MILANO FINANZA

Date: 04/03/2023 Page: 1,14,15
Size: 1549 cm^2 AVE: € 151802.00
Print run: 113203
Circulation: 66409
Readers: 210000

PORTFOLIO/3 Despite slowing down in February, the 9.2% cost of living rate is a wealth tax that depreciates liquidity. Time deposits and BTPs struggle to keep up. To earn more, you have to target stocks, bank bonds, high yields or emerging countries, taking a few risks in the process.

Where do you earn with inflation?

by **Paola Valentini**

Inflation: how much will you be taxing me? Istat figures published on Thursday 2 March indicate that rising price trends are not flagging. In February, inflation in Italy was at +9.2% year-on-year against +10% in January, but core inflation (net of energy and food) – the one that the ECB tracks – rose from 6 to 6.4%. In Europe, Eurostat calculates a rate of +8.5% against +8.6% in January – a figure decidedly above expectations. The high cost of living puts food, transportation and energy under siege. But rising consumer prices aren't just affecting household consumption. Savings are also rapidly losing value. Moneyfarm calculates that inflation is costing households from nearly €190 to more than €360 more per month, which equates to between €2,200 and €4,300 more per year. This is a kind of wealth tax, and it's not even all that hidden. CGIA Mestre calculates that between 2022 and 2023, almost €164 billion of Italians' savings will go up in smoke, estimating that inflation, although slowing, will grow by 6% annually after the 8.1% of 2022. CGIA Mestre draws comparisons with the extraordinary levy of 6 per thousand applied by the Amato government on Italian current accounts on the night of 9-10 July 1992. "That measure cost Italian families 5,250 billion lira, equivalent to €2.7 billion. In today's terms, this would come to €5.3 billion, an economic sacrifice that was practically 31 times less than the one we estimated for 2022 and 2023 caused by inflation".

Equities. Leaving the calm waters of the harbour and moving to the financial high seas, Richard Flax, Chief Investment Officer at Moneyfarm, insists that "2023 is a good time to invest, because over the next ten years, assets in financial markets will be ahead of liquid instruments". Flax notes that, "Inflation has already begun to show signs of slowing from its summer peaks. If this trend continues, the inflationary panic of 2022 could wane". In this scenario, equities "remain the asset class with the highest expected return, with a risk premium of about 5% over fixed income for developed markets", as reflected in Moneyfarm's pre-reviews of expected annual returns from equities over the 2023-2033 period (*see chart*). "In bond markets, inflation erodes all fixed-rate instruments", says Alex Lasagna, Deputy CEO of Algebris Investments. But the reasoning is different for equities. "The inflation-induced increase in the cost of money causes their value to be discounted at a higher rate". This heavily penalises companies with lower, more spread out cash flow, for example growth stocks in the technology sector. "It's not by chance that the tech sector has depreciated sharply in recent months", says Lasagna, "so when rates go up, you have to turn to companies that generate a lot of cash". Then, within equities, there are sectors that benefit from the rate rise more than others, primarily commercial banking, because banks immediately charge more for money but don't necessarily also increase the return on deposits". In equities, Francesco Castelli, Head of Fixed Income at Banor Capital, also agrees that, in a high-rate scenario, it's best to aim for companies that produce high cash flow today. As regards individual sectors, the Banor manager advises that, "With inflation, commodities do well, as they did in 2022, so you can favour investment directly in commodities and investment in extraction companies. Commodities are the basic real asset, and when there is a currency devaluation, their nominal value increases in reaction"