HSBC

Mutual Fund

An investment that can help you beat inflation

All of us have experienced the rise in prices of goods and services we consume over the years. A bottle of milk costs more than what it was a decade earlier. So does a packet of biscuits, television set and gold too. The prices of goods and services have been gradually rising over the years and are expected to rise in the coming years too.

What causes this rise in prices?

Inflation is the silent killer of our savings and finance as it gradually reduces the value of our money. Basically, we buy less for the same amount of money.

Inflation is measured using 2 ways

Consumer Price Index (CPI)

Measures the changes in retail prices of consumer goods and services like food, clothing, medicines, communication, etc

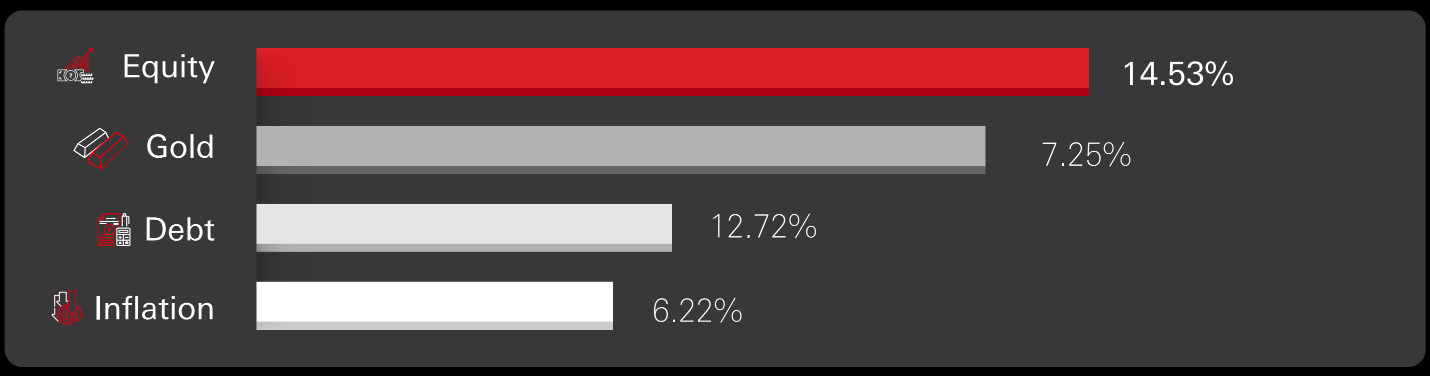
Wholesale Price Index (WPI)

Measures the changes in price paid by wholesalers and manufacturers

What can one do about inflation?

Although inflation is inevitable, one way to tackle it is by investing in an asset class which can deliver returns higher than inflation rate. Historically, equity has generated inflation-beating returns in the long run.

Performance of different asset classes over 20 years vs Inflation



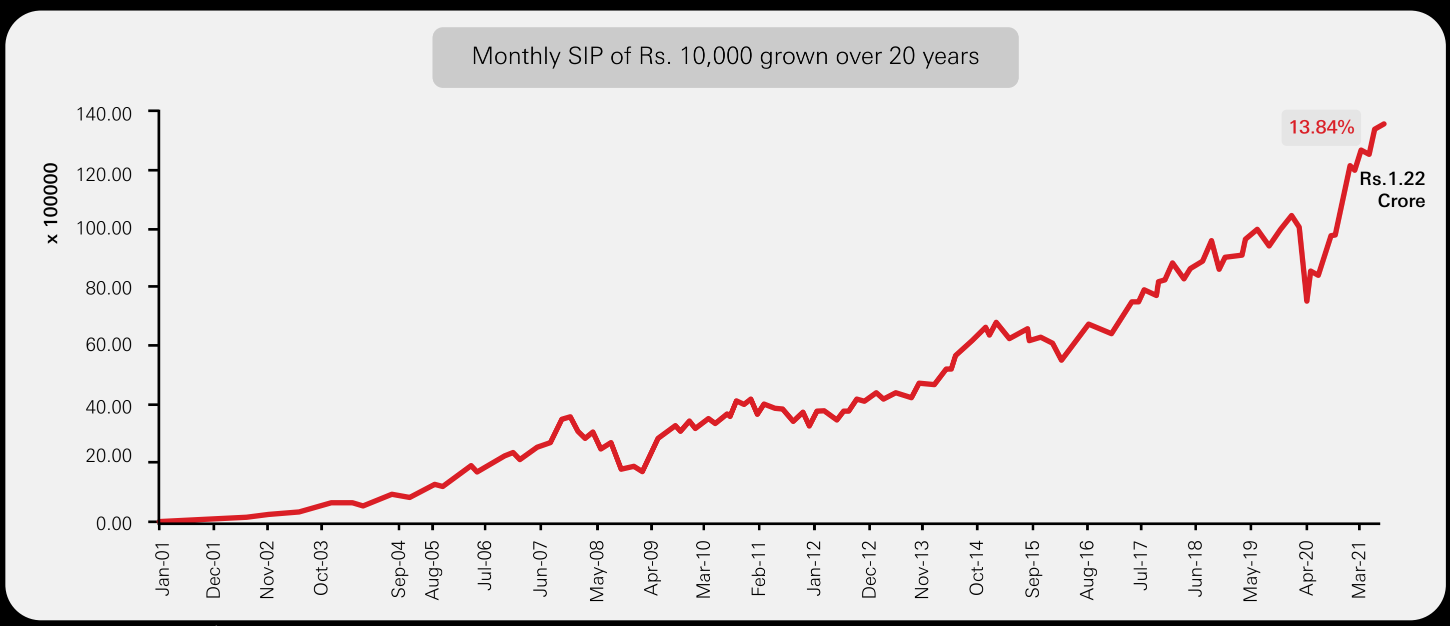
Returns given above represent Compound Annual Growth Rate (CAGR) of the respective asset classes as on 30 June 2021 | Debt: CRISIL Ultra Short Term Debt Index | Gold: Pure gold rates 24K | Equity: BSE Sensex | Source: BSE India, Bank Bazaar, CRISIL | Past performance may or may not sustain, it does not guarantee the future performance | These are for illustration purpose only. The inflation rate is calculated using the price increase of a defined product basket (CPI). This product basket contains products and services, on which the average consumer spends money throughout the year. Figures have been rounded to provide a better understanding of the statistic.

In fact, equity has potential to generate relatively higher returns in the long term than other asset classes such as debt and gold.

But investing directly in equities has its own challenges. One has to select a few stocks out of thousands of options. Additionally, investing at the right time may require a lot of research, time and expertise.

This is where **equity mutual funds** come in picture.

- Equity mutual funds invest in a basket of securities, thereby spreading the overall portfolio risk
- They are managed by professionals which can save investor's time and efforts on market research
- Equity funds are diversified across stocks and sectors which can cushion the portfolio against market fluctuations
- One can invest consistently, periodically and with as less as Rs. 500 in equity mutual fund via SIP.
- Investing in equity via SIP can help you create wealth and generate inflation-beating returns over the long term.



Source: BSE Sensex| Data as on 30 June 2021. Monthly SIP of Rs.10,000 in S&P BSE Sensex from 01 Jan 2001 to 30 June 2021. Returns given above represent XIRR (Extended Internal rate of return) For illustration purpose only. Past performance may or may not sustain, it does not guarantee the future performance.

So if you don't want inflation to eat into your finances, start investing in equity mutual funds and aim to build wealth over the years as well!