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Riboldi (Banor SIM): “High-dividend stocks and commodities as protection against inflation”

For this expert, the most attractive sectors include telecommunications, pharmaceuticals, insurance and food & beverage

by Sibilla Di Palma

For some, like **Michael Burry**, the hedge fund manager who became famous for having predicted the sub-prime mortgage crisis in 2007, the phase that we are currently experiencing can be seen as the premise to the arrival of Weimar-style hyperinflation. For other analysts, however, this view is **excessively alarmist**. Whatever your view, it should be said that high cost of living has again reared its head in recent months, even if only to a moderate extent, for now. In January, growth for the euro zone was **0.9%** as an annual comparison (-0.3% in December), and this value has remained stable in February. Of course, we are still far from the ballpark of 2% set as the ECB’s target, but estimations for the coming months see a strengthening of the upwards trend. We talked about it with **Luca Riboldi, Director of Investments at Banor SIM**.

After the Biden administration has placed two trillion dollars in fiscal stimulus on the table, many people expect a rise in inflation in the United States. Could there also be a knock-on effect for Europe?

“America is the country that has allocated the most resources to fighting the pandemic, for a total of 15% of GDP, compared to 8% in Europe. This is why I believe that, although the rise in inflation will be a global phenomenon over the coming months, it will be particularly sharp in the United States. Specifically, there are three factors to support this theory, starting with the rising prices of commodities. One need only consider that, at the end of April last year, Brent was going for 20 dollars a barrel, while today we are looking at 65 dollars. Moreover, the prices of industrial metals and copper have more than doubled. Added to this, there is the rise in the Chinese currency, which has increased by more than 10% against the dollar in one year. From this point of view, considering that imports to western countries largely come from the Asian giant, an increase in the value of the yuan means higher prices. The third factor is linked to a sharp increase in consumption at the global level, starting with America where consumers – spurred on the higher level of optimism due to fact that its vaccine campaign is at an advanced stage – have a growing desire to spend, which has already given rise to higher prices.”

In light of these reflections, what sort of values are to be expected in the coming months?

“We expect 3-4% inflation in the USA in the next 12-18 months, while in Europe, the upturn in demand will not be so sharp, and it could get to around 2%. Then, we will need to see if this will be confirmed as a structural trend, which will depend on how the central banks react, that is, whether they let the high cost of living run on for a while without raising rates”.

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How can we recalibrate our portfolios to protect against rising prices?

“Bonds like the American and European ones should be reduced significantly and replaced with high-dividend stocks (yielding between 4% and 7%), chosen selectively between Europe and the United States. The most attractive sectors include telecommunications, pharmaceuticals, insurance and food and beverage. While shares in high-growth technology companies like Amazon, Facebook and Google remain attractive options. The remainder of the portfolio can be divided as follows: 25% in bonds maturing in 12 to 24 months; 10% in commodities such as copper, and 15% in alternative products, such as market-neutral strategies (which utilise long and short positions to neutralise the market risk) and merger arbitrage (which makes it possible to invest in shares of target companies in M&A operations), which have low volatility against returns of around 4-5%.

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