# Benefits of multi asset investing in times of inflation

**An active multi asset approach offers investors the flexibility to adjust to changing inflation dynamics and generate positive real returns**

Inflation is one of today's top concerns for investors globally. There is a lot of debate: is it transitory/cyclical, or is it more structural? I don't think we can say for sure yet. One thing is certain though – inflation is likely to be more volatile than it has been in recent memory. For financial markets, that means a less stable real rate, and a less stable bond market in general. That in turn will lead to a more volatile cost of capital, which will impact equities. For asset managers, there is ever more need to be agile and flexible.

An active and unconstrained multi asset approach gives you the tool kit to respond to the changing environment and the potential to still deliver positive real returns – which will become more elusive for more passive portfolios in a world of financial repression.

How does that work in practice? It's not as simple as making one set of investments and then sitting it out until inflation calms again. Negative real bond yields coupled with an unstable correlation between bonds and equities will likely keep markets volatile, and investors will need to respond.

While we've been concerned about inflation for at least the past 12 months, our allocation has shifted significantly over that time. Last year's theme was rising inflation expectations, so we focused on commodities, real assets, inflation-linked bonds, and more value-orientated equities, including some exposure to the economic cycle.

Today, it is clear that global central banks have finally decided to act in a bid to limit the price rises before their credibility is more seriously questioned. Whether they succeed or not, that creates a very different environment to one where authorities are sitting on the side-lines at best or continuing to stimulate growth at worst, as was the case for much of 2021.

Real yields are now rising in response to central bank tightening and inflation-linked bonds no longer offer the benefits they did a few months ago – and often come with the disadvantage of a longer duration.

So, we have moved away from inflation-linked bonds and cut duration overall. We've also become more conscious about the risk to economic growth – not only from monetary tightening but also from higher prices damaging consumer demand.

If central banks are telling the world that inflation is now the centre of their attention, one can only conjecture that less economic growth is the price they are prepared to pay. We therefore prefer to be slightly less cyclical – avoiding the more expensive growth stocks and shifting more towards a value bias in our portfolio. Where we have equity exposure, we prefer to focus on those companies that have excess cashflow available to shareholders.

**Beware of growth**

For 14 years – up until 2021 – growth had outperformed value as an equity style. This has inevitably led to a skew in global stock market indices and therefore is where many passive, index-tracking investors may be wrong-footed.

In a volatile inflation world, where central bank actions raise question marks over the strength of economic expansion and the cost of capital, there will likely be increasing periods when value outperforms growth. We have already seen this over the past twelve months. Having the flexibility to shift between the two styles will be particularly helpful.

Away from the traditional bond/equities/cash type asset allocation, today a global multi asset manager has a lot more scope to add value – given the right freedom and flexibility. But that means being prepared to make meaningful changes in asset allocation. Our allocation to equities, for example, has ranged roughly from 15 to 75 per cent over the past five years. And we're also experienced in looking far and wide for opportunities. So, while the past year has generally been very tough for fixed income markets, our returns were propped up by an allocation to Japanese inflation-linked bonds. These mispriced inflation at the outset and their prices have thus risen over the past 12 months.

The volatile inflation backdrop will provide even more tactical asset allocation opportunities. We believe our unconstrained multi asset portfolio has the flexibility and the experience to make the most of them in order to maximise risk-adjusted returns for our investors.

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