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10 Things You Should Know About Inflation

After decades in hibernation, inflation's back. Here are the basics about this invisible thief.

1. **What is inflation?** Inflation is why a gallon of milk costs more today than it did last month (and way more than it did 50 years ago). In technical terms, it's a rise in the cost of goods and services that ultimately erodes long-term purchasing power. You may hear it referenced in terms of the CPI, or Consumer Price Index.

2. **Why is it a concern today?** Unprecedented government stimulus during the pandemic helped keep consumer demand high, but supply-chain bottlenecks mean supply can't keep up. Add in continued labor shortages, which are driving wages higher, and you get a perfect storm of rising inflation.

3. **What can I expect in my daily life?** As prices for everyday items rise significantly, your income may not cover as much as it used to. Cars, housing, gas, and electronics prices have been particularly impacted.

4. **Is inflation all bad?** Like most things in life, moderation is key. A little bit of inflation is desirable because it means the economy is growing. But rapidly rising prices can noticeably erode consumers' purchasing power or force retirees to dip deeper into their nest egg than expected.

5. **How often has inflation been an issue?** Inflation tends to crop up after wars as the economy returns to a peacetime rhythm. Climbing oil prices are also a common culprit for US inflation: The 1970s are the most well-known period of lasting inflation, caused by two oil supply-related issues. Oil prices also spurred inflation in the late 1980s and early 1990s after the First Gulf War; it hasn't been much of a concern in the US since then.

6. **Do rising prices just run unchecked?** One of the main goals of the Federal Reserve (the Fed) is to keep inflation near 2% over the long term. The 2% target is meant to keep inflation gradual and more predictable to help minimize its impact.

7. **What could end inflation?** If supply-chain issues resolve, prices could begin to stabilize. However, if inflation persists, the Fed can step in and raise interest rates in an effort to dampen economic growth and help suppress inflation.

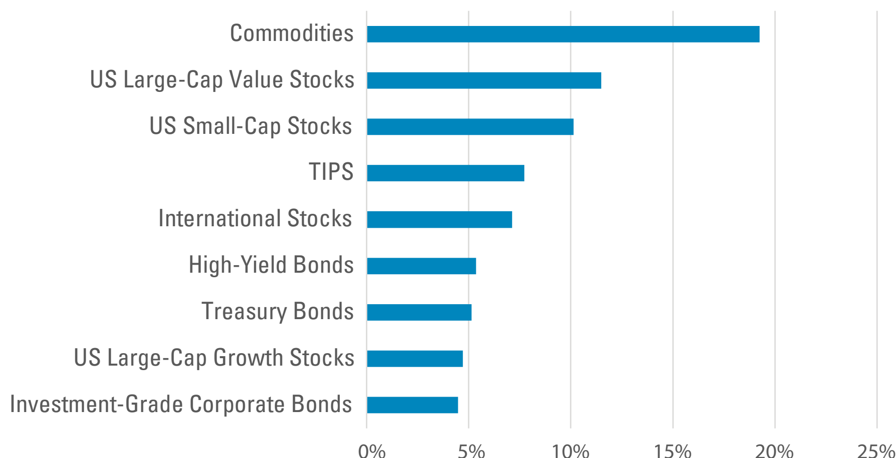
8. **What if prices reverse course?** The Fed strives to maintain a Goldilocks-like balance of inflation that's neither too high nor too low. If prices decline rapidly, known as deflation, it can be a sign of a weakening economy. Without sufficient demand, companies may end up cutting production and jobs.

9. **What could happen to my portfolio?** Some asset classes are more sensitive to inflation than others. Fixed income is particularly vulnerable to rising prices, although Treasury-Inflation Protected Securities (TIPS) can adjust their principal to account for rising or falling inflation (which means their interest payments adjust, too).

10. **Can anything good come from inflation?** Some asset classes have historically thrived during periods of rising inflation. Commodities may be particularly well-suited because they can pass price increases along to consumers. Equities have tended to perform well, too, especially US small-cap, US value, and international equities.

Asset Classes That Benefited During Past Periods of Rising Inflation

Average Returns During Eight Inflationary Periods Since 1970



Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment. See below for representative index definitions. For illustrative purposes only. Note: Historical data unavailable for some asset classes. Rising core CPI periods, which do not include food or energy prices, defined as increases of about 1% or more. Eight time periods shown in chart are: 1973-1975, 1977-1980, 1983-1984, 1987-1991, 1999-2001, 2003-2006, 2010-2012, 2020-2021. Source: Hartford Funds as of 12/31/21.

Talk to your financial professional about managing the effects of inflation on your portfolio.

Commodities are represented by the Bloomberg Commodity Total Return Index, an index composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. **High Yield Bonds** are represented by the Bloomberg US Corporate High Yield Total Return Index, an unmanaged broad-based market-value-weighted index that tracks the total-return performance of non-investment grade, fixed-rate, publicly placed, dollar-denominated and nonconvertible debt registered with the SEC. **International Stocks** are represented by the MSCI World ex USA Index, a free float-adjusted market-capitalization index that captures large- and mid-cap representation across developed-markets countries excluding the United States. MSCI performance is shown net of dividend withholding tax. **Investment-Grade (IG) Corporate Bonds** are represented by the Bloomberg US Corporate Index, a market-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more. **Treasury Bonds** are represented by the Bloomberg US Treasury Index, an unmanaged index of prices of US Treasury bonds with maturities of one to 30 years. **US Large Value Stocks** are represented by the top 30% of the top 1000 US stocks based on a value score that equally weights multiple valuation metrics to arrive at an aggregated valuation metric. Valuation metrics include: Earnings Yield, Operating Cash Flow/Enterprise Value (EV), EBITDA (earnings before interest, taxes, depreciation, and amortization)/EV, Sales/EV, Dividend Yield, and Equity Yield. **US Large Growth Stocks** are represented by the top 30% of the top 1000 US Stocks based on 50% year-over-year total earnings growth and 50% year-over-year revenue growth. **US Small Cap Stocks** are represented by the US universe of small-cap stocks as identified by US stocks between the 85th and 98th percentiles of market cap. **TIPS** are represented by the Bloomberg US Treasury Inflation-Linked Bond Index (Series L), which measures the performance of the US Treasury Inflation-Protected Securities (TIPS) market.

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