

Inflation and Growth 2022 and beyond.

In the immediate months following the COVID shock in 2Q 2020, Fed and market had expected inflation to be transitory, basically rising from 2% to 4% and fading back to 2%. This proved to be wrong. I had expected a peak of 6-8% fading to 3-4%. From June 2020, we shorted treasuries to hedge all of our duration in our fixed income portfolios, sometimes running net short positions.

I was wrong. I now think inflation will peak early 2023 at 10-12% before fading to 4-6%.

I do not expect a recession but i do expect consumption to weaken. Growth will be supported by investment.

Reorganization of supply chains to make them more robust against accidents, geopolitical events, mercantilist policy, and greener will increase capital expenditure and investment. Increased defence spending will also boost income and output.

The boost to income and output will not be balanced. Income will rise but output will not be available for conventional public consumption. This will cause an oversupply of money for the consumer economy encouraging inflation.

The less efficient and greener supply chains will add to costs and even as they fade, will persist long enough to change inflation expectations. Time is as important as levels.

So, I expect higher inflation but not recession although the nature of growth will change

