

# **The Best Strategies for Inflationary Times**

**Democratize Quant, March 24, 2022**  
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Published in the Journal of Portfolio Management

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## **THE KEY QUESTION**

What strategies and asset classes perform well in a rising inflationary environment?

## **THE KEY TAKEAWAY**

Instead of predicting when and if a rise in inflation will occur, investors are better off determining how to restructure their portfolios where the best candidates turned out to be:

- Trend following strategies in most assets
- Factor strategies in equities.
- TIPS

Measure of inflation: CPI (general consensus) as reported by Bloomberg.

Inflationary regime: Periods when YOY realized inflation rises materially beyond 2% (reaches 5%).

Most data begins in 1926.

US Equities-SP500

US Bonds-US 10year Treasury bonds

IG and HY bonds-Morgan Stanley

Commodities-most liquid futures on copper, gold, silver, platinum, wheat, corn, etc.

Collectibles-Credit Suisse on art, wine, stamps

Factors—FamaFrench website

	Specific Inflation Regimes							
	US Enters WW2	End of WW2	Korean War	Ending of Bretton Woods	OPEC Oil Embargo	Iranian Revolution	Reagan's Boom	China Demand Boom
	Characteristics							
Start Month	April 1941	March 1946	August 1950	February 1966	July 1972	February 1977	February 1987	September 2007
End Month	May 1942	March 1947	February 1951	January 1970	December 1974	March 1980	November 1990	July 2008
Length (months)	14	13	7	48	30	38	46	11
Total Price Level Change	15%	21%	7%	19%	24%	37%	20%	6%

				REAL RETURNS	
	<b><u>Winning Strategies</u></b>			<b><u>Inflation (19%)</u></b>	<b><u>Other (81%)</u></b>
	(P) Commodities—Energies			41%	-1%
	(A) Trend—All Assets			25%	16%
	(A) Trend—Commodities			20%	8%
	(P) Commodities—Industrial			19%	4%
	(A) Trend—Bonds			15%	9%
	(P) Commodities—Aggregate			14%	1%
	(P) Commodities—Gold			13%	-1%
	(P) Commodities—Precious			11%	-2%
	(A) Trend—Equity			8%	11%
	(P) Commodities—Softs			8%	-3%
	(A) Equity Factor—C-S Mom.			8%	4%
	(P) Commodities—Agri			7%	-3%
	(A) Trend—FX			4%	4%
	(A) Equity Factor—Quality (QMJ)			3%	3%
	(P) Fixed Income—TIPS			2%	3%
	(A) Equity Factor—Investment (CMA)			2%	2%
	(P) Long Equities—Energy Sector			1%	8%

## WHAT DIDN'T WORK

1. **Equities** performed poorly during inflationary regimes at -15% and -7% real returns.
2. Further, no equity sector seemed to offer much relief other than **energy** at 1%.
3. Real estate came in at a negative -2% real return.
4. **Nominal bonds** offered little to no protection.
5. More importantly, the **negative correlation** between bonds and equities essentially disappeared when inflation began to rise.
6. Cryptocurrencies--The math just doesn't work.

## WHAT DID WORK

7. **TIPS**. They provided a 2-3% return regardless of the inflationary regime.
8. **Commodities** (including **gold**) returned an average of 14%.
9. **Collectibles** like wine, art and stamps produced strong returns, around 8%.
10. **Trend-following** was second best at a 25% real return.
11. **Factor strategies** CS Mom at 8%, Quality at 3%.