Inflationary trends

A higher US CPI print is indicative of lurking inflationary trends...

Update
11 April 2024

Several years ago, my former employer tasked me with writing up a short piece on 1970s inflation. One of the few things I 'knew' about the topic was that the primary cause of inflation during the period was the Yom Kippur War and the subsequent Arab oil embargo.

But when reading through various pieces of research on the topic, the sense you got was that economists could not agree on why it had happened at all. Of course, economists not agreeing on a given subject isn't likely to be news to anyone. What struck me though was the sense that, if we cannot agree on what the prior cause of inflation was post fact, it must have been tremendously difficult to predict when it would end in the midst of it.

Moving on a few decades to the present day, much of 2023 felt as though investors had forecast an end to inflation and rate cuts as the base case scenario. The higher than expected inflation print in the US this week was a sign that this may not end up being the reality. There are also lots of inflationary trends which remain at play.

Take labour disputes as an example. In the UK, many public sector workers – of whom there are over 6m – are demanding wage increases that are far in excess of the rate of inflation. Strike action in the private sector, according to ONS data, meant the number of lost work days was at its highest level, by far, in the last three decades.

Regardless of what you think of this, it is hard to ignore the inflationary implications. The 'problem' also appears to be getting worse. The main reason for that is the shortage of labour we are seeing across developed markets.

In the UK the unemployment rate is at its lowest level since the 1970s. Over in the US, the labour market is similarly tight and there is a shortage across various industries, including retail services and construction. Workers are thus in a much better position to strike and employers are not in a strong position to ignore their demands.

Finally there is the risk that Russell Napier, chairman of **Witan Investment Trust (WTAN)** has highlighted repeatedly, namely that governments may be incentivised to let inflation run, in order to deflate the value of the huge debts they have accumulated.

Analysts:

David Kimberley
david.k@keplerpartners.com

Ruffer Investment Company (RICA) is another trust where the managers have argued there are more risks in markets than others may be seeing. Manager Duncan MacInnes has argued that inflation is going to be more volatile in the years ahead, with periods of very low and high inflation prints, as opposed to them being at one continuously elevated level.

Whether that's correct remains to be seen. But the US inflation print this week was a reminder that, although we may ultimately not end up living through a period like the 1970s again, risks remain and investors should be cognisant of them.

Disclaimer

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.