



# THE IMPORTANCE OF INFLATION PROTECTION

June 2026

For institutional, professional, qualified investors and qualified clients only.

## EXECUTIVE SUMMARY

- **Disinflation has stalled:** Inflation decelerated as earlier food and energy spikes dropped out of the annual comparison. But it has now settled into a higher range, still above most central-bank targets. Recent rises in energy prices linked to the Middle East conflict add risk that it could rise again.
- **Central banks remain biased towards easing:** Even with inflation at or above target in many economies, policymakers started cutting interest rates as soon as they believed inflation had peaked. They continue to frame repeated inflation shocks as temporary. That risks a higher overall price level and more persistent wage-driven inflation.
- **Inflation expectations look less anchored:** Long-term expectations on some measures remain high. If households and firms stop believing central banks will reduce inflation to hit targets, they could change wage demands and pricing behaviour, making inflation even harder to control.
- **Seven structural forces driving a higher global inflation environment:** We believe the world has shifted to a more inflationary backdrop. Seven medium-term forces stand out.
  1. **Policy activism is entrenching inflation:** Political intervention to mitigate the impact of global events has become normalised, boosting aggregate demand and fuelling inflation.
  2. **Security is back at the centre of policy:** Geopolitical tensions, as the world fragments into competing spheres of influence, are driving a sustained increase in defence spending.
  3. **Debt dynamics are becoming a macro constraint:** Rising government debt is increasing pressure on fiscal and monetary policy, raising the risk of higher inflation, market instability and tensions with central bank independence.
  4. **Demographics are turning inflationary:** Ageing populations and tightening labour supply are set to drive structurally higher wage growth and persistent inflationary pressure.
  5. **Globalisation is going into reverse:** The shift from globalisation to supply-chain security is reversing decades of disinflation, embedding a more structurally inflationary backdrop.
  6. **Decarbonisation comes with an inflationary price:** The scale of investment and policy required for the energy transition is creating sustained upward pressure on costs, embedding a structural inflationary impulse.
  7. **AI may be disinflationary – but not yet:** While artificial intelligence (AI) has long-term disinflationary potential, near-term investment demands, resource competition and infrastructure buildout are adding to inflationary pressures.
- **Domestic inflationary pressures may matter again:** As the global disinflationary impulse fades, local labour markets, regulation, and policy choices are likely to drive greater inflation differences across countries.
- **The case for inflation protection:** Many market participants still appear anchored to the low-inflation era. We think they are underestimating structural change. That strengthens the case for building inflation protection into investment strategies.



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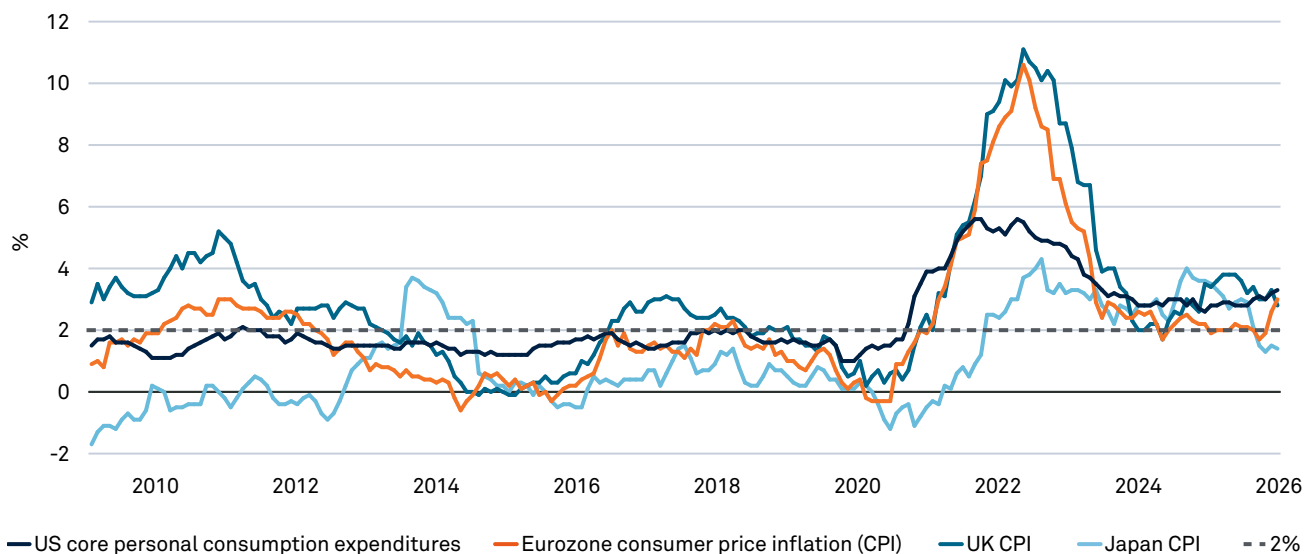
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# DISINFLATION HAS STALLED

Headline inflation has decelerated sharply from post-pandemic highs. Much of that fall reflects base effects, with earlier spikes in food and energy prices no longer boosting year-on-year comparisons.

But that deceleration phase has not lasted. Across most major economies, inflation now sits in a higher range, still above central-bank targets (see Figure 1). Inflation in the US and UK has been especially sticky. More recently, the Middle East conflict has pushed energy prices higher, adding new upside risk.

**Figure 1: Inflation has remained stubbornly above 2% in most markets**



Source: Insight and Bloomberg. Data as at 30 April 2026.

# CENTRAL BANKS REMAIN BIASED TOWARDS EASING

Even with inflation at or above 2% in many countries (and well above in some), major central banks began easing as soon as they felt inflation had peaked (see Figure 2). This happened despite expansionary fiscal policy in economies such as the US and Germany, and with no expectation of a meaningful output gap ahead.

Energy-driven inflation risks could still lead to some tightening. However, the market expectation is that any renewed hikes would be modest. In the US, many believe that higher energy prices may mainly delay further cuts rather than restart a full hiking cycle.

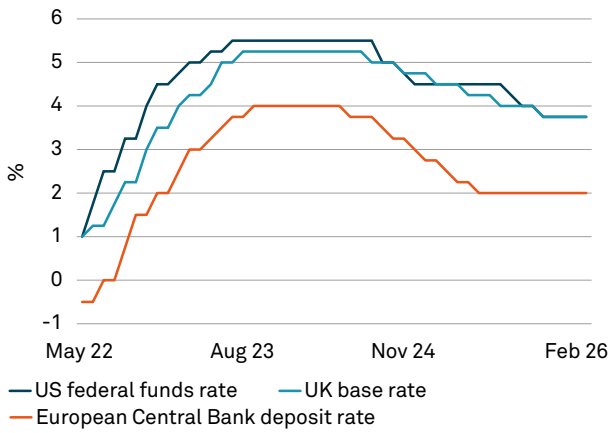
A common pattern is that policymakers have treated events like the Middle East conflict, tariffs, or UK minimum wage changes as one-off shocks. These shocks lift the price level, but they are assumed not to change the underlying inflation trend.

## THE IMPORTANCE OF INFLATION PROTECTION

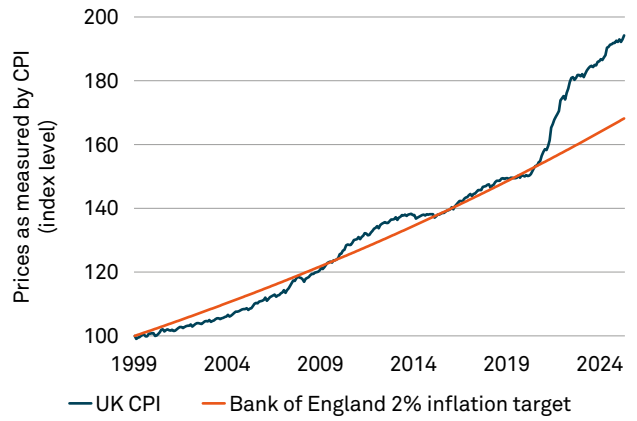
The problem is that repeated one-offs add up. Over time, they have created a large gap between today's price level and the level that would have prevailed if inflation targets had been met. This gap is especially clear in the UK (see Figure 3), and it is still widening while inflation remains above target.

As households rebuild lost purchasing power, wage pressure is likely to remain elevated. That raises the risk that inflation becomes more persistent over time.

**Figure 2: Central banks eased policy as soon as they believed inflation had peaked**



**Figure 3: There is now a considerable inflation gap in countries such as the UK**



Source: Insight and Bloomberg. Data as at 30 April 2026. Figure 2 rebased at 100 in 1999.



# INFLATION EXPECTATIONS LOOK LESS ANCHORED

Some measures of long-term inflation expectations remain stubbornly high (see Figure 4), despite central banks signalling a commitment to their targets.

Inflation expectations should be important to central banks. When households and businesses trust central banks to hit targets, they are less likely to react to short-term inflation moves. This makes it easier for a central bank to meet its inflation objective. If long-term inflation expectations stay unanchored, it suggests central banks may be losing credibility. If people begin to assume inflation will remain elevated, they adapt wage demands, contract terms, and pricing strategies accordingly.

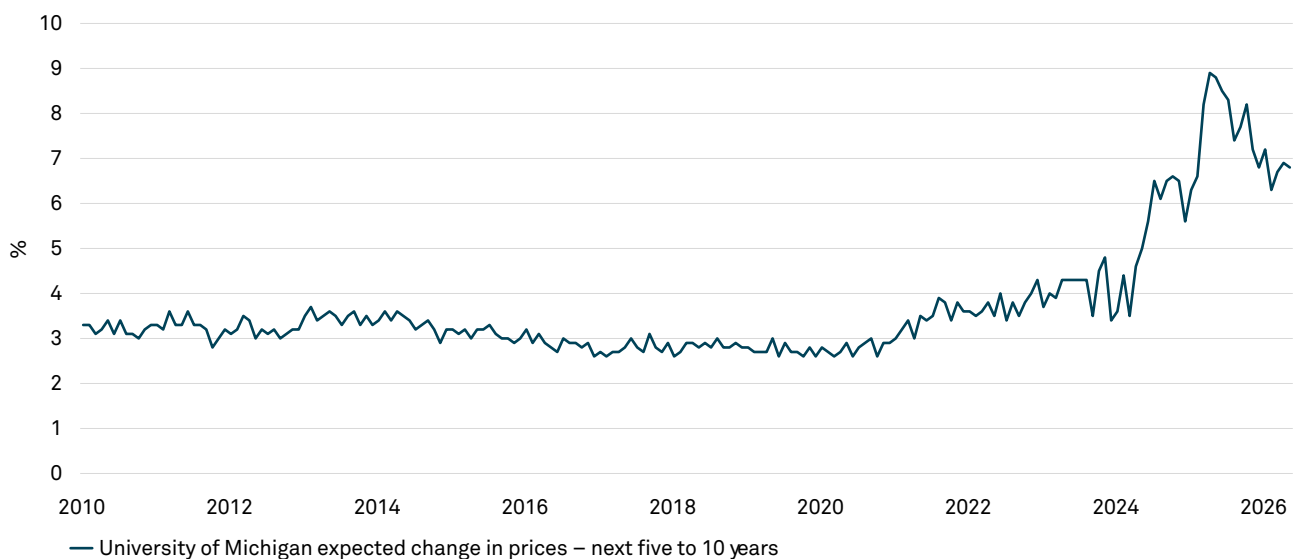
With expectations appearing to be settling at a higher level, the risk of second-round effects rises. Households are not only trying to recover lost purchasing power but also expect further erosion. In that setting, wage growth can stay high and firms may keep raising prices, creating a feedback loop that locks in higher inflation.



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Figure 4: Expectations of future US inflation rose rapidly around two years ago, and have remained high



Source: Insight and Bloomberg. Data as at 30 April 2026.

# SEVEN STRUCTURAL FORCES DRIVING A HIGHER GLOBAL INFLATION ENVIRONMENT

For much of the early 21st century, inflation ran at very low levels. Globalisation, labour mobility and technology all delivered positive supply-side shocks. The global financial crisis then reinforced this trend, largely through a deep demand shock and long-lasting damage to the banking system.

More recently, the pattern has shifted. Global supply shocks have turned more negative, with the disruption of the Strait of Hormuz a recent example. Globalisation is giving way to reshoring and regionalisation, while tighter migration policies constrain labour supply. As inflation becomes more domestic, local supply and demand will matter more, and economic cycles may become less synchronised across countries.

We think seven medium-term forces will shape inflation outcomes:

## 1. POLICY ACTIVISM IS ENTRENCHING INFLATION

Activist government intervention, first deployed during the pandemic, has become a permanent feature of the economy. Measures such as furlough schemes, direct transfers and energy support helped stabilise economies during crises, but have since become normalised, with governments now expected to step in whenever a shock hits.

This support keeps demand stronger than it would otherwise be, limiting the economy's natural adjustment process. While slowdowns can be painful, they help bring inflation down. Without these periods, demand and supply do not properly rebalance, allowing inflationary pressures to build over time.

## 2. SECURITY IS BACK AT THE CENTRE OF POLICY

Russia's invasion of Ukraine triggered a fundamental reassessment of defence spending across Europe, prompting countries such as Finland and Sweden to join NATO. This shift has been reinforced by ongoing instability in the Middle East and increasingly explicit signals from the US that its long-standing security commitments may not be guaranteed.

In Asia, a more assertive China is driving a similar rethink among regional powers. As a result, the global environment is fragmenting into competing spheres of influence, with national security becoming a key policy priority. Governments are now under growing pressure to demonstrate that they can safeguard their own security, even in the absence of reliable US support.

This marks a significant departure from the post-war status quo, particularly for countries such as Germany and Japan, which have historically maintained more limited defence postures. The outcome is a sustained shift towards higher defence spending, which is likely to support aggregate demand and place further upward pressure on fiscal deficits in the years ahead.

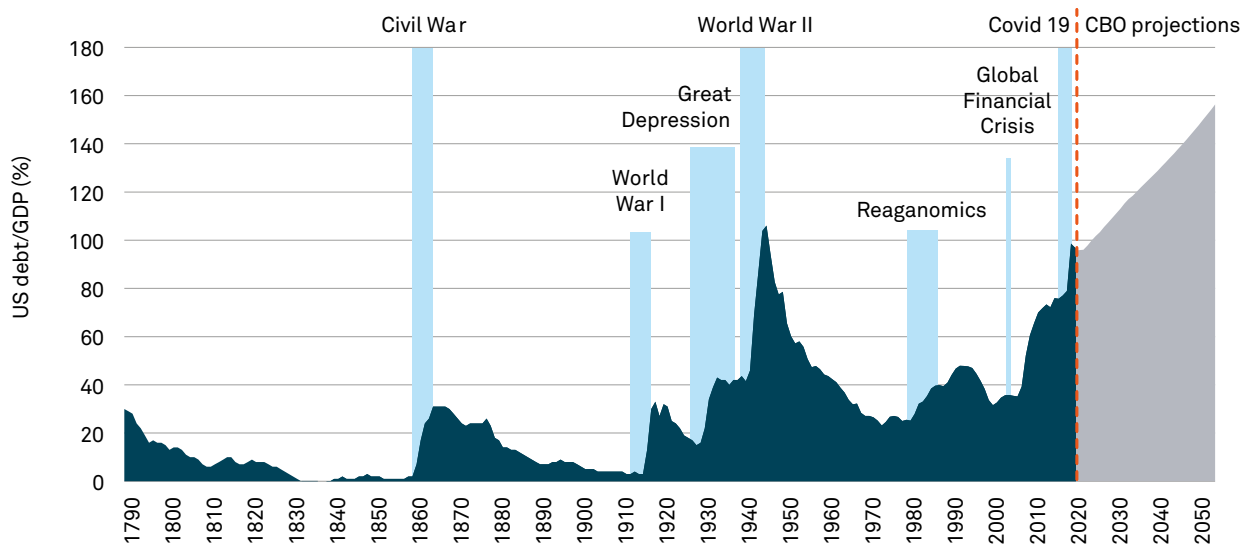
### 3. DEBT DYNAMICS ARE BECOMING A MACRO CONSTRAINT

Government debt has risen sharply across many developed economies, with little political appetite for meaningful spending restraint. In the US, the Congressional Budget Office (CBO) projects a continuously rising debt-to-GDP ratio (see Figure 5).

As debt increases, interest costs absorb a larger share of tax revenues. That is making debt servicing a contentious political issue, and it is likely to force difficult choices in the years ahead. If spending cuts prove politically difficult, governments may instead tolerate higher inflation, using stronger nominal growth to erode debt burdens in real terms.

That approach would risk bringing fiscal priorities into conflict with the objectives of independent central banks, potentially undermining perceptions of central-bank independence. Alternatively, persistently high debt could unsettle bond markets, constraining central banks' freedom to run policy consistent with inflation targets.

Figure 5: The Congressional Budget Office projects rising US debt/GDP into the distant future



Source: Congressional Budget Office and Insight as at 9 January 2026.



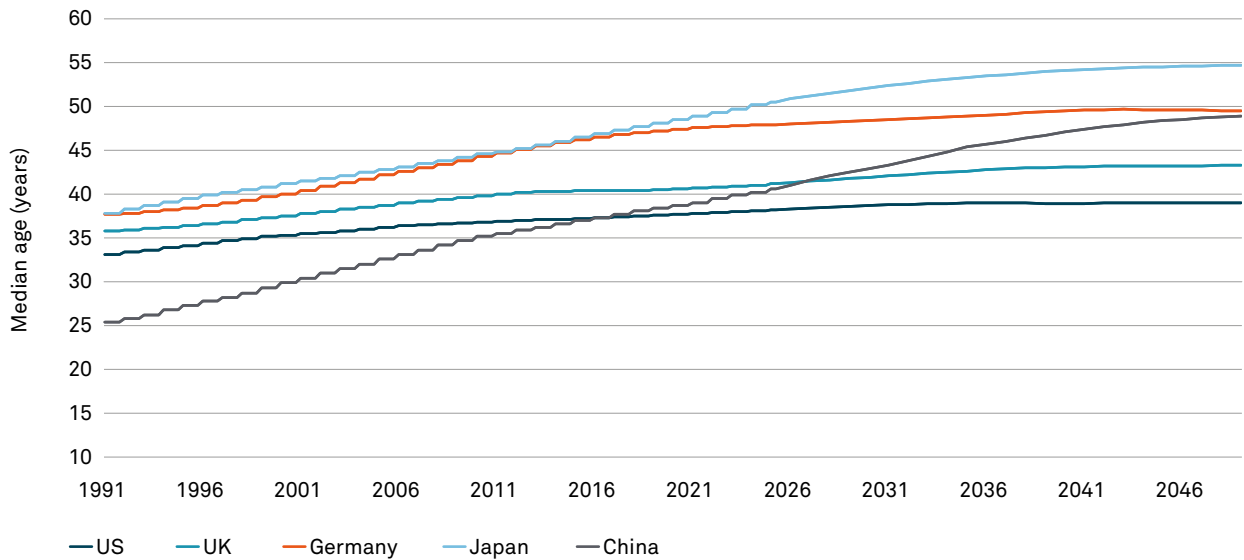
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## 4 DEMOGRAPHICS ARE TURNING INFLATIONARY

The world is ageing, driven by longer life expectancy and falling fertility rates (see Figure 6). UN projections suggest populations have already peaked in many countries, including China, Germany, Japan and Russia. The share of people living to 80+ is also set to rise sharply by the 2050s.

Figure 6: Median age in major countries has trended upwards



Source: Insight and Bloomberg. Data as at 30 April 2026.

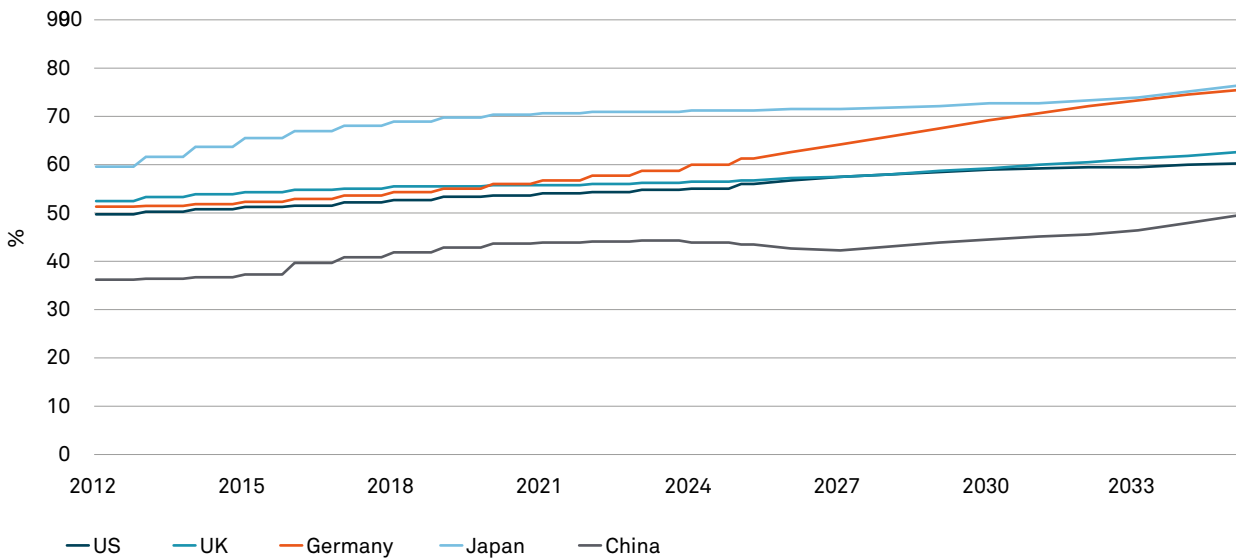
Ageing raises dependency ratios (see Figure 7) – this means more people not in the workforce supported by a smaller working-age population. Japan and Germany are expected to move towards levels close to one dependent per working-age person.

Over time, higher dependency ratios can increase inflation pressure. Dependents consume but do not produce, which can lift aggregate demand, especially for services. There is also a case that older populations can be less innovative and less productive, which would weigh on supply.

Immigration has helped offset these pressures, but recent trends suggest that immigration into Europe and the US may have peaked. Some governments have tightened policies; Sweden recorded net emigration in 2024 and 2025 after policy changes, the first negative migration years in over 50 years. In the US, the Department of Homeland Security has launched a campaign to recruit 10,000 additional Immigration and Customs Enforcement officers.

If labour markets shrink, shortages and structurally higher wage growth may become a persistent feature in many developed economies.

Figure 7: Dependency ratios in major countries are rising



Source: Insight and Bloomberg. Data as at 30 April 2026.

## 5. GLOBALISATION IS GOING INTO REVERSE

After China joined the World Trade Organization in 2001, goods production became more global. Wealthy, high-consumption economies outsourced production to economies with low labour costs. China was a key beneficiary, and millions of Chinese workers migrated from rural villages to urban factories. This influx of cheap goods had a disinflationary effect, counterbalancing high domestic service inflation in many countries. In some periods the impact was so dramatic that central banks became more worried about deflation than inflation.

With China now a global economic power, its relationship with Western economies has shifted. Perceptions have changed from trading partner to strategic rival. The pandemic, the invasion of Ukraine and the blockade of the Strait of Hormuz (see Figure 8) have reinforced concerns about resilience and security of supply.

At the same time, the push for decarbonisation has intensified, making globalised supply chains less sustainable. More rigorous corporate carbon accounting is pushing multinational firms to disclose the emissions associated with long distance transportation, while policymakers are increasingly urging companies to factor both security and climate considerations into their business strategies.

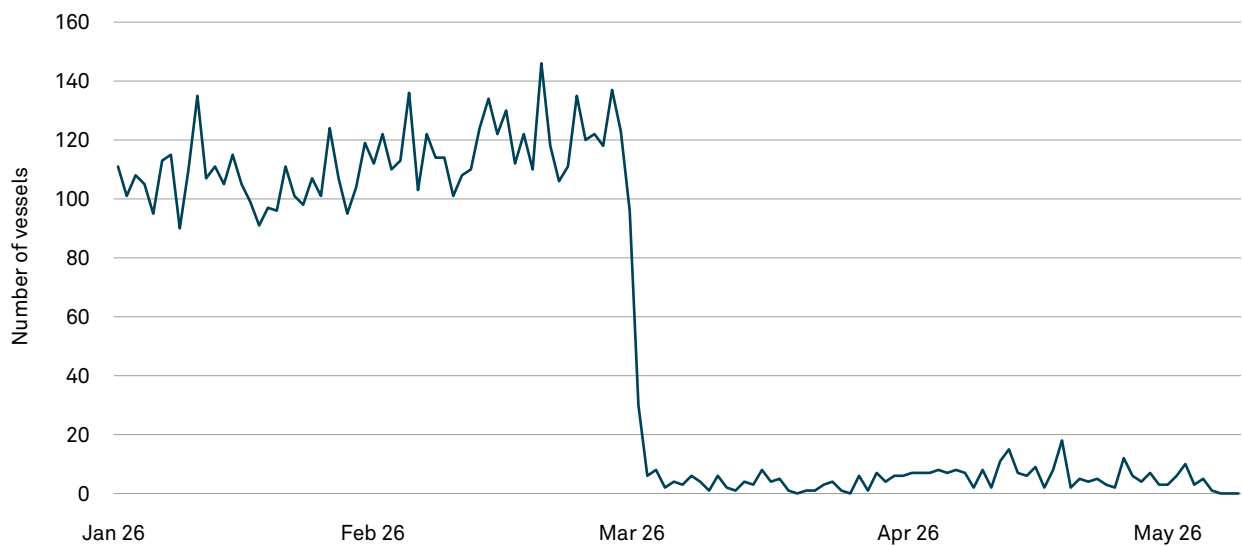
The disinflationary benefits of globalisation are now fading, while the inflationary pressures of deglobalisation rise. Tariffs are increasingly used to protect domestic competitiveness, and cost minimisation is becoming secondary to supply chain security.



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Figure 8: Daily commercial vessels travelling through the Strait of Hormuz



Source: Bloomberg, data between 1 January 2026 and 8 May 2026.

## 6. DECARBONISATION COMES WITH AN INFLATIONARY PRICE

At the 2015 UN Climate Change Conference (COP21), held in Paris, 196 countries signed the Paris Agreement – a legally binding commitment to limit the rise in global temperatures to well below 2°C, and ideally to 1.5°C, above pre-industrial levels. Meeting these targets requires a profound transformation of the global energy system. The UN estimates the energy transition could cost around \$5.8 trillion by 2030 across 48 developed economies, equivalent to roughly 19% of GDP<sup>1</sup>.

Although the US formally withdrew from the agreement in January 2025, momentum behind the transition remains strong. Governments, regulators and major companies continue to commit capital to decarbonisation, underpinning increased investment demand across energy, infrastructure and industrial sectors.

Over the near to medium term, this transition may be inflationary even if it brings longer-term benefits. Large capital reallocation, plus capacity constraints in critical minerals, power grids and skilled labour, can push up costs. In addition, policies such as carbon pricing or higher taxes on legacy fossil fuels raise input costs across the economy. Together, these forces could keep upward pressure on energy prices and broader inflation.

## 7. AI MAY BE DISINFLATIONARY – BUT NOT YET

Over the medium to long term, artificial intelligence (AI) could become a disinflationary wildcard by lifting productivity. But big productivity revolutions often take time. Electricity, introduced in the late 19th century, took decades to transform output because factories and processes needed to adapt.

In the near term, AI looks more inflationary because it requires heavy investment. US estimates suggest AI infrastructure investment could be around 2% of GDP in 2026. In comparison, the broadband internet buildout in the early 2000s accounted for roughly 1% of GDP at its peak, while the Apollo human spaceflight programme in the 1960s-70s was around 0.5%. This surge boosts demand for specialised labour and key components, adding price pressure.

AI also increases competition for power and resources. One reported example is a Lake Tahoe ski resort<sup>2</sup>, where residents were told electricity supply would be diverted to nearby data centres from 2027, forcing them to find alternatives. Similar localised supply shocks could become more common.

1. Source: [The costs of achieving the SDGs: Energy transition](#), UN Trade and Development website (unctad.org), accessed 16 June 2026.

2. Source: [Nearly 50,000 Lake Tahoe residents face power loss as utility redirects lines to data centers](#), 12 May 2026, Fortune.

# DOMESTIC INFLATIONARY PRESSURES MAY MATTER AGAIN

Global disinflation used to dampen domestic inflation. In the future, domestic drivers are likely to matter again.

If domestic inflation is not controlled, global factors may add to the problem and make it harder for central banks to meet targets sustainably. That raises the prospect of greater policy divergence across countries, reflecting differing inflation outcomes and policy choices.

In the US, growth has stayed surprisingly resilient, and inflation may remain more problematic. Broad tariffs on imported goods add to that pressure.

As production shifts away from low-cost producers, domestic labour costs and regulation should matter more for inflation outcomes. Countries with inflexible labour laws, high minimum wages, tight environmental regulation and high local energy costs may be most exposed.

## THE CASE FOR INFLATION PROTECTION

We still see market thinking anchored to the post-global financial crisis environment, with many participants expecting a return to the very low inflation levels of that era. Investors often base their expectations on what they lived through most recently and are slow to accept that conditions may have changed.

When structural changes occur, the adjustment often follows a familiar pattern: early signals are dismissed as temporary. Then over time, conflicting evidence mounts and the old narrative faces greater challenge. Eventually, markets adjust more abruptly as assumptions unwind.

If inflation is structurally higher, several investment implications follow:

- Inflation volatility may stay elevated, and remain vulnerable to global supply shocks.
- Real yields may be structurally higher than before 2020.
- Country and regional dispersion may increase as domestic inflation dynamics diverge.

With that in mind, we believe it may be prudent to include some inflation protection in portfolios. This can be done through inflation-linked bonds or inflation swaps. Another approach is to allocate to active managers who can adjust exposures dynamically, which may be especially valuable while the inflation debate remains unsettled.

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