# Inflation and investment portfolio implications

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**Investors confront new era of rising inflation**

Surging inflation around the world is driving a new era of monetary policy and threatening portfolio returns.

"The biggest question that I'm asked by all my clients at the moment is how they can manage their portfolios through resurgent inflation," said Frontier Advisors Senior Consultant, Claire Casucci at the Frontier annual conference.

Central banks had already begun raising rates to combat inflation and in the weeks following the conference the Federal Reserve hiked interest rates by 75 basis points – its largest rate hike since 1994.

Frontier Advisors Principal Consultant, Phil Naylor, said short-term inflation drivers such as monetary policy and supply chain disruptions were different than long-term drivers such as climate change, which posed difficult questions.

"How do you build portfolios that are resilient to different periods of inflation, and how do you do that in a way that is also potentially decarbonising, keeping up with peers and the regulator as well?"

He said the 1970s was one of the few other periods of rising inflation meaning investors needed humility when trying to forecast the future. While diversification is common advice, investors should consider how it can be applied across all levels such region and sub-asset class.

"We have already done a lot of heavy lifting: portfolios are much more diversified than just a static 70:30 portfolio."

Pendal's Head of Income Strategies, Amy Xie Patrick, said central banks had left it late to start their hiking cycle when growth was already slowing down.

"So the key narrative that has been causing the biggest pain in the market is stagflation," she said.

However, markets still believed central banks would do whatever it takes to tame inflation.

"The key difference between now and the 1970s and stagflation, when central banks in theory were supposed to control monetary policy to target inflation – inflation targets weren't explicit back then and you couldn't necessarily count on when the central banks would come in to start doing something."

e16 institute Program Director, Dan Andrews, said central banks did the right thing in the wake of the pandemic but had inadvertently sparked inflation.

"It creates an opportunity for the political class to have a meaningful conversation in public about how to improve productivity growth because otherwise the issue is only going to get worse."