

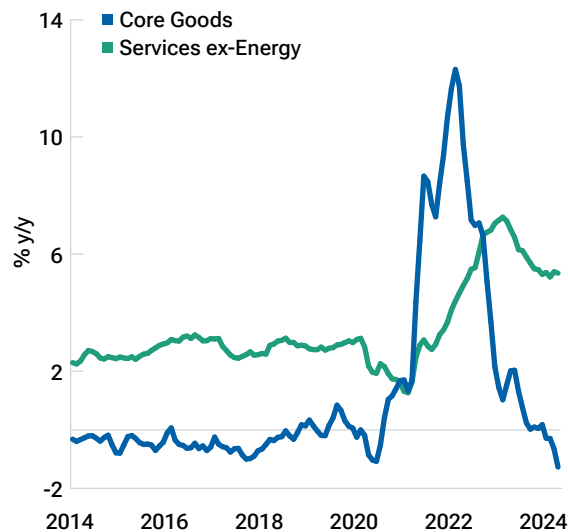
Reaccelerating inflation to make central banks walk tightrope



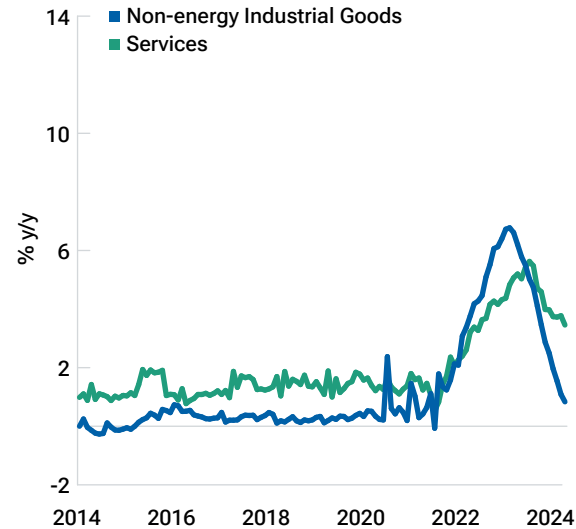
Developed market services inflation is proving sticky

(Fig. 4) Goods inflation is falling much faster

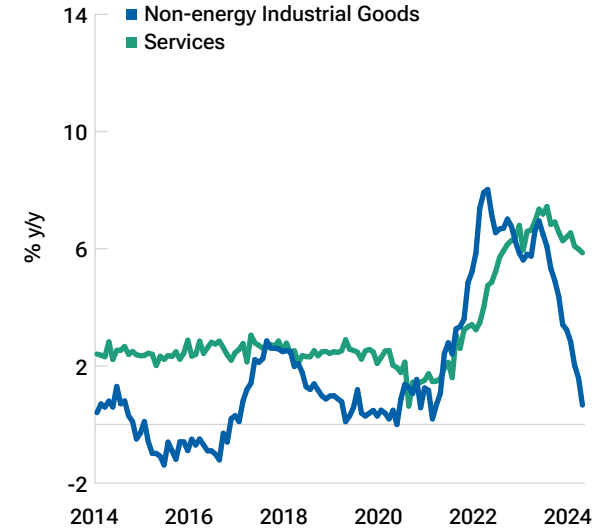
U.S.



Eurozone



UK



As of April 30, 2024.

y/y=year-over-year.

Source: U.S. Bureau of Labor Statistics, EU Statistical Office of European Communities, UK Office for National Statistics/Haver Analytics.

Inflation is notoriously difficult to predict, and it has continued to baffle most forecasters since the onset of the pandemic in 2020. However, it's becoming clear that inflation isn't going away, and we see a meaningful risk that it will reaccelerate as U.S. exceptionalism moderates and global growth broadens.

Several factors drive risk of reaccelerating inflation

The big decrease in global inflation from 2022 to 2023 was due to goods disinflation, which is the easy part of taming inflation. Now services inflation, which is sticky, needs to fall. But for this to happen, the labor market

must have space to adjust—wage pressures drive services inflation, and higher unemployment is required to control wage pressures. Artificial intelligence (AI) is one countervailing force that could help tame services sector wage growth, but AI will take time (and expense) to implement, making it a longer-term factor.

Fiscal spending in an election year will also put upward pressure on inflation, and energy prices—which have been a headline inflation tailwind since surging in 2022 following Russia's invasion of Ukraine—are a wild card that could easily spike again if conflict in the Middle East escalates or other geopolitical hot spots erupt.

These factors would, of course, make central banks' difficult balancing act between supporting growth and restraining inflation that much harder.

Because we see renewed upward pressure on inflation, investors may benefit from exposure to real assets such as commodities—including gold and silver—and real estate or to inflation protected government bonds. Real assets tend to hold up well in inflationary environments, while inflation-protected government debt has principal and interest payments that adjust based on inflation data.

Key takeaway

The big decrease in global inflation from 2022 to 2023 was due to goods disinflation, which is the easy part of taming inflation. Now services inflation, which is sticky, needs to fall.



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