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Inflation Is Trending Downward — Find Out What Lear Capital's Kevin DeMeritt Says It Could Mean for Investors

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Inflation, which began climbing in 2021 and remained elevated throughout 2022, has eased somewhat. Although gold has historically had a somewhat inverse relationship to inflation, the metal's value has actually risen this year, according to Lear Capital Founder Kevin DeMeritt — an outcome that may have surprised investors who viewed physical precious metal assets solely as safe harbor investments.

"One of the biggest misconceptions is that gold is this relic and doesn't have a great performance record," DeMeritt, who serves as Lear Capital's chairman, says. "It's been around for 5,000 years; if something's been around that long, [people] say, 'Hey, maybe it's old and just no longer useful.' [But] the misconception that gold can't produce profits for people, and it's just more of a safety asset, is completely incorrect."

Inflation's Meteoric Rise

In the past, inflationary periods in the U.S. have often been attributed to economic expansion that led to

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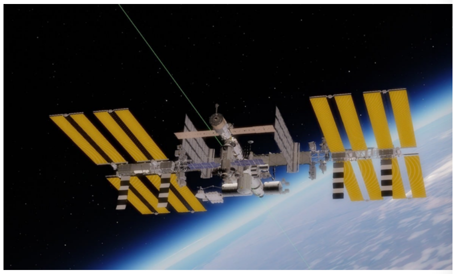

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higher prices or energy cost challenges. The most recent prolonged spike in inflation — which included the consumer price index for all urban consumers, considered to be a key inflation gauge, rising to 9.1% year over year in June 2022, the index's highest level since 1981 — was influenced by factors such as the COVID-19 pandemic's impact and global supply chain issues, according to the Pew Research Center.

"It's been a long time since we've had this kind of inflation," Kevin DeMeritt says. "In 1978, inflation was right around the 8% range; it ended at 15% in 1980. The definition of inflation is too much money chasing too few goods. After COVID, a supply chain problem caused the 'too few goods' part of that equation to cause prices to rise."

To try to reduce inflation, the Federal Reserve's Federal Open Market Committee has enacted a series of target federal funds rate range increases in the past year. After first adjusting the range to 0.25% to 0.50% in March 2022, the FOMC then bumped it up to 0.75% to 1% in May, and 1.5% to 1.75% in June — the month inflation reached a 42-year high point — its largest increase since 1994.

Further rate increases continued. Most recently, in May, saying it "remains highly attentive to inflation risks," the FOMC raised the target range for the federal funds rate to 5% to 5.25%.

According to the latest Bureau of Labor Statistics report, inflation currently stands at approximately 4.9%. Globally, supply chain issues have abated, according to data from the New York Federal Reserve, which compiles a supply chain pressure index from transportation costs and manufacturing indicators; this pressure index has fallen since November 2022.

Notable progress has been made in the effort to reduce inflation in recent months — but given the pace at which it has declined, and the Fed's estimate that personal consumption expenditures inflation will be at 3.3% by the end of this year, we may not see the Fed's 2% target for inflation become a reality for a year or more, depending on how the economy performs.

Taking a Fresh Look at Gold, Silver, and Platinum Performance

In the past, precious metal assets like gold have sometimes been perceived as a portfolio option that, if the economy enters a period of unpredictability, can potentially help offset losses from other types of investments such as stocks, which can be more prone to the effects of conditions like high inflation.

During the extended inflationary period that lasted from April 1973 to October 1982, for instance, gold's value rose. Similarly, silver's price soared when inflation reached a high point in 1980, increasing 557%, according to a Lear Capital analysis.

However, the notion that the gold market will automatically fall if interest rates go up is a misconception, Kevin DeMeritt says.

"If you go back to 1974 when they started raising interest rates, a lot of people will realize that inflation went all the way up to around 15%," the Lear Capital founder and chairman says. "Mortgages were 12% and 15% in the 1980s, yet gold had gone from $50 an ounce in 1974 to $850 an ounce at the peak of inflation in 1980. People get confused — and then are shocked to find out — that those [market reactions] are probably the opposite of what they've been hearing."

Some investors, according to DeMeritt, have reacted to the past year's stock market uncertainty and high inflation levels by showing an interest in physical precious metal asset investments, such as holding gold, silver, and platinum coins and bars in a self-directed IRA.

Gold, in particular, appears to be having a banner year. The annual demand for the precious metal reached its highest point since 1950 in 2022, according to the World Gold Council; demand in the first quarter of 2023 was up 1%, and global prices for 1 troy ounce of gold climbed to its second-highest level on record, $2,041.30, in April.

An Economy Forecast Agency forecast suggests prices for the precious metal could reach more than $2,200 by the end of the year.

"We're starting to see more and more people become concerned about the volatility in the markets — which happens when you have high inflation and higher interest rates — and also the value of their


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currency," DeMeritt states. "If each year, I'm losing [a percentage] of the value of my paper money [in] purchasing power, I need something to offset that; gold is going to be a great alternative because it happened, in the past, to be one of the better assets."

Historically, gold has outperformed the stock market. A $100,000 marketing investment placed in the year 2000, for instance, would be worth roughly $320,000 today; investing a portion of that capital in gold in 2000 could have potentially resulted in a greater return on investment, Kevin DeMeritt says.

"If you invested $80,000 in stock and $20,000 in gold, it would be worth $385,000 today — you picked up an extra $65,000 in your bank account with just 20% of your assets diversified in gold," DeMeritt says. "People should really take another look at [their portfolio], especially if they believe inflation's going to be a problem over the next five or six years and are close to retirement. How you protect that retirement plan is more important today than it was 10 or 20 years ago."

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