



A new era of inflation surprises

Inflation could continue to surprise positively in the next 5yrs

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Are markets complacent about the medium-term inflation outlook?

Inflation appears to have peaked for now, and both markets and economists expect it to decline back towards 2% and remain there. Is that a realistic forecast? Further declines look likely in the short term. But the medium-term outlook looks more difficult.

The global economy could be looking at more frequent inflation shocks

We see three potential sources of inflation. First, climate change and US-China tensions could subject the global economy to repeated supply shocks. Second, central banks might face sharper policy trade-offs. And third, inflation targets could get raised.

Higher inflation & inflation volatility could raise risk premiums

Increased volatility in inflation is likely to be a central feature of this new regime, with inflation potentially averaging 2½-3%. This could get reflected in higher breakeven inflation rates, and continued instability in the correlation between equities and bonds.

RELATED RESEARCH:

[‘A New Era of Climate Inflation’](#), Macro ESG, 19th May 2023

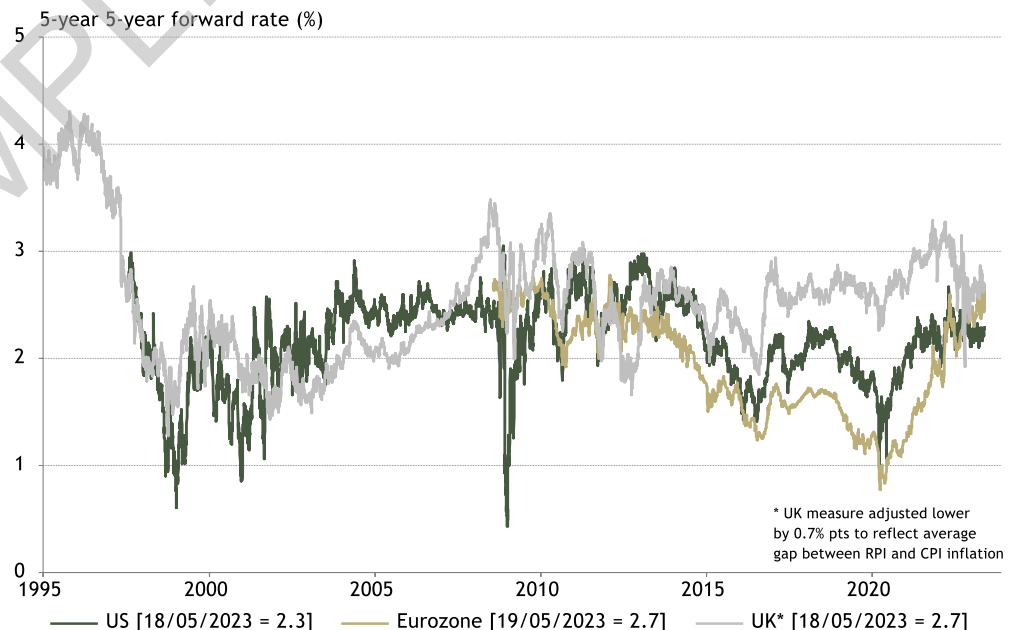
[‘The New Cold War’](#), Economics Weekly, 28th March 2023

[‘What have we learnt about inflation?’](#), Economics Weekly, 2nd May 2023

[‘Central bankers - seeing stars’](#), Economics Weekly, 25th October 2022

[‘Covid-19 threatens the inflation regime’](#), Economics Weekly, 11th August 2020

Key chart: Breakeven rates suggest inflation will remain close to target



Source: ASR Ltd. / Refinitiv Datastream