

Will Inflation Hurt Stock Returns? Not Necessarily.

STOCKS VS. INFLATION



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.
- Since 1991, one-year returns on stocks have fluctuated widely. Yet the weakest returns can occur when inflation is low, 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 months of 2021 too.
- Over the period charted, the S&P 500 posted an average annualized return of 8.5% after adjusting for inflation. The annualized inflation-adjusted return on US stocks is 7.3% when going all the way back to 1926.

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

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1. Real returns illustrate the effect of inflation on an investment return and are calculated using the following method:
$$[(1 + \text{nominal return of index over time period}) / (1 + \text{inflation rate})] - 1$$
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 2. Based on non-seasonally adjusted 12-month percentage change in Consumer Price Index for All Urban Consumers (CPI-U).
Source: US Bureau of Labor Statistics.
 3. Year-to-date return for 2021 through June 30.

Past performance is no guarantee of future results. Short-term performance results should be considered in connection with longer-term performance results. Investing risks include loss of principal and fluctuating value. There is no guarantee an investment strategy will be successful. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

In USD.

September 14, 2021.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Unless otherwise noted, any indicated total rates of return reflect the historical annual compounded total returns including changes in share or unit value and reinvestment of all dividends or other distributions and do not take into account sales, redemption, distribution, or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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