

Visualizing the

Difference Between Stagflation, Inflation, and Deflation

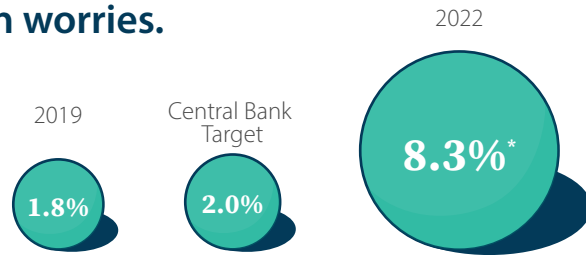


INVESTMENTS

Today, high U.S. inflation and slower GDP growth have contributed to stagflation worries.

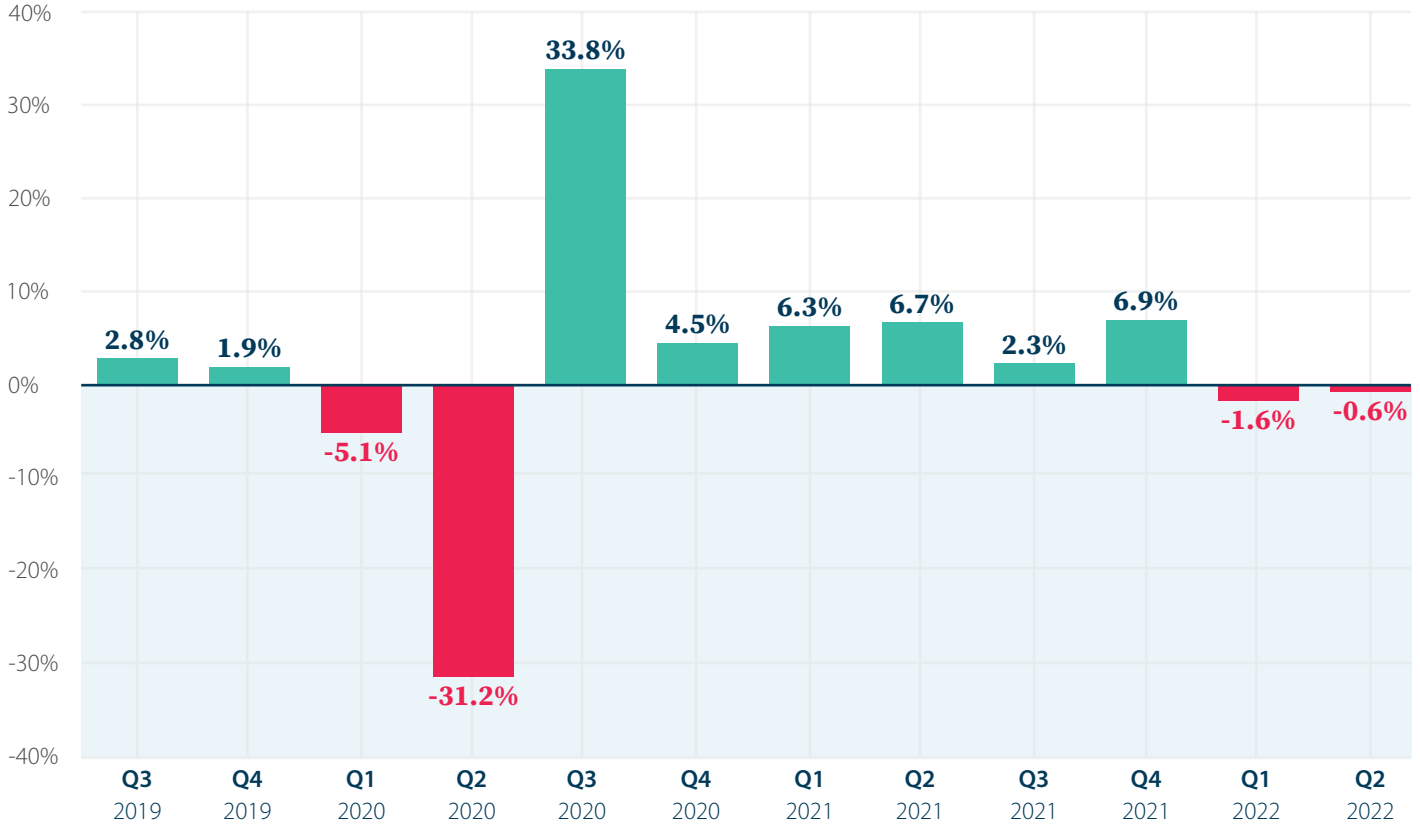
U.S. Inflation, 12-Month Percentage Change

Source: U.S. Bureau of Labor Statistics, 09/13/22.
*As of Aug 2022.



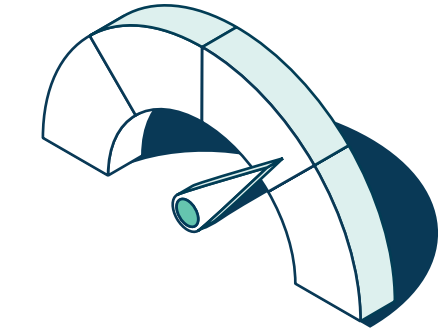
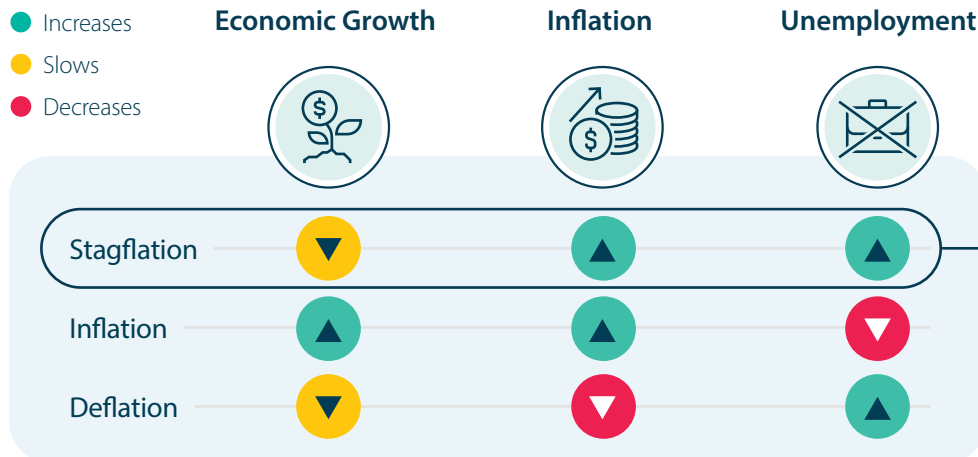
Real U.S. GDP

Percent Change, by Quarter



Source: U.S. Bureau of Economic Analysis, 09/12/22. Seasonally adjusted at annual rates.

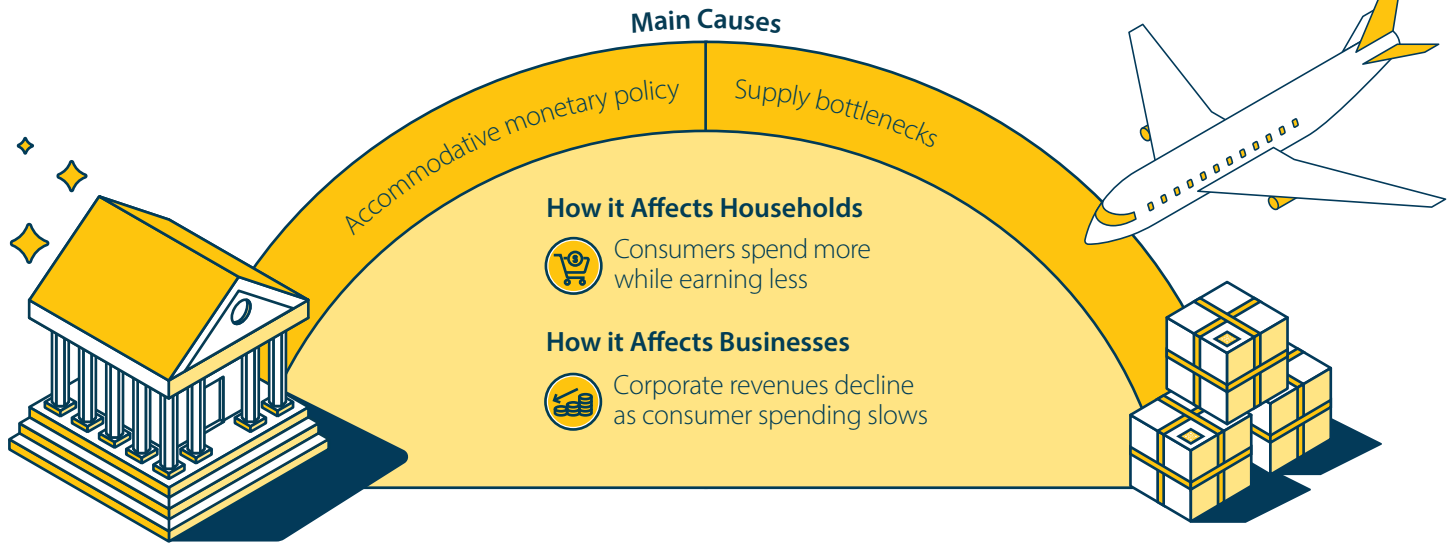
What are the main characteristics of stagflation, and how is it different from inflation and deflation?



The key ingredients for stagflation are weak growth, persistent inflation, and structural unemployment—meaning that high unemployment levels persist beyond a recession.

With this in mind, let's take a look at some of the main causes of each scenario and their broader economic implications.

Stagflation



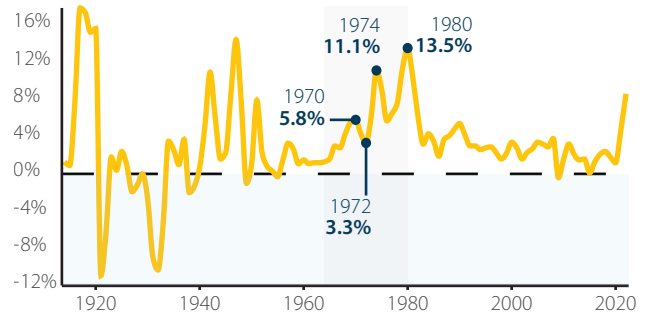
Case Study: 1970s Stagflation

Stagflation during the 1970s saw inflation increase from **1%** to as high as **14%** between 1964 and 1980.



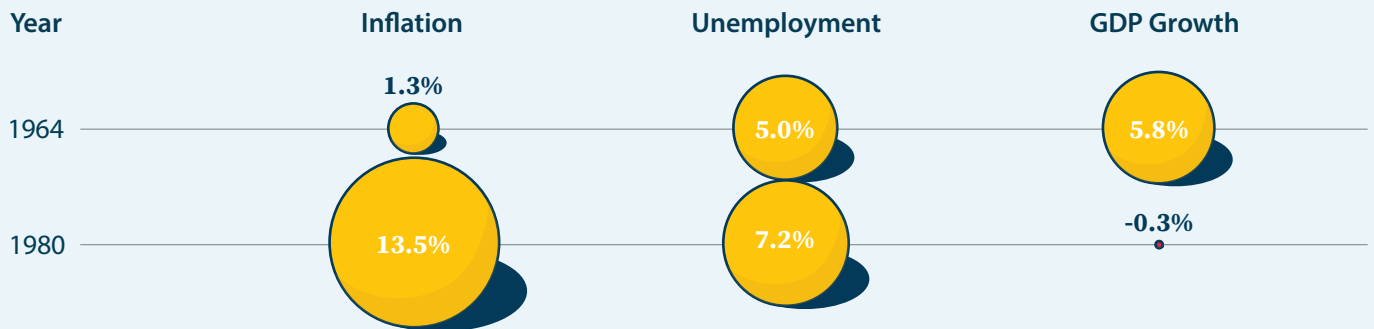
Price pressures, driven by skyrocketing energy prices in the 1970s contributed to sharp economic downturns and high unemployment that reached **7.2%** by 1980.

U.S. Inflation Rate



Source: Federal Reserve Bank of Minneapolis, 08/22

Key Numbers

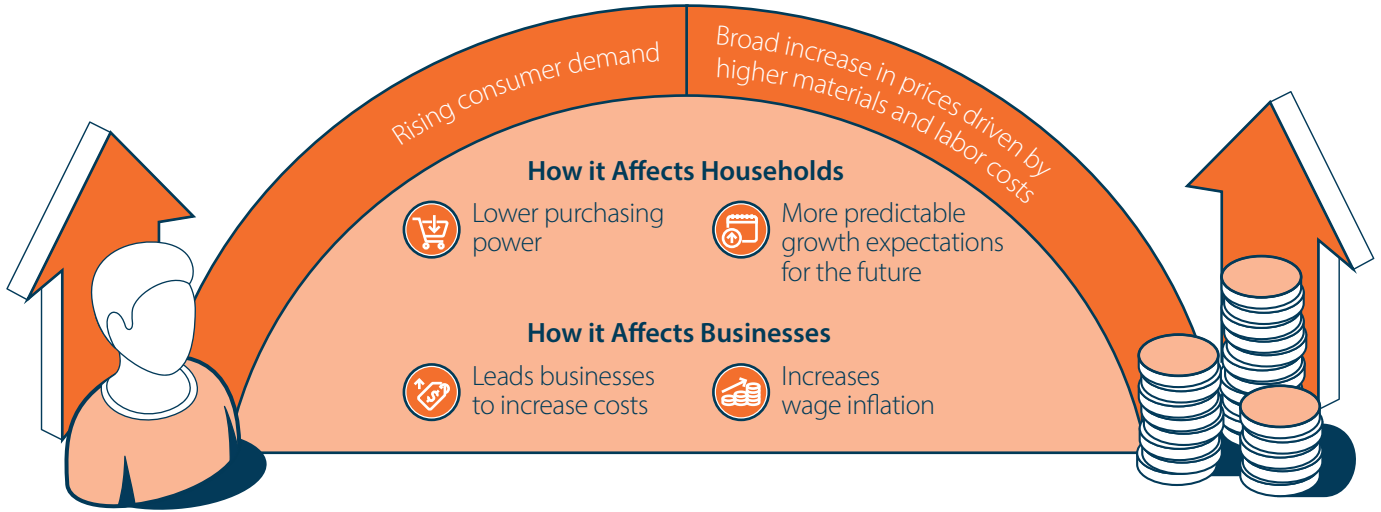


Source: Bureau of Labor Statistics 08/16/22, Bureau of Economic Analysis 08/25/22, Federal Reserve Bank of Minneapolis 08/22

During this time, the Bretton Woods system established after WWII collapsed, twin oil shocks occurred, and monetary policy transformed into what we currently use today.

Inflation

Main Causes



Case Study: 1990s-2000s

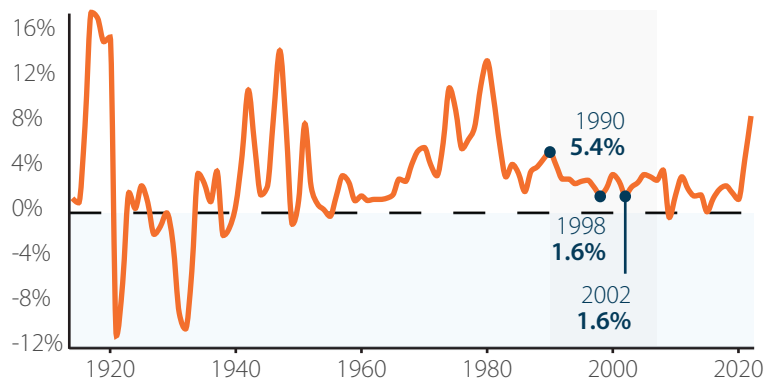
Over the 1990s and 2000s, the U.S. saw low and stable inflation.

Rapid global population growth, the absence of oil shocks, and expanding global trade contributed to falling costs across industries.

Source: Federal Reserve, 11/23/13

Between 1990 and 2007, inflation averaged **2.1%** compared to **8%** during the 1970s

U.S. Inflation Rate



Source: Federal Reserve Bank of Minneapolis, 08/22

Key Numbers

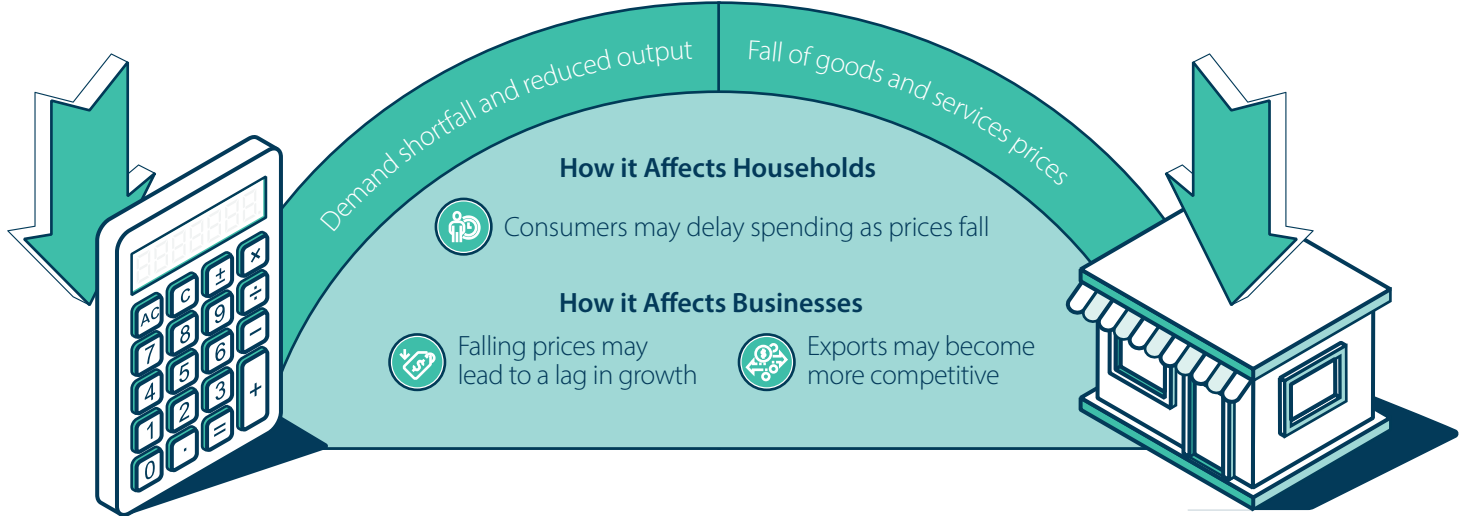
| Year | Inflation | Unemployment | GDP Growth |
|------|-----------|--------------|------------|
| 1990 | 5.4% | 6.3% | 1.9% |
| 2007 | 2.9% | 5.0% | 2.0% |

Source: Bureau of Labor Statistics 08/16/22, Bureau of Economic Analysis 08/25/22, Federal Reserve Bank of Minneapolis 08/22

Today, several central banks adhere to a **2%** inflation target to ensure prices remain stable and predictable.

Deflation

Main Causes

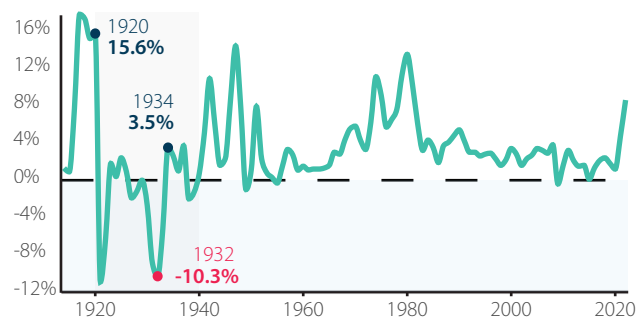


Case Study: 1930s Great Depression

Prior to WWII, deflationary episodes were more common than today. One prime example is the Great Depression of the 1930s, when real GDP fell **30%** between 1929 and 1933 and unemployment spiked to **25%**.

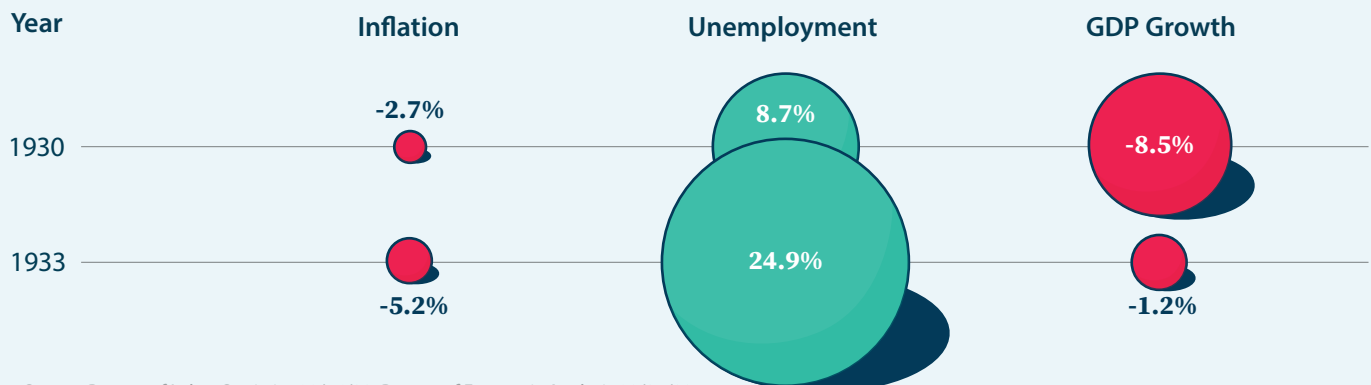
Source: Federal Reserve, 11/23/13

U.S. Inflation Rate



Source: Federal Reserve Bank of Minneapolis, 08/22

Key Numbers



Source: Bureau of Labor Statistics 08/16/22, Bureau of Economic Analysis 08/25/22, Federal Reserve Bank of Minneapolis 08/22

Tightening monetary policy contributed to this environment: between 1930 and 1933, the U.S. money supply contracted roughly **30%**, while average prices fell by a similar amount.

Source: Federal Reserve, 11/23/13

Historical Asset Class Performance

Which asset classes have historically tended to perform well across different types of inflationary environments?

Average Real Annual Total Returns 1973-2021

| | U.S. Equities | U.S. Treasuries | U.S. T-Bills | Commodities | Gold | REITs |
|--------------|---------------|-----------------|--------------|-------------|-------|-------|
| Goldilocks | 16.1% | 4.3% | 0.8% | 0.4% | -2.5% | 18.1% |
| Disinflation | 8.4% | 8.1% | 1.7% | -5.6% | 1.3% | 3.5% |
| Reflation | 14.6% | -2.0% | 0.0% | 21.0% | -1.1% | 14.0% |
| Stagflation | -1.5% | 0.6% | 0.4% | 15.0% | 22.1% | 6.5% |



Both U.S. equities and Treasuries have shown the strongest real returns in deflationary periods.

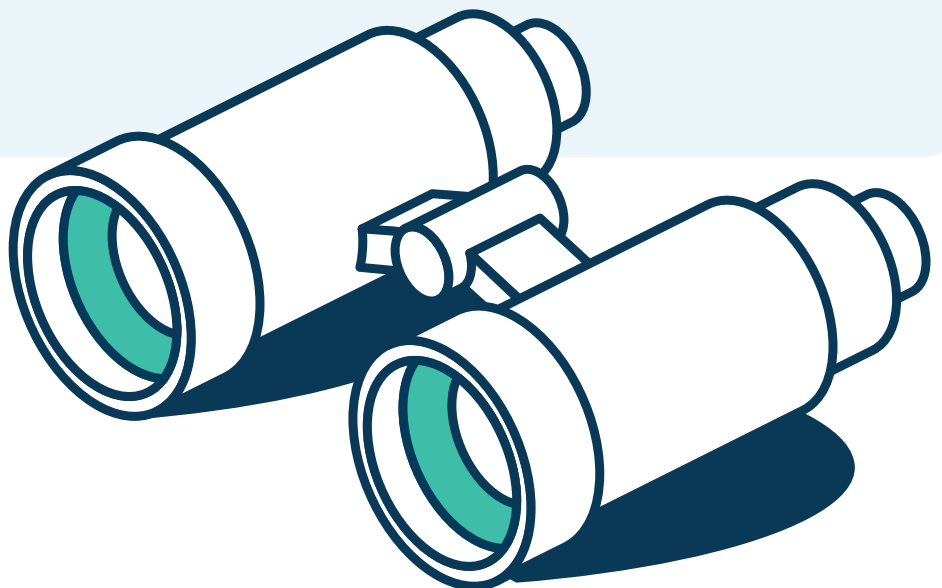


U.S. equities have typically performed well during moderate inflation.



Defensive assets like gold and commodities have historically performed well during stagflationary periods.

Source: Datastream Refinitiv and Schroders, 09/30/21. U.S. Equities are represented by the S&P 500 Index, U.S. Treasuries are represented by the Bloomberg U.S. Treasury Long Index, U.S. T-Bills are represented by the FTSE U.S. Domestic 3-Month T-Bill Index, Commodities are represented by the Bloomberg Commodity Index, Gold is represented by the Dow Jones Commodity Index Gold, REITs are represented by the FTSE Nareit All Equity REITs Index. Past performance is not indicative of future results. An investment cannot be made directly into an index. Index definitions can be found at the end of this piece.



Understanding Different Inflationary Environments

As the above table shows, the performance of asset classes varies widely across each environment.

For each scenario, investors can prepare and deploy different strategies that best fit their risk and reward profile.



Presented by



INVESTMENTS

More than investing.
Invested.

newyorklifeinvestments.com

 /nylinvestments

 /NYLInvestments

 @NYLInvestments

 @newyorklifeinvestments

The S&P 500 Index is widely regarded as the standard for measuring U.S. large-cap stock-market performance. The Bloomberg U.S. Treasury Long Index is a universe of Treasury bonds, and is used as a benchmark against the market for long-term maturity fixed-income securities. The FTSE U.S. Domestic 3-Month T-Bill Index is used to measure the performance of 3 month U.S. Treasury bills. The Bloomberg Commodity Index is used to track the performance of futures contracts of physical commodities on commodity markets. The Dow Jones Commodity Index Gold is used to measure the performance of the gold market through tracking the price of gold futures. The FTSE Nareit All Equity REITs Index is used to measure the performance of U.S. publicly listed REITs.

The **Consumer Price Index** measures the average level of prices in the U.S. based on a basket of goods and services over a given time period.

It is not possible to invest directly in an index. Past performance is not indicative of future results. Different time periods may have different results. This material represents an assessment of the market environment as of a specific date; is subject to change; and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the funds or any particular issuer/security. This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy.

This material contains general information only and does not take into account an individual's financial circumstances. This information should not be relied upon as a primary basis for an investment decision. Rather, an assessment should be made as to whether the information is appropriate in individual circumstances and consideration should be given to talking to a financial professional before making an investment decision.

"New York Life Investments" is both a service mark, and the common trade name, of certain investment advisors affiliated with New York Life Insurance Company.