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WHEN INFLATION BITES

TODAY'S SUPPLY SHOCKS ARE CHANGING THE GAME

Supply shocks may no longer be a temporary disruption. As they become more frequent and entrenched, the risk of second-round effects, where higher costs spill over into broader inflation, is rising. Central banks may need to respond differently.

TWO MAIN SOURCES OF INFLATION

Demand-Driven

- Resilient consumer spending
- Expansionary fiscal policy
- Accommodative monetary policy
- Strong business spending

VS

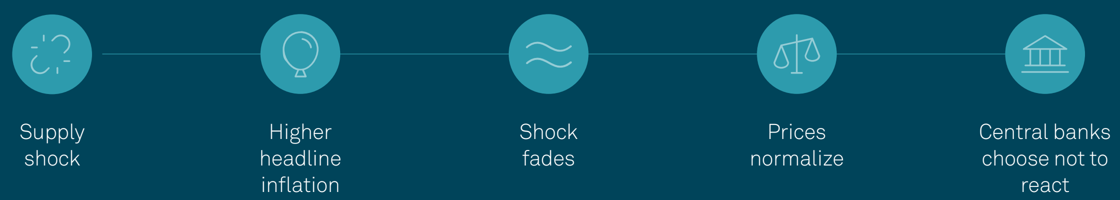
Supply-Driven

- Tariffs
- Energy shocks
- Supply chain bottlenecks
- Negative productivity shocks

THE SOURCE OF INFLATION MATTERS

Past

Supply shocks impacted headline inflation and faded over time. Core inflation was largely unaffected.



Present

Supply shocks appear to be broadening into core inflation. Anchored inflation expectations — a key condition for central banks not to react ("look through") — are showing signs of fragility.

WHY IT MATTERS

Typically, strong demand and higher prices call for tighter monetary policy, while weaker demand and higher prices suggest a "look through" approach. Since global economies face varying growth backdrops, central bank policy responses will differ, resulting in diverging interest rate paths that may favor a more globally diversified fixed income allocation.

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