



MARKET SNAPSHOT

Can Sitting in Cash Cost You?



Volatile markets have prompted many investors to invest in cash. While this may seem like a smart choice, inflation and taxes can eat into seemingly attractive cash returns. When accounting for inflation and tax rates, the return from investing in cash may be negative, as seen in the table below. In other words, cash investors may be losing money. While stocks and bonds have more risk than cash, they may also provide return potential that can help offset the impact of inflation and taxes.

You may not get what you think: Inflation and taxes determine the real rate of return

Hypothetical real rate of return after inflation and tax rates

		CASH RATE							
INFLATION	TAX RATE	1%	2%	3%	4%	5%	6%	7%	8%
2%	20%	-1.2%	-0.4%	0.4%	1.2%	2.0%	2.8%	3.6%	4.4%
2%	30%	-1.3%	-0.6%	0.1%	0.8%	1.5%	2.2%	2.9%	3.6%
2%	40%	-1.4%	-0.8%	-0.2%	0.4%	1.0%	1.6%	2.2%	2.8%
4%	20%	-3.2%	-2.4%	-1.6%	-0.8%	0.0%	0.8%	1.6%	2.4%
4%	30%	-3.3%	-2.6%	-1.9%	-1.2%	-0.5%	0.2%	0.9%	1.6%
4%	40%	-3.4%	-2.8%	-2.2%	-1.6%	-1.0%	-0.4%	0.2%	0.8%
6%	20%	-5.2%	-4.4%	-3.6%	-2.8%	-2.0%	-1.2%	-0.4%	0.4%
6%	30%	-5.3%	-4.6%	-3.9%	-3.2%	-2.5%	-1.8%	-1.1%	-0.4%
6%	40%	-5.4%	-4.8%	-4.2%	-3.6%	-3.0%	-2.4%	-1.8%	-1.2%
8%	20%	-7.2%	-6.4%	-5.6%	-4.8%	-4.0%	-3.2%	-2.4%	-1.6%
8%	30%	-7.3%	-6.6%	-5.9%	-5.2%	-4.5%	-3.8%	-3.1%	-2.4%
8%	40%	-7.4%	-6.8%	-6.2%	-5.6%	-5.0%	-4.4%	-3.8%	-3.2%
10%	20%	-9.2%	-8.4%	-7.6%	-6.8%	-6.0%	-5.2%	-4.4%	-3.6%
10%	30%	-9.3%	-8.6%	-7.9%	-7.2%	-6.5%	-5.8%	-5.1%	-4.4%
10%	40%	-9.4%	-8.8%	-8.2%	-7.6%	-7.0%	-6.4%	-5.8%	-5.2%

A CLOSER LOOK AT REAL RETURNS

4% CASH RATE

Inflation: **6%**
Tax rate: **30%**
Expected return: 4%

Real return: -3.2%

Inflation and tax rates impact cash returns which could make stocks and bonds a better fit for suitable long-term goals.

These hypothetical examples are for illustrative purposes only. It does not represent the performance of a particular MFS® investment product. This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.

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