

# Rising Global Inflation and the Specter of Stagflation

---

## EXECUTIVE SUMMARY

### Global Economy and Inflation

According to the World Bank, global real GDP fell 3.6% year-on-year (yoy) in 2020 amidst the COVID-19 pandemic. Although it is a better outcome than the 5.5-6.0% decline predicted in mid-2020, it is still the worst performance since 1946. The economy in Western Europe, Latin America, India, the Middle East, and North Africa were hit particularly hard by the pandemic-induced lockdowns and slumping exports. Nonetheless, China, Taiwan, Vietnam, Egypt, Ireland, Turkey and others managed to register growth in 2020.

With global economic recovering, several markets such as electronics and automobile had been experiencing robust demand before the emergence of semiconductor shortages. However, the **consumption-driven recovery is colliding with supply constraints caused by the public health crisis, consequently driving up prices**. Hence, inflationary pressure is mounting.

**China's Consumer Price Index (CPI)**, a gauge of inflation, jumped to 1.3% yoy in May 2021, the highest level since September 2020, before **coming down gradually to an 0.8% yoy increase in August 2021** because of the decline in food prices, especially pork. Indeed, these CPI readings are lower than the 2-5% range saw in the pre-pandemic period. With the inflationary pressure eases and to spur economic growth on the heels of the regulatory crackdown of a number of markets, including the internet, property, ride hailing and tutoring, it is expected that China will cut the reserve requirement ratio ("RRR") again after the 50-basis point cut in July 2021 and even the loan prime rates. Nonetheless, the recent energy shortages witnessed in parts of China would likely add fuel to inflation, deterring any rate cut.

U.S. CPI showed the similar pattern, recording 5.4% yoy increase in June 2021, the largest yoy growth since August 2008. Then it dipped to 5.3% yoy growth in August 2021. Meanwhile, the **Personal Consumption Expenditures Price Index<sup>1</sup> (PCE Price Index)**, the yardstick that the Fed uses to measure inflation instead of CPI, has been on an uptrend, **growing 4.3% yoy in August 2021**. The core PCE Price Index, which excludes food and energy, followed virtually the same trajectory and rose 3.6% yoy in August 2021. These readings are **far too high relative to the Fed's target of averaging 2% over the longer term** (allowing it to moderately above 2% for some time). Hence, several regional Presidents of the Fed have made public comment that they are **in favor of beginning tapering** (the gradual slowing down of Fed's pace of purchasing bonds of at least US\$120 billion monthly) **this year**, as the economy has made substantial further progress in revitalizing the labor market and reviving inflation.

On the other hand, **CPI in U.K. surged by 3.2% in the 12 months to August 2021** versus a jump of 2% in July 2021 on an annual basis. The data is also above Bank of England's target of 2%, adding weight to the argument that the government should end the stimulus policies adopted owing to the COVID-19 crisis. Moreover, **Eurozone's September CPI increased at its fastest pace yoy since late 2008**.

---

<sup>1</sup> PCE Price Index encompasses a broader range of goods and services than the CPI and from a broader range of buyers. PCE Price Index tries to track what is actually purchased, and represents how consumers change their buying patterns when relative prices change. In contrast, CPI represents a basket of goods and services that a consumer would buy without making substitution changes due to price changes. This leads to smoother price changes in the PCE and typically lower levels of reported inflation, at least as experienced by consumers

## IMPORTANT DISCLOSURES

---

Cedrus Investments Ltd. (“Cedrus”) does and seeks to do business with companies covered in research reports distributed by Cedrus. Investors should consider this report as only a single factor in making their investment decision.

For additional information, please send an e-mail to [information@cedrusinvestments.com](mailto:information@cedrusinvestments.com)

For private circulation only. This report is prepared by Cedrus and is for informational purposes only and is not intended to be, nor should it be construed to be, an advertisement or an offer or a solicitation of an offer to buy or sell any securities. The information herein, or upon which opinions have been based, has been obtained from sources believed to be reliable, but no representations, express or implied, or guarantees, can be made as to their accuracy, timeliness or completeness. The information and opinions in this report are current as of the date of the report. We do not endeavor to update any changes to the information and opinions in this report. Unless otherwise stated, all views expressed herein (including estimates or forecasts) are solely those of our research department and subject to change without notice.

The information provided in this research report is not provided to and may not be used by any person or entity in any jurisdiction where the provision or use thereof would be contrary to applicable laws, rules or regulations of any governmental authority or regulatory or self-regulatory organization or clearing organization or where Cedrus is not authorized to provide such information.

This report does not take into account the specific investment objectives, financial situation, and the particular needs of any specific company that may receive it. Before acting on any information in this report, readers should consider whether it is suitable for their own particular circumstances and obtain professional advice related to their own investment needs and objectives. The value of securities mentioned in this report and income from them may go up or down, and investors may realize losses on any investments. Past performance is not a guide to future performance. Future terms are not guaranteed, and a loss of original capital may occur.

Neither the analysts responsible for this report nor any related household members are officers, directors, or advisory board members of any covered company. No one at a covered company is on the Board of Directors of Cedrus or its affiliates. The compensation for the analysts who prepare reports is determined exclusively by senior management. Analyst compensation is not based on investment banking revenues; however, compensation may relate to the revenues of Cedrus as a whole, of which investment banking, sales and trading are a part.

Cedrus does engage in investment banking. Cedrus does trade securities on a principal basis; however, Cedrus’ research analysts are prohibited from owning securities they cover through Research Reports.

---

**Copyright 2021 Cedrus Investments Ltd. All rights reserved. Any unauthorized use or disclosure prohibited.**