

What Happens When Inflation Peaks?

Inflation data through October, released on November 10, showed an inflation rate below most expectations. The Consumer Price Index (CPI) posted a 0.4% rise on a month-to-month basis and a 7.7% change on a year-over-year basis, with the latter being the lowest annual rate reported since January. The core inflation rate (excluding food and energy components) was also below expectations, rising 0.3% on a month-to-month basis and 6.3% on an annual basis.

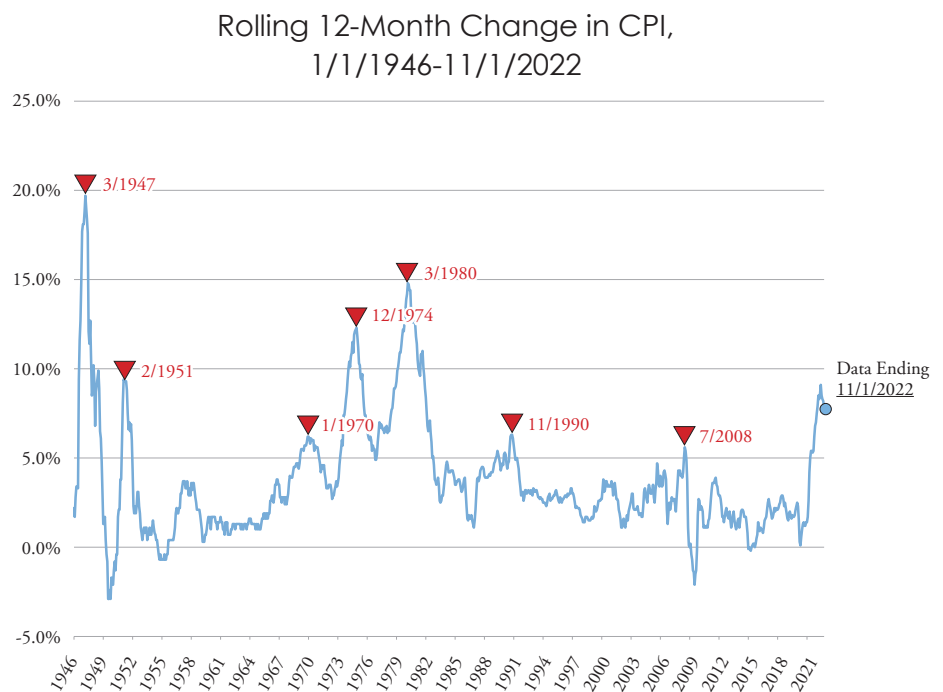
Annualized inflation has dropped meaningfully from its 8.5% rate in March. While it may be premature to declare that inflation has passed its highest level, it is still worthwhile to review what has happened in the past to stocks when inflation has peaked.

The chart to the right shows the annualized change in the CPI over the post-WWII era, with peaks in inflation noted (we've only marked periods when inflation peaked at rates above 5%, similar to the current environment). The table to the right shows the price change of the S&P 500 Index over the 1, 3, and 5-year periods after a peak in inflation.

Stocks have generally performed well following a peak in inflation, averaging a 59.2% gain in price five years afterwards. The only periods when stocks did not post gains were in periods that included severe recessions, such as in 2008 and 1973-1974.

The risk of a serious recession remains significant, as the Federal Reserve's strategy of raising interest rates to choke off inflation may choke off economic growth as well. Even so, if inflation has truly peaked and a serious recession is avoided, the historical evidence suggests that stocks are likely to do well going forward.

Annual Inflation



Stock Market Performance After Peaks in Inflation,
1/1/1946-11/1/2022

Inflation Peak	S&P 500 Index Price Change		
	Next 1 Year	Next 3 Years	Next 5 Years
3/31/1947	-0.6%	14.0%	60.6%
2/28/1951	6.7%	20.0%	108.0%
1/31/1970	12.7%	36.5%	-9.5%
12/31/1974	31.5%	38.7%	57.4%
3/31/1980	33.2%	49.8%	77.0%
11/30/1990	16.4%	43.3%	87.9%
7/31/2008	-22.1%	2.0%	33.0%

⁽¹⁾ Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item.

Source: Bloomberg

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REFERENCED INDEX

(Indices are unmanaged and are not available for direct investment.)

S&P 500 Index—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.

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