

FINANCIAL SERVICES

## Stock market stumbles as inflation rate climbs

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*The rate of inflation during the past year has jumped to 4.2 percent. Image: Unsplash*

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By KATIE TAMOLA

With the Dow Jones Industrial Average seeing its worst week of 2021, investors are wondering if this is a blip on the radar or signs of an imminent continued loss.

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The U.S. stock market has weathered the residual effects of the COVID-19 pandemic and corresponding restrictions and closures, the contentious 2020 election and is now facing continued inflation concerns. As inflation accelerated last month at its fastest pace since 2008, consumers and experts are wondering whether the losses will continue and how those effects could manifest.

"For the short term, I believe prices will continue to rise," said Melissa Armo, owner and CEO at [The Stock Swosh, LLC](#), New York. "Also, for the short term I think markets are lower before they are higher again."

"However, I do think that the market will recover at some point just like we did last year after the initial sell off in March of 2020 after the COVID-19 shutdown," she said. "Markets tend to stay in an uptrend most of the life of the market what is scary to people is when selling comes in fast and seemingly out of nowhere, but nothing goes up forever."

What goes up, must come down

As the market attempts to continue its recovery from the COVID-19 pandemic, inflation fears are seemingly permeating the stocks.

During one of its best days in 2020, the Dow Jones soared more than 1,000 points following Joe Biden's presidential election win and pharmaceutical company Pfizer's announcement that its COVID-19 vaccine is 90 percent effective ([see story](#)).



*As demand rises, supply chains are under pressure. Image credit: Jamie Street*

Now, the stock market is making headlines for significant losses, with many wondering if continued this week's performance is a blip on the radar or a sign of more serious and long-lasting inflation effects to come.

U.S. stocks have seen some of their biggest losses of 2021 this week, with the Dow falling 681.50 points, posting its worst day since January. [CNBC](#) reports that stocks continued to decline on Wednesday, with inflation data reflecting higher than previously anticipated price pressures.

The S&P 500 experienced a decline of 2.1 percent, while the Nasdaq Composite also declined by 2.7 percent, bringing its weekly decline to more than 5 percent.

Consumer prices rose last month, driving the rate of inflation to the highest level in nearly 13 years, a reflection of the general stress on the economy. The rate of inflation over the past year has jumped to 4.2 percent.

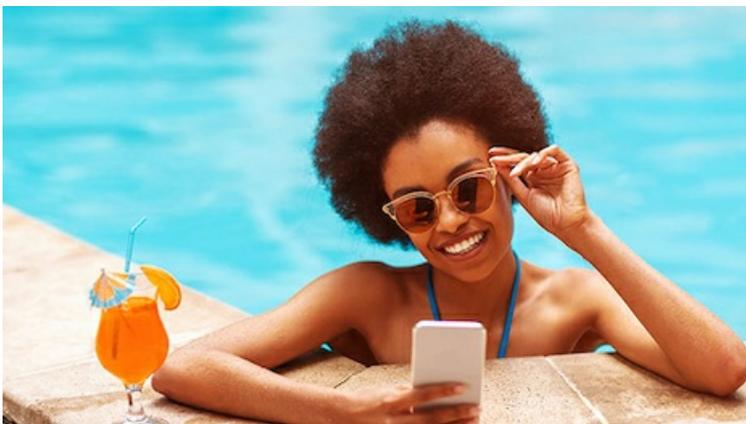
"The thing that is scary to people about inflation is it doesn't hit all at once in every product or thing," Ms. Armo said. "It's not like you wake up one morning and everything costs 10 percent more.

"Inflation sneaks up on products over time."

Tech stocks, which typically lead the market, have been hit the worst since the beginning of 2021. Ms. Armo anticipates that the market will go lower in the short term before it goes higher again.

According to [MarketWatch](#), businesses are struggling to keep up with increasing demand, with computer chips notably being in short supply, ultimately preventing the production of new automotive and other manufactured goods.

As more people prepare to eat out and take vacations, prices have risen, but senior Federal Reserve officials believe the rising inflation is temporary. Officials believe that inflation will subside over the next year, once the pandemic effects are more completely assuaged and people return to work and the global economy experiences a recovery.



*After more than a year of COVID-19 restrictions, affluents are looking to splurge on travel. Image credit: Marriott International*

According to the [Global Travel Trends Report](#) from American Express, 61 percent of travelers are planning to spend more on their 2021 trips than they normally would. Luxury accommodations have become more desirable as well, as consumers seek to balance unique experiences with privacy ([see story](#)).

More than one-third of high-income U.S. consumers have already booked leisure travel for the year, including 32 percent of high-income millennials.. A quarter of high-income consumers are also considering booking

international travel, a positive indicator for the luxury hospitality industry ([see story](#)).

Consumers do want to travel and spend money, but many are concerned that inflation will continue to rise.

Many market investors are generally apprehensive, as U.S. interest rates have risen in the past six months.

Inflation reaches all

The COVID-19 pandemic had severe consequences for every facet of the American economy and culture.

Prior to the pandemic, the U.S. economy had been doing well for several years, dating to the Obama administration.

During the first three years of the Trump administration, annual GDP growth averaged 2.5 percent, per BBC. The Dow Jones Industrial Average had reached record highs earlier in 2020, and unemployment stood at a 50-year low of 3.5 percent although job growth had slowed.

Then, the coronavirus pandemic swiftly wiped out stock market gains made since 2017 and led to an unprecedented unemployment rate in the U.S. ([see story](#)).

Global relations and the stock market have specific impacts on the luxury sector as well, with tariffs often threatening to increase the prices of foreign luxury goods.

In 2019, President Trump made headlines for implementing high tariffs on trade partners including China and the European Union, with imposed tariffs on imports from China so harsh they were likely to affect much of the retail industry. The United States Fashion Association believed these tariffs would later drive up prices on products for the American consumer ([see story](#)).

Inflation affects everyone, even the ultra-wealthy.

"Everyone feels the effects of inflation; no one is immune," Ms. Armo said. "If you have more disposable income, it will not affect your pocketbook as deeply as someone living paycheck to paycheck.

"However, inflation is bad for everyone," she said. "If we continue to keep businesses shut down even partially and continue to incentivize employees to not go back to work, we are going to see costs increase and that always comes back on the consumer.

"What I am the most concerned about for high-net-worth individuals is corporate and personal tax increases."