

Investment Note: Inflation

18 March 2026

Recent geopolitical tensions in the Middle East and the disruption of traffic through the Strait of Hormuz have triggered a meaningful short-term inflation impulse. Although long-term inflation expectations remain stable, short-term pressures have increased and financial markets are starting to take a more cautious view.

For investors, this environment calls for prudent risk management, selective sector positioning and an awareness of both upside inflation risks and possible growth headwinds.

Current Situation

The recent rise in inflation is primarily driven by an energy-related supply shock. Prices of oil and natural gas have moved sharply higher and shortages in refined products such as diesel and jet fuel are adding further pressure. With inventories already low, transport, logistics, manufacturing and aviation are facing noticeable cost increases. At the same time, shortages of other important industrial inputs, such as sulphur and helium, have intensified because of blocked shipments. As a result, the production costs of agricultural and industrial goods are rising and eventually will lead to higher consumer prices.

With these developments, inflation expectations have adjusted accordingly. While short-term indicators in the US, euro area and UK had already been rising since the start of the year, they have accelerated markedly in recent weeks. On the other hand, longer-term expectations remain contained. This suggests that investors still regard the inflation spike as temporary. Nonetheless, the risk of more persistent inflation has risen and could trigger another market shock if supply disruptions prove longer-lasting.

Central Bank Policy

Central banks are becoming more cautious. With short-term inflation expectations rising, markets now see fewer chances of near-term rate cuts and are even pricing in possible hikes later in the year. Financing conditions have tightened as government bond yields increased and credit spreads widened. Overall, central banks seem prepared to tolerate some short-term volatility but are reluctant to ease policy too soon.

Inflation Outlook

In the short term, headline inflation is likely to rise further on the back of higher energy and transport costs. Service inflation may increase as operators in aviation and freight pass on higher fuel costs to consumers.

Over the medium term, a gradual moderation in inflation remains our base case if energy markets stabilise and refining capacity returns. However, if shipping routes stay disrupted or shortages of refined products persist, inflation would remain elevated and the shock could turn from a temporary issue into a more lasting problem. In this scenario, sticky inflation would gradually erode real incomes, weaken household purchasing power and increasingly weigh on overall economic growth.

Investment Implications

While it can make sense to hold more cash in the current uncertain situation, we remain confident in our neutral positioning on equities and bonds while continuing to highlight the importance of diversification.

In fixed income, short-term inflation uncertainty could further put pressure on bonds. Therefore, we keep our preference on high-quality issuers and focus new investments in short-to-medium term bonds. For portfolios with an increased duration, switches into shorter instruments can be used to manage risk. Looking forward, more attractive opportunities are likely to emerge once inflation momentum begins to slow.

In equities, sectors that historically perform well during inflationary periods such as energy and health care are better positioned but have already rallied considerably. On the other hand, cyclical industries may struggle with higher input costs and tighter credit conditions but could eventually profit once the energy supply normalizes. In this situation, we maintain our diversified equity positioning and will refrain from tilting the portfolio in either direction until the outlook becomes clearer

In alternatives, gold remains a useful hedge during periods of geopolitical stress and shifting real yields. Accordingly, we reiterate our overweight on the precious metal.

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