



Revisiting Inflation Concerns

December 2021



KEY INSIGHTS

- Inflation has increased worldwide and could prove to be higher and more persistent than expected.
- An increased allocation to assets that help provide an effective hedge against inflation risk could be beneficial.



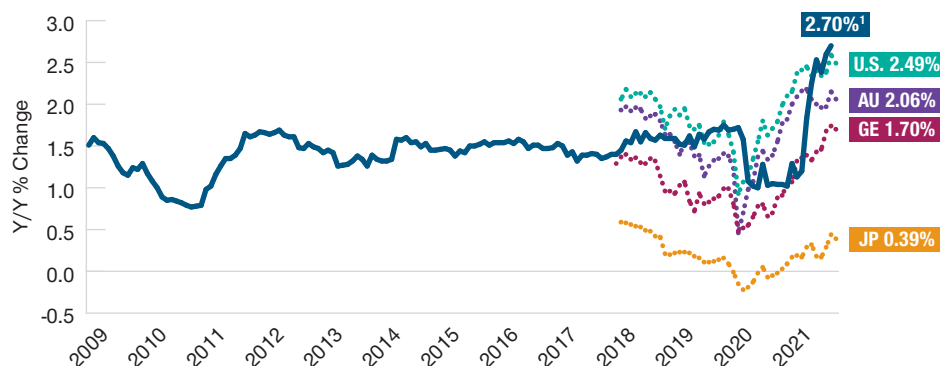
Tim Murray, CFA
*Capital Markets Strategist,
Multi-Asset Division*

Overall, inflation has proven to be higher and more persistent than both the Federal Reserve and the market had expected. From March through October, inflation measures across the globe increased meaningfully (Figure 1), and future expectations have shifted dramatically.

The spike in prices has primarily been driven by supply bottlenecks and labor shortages and could be exacerbated by higher housing costs or a resurgence in the pandemic due to a new coronavirus variant. In this environment, we believe an increased allocation to assets that effectively hedge against the eroding effects of inflation may be beneficial.

Inflationary Pressures May Be More Than Transitory

(Fig. 1) Core prices continued to climb

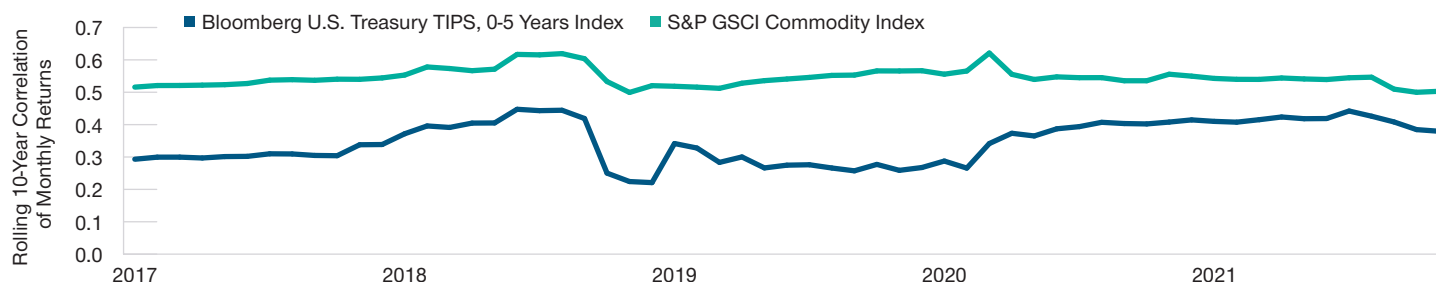


As of September 2021

¹ Line represents the market-implied inflation expectations for G-10 countries over the next 10 years.
Sources: Bloomberg Finance L.P./Haver Analytics. Russell. See Additional Disclosures.

TIPS Could Offer More Ballast Given Lower Correlation¹ to Equities

(Fig. 2) TIPS have had a lower correlation to the S&P 500 Index than commodities



15 years ended November 2021, monthly data.

Source: Standard & Poor's, Goldman Sachs, Bloomberg Finance L.P. See Additional Disclosures.

¹ Correlation measures how one asset class, style or individual group may be related to another. A perfect positive correlation means that the correlation coefficient is exactly 1. This implies that as one security moves, either up or down, the other security moves in lockstep, in the same direction. A perfect negative correlation means that two assets move in opposite directions, while a zero correlation implies no relationship at all.

Historically, commodities and stocks in commodity-related sectors—including energy and industrials—have generated strong gains during periods of high inflation. However, although commodity prices have surged this year, their upward trend has reversed sharply over the past month. Further upside may be limited given notable headwinds, including fading demand for industrial metals due to slowing industrial production in China. Also, even as U.S. oil rig counts rapidly increase, the U.S., and potentially China, plan to release strategic oil reserves, which could help to alleviate the oil demand and supply imbalance.

For investors seeking to hedge inflation risk, inflation-linked bonds such as U.S. Treasury inflation protected securities (TIPS) could offer an alternate option.

TIPS are indexed to an inflation gauge to mitigate an investor's risk from the decline in purchasing power typically caused by inflation. A review of monthly returns over a rolling 10-year period shows that, historically, short-maturity TIPS consistently have had a lower correlation to the S&P 500 Index than commodities (Figure 2), and may, therefore, provide better diversification benefits. Both commodities and commodities-related equities have also historically been much more volatile than TIPS.

As a result, our Asset Allocation Committee recently increased the allocation to TIPS, as they could, in our view, offer an attractive hedge against inflation and also help to mitigate overall portfolio risk.

Additional Disclosures

London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2021. FTSE Russell is a trading name of certain of the LSE Group companies. Russell® is a trademark of the relevant LSE Group companies and is used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication. The LSE Group is not responsible for the formatting or configuration of this material or for any inaccuracy in T. Rowe Price Associates' presentation thereof.

Copyright © 2021, S&P Global Market Intelligence (and its affiliates, as applicable). Reproduction of any information, data or material, including ratings ("Content") in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold such investment or security, does not address the suitability of an investment or security and should not be relied on as investment advice. Credit ratings are statements of opinions and are not statements of fact.

INVEST WITH CONFIDENCE®

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

To learn more, please visit troweprice.com.

T.RowePrice®

Important Information

This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment action.

The views contained herein are those of the authors as of December 2021 and are subject to change without notice; these views may differ from those of other T. Rowe Price associates.

This information is not intended to reflect a current or past recommendation concerning investments, investment strategies, or account types, advice of any kind, or a solicitation of an offer to buy or sell any securities or investment services. The opinions and commentary provided do not take into account the investment objectives or financial situation of any particular investor or class of investor. Please consider your own circumstances before making an investment decision.

Information contained herein is based upon sources we consider to be reliable; we do not, however, guarantee its accuracy. Actual future outcomes may differ materially from any estimates or forward-looking statements made.

Past performance is not a reliable indicator of future performance. All investments are subject to market risk, including the possible loss of principal. As interest rates rise, bond prices generally fall. In periods of no or low inflation, other types of bonds, such as US Treasury Bonds, may perform better than Treasury Inflation Protected Securities. Diversification cannot assure a profit or protect against loss in a declining market. All charts and tables are shown for illustrative purposes only.

T. Rowe Price Investment Services, Inc.

© 2021 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.