APRICUS

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The **Interesting** thing about inflation and Interest rates

If you don't drive your car frequently or watch the news, you may have missed that the average price of regular gas has gone up almost 50% in the last 12 months. The price of fuel has indirect effects on the price of transportation, of course, and the price of many goods and services that rely on fuel—for example, landscaping. As prices rise, the purchasing power of a dollar sitting in a bank account erodes. For this reason, interest rates and investment returns have in the past been connected to inflation. When inflation goes up, the investment return demanded by investors often follows. Increases in interest rates are, as you might expect, another two-sided coin. On one hand, they represent the returns investors can earn on checking accounts, money markets, and bonds. On the other hand, they are a cost that new homeowners, car buyers, and businesses pay to borrow. Because higher interest rates encourage saving and make spending more expensive, large upward changes usually result in less economic growth.

Interest rates are also what connects current to future values. We all understand that saving is a choice between spending money today or in the future. The value of an investment today is a function of what an investor will receive over time, namely interest, dividends, appreciation, and a return of principal. For example, a dollar invested today at 7% will be worth $2 in just about 10 years.

And so, when interest rates move up and down, the price of many investments move in the opposite direction. For example, bonds prices will change when the interest rate demanded by investors changes. And depending on the industry, stock prices will adjust as well. One point to remember about stocks is that, historically, they have tended to capture increases in inflation in their profits and, ultimately, prices. Looking forward, we expect current high inflation rates to moderate to just under 3% over the next five years and global interest rates to rise from current low levels. Economic growth next year will likely be above average again; however, higher interest rates will impact some industries differently. Banks and insurance companies often welcome higher interest rates, while new and unprofitable businesses may view higher interest rates as a headwind.

FUN FACT

You can approximate how long it will take for an investment to double by dividing its interest rate or expected return into 72.

Unsurprisingly, this is known as

THE RULE OF

72

And finally, since this is our last note before Thanksgiving, we want you to know how grateful we are for our relationship with you. Thank you.
Joe, Jim, Ernie, and Susi

We are very pleased to announce that Ernest E. Cecilia, CFA has joined Team Apricus Wealth. Most recently, Ernie was Chief Investment Officer of Bryn Mawr Bank Corp., where he led an investment team responsible for $5 billion in client assets. Ernie and I have been friends and colleagues for over twenty years, and I am honored that he is now part of the Apricus family. –JC

APRICUS UPDATE

TD Ameritrade has added Apricus Wealth, LLC to its wealth advisor platform.

In the summer of 2020, we wrote about coins having two sides and, at the end of 2020, we wrote about the potential for persistent inflation, noting, "Inflation is like toothpaste. Once it's out, you can hardly get it back in again." At the time, our viewpoint about inflation was not the consensus—but now it seems that inflation is a story of the moment. The obvious negative side of the inflation coin is that our living expenses are going up. One positive side of inflation is that consumer prices impact Social Security increases. We forecast that 2022 Social Security payments will increase more than any year this century. The increase for 2022 will be announced in October of 2021. All of our past Apricus Quarterly Notes can be found on our website.

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