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by Sandra Riccio

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"Over the last few weeks, the markets have been dominated by the fear that inflation will return. It is still too early to know if this fear is justified; however, there are definitely signs that a change is under way". These are the words of Luca Riboldi, Director of Investments at Banor SIM. The expert explains that interest rates, which precede changes in inflation, are rising in the US. The 12-month inflation outlook is also rising because, with the pandemic, an enormous amount of liquidity was created that went to consumers, who have saved a lot more than they have spent during this period. In all probability, part of this money will go back into the real economy when we return to normal. Current forecasts talk of a boom for economies this year, with GDP at +7% in the US, +8.5% in China and +5% in Europe, figures not seen since the post-war period. Even 2022 will be a recovery year, albeit less intense.

What will cause prices to go up?

"Inflation will be caused by the great demand for raw materials—oil and copper above all—which will not be completely satisfied by the supply. When consumption picks up again, companies will be able to pass the price increases onto the end customer quite easily. We can see significant increases in the tourism industry, from flights to accommodations, and in industrial consumer goods, such as cars and household appliances. However, it is still unclear whether this increase in inflation will only be temporary or more long lasting".

How should the small Italian investor's portfolio change?
"Today, the Italian investor should try to limit exposure to cash/cash equivalents and bonds to no more than 50% of their portfolio, while the remaining 50% should be equities and real assets such as real estate".

How is the bond portion of a portfolio best allocated?
"At these levels, bond investments must be considered with great caution. In this phase, it is better to buy stocks with low growth and reasonable multiples (with a P/E between 11 and 15) and with dividends between 4% and 7%. The bonds of these same companies have a 10-year yield of 0.5%. They are therefore less advantageous than the shares of these companies while the risk-to-yield ratio clearly favours shares. This line of reasoning will be even more valid should a little inflation actually return in the coming years".

What good opportunities are there currently on the market?
"Good opportunities will be available as a result of possible steep stock market declines. Plunging prices will present an excellent opportunity to buy some cyclical stocks at a good price. This is a good opportunity because the value of these shares could grow significantly in the wake of the long-awaited economic growth expected in the next 18-24 months. However, it is also necessary to create long-term portfolio positions in structurally positive sectors such as telemedicine, the cloud, product recycling, luxury, wellness and clean energy".