

Current Inflation Rates and P/E Multiples Appear Out of Sync with History

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When inflation rises, so generally do interest rates. That depresses the price of stocks, as investors are willing to pay less for each dollar of corporate earnings. Figures are based on 476 monthly measurements from 1955 through the present.

INFLATION RATE (NUMBER OF MONTHS)	LONG-TERM BOND RATE	TREASURY BILL RATE	STOCK PRICE MULTIPLE*
Less than 3% (175)	4.8%	3.5%	17.5
3% to 4% (87)	7.1	5.0	16.1
4% to 5% (62)	8.6	6.9	14.9
5% to 6% (43)	7.5	6.4	14.5
6% to 7% (33)	8.5	6.8	10.9
More than 7% (76)	9.9	9.6	9.0

* Average stock price as a multiple of per-share earnings for stocks in Standard & Poor's 500-Stock Index
Source: *Nomura Securities*

Source: *The Wall Street Journal*. September 14, 1994.

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Sionna Investment Managers 161 Bay Street, 27th Floor, Toronto, Ontario M5J 2S1

For more information, please email clientrelations@sionna.ca

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