# The Business Review

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## THE INVESTMENT EDITION

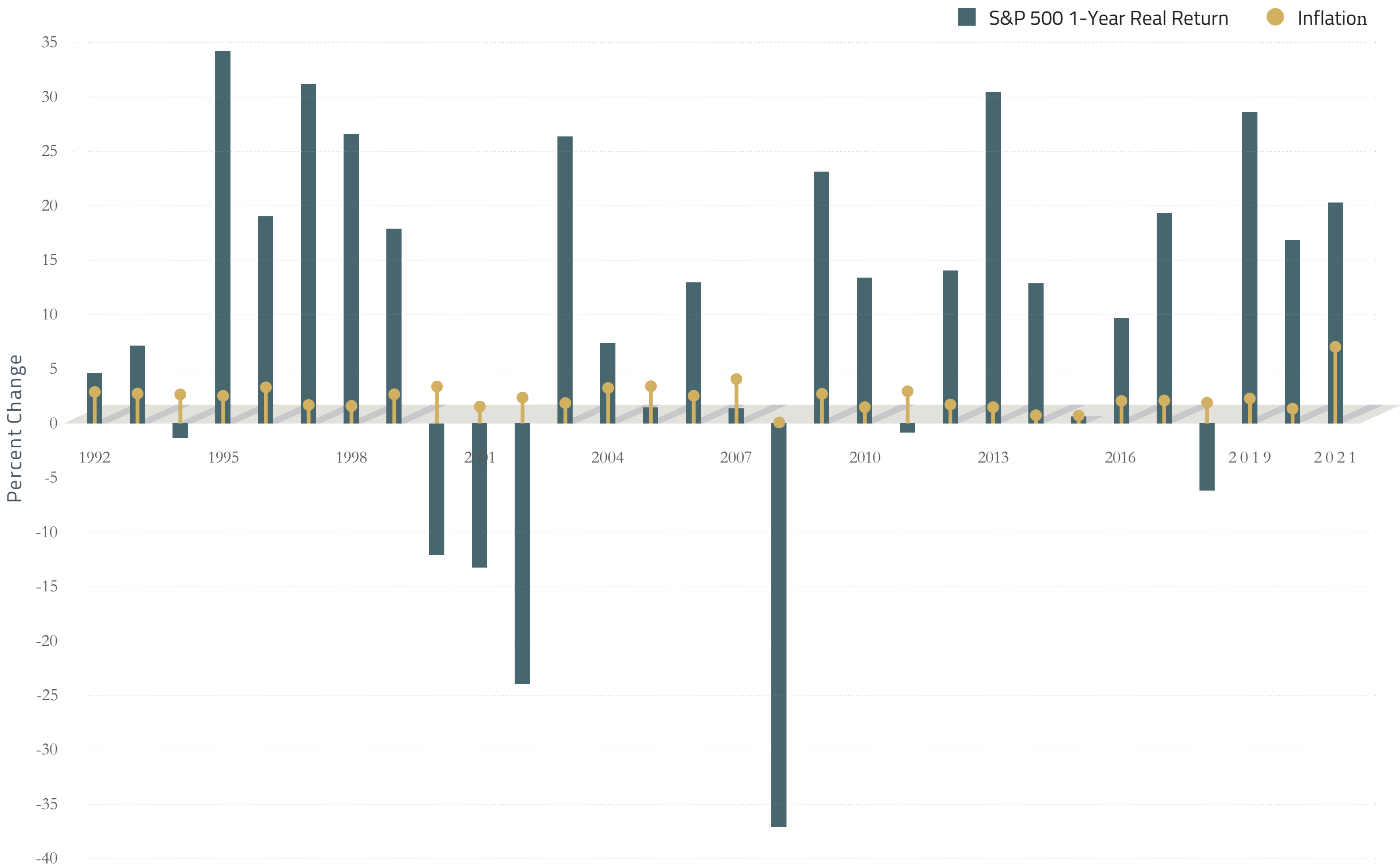
WILL INFLATION HURT STOCK RETURNS? NOT NECESSARILY

LONG TERM INVESTORS, DON'T LET A RECESSION FAZE YOU

GLOBAL DIVERSIFICATION - CAN MAKE A WORLD OF DIFFERENCE

# Will Inflation Hurt Stock Returns? Not Necessarily.

## Stocks Vs. Inflation




**Investors may wonder whether stock returns will suffer if inflation keeps rising. Here's some good news: Inflation isn't necessarily bad news for stocks.**

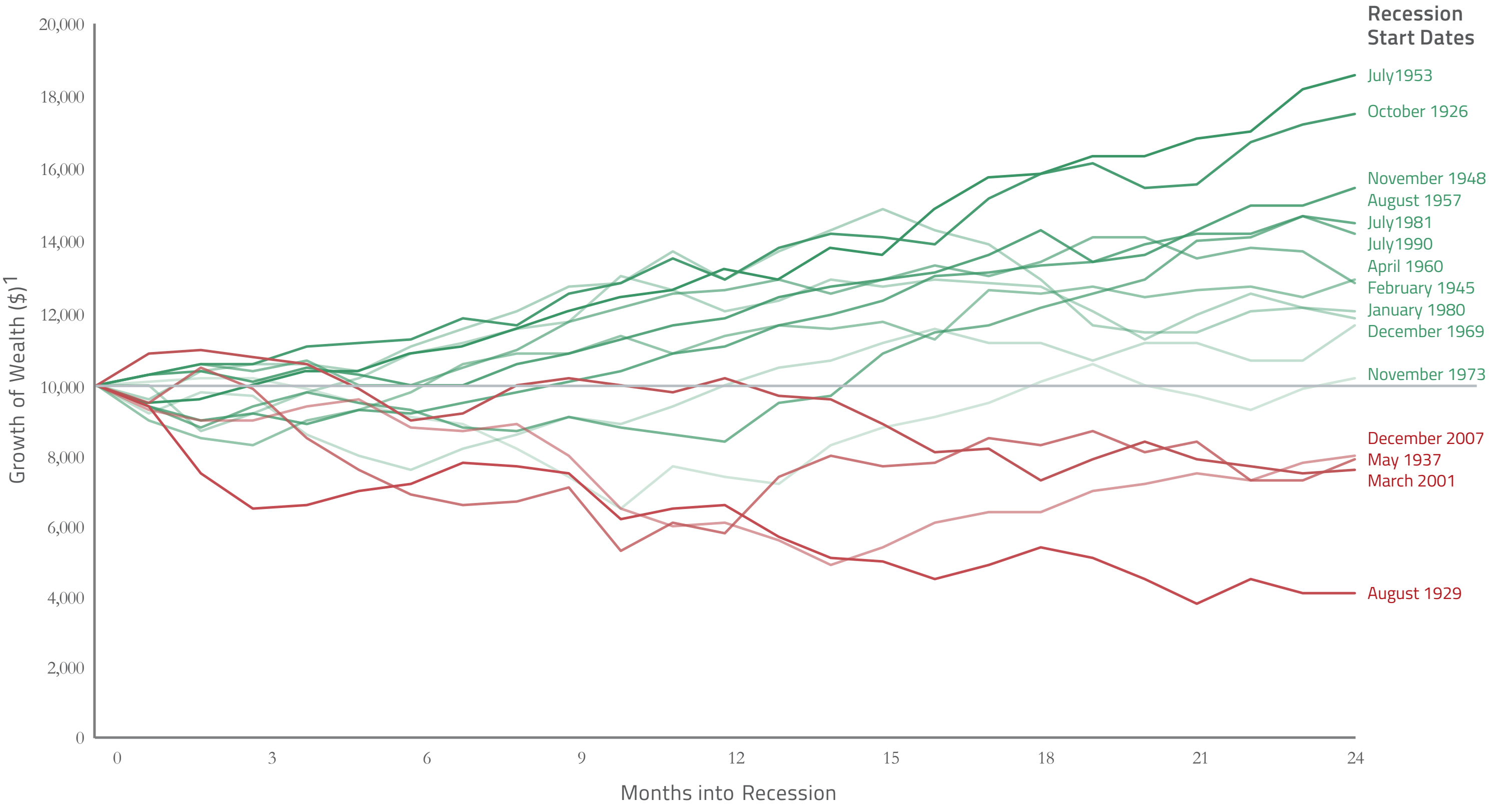
- A look at equity performance over the past three decades does not show any reliable connection between periods of high (or low) inflation and US stock returns.
- Since 1992, one-year returns on stocks have fluctuated widely. Yet the weakest returns can occur when inflation is low, and 23 of the past 30 years saw positive returns even after adjusting for the impact of inflation.
- Over the period charted, the S&P 500 posted an average annualized return of 8.1% after adjusting for inflation. The annualized inflation-adjusted return on US stocks is 7.3% when going all the way back to 1926.

*History shows that stocks tend to outpace inflation over time.*

*A valuable reminder for investors concerned that today's rising prices will make it harder to reach their long-term financial goals.*

# Long-Term Investors, Don't Let a Recession Faze You.

## Performance of a hypothetical $10,000 invested when a US recession began




1. Growth of wealth for the Fama/French Total US Market Research Index.

Past performance, including hypothetical performance, is no guarantee of future results.

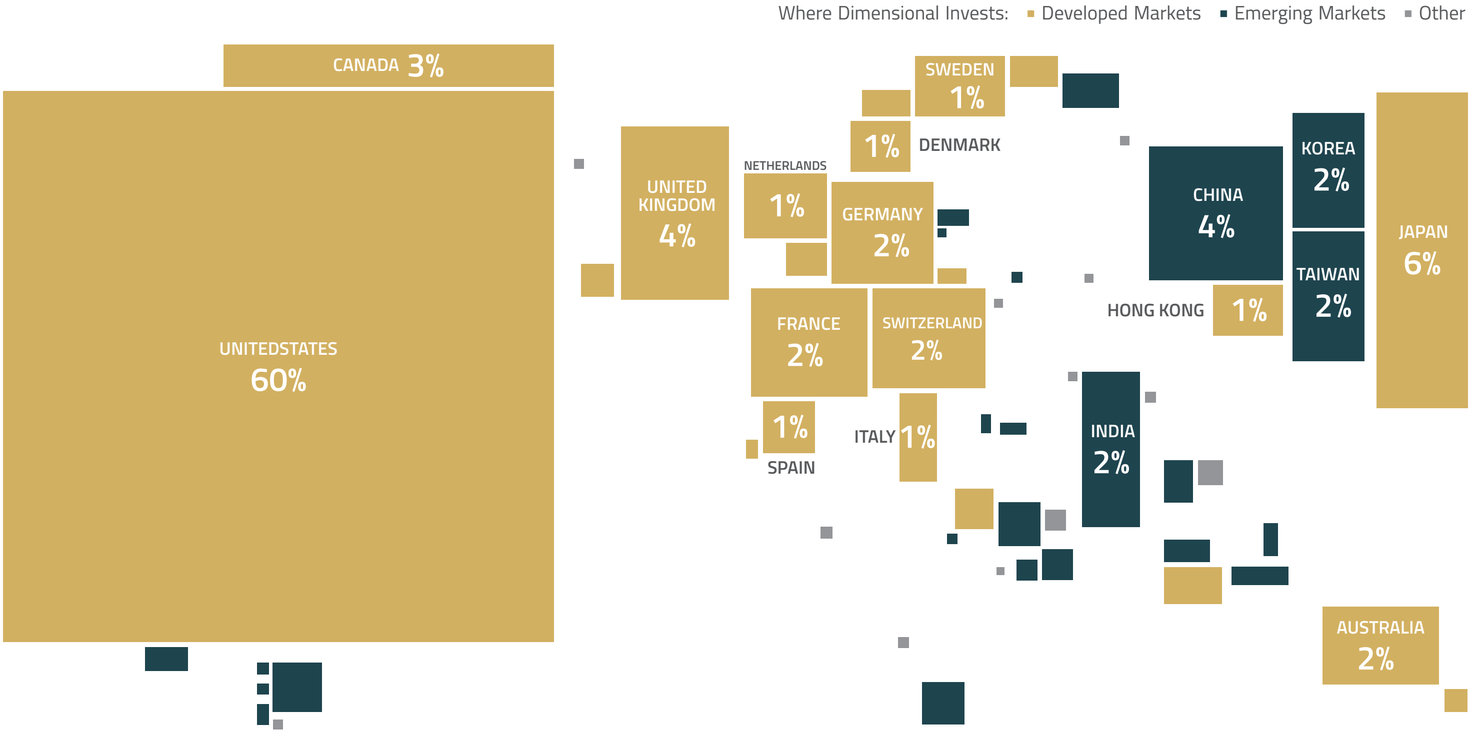
### In the past century, there have been 15 recessions in the US. In 11 of those instances, stock returns were positive two years after the recession began.

- Investors may be tempted to abandon equities and move to cash when there is heightened risk of an economic downturn.
- But research has shown that stock prices incorporate expectations of a recession and generally have fallen in value before a recession even begins.
- The average annualised return two years after the on - set of these 15 recessions was 7.8%.
- A $10,000 investment at the peak of the business cycle would have grown to $11,937, after two years on average.

*Recessions understandably trigger worries. But a history of positive average performance following a recession can be a comfort for investors wondering about sticking with stocks.*

# Global Diversification. Can Make a World of Difference.

## Percent of world equity market capitalisation (as of December 31, 2021)




**By Asset Class**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Europe | • 2,871 companies<br>• €12 trillion<br>• 16% of world market cap | Developed ex Europe | • 8,638 companies<br>• €55 trillion<br>• 72% of world market cap | Emerging | • 9,250 companies<br>• €9 trillion<br>• 12% of world market cap | Other | • 1,731 companies<br>• €400 billion<br>• 0.5% of world market cap |

## Investors who ignore global markets may miss out on a wealth of opportunity.

- Stocks of the roughly 19,600 companies trading outside of Europe represent nearly 84% of the world's €77 trillion equity market.
- When determining where to invest, a country's size, population, or gross domestic product may not be a primary consideration. Japan, for instance, is relatively small in landmass but accounts for 6% of the world's equity market value, representing more than 2,500 companies, including familiar names like Toyota and Sony. Even a smaller country like Switzerland is home to publicly traded giants like Nestlé and two of the world's biggest pharmaceutical firms.
- A strategy focused on global diversification captures returns from thousands of companies around the globe and can potentially offset weak performance in one market with stronger returns elsewhere.

*Investing in multiple countries can deliver more reliable outcomes over time, helping investors stay on track toward achieving their long-term goals.*

*Source: Dimensional.com*

## Get In Touch

We want to thank you for taking the time to read our newsletter. If you would like to find out more on any of the items discussed in this edition, feel free to contact us, we are happy to help.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