



Press Release

21 March 2022

WAR IN UKRAINE MEANS RATE RISES TOO “LITTLE TOO LATE TO CURB” INFLATION

Tabula CIO Jason Smith has warned that central banks have waited too long to raise interest rates as inflation continues to accelerate. Last week saw the Bank of England increase rates for the third month in a row. Meanwhile, the US Federal Reserve kicked off its tightening cycle with a 0.25% hike last week. The ECB has announced that it is in “no hurry” to raise rates, but with year-on-year inflation approaching 6% in the 19-nation euro-zone, money markets are pricing in a 0.5% rate increase before year end.

The ECB expects inflation to end the year at 5.1%, while the Fed has increased its year-end inflation forecast to 4.1%. The Bank of England has warned UK inflation may reach 8% in the coming months.

“Central banks put off raising interest rates for all of 2021, despite increasing evidence that higher inflation was not transitory,” said Smith. “The war in Ukraine has now sparked global pressure on commodity prices: energy, food and metals prices. In an already supply-constrained global economy, the recent increases in interest rates in the US and UK won’t solve this supply side inflation. They are likely too little too late to bring inflation down to long term targets and also don’t target the key driver, supply dislocations.”

Capital Economics forecast that, on average, Brent crude oil prices will be 56% higher this year compared to 2021, while European gas prices will be 141% higher. The research group also forecast wheat prices will be 40% higher on average this year and food bosses are indicating prices will rise 10-15% by the summer. In the EU, energy (for housing and transport) makes up 10% of the consumer price inflation (HICP) basket, while food accounts for 17%.



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Euro-area consumer inflation (HICP) expenditure weights

Food and Non-Alcoholic Beverages	17.3%
Alcohol and Tobacco	4.5%
Clothing and Footwear	5.3%
Housing, Water, Electricity, Gas and Fuels	17.7%
Furnishings, Household Equipment and Routine House Maintenance	6.8%
Health	5.0%
Transport	13.7%
Communication	3.2%
Recreating and Culture	8.0%
Education	1.0%
Restaurants and Hotels	7.5%
Miscellaneous Goods and Services	10.0%

Source: European Central Bank

Notes: Energy (10%) is included in the Housing and Transport weights

Tabula CEO Michael John Lytle added, “Investors often ask us what is the best hedge against inflation. Gold has proven an ineffective hedge historically, with a correlation to inflation of less than 0.2 over the last 50 years. Meanwhile, baskets of commodities or equities are subject to exogenous factors. We believe the most effective solution to protecting against inflation is to use securities built to specifically track inflation (i.e. TIPS and Breakevens).”

The Tabula US Enhanced Inflation UCITS ETF is the only ETF in the market that provides exposure to both realised and expected US inflation. It has ~US\$100 million in AuM and trades on the London Stock Exchange (USD: TINF LN; GBP-hedged: TING LN), Xetra (EUR-hedged: TABI GY), Borsa Italiana (EUR-hedged: TINE IM) and SIX Swiss Exchange (CHF-hedged: TINC SE). The fund has rallied more than 7% since the war in Ukraine started and returned +15.1% in 2021, outperforming traditional TIPS ETFs by over 9%.

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About Tabula Investment Management Limited

Tabula Investment Management Limited (“Tabula”) is an asset manager and ETF provider focused on differentiated strategies. Its current ETFs provide unique solutions in the fixed income space, and help investors achieve greater control of investment risks and rewards.

Tabula currently manages ~US\$700 million in assets. Tabula is authorised and regulated by the Financial Conduct Authority.