Investors may wonder whether stock returns will suffer if inflation keeps rising. Here’s some good news: inflation isn’t necessarily bad news for stocks

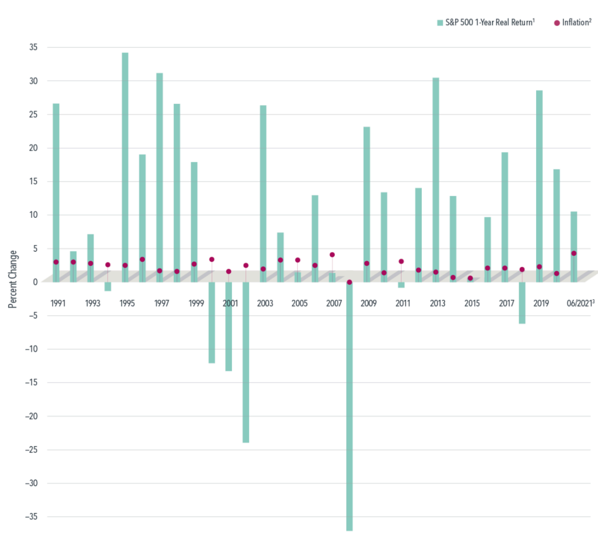
A look at equity performance in the past three decades does not show any reliable connection between periods of high (or low) inflation and US stock returns.

“The good news is that a delicious stick of jerky is still a very affordable seventy-five cents.”

Since 1991, one-year returns on US stock have fluctuated widely. Yet weak returns occurred when inflation was low in some periods, and 23 of the past 30 years saw positive returns even after adjusting for the impact of inflation. That was the case in the first six month of 2021 too (see Exhibit 1).

The Real Thing

Annual inflation-adjusted returns of S&P 500 Index vs. inflation, 1991–2020



Past performance is no guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

Over the period chartered, the S&P 500 (the broadest measure of US stocks) posted an average annualized return of 8.5% after adjusting for inflation. Going all the way back to 1926, the annualized inflation-adjusted return on stocks was 7.3%.

History shows that stocks tend to outpace inflation over the long term -a valuable reminder for investors concerned that today’s rising prices will make it harder to reach their financial goals.

Be safe, be well!

Martin
1-519-546-5088