

Rising global inflation: How should investments be deployed?

Video highlights:

Over the past one to two years, investment opportunities in real assets—such as gold and oil—have been driven by three catalysts:

- **Persistent Inflation:** Global inflation remains structurally elevated due to lingering geopolitical conflicts, making commodities, infrastructure, and energy effective inflation hedges.
- **AI-Driven Infrastructure Demand:** Exponential growth in Artificial Intelligence (AI) has triggered surging global power demands, prompting governments to accelerate capital expenditure in energy and digital infrastructure.
- **Geopolitical Resource Competition:** Escalating geopolitical tensions fuel resource protectionism among nations, providing structural upward support for commodity prices.

Beyond AI, global infrastructure equities are supported by long-term structural shifts requiring massive capital reallocation:

- **Energy Transition:** Geopolitical vulnerabilities (e.g., the U.S.–Iran conflict) have accelerated global efforts to diversify away from traditional energy dependencies toward renewable transitions.
- **Supply Chain Deglobalization:** The shifting trend toward nearshoring and reshoring manufacturing production creates immediate demand for domestic infrastructure and industrial facility upgrades.
- **Capital Expenditure Scale:** Global public infrastructure spending reached approximately USD 50 billion as of June 2025. Cumulatively, an estimated USD 151 trillion in additional capital investment is required globally by 2050 to meet these structural shifts.

For fixed income strategy, short-duration Treasury Inflation-Protected Securities (TIPS) are favored over longer-duration assets:

- **Interest Rate Risk Mitigation:** Anticipated upward pressure on long-term U.S. Treasury yields makes short-duration TIPS ideal for reducing duration risk while hedging against unexpected inflation.
- **Historical Performance Resilience:** Over the past 10 calendar years, short-duration TIPS delivered positive returns in 9 years and outperformed standard short-term US Treasuries in 8 of those years, offering a compelling risk-adjusted profile.

The rising correlation between global equities and bonds has diminished the diversification benefits of conventional balanced portfolios. Thus, investors could consider a multi-asset strategy combining short-duration bonds and real asset equities to hedge geopolitical and inflationary risks while capturing structural long-term growth.

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