

# Managers reveal their inflation-beating picks

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By [David Thorpe](#)

Rising inflation and higher bond yields are likely to lead to a severe shift in the performance of equity markets, with out of fashion stocks likely to appear back onto investors radar, according to fund managers.

This morning (12 September), it was announced UK consumer inflation had increased to 2.9 per cent in August from 2.6 per cent in July.

Hugh Sargent, who runs the £182m River and Mercantile Long Term Recovery fund, said he expects the recent improved economic data from around the globe will continue to lead to higher inflation and higher bond yields.

He forecasted investors will switch to stocks which benefit from a rising economic tide, and away from the defensive equities that have performed particularly well in recent years.

The fund manager said this translates to significant investments in commodities and banks. He has bought shares in mining companies BHP Billiton, Anglo American and in Lloyds Banking Group.

He added: "We are positioned for a multi-generational bull market in government bonds coming to an end."

Ed Legget, who runs the £585m Artemis UK Select fund, said the stronger global economy has started to feed through to the performance of businesses such as recruitment consultants and airlines.

He said those companies tend to do well in the early stages of an economic recovery.

Mr Legget said: "We continue to believe that, against an improving economic backdrop, central banks will...continue to withdraw unconventional monetary support over the coming months.

"We expect that the combination of improving economic growth and slow normalisation of monetary policy will see yields of long-dated bonds rising modestly.

"Under such conditions, we believe that the fund's positioning – in financials– would continue to support its relative performance."

One stock he has been buying of late is mining giant Glencore.

He said: “We believe that the strong cashflows generated by the business will see debt levels move back to within their target range.

"With base metals prices also rising, cash flows should rise, providing the management with scope to add to its asset base as well as returning cash to shareholders.”

However Jonathan Davis, who runs advice firm Jonathan Davis Wealth Management in Hertford, said he expects a period of “prolonged inflation”, and that this will be bad for the economy.