IQ
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UNIQUE, BOUTIQUE WEALTH MANAGEMENT

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Invest your way out of inflation

Why now is the time to make sure you protect your wealth

The word 'inflation' had barely featured in the market's vocabulary in the last three decades until it suddenly started to come back with a vengeance in 2021. As higher inflation looks set to persist in 2022, finding ways to generate a return on investments greater than inflation will be a key investment theme – otherwise your wealth falls in real terms.

SPENDING SPREE

There are two basic reasons why inflation has been increasing: supply and demand. Starting with the latter, consumers have been on a spending spree after having spent a large proportion of time during 2020 and 2021 at home bingeing on Netflix.

The main reason for the current rise is due to the global price of energy. This has meant higher energy and transport bills for businesses, many of whom pass on the extra costs to their customers. Supply problems and higher shipping costs are also continuing to have an impact on businesses.

HEALTHY ECONOMY

Central banks kept saying that inflation was 'transitory', but this now seems to have been replaced by the word 'persistent'. The result is that inflation will remain high on the economic agenda in 2022.

Inflation is a measure of how much prices have gone up over time. It's the rate at which cash becomes less valuable – £1 this year will get you further than £1 next year. It tends to be a good sign in a healthy economy, but too much of it can be hard to reel in and control.

BOE FORECAST

The Bank of England (BoE)[1] expects inflation to reach over 7% by spring 2022 and then start to come down after that. That's because most of the causes of the current high rate of inflation won't last. It's unlikely that the prices of energy and imported goods will continue to rise as rapidly as they have done recently. And this means that inflation will eventually decline.

The BoE forecasts the rate to be much closer to their 2% target in two years' time. But even though the rate of inflation will slow down, the prices of some things may stay at a high level compared with the past.

PURCHASING POWER

Beating inflation means earning higher returns from an investment than the inflation rate in the economy. If your return on investment is less than the inflation rate, this could basically nullify the returns you have earned. Due to various reasons, the purchasing power of money decreases significantly every year.

Investing with inflation in mind is essential for protecting your current and future wealth and involves choosing assets that naturally keep pace with rising prices. These mostly include either real, tangible assets, or investments that pay a variable rate and appreciate or increase over time. ■

LOOKING FOR A BETTER CHANCE OF BEATING INFLATION OVER THE LONG TERM?

If you've already got an emergency fund, or have excess cash in the bank, it may be time to consider investing some of it to protect your wealth from inflation. Investing some of your money may give you a better chance of beating inflation over the long term. To discuss your options, please contact us.

Source data:
[1] https://www.bankofengland.co.uk/knowledgebank/will-inflation-in-the-uk-keep-rising