

Exam Tips

SS4 Capital Market Expectation #6

R10 – 3.4 Business Cycle Analysis

Inflation expectation could be procyclical or countercyclical depends on timeframe

Short-term	Intermediate-term	Very long-term
Inflation Expectation soon turn up with actual inflation	<div>Inflation expectation interweaves with different phases of cycles</div> <div>Horizon structure of inflation expectation is countercyclical i.e.</div> <div><ul style="list-style-type: none"><li>- Upward sloping at the trough of the business cycle</li><li>- Inverted at the peak</li><li>- An important component of bond yields, one of the reasons yield curve’s slope is countercyclical</li></ul></div>	Inflation expectation unaffected by periodic fluctuations, i.e. business cycles

