July 2023

# The Premier Partnership Limited

## Your Family Office

Investment REPORT

# Will Inflation Hurt Stock Returns? Not Necessarily

**Since the beginning of the year, global stock markets have seen dizzying new highs, experienced sharp falls during a banking crisis that swallowed three banks, and done nothing at all on an attempted coup in Russia. So, business as usual then!**

Volatility in stock markets is nothing new, and volatility will continue as long as capitalism lives and breathes. The primary function of stock markets generally is to bring companies from private to public ownership and help the company raise capital to pursue its objectives. Be they small or large companies, this is the markets primary function.

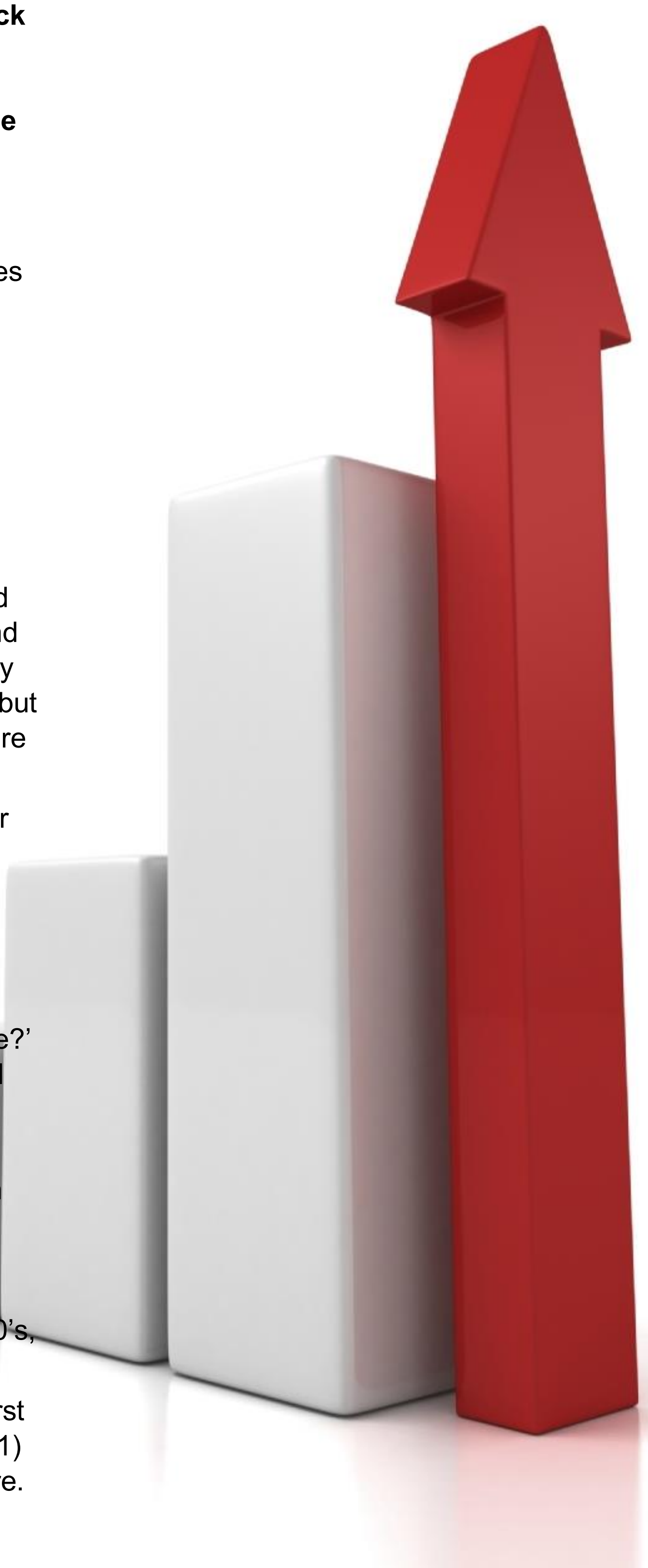
The secondary market is where shares get traded once they have gone public, and this is the side of affairs we relate to in economic and geopolitical analysis. Stock prices going up and down on the secondary market on a day to day basis means little to the incumbent company, but a strong share price obviously means things are going well - and vice versa.

Witness the recent problems at Thames Water plc., and the ongoing strength of the Tech Titans.

When we look at the challenges that markets have faced this year we see a change of narrative from things such as ‘How high will inflation go?’ to ‘How persistent will inflation be?’ ‘How high will interest rates go?’, to ‘When will rates peak?’

2022 was an annus horribilis for investors, as war erupted in Europe, global inflation (benign for 15 years) soared to generationally high levels, and Central Banks responded by tightening monetary policy and increasing interest rates at the fastest rate since the 1970’s, with 14 rate rises in 12 months.

2022 was a dismal year for equities and the first 6 months of 2023 (after a very good start in Q1) have yet to set the world of performance on fire.



So when will markets regain upward momentum?

We believe the global equity markets outlook is very very slowly improving, and is certainly more attractive than it was a year ago. Our valuation and forecasting frameworks are, and always have been, to set a long term perspective, and we do not get blindsided by short term volatility. Our current median forecasts for annual performance from global equity markets - on average - is +7.1% per annum. If we are right - and there will be many ups and downs in creating whatever result is achieved - then long term patient investors will get an average portfolio performance above inflation, thereby maintaining ongoing buying power in the future. This is not a guarantee or an absolute prediction, but a forecast based on the current valuations of global companies, and their potential outlook for the future.

Putting the equity and bond market forecasts together for the rest of 2023, shows that continuing share price volatility will be a certainty, but a diversified well balanced portfolio with a targeted risk profile will still provide the best insurance against inflation ravages on assets going forward.

In a change to the usual Index layout of our investment report, we have instead included a chart showing the effects of inflation on stock market returns over the last 30 years. You may be surprised by it's findings, but a key take away is that 22 of the last 30 years have seen positive market returns even after adjusting for inflation. Further food for thought!

**Until next time.**

## Stock Vs. Inflation


Past performance does not predict future returns

Source: Dimensional Fund Advisors Ltd



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