

A Snapshot Of Stock Performance Relative To Historical U.S. Inflation Rates

CPI (Dec. trailing 12-month)	# of Years out of 50	S&P 500 Index (Average TR)	S&P 500 Index (Highest TR)	S&P 500 Index (Lowest TR)
0-0.9%	3	-7.31%	13.69%	-37.00%
1-1.9%	10	17.47%	33.36%	-11.89%
2-2.9%	11	16.82%	37.43%	-22.10%
3-3.9%	12	14.84%	32.16%	-9.10%
4-4.9%	5	16.57%	31.49%	5.23%
5-5.9%	0	N/A	N/A	N/A
6-6.9%	3	8.95%	37.20%	-7.18%
7-7.9%	0	N/A	N/A	N/A
8-8.9%	2	-9.79%	-4.91%	-14.66%
9-9.9%	1	6.56%	6.56%	6.56%
10-10.9%	0	N/A	N/A	N/A
11-11.9%	0	N/A	N/A	N/A
12-12.9%	2	2.98%	32.42%	-26.47%
13-13.9%	1	18.44%	18.44%	18.44%

Source: Bureau of Labor Statistics and Morningstar/Ibbotson Associates. **Past performance is no guarantee of future results.**

View from the Observation Deck

1. We have been fielding inquiries about how rising inflation can potentially impact the performance of stocks over time. The data in the table spans 50 years.
2. The concern seems to stem from the fact that, while inflation has been largely subdued for the past decade or so, investors are wondering if the trillions of dollars of stimulus brought to bear by the U.S. government and its agencies to prop up the U.S. economy during the COVID-19 pandemic might reignite it moving forward.
3. Over the 50-year period captured in the table above, the S&P 500 posted an average annual total return of 10.87%, according to Bloomberg. That is slightly better than its 10.28% average annual total return from 1926 through 2020 (95 years), according to Morningstar/Ibbotson Associates. From 1971-2020, the S&P 500 Index posted 40 positive calendar-year total returns and 10 negative. It was in positive territory 80% of the time on a calendar year basis.
4. Over that same 50-year period, the Consumer Price Index (CPI) averaged 3.9% per year, according to data from the Bureau of Labor Statistics (BLS). That was a full percentage point higher than its 2.9% average from 1926 through 2020, according to BLS data.
5. Our main takeaway from the data in the table is that little to no inflation (0-0.9%) has not been a good climate for stocks and too much inflation (8-8.9%) can also provide a serious headwind for equity investors. Overall, the sweet spot appears to be a CPI ranging from 1% to 4.9%. On 12/31/20, the trailing 12-month CPI stood at 1.4%, according to the BLS.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.