

HOW WILL INFLATION IMPACT 2022?

We all need to accept that inflation will be a part of our lives in 2022, but what is it, what does it mean and how long will it last?

Let's find out.

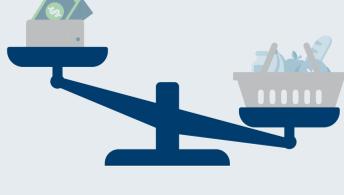


What is inflation?

Inflation is the general increase in prices and therefore the cost of living. It is a measure of how much more expensive a set of goods and services has become.

How is it measured?

It's measured via the increase of an average price level of a basket of selected goods, such as milk, coffee, furniture, toys, and haircuts.



Inflation is measured differently in Europe and the US:

Europe

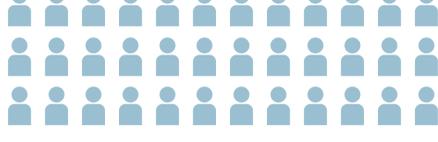
Includes rural and urban consumers



Cost of housing constitutes around **6%** of basket allocation

US

Focuses solely on urban consumers



Cost of housing represents over **36%** of basket allocation

What indices are used to calculate inflation?

European Union

Harmonized Index Consumer Prices (HICP)

US Federal Reserve

Personal Consumption Expenditure (PCE)

Bank of England/Bank of Japan/Norges Bank

Consumer Price Index (CPI)

Sweden's Riksbank

CPI with fixed interest rate (CPIF)

Economic indicators soaring

US Consumer Price Index (CPI) has soared to an all-time high of

287.71

UK inflation has hit a 30-year high of

5.5%

Eurozone inflation has reached an all-time high of

7.5%

How is it impacting markets?



Central banks usually try to curb inflation by raising interest rates



Interest rates have long been exceptionally low, even going negative in Europe



This means interest rates could continue to rise for a longer time

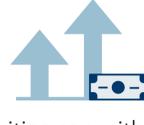
What does this mean for investors?



Bonds rise in value when rates fall and fall in value when rates rise



Rising interest rates drive both bond and equity prices



Equities can withstand moderate inflation

How to protect your portfolio from inflation



Short duration bonds and floating rate notes are less affected by higher rates, sometimes they are even positively affected

Emerging bond markets and high yield bonds aren't affected either

Take advantage of private and real assets, such as leveraged loans and forestry



Bullish sectors in '22

- Banking
- Real estate
- Energy
- Infrastructure



Bearish sectors in '22

- Growth
- Non-profitable technology stocks

Evli's forecast

Price pressures should peak by the end of 2022



Logistical bottlenecks will subside



Energy prices will drop



Markets don't expect inflation to last long term

