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Key takeaways

- Structural inflation does not eliminate the case for growth investments, but it may change which businesses, strategies, and investment structures are best positioned to generate long-term capital appreciation.
- Structural inflation may lead some investors to reassess growth exposure across public and private markets, geographies, sectors, and sources of return rather than relying on broad equity beta alone.
- In a more capital-intensive world, pricing power, access to capital, operational flexibility, and the ability to convert structural investment into sustainable earnings may become increasingly important.

For much of the post-1980 period, the environment for growth investing was exceptionally supportive. Inflation declined, interest rates fell, globalization expanded, and capital became progressively cheaper. These conditions supported economic activity, but they also increased the value investors were willing to assign to earnings expected far into the future. Growth investing gradually became associated not only with capital appreciation, but with long-duration assets, expanding valuation multiples, and business models able to access abundant capital.

A world of structural inflation does not bring growth investing to an end. Economic expansion, innovation, and productivity remain essential sources of long-term return. However, the way investors obtain growth exposure may need to evolve. If inflation is more variable, interest rates remain less predictable, and capital is no longer consistently inexpensive, the distinction between growth and duration becomes increasingly important.

This raises a central question: what should a growth portfolio look like when the economic environment itself has changed?

Growth remains essential

In the first article in this series, we organized portfolios around three broad functions: growth, resilience, and total portfolio integration. Growth assets are responsible for long-term capital appreciation and may include global equities, private equity, venture capital, growth-oriented credit, and other return-seeking investments.

The need for this portfolio function has not changed. Most investors cannot achieve their long-term objectives through defensive and inflation-sensitive assets alone. Pension funds must fund future liabilities, insurers need to compound capital, sovereign institutions seek to preserve wealth across generations, and individual investors must maintain purchasing power over increasingly long investment horizons.

The objective, therefore, is not to reduce growth exposure simply because inflation has become more important. It is to construct that exposure more deliberately. In the previous environment, investors could often rely on broad market appreciation, falling discount rates, and relatively stable macroeconomic relationships. In the next environment, returns may depend more heavily on earnings durability, capital discipline, and the ability of individual businesses to adapt.

Not all growth is the same

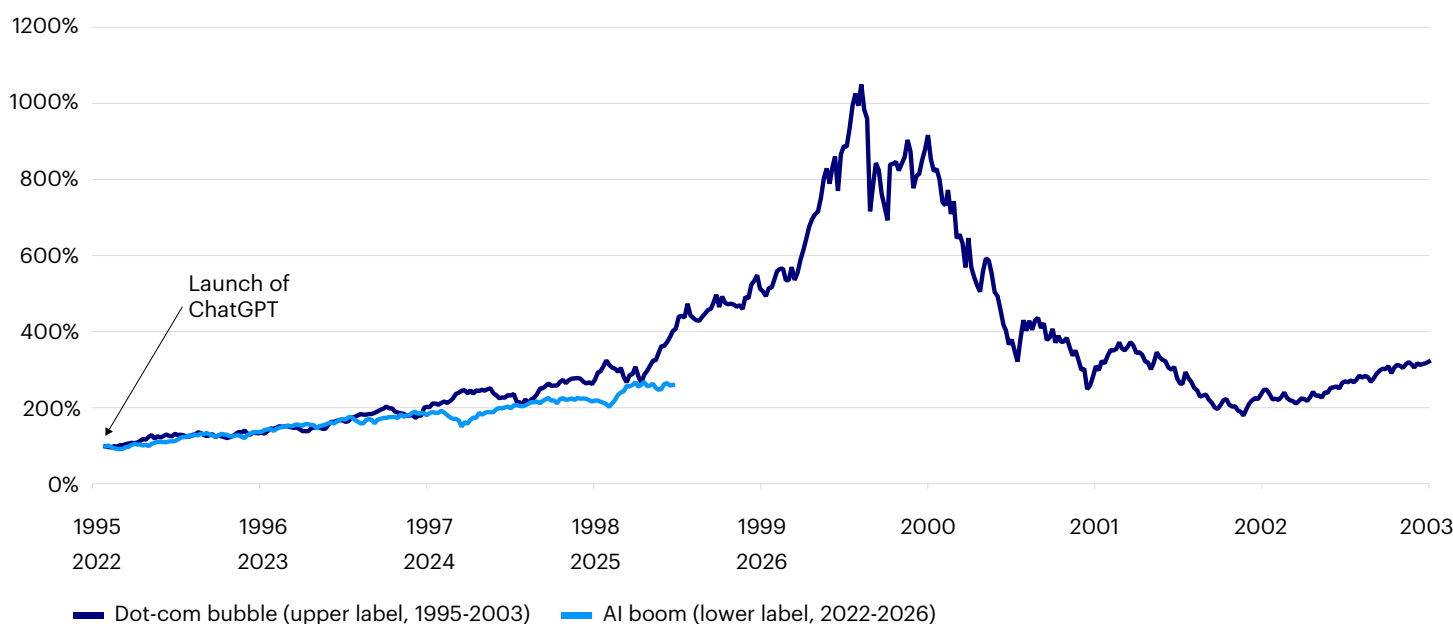
Traditional portfolios frequently treat public equities as the primary growth allocation, with private equity, venture capital, and growth-oriented opportunistic credit and real estate managed as separate asset classes. Yet these investments are connected by a common economic purpose. They provide capital to businesses and participate, directly or indirectly, in future cash-flow growth and capital appreciation.

Viewed through this lens, the relevant distinction is not simply public versus private. It is the source and quality of the underlying growth. Some companies depend on cheap financing, stable input costs, or distant future profits. Others possess pricing power, strong balance sheets, recurring revenues, or the capacity to fund investment internally. Both may be described as growth companies, but their sensitivity to inflation and interest rates can be very different.

Structural inflation may therefore increase the importance of selectivity. Businesses able to pass higher costs through to customers, improve productivity, or operate with limited capital requirements may be better positioned than businesses whose margins depend on permanently low input and financing costs. Equally, capital-intensive companies should not automatically be avoided. In areas such as energy systems, semiconductor capacity, automation, and digital infrastructure, rising investment requirements may themselves create long-term opportunities, particularly where barriers to entry are high and demand is persistent.

Artificial intelligence illustrates this distinction. It is often discussed as a digital productivity story, but its development also requires physical investment in data centres, semiconductors, power generation, transmission networks, and cooling systems. The opportunity may therefore extend beyond technology platforms to the broader ecosystem enabling their growth. Ultimately, AI is a physical transformation requiring energy, power grids, industrial materials, and other infrastructure before its productivity benefits are fully realized.

Nasdaq-100 Index cumulative performance: Dot-com bubble vs. AI rally



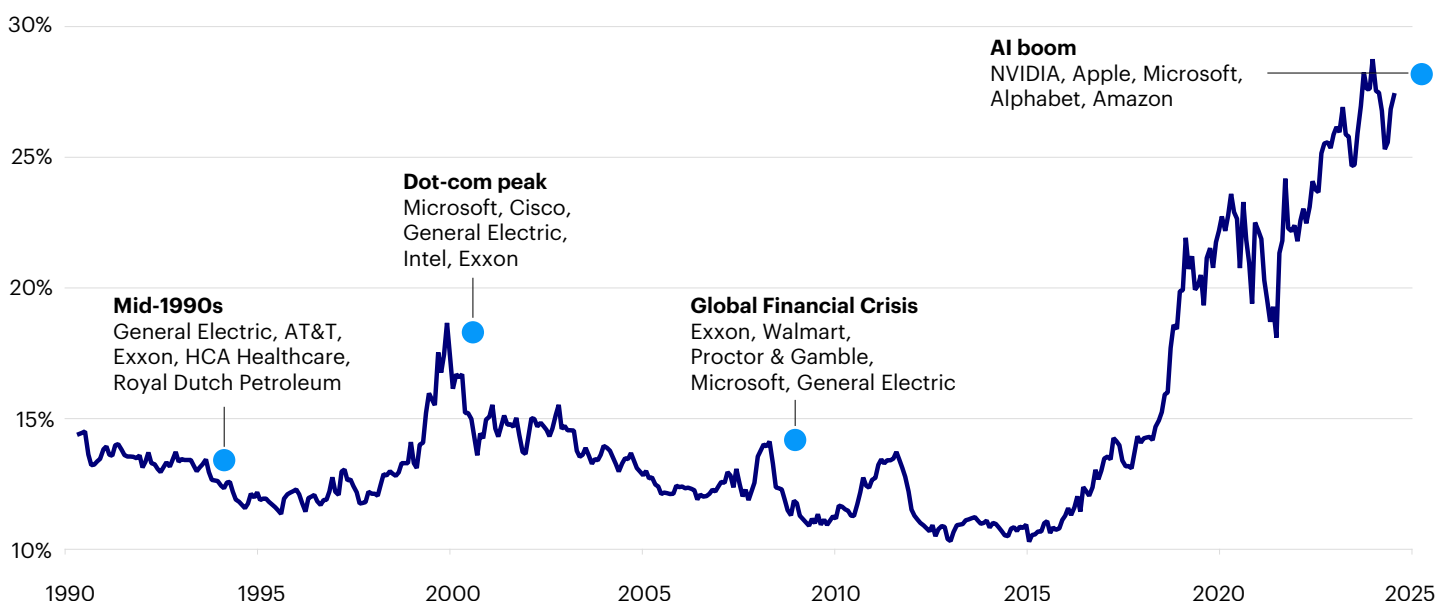
Source: Bloomberg L.P., Aug. 31, 2026. ChatGPT launched on Nov. 30, 2022. An investment cannot be made directly into an index.

Past performance does not guarantee future results.

Diversifying the growth engine

A more demanding macroeconomic environment may also strengthen the case for diversifying the growth allocation itself. Global equity indices can provide efficient access to economic growth, but index-level diversification may conceal significant concentration in a limited number of companies, sectors, or economic themes. Growth portfolios may appear diversified by security count while remaining dependent on the same underlying factors.

Figure 2 - S&P 500 Index concentration has been at record highs



Sources: Bloomberg L.P. and Invesco Strategy & Insights, as of Aug. 31, 2026. US small cap based on the Russell 2000 Index. US large cap based on the S&P 500 Index. US value based on the Russell 1000 Value Index. US growth based on the Russell 1000 Growth Index. Magnificent 7 (Mag 7) based on the Bloomberg Magnificent 7 Index. S&P 493 is based on the Bloomberg 500 ex Magnificent 7 Index. Non-US stocks based on the MSCI ACWI ex U.S. Index. US stocks based on the S&P 500 Index. An investment cannot be made directly in an index. **Past performance does not guarantee future results.** For illustrative purposes only. Not intended as investment advice or a recommendation to buy, hold, or sell any security(ies)/sector(s).

Market participants may consider combining different forms of growth exposure. Public markets provide liquidity, transparency, and efficient access to established businesses. Private markets can provide exposure to companies, operating models, and value-creation opportunities that may not be available in listed markets. Growth-oriented opportunistic credit can participate through contractual income and structural protections, while real assets may combine economic growth with exposure to long-term capital investment.

The purpose is not to maximize allocations to every available opportunity. It is to determine what each investment contributes to the growth function of the total portfolio. Public and private investments can therefore be evaluated as complementary implementation vehicles, with attention given to overlapping economic exposures, liquidity requirements, valuation, and the concentration of risk across the portfolio.

Building portfolios with structural inflation: Growth

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Growth in a more capital-intensive world

Structural inflation may ultimately reflect a world in which economies must invest more simply to maintain resilience and support expansion. Supply chains are being redesigned, energy systems rebuilt, manufacturing capacity duplicated, and digital networks expanded. These developments can raise costs, but they can also produce a broader opportunity set for long-term investors.

In this environment, successful growth investing may become less about identifying the most exciting narrative and more about understanding who supplies the necessary capital, controls scarce assets, possesses pricing power, and ultimately captures the economics of investment. Meaningful opportunities may emerge where structural demand is supported by durable competitive advantages and disciplined capital allocation.

Conclusion: Redefining growth

Structural inflation does not mean investors should abandon growth but rather define it more carefully. Growth is not an asset class, a market label, or a particular investment style. It is a portfolio outcome generated through participation in expanding cash flows, productivity, innovation, and economic development.

The post-1980 environment allowed investors to benefit from both economic growth and steadily declining discount rates. The next era may offer less support from valuation expansion and place greater emphasis on the underlying quality of earnings and cash flows. In that world, the objective is not merely to own more growth assets, but to build a diversified growth engine capable of compounding capital across a wider range of inflation, interest-rate, and economic outcomes.

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Investment Risks

The value of investments and any income will fluctuate (this may partly be the result of exchange-rate fluctuations), and investors may not get back the full amount invested.

Past performance is not a guide to future returns.

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