five points are enough to constitute a trend

The inflation regime that initially took hold during the first six months of the year had largely worried investors to the point of causing the largest correlated declines in the financial markets of any asset class. A six-month average inflation regime of +0.87% (CPI) in the US echoed similar trends in Europe, the UK and to a much lesser extent Switzerland.

Globally, the fear of an inflationary spiral projecting these monthly results over the next twelve months was also causing a major reaction on the yield curves as central banks announced their commitment to fight against these possible developments.

We already mentioned in July that this inflation regime should not be considered as a precursor of a trend, but rather as a transitional phase preceding a new significantly different regime, that is already visible in the second half of the year.

The first statistics in July and August had sparked the beginnings of enthusiasm, which was quickly reframed in September by the Fed. However, this new regime was strengthened in September and October before perhaps finally finding a clearer recognition today with the publication of the US CPI at +0.1% and +0.2% excluding food and energy.

If five points are enough to constitute a trend, then average inflation of +0.2% (CPI) perhaps suggests a YoY target of +2.4% by June 2023. In this eventuality, the Fed's key rate target of 5% in June 2023 will very soon seem totally inappropriate. Inflation will no longer be the determining anxiety factor for financial assets in a few months.