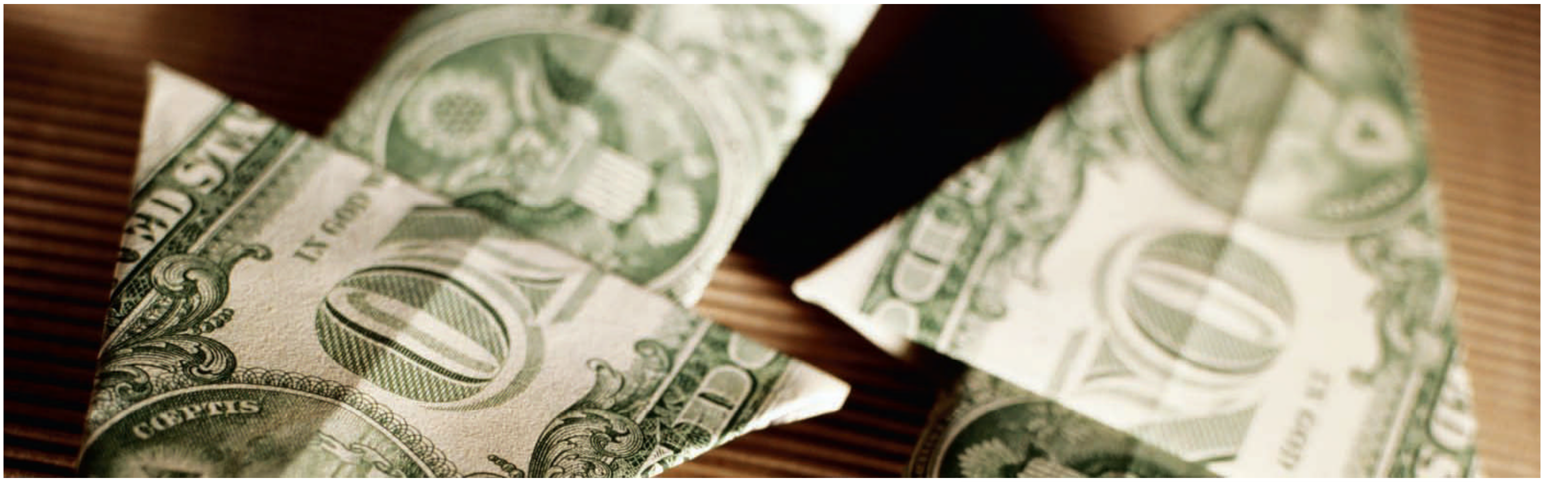

Inflation's Next Move

Will You Be Prepared?

Unprecedented amounts of government spending, combined with record low interest rates, are rescuing the economy from the throes of recession. But will the aggressive efforts at economic reflation lead to runaway inflation down the road?

"No one knows for sure how the system will ultimately absorb the massive amounts of stimuli injected over the past year," says Brian Weinstein, Managing Director and co-portfolio manager of the BlackRock Inflation Protected Bond Fund, "but investors are wise to prepare for the eventuality of inflation."

Low Now, But Looming Large?

Over the past year, the Fed has not only kept short-term interest rates close to zero, but also pursued a policy of quantitative easing or, put simply, it has increased the money supply. At the same time, Congress approved roughly $1 trillion in stimulus spending. Although inflation is currently quite low, economic theory suggests that if these unprecedented amounts of monetary and fiscal stimuli are successful in reinvigorating the economy, inflation will likely start to rise some time in the future.

"Over the next year or so, we believe core inflation (which excludes food and energy prices) will likely slow," says Mr. Weinstein. "At some point, however, when companies start to hire again and consumers resume spending, inflationary pressures will creep into the picture. By that time, the market will have priced in higher inflation and investors will have to pay a lot more for inflation protection."

Procrastination Doesn't Pay, Planning Ahead Can

Purchasing inflation protection for a portfolio is similar to buying insurance for a house — it needs to be done in advance. At the point that house catches fire, it is too late to buy homeowner's insurance. Likewise, once inflation heats up, it may be too late to insulate a portfolio from its effects.

To protect their assets from inflation's bite, investors might consider the following investments, which tend to perform well in an environment of rising inflation.

- **Stocks**. Stocks are a classic hedge against inflation. Company earnings — and, therefore, stock prices — typically increase when the economy is doing well, which also happens to be when inflation is a more likely threat.
- **Commodities**. Prices for commodities (oil, gold and other metals, for example) generally move in tandem with inflation. For that reason, commodities can serve as a cushion in times of rising inflation.
- **TIPS**. Treasury Inflation Protected Securities (TIPS) come with the full faith and credit pledge of nominal (i.e., non-inflation-adjusted) Treasuries, but with built-in inflation protection as well. While TIPS yields are typically lower than those provided by comparable Treasury bonds, the value of the principal payment (from which the interest payment is calculated) is adjusted each month according to changes in the Consumer Price Index. So TIPS increase in value as inflation rises.

Contact your financial professional to learn more about protecting your portfolio from future inflation. S