Prepping for inflation, advisers focus on short-term bond market
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As inflationary pressures in the economy loom, advisers are forgoing long-term fixed income exposure and instead opting for shorter-term bonds.

Indicators of inflation on the horizon include the Consumer Price Index's rise to 2.1%, surpassing the Fed's target of 2%, as well as signs of an improving economy, according to advisers. **"We project the US economy will grow at approximately 2.8% in 2017," Jeff Powell, managing partner at Polaris Greystone Financial Group, told PAM.**

Signs of inflation occur in tandem with rising interest rates, causing advisers to shift their clients' portfolios. **"The Federal Reserve has already indicated that they will raise interest rates three times this year, by 25 basis points per raise, to combat inflation," he continued.**

Powell also points to the OECD Composite Leading Indicator for OECD countries, which measures early signs of turning points in business cycles and fluctuation of economic activity. In October 2016, the index showed 0.1 growth in October to 99.99, the largest monthly increase since February 2010, when the index rose .14 points from 100.2 to 100.34. "Energy and several other commodities are on the rise, and projected to move even higher in 2017," he added.

To protect clients from expected inflation, Powell and his team are positioning fixed-income allocations to a "very short duration" and avoiding "equities that will be effected by the headwinds of increased Fed fund rates," he added, highlighting he will be avoiding interest rate-sensitive industries including electrical utilities and REITs which will be influenced by the future Fed moves.

Dave Donabedian, chief investment officer at Atlantic Trust, has maintained an underweight position in fixed income since 2009, also focusing on bond portfolios with below average duration and sensitivity to direct interest rates. He and his team have expected equities to outperform fixed income since the financial crisis. "We haven't changed that view, especially now that you see inflation and the direction of interest rates going higher," he told PAM.

"We're looking at short term bonds and avoiding long term bonds, which could suffer from price aversion," he added.