



Is Inflation Peaking?

My last commentary piece in late November entitled 'Jerome Powell Should Be Sacked' engendered some interesting feedback. Suffice to say, not everyone agreed with me. I welcome the to and fro and am glad there can be an open debate on such matters. My point was a simple one though; Powell has ignored the evidence of mounting inflation and decided not to act, even though maintaining 'stable prices' is one of the two tenets of his mandate. Not to mention, of course, the continued QE that is still in place despite the economy and inflation growing at rates not seen for decades.

But since that piece was published, Powell has admitted that inflation has taken hold by saying that it is time to retire the word 'transitory'. I wrote about why it was folly to call inflation transitory back in [June](#), but the interesting nuance of his calling an end to 'transitory inflation' is that now he sees inflation clearly I believe that it is peaking, in rate of change terms at the very least.

The key reason that inflation is likely peaking is that in 2022 we are set to compare against 2021, which are some very tough comparisons. Commodity prices, while still broadly quite strong have started to come down recently in key assets, like Oil, and this is the most significant commodity input of the inflation basket. Any further strength in the dollar will exacerbate this. Supply chain bottle necks are finally beginning to ease which will bring down freight costs and bring about the normalisation of the global economy. The acceleration of the taper and the prospect of rate rises, which have been well telegraphed by the rampant 2-year bond yield, will further temper inflation expectations.

There are some areas where price inflation continues unabated, key among them being housing. We have been adding exposures in this area as the 10-year bond yield is likely to fall as inflation peaks, which helps those buying mortgages. Rent and wages are likely to remain elevated for some time, and this does mean that inflation is likely to be stickier and higher for longer. However, the stock market cares more about rate of change than it does for absolute levels. If we are indeed at peak rate of change, and therefore peak expectations, this is a key moment for asset prices.

In conclusion, this is good news for investors and consumers alike. The de-bottle necking of the global supply chain spurs growth (as inflation peaks), thus providing a very positive backdrop for equities.

Felix Wintle, Fund Manager, VT Tyndall North American Fund, 17th December 2021

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Contact Details:

Fund Manager – fwintle@tyndallim.co.uk

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Investment Manager: 5-8 The Sanctuary, London, SW1P 3JP.