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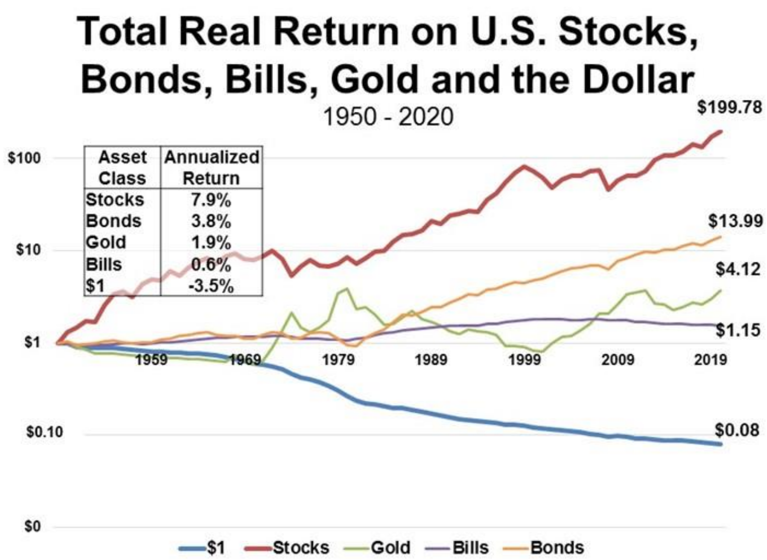
Delta Insights
a weekly commentary on investing

June 4, 2021

Inflation Hedge

To hedge is to protect oneself from an anticipated negative outcome. Keeping your money in cash has an expected negative outcome over time. The longer the duration, the worse the outcome. The value of cash erodes with inflation.

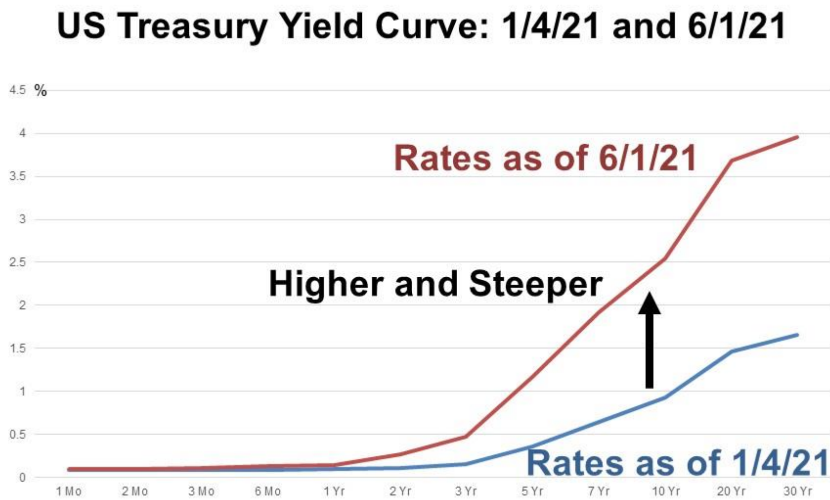


In the chart above, one dollar held in cash shrinks to 8 cents from 1950 through 2020. One dollar invested in the stock market grows to almost $200. This happens even with the three occurrences of the S&P 500 losing more than half of its value since World War 2. Stocks are growth assets that typically grow faster than inflation. Cash offers no growth and erodes with inflation.

Over long periods of time, stocks may be viewed as an inflation hedge. In the short term, rising interest rates (closely related to rising inflation) may depress Price/Earnings multiples which is negative for stock valuations. Many high P/E stocks are struggling against rising rates currently.

Bonds typically depreciate in a rising rate environment. In the chart above, bonds offered almost no net return from 1950 through 1981 during a time of flat to rising rates. If interest rates keep rising, bonds will do a poor job of providing a hedge against inflation.

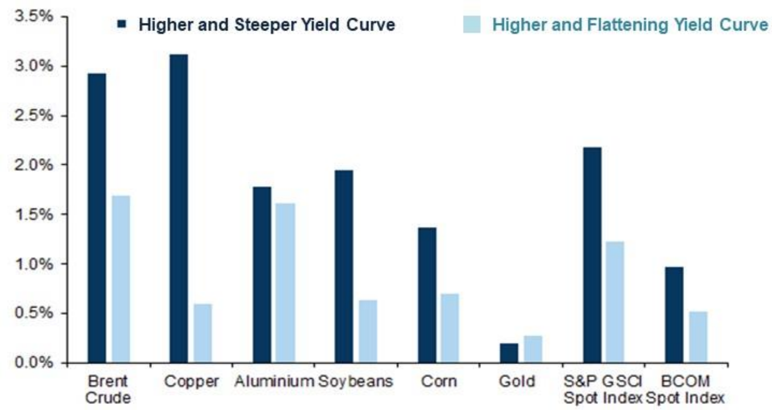
At the start of 2021, the 10-year US treasury rate was 0.93%. On June 1, 2021, the rate was 1.62%. The yield curve is both higher and steeper today than it was at the beginning of the year.



Goldman Sachs reviewed a variety of inflation hedges and concluded that commodities provide the most protection during inflationary periods. Commodities do not suffer from P/E contraction as they do not have forward earnings. The price is determined by supply and demand dynamics. During inflationary periods, demand normally exceeds supply causing price appreciation.

Commodities have performed well during periods when interest rates are rising and the yield curve is steeping.

Avg. Monthly Commodity Return, %



Source: Bloomberg, Goldman Sachs Global Investment Research

Generally, a yield curve with positive slope bodes well for the stock market. The equity markets are bullish and near all-time highs. The equity investment backdrop is favorable. By contrast, if you are holding large cash and bond positions, this is a time to consider a portfolio allocation shift. If you are worried inflation will be persistent, this may be a time to increase your allocation to commodities as a tactical trade and stocks as a long-term growth trade.

Let Us Help You Position Your Portfolio – Give Us a Call Today

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"No problem, B.J. I can talk and baste at the same time."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

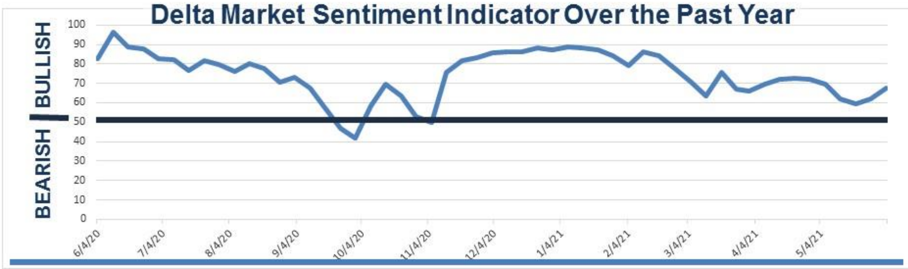
67.3

Our technical indicator increased from 61.8 to 67.3 this week

INDICATOR STATISTICS

Consecutive Bullish Weeks:	35
Cycle Inception Date:	10/8/2020
Range:	58.6 – 88.6
Mean:	74.1
Bullish Weeks YTD:	22
Bearish Weeks YTD:	0
*S&P 500	21.2%
*DJIA	21.2%
*NASDAQ	18.9%

** Percentage change during current cycle*



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