Building portfolios for structural inflation: Total portfolio integration

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For most of the past four decades, investors could construct diversified portfolios around a relatively simple assumption: equities would provide long-term growth, while nominal government bonds would provide income and diversification when growth weakened. The inflation shocks of recent years have challenged that relationship.

The implication is not that investors should abandon equities and bonds, nor simply establish a separate allocation to "inflation assets". Rather, a more persistent and volatile inflation environment makes it increasingly important to understand what drives risk across the total portfolio.

Figure 1 - Five forces are pushing institutions beyond traditional asset-class thinking

Portfolios are more complex

Private equity, infrastructure, private credit, hedge funds and real assets increasingly **don't fit traditional asset-class buckets.**

Asset classes disguise risk

Different labels can share the same exposures — private equity, listed equity, infrastructure and venture capital **all carry equity factor risk.**

Changing market regimes

Inflation shocks, higher equity-bond correlation and macro dislocations **demand greater flexibility and faster decisions.**

Liquidity matters more

As private allocations rise, capital calls, **liquidity needs** and rebalancing must be managed **at the total-fund level**.

Opportunities ignore boundaries

AI is the clearest example, cutting across infrastructure, private equity, public equities and energy — SAA frameworks struggle.

Investment benefits

- Improved portfolio construction
- Better diversification
- More efficient use of risk budget
- Better integration of public and private assets

Organizational benefits

- Better capital allocation decisions
- Reduced silo behavior
- Improved coordination across teams
- Common language around risk and return
- More consistent decision making
- Greater organizational flexibility

Source: Invesco, for illustrative purposes only.

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Inflation risk does not respect asset class boundaries
Asset class labels describe where capital is invested, but not necessarily how it will respond to inflation. Allocations to equities, fixed income, real estate and alternatives can overlap in their exposure to interest rates, financing costs and economic growth.

This distinction between label and behavior is especially important for assets commonly viewed as protecting against inflation. Infrastructure and real estate may have inflation-linked revenues, yet remain sensitive to interest rates, financing costs and growth. Floating rate private credit offers income that adjusts with interest rates but retains credit and liquidity risk. Inflation-linked government bonds provide an explicit inflation linkage alongside real interest rate exposure, while commodities are more directly sensitive to inflation shocks.

An inflation-sensitive revenue stream is therefore not the same as an inflation-resilient investment. Likewise, adding more asset classes does not necessarily diversify the portfolio's economic risks, because seemingly different holdings may still depend on the same interest rate or growth environment.

A total portfolio approach looks through these labels to the exposures beneath them. The question is not how much a portfolio holds in "inflation assets", but how its combined inflation, interest rate, growth, credit and liquidity exposures fit together and whether the risks taken are adequately compensated.

From inflation hedges to inflation resilience
There is no single perfect inflation hedge. Different inflationary environments can produce very different investment outcomes. Supply-driven inflation, strong nominal growth, commodity shocks and persistent wage inflation may affect assets differently.

Building greater inflation resilience therefore requires a broader toolkit. Investors can combine exposures whose return drivers respond differently across inflationary regimes, including inflation-linked bonds, commodities, selected real assets, floating-rate credit and strategies with differentiated sources of return.

The objective is not to maximize the portfolio's sensitivity to inflation. Doing so could create new concentrations, and sacrifice returns in environments where inflation moderates. Rather, the aim is to improve the portfolio's ability to meet its objectives across a wider range of economic outcomes. This is where Total Portfolio Integration becomes particularly useful.

A total portfolio lens changes the allocation question
Rather than assigning each investment to a predetermined bucket, investors can assess opportunities according to their marginal contribution to the portfolio. Does the exposure add to a return driver the portfolio currently lacks? Does it reduce an existing concentration? What liquidity does it consume? How does it interact with existing interest rates, growth and inflation exposures?

This framework also allows public and private investments to be considered alongside one another. An infrastructure investment, commodity strategy, inflation-linked bond or private loan should not earn an allocation just because it belongs to an asset class conventionally associated with inflation protection. Each should compete for capital based on what the investment contributes to the total portfolio. This principle matters even more as portfolios grow more complex and the same economic themes appear across multiple asset classes.

Figure 2 - Similarities and differences between SAA and TPA

Dimension	Strategic Asset Allocation	Total Portfolio Approach
Objectives	Both aim to meet long-term obligations or objectives within an acceptable risk budget.	
Governance needs	Both depend on diversification, governance discipline, and a clear investment belief system.	
Decision framework	Both need a way to assess whether active decisions are adding value.	
Starting point	Long-term asset-class weights.	The total portfolio objective.
Decision unit	Asset-class sleeve.	Whole portfolio.
Risk lens	Deviation from policy weights and asset-class benchmarks.	Contribution to total-fund risk, including factor exposures.
Benchmarking	Asset-class benchmarks.	Reference portfolio, liability-relative objective, or real-return target.
Governance	Board sets policy weights; asset-class teams implement.	Board sets mission and risk appetite; CIO and investment team allocate dynamically.
Adaptability	Periodic review and rebalancing.	Ongoing reassessment of relative value and marginal contribution.
Main advantage	Transparency, simplicity, and discipline.	Flexibility, stronger alignment with outcomes and better cross-asset comparison.
Main risk	Silo behaviour and hidden factor concentration.	Complexity, governance strain, and higher data demands.
Best suited to	Institutions that need clear policy governance, stable benchmarks, and straightforward implementation.	Institutions with the governance, data and accountability needed to manage more dynamic total-fund decisions.

Source: Invesco Strategy & Insights, based on analysis of SAA and TPA frameworks and source material reviewed. As of 26 June 2026

Integration rather than prediction

Ultimately, building portfolios for structural inflation should not depend on investors correctly forecasting the next inflation print. The more durable response is to construct portfolios that recognize inflation as one of several fundamental drivers of risk and return, then integrate those exposures across the whole portfolio.

Strategic asset allocation can still provide a valuable long-term anchor, but a total portfolio perspective can complement this framework by giving investors a clearer view of overlapping risks and greater flexibility to allocate capital where it can contribute most effectively.

In an environment where inflation may be higher, more volatile and less predictable than investors have become accustomed to during the previous several decades, the objective is not simply to own more "inflation assets". It is to build a portfolio in which inflation risk is understood, deliberately allocated and compensated at the total portfolio level.

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