

# U.S.: Reflation Trade (2016)

## ECRI Helps Clients Manage Inflation Cycle Risk

### Objective

Inflation cycle turning points can cost fixed income managers dearly. ECRI's objective is to protect clients from being blindsided by inflation cycle turns, so that they can then profit from them, as illustrated by our experience in recent years.

ECRI has long recognized that inflation has its own distinct cycles, which the USFIG is specifically designed to anticipate.

### Consensus Outlook, Summer 2016

July 2016: "TIPS spreads have been trending down for over three years, and especially over the past two years ... In essence ... long-term expectations for growth and inflation have downshifted dramatically."

### ECRI Outlook, Summer 2016

July 2016: "In sharp contrast to the decline in longer-term inflation expectations, 'stagflation lite' — a cyclical upturn in inflation during a cyclical slowdown, which we had predicted earlier — is already a reality. Looking ahead, with the U.S. Future Inflation Gauge (USFIG) in a decisive upturn that is increasingly pronounced, pervasive and persistent, inflation is poised to mount further in the coming months."

### Action

Clients leveraged our out-of-consensus view to make money in the bond market.

During discussions, we focused them on our conviction in the "global reflation" forecast laid out in our reports, based on our proprietary leading indexes for U.S. and global inflation.

### Results

After turning up in July — when we warned that inflation was likely to rise further — inflation expectations entered a cyclical upswing. As a result, 10-year treasury yields more than doubled from 1.37% in July 2016 to 3.23% in November 2018.

With a much better understanding of the direction of inflation pressures, our clients were able to manage cyclical risk on a proactive basis.

Check out other ECRI case studies [➔ U.S.: Inflation Cycle Turns Down \(2018\)](#)