How Defensive Sectors Have Fared During Periods Of Elevated Inflation

S&P 500 Defensive Sectors vs. S&P 500 Index: Total Returns
(YTD & Years In Which Trailing 12-Month CPI $\geq$ 3.0%)

Year	CPI Rate	S&P 500	S&P 500 Health Care	S&P 500 Consumer Staples	S&P 500 Utilities
2021 (10/29)	6.2%	24.04%	19.31%	8.76%	9.13%
2011	3.0%	2.11%	12.73%	13.99%	19.91%
2007	4.1%	5.49%	7.15%	14.18%	19.38%
2005	3.4%	4.91%	6.46%	3.58%	16.84%
2004	3.3%	10.88%	1.68%	8.16%	24.28%
2000	3.4%	-9.10%	37.05%	16.78%	57.19%
1996	3.3%	22.96%	21.04%	25.90%	5.68%
1991	3.1%	30.47%	53.69%	41.66%	23.89%
1990	6.1%	-3.10%	17.29%	15.32%	-0.63%

Source: Bloomberg. **Past performance is no guarantee of future results.**

View from the Observation Deck

1. The major stock indices are still trading near their all-time highs. The question is: Could robust inflation pose a threat to the broader stock market (S&P 500 Index) if sustained?
2. We looked back to 1990 and selected those calendar years where inflation, as measured by the Consumer Price Index (CPI), rose by 3.0% or more on a trailing 12-month basis.
3. Why 3.0%? From 1926-2020, the average CPI rate was 3.0%, according to data from the Bureau of Labor Statistics.
4. For comparative purposes, we selected three defensive sectors (Health Care, Consumer Staples and Utilities) to see how their returns matched up with those of the S&P 500 Index.
5. The premise being that defensive sectors tend to be less cyclical in nature than their counterparts and can potentially offer investors better performance results in volatile markets.
6. As indicated in the chart, the defensive sectors posted a good showing relative to the S&P 500 Index overall, and all three outperformed the broader market in 1990, 2000, 2007 and 2011.
7. Based on cash flow data through the first nine months of 2021, investors do not appear to be flocking to these defensive sectors just yet. That could be due to the fact that they are lagging the performance of the S&P 500 Index (see table).
8. Year-to-date through September, Health mutual funds and exchange-traded funds (ETF) reported net inflows totaling $1.12 billion, while Consumer Defensive (Staples) and Utilities funds experienced net outflows totaling $2.25 billion and $692 million, respectively, according to data from Morningstar.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or 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. The respective S&P 500 Sector Indices are capitalization-weighted and comprised of S&P 500 constituents representing a specific sector.

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