Real assets insights

Real assets demonstrate strength amid geopolitical risks and volatility

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The quarter unfolded in two distinct phases, but ultimately real assets delivered a strong performance. Growth expectations, sticky inflation, and geopolitical risks helped propel the strategy higher early in the period before the outbreak of war dampened risk appetite and returns. Looking ahead, real assets should continue to benefit from sticky inflation, solid economic growth, and secular tailwinds and can serve as an alternative to traditional asset classes.

During the first quarter, global economic activity remained resilient but gradually moderated toward quarter end, as demand and business confidence softened. Services supported growth early in the period, while manufacturing conditions stabilized across several regions, with activity ending the quarter slightly stronger than in services. As the quarter progressed, the escalation of conflict in the Middle East drove higher energy and commodity prices, increasing input cost pressures and weighing on sentiment. Inflationary pressures intensified, while labor market conditions softened modestly toward quarter end.

After a strong finish to 2025, risk assets faced a tougher Q1 2026, as escalating Middle East conflict pushed energy prices higher, reigniting inflation concerns and increasing volatility across asset classes. Global equities declined, with US markets lagging international peers, emerging markets (EM) remaining relatively resilient, and value stocks outperforming growth. Bond markets were volatile as expectations for near-term rate cuts were reassessed. Commodities were the standout performers, led by energy, while gold also advanced. The US dollar notched its best quarter since Q4 2024, rising 1.6%.

Quarter in review

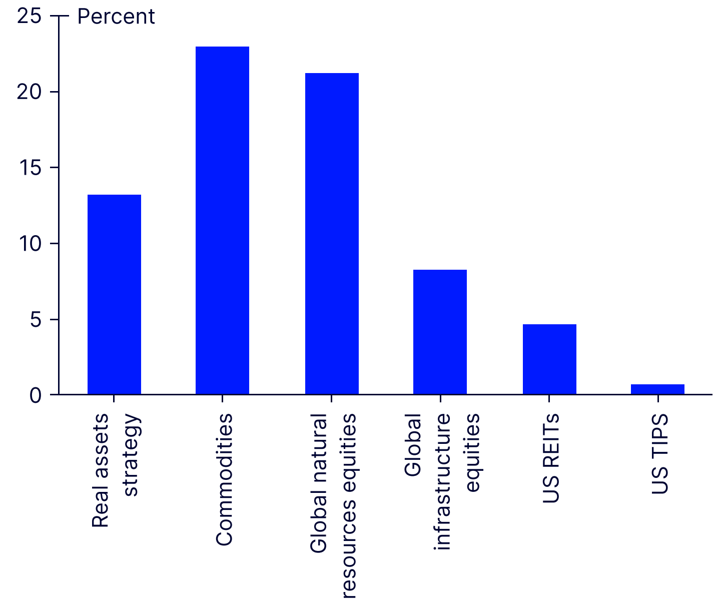
At the start of the new year, real assets benefited from optimism around easing monetary policy, early signs of earnings resilience, and improving breadth across both developed and emerging equity markets. Global macro conditions were evolving cautiously as policymakers navigated shifting political landscapes, currency volatility, and renewed market sensitivity to policy signals. With central banks maintaining a data-dependent stance and geopolitical uncertainties elevated, the year was already shaping up to be another period of pronounced volatility and rapid shifts in sentiment. By the end of the first quarter, real assets were contending with the implications of a US and Israel war with Iran, introducing a new layer of uncertainty.

Overall, real assets posted positive returns for the quarter, though performance varied meaningfully across time periods and asset classes. While real assets advanced during the first two months, many experienced an about-face in the final month of the quarter. Commodities was the only asset class to deliver gains in each month, albeit with different sectors driving returns over the period. The real assets strategy (the strategy) was positive for the quarter, posting gains in every month, supported by strength in commodities, which have risen consistently since April 2025. Global natural resource and infrastructure equities also advanced amid the broader optimism that characterized the early part of the quarter. Interest rate sensitive real estate investment trusts (REITs) and Treasury inflation protected securities (TIPS) were the weakest performers but still contributed positively to overall returns.

The strategy continued its positive momentum from last year, gaining 13.3% in the first quarter of 2026. Performance was particularly strong in January, with returns of 6.6%, followed by a further 5.9% gain in February. In March, following the outbreak of war involving the US and Israel with Iran, many asset classes declined. However, the strategy still managed to eke out a gain of approximately 0.32%. For the quarter, the strategy modestly outperformed its composite benchmark by 11 bps, with the slight outperformance attributable to the benefits of the rebalancing policy. Longer term performance remains solid. Since inception in 2005, the strategy has maintained its lead over the composite benchmark by more than 20 bps annually and has delivered an annualized return of 5.3%.

Commodity markets delivered a strong performance in Q1 2026, with the Bloomberg Commodities Enhanced Roll Yield Total Return Index rising 22.9%, driven by escalating geopolitical risks and sharp energy price shocks. Energy shocks were the primary driver of gains, while metals delivered mixed results overall, balancing supply constraints against elevated volatility. Agriculture also contributed positively, supported by resilience across grains and oilseeds. January and March saw nearly identical gains in the commodities allocation within the strategy, rising approximately 8.3% in each month. February was softer but still advanced 4.8%, helping to sustain gains for investors.

Figure 1: Real assets strategy—total returns for the quarter



Note: **The performance data quoted represents past performance. Past performance does not guarantee future results.** Performance returns of periods of less than one year are not annualized. The performance figures for the strategy contained herein are provided on a gross of investment management fees basis and do not reflect the deduction of advisory or other fees. The performance includes the reinvestment of dividends and other earnings and is calculated in US dollars. For strategy and asset indexes please refer to the disclosures.
Source: State Street Investment Management, as of March 31, 2026.

The energy sector was the strongest performing commodity sector in Q1 2026, with the Bloomberg Energy Subindex gaining 60.0%, driven overwhelmingly by crude oil. WTI crude rose 79.8%, reflecting an unprecedented escalation in geopolitical risk after conflict in the Middle East triggered one of the largest oil supply disruptions on record. The International Energy Agency confirmed that flows through the Strait of Hormuz collapsed, while Gulf producers cut output by more than 10 mb/d, prompting a record release of emergency oil stocks. By contrast, the Bloomberg Natural Gas Subindex underperformed, falling 4.2%, as early quarter weather driven gains reversed amid easing demand and rising inventories. Elevated prices and transport disruptions began to weigh on oil demand toward quarter end.

Industrial and precious metals delivered positive but divergent performance over Q1 2026. The Bloomberg Industrial Metals Subindex rose 4.6%, supported by strong gains in aluminum. The light metal outperformed within the complex, benefiting from constrained supply and rising energy driven production costs, while zinc and nickel posted modest gains. Copper lagged, weighed down by concerns around Chinese demand momentum and broader global growth uncertainty. The Bloomberg Precious Metals Subindex rose 8.6%, supported by heightened geopolitical risk and safe haven demand. However, a firmer dollar and the US Federal Reserve's decision to hold rates steady lifted real yields, increasing the opportunity cost of holding gold and silver. Volatility and profit taking intensified toward quarter-end, despite strong early quarter momentum.

Agricultural commodities delivered solid performance in the first quarter of 2026, with the Bloomberg Agriculture Subindex rising **8.0%**, supported by broad based gains across grains and oilseeds. Wheat was a standout performer, with strong advances in both Chicago and Kansas wheat, reflecting tightening global supply conditions and heightened weather uncertainty. Soybeans posted robust gains, supported by firm demand and strong performance in soybean oil, which surged amid higher energy prices and resilient biofuel demand. Corn and soybean meal delivered more moderate but positive returns, while sugar and cotton also advanced on supply-side dynamics. In contrast, coffee declined, weighed down by expectations of ample supply and improving harvest prospects. Livestock posted moderate gains over the quarter, with the Bloomberg Livestock Index rising **4.2%**. Strength in live cattle prices, supported by tighter supply conditions, offset muted performance in lean hogs, resulting in mixed but positive outcomes across protein markets.

Global natural resources equities delivered the second strongest performance among real asset classes during the quarter, with the S&P Global LargeMidCap Commodity and Resource Index rising **22.1%**, driven primarily by strength in the energy complex. The effective closure of the Strait of Hormuz drove sharp price increases in underlying commodities, which flowed through to the equities of companies involved in the production and development of those resources. The quarter began with natural resource equities rising alongside other risk assets as growth expectations improved, with returns of **12.6%** in January. February was another solid month, with gains across all underlying sectors, resulting in an **8.5%** increase for the asset class. March proved more challenging—particularly within the materials sector—leading to a modest decline of approximately **0.9%** for the month.

With oil prices rising amid escalating geopolitical risk and the outbreak of war in the Middle East, oil and gas stock prices moved sharply higher. Energy companies posted positive returns in all three months of the quarter, with the subsector rising nearly **39%** in aggregate. Agriculture companies also delivered positive returns in each month, ending the quarter up **17.3%**. Chemicals and food products companies rose **18%** and **19%**, respectively. The paper and forest products subsector was the only negative performer within global natural resources, declining **11.7%** for the quarter.

The materials segment of natural resources—primarily metals and mining companies—started the quarter very strongly, rising as much as **36% month to date** at its late January peak before trending lower. Declines in precious metals and copper prices, a reduced likelihood of rate cuts, profit taking, and inflationary concerns weighed on the subsector. Nevertheless, given the strong early performance, materials equities ended the quarter with a gain of **8.4%**.

Infrastructure equities gained **8.1%** for the quarter, as measured by the S&P Global Infrastructure Index. Performance followed a similar pattern to other equity sectors, with strong gains in January (**+5.0%**) and February (**+7.4%**) before a pullback in March (**−4.1%**). Infrastructure companies involved in oil and gas storage delivered the strongest returns and, given their weight within the index, contributed the most to performance. Electric and multi utilities also made solid contributions. Although water utilities represent a smaller segment of the asset class, the subsector recorded a strong **23%** return for the quarter.

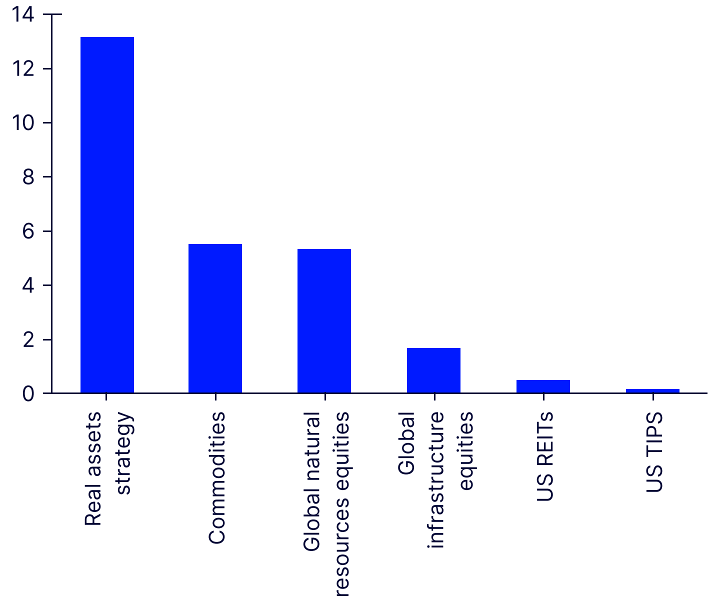
US real estate equities also posted gains. The Dow Jones US Select REIT Index rose **4.6%** in the first quarter. Specialty, retail, and healthcare REITs led performance, while office and residential sectors lagged. REITs posted positive returns in January, supported by stable interest rate expectations and a favorable policy backdrop, with performance strongest among data centers, self storage, and specialty property types. In February, declining interest rates provided a more supportive environment for rate sensitive assets, driving a meaningful advance of **7.7%**, with broad based sector gains. March remained constructive, with REITs rising **4.6%**, led again by specialized property types such as data centers, though declines in retail and healthcare detracted from returns.

In Q1 2026, US TIPS outperformed Treasuries by **0.62%**. The 1–10 year Bloomberg Barclays TIPS Index returned **0.64%**, while comparator Treasury indices rose approximately **0.02%** over the period. In January, TIPS outperformed Treasuries by approximately **0.48%**, as inflation expectations remained elevated but continued to moderate gradually. The 1–10 year TIPS Index gained **0.48%**, while nominal Treasury indices were essentially flat. Headline inflation remained above the Federal Reserve's target, though core inflation continued to ease, reinforcing expectations for a policy hold amid rising labor market uncertainty.

In February, TIPS underperformed comparator Treasuries by 0.35%, as declining nominal yields and increased risk off sentiment favored nominal bonds. The 1–10 year TIPS Index returned 0.85%, trailing stronger gains in nominal Treasuries. March proved challenging for fixed income, with the 1–10 year TIPS Index declining 0.68%, compared with a 1.14% decline in nominal Treasuries. US inflation continued to.slow, with headline inflation falling to 2.4% in January, down from 2.7% in December 2025—its lowest level since May—and remaining unchanged in February. Core inflation also remained stable at 2.5% in February.

Despite recent moderation, inflation remains sticky, with upside risks heightened by developments in the Middle East. The strategy provides balance and potential protection against a resurgence of inflation driven by demand or supply shocks, a more favorable global growth environment, and elevated political and geopolitical uncertainty.

Figure 2: Return contribution by asset class



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Investment outlook

Energy

The outlook for the energy complex has become increasingly constructive, led by a shift in oil market fundamentals. Oil prices have repriced meaningfully following the conflict in Iran, reflecting both a higher geopolitical risk premium and disruptions affecting roughly **20% of global supply**.

That said, futures curves suggest investors continue to view the shock as largely **near term** in nature. Front end prices have risen sharply, while longer dated contracts remain comparatively stable, indicating limited conviction around a structural deterioration in long term oil fundamentals.

Prior to the war, oil fundamentals appeared broadly balanced, but since the onset of the conflict, tighter supply dynamics have improved the outlook. While demand softened modestly in March, it has held up well overall despite substantially higher prices.

Inventory levels, though rising, remain close to their **five year seasonal average**, rather than signaling excess supply. With supply side conditions having tightened meaningfully following the Strait's closure and related production disruptions, we do not expect prices to revert to pre Iran levels in the near term.

Taken together, tighter LNG balances and firmer oil fundamentals underpin a constructive outlook for the broader energy complex.

Gold

After a strong start to 2026, gold experienced a meaningful pullback in March as several key tailwinds reversed. A stronger US dollar, a sharp repricing of Federal Reserve expectations, and a rise in longer dated real yields weighed on the metal, prompting investors to unwind defensive positions.

In our view, markets may have overreacted by rapidly removing expectations for rate cuts, as tighter monetary policy is unlikely to resolve inflationary pressures stemming from energy related supply shocks. A reopening of the Strait of Hormuz and a subsequent easing in oil prices could therefore act as a catalyst for gold, particularly if investors reassess what appears to be an overly hawkish shift in rate expectations.

While near-term volatility may persist until greater clarity emerges around the conflict's trajectory, we continue to view the broader outlook for gold in 2026 as constructive. Structural concerns—including elevated fiscal deficits and rising debt burdens—are likely to re emerge as dominant themes, reinforcing gold's appeal. Investor demand should remain supported by heightened geopolitical and policy uncertainty, while ongoing central bank purchases continue to underpin prices.

From a cyclical perspective, our base case for additional Fed rate cuts, combined with the need for portfolio hedges amid elevated equity bond correlations, supports gold's role as both a defensive asset and a hedge against macro and policy risks. Overall, while gold may face near term headwinds, we remain constructive as the Iran conflict begins to stabilize.

Industrial metals

Industrial metals prices are currently being driven by the war in Iran, which has pressured risk appetite and created a sharp divergence between metals with acute supply exposure and those more sensitive to cyclical demand. In the near term, a prolonged conflict poses downside risks, as higher energy prices threaten global growth and increase the risk of demand destruction.

Beyond the immediate geopolitical shock, however, structural demand drivers remain firmly intact. Electrification, grid investment, AI related power demand, defense spending, and rising energy security priorities continue to underpin medium term demand. The war itself is likely to reinforce these trends, as governments prioritize domestic manufacturing resilience, energy security, and defense readiness.

While positioning remains elevated and current price levels may dampen demand in the short term, supply growth across the complex remains constrained. Inventory buffers are thin, and governments could emerge as strategic buyers. Taken together, this suggests that while volatility is likely to remain elevated, medium term downside risks for aluminum and copper appear limited. Once geopolitical risks stabilize, markets are likely to return to a balanced to deficit profile.

Natural resource equities

Natural resource equities sold off in March alongside broader risk assets, as rising energy prices weighed on sentiment and led to downward revisions in global growth expectations. Despite near term volatility, we remain constructive on the asset class in 2026. Structural demand drivers—rather than cyclical excess—continue to underpin the outlook, while the macro backdrop remains supportive for inflation sensitive assets.

Electrification, power grid expansion, rapid data center build outs, and reshoring initiatives are driving sustained growth in global electricity consumption, supporting demand for copper, aluminum, and other critical materials across the energy and materials sectors. These dynamics are increasingly viewed as **strategic rather than cyclical**, a shift reinforced by governments taking more direct stakes in critical mineral supply chains—a trend that could accelerate following recent developments in the Middle East.

From a macro perspective, we expect growth to run close to trend, inflation to remain sticky, and the Federal Reserve to deliver roughly **50 bps** of additional rate cuts—an environment that should be supportive for natural resource equities. While an escalation of Middle East tensions remains the principal downside risk, a **de-escalation** over the coming weeks would position the sector to resume momentum and build on the strength established in 2025.

Figure 3: Short and medium-term directional outlooks

Column One	Short term	Medium term	Comments
Commodities	∧	—	Oil fundamentals improve, while favorable prospects for industrial and precious metals also offer support.
Global natural resources equities	∧	∧	Solid economic growth, sticky inflation, and supportive risk appetite combine with structural tailwinds to buoy the outlook.
Global infrastructure equities	∧	∧	Structural tailwinds boosting power demand, policy support, additional Fed rate cuts, and sticky inflation support infrastructure equities.
US REITs	—	—	Fundamentals are constructive while Fed rate cuts also provide support, but REITs less attractive on a relative basis.
US intermediate TIPS	∨	∨	TIPS could outperform if Middle East conflict extends, but solid economic growth prospects and elevated break even rates lessen attractiveness.

Note: **The performance data quoted represents past performance. Past performance does not guarantee future results.** Source: State Street Investment Management, as of March 31, 2026.

Infrastructure equities

Infrastructure equities participated in the broad March sell off as higher energy prices weighed on growth expectations and rising inflation fears pushed yields higher. Despite near term pressure, we continue to view infrastructure equities favorably. Structural tailwinds—including rising power demand driven by electrification, data center and digital infrastructure growth, decarbonization, and ongoing deglobalization—remain firmly intact.

In addition, our outlook for near trend economic growth and sticky inflation is supportive of economically sensitive infrastructure segments such as airports, toll roads, and ports. A potential recovery in risk appetite later in the year, alongside additional Federal Reserve rate cuts in our base case, could provide further support. Risks remain, including a slowdown in AI driven power demand or further upward pressure on rates, with the conflict in the Middle East representing the most significant downside risk if it materially weakens growth and sentiment. However, should tensions ease, infrastructure equities appear well positioned to benefit from a confluence of durable secular and cyclical tailwinds.

REITs

REITs' fundamentals remain mixed but constructive, supported by improving earnings growth expectations in healthcare and data centers, alongside solid outlooks for industrial properties. Data centers continue to benefit from hyperscale investment linked to AI and cloud adoption, while healthcare—particularly senior housing—enjoys durable demand from an aging baby boomer population. Our base case of near trend economic growth and resilient consumer demand should support REITs' operating performance in 2026. Occupancy rates outside the office sector are close to pre COVID levels, while net operating income (NOI)—including same store NOI—has grown over the past year, both of which are supportive.

Balance sheet fundamentals remain healthy: leverage ratios are low on a debt to market assets basis, interest expense as a share of NOI remains contained, and weighted average interest coverage ratios are reasonable. That said, valuations appear less compelling. Cap rate spreads versus the US 10 year Treasury and distribution rate spreads are below historical averages, suggesting limited valuation support. While our base case for an additional 50 bps of Fed rate cuts would be beneficial, sticky inflation and fiscal concerns could keep longer term yields elevated, limiting multiple expansion. Overall, while REITs' returns may improve relative to 2025, we continue to view the asset class as less attractive on a relative basis compared with other equity opportunities.

TIPS

TIPS declined in March but nevertheless fulfilled their intended diversification role, outperforming nominal Treasuries as breakeven inflation rates moved higher in response to the sharp rise in energy prices. Looking ahead, we see reasons for cautious optimism. Inflation pressures are likely to remain sticky, with upside risks, while our base case for roughly 50 bps of Federal Reserve rate cuts over time should be supportive for real yields.

The recent backup in intermediate term yields has created a more attractive entry point, and markets may reprice at least one Fed cut back into expectations following the rapid adjustment after the oil shock. If energy prices were to rise materially further and begin to threaten economic growth, TIPS would also likely benefit from a rotation away from risk assets. That said, shorter term breakeven rates have already risen and remain elevated, which may limit additional upside. Moreover, a backdrop of solid growth, persistent—but not accelerating—inflation, and only incremental policy easing is likely to constrain how far real yields can fall, limiting price appreciation.

Overall, while TIPS remain supported by relatively attractive real yields and ongoing inflation risks, near term return potential appears more limited. Should the conflict in Iran persist, TIPS are likely to outperform riskier equities in the portfolio. However, a near term resolution would likely favor a renewed advance in risk assets. As a result, we view TIPS as an effective portfolio stabilizer and inflation hedge but currently favor other areas within real assets that offer greater upside and more compelling total return potential.

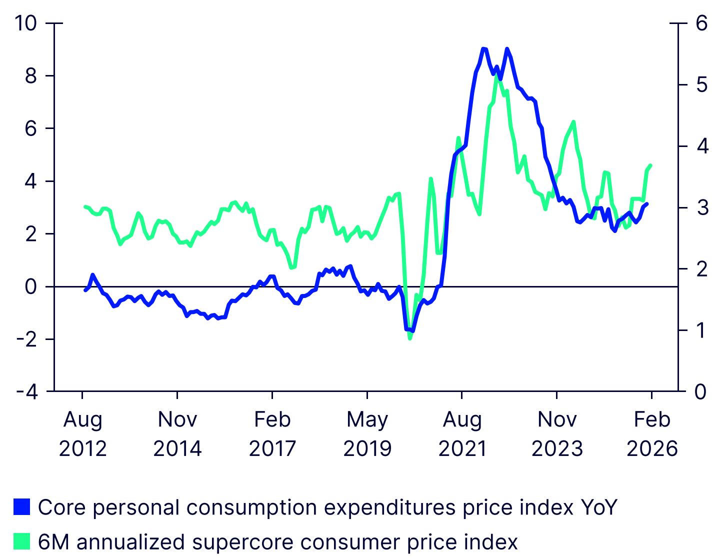
Inflation and real assets

After declining steadily from its 2022 peak, inflation has proven more persistent than many expected over the past several years, reflecting a convergence of forces ranging from lingering fiscal stimulus and trade related frictions to AI driven demand growth and ongoing geopolitical conflict. The Federal Reserve's preferred inflation gauge, core PCE, has edged higher in recent months and, while not alarmingly elevated, remains meaningfully above the Fed's 2% target (Figure 4).

More notably, **supercore inflation**—which excludes shelter and focuses on core services, particularly labor intensive categories—has shown renewed upward momentum over the past six months. Because supercore services are less sensitive to commodity price swings and global supply chain dynamics, this trend suggests that wage sensitive price pressures remain active and that recent inflation momentum warrants caution.

While our base case anticipates inflation will remain sticky but broadly stable through the remainder of 2026, we see upside risks. This reinforces the need for investors to keep inflation considerations front of mind and highlights the growing importance of maintaining exposure to real assets.

Figure 4: US Inflation has proven more persistent than expected



Source: Bloomberg, as of January 31, 2026.

The ongoing conflict in Iran has introduced meaningful downside risks to our outlook. However, we continue to expect economic growth to remain solid, which could sustain some cyclical inflation pressures. Absent a prolonged and severe disruption to energy markets, we believe the economy is capable of maintaining close to trend growth of approximately **2.1%**. The labor market is clearly softening but not deteriorating sharply, with cooling employment momentum, narrowing measures of labor market slack, and stabilizing jobless claims pointing to deceleration rather than contraction. Consumer spending remains supported by real wage growth and a strong wealth effect, while healthy corporate balance sheets—together with demand tailwinds from the upcoming US 250th anniversary, the FIFA World Cup, and fiscal stimulus under the

OBBBA—should continue to support demand and labor markets. Overall, the data point to an economy that is slowing but not breaking, supporting a cautiously optimistic outlook for continued expansion even as geopolitical risks remain elevated.

Energy prices have risen sharply following the conflict in Iran, quickly filtering through to higher gasoline prices, and creating a near term headwind for consumers. If the Strait of Hormuz were to reopen over the next few weeks, some easing in energy prices could follow. However, our base case leans toward a more prolonged conflict that leads to incremental deterioration in energy supply over the next two to three months. Even if the Strait were to reopen by the end of April, we would not expect a rapid return to pre conflict price levels. Global energy markets typically take time to rebalance, and a residual geopolitical risk premium is likely to persist, as risks in the Strait are unlikely to fall to zero.

In addition, damage to energy infrastructure—including fields, refineries, pipelines, and export facilities—along with production curtailments driven by storage constraints, suggests that some barrels lost during the disruption are unlikely to return later in the year. Firm demand and limited spare capacity reinforce this dynamic: US production is already near maximum levels, Venezuela lacks the ability to materially ramp output, and late March drone strikes temporarily removed a portion of Russia's export capacity from the market. Current prices also remain within OPEC's target range, which may limit the incentive for production increases. Taken together, these factors suggest that supply normalization will be gradual, supporting an extended period of elevated energy prices. The key variable remains duration—the longer the conflict persists, or the more extensive infrastructure damage becomes, the greater the risk that energy prices rise further and remain elevated for longer.

Even absent further escalation, the rise in energy prices is likely to generate important knock on effects that could put pressure on inflation in the coming months. As we discussed last quarter, the rapid build out of AI related infrastructure—including data centers, semiconductor fabrication, power generation, and networks—has introduced a structural cost dynamic with little historical precedent. By compressing multi year investment cycles into a much shorter timeframe, this has increased the risk of asymmetric inflation surprises.

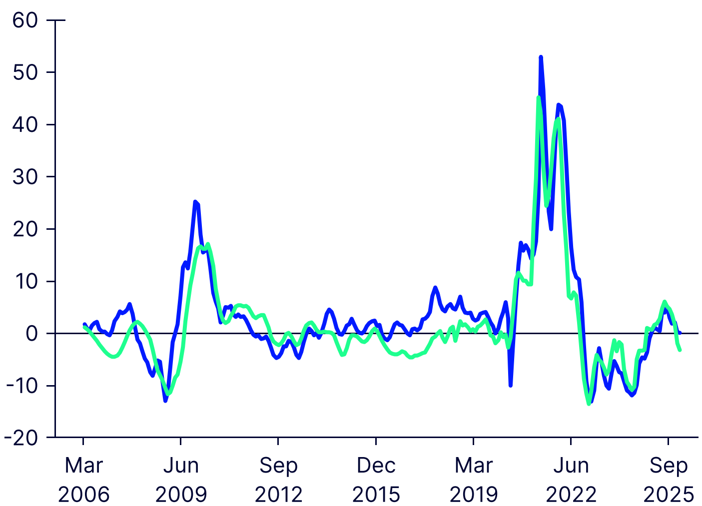
These pressures may now be compounded by the conflict in Iran. Taiwan produces the majority of the world's advanced semiconductors and relies heavily on helium sourced from Qatar to cool silicon wafers during manufacturing, as well as LNG to power production. This makes the Strait of Hormuz a critical risk point. Disruptions could constrain chip supply, push semiconductor prices higher, and spill over into a wide range of end markets—from consumer electronics and automobiles to AI data centers themselves. Recent developments underscore this risk, with Airgas declaring force majeure, limiting supply, and imposing surcharges that have lifted helium prices.

Food prices represent another clear area of vulnerability. Urea, a nitrogen based fertilizer used across a broad range of crops, has surged since the Iran conflict began. Roughly one third of global urea trade flows through the Strait of Hormuz, leaving it highly exposed to transportation disruptions, while production costs remain closely tied to natural gas prices, which have also risen. These pressures have been amplified by China's decision to restrict urea exports to secure domestic supply. The transmission mechanism is well established: higher energy prices raise urea costs, which increase farm input expenses, feed into crop and food ingredient prices, and ultimately show up in consumer food inflation with a lag. As a result, while the most immediate inflation impulse from energy is felt at the pump, second round effects through fertilizers and food prices point to broader inflation risks emerging over the months ahead.

Autos—which fall within core goods and account for roughly **3% of core CPI** and about **2.7% of headline CPI**—present a more nuanced inflation picture amid the current geopolitical backdrop. Used vehicle prices were already rising prior to the outbreak of the war, driven by wholesalers anticipating stronger demand linked to larger tax refunds, resilient consumer spending, and still tight wholesale supply. To the extent that higher energy prices ultimately weigh on consumer demand, this could exert some downward pressure on auto prices later in the year.

However, the conflict is also affecting key industrial inputs, including metals such as aluminum, and any disruption to global shipping or component availability could slow new vehicle production or push prices higher. In that scenario, demand could shift further toward the used vehicle market, echoing—on a much smaller scale—the dynamics seen during the pandemic era chip shortage. On balance, we do not expect autos to be a major transmission channel for conflict driven inflation, as these forces are likely to partly offset one another. That said, fiscal and income support in the first half of 2026 could help sustain demand—particularly for used vehicles—leaving some near term upside risk to prices, especially given the lagged pass through of used car prices into CPI (Figure 5).

Figure 5: Lagged pass through from used car prices could support CPI in 1H 2026

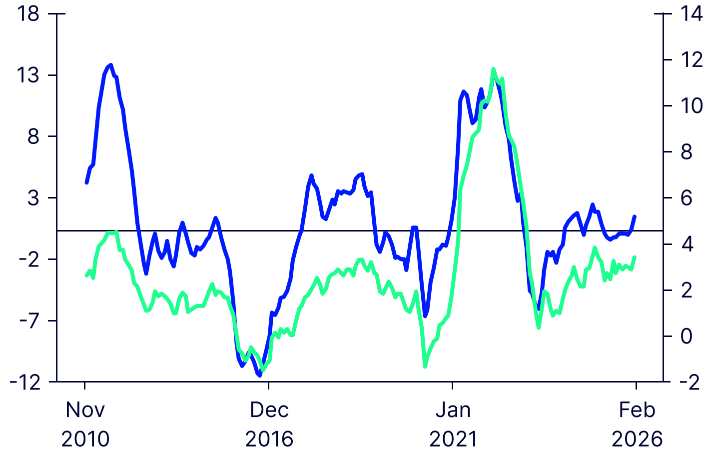


Manheim used vehicle value index (% 1year)
CPI-U for used cars and trucks (1Q lag, % 1year)

Source: FactSet, as of February 28, 2026.

Looking ahead, several leading indicators have moved in ways that point to potential upside risks to inflation in the coming months. Producer prices have turned higher, with increases evident across both goods and services, suggesting renewed cost pressures earlier in the supply chain. Import prices have also accelerated, rising **1.3% in February**—the largest increase in more than a year—and notably doing so **before** the onset of the Iran conflict, which has since pushed prices for oil, fertilizers, and other key inputs higher (Figure 6).

Figure 6: Producer and importer price increase adds to near term upside risks to inflation



Imports price index (% 1year)
Producer price index for final demand, commodity (% 1year)

Source: FactSet, as of February 28, 2026.

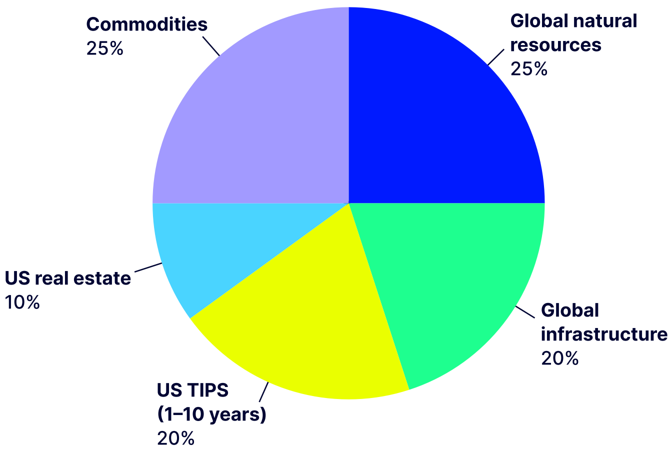
The breadth of the increase is notable, spanning food, plastics, electronics, computer chips, and other capital goods. This highlights how strong demand for investment related goods, combined with higher energy costs, could continue to tilt inflation risks modestly to the upside. Survey data reinforce this cautionary signal. While NFIB small business plans to raise prices eased in February, the series has trended higher over the past year and a half and remains well above historical norms, suggesting continued pass through to consumer prices. Similarly, prices paid in the ISM manufacturing PMI surged to **78.3** in March—the highest reading since 2022 and the second sharp increase in as many months—pointing to intensifying input cost pressures. Service sector price measures, though easing, also remain elevated relative to longer term averages.

At the same time, other indicators are more consistent with **sticky rather than accelerating inflation**. Wage growth has moderated meaningfully from its cycle peak but continues to run around **3.7%**, above its long run average near **3.2%**—a pace that remains compatible with persistent service sector inflation. Reinforcing this view, **core services inflation excluding housing**—a metric less sensitive to cyclical swings and short term energy price volatility—has remained elevated, suggesting underlying wage driven price pressures are easing only gradually rather than reversing outright.

Real assets strategy

At State Street Investment Management, we have a seasoned, diversified multi-asset strategy that combines exposure to a broad array of liquid real asset securities that are expected to perform during periods of rising or elevated inflation.

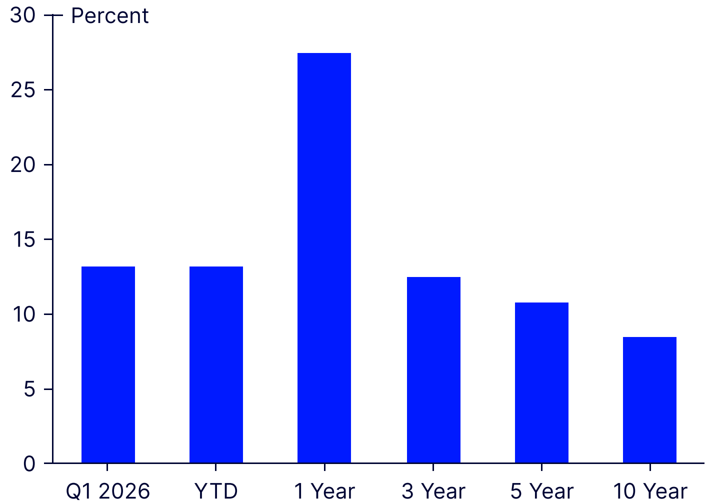
Figure 7: Real assets portfolio composition



Source: State Street Investment Management, as of March 31, 2026.

The asset allocation is strategic and utilizes indexed underlying funds. It is being used by a variety of clients as a core real asset holding or as a liquidity vehicle in conjunction with private real asset exposures. The strategy is meant to be a complement to traditional equity and bond assets, providing further diversification, attractive returns, and a meaningful source of income in the current environment.

Figure 8: Real assets strategy—returns across time periods



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About State Street Investment Management

At State Street Investment Management, we have been helping create better outcomes for institutions, financial intermediaries, and investors for nearly half a century. Starting with our early innovations in indexing and ETFs, our rigorous approach continues to be driven by market-tested expertise and a relentless commitment to those we serve. With over $5 trillion in assets managed*, clients in over 60 countries, and a global network of strategic partners, we use our scale to deliver a comprehensive and cost-effective suite of investment solutions that help investors get wherever they want to go.

* This figure is presented as of December 31, 2025 and includes ETF AUM of $1,950.80 billion USD of which approximately $173.02 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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