

# Real assets insights: Q3 2025

Insights  
Q3 2025

## Inflation, Risk Appetite, and Structural Tailwinds Keep Real Assets in the Spotlight

Real assets strategy advanced during the third quarter, supported by better risk appetite, sticky inflation, and higher inflation expectations. Real assets are poised to benefit from stubborn inflation, solid risk sentiment, and secular tailwinds.

Global economic activity in the third quarter remained resilient, driven by strong service sector growth, despite a slight slowdown in September, while manufacturing showed signs of recovery. Labor markets were soft across the world and notably so in the United States (US). Inflation remained elevated but broadly stable across major economies, with regional divergence. The US experienced renewed price pressures from tariffs, whereas Europe and several emerging economies saw ongoing disinflation. Tariff policies dominated global trade dynamics during the quarter. Central banks across advanced economies are navigating a delicate balance between supporting growth and containing inflation.

Risk assets rose over the quarter, supported by easing trade tensions, strong corporate earnings, AI optimism, US Federal Reserve's (Fed) September rate cut, and expectations of further policy easing. Equities led gains, with growth stocks—especially AI-related—outperforming value. Emerging markets outpaced developed markets, driven by China's rebound and progress in US-China talks. In fixed income, Treasuries firmed as the curve flattened, with short-end yields falling on increased Fed cut expectations—the 2-year yield declined to 3.61%, while the 10-year stabilized near 4.15%. The US dollar index rose 1.0%,

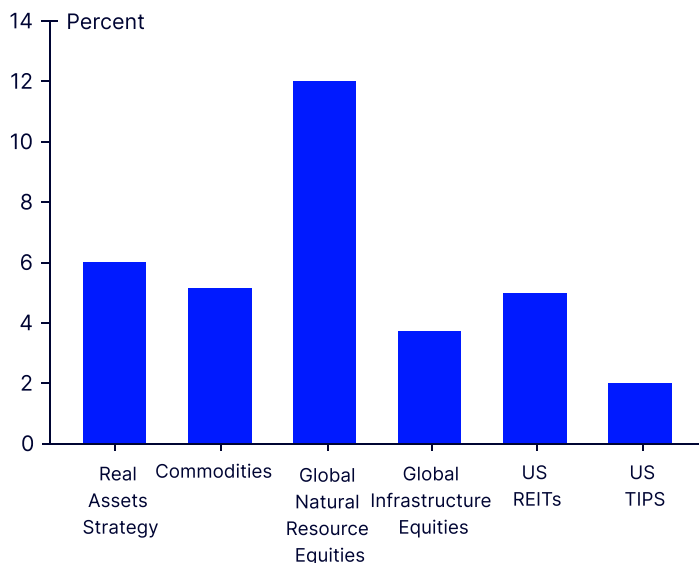
rebounding modestly from earlier declines, with strong gains versus the yen and sterling and moderate advances against the euro.

### Quarter in review

Real assets started the quarter with potential tariff related inflation as reciprocal tariffs were announced in July. Ongoing geopolitical conflicts and the direction of travel of interest rates also set the backdrop of what real assets had to navigate during the third quarter. Overall, real assets were up for the quarter, especially as the markets seemed to be more risk-on. Commodities bounced back in the quarter, mainly on the heels of precious metals. Natural resources equities built upon the momentum started in the previous quarter and continued to rally. Infrastructure stocks have had a strong year and continued their upward trend. Falling US Treasury yields and dovish US Fed signals boosted investor appetite for income-generating assets, amongst them, real estate, which rebounded in the third quarter. Treasury Inflation Protection Securities (TIPS) also bounced back from last quarter, turning in positive returns.

The real assets strategy (strategy) advanced for all three months of the quarter, adding to earlier gains and bringing the year-to-date return to 15.9%. The strategy closed the quarter with a gain of 5.97%, just ahead of its composite benchmark by 6 bp. This slight outperformance is due to beneficial dividend tax treatment from global equity funds and the rebalance policy. The longer-term returns of the strategy remain solid, and since its inception in 2005, the strategy continues to maintain its lead over the composite benchmark by over 20 basis points annually and has provided an annualized return of 4.6%.

**Figure 1: Real assets strategy — total return for the quarter**



**Note: Past performance is not a reliable indicator of future performance.** 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 September 30, 2025.

The Bloomberg Enhanced Roll Yield Index rose 5.3% in the third quarter, led by a strong performance in precious metals. Investors sought safe havens, anticipating interest rate cuts and responding to a weaker dollar. Silver, having a dual role as an investment and industrial metal, reached toward highs not seen since 2011 and was up approximately 31%. Gold continues to set new price records, benefiting from its reputation as a safe haven during periods of market volatility and ongoing rate cuts. The gold metal is up 17% for the quarter and 65% for the year. Demand for industrial metals also increased, driven in part by growth in AI-related industries. Among industrial metals, zinc and aluminum posted solid gains, (8% and 3%, respectively), even as copper prices dropped 5%. Some areas faced challenges as uncertainty around trade policies, oversupply in oil markets, and slow global manufacturing limited overall growth. The energy sector declined, mainly because natural gas prices fell 9% for the quarter. Agricultural commodities struggled, as global surpluses in many products weighed on prices.

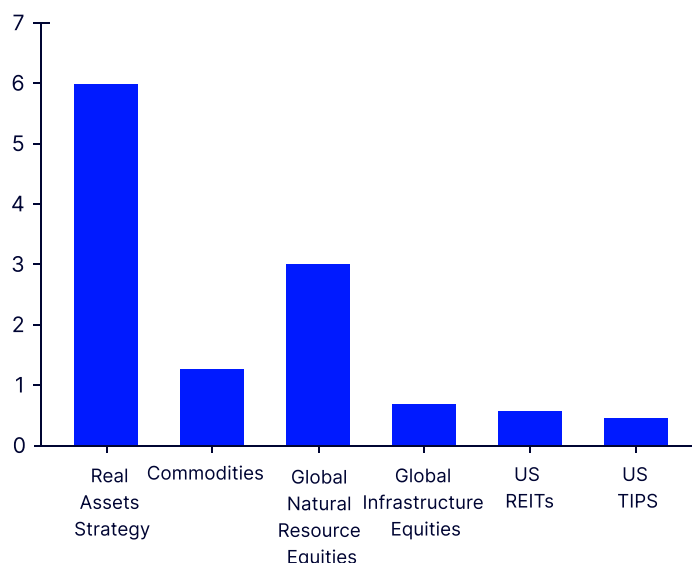
Global natural resources equities delivered the strongest

performance among real asset classes this quarter, driven primarily by metals and mining companies. Rising metals prices and increased industry activity supported these gains. In contrast, agricultural companies, especially those focused on fertilizers and farming chemicals, experienced declines. Natural resource equities gained 12% in Q3, bringing the year-to-date return to 27.6%. Infrastructure equities continued their upward trend, though the trajectory slowed compared to the first half of the year. Utilities companies led the infrastructure sector, benefiting from higher demand and favorable interest rates. Transportation firms, particularly those providing airport services, also contributed to the sector's positive results. Global infrastructure equities rose 3.5% in Q3, bringing its year-to-date return to 18.9%.

US Real Estate Investment Trusts (REITs) rose as falling Treasury yields and dovish Fed signals boosted investor appetite for income-generating assets. Among property sectors, health care, retail, and lodging/resorts REITs led. US REITs rose 5% in Q3, bringing them to positive territory year-to-date at +4.5%. US Treasury Inflation Linked Securities (TIPS) was the asset class with the lowest return, but even that was positive as yields fell. In Q3 2025, TIPS outperformed comparator Treasuries by 0.61%. The 1–10-year TIPS returned 1.94%, while comparator Treasury indices returned 1.32%. US 1–10-year TIPS are up 7% YTD. The US annual inflation rate increased to 2.9% in August, from the level of 2.7% in both June and July and in line with market expectations. Core inflation, which excludes food and energy, remained steady at 3.1%, same level as in July and at February's peak.

Inflation remains sticky, with headline CPI and PCE readings in line with expectations, though some categories—such as shelter and food—show pockets of strength. The Fed is widely expected to deliver at least two more rate cuts by year-end, with the possibility of more aggressive easing if labor market deterioration accelerates but continues to follow the data. The real assets strategy provides balance and potential protection to a resurgence in inflation caused by demand or supply surprises, a more positive global economic environment, and heightened uncertainty of political and geopolitical outcomes.

**Figure 2: Return contribution by asset class**



**Note: Past performance is not a reliable indicator of future performance.** Performance returns of periods of less than one year are not annualized. The performance figures for the strategy contained herein are provided on a net of fees basis and reflect the deduction of advisory or other fees. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in US dollars. For strategy and asset indexes please refer to the disclosures. Source: State Street Investment Management, as of September 30, 2025.

## Investment outlook











OPEC+ has been steadily increasing supply as voluntary cuts unwind, while US shale production remains firm despite falling rig counts. On the demand side, consumption has been decent but is likely to soften seasonally in the coming months as the summer driving season ends and colder weather demand won't materialize until late Q4 or early 2026. Easing geopolitical tensions in the Middle East have reduced immediate supply disruption risks, and current forecasts point to a market surplus—pressuring prices in the near term. However, risks remain: renewed geopolitical flare-ups, potential sanctions on Iran, Russian supply disruptions, and trade shifts affecting China and India could tighten balances. Meanwhile, US production growth could stall as rig counts fall further, and China's strategic crude purchases may continue to underpin demand if prices stay low. With most OPEC+ spare capacity now deployed, downside risk is somewhat cushioned. Looking ahead, a demand recovery in 2026 is plausible, and combined with OPEC's ability to cut output and expectations for resilient economic growth and monetary easing, prices may be near the bottom of the cycle even as the short-term outlook leans bearish.

The near-term outlook for industrial metals is cautious but leans constructive, supported by underlying fundamentals that offset some persistent headwinds. Global manufacturing activity remains sluggish, and while the US dollar has stabilized, metals have already performed well this year. Geopolitical uncertainties continue to weigh on sentiment, and there is a risk of a buyer strike in China if copper prices rise much further. In the absence of a major catalyst, metals could trade sideways or gradually move higher, buoyed by positive risk appetite. Looking ahead, copper and aluminum are entering a period where firm demand and constrained supply are expected to create market deficits through next year, likely keeping prices elevated. Solid fundamentals—such as anticipated Fed rate cuts, further weakness in the US dollar, and resilient economic growth—provide additional support. Both metals benefit from structural trends like the global energy transition and increased demand from AI-related infrastructure, and metals generally perform better when economic growth is positive, which is expected next year. Policy measures such as the OBBBA should further support household demand and capital investment, both favorable for metals. Overall, the setup for industrial metals is favorable, with strong demand drivers and constrained supply likely to support prices in the coming year and beyond.

Gold's outlook remains constructive, supported by both structural and cyclical factors. On the structural side, central bank buying, geopolitical uncertainty, long-term debt concerns, and persistent inflation risks continue to provide a strong foundation, while ETF demand adds another layer of support. Cyclically, the expected Fed rate-cutting cycle, potential US dollar weakness, and gold's role as a hedge against equities should keep investor interest elevated. Even a modest rotation out of US Treasuries into gold could meaningfully lift prices. While gold's correlation with equities has risen, it remains low enough to serve as an effective diversifier. Additionally, central bank purchases—though slower—are price-insensitive and help set a floor for demand. Inflationary pressures and technical signals from our models further reinforce a positive outlook. Overall, we see gold as well-positioned for continued strength in the current environment.

Natural resource equities continue to perform well as risk appetite continues to grow, inflation remains sticky, and economic growth expectations improve. Valuations for natural resource equities continue to look appealing, and these assets are well-positioned to gain from persistent inflation trends, and interest rate cuts.

**Figure 3: Short and medium-term directional outlooks**

	Short term	Medium term	Comments
Commodities			Oil outlook leans bearish, but industrial and precious metals appear attractive and inflation remains sticky, supporting near-term performance
Global Natural Resources Equities			Resilient economic growth, sticky inflation, and solid risk appetite combine with structural tailwinds to support outlook
Global Infrastructure Equities			Structural tailwinds boosting power demand, policy support, Fed rate cuts, and stubborn inflation to buoy infrastructure equities
US REITs			Fed easing cycle, firm risk sentiment, and resilient economic growth offer support, but interest rate and idiosyncratic risks lessen attractiveness
US Intermediate TIPS			Potential for lower yields and sticky inflation supportive, but other assets offer stronger return potential on a relative basis

Note: Past performance is not a reliable indicator of future performance. Source: State Street Investment Management, as of June 30, 2025.

With the increase in base and precious metals, we have seen companies in the metals and mining industries benefit. The subsector was up 10% in the third quarter, and while we think that it may be hard to replicate, we do see the metals continuing to climb in the short term. Demand for traditional energy sources has been strong, and we are cautiously optimistic that this sub-sector can continue to do well. The green energy transition and growing use of artificial intelligence will also provide support from gas and integrated oil companies. Equities should also do well with global growth, albeit slower than prior years, but not expected to contract as was the fear earlier this year. With inflation remaining manageable, interest rates can be lowered, which should also help the asset class as the cost of capital decreases. Going forward, equities could see further gains as market sentiment improves, especially with the reduction of trade tensions and the implementation of growth-oriented policies in the US and China's updated five-year plan, which should drive demand for many industrial metals and benefit miners and producers.

Global infrastructure equities are positioned to benefit from multiple structural tailwinds, including rising power demand driven by electrification and AI-related data center growth, accelerating decarbonization, and ongoing digitalization. Deglobalization trends and reshoring initiatives are spurring infrastructure investment, while pro-growth US policies and China's upcoming five-year plan focused on advanced manufacturing add further support. Tax reforms under the OBBB could enhance capital efficiency and cash flows, improving earnings potential and investor sentiment. Although valuations

are elevated relative to historical averages, they remain less stretched than broader equities, and improving risk appetite alongside potential Fed rate cuts should provide additional upside. Key risks include a slowdown in AI-driven demand or renewed rate pressures, but overall, the asset class appears well-positioned to capitalize on these favorable dynamics.

The recent Fed guidance—signaling two additional rate cuts this year and additional easing next year, alongside stronger growth and inflation forecasts—creates a broadly supportive backdrop for REITs. Lower Treasury yields enhance the relative appeal of REIT dividend yields, while reduced front-end rates can lower borrowing costs for REITs with variable-rate debt, boosting earnings. If Fed policy also helps stabilize interest rate volatility, transaction activity in the real estate market could improve, further supporting the sector. Additionally, better risk appetite and the fact that REITs have lagged other risk assets suggest potential for catch-up performance if economic growth remains resilient and yields continue to decline. However, caution is warranted. Cap rate spreads versus 10-year Treasuries and corporate bonds have compressed, signaling that REIT valuations may not be as compelling compared to fixed-income alternatives, especially if bond yields fall further. Longer-term rates may remain anchored, and sector-specific risks—such as office demand uncertainty or retail headwinds—could limit relative attractiveness. Overall, while the near-term environment favors REITs, valuation and idiosyncratic risks make REITs less attractive on a relative basis.



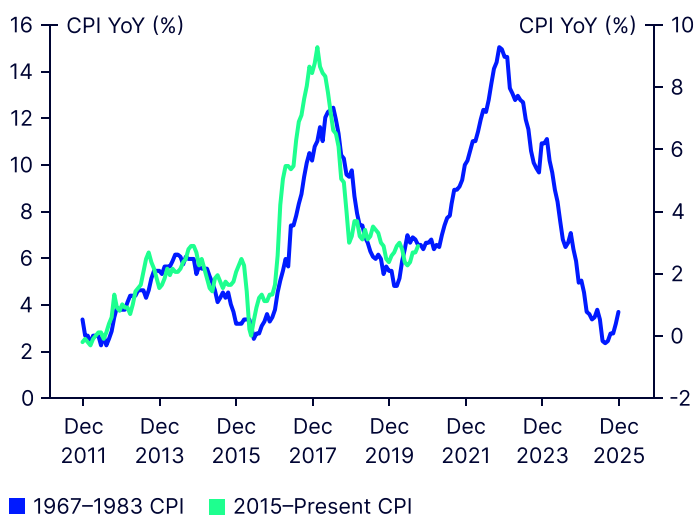
US inflation has turned higher recently, and while tariff impacts have been manageable, goods inflation is likely to rise further while core services remain sticky—both factors supporting TIPS. Breakeven rates have receded, and while they remain elevated, upside risks to inflation make TIPS look more attractive now. A modest move lower in real yields would add support and we expect the Fed to cut further; however, while the Fed has signaled more cuts and raised its inflation forecast for next year, it has not committed to a larger easing cycle, which could cap breakeven upside. Overall, we see compelling reasons to hold TIPS, but in the current environment, we favor other areas of real assets for stronger return potential.

## Inflation and real assets

Core inflation at 3% is not the same as the disruptive price shocks during the pandemic, but it will still weigh on households and impact investor portfolios. Inflation has remained sticky, with both core goods and core services experiencing rising price pressures recently. The path ahead is uncertain and while there are some factors that should bring inflation lower, there are risks to the upside.

A year ago, we introduced a chart to illustrate the potential for a second wave of inflation and how the environment at that time mirrored the 1970s (Figure 4). While those parallels remain relevant today, we're revisiting the chart to examine what factors could drive the next inflationary surge in 2026.

**Figure 4: Inflation waves – parallels with the 1970s**



Source: FactSet, as of August 31, 2025.

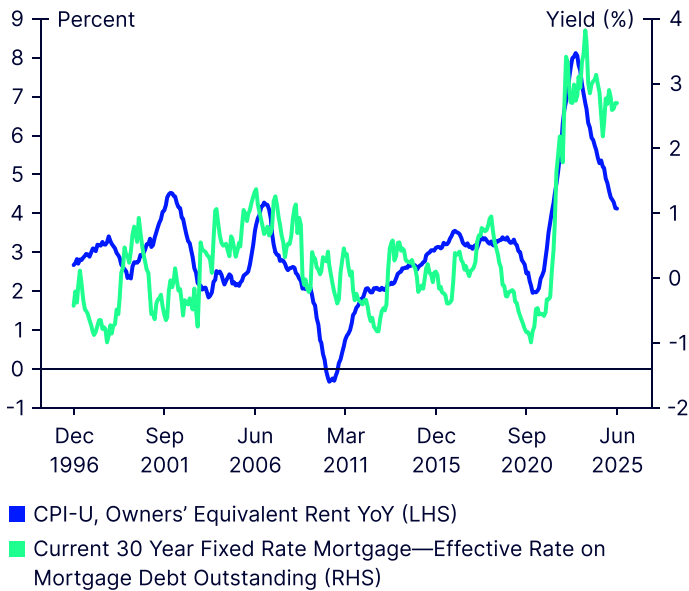
Inflation could trend higher next year as multiple tailwinds converge. Major events like the US's 250th anniversary and the FIFA World Cup are poised to lift GDP through infrastructure upgrades, temporary job creation, and tourism, while fiscal stimulus from the OBBBA—such as SALT relief, child tax credit enhancements, and adjustments to standard deductions—should bolster household spending. These factors support consumption and may keep prices firm.

Although labor market indicators like unemployment claims and layoffs suggest some softening, improving NFIB optimism, rising CEO confidence, and strong corporate profits point to resilience that could support employment next year. Coupled with still elevated average hourly earnings, demand could remain well supported. Additional drivers include anticipated Fed rate cuts, accelerated capital depreciation, and deregulation, which should spur business investment. Housing and equity market gains are reinforcing the wealth effect for higher-income households, while retroactive tax cuts under the OBBBA could boost refunds for lower-income groups early in 2026. Current data underscores this momentum—the Atlanta Fed's GDPNow tracker estimates 3.8% growth for Q3, supported by corporate CapEx and consumer spending, while lending conditions are improving as banks ease credit standards. Taken together, policy support, stronger confidence, and reduced uncertainty position the economy for better growth, creating conditions for inflationary pressures to re-emerge.

Last quarter, we noted indicators pointing to continued cooling in rent inflation, but that there were emerging signals that this trend could reverse. One such signal was the level of reserve balances held by banks and credit unions at the Federal Reserve. This quarter, we highlight several factors that could cause rental inflation to reaccelerate, largely tied to the outlook for mortgage rates.

One key factor is the lock-in effect: thanks to refinancing during the pandemic, over half of outstanding mortgages still carry rates below 4% as of the second quarter 2025 per the FHFA. While the effective mortgage rate has ticked up, it remains far below current market rates, which discourages homeowners from selling and limits housing supply. Historically, when the spread between current mortgage rates and the effective rate widens, rental inflation—captured in Owners' Equivalent Rent—tends to accelerate as more households are pushed into renting (Figure 5).

**Figure 5: Mortgage rates and owners' equivalent rent**



Source: FactSet, as of June 30, 2025.

Mortgage rates could remain high even if the Fed lowers short-term rates because they are driven by longer-term Treasury yields. Those yields may stay elevated due to several factors: large federal deficits that push investors to demand a higher term premium for holding long bonds, stronger-than-expected economic growth, persistent inflation expectations, increased global Treasury supply, and the possibility that foreign investors diversify away from U.S. Treasuries into assets like gold.

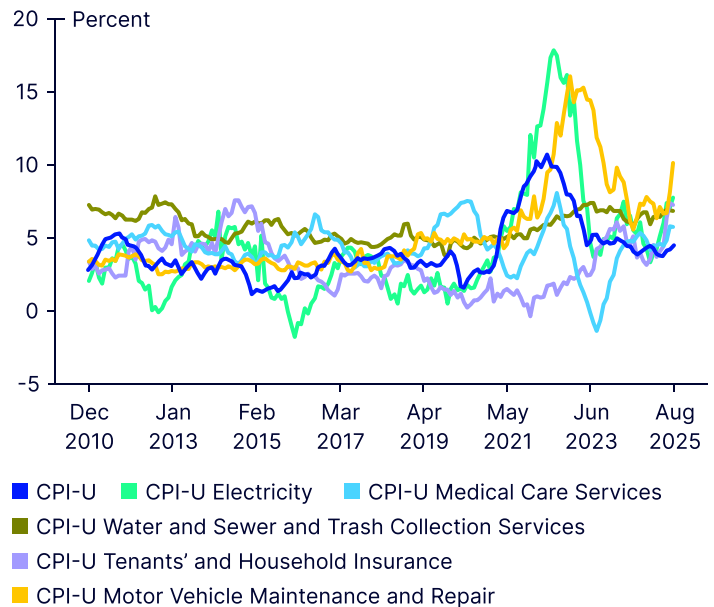
Another reason mortgage rates could remain elevated is reduced support from the Federal Reserve. The Fed continues to let mortgage-backed securities (MBS) roll off its balance sheet under quantitative tightening, and while it has signaled plans to slow QT, it is unlikely to resume large-scale MBS purchases like during the pandemic. Those purchases previously boosted demand for mortgages and helped lower rates. Chair Powell has indicated the Fed does not intend to intervene in secondary mortgage markets to ease mortgage costs. Even if QT slows, stabilizing MBS demand and modestly reducing rates, reinvesting paydowns into Treasuries instead of new MBS would keep mortgage spreads wide and mortgage rates higher relative to Treasury yields.

Another factor that could keep mortgage rates elevated is the lock-in effect, which has left many homeowners sitting on historically low rates and unwilling to sell. This limits housing turnover and reduces origination volumes, creating pressure on lenders to maintain profitability by charging higher rates to new borrowers. At the same time, resilient economic growth could support housing demand, reducing downward pressure on mortgage rates. Together, these dynamics suggest that even if broader rate conditions ease, structural and demand-driven factors may keep mortgage rates from falling significantly.

Overall, these dynamics suggest mortgage rates may remain high, constraining homeownership affordability and creating conditions for rental inflation to rebound over time. Owners' equivalent rent makes up roughly 26% of the CPI, which makes rental inflation worth monitoring.

The US inflation environment remains nuanced, with sector-level trends revealing both persistent pressures and early signs of moderation. While headline inflation has cooled from its 2022 highs, the underlying data across energy, housing, insurance, food, and core services suggest that inflation risks remain sticky as many core goods and services that consumers can't live without are running hotter than overall CPI (Exhibit X).

**Figure 6: CPI components**



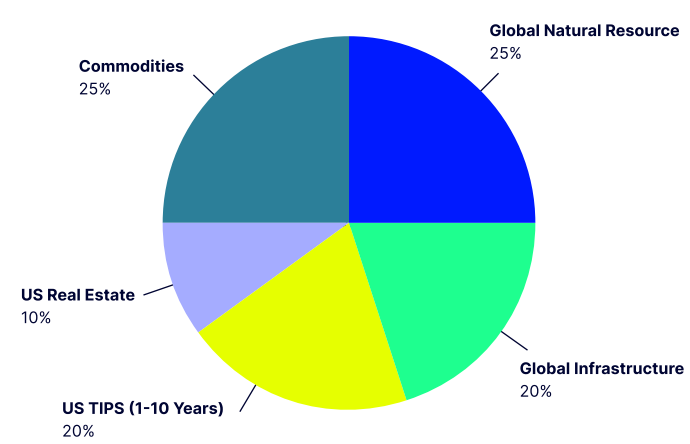
Source: FactSet, as of August 31, 2025.

Energy affordability is a central concern. Electricity prices have risen meaningfully as demand from AI driven data centers and electrification and upgrades to aging infrastructure push prices higher. These trends don't appear to be reversing anytime soon and the EIA (US Energy Information Administration) anticipates increases in electricity prices to outpace inflation through 2026. Elsewhere, the CPI for piped gas service is up 13.8% year-over-year, roughly four times the pace of headline CPI. While above average inventories could reduce prices moving forward, demand is likely to move seasonally higher over the next couple of months.

Water, sewer, and trash services continue to deliver steady, above-inflation increases. These costs are structurally driven by aging infrastructure, regulatory compliance, and rising operational costs. The CPI for this category is up 5.3% year-over-year, and these increases are unlikely to reverse, making this a persistent contributor to core services inflation.

Medical care services inflation remains elevated, with the CPI component up 4.2% year-over-year. Rising labor costs, expensive specialty drugs, and higher utilization rates are driving provider costs higher. Hospital and outpatient services are up over 5% year-over-year, and employer health costs are projected to rise 9% in 2026, the fastest pace in over a decade. This sector's structural drivers and the lagged pass-through of insurance premiums suggest medical inflation will remain a core risk. Elsewhere, tenants' and household insurance remains elevated and motor vehicle maintenance and repair has been rising meaningfully.

Figure 7: Real assets portfolio composition



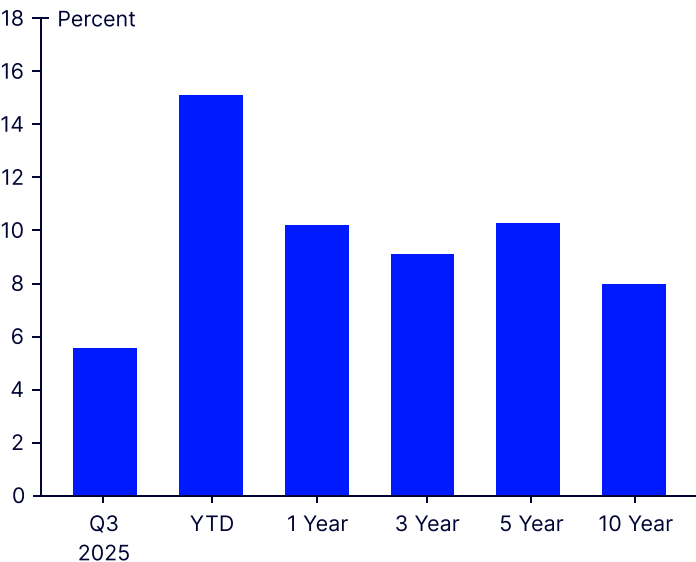
Source: State Street Investment Management, as of September 30, 2025.

## Real assets strategy

At State Street Global Advisors, 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.

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



**Note: Past performance is not a reliable indicator of future performance.** Performance returns of periods of less than one year are not annualized. The performance figures for the strategy contained herein are provided on a net of fees basis and 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 September 30, 2025..

# About State Street Investment Management

At State Street Investment Management, we draw from our global scale and market-tested expertise to help create original solutions and better outcomes for our clients and the world's investors.

## statestreet.com/investment-management

### Marketing Communication

#### State Street Investment Management Worldwide Entities

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without State Street Global Advisors' express written consent.

The views expressed in this material are the views of Tyhesha Harrington, Michael Narkiewicz, and Keith Snell through the period ended September 30, 2025, and are subject to change based on market and other conditions.

This document contains certain statements that may be deemed forward looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

Investing in commodities entail significant risk and is not appropriate for all investors. Commodities investing entail significant risk as commodity prices can be extremely volatile due to wide range of factors. A few such factors include overall market movements, real or perceived inflationary trends, commodity index volatility, international, economic, and political changes, and changes in interest and currency exchange rates.

There are risks associated with investing in Real Assets and the Real Assets sector, including real estate, precious metals, and natural resources. Investments can be significantly affected by events relating to these industries.

Equity securities may fluctuate in value and can decline significantly in response to the activities of individual companies and general market and economic conditions.

The major risks associated with investing in the natural resources sector, including large price volatility due to non-diversification and concentration in natural resources companies.

Investing in REITs involves certain distinct risks in addition to those risks associated with investing in the real estate industry in general. Equity REITs may be affected by changes in the value of the underlying property owned by the REITs, while mortgage REITs may be affected by the quality of credit extended. REITs are subject to heavy cash flow

dependency, default by borrowers and self-liquidation. REITs, especially mortgage REITs, are also subject to interest rate risk (i.e., as interest rates rise, the value of the REIT may decline).

Technology companies, including cyber security companies, can be significantly affected by obsolescence of existing technology, limited product lines, and competition for financial resources, qualified personnel, new market entrants or impairment of patent and intellectual property rights that can adversely affect profit margins.

The stocks mentioned are not necessarily holdings invested in by State Street Global Advisors. References to specific company stocks should not be construed as recommendations or investment advice. The statements and opinions are subject to change at any time, based on market and other conditions.

All information is from State Street Global Advisors unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability, or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

Past performance is not a reliable indicator of future performance.

Investing involves risk including the risk of loss of principal.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

**For EMEA Distribution:** The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

© 2025 State Street Corporation. All Rights Reserved.  
ID3403100-5650179.12.2.GBL.INST 1125 Exp. Date: 01/31/2026