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Macro Memo
August 2026

The New Inflation Reality Part 1: It's Baked-In

Introduction

For much of the last 40 years, investors benefited from a powerful trend of declining inflation. As inflation fell, interest rates generally moved lower, stock valuations climbed, and bonds often helped cushion portfolio volatility. In that environment, traditional stock and bond portfolios worked very well. It also encouraged the popularity of "set it and forget it" investment strategies such as target-date mutual funds.

But what if that environment has changed?

We believe investors may be entering a period in which inflation remains persistently higher than it was during the previous four decades. If that proves correct, some of the assumptions that worked so well in the past may no longer be sufficient for the future.

Over the next three Macro Memos, we will explore why we believe a long-term shift in inflation is already underway, how that shift could affect investment portfolios, and which strategies may be most vulnerable in a higher-inflation world.

Why Direction Matters

Most people think about inflation in terms of higher prices at the grocery store or gas pump. While that is certainly true, inflation also influences what investors are willing to pay for stocks, bonds, and other financial assets.

Investors buy assets because they expect future cash flows. Those future cash flows are converted into today's value using a required rate of return, often called a discount rate. When inflation rises, future dollars will have less purchasing power, so investors typically demand a higher return. Higher discount rates generally mean lower asset valuations. For example, if an investor expects to receive $100 ten years from now, that future payment is worth less today when inflation and required returns are higher. As a result, investors are generally willing to pay less for the asset that produces those future cash flows.

What many investors overlook is that the direction of inflation can be just as important as its level.

The 1970s and 1980s provide a useful example. Inflation began the 1970s around 6% and ended the decade near 13%. The 1980s started with double-digit inflation but finished closer to 5%.[i] Even though average inflation across the two decades was relatively similar, investment returns were dramatically different because inflation was moving in opposite directions.

This distinction is important. The investment playbook that worked during a 40-year trend of falling inflation may not work as well during a period of rising inflation pressures. And for investors with specific goals and timelines, simply waiting for this environment to pass may not be the most prudent option.

What Changed?

Economists often describe economic growth as depending on four primary ingredients: labor, capital, natural resources, and technology. For much of the last four decades, all four worked together to keep inflation under control.

Beginning in the 1980s, deregulation, globalization, the fall of the Iron Curtain, and China's entry into the World

Decade	CPI Inflation	3-Month T-Bills	Bonds	Stocks	Commodities
1970s	7.06%	6.30%	5.41%	5.93%	32.36%
1980s	5.48%	8.79%	11.96%	17.34%	5.31%

Sources: Federal Reserve Bank of Minneapolis, NYU Stern School of Business, Bloomberg

Trade Organization dramatically expanded the world's supply of labor, manufacturing capacity, and access to raw materials. Companies could relocate production to wherever costs were lowest. Global supply chains became increasingly efficient, and inflation fell.

Today, many of those tailwinds are reversing.

The COVID pandemic exposed the risks of relying heavily on overseas production for critical products. National security concerns have also risen. As a result, businesses and governments are increasingly focused on reshoring and rebuilding domestic manufacturing capacity.

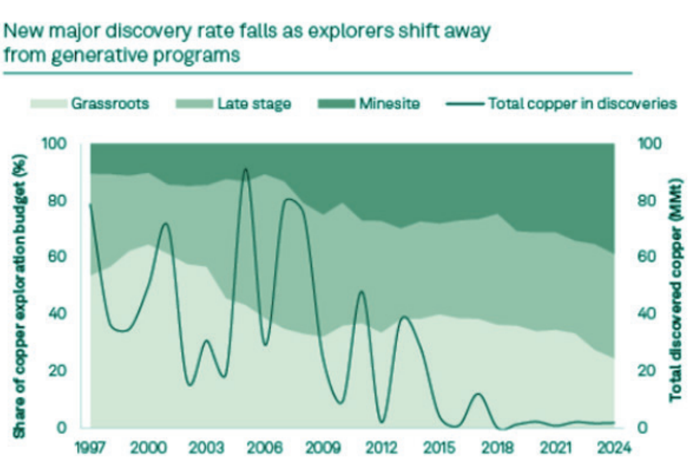
The challenge is that the resources, labor, and capital needed to accomplish that transition are not as abundant or as inexpensive as they once were.

Natural Resources

One source of inflationary pressure comes from natural resources.

Rare earth metals provide a good example. These materials are critical to advanced technologies and defense systems, yet China dominates much of the global refining capacity. Export restrictions implemented by China in the last 16 months highlight how vulnerable many countries, including the United States, have become to supply disruptions.

Copper presents another challenge. Demand continues to rise due to electric vehicles, artificial intelligence data centers, and the modernization of electrical infrastructure. At the same time, as the graphic below shows, significant new copper discoveries have become increasingly rare.[ii]



When demand grows faster than supply, prices tend to rise. The same story can be told across many commodities. For decades, much of the developed world prioritized finance and technology while underinvesting in resource production. That trend can be reversed, but it cannot be reversed quickly. New mines, refineries, and production facilities often take many years to develop.

Labor

Labor markets are creating another source of inflationary pressure.

One of our favorite tools for evaluating long-term labor trends is the population pyramid, which breaks a country's population into age groups. Comparing the United States in 1980 with today reveals an important shift.[iii]

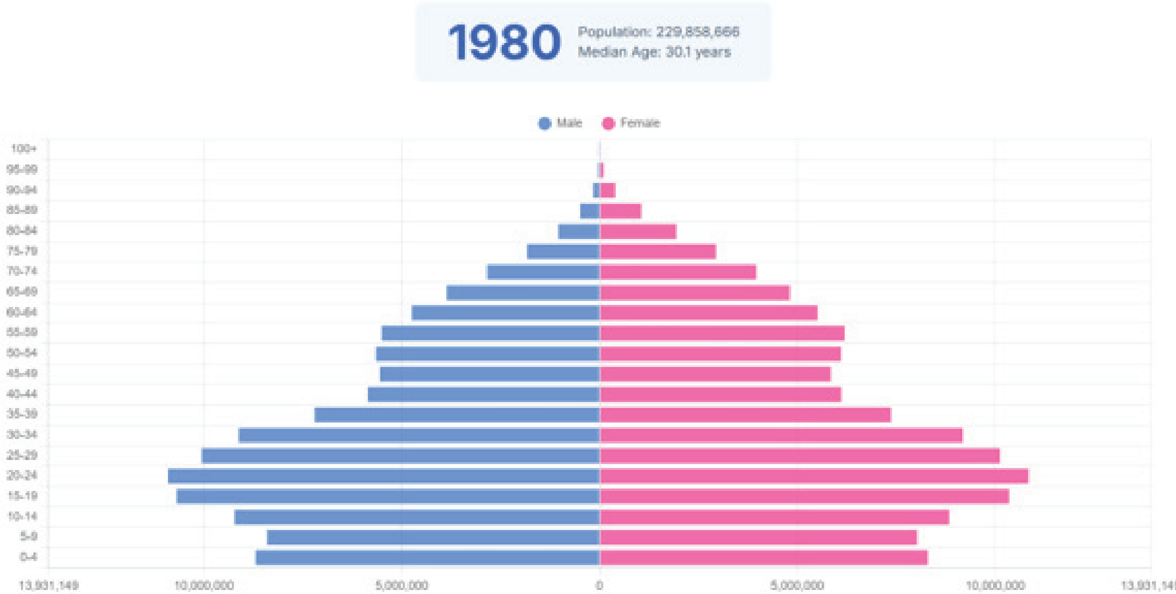
In 1980, the United States had a large and growing working-age population supporting a relatively small retired population. Today, the population is older, and a growing share has entered retirement.

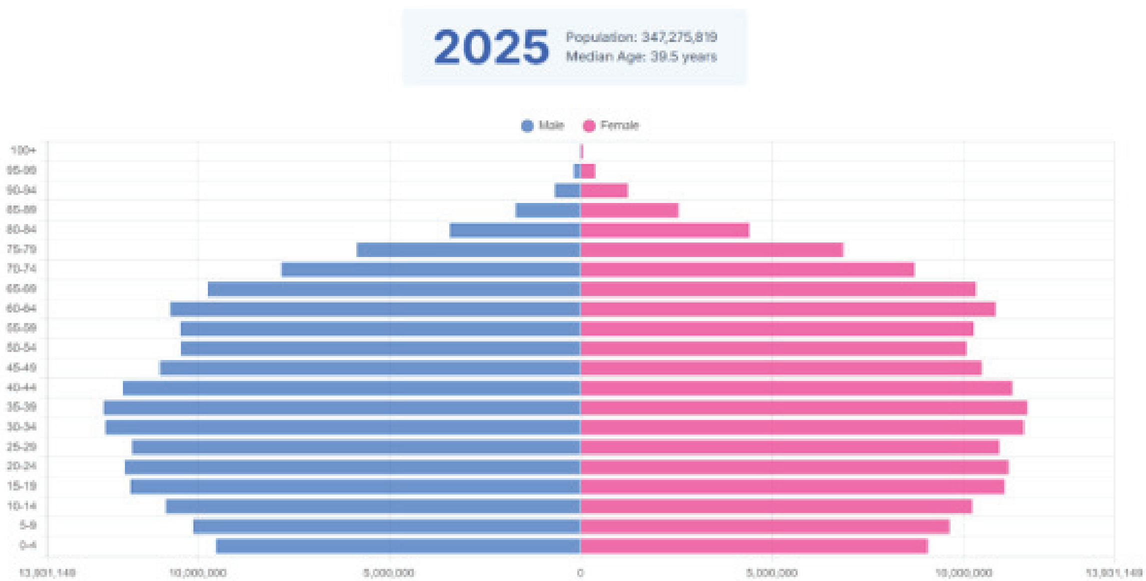
This means fewer workers are supporting more retirees. It also means labor may become increasingly scarce in many industries. When labor becomes scarce, wages tend to rise. While higher wages benefit workers, they can also add to inflation.

Importantly, the United States actually has one of the healthier demographic pictures among developed countries.[iv] Much of the industrialized world faces an even steeper decline in working-age populations. These demographic trends develop over decades, meaning they are unlikely to change quickly.

Capital

Capital is the third factor creating inflationary pressure. A fundamental economic identity states that investment ultimately comes from savings.[v] The problem is that





Americans are saving less than they once did.
In 1980, the personal savings rate was above 10%.
Today it is below 3%.

At the same time, competition for available capital is increasing. Massive federal deficits require substantial financing, while billions of dollars are also being directed toward artificial intelligence infrastructure and data centers.

When demand for capital rises while supply is limited, the cost of capital tends to increase. Higher financing costs represent another inflationary force that investors should not ignore.

Technology

Many investors take comfort in the belief that technology will solve these problems.

We largely agree. Over the long run, technological innovation has consistently improved productivity and living standards. We believe artificial intelligence has the potential to do the same.

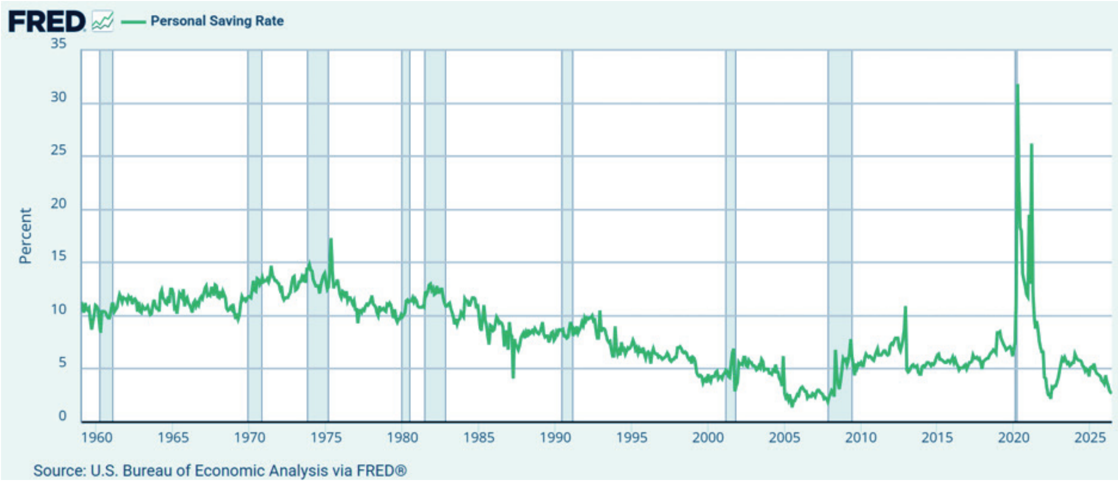
Our concern is timing.

Today, AI requires enormous amounts of capital, energy, and raw materials. Rather than relieving these pressures in the near term, it may actually increase demand for scarce resources. Eventually AI may help solve many of today's economic challenges, but the costs of building that future are being incurred right now.

Conclusion

When we look at those four major drivers of economic production, we see growing constraints.

Natural resources are becoming harder to develop. Labor forces across the developed world are shrinking. Capital is becoming more scarce and expensive. Meanwhile, the technological solutions



that may ultimately offset these challenges are still developing.

For those reasons, we believe a new long-term inflation trend is already emerging and that, to a meaningful degree, it is "baked in."

If that conclusion is correct, investors may need to reconsider some of the strategies that performed exceptionally well during the disinflationary era of the last four decades.

In our next Macro Memo, we will discuss what a more inflationary environment could mean for portfolio construction and long-term investment strategy.

If you would like to discuss these ideas before then, we welcome the conversation.

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[i] *https://fred.stlouisfed.org/graph/?g=rocU*

[ii] *Eillen Grace Dela Cruz, New Major Copper Discoveries Remain Scarce; Late-stage Assets Drive Growth (Dec 2025). Published online by S&P Global. Retrieved from: https://www.spglobal.com/market-intelligence/en/news-insights/research/2025/12/new-major-copper-discoveries-remain-scarce-late-stage-assets-drive-growth*

[iii] *https://www.populationpyramids.org/united-states*

[iv] *To see for yourself go to the website www.populationpyramids.org and look at the G-7 countries; Canada, France, Germany, Italy, Japan, the UK, and the United States (you might do this with a cocktail in hand).*

[v] *It is a macroeconomic identity that savings equal investments. A mathematical, or accounting identity is a relationship that is ALWAYS true. 2 + 2 = 4 is an example of a mathematical identity.*

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DAN CAIRNS, CFP®, CIMA®, CPWA®, RICP®
Senior Vice President, Financial Advisor
(916) 581-7549 | dcairns@dadco.com
CA Insurance License #0A12472

ERIN CAIRNS
Financial Advisor
(916) 744-7562 | ecairns@dadco.com
CA Insurance License #4459073

2901 Douglas Blvd., Suite 255 | Roseville, California 95661 | cairnswealthmanagement.com
D.A. Davidson CA Insurance License #076347