

INVESTOR INSIGHTS

Should you walk, drive or fly?

May 2026



Remember back in 2022, when inflation nearly reached double digits? Prices and interest rates have eased since these peaks. But "sticky" price increases in key sectors are preventing a complete return to the Bank of Canada's (BoC) 2% inflation target. Today, a key measure of Canadian inflation sits at 2.3% – still slightly above that target.

When it comes to your investments, returns are important, but that's only half the picture. Inflation is the silent force that can erode the wealth you are working so hard to build. Why? Because if inflation is higher than your investment returns, you are essentially losing purchasing power on your hard-earned money.

What's the impact of inflation?

Since the BoC set its 2% inflation target in 1991, inflation has averaged about 2.1% per year. That might sound small, but it adds up. Inflation means the cost of every day things – groceries, gas, rent – rises a little each year. If your money isn't growing at least as fast, your purchasing power quietly shrinks.

Inflation stems from a number of events; currencies losing their value, tariffs, demand overpowering supply and many other reasons. What's important is this: Your money today will be worth less in the future.

Think about it this way: over a 40-year career, every \$1 you held in a chequing account would be worth just 49 cents by the time you retire. Why? Most chequing accounts earn little to no interest (often less than 0.25% per year) while inflation averages about 2.1% per year. As prices for everyday items rise year after year, your dollar buys less and less. Your money didn't disappear, but what it can buy has been cut nearly in half. That's why, when you have long-term goals, investing isn't just a good idea. It's essential.

The race against inflation: walking, driving and flying

Picture your financial journey as a race against inflation. It's one you need to finish before inflation erodes a significant part of what you've built. You have three ways to travel: walking, driving or flying.

Walking (cash) - Works great for short distances, like navigating a congested downtown. But try walking from Toronto to Vancouver. You'll be passed by everyone on the highway, arriving late and exhausted.

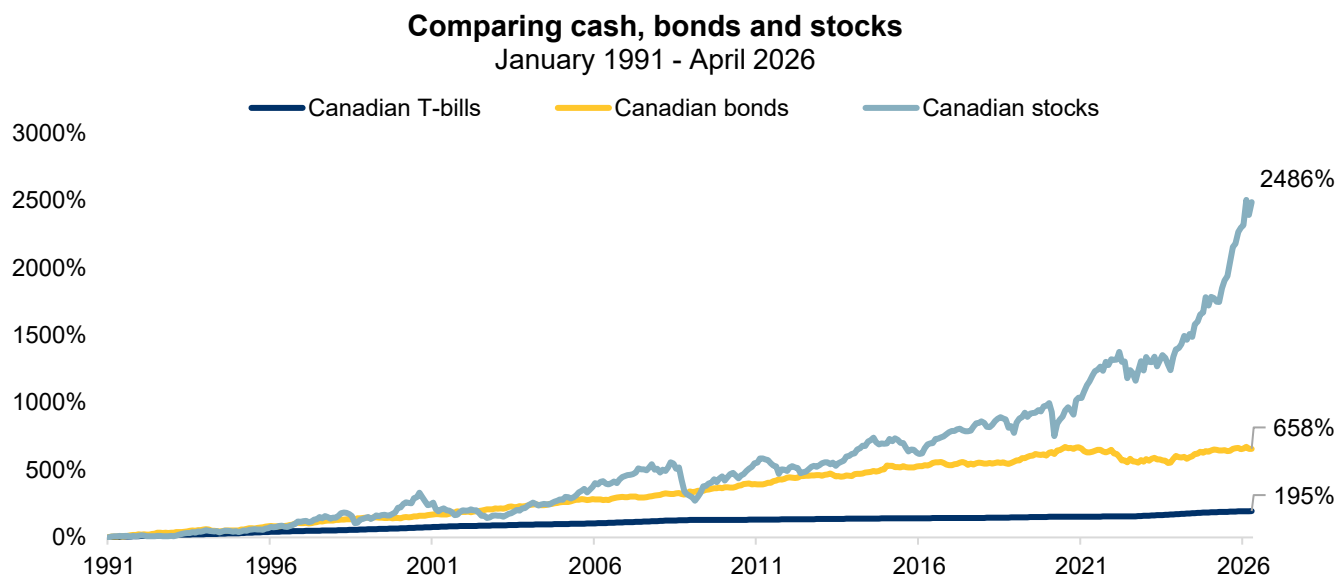
Cash operates the same way. Perfect for emergency funds or money you'll need soon. But the average annual return for short-term Canadian bonds (T-bills) since 1991 has been 3.1%. Once you account for 2.1% inflation, cash earns just 1% more than inflation over the long run.

Driving (bonds) - Gets you there faster and more reliably. Traffic might slow you down occasionally, but you're making consistent progress. A trip that takes weeks on foot takes hours behind the wheel.

Bonds have performed like steady highway driving, with Canadian bonds averaging 5.9% annually since 1991. This means bonds offer an improved inflation buffer compared to cash. They're your dependable vehicle for medium-term goals.

Flying (stocks) - Covers the most ground in the shortest time. Yes, there's turbulence. But you're traveling in hours compared to days by car or weeks on foot. Stocks get you to your destination fastest. Since 1991, Canadian stocks (as measured by the TSX Composite Index) averaged 9.6% annually. For long-term goals, flying is unmatched.

The chart below compares how cash (walking), bonds (driving) and stocks (flying) have fared since 1991.



Source: Morningstar, RBC GAM. Data ranges from January 1, 1991, to April 30, 2026. Canadian T-bills represented by FTSE Canada 91-day T-bill Index. Canadian Bonds represented by FTSE Canada Universe Bond Index. Canadian Stocks represented by S&P/TSX Composite Index. Returns cumulative in CAD. An investment cannot be made directly into an index. Past performance is not a guarantee of future results.

Final thoughts

The right choice depends entirely on your timeline. Emergency funds should walk. Medium-term goals can drive. Long-term wealth needs to fly. Most successful investors use all three approaches strategically.

But here's what matters most: every month you stay on foot when you should drive or fly, you're letting your money slowly lose its value. In today's environment, where inflation remains sticky, investors relying solely on cash are watching everyone else pull away.

So, keep this in mind: "Don't try to walk across the country when you should be flying. Match your mode of travel to your destination."

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