



Inflation Impacts

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The inflation rate soap opera currently playing out in the world economy matters for your investments in several ways. First, high inflation has a surprisingly large impact on the value of your assets. By one calculation, if you were to have put \$10,000 under your mattress in 1980 (you know, to keep it safe), and pulled it back out in 2021, it would only be worth the equivalent of \$2,679.

Of course, current inflation is much higher than in the recent past (8.3% as of the most recent report), so the value erosion is greater now than it has been over the last 40 years. Five years of inflation at that rate would reduce the value of a \$10,000 account to an equivalent value of \$6,800. (You can explore a variety of these inflation-eroding calculations here: <https://www.rl360.com/row/tools/inflation-calculator.htm?>.)

Inflation also matters because the Federal Reserve is watching current rates and taking steps to bring the rate down to roughly 2%. The policy instrument, as you know, is raising short-term interest rates, which increases the chances of a recession and makes bonds more competitive with stocks. Every rate hike seems to bring with it another decline in the markets.

That introduces one other way that inflation impacts our lives: if the Fed does trigger an economic recession, companies will cut costs and lay off workers. More people will be out of work, the unemployment rate will go up, and wage increases will stall. Overall, the working public will not be better off.

It's not easy to measure inflation in aggregate. Since all of us buy different things in our monthly budget, these price changes impact all of us differently. Some believe that 'core inflation' is a better measure than the consumer price index, because it excludes volatile food and energy prices. Core inflation, over the last three months, is running around 5.8% a year, having fallen a bit, in part, due to the re-normalization of formerly sky-high used car prices. That's still higher than the Fed target, and not much comfort for those of us who still insist on buying food and driving our cars.

Sources:

https://www.americancentury.com/plan/calculators/inflations-historic-impact-on-investments-calculator/?gclid=CjwKCAiAjs2bBhACEiwALTBWZQTTEa-NcrAbGfps5G_qyBXpvw0Jy3VDgsTJIUCa6U7ckBDEz86ddxoCwikQAvD_BwE

<https://www.advisorperspectives.com/articles/2022/11/10/inflation-doves-want-it-both-ways-with-latest-cpi-quirk>

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number [\(215\) 325-1595](tel:2153251595) or you can [click here to schedule a meeting](#).

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