WORLDVIEW · MACRO & STRATEGY · JUNE 2026

Inflation as regime risk: why *real purchasing power* matters again

A perspective for pension funds, family offices and foundations with long-term capital. Not about next quarter's inflation, but about whether the portfolio is robust if the next ten years unfold materially differently from the past ten.

2.6%	4.0%	1.1%
ECB projection for euro-area inflation (HICP) in 2026; around 2% in 2027–2028	OECD projection for G20 inflation in 2026, +1.2 pp after the energy shock	IMF projection for euro-area growth in 2026, revised down from 1.4%
ECB, Macroeconomic projections, March 2026	OECD, Economic Outlook Interim Report, March 2026	IMF, Regional Economic Outlook Europe, April 2026

IN BRIEF

The regime on which portfolios were built is under pressure

For four decades, most institutional portfolios shared one quiet design assumption: low and stable inflation, falling interest rates, advancing globalisation and a reliable negative correlation between equities and bonds. In that world the classic 60/40 mix worked, because bonds rose when equities fell.

Central banks' base case remains moderate. But the higher probability of inflation makes it necessary to adjust the asset mix accordingly, with more room for alternative, real assets. For pension funds, family offices and foundations this goes to the heart of their mandate — preserving real purchasing power over a long horizon. A portfolio that delivers a positive nominal return can still lose purchasing power in real terms. And when inflation becomes the common risk factor, traditional diversification offers less protection than assumed.

WorldView therefore approaches inflation not as a short-term forecast, but as a regime risk. The relevant question is not whether inflation is 2.0% or 2.6% next quarter, but whether the portfolio is robust enough across multiple inflation regimes.

01 — WHY THIS MATTERS

Inflation as a strategic question

Inflation is often discussed as a macroeconomic figure: a monthly reading, a deviation from a target, an input for the rate decision. For long-term investors that is too narrow a lens.

For a pension fund, a family office or a foundation with perpetual capital, inflation is not a data point but an obligation. The mandate is rarely “to achieve a nominal return”. The mandate is to preserve purchasing power: the pension ambition of members, the intergenerational wealth of a family, or the annual spending power with which a foundation funds its mission.

Many portfolios are implicitly designed for one specific world — low, predictable, falling rates. The strategically relevant question is therefore not only “what is our inflation expectation?”, but “how does our portfolio behave across different inflation regimes — and do we accept those outcomes deliberately?”

02 — REGIME THINKING

From temporary inflation to regime risk

It is useful to separate three concepts. **Cyclical inflation** is temporary and moves with the business cycle; waiting is then often the right policy. **Structural inflationary pressure** is more persistent and stems from supply factors, cost levels and policy incentives that do not disappear on their own. **Regime change** is the broadest concept: not the level of inflation in a single year, but a shift in how the economy and markets behave — in average inflation, in its volatility, and, crucially for portfolios, in the correlations between asset classes.

The base case remains moderate. But the balance of risks has shifted. The recent revisions illustrate this: following the energy-driven supply shock around the conflict in the Middle East, the OECD revised G20 inflation for 2026 upward by 1.2 percentage points to 4.0%, with 2.7% in 2027. The IMF lowered euro-area growth for 2026 to around 1.1%, due to that same shock.

> *The lesson is not that high inflation is inevitable. The lesson is that investors must not only optimise for the most likely scenario, but also be robust to scenarios of more persistent inflation, higher rates or financial repression.*

03 — THE FORCES

Six structural inflation forces

Six forces that — moderate individually, but mutually reinforcing — make the distribution of risk more asymmetric. None is a forecast; each is a direction in which the risk has shifted.

01

Debt and budget deficits

Western government debt structurally stands at or above 100% of GDP, with budget deficits of 3–6% per year. As the real interest rate rises, financing costs increase; the path of least political resistance is then often to tolerate inflation rather than to consolidate sharply — aided by accommodative monetary policy. A remaining route is monetary financing, whereby the central bank buys up government debt: this eases the financing pressure, but puts the separation between fiscal and monetary policy, and with it effective policy independence, under strain.

Implication: nominal long-dated government bonds carry greater interest-rate risk; the assumption that bonds are a safe haven warrants reconsideration.

02

Energy and commodities

Access to cheap energy in Europe has become structurally more limited; the transition is commodity-intensive. Higher costs in energy, transport, packaging and fertiliser feed through into consumer prices.

Implication: targeted exposure to real assets and energy can reduce sensitivity to supply-driven inflation — without any guarantee in every scenario.

03

Geopolitical fragmentation and war

Historically, inflation often rises around major conflicts — through higher public spending, scarcity, energy prices and disrupted trade.

Implication: geopolitical shocks belong explicitly in the stress test, not only as a tail risk.

04

Defence and public investment

Structurally higher defence budgets and public investment are partly debt-financed and not productivity-enhancing; this raises deficits and can add upward price pressure.

Implication: the combination of higher deficits and persistent inflation strengthens the case for real, rather than purely nominal, return objectives.

05

Deglobalisation and reshoring

Optimising supply chains for the lowest cost gives way to robustness: proximity, duplication, inventory. Resilience is valuable, but rarely cheap.

Implication: part of the disinflationary force of globalisation falls away; companies with pricing power become relatively more attractive.

06

Labour market and ageing

Ageing shrinks the labour supply across large parts of Europe, which can structurally strengthen the bargaining position of workers. Not an automatic wage-price spiral, but a lower likelihood of prolonged, very low wage inflation.

Implication: margin pressure in labour-intensive sectors warrants attention in equity selection.

04 — PORTFOLIO IMPACT

Why this affects traditional portfolios

The first effect is the most underestimated: **a positive nominal return can be negative in real terms.** A portfolio returning 4% looks healthy — until inflation is 5%. Those benchmarking against a nominal index can show outperformance while the capital loses real purchasing power.

The second effect concerns **bonds.** In the previous regime, rates fell when growth disappointed, and bond prices rose in stress. But when inflation and rates rise together, nominal bonds protect less, and the negative correlation with equities can weaken or reverse.

The third effect concerns **equities**: higher discount rates depress valuations, especially for growth stocks, while margin pressure arises when costs rise faster than companies can pass them on. The fourth concerns **private markets and real estate**, sensitive to refinancing costs through their roll-over structure, to valuation adjustments and to liquidity.

The overarching point: **traditional diversification works less well when inflation becomes the common risk factor.** When a single factor weighs on bonds, equities and private markets at once, traditional assets correlate more rather than diversifying.

Pension funds

Under the WTP solidarity-based contribution scheme (the new Dutch pension framework), each cohort has its own pool and the projected return translates interest rates directly into the current payout. The employer has withdrawn from investment risk; preserving purchasing power becomes a direct responsibility towards the member rather than a collective buffer discussion.

Family offices

It is about intergenerational wealth preservation — capital preservation after inflation and after tax, across multiple generations.

Charities & foundations

The continuity of the mission depends on annual spending power. A real loss of purchasing power translates directly into less budget for the statutory objective — at a time of heightened scrutiny of how return projections are substantiated.

05 — SCENARIO ANALYSIS

Four regimes as a framework

The following four regimes form our framework, with an indicative probability estimate. The aim is to test the portfolio against each scenario and to accept the outcomes deliberately.

The probabilities cited are a subjective estimate by WorldView — not a market consensus and not derived from the sources referenced.

GROWTH: HIGH → LOW

1 Normalisation 20% High growth, low inflation. Inflation back to ~2%; central banks retain policy room.	**2 Overheating** 25% High growth, high inflation. Persistent 3–4%; rates higher for longer.
4 Financial repression 35% Low growth, high debt. Nominal rates held artificially low to finance debt.	**3 Stagflation** 20% Low growth, high inflation. The most difficult regime for a classic mix.

INFLATION: LOW → HIGH

Indicative positioning; financial repression is characterised mainly by negative real rates.

1 · Return to 2% — 20%

Inflation normalises, growth recovers, central banks retain policy room.

EQUITIES	Support from falling discount rates; returns driven by growth.
BONDS	Diversification is restored; the safe-haven function works.
PRIVATE	Refinancing eases; valuations stabilise.
PURCH. POWER	Preserved.

Implication: a classic mix largely suffices.

2 · Persistent 3–4% — 25%

Inflation stays structurally above target; rates higher for longer.

EQUITIES	Pressure on valuation multiples; pricing power makes the difference.
BONDS	Real returns under pressure; shorter duration relatively better.
PRIVATE	Refinancing costs and valuations under pressure.
PURCH. POWER	Gradual erosion without explicit protection.

Implication: add explicit inflation linkage.

3 · Stagflation — 20%

Higher inflation combined with low or negative growth.

EQUITIES	Margin pressure and valuation pressure at once.
BONDS	The worst scenario for nominal bonds.
PRIVATE	Liquidity and valuation vulnerable.
PURCH. POWER	Material erosion.

Implication: real assets and capital protection take priority.

4 · Fiscal dominance / repression — 35%

Inflation high, nominal rates held artificially low (yield curve control).

EQUITIES	Mixed; real assets and pricing power relatively better.
BONDS	Structurally negative real rates; nominal bonds erode in real terms.
PRIVATE	Indexed real estate/infrastructure relatively better; liquidity remains a point of attention.
PURCH. POWER	Deliberate, policy-driven erosion of both debt and savings.

Implication: a real return objective and inflation linkage are essential.

06 — IN PRACTICE

What inflation protection *is* and *is not*

Inflation protection is not a product you buy. It is a property you build into portfolio construction. A number of building blocks, each with nuance:

- **Inflation-linked bonds** — link directly to price increases, but perform less well in a normalising regime.
- **Shorter duration** — reduces sensitivity to rising rates, at the cost of return when rates fall.
- **Quality equities with pricing power** — can pass on costs; selection is decisive.
- **Infrastructure & real assets** — often contractual or regulated inflation indexation and stable cash flows.
- **Commodities and energy exposure** — dampen supply-driven inflation, but are volatile.
- **Real estate with inflation indexation** — protects in part, but carries refinancing risk.
- **Liquidity and currency management** — in stress regimes, return factors in their own right, not a residual.
- **Dynamic allocation & scenario analysis** — the difference between a static mix and a portfolio that adapts.

The honest picture: no single asset class protects perfectly against all inflation scenarios. Protection arises from combination and calibration — that is, from construction, with a real return objective (CPI+) rather than a purely nominal one.

07 — OUR APPROACH

The WorldView view

WorldView sees inflation not as a short-term forecast, but as a strategic regime risk. The focus is on preserving real purchasing power over the horizon that truly matters to our clients.

At the core of our approach is a portfolio with an integrated, explicit inflation objective — calibrated to the investor's spending rule and risk budget, and tested against multiple regimes rather than optimised for a single expectation.

We do not claim that any approach removes inflation. We do help institutional investors assess whether their portfolio is sufficiently robust across multiple inflation scenarios, and which adjustments increase that robustness — including the outcomes they thereby accept deliberately.

08 — IN CLOSING

The right question

Inflation need not return to the 1970s to be strategically relevant. Even sustained inflation of 3 to 4% can, over a long horizon, fundamentally affect real purchasing power, the structure of liabilities and the adequacy of a portfolio.

For long-term investors, the real question is therefore not whether inflation is 2.0% or 2.6% next quarter. The question is whether the portfolio is robust enough if the next ten years are materially different from the past ten.

— — THE CONVERSATION

Testing whether your portfolio is ready for a different regime

We are glad to talk with your board or investment committee — not as a sales pitch, but as a joint test of your portfolio's robustness across different inflation regimes.

Pension funds

Under the WTP, interest-rate and inflation risk become more directly felt by members. We are glad to test how robust your portfolio is across inflation regimes — as a basis for the board discussion.

Family offices

Intergenerational wealth preservation starts with real return after inflation and tax. We discuss how a real return objective relates to your current allocation.

Charities & foundations

Your spending power is your mission. We are glad to think with you about the adequacy of your portfolio for preserving purchasing power over the long term.

Arrange an introduction

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SOURCES

ECB, Macroeconomic projections for the euro area, March 2026 · IMF, Regional Economic Outlook Europe, April 2026 · OECD, Economic Outlook Interim Report, March 2026 · BIS, Annual Economic Report 2025 · CEPR/VoxEU, inflation in the aftermath of wars and pandemics · Eurostat, HICP data · IMF Fiscal Monitor / OECD debt and fiscal data.

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