

Beating the Inflation

Opportunities in Fixed Income Markets

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To MSCF Students

Structure of Analysis

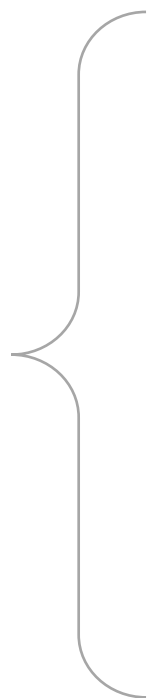
From Challenge to Opportunities

Challenge

Consequence

Opportunities

Inflation



Higher Interest Rates



IG bonds with short duration

Lower Expenditure



Defensive Sectors

Increasing Housing Price



Securitized Products

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Key Variable: Inflation

CPI Rose 7.9 Percent From Feb 2021 to Feb 2022

Figure: 12-month percentage change, Consumer Price Index, All Items



Source: Bureau of Labor Statistics, U.S. Department of Labor

Fed Raises Interest Rates for First Time Since 2018

More to Come This Year to Combat Inflation



Consequences

- Tight financial condition
- Increasing default risk

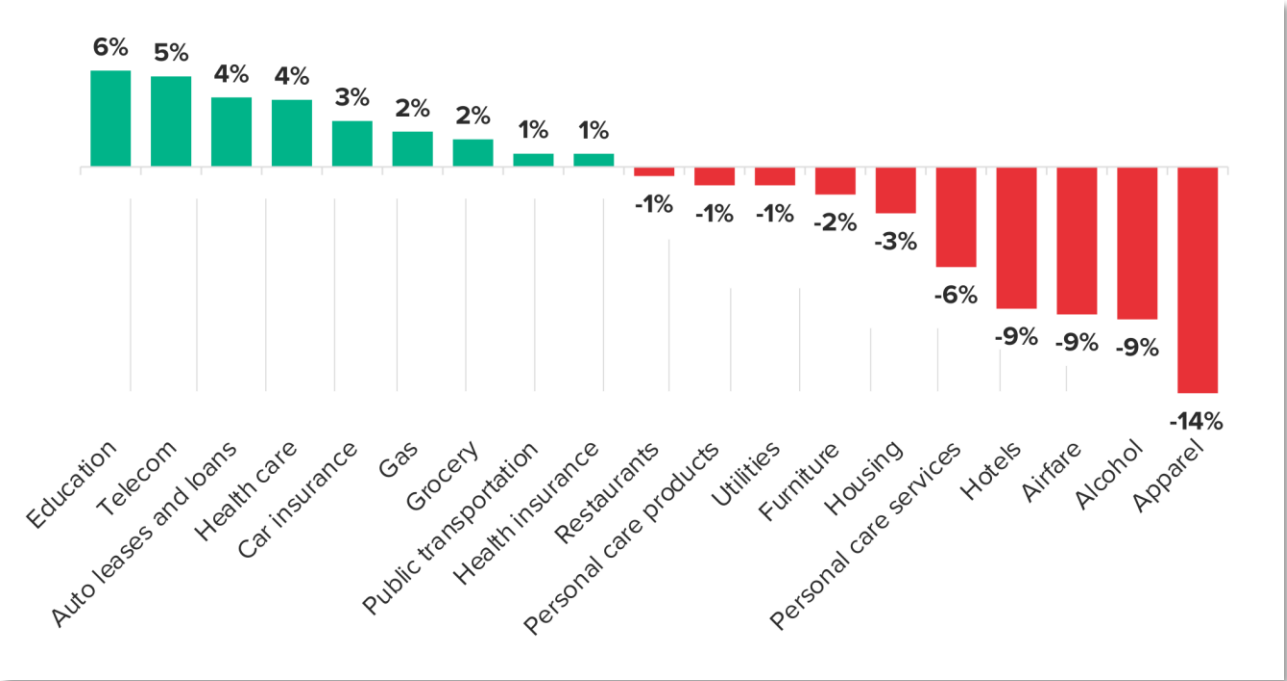
Opportunities

- Bonds of investment grades
- Smaller duration

Defensive Sectors for Inflation

Consumers Focused Spending on Essential Goods and Services

Figure: Percentage change in spending among all U.S. adults from December 2021 to January 2022



Source: Morning Consult Economic Intelligence

Defensive Sectors for Inflation

Consumers Focused Spending on Essential Goods and Services

Energy

- Essential to consumers
- Price sensitive to inflation

Consumer
Staples

- Nondiscretionary consumptions

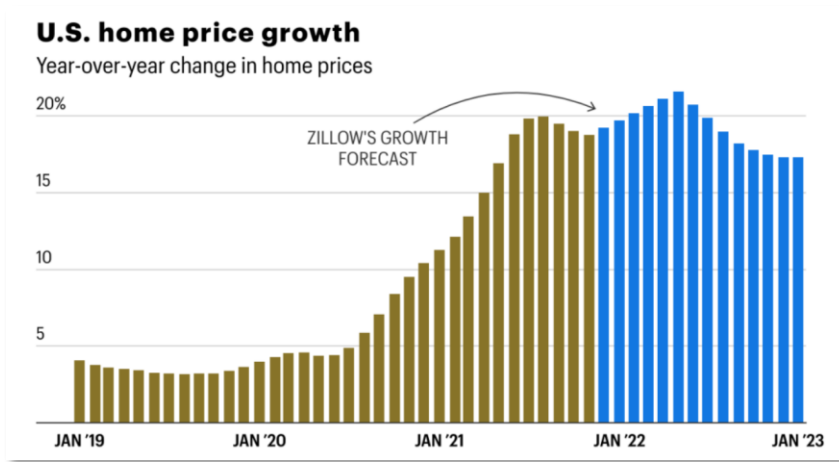
Materials

- Demand for real assets might increase

Rising Housing Price and Mortgage Rate

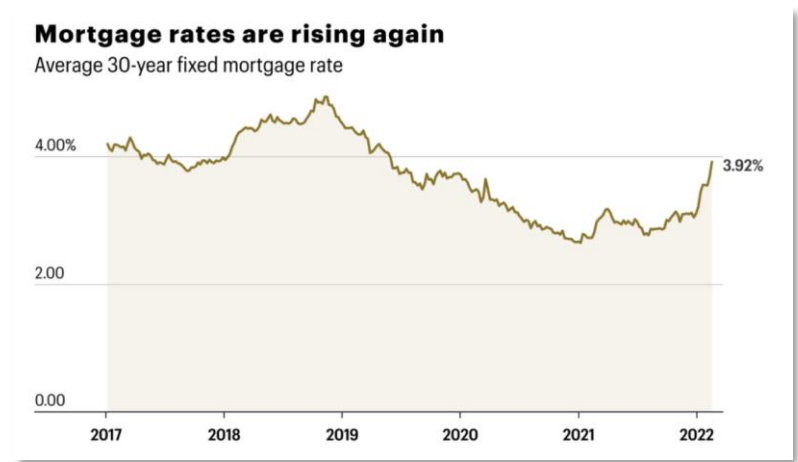
Opportunities for Securitized Products

Figure: Year-over-year change in home prices



Source: Lance Lambert, Zillow

Figure: Average 30-year fixed mortgage rate



Opportunities: Securitized Products

- Housing supported by appreciation
- Short-duration, low interest rates risks

Conclusion: Decision Matrix

Decision Criteria	Beating Inflation	S&P 500
Fit with Macro	Good	Average
Volatility	Low	Medium
Level of Risks	Low	Medium
Diversification	Good	Good
Transaction Costs	Medium	Low
Liquidity	Good	Good

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