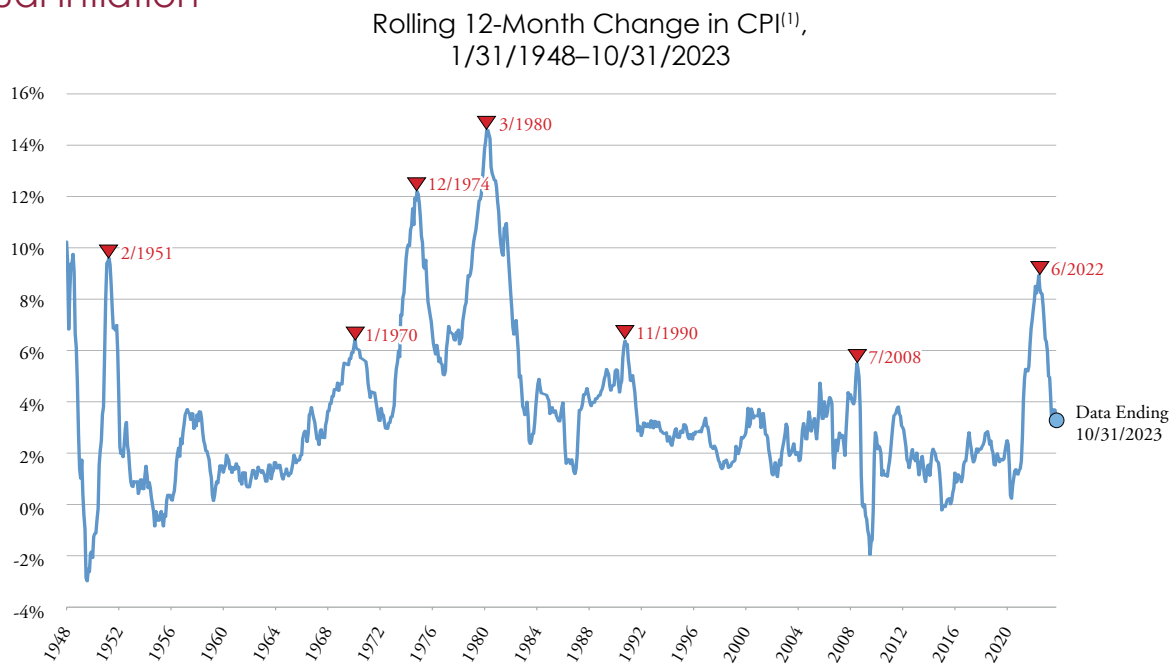


What Happens When Inflation Peaks?—Revisited

A year ago we published a Market Update entitled [“What Happens When Inflation Peaks?”](#) in which we noted that historically, when the inflation rate peaks at levels over 5%, the stock market tends to perform well going forward.

The chart and table below refresh the data shown in last year’s update. After reaching almost 9% in June of last year, the rate of U.S. inflation has fallen significantly to 3.2%. Over the first 12 months since inflation peaked in June 2022, the S&P 500 posted a price gain of 17.6%, and through November 17, the S&P is 19.2% higher than its June 30, 2022 level. This gain was achieved despite the Federal Reserve raising interest rates eight times over the period, increasing the Fed Funds rate from a targeted 1.5%–1.75% to its current range of 5.25%–5.50%. Clearly, a reduction in inflation from high levels is generally welcomed by the stock market, even when suffering the negative effects of high interest rates.

Annual Inflation



Stock Market Performance After Peaks in Inflation,
1/31/1948–10/31/2023

Inflation Peak	S&P 500 Index Price Change		
	Next 1 Year	Next 3 Years	Next 5 Years
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%
6/30/2022	17.6%	?	?

⁽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

As the table illustrates, historically, stock market gains have generally extended over the next 3 and 5 years following a peak in inflation as well. Economic and market cycles rarely repeat exactly, but thus far, the Fed has been winning the battle against inflation, which bodes well for the stock market over the long term.

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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.

S & P DATA

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