

# Thoughts on Inflation Expectations November 2021

**Firm AUM/AUA**  
\$2.1+ billion

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**About the Manager**

Main Management, LLC is an SEC-registered investment advisor established in 2002. The firm takes an investor-centric approach to all that it does, with a focus on generating strong post-fee, post-tax results. By implementing its strategies with ETFs, Main Management provides portfolio solutions that are diversified, liquid and transparent. The firm’s time-tested investment process is applied consistently and implemented by a seasoned Investment Committee that has been intact since the firm’s inception. Main Management specializes in serving high net worth individuals and institutional investors. In addition, the partners maintain significant investments in the firm’s investment strategies.

**Framing Inflation Expectations**

- 1) Post recessions 10 Year US Treasury bonds typically rallies 100bp. Today we are 150bp for the 10 Year US Treasury, or +100bp from low. In line with expectations.
- 2) 5-year US Treasury bonds Break Evens are 2.9%, which is also very typical post-recession move, but there is an inversion with 10-year Break Even at 2.5%, and this inversion last happened in 7/2008, but wasn’t this wide. (See Figure 1) The market is implying near term inflation (possibly based on infrastructure bill passing or perhaps Fed raising rates faster and sooner), but less long-term inflation.

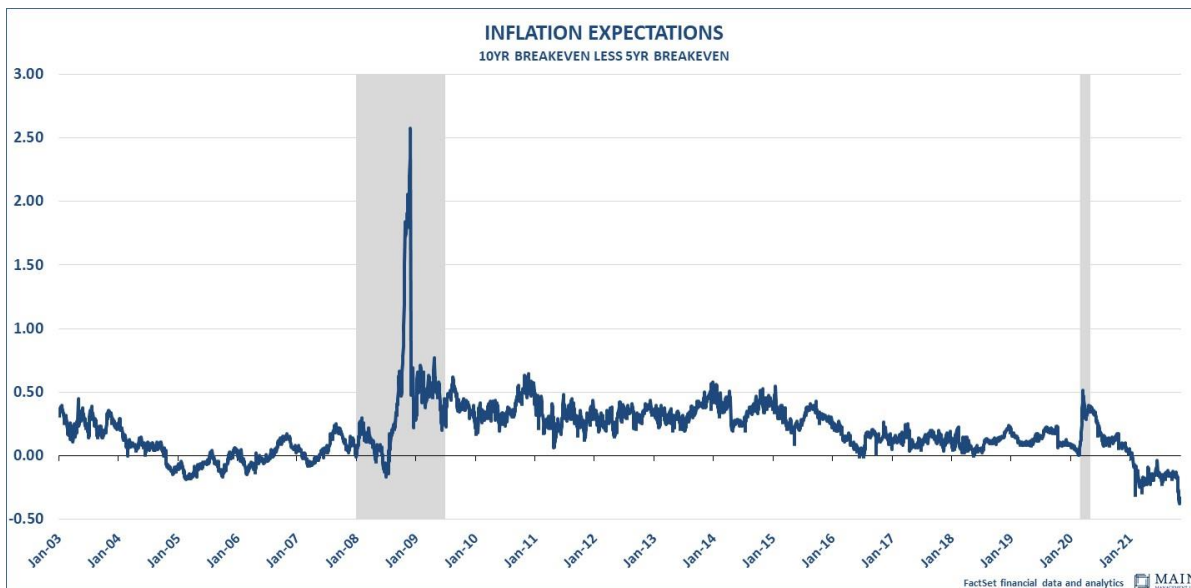


Figure 1. Inflation Expectations.

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## Thoughts on Inflation Expectations

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- Commodity inflation appears real and fast: CRB Index up 60% since election day, and oil is +115% during that time. (See Figure 2)

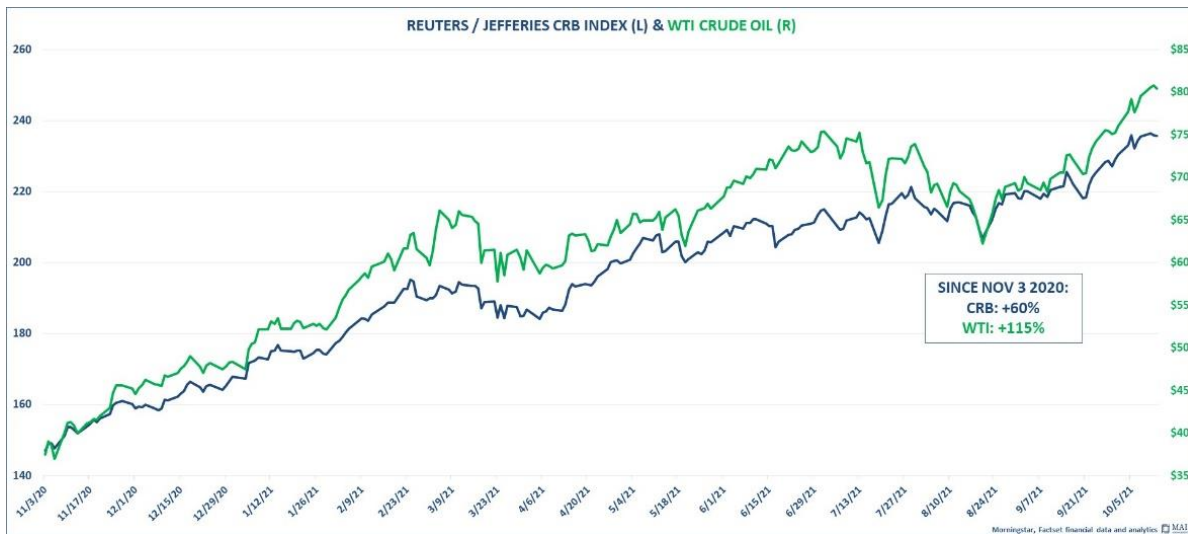


Figure 2. Commodity Research Bureau Index and Crude Oil Comparison.

- Wages, according to Goldman Sachs are 13% of S&P500 revenues, making it harder for systemic inflation to “grab hold.”
- 4 Inflation headwinds: Technology/Productivity/Demographics (global rate of growth is ½ of what it was in late ‘70’s)/Debt (large stock of debt means a lot of people debt buckets are full, think Japan who loaded debt on debt, and hasn’t seen inflation in 3 decades) = tougher, though not impossible, for real raging inflation.
- In general, over the past 20 years, inflation appears to have consistently been ‘over-estimated’ when comparing forecasts/expectations with what actually transpired.

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- 7) 10-year US Treasury minus Fed Funds Rate = currently 140bp vs 300-400bp peak ranges over the past 20 years. (See Figure 3) These peak ranges are what one is looking to hedge against.

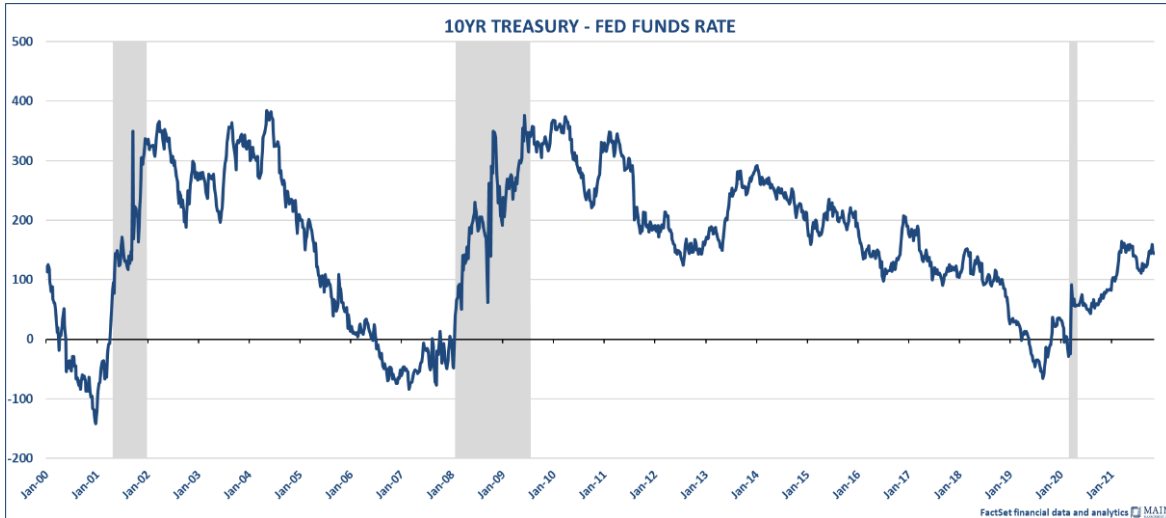
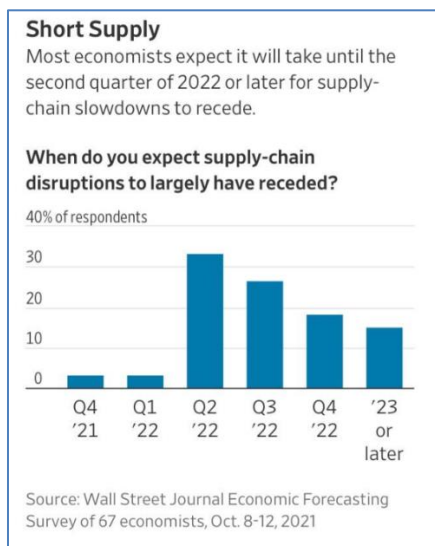


Figure 3. 10-Year Treasury Minus Fed Funds Rate.

### Is inflation going to stick around?

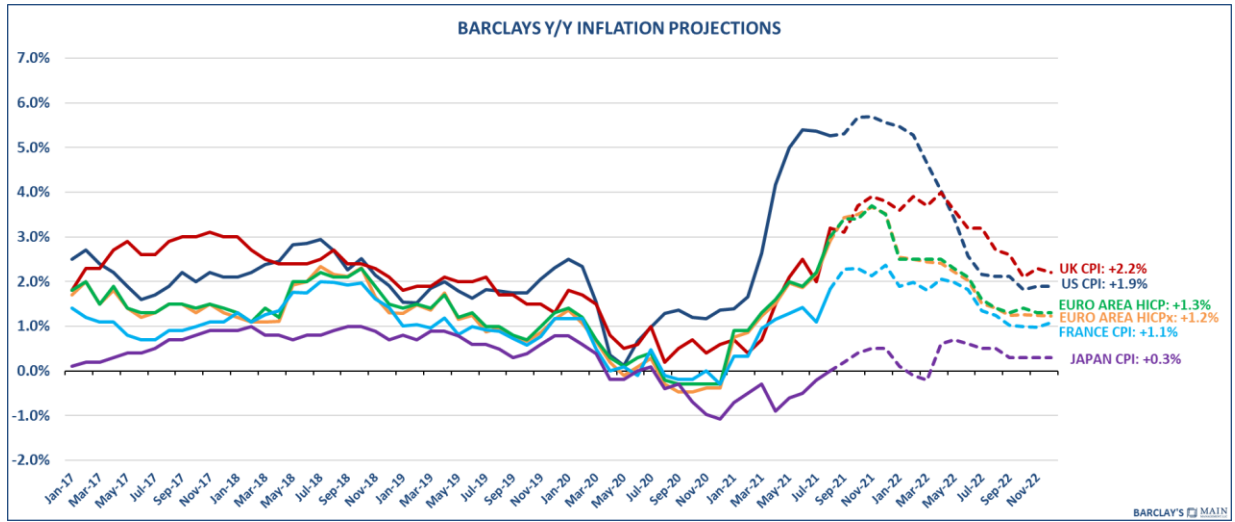
- 1) Inflation as measured by CPI should follow the below chart lower during 2022 as supply chain issues are expected to ease.



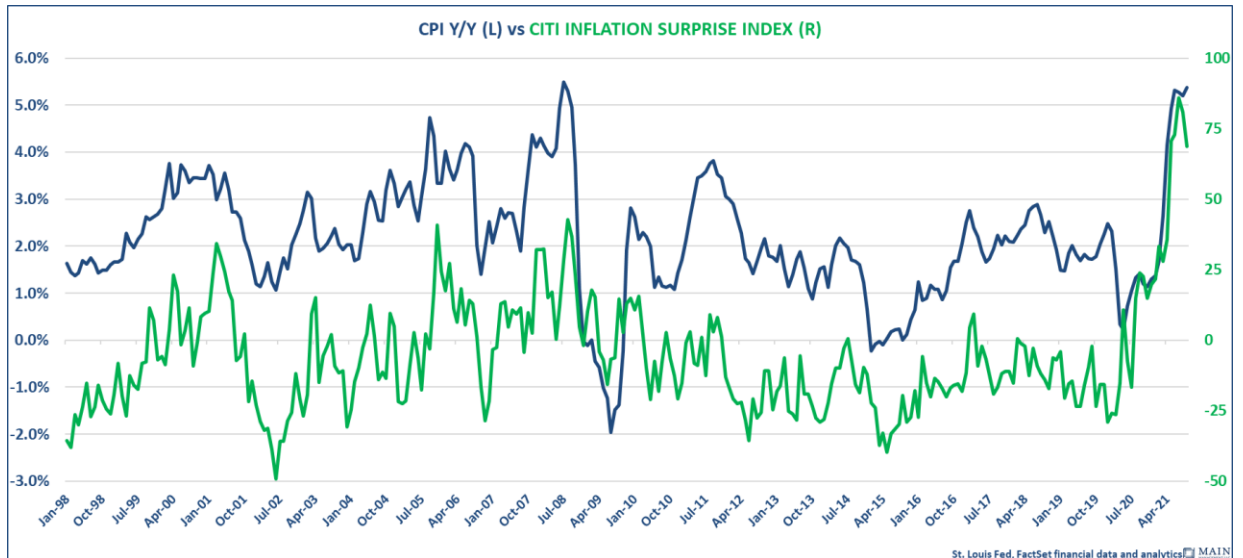
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- 2) West Texas Intermediate oil prices are up 115% since election day. It's unlikely they will be up another 115% over the coming year, which would put oil at roughly \$215.
- 3) Barclays' Inflation projections:



- 4) The Citi Inflation Surprise Index may have already started to roll over...



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One risk is that demand is currently greater than supply, which in many cases is actually already back above pre-covid levels. If this dynamic persists, inflation could stick around longer than anticipated.