Investing in Context

# Why inflation matters

## The impact of Inflation

**Inflation is a silent force that affects us all. As the cost of everyday goods and services rises over time, the spending power of your money gradually decreases. In other words, £1 today will buy you less in the future than it does now.**

This matters not only when you spend, but also when you save. As if your savings are not growing at a rate that keeps up with inflation, their real value is shrinking. Understanding inflation and how it affects both what your money can buy and how far your savings can go, is key to making informed financial decisions and protecting your future wealth.

In the UK, inflation is typically represented by the Consumer Price Index (CPI).

### What is CPI?

The Consumer Price Index (CPI) measures how much prices are rising by tracking the cost of a 'shopping basket' of around 700 everyday goods and services, like groceries, clothing, transport, energy prices etc.

The UK's Office for National Statistics (ONS) updates this basket annually to reflect what people are actually spending their money on.

### Cumulative inflation

Over the last 10 years (to December 2025), prices in the UK have risen by a total 39%[1]. That means on average the same basket of goods and services now costs nearly 40% more than it did a 10 years ago.

This is what we call cumulative inflation, the total increase in prices over a period of time, not just year by year.

### What would goods and services costing £1,000 in January 2016, cost you in December 2025?


### Adjustments to the 'shopping basket' in 2025

Each year the ONS update the CPI basket to reflect how our shopping habits change.

In 2025, 23 items were added, and 15 items were removed.

Examples include:

- **Added:** Virtual reality headsets, Men's sliders, Exercise Mats, Mango
- **Removed:** Diced turkey mince, Newspaper adverts, In-store cafeteria meals, DVD rentals

These changes help to ensure the CPI index reflects what people are actually buying.

## Why is inflation so important to consider?

Inflation matters for two important reasons:

1. It **reduces what your money can buy** over time
2. It **erodes the value of your savings** if they grow slower than inflation

To preserve and grow the **real value of your money** in the long-term, it is essential that your savings or investments **grow faster than inflation**. This is known as achieving a **real return**.

## How does inflation affect what your money can buy?

**Inflation gradually reduces your money's buying power,** meaning you can buy less with the same amount over time. In simple terms, everyday goods and services become more expensive to buy.

For example, if we consider the cost of a loaf of white bread. The average cost of an 800g loaf at the beginning 2016 was £1.02. In December 2025, the average price had increased to £1.40[2].

A basic grocery item like a loaf of white bread has risen in cost by 28p, an increase of 27%. You are paying more, and your money no longer goes as far as it did in previous years.

## Depositing cash in the bank – is that enough to protect your spending power?

Putting your money in a bank savings account may feel like the safe and secure choice, and it can be. Cash savings offer benefits such as easy access, low risk and consumer protections like the Financial Services Compensation Scheme (FSCS) in the UK.

### DID YOU KNOW?

**Even if your savings earn 2% interest, but inflation is 4%, your money is actually losing value in real terms**

However, it is important to be aware that many savings accounts pay low interest rates, which are frequently lower than the rate of inflation. This means that over time, the real value (or buying power) of your money can decrease, even if the balance on your account stays the same or increases slightly.

Cash savings can still play a valuable role in your overall financial planning, especially for short-term needs or emergency funds. However, it is important to also consider how you spread your money across different assets to protect and grow its real value in the longer-term.

## Over the longer-term inflation can significantly impact the real value of your savings

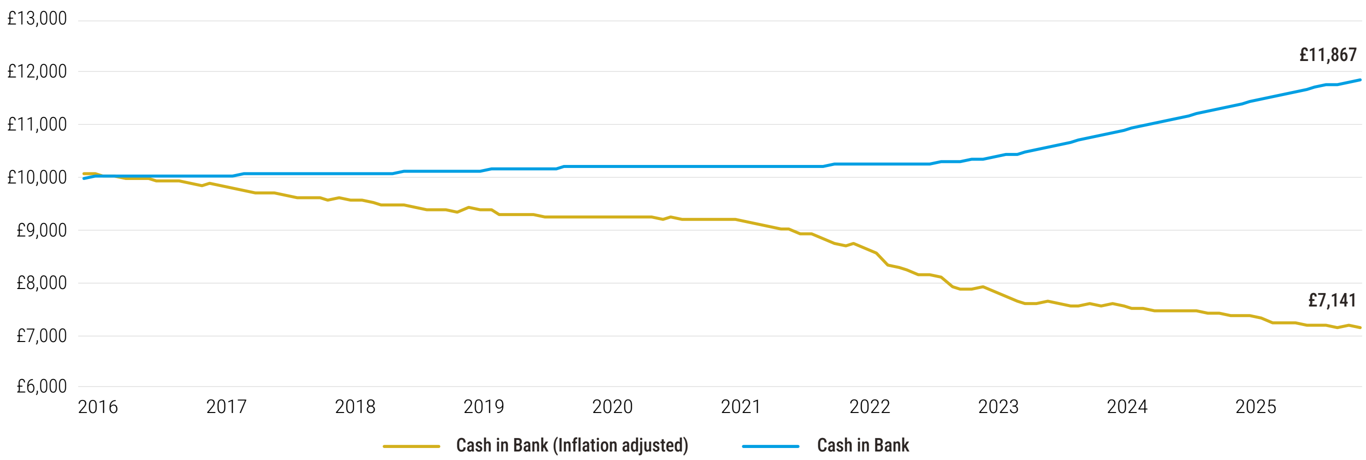
While cash savings can play a role in short-term financial planning, over time, Inflation can quietly eat away at their real value. Especially when interest rates don't keep up.

For example, if you had deposited £10,000 in January 2016 into a bank account, your money would have grown to approximately £11,867[3] by the end of 2025.

At first glance it looks like growth. But when we account for inflation over the same period, the picture changes. The cumulative rise in prices would mean that your £11,867[3] would now only be worth around £7,141[3] in real terms, a loss of 29% in spending power.

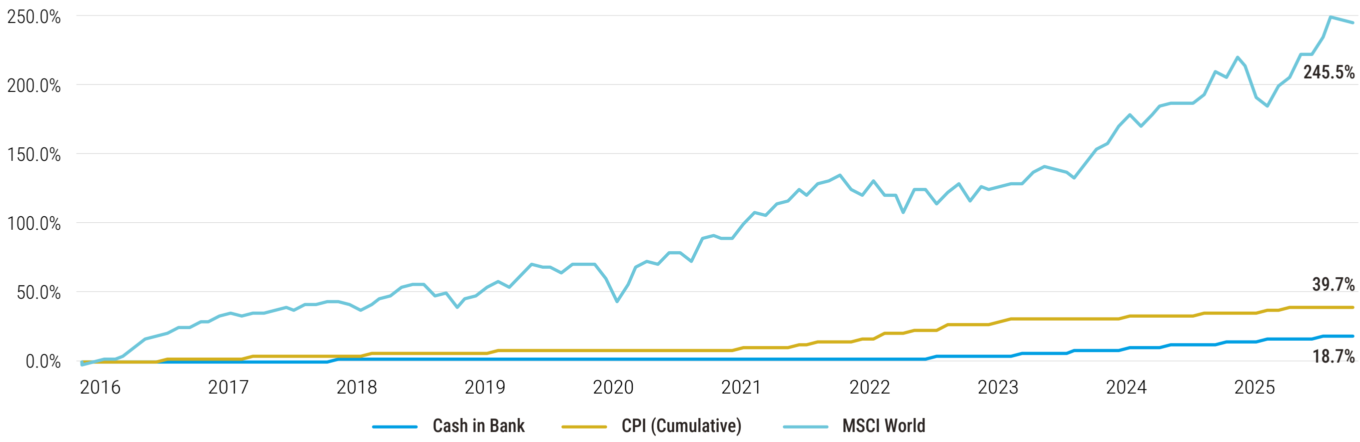
This shows how inflation can erode your future spending power, even if your bank balance appears to grow.

**Figure 1: Cash in Bank – Buying power after inflation**




Source: Columbia Threadneedle Investments, Lipper Data, as at 31 December 2025

**Figure 2: % Growth of MSCI World Index, CPI and Money in the bank**




Source: Columbia Threadneedle Investments, Lipper Data, as at 31 December 2025

## The case for investing – growing your wealth over time

While investing carries some risk, including the potential for short-term market fluctuations. It also offers the potential for higher returns that can outpace inflation in the long run.

Historically, well diversified investment portfolios have delivered stronger long-term growth than simply keeping money in a savings account.

For example, if you invested £10,000 in a MSCI World Index (which represents global stock markets) on 1st January 2016, your investment would have grown by 246%, by December 2025.

This growth would have comfortably outpaced the 40% cumulative rise in inflation over the same period. This level of growth helps grow the real value of your money, above the effects of inflation

In contrast, keeping the same £10,000 in a typical bank savings account would have earned just 19%[4] over the same time. Far below the rise in inflation. This means your money would have lost buying power in real terms.

**While investing carries some risks, it also provides greater potential to preserve and grow the real value of your money over the longer-term, compared to holding cash.**

It is important to understand that:

- The value of your investment can go down as well as up, and there is no guarantee you will get back what you originally invested.
- Returns are not guaranteed, and the market may underperform, especially in the short-term.
- Investing with a short time horizon can expose you to more volatility and less opportunity to recover from market dips.
- Different types of investments carry different levels of risk, from relatively stable government bonds to more volatile funds or shares. or funds.

However, by spreading your money across different asset classes (a strategy known as diversification) and investing over the long-term, you can reduce your exposure to risk and give your money more time to grow.

## Benefits of investing over time offers the potential to:

- Outpace inflation
- Achieve long-term growth through compounding
- Preserve and grow the real value of your money

## What does it mean for you?

Planning for the future means making your money work smarter and harder.

Investing can help you protect and grow your wealth, especially over the long-term. But it is important to do so in a way that fits with your personal goals, timeframe and risk tolerance.

## Key Points

- Inflation reduces what your money can by over time
- Savings may lose purchasing power if they don't keep up with inflation
- Investing can help protect and grow your money over the longer term

[1] Cumulative Inflation - CPI INDEX 00: ALL ITEMS 2015=100 - Office for National Statistics
[2] Cost of White Bread - RPI: Ave price - Bread: white loaf, unwrapped, 800g - Office for National Statistics
[3] Figures calculated by Columbia Threadneedle Investments – Lipper Data, as at 31 December 2025
[4] Figures calculated by Columbia Threadneedle Investments – Lipper Data, as at 31 December 2025

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