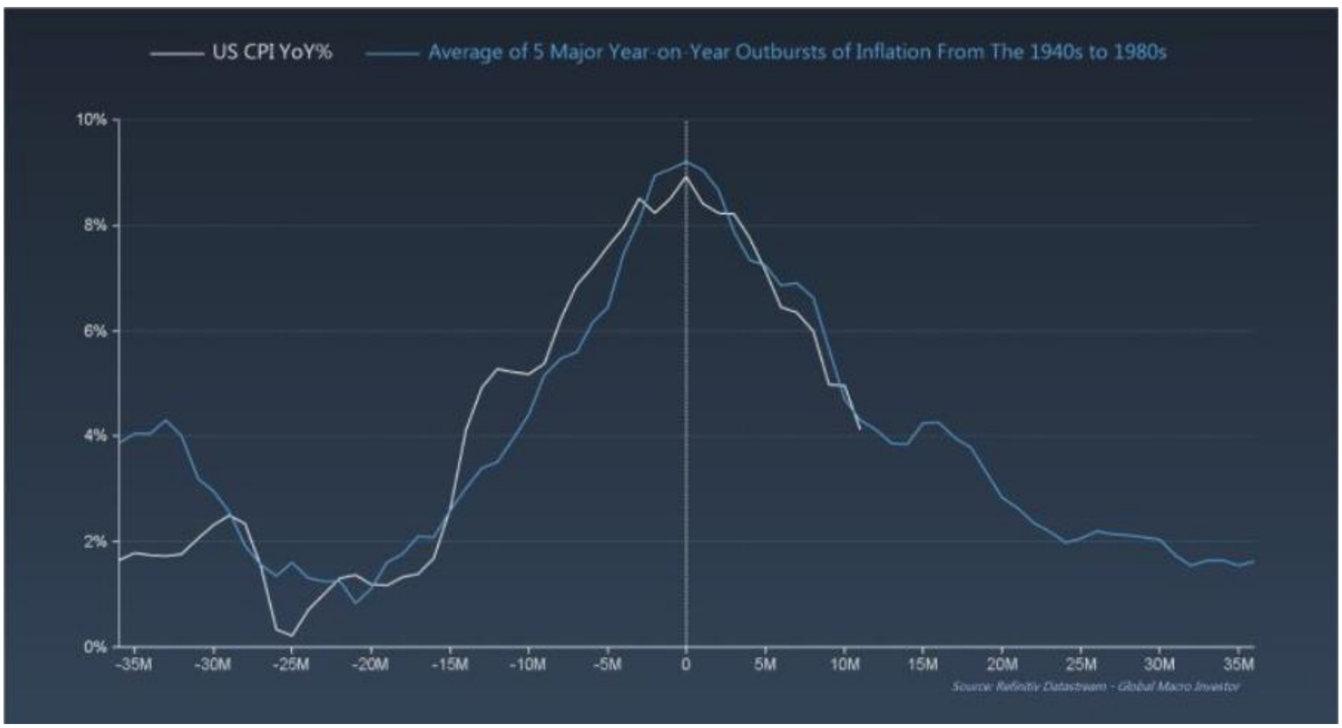
## Equities and Inflation

Over the past year we have spoken about the relationship between inflation and equity cycles – today we will revisit this topic and get an update on this relationship and correlation between the two. We have pointed out before that, particularly with regard to the US, CPI inflation peaks in the region have often coincided with or closely preceded low points in the S&P 500. Encouragingly, this cycle is playing out in the same way.

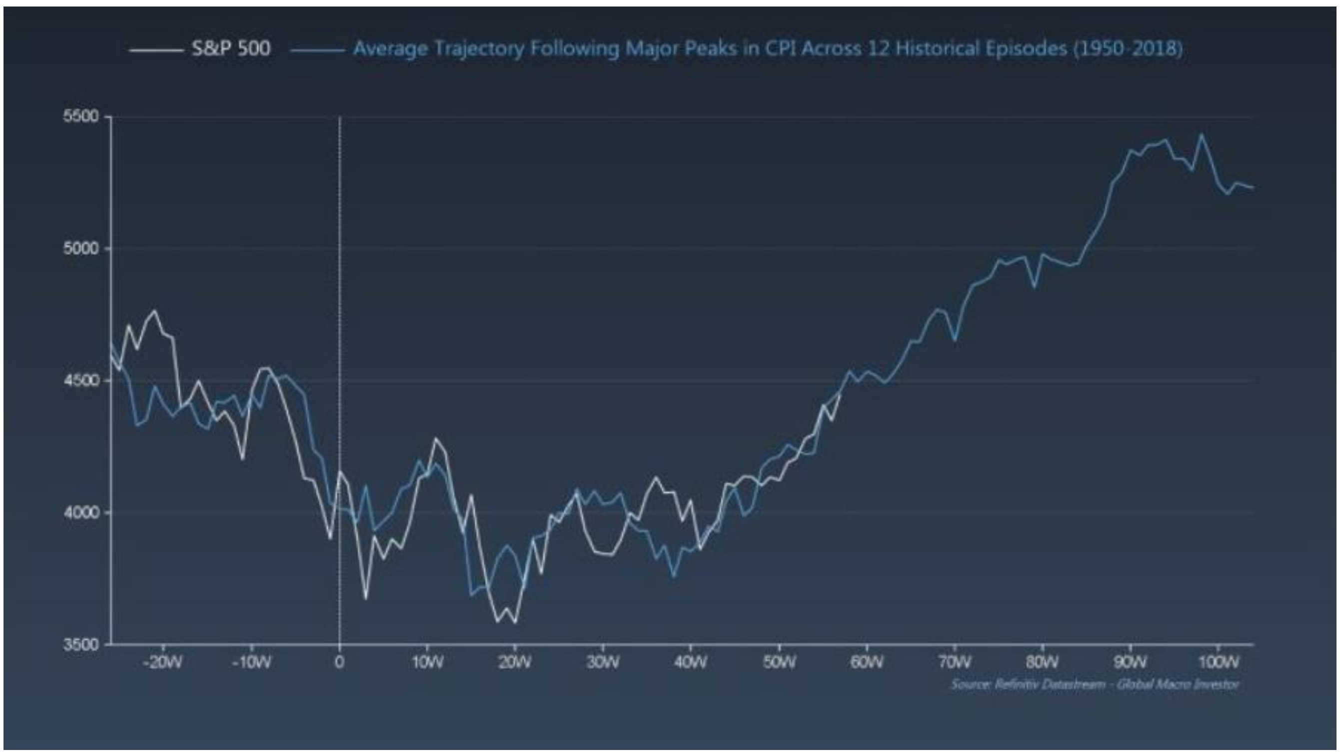
The chart below shows current US headline CPI (in white), which as of May has now declined to 4.0% y/y and down from a peak of 9.1% in June 2022. The blue line represents the average of five major year-over-year outbursts in inflation from the 1940s – 1980s. Clearly, this current inflation cycle is following a very similar path – this would suggest that US headline inflation should reach the Federal Reserve's 2% target by this time next year.




*Source: Refinitiv Datastream, Global Macro Investor*

Below we can see this year's S&P 500 performance (in white), and then the average trajectory of the index before and after major peaks in the US CPI rate across 12 historical episodes between 1950 – 2018 (in blue). The white vertical line represents the respective inflation peaks for each of these instances. As can be seen, the equity market in the past tended to bottom out around 15 - 20 weeks after this inflation peak, and this current cycle looks no different.

We are now roughly 55 weeks on from last summer's US inflation peak - past performances of the S&P 500 in this scenario would suggest that the index still has some significant upside over the next couple of years, as can be seen by the blue line.

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