# Securities Analysts Journal

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## Feature Articles

**This month's focus: Inflation and Investment**

### High Inflation and Financial Markets: Background to the Highest Inflation in 40 Years and the Macro Implications for Financial Markets


*Kozo Koide, CMA*



The current high inflation is not expected to be short-term or transitory in view of background factors such as behavioral changes in the post-pandemic job market, the weakened import substitution effect brought about by the streamlining of domestic distribution, soaring real estate prices backed by the rapid expansion of excess liquidity, the harnessing of CO2 emissions control, and the accelerated expansion of fiscal spending. With U.S. consumer price inflation likely to take time to moderate, the termination of monetary tightening in United States is expected to be delayed, which may conflict with prudential policies aimed at maintaining financial market stability.
The investment returns from global equities and global bonds during the period of high inflation and concurrent expanded volatility up to the late '90's was positively correlated, unlike our experience after the '00's. A careful look at economic and market data from the recent past may be required for tactical asset allocation.


### Lessons on Inflation in the U.S. and Japan from the past 70 years


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Rising inflation is now hitting the entire world after a 40-year absence. This paper reviews "inflation-adjusted real returns" of long-term government bonds and equity market indexes as major asset classes for investment management. If we compare the first 35-year period of higher inflation and the second 35-year period of lower inflation of the past 70 years (1952 to 2021) in the United States and Japan, what lessons can we learn from the historical data? In addition, we inquire as to whether central banks will be able to subdue inflation by raising interest rates.


### Life Cycle Investment in an Inflationary Environment


*Tsutomu Fujita*



Approximately 55% of the 2,000 trillion yen of household financial assets is held in cash and deposits. This paper summarizes how individual investors can build and utilize their assets, assuming that the deflationary environment will rapidly morph into an inflationary one, and the actions that financial institutions should take with respect to individual investor clients. Risk asset investment by the Japanese household sector is gradually increasing, and this trend is expected to continue over the long term. The trend will accelerate if financial institutions can move away from selling high-cost products and establish a business model that thrives alongside their customers.

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# Inflation and Fixed-Income Investments

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A rise in prices is usually accompanied by a rise in interest rates, and money managers who are accustomed to the long-running low interest rate environment will need to reconsider how they invest in domestic and overseas bonds. Fixed income, such as deposits and bonds, is fragile against rising prices due to its asset characteristics. Asset owners and managers should consider adopting various methods, such as holding short-term bonds or inflation-linked bonds in addition to shortening the duration of their fixed-income portfolio. On a fundamental level, it is also important to reconfirm the significance of diversified investment portfolios that hold various assets whose value is more likely to be linked to price increases, such as stocks, real estate, and commodities, rather than investing only in bonds.