Inflation Can Be a Scary Word

There are compelling reasons to adopt a wait-and-see approach.

Provided by DSA Financial Group

Inflation can be a scary word for people who are retired. It's code for "prices are going up, but my income may stay the same."

The most recent reading on consumer prices put inflation back into the conversation. The Consumer Price Index (CPI) rose 0.8% in April 2021 and jumped by a greater-than-expected 4.2% year-over-year.[1]

April's increase was led by a 10% increase in used cars, with additional pockets of increases, notably in transportation services and commodities. Core inflation, which excludes the more volatile food and energy prices, was up a more modest 3.0% from April 2020.[2,3]

While there is good reason to be concerned about inflation, there also are compelling reasons to adopt a wait-and-see approach.

Federal Reserve Chair Jerome Powell says today's inflation will be transitory and attributed to the post-pandemic economic expansion. But others are not so certain. Warren Buffett has said price increases are more structural, meaning they are becoming part of the prices we pay every day.[4,5]

Inflation is just one factor considered when creating a portfolio. If inflation starts to trend higher than expected for a period of time, adjustments can be made. For example, if the Fed chooses to raise interest rates to help manage inflation, it may be appropriate to review a portfolio's bond holdings. Longer-term bonds can be more sensitive to interest rate changes.

We are keeping an eye on inflation and understand the concerns of our retired, or soon to be retired, clients. We work with professionals who monitor the economy and who can help interpret the recent government reports. But if inflation is starting to worry you, please reach out. We'd welcome the chance to hear your thoughts.

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The market value of a bond will fluctuate with changes in interest rates. As rates rise, the value of existing bonds typically falls. If an investor sells a bond before maturity, it may be worth more or less than the initial purchase price. By holding a bond to maturity, an investor will receive the interest payments due plus your original principal, barring default by the issuer. Investments seeking to achieve higher yields also involve a higher degree of risk.

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Citations

1. CNBC, May 12, 2021
2. U.S. Bureau of Labor Statistics, May 12, 2021
3. U.S. Bureau of Labor Statistics, May 12, 2021
4. CNBC.com, May 3, 2021
5. CNBC.com, April 28, 2021