



Inflation Consternation Should Investors Be Worried?

Symmetry Research

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Introduction

- Inflation – Overview
- Economic Measures
- Federal Reserve
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Inflation - Overview

Inflation - Overview

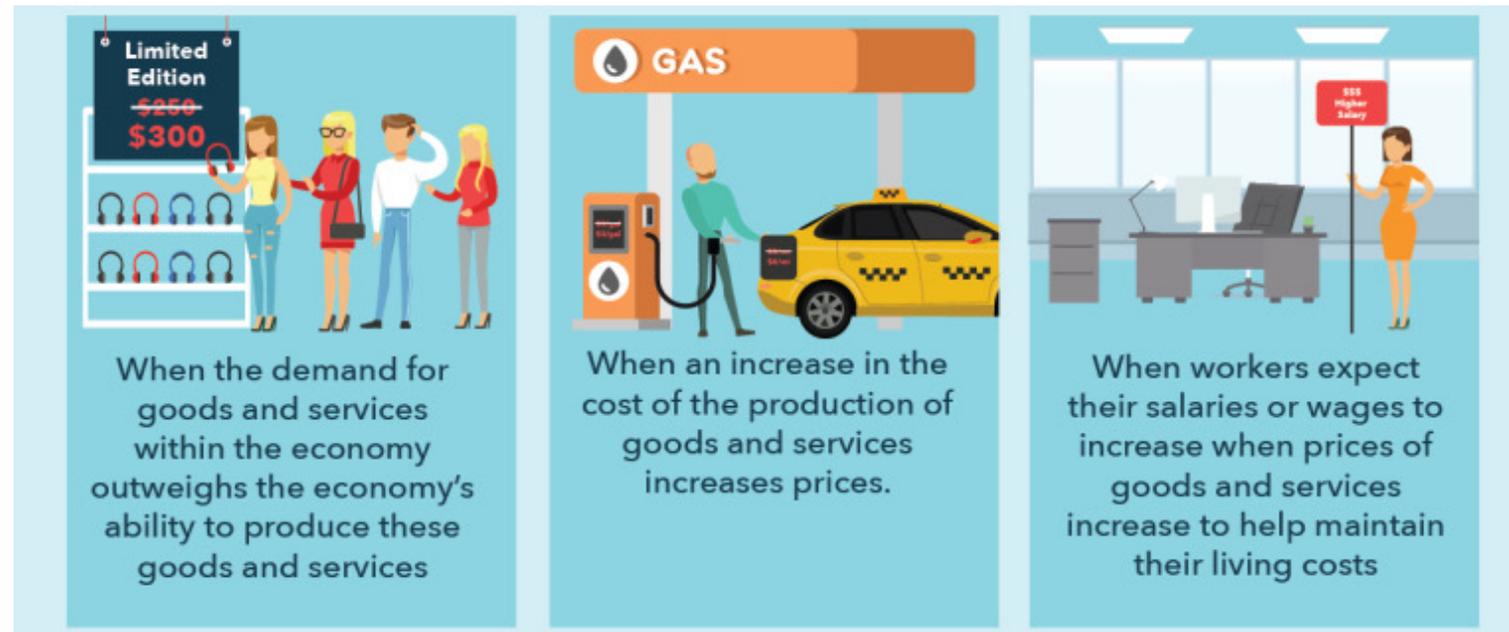
Inflation - Gradual **rise in prices** and slow **decline in purchasing power** of a dollar over time

	1995	2020
 Healthcare	\$3,806	\$11,582
 Housing	\$130,000	\$329,000
 Gas	\$1.15 per gallon	\$2.17 per gallon
 Milk	\$2.48 per gallon	\$3.32 per gallon
 Cable	\$22.35 per month	\$217.42 per month

Inflation - Overview

What Causes Inflation?

- **Demand-Pull Inflation** - when **demand for goods or services increases** but **supply remains the same**, pushing up prices.
- **Cost-push inflation** - when **supply of goods or services is limited in some way** but **demand remains the same**, pushing up prices.



Inflation - Overview

How Inflation is Measured

Because no one index captures full range of price changes in U.S. economy, economists consider multiple indexes to get a comprehensive picture of rate of inflation.

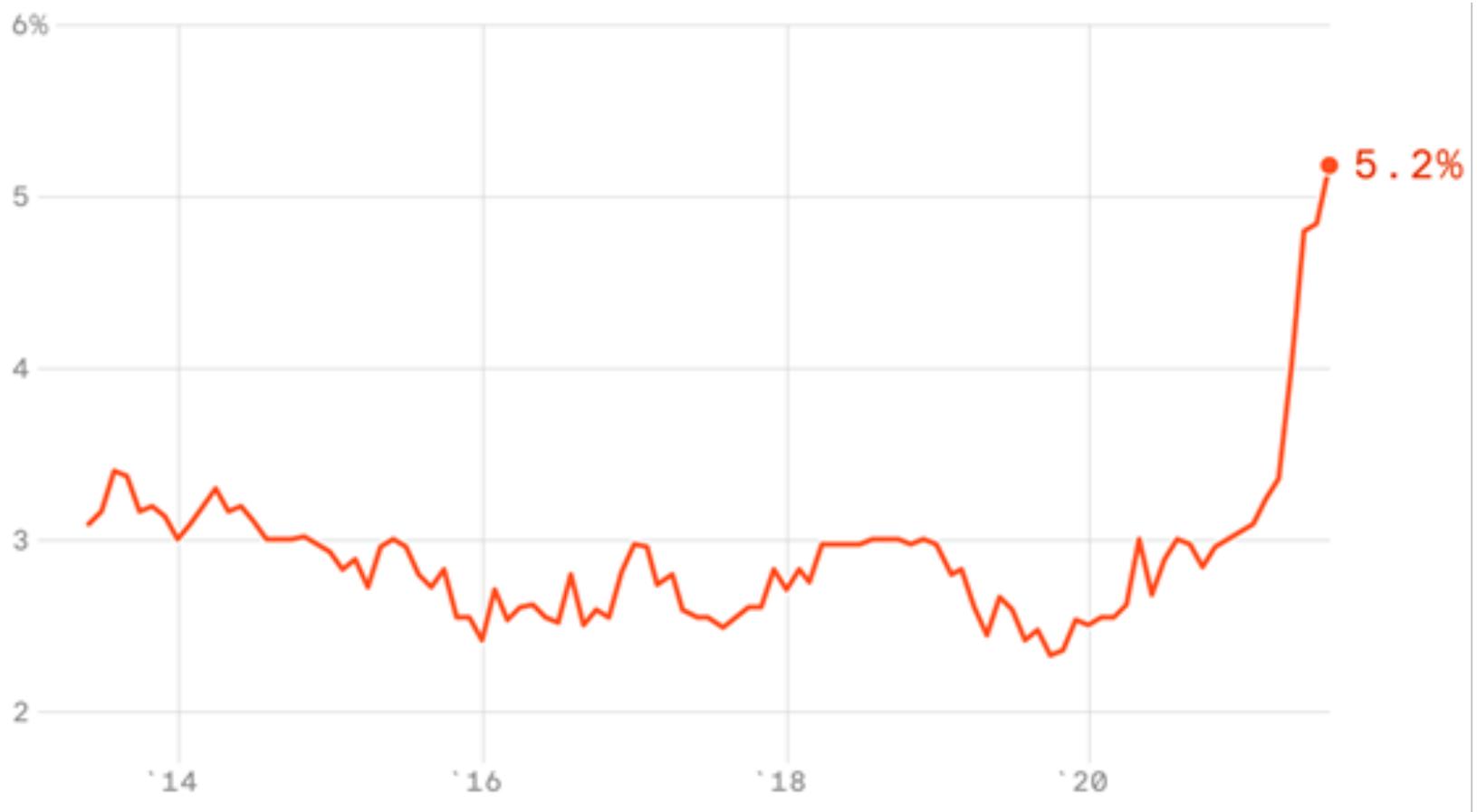
- **Consumer Price Index (CPI)** - U.S. Bureau of Labor Statistics calculates change in **prices consumers pay for “basket of goods & services”**
- **Producer Price Index (PPI)** - U.S. Bureau of Labor Statistics tracks changes in **prices that companies receive for goods and services** they sell each month.
- **Personal Consumption Expenditures Price Index (PCE)** - Bureau of Economic Analysis tracks **what consumers are actually spending money on each month**, rather than limiting data to fixed “basket” of goods & services (ex: includes healthcare spending). Federal Reserve’s preferred measure of inflation when making monetary decisions.

Economic Measures

Economic Measures

U.S. Consumers Expectations for Inflation

Median one-year-ahead expected inflation rate, June 2013 – Aug 2021

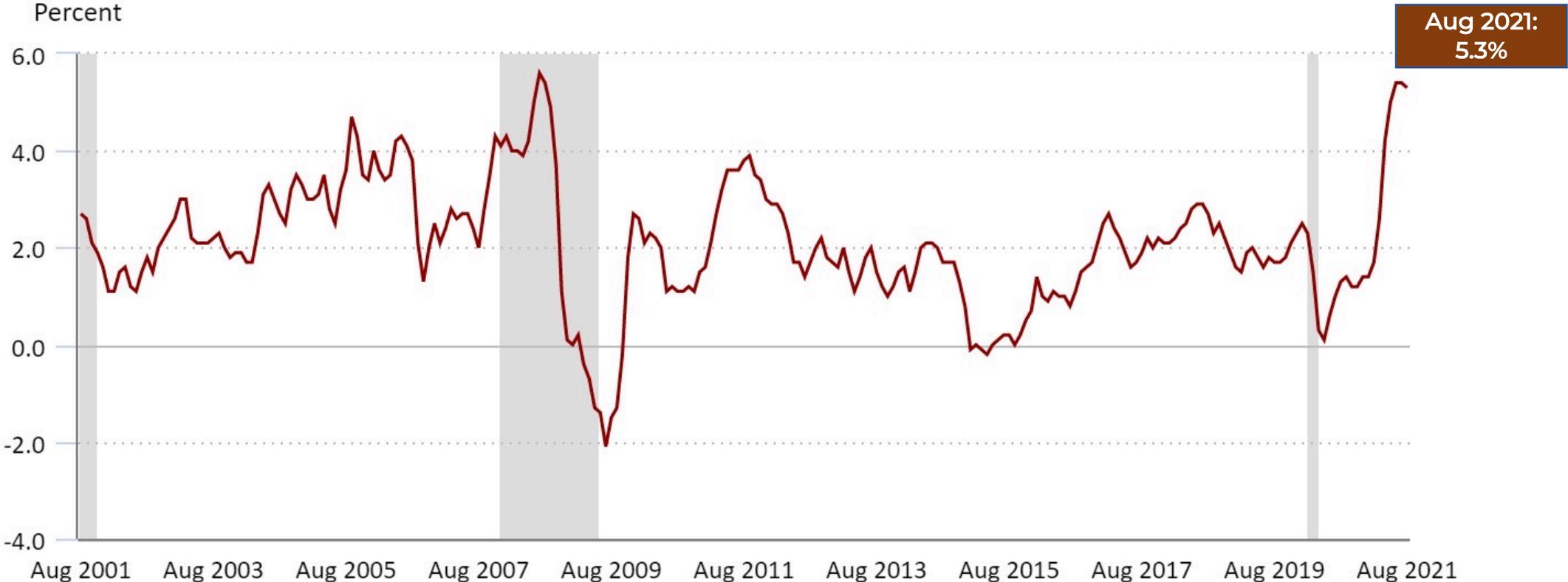


Source: New York Fed

Economic Measures

Consumer Price Index (CPI)

12-month percentage change, Consumer Price Index, selected categories (past 20 years)

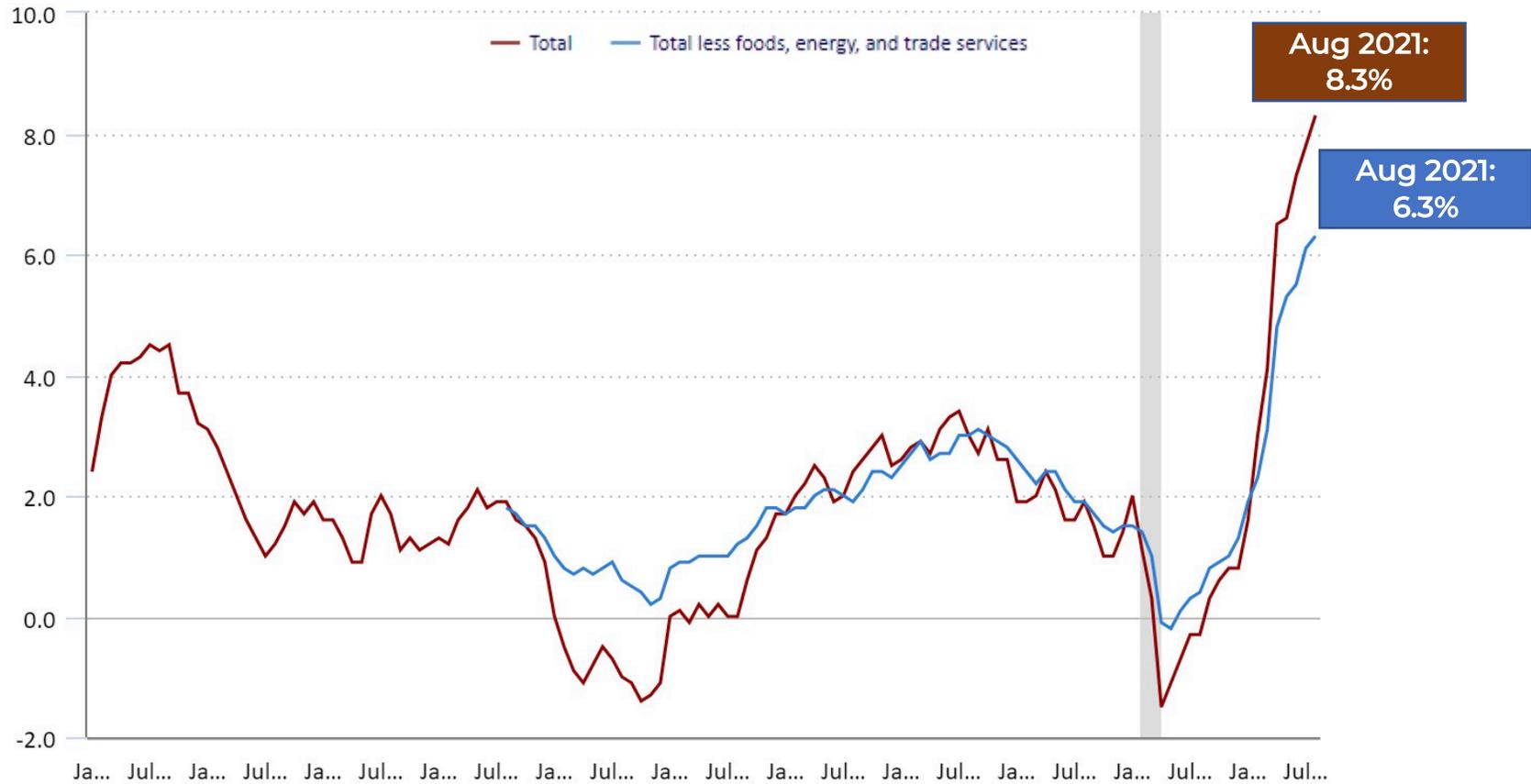


Source: US Bureau of Labor Statistics.

Economic Measures

Producer Price Index (PPI)

12-month percentage change, Producer Price Index for final demand, not seasonally adjusted



Source: US Bureau of Labor Statistics.

Economic Measures

Personal Consumption Expenditures Price Index (PCE)

Personal Consumption Expenditures Price Index year over year (10 years)



Source: Bureau of Economic Analysis

The Federal Reserve

Federal Reserve

Dual Mandate

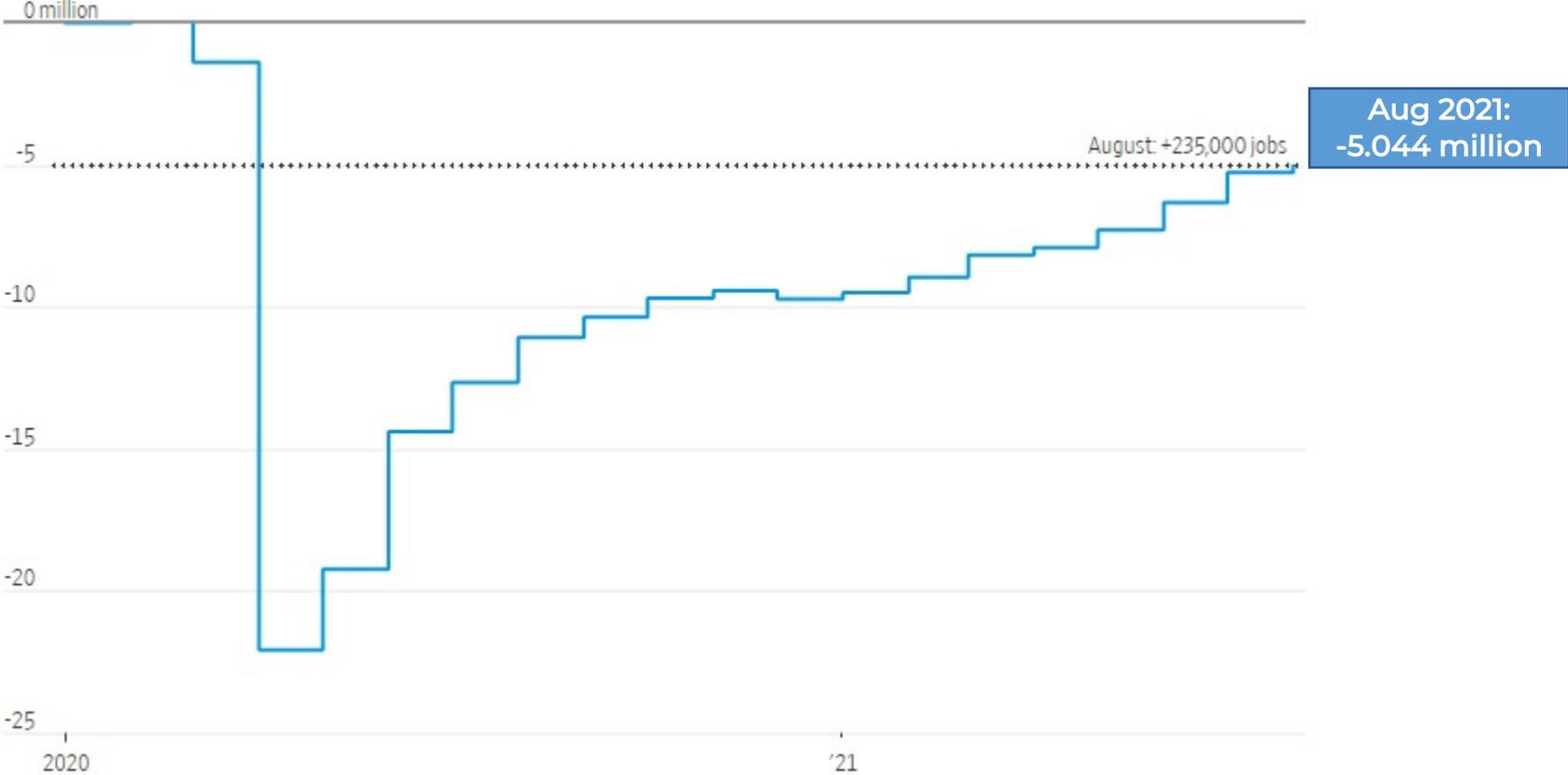
Since The Federal Reserve Act of 1977, Federal Reserve has operated under mandate from Congress to "**promote effectively the goals of maximum employment, stable prices, and moderate long term interest rates**" — what is now commonly referred to as Fed's "dual mandate"

- **Maximum Employment** - there will always be people quitting or starting new jobs, businesses failing and new ones starting, etc., so there will always be certain level of unemployment, and thus level the Fed is tasked with achieving is not zero percent unemployment.
- **Stable Prices and Moderate Long-Term Interest Rates** - In order for people and businesses to make future plans, they need to be reasonably confident prices will remain relatively constant over time. The Federal Reserve aims to create stable monetary environment, and to do this, has deemed targeting inflation (by keeping it at a low and stable **average rate of 2%**) is the best way to achieve such stability.

Federal Reserve

Mandate: Maximum Employment

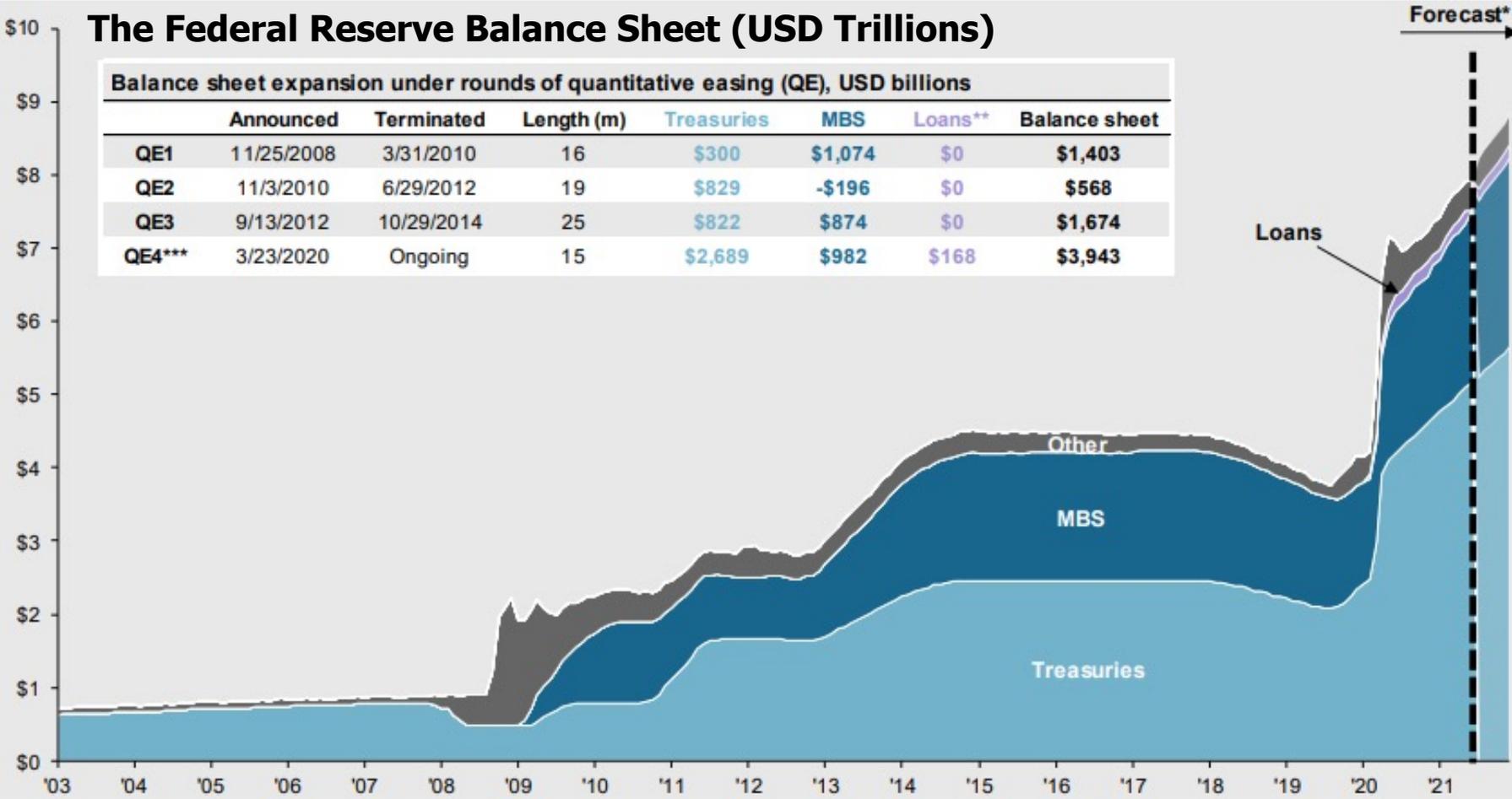
Payrolls, change since January 2020



Sources: U.S Labor Department (data is seasonally adjusted)

Federal Reserve

Mandate: Stable Prices



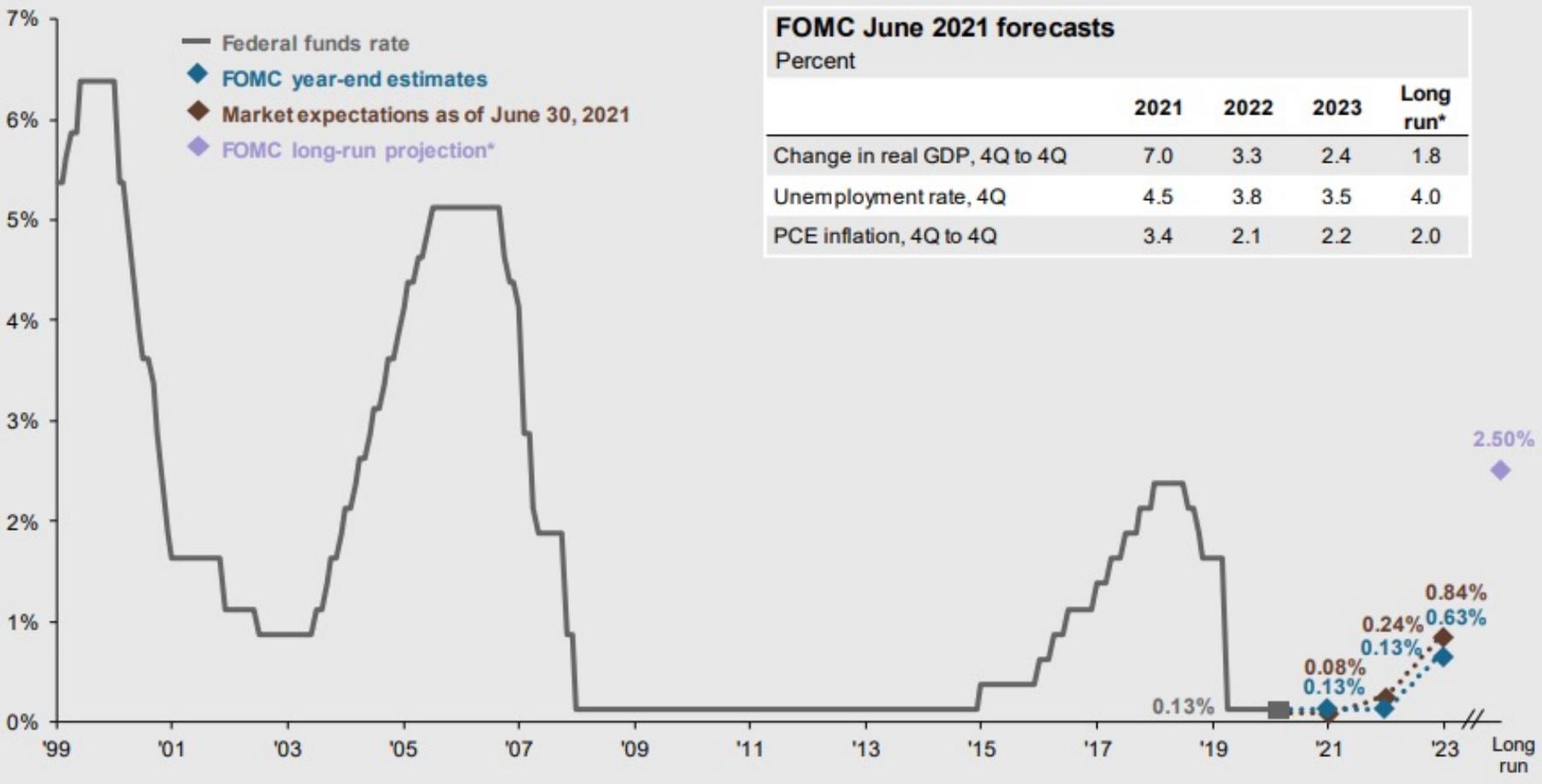
Sources: FactSet, Federal Reserve, J.P. Morgan Investment Bank, J.P. Morgan Asset Management

Past performance does not guarantee future results. All data is from sources believed to be reliable but cannot be guaranteed or warranted.

Federal Reserve

Mandate: Moderate Long-term Interest Rates

FOMC and market expectations for the federal funds rate



Sources: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management

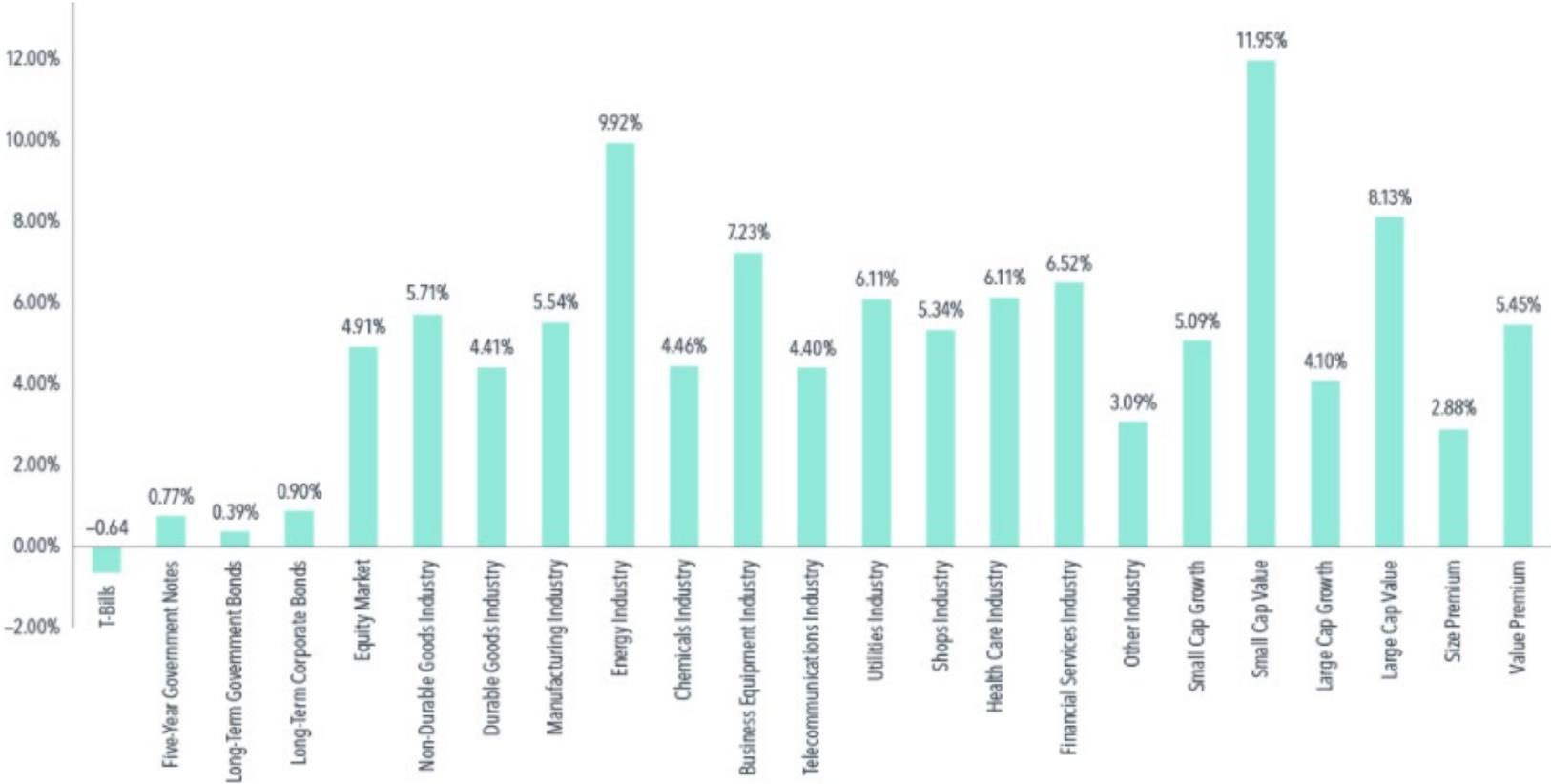
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Market Impacts

Market Impacts

Inflation & Asset Returns

Average annual real returns in years with above-median US inflation, 1927–2020



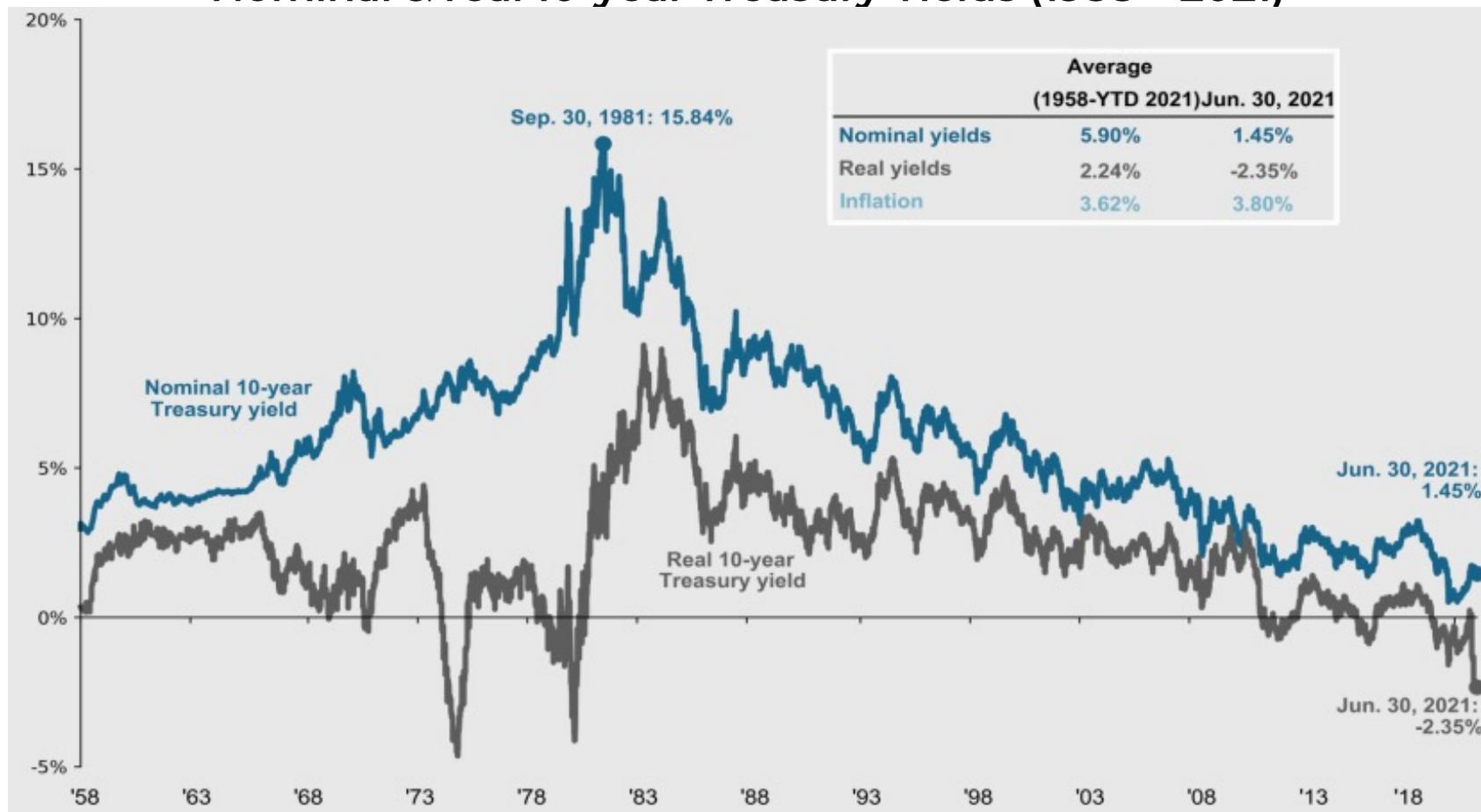
Source: Dimensional Fund Advisors
<https://www.dimensional.com/us-en/insights/are-concerns-about-inflation-inflated>
 US Inflation and Global Asset Returns, Wei Dai, Mamdouh Medhat, July 2021

Past performance does not guarantee future results. All data is from sources believed to be reliable but cannot be guaranteed or warranted. Please see disclosure at the end of this presentation for additional information regarding data in the chart shown above.

Market Impacts

Inflation & Interest Rates

Nominal & real 10-year Treasury Yields (1958 – 2021)



Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management

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Summary

What This Means For Investors

Inflation is about supply and demand— as the economy recovers from the pandemic, we have record savings combined with pent-up demand for everything from home improvement to cars to driving prices up. No one knows for sure if these recent inflation increases are short- or long-term.

The best course of action for investors is:

- **Build inflation into your financial plan.** One of the **best tools for combatting inflation** is to plan for how it can affect long-term financial goals.
- **Stay invested—and diversified.** A strong defense against long-term inflation is maintaining a **globally diversified portfolio.**
- **Keep fees to a minimum.** Don't overlook insidious way high fees can eat into investment dollars. This is true no matter what inflation does, but especially important when inflation is already **taking its bite.**

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Questions?



“Scrappy,” the Symmetry bull is a symbol of our firm’s belief in the long-term power of markets.

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Diversification seeks to reduce volatility by spreading your investment dollars into various asset classes to add balance to your portfolio. Using this methodology, however, does not guarantee a profit or protection from loss in a declining market. Rebalancing assets can have tax consequences. If you sell assets in a taxable account you may have to pay tax on any gain resulting from the sale. Please consult your tax advisor.

Higher potential return generally involves greater risk, short term volatility is not uncommon when investing in various types of funds including but not limited to: sector, emerging markets, small and mid-cap funds. International investing involves special risks such as currency fluctuation, lower liquidity, political and economic uncertainties, and differences in accounting standards. Risks of foreign investing are generally intensified for investments in emerging markets. Risks for emerging markets include risks relating to the relatively smaller size and lesser liquidity of these markets, high inflation rates and adverse political developments. Risks for investing in international equity include foreign currency risk, as well as, fluctuation due to economic or political actions of foreign governments and/or less regulated or liquid markets. Risks for smaller companies include business risks, significant stock price fluctuation and illiquidity. Investing in real estate entails certain risks, including changes in: the economy, supply and demand, laws, tenant turnover, interest rates (including periods of high interest rates), availability of mortgage funds, operation expenses and cost of insurance. Some real estate investments offer limited liquidity options. Investing in higher-yielding, lower-rated bonds has a greater risk of price fluctuation and loss of principal income than U.S. government securities, such as U.S. Treasury bond and bills. Treasuries and government securities are guaranteed by the government for repayment of principal and interest if held to maturity. Investors should carefully assess the risks associated with an investment in the fund.

Market Events Risk. Financial markets are subject to periods of high volatility, depressed valuations, decreased liquidity and heightened uncertainty, such as what was experienced during the financial crisis that occurred in and around 2008 and more recently in connection with the coronavirus disease 2019 (COVID-19) pandemic. Market conditions such as this are an inevitable part of investing in capital markets and may continue, recur, worsen or spread. Markets may be volatile and values of individual securities and other investments may decline significantly in response to adverse issuer, political, regulatory, market, economic, public health, or other developments that may cause broad changes in market value, public perceptions concerning these developments, and adverse investor sentiment or publicity. Changes in the financial condition of a single issuer may impact a market as a whole. Changes in value may be temporary or may last for extended periods.

Slide 18 Disclosure – (Market Impacts - Inflation & Asset Returns)

CPI is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas. Average price data for select utility, automotive fuel, and food items are also available.

The **Producer Price Index (PPI)** program measures the average change over time in the selling prices received by domestic producers for their output.

PCE price index, released each month in the Personal Income and Outlays report, reflects changes in the prices of goods and services purchased by consumers in the United States

US inflation - The annual rate of change in the Consumer Price Index for All Urban Consumers (CPI-U, not seasonally adjusted) from the Bureau of Labor Statistics.

US government securities and long-term corporate bonds - The returns to US government securities (one-month T-bills, five-year notes, and long-term bonds) and long-term corporate bonds are from Morningstar (previously from Ibbotson Associates).

US equity portfolios and factors - The US equity market is proxied by the Fama/French Total US Market Research Index. The US industry portfolios are the 12 Fama/French industry portfolios. The US style portfolios (small cap value and growth and large cap value and growth) are from the Fama/French six portfolios sorted on size (market cap) and book-to-market equity. The US size and value premiums are proxied by the Fama/French size and value factors. The returns to all of the above are from Ken French's data library: https://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html.

T-bills: Short-term debt issued by the US Treasury Department.

Treasury Inflation-Protected Securities (TIPS): Bonds issued by the US Treasury Department that provide protection against inflation. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, the investor is paid the adjusted principal or original principal, whichever is greater.

Inflation swaps: An inflation-swap agreement is a two-sided contract in which one party receives floating payments tied to the actual inflation rate and pays fixed payments based on expected inflation and the inflation risk premium for a given notional amount and period.

Nominal return: The rate of return on an investment without adjusting for inflation.

Real return: The rate of return on an investment after adjusting for inflation.

Investments involve risks. The investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, call risk, and other factors. Inflation-protected securities may react differently from other debt securities to changes in interest rates.