

March 2022

7% Returns from I-Bonds

There's isn't much positive to say about recent inflation numbers. Consumer price index has risen at an 8% annualized rate in January and February. These increases are the highest U.S. inflation in the last 40 years. The COVID-19 pandemic is the primary factor driving excessive inflation through demand and supply-side distortions. High inflation hurts consumers with higher prices at the grocery store, gas pumps and higher housing costs. In limited cases, higher wages can partially offset higher inflation. Corporate profit margins can be negatively impacted as the costs of inputs, labor, and shipping rise. While some industries have pricing power to pass higher costs to end users, many do not. No economist or Federal Reserve official can credibly argue that the higher inflation that began in late 2020 is transitory.

High inflation, particularly unexpected high inflation tends to be a negative for fixed rate securities, because inflation erodes long-term value of the securities and leads to rate increases by the Federal Reserve.

There is one silver lining for conservative savers in inflation-protected savings bonds or I-bonds. Series I savings bonds are a low-risk savings product that earn interest until they reach 30 years, or when cashed in, whichever comes first. I-bonds are issued in \$50 increments and up to \$10,000 per year may be purchased directly from the U.S. Treasury at www.treasurydirect.com. Unlike traditional Treasury bonds or savings bonds, during their lifetime they earn interest and are protected from inflation through semi-annual inflation adjustments. Because of the recent inflation spike, the current interest rate for bonds issued November 2021-April 2022 is 7.12%. The economic distortions imposed by COVID-19 are likely to become less extreme, providing relief on inflation over the next 1-2 years. As inflation cools over time, the current interest rate will decline based on the semi-annual adjustments. But until then, investors can earn a principal-protected 7% yield in today's low yield environment.



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