Getting the BETTER *of*

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the INFLATION TAPEWORM

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Inflation erodes real returns, while some assets have historically helped preserve or increase purchasing power

Back in 1982, when inflation was eroding US household budgets and investment returns, legendary investor Warren Buffett described inflation as a "tapeworm" that quietly consumes purchasing power. It remains one of the most vivid descriptions of a challenge that investors continue to face today.

However, historical evidence provides a useful reference point for assessing how different assets have fared in the face of inflation. By examining asset performance through different inflation and market cycles, investors can identify the investments that have delivered in preserving and growing real wealth.

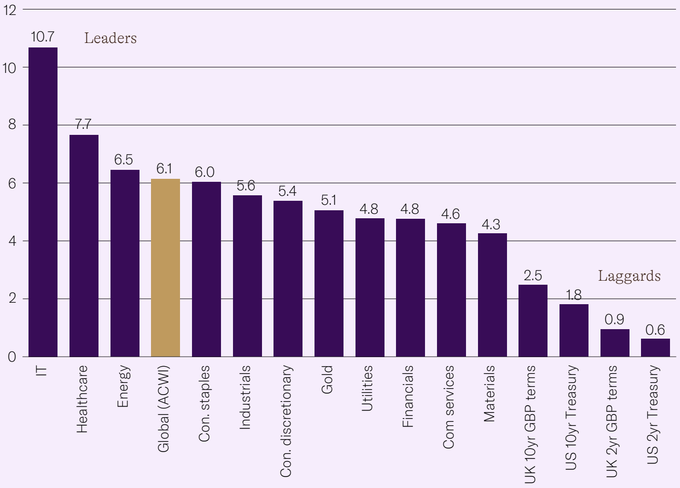
Portfolio values may rise over time, but if inflation is rising too, the real value of those gains may be smaller than they first appear. Ultimately, successful investing is not simply about generating positive returns, but it is often also about ensuring wealth grows faster than inflation.

Looking at the US, the world's largest economy, consumer prices have risen by an average of 3.7% a year since the end of World War II.[1] This offers a useful historical reference point for investors.

To assess which assets have historically delivered above inflation returns, we start in December 1994, when MSCI began compiling sector-level data. This provides a long-term framework for assessing the sectors that have created the most real wealth. While past performance is not a guide to future returns, the results are striking.

Global equities in US dollar terms have been the most effective long-term defence against inflation among major financial assets, generating annualised real returns of 6.1% since December 1994.[2] Broken down by equity sector, technology has been the standout performer, generating annualised real returns of 10.7%, followed by healthcare on 7.7%.[3] The worst performing sectors were materials and communication services on 4.3% and 4.6%, respectively.[4]

Real annualised MSCI gold and bond returns (%)* since Dec 1994



Source: LSEG Datastream / Evelyn Partners. Data as at 17 September 2026.
*In USD terms/deflated by US CPI except UK gilts which are in GBP terms/deflated by UK CPI.

Within selected portfolio diversifiers, gold was one of the better performers with annualised real returns of 5.1%.[5] By contrast, government bond returns have ranged between 0.6% to 2.5%, depending on maturity and market.[6]

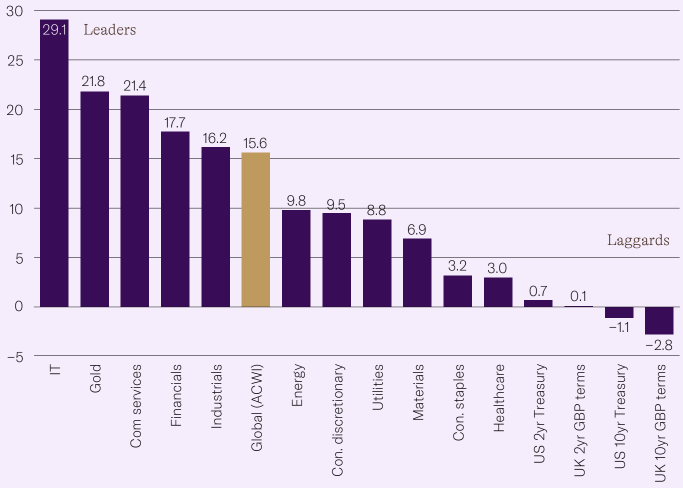
A turning point arrives

Long-term averages tell an important story, but market leadership does not remain constant. Periodically, major structural shifts emerge that reshape the investment landscape.

Arguably, one of the most important milestones occurred in November 2022 with the launch of ChatGPT. Artificial intelligence (AI) had been evolving for decades, but ChatGPT helped to bring AI into the mainstream and coincided with renewed investor interest in AI-related companies. Investors began to wonder whether AI could follow the internet, smartphones and cloud computing as a transformational technology platform capable of reshaping economies and profits.

The response from financial markets has been clear. Since November 2022, information technology, which includes semiconductor chip manufacturers and many AI beneficiaries, has generated annualised real returns of 29.1%, nearly three times its already impressive long-term average.[7] Over the same period, global equities overall generated annualised real returns of 15.6%.[8] By contrast, traditionally defensive areas such as healthcare and consumer staples have underperformed relative to their historical norms.

Real annualised MSCI gold and bond returns (%)* since Nov 2022



Source: LSEG Datastream / Evelyn Partners. Data as at 17 September 2026.
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Not all roads lead to AI

AI is not the only story shaping markets. One of the standout performers since late 2022 has been gold, generating annualised real returns of 21.8%, rivalling many of the best-performing equity sectors.[9] Gold's resurgence reflects a combination of factors, including inflation concerns, growing public debt and geopolitical uncertainty.

The pandemic-era combination of huge fiscal stimulus and ultra-loose monetary policy reignited inflation after decades of relative stability. At the same time, government debt levels rose sharply, raising questions about long-term fiscal sustainability.

Geopolitics has provided a further tailwind. Russia's invasion of Ukraine in 2022 led to the freezing of a large portion of Russia's foreign exchange reserves. In response, some emerging-market central banks and sovereign wealth funds sought to diversify their reserve holdings, with gold emerging as an alternative to traditional reserve assets, including government bonds.

Taken together, these forces help explain why gold has performed almost as strongly as many AI-linked investments.

The laggards

While technology and gold have flourished, over the period more defensive assets have struggled to keep pace. Consumer staples and healthcare, traditionally viewed as havens in uncertain markets, delivered annualised real returns of 3.2% and 3.0%, respectively, since November 2022.[10]

Government bond returns have disappointed in real terms, as rising interest rates, introduced to combat inflation, have weighed heavily on bond prices.

Conclusions: three lessons stand out

First, inflation matters if investors want to achieve real returns. Investment success is often measured by the ability to generate positive real returns after inflation.

Second, while past performance is not a guide of future returns, history shows that equities may be a long-term source of real wealth creation. Within equities, sectors linked to innovation and productivity have delivered the strongest returns.

Third, stock market leadership can change quickly when major structural themes emerge. The launch of ChatGPT was one such moment.

Buffett's inflation tapeworm is still at work. Historical performance shows the most effective defence has been owning assets capable of growing faster than inflation. For much of the past three decades that has meant equities. Since the arrival of ChatGPT, the share prices of technology and AI-related businesses have been growing faster than inflation. Whether that leadership endures remains uncertain, but the shift in market performance has been unmistakable.

The value of investments can fall as well as rise, and you may get back less than you invest. Past performance is not a reliable indicator of future results. This article is for information only and is not personal financial advice or a recommendation to buy, sell or hold any investment.

Sources:

[1-10] LSEG/Evelyn Partners

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