intellicents

enduring inflation peaks and recessions

why are the costs of goods and services rising?

Does it feel like life is getting more expensive and your dollars buy less than they used to? It's not just you, it's **inflation** – meaning the cost of things is going UP, and your money has effectively gone DOWN in value.

Sometimes inflation runs high, and other times it is hardly noticeable. While a low, steady inflation rate of 2% can be a key ingredient to a healthy economy, high or rapidly changing inflation can create a lot of problems.

For example, let's say a cup of coffee at your local café costs you \$1. But suddenly coffee becomes more expensive to produce, so the next year the barista prices your cup of coffee at \$2. Now it takes twice as much money to buy the same exact thing! In purchasing-power terms, the dollar has effectively lost half its value - at least as far as cups of coffee are concerned.

Costs of goods and services like coffee is an easy way to understand inflation, but it's typically a broad measure that can be applied across sectors or industries – impacting the economy as a whole. The graph below shows the impact that inflation has gradually made on the dollar's value over the past 60+ years. If you bought an item for \$1 in 1960, you would need \$10.11 to buy that same item in today's dollars!

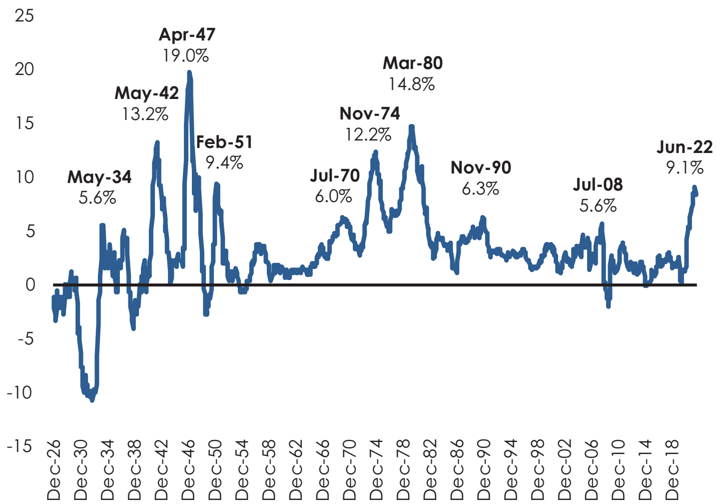
I need how much?!

	\$1.00 adjusted for inflation
2022 (June)	**\$10.11**
2021	\$8.93
2020	\$8.80
2010	\$7.40
2000	\$5.76
1990	\$4.35
1980	\$2.66
1970	\$1.29
1960 (Jan.)	\$1.00

Most workers, especially Millennials, Generation X and even younger Baby Boomers have never experienced a high or rising inflationary environment while they have been employed! So, what happens when this occurs? One of the primary goals of the U.S. Federal Reserve (Fed) is to control inflation at a reasonable level of around 2%. This can be done by raising short-term interest rates to try and help lower inflation, even if it means tipping our economy into a recession. Increasing interest rates makes it more expensive to borrow money for things like a home mortgage. This makes people spend less while reducing demand, and as demand drops, so do prices. So, what do you do amid all this negativity and a lower 401(k) plan balance?

Let's look at past market performance following "peaks" in inflation rates:

"peaks" in the inflation rate
since 1926, 12-month change in inflation rate



returns following "peak" inflation rates
since 1926, returns for the next 12 months

peak inflation	Next 12 months	
	stocks	bonds
May 1932	4.8%	6.3%
May 1942	57.6%	2.0%
Apr 1947	12.4%	1.2%
February 1951	13.6%	0.3%
July 1970	26.6%	10.4%
November 1974	36.2%	7.7%
March 1980	40.1%	13.1%
November 1990	20.3%	14.4%
July 2008	-20.0%	7.9%
June 2022	?	?
Avg.	*21.3%*	*7.0%*

Source: Morningstar as of 9/30/22. U.S. bonds represented by the IA SBBI US Gov IT Index from 1/1/26 to 1/3/89 and the Source: Bloomberg U.S. Agg Bond TR Index from 1/3/89 to 9/30/22. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 9/30/22 and the IA SBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

What takeaways can we collect from the charts above?

- While not a guarantee of future results, both stocks and bonds have typically performed positively in the 12 months following peak inflation periods.
- Inflation is almost always gradually happening, but it is not uncommon for it to reach peaks every once in a while.
- **While we do not have a crystal ball to forecast the markets or the economy, our reality may look like an inflation rate above the ideal 2% for a while given supply chain issues and Russia's war on Ukraine. You may also experience more volatility in the stock and bond market until the Fed and other central banks pause on future rate moves or consider decreasing rates again.**

In summary, unless your investment goals or time horizon have changed significantly, inflationary periods like this might require extra patience to reach your long-terms goals. Diversification does not guarantee a profit or protect against a loss, as all investing involves risk. Reviewing your current investment goals and objectives along with your risk tolerance is important in down markets as well as up markets.

If you have any questions or concerns about your current situation, please give us a call at 800-880-4015 or send your intellicents advisor an e-mail.