



## How will inflation affect my investments?

Economists expect that interest rates will rise in the next two years.<sup>1</sup> It's important to consider how inflation can affect various assets within your portfolio.

### Equity

Historically, rising interest rates have inversely affected the equity market.

A recent study shows that there's strong evidence that stock returns, particularly growth stocks, are negatively correlated with unexpected inflation.<sup>2</sup>

Since World War II...



### Bonds<sup>3</sup>

Bond prices move inversely to interest rates, meaning when interest rates go up, bond prices go down.



In times of rising rates, duration is a significant factor

Bonds with 1-year maturity ..... Not much change

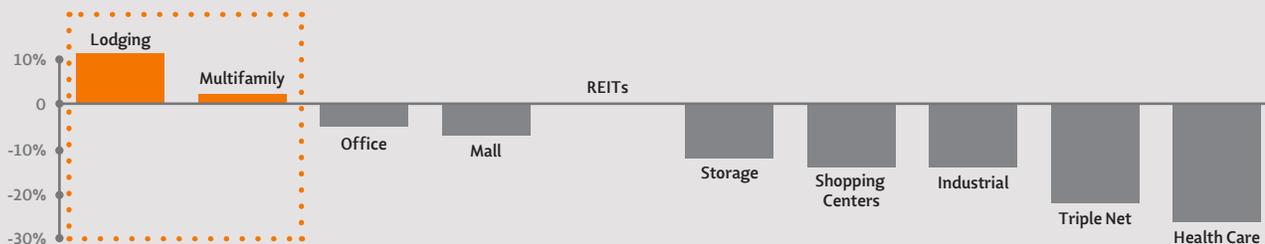
Bond with long-term maturity..... Significant drop

## REITs – Real Estate Investment Trusts

REIT performance varies by investment type. Interest rate increases are likely to be met by REIT price declines for REITs that invest in “flat” triple-net leases.<sup>4</sup>

However, rising interest rates could drive up REIT prices in other sectors, such as lodging and multifamily, because REITs with short-term leases can pass the cost of increasing rates to tenants since leases are renegotiated frequently.

### NAREIT Subsector Returns vs. Index in Times of Rising Rates<sup>5</sup>



### What is a triple-net lease?

In addition to monthly base rent, the lessee consents to pay:

- Property taxes
- Property insurance
- Maintenance and repairs

1. “Economists’ Interest Rate Expectations Move Higher,” Wall Street Journal, 7/18/2014; 2. “How inflation affects the stock market,” CBS Money Watch, 10/29/12; 3. Morningstar.com, Bonds 100, “Interest Rates and Bond Pricing”; 4. Investment News, “Duration Risk in Non-traded REITs: Hiding in Plain sight,” 8/5/14; 5. Thomson Reuters, Morgan Stanley Research, 1994 to 2013.

