



# Has inflation already troughed?

Trevor Greetham – Asset Allocation Director

## In Overheat

There is little doubt that March 2009 marked a cyclical low. My growth lead indicators are at maximum strength in all major economies. A powerful v-shaped recovery should now be the base case.

Sensible economists and central bankers expect inflation to stay low for several years in view of the massive spare capacity in the world economy. However, my indicators suggest headline inflation troughed in August. With industrial production set to boom, commodity prices should rise much further and spare capacity may not last as long as people think. At the very least, I expect an inflation scare around year end. Central banks will come under increasing pressure to start scaling back liquidity.

## Lead indicators in focus

In his ongoing analysis of the investment clock model, Trevor focuses on two key economic indicators: inflation and growth.

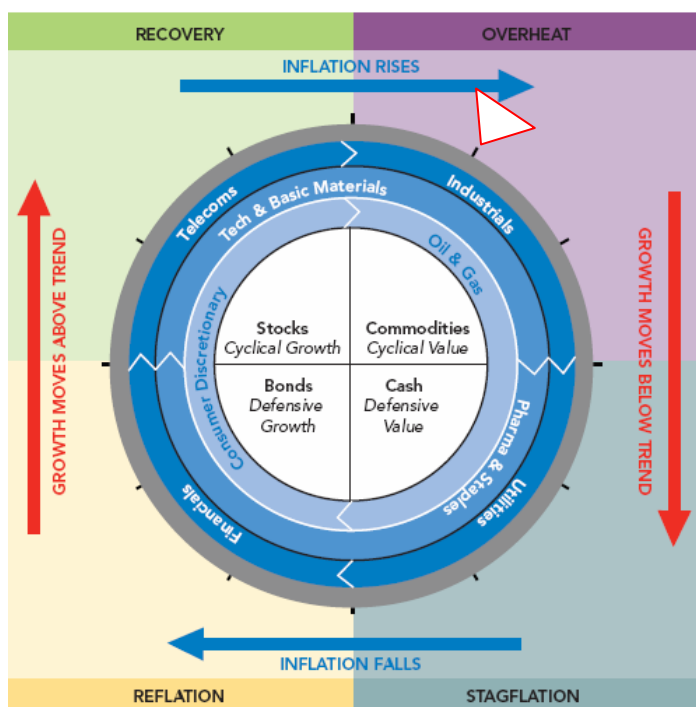
### Inflation

- Headline CPI is negative in the US and for the G7 as a whole but the base effects from crude oil are turning sharply positive
- The global inflation scorecard suggests headline inflation troughed in August 2009

### Growth

- The global growth scorecard is at its maximum possible score in the US, UK, Eurozone, Japan and China
- Business surveys point to a pick up in hiring intentions

Trevor Greetham



## Current asset allocation positioning in Trevor's funds

I have further raised my overweight position in commodities as I feel there is a big catch-up coming. I funded this move by taking government bonds to a fairly large underweight. However, I have maintained an overweight position in corporate and high yield bonds. At the sector level, I have taken industrials and resources overweight, moving the interest-rate sensitive consumer sector underweight. I remain overweight Asian and emerging market stocks and currencies.

Active asset allocation				
	Underweight	Neutral	Overweight	
Equities				
Property				
Commodities				
Bonds				
Cash				

For more information on which Fidelity funds utilise this approach contact your usual Fidelity contact or email us at [DCInvestmentServices@FIL.com](mailto:DCInvestmentServices@FIL.com)

