

# Equities as an Inflation Hedge

Stockholm (HedgeNordic) – Asbjørn Trolle Hansen, the head of Nordea’s multi-asset investment team, believes that inflation expectations should be a major consideration in asset allocation, arguing that equities can represent an “inflation play” in the current environment. “Economies have rebounded from their Covid-induced economic problems and some areas have jumped straight into inflationary concerns,” says Hansen, according to International Advisor.

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Although the US consumer-price index increased to a 13-year-high of 5.4 percent in June from a year ago, Hansen says that longer-term inflation expectations hover around 2.5 percent. The market, therefore, expects inflation to be manageable, according to Hansen. In this environment, the Nordea multi-asset team, which runs the Alpha fund family comprised of Alpha 7 MA, Alpha 10 MA and Alpha 15 MA, relies on equities as an “inflation play.”

## Equities Over Bonds

“Inflation is typically reflected in rising bond yields, but only partially,” says Hansen, who heads Nordea’s multi-asset team that oversees €116 billion under management. “We feel that the risks of rising inflation – and rising bond yields – may not yet be fully reflected in bond prices,” he continues.

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Although inflation can be both a blessing and a curse for equities, Hansen says that equities tend to do well in an inflationary environment as nominal earnings growth usually accelerates with inflation. “A year ago, market expectations for 2021 earnings growth was sub 2 percent,” says Hansen, according to International Advisor. “The higher expectations we are seeing now reflects the success of the stimulus packages.”

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“The real question is whether companies are price takers or whether they can drive through price increases to reflect their rising costs. At this point, many companies can push price increases,” argues Hansen. “We certainly always favour companies with strong business models that can include price stability, and in this case, the possibility to pass through price increases,” he emphasizes. “Overall, we are seeing greater ability to pass through rising costs than we have seen for the last 20 years.”

Asbjørn Trolle Hansen is heading the multi-asset investment team at Nordea that manages three

funds part of the Nordic Hedge Index. Alpha 7 MA, Alpha 10 MA and Alpha 15 MA, the three funds in Nordea's Alpha family that collectively oversees €8.8 billion under management, all share the same investment approach but exhibit different risk-return profiles. The flagship product in Nordea's Alpha family, Alpha 10 MA, ended the first half of 2021 up 4.8 percent.