

INVESTOR PERSPECTIVES / SEPTEMBER 2026

Inflation, Currency & Real Wealth

How to distinguish nominal growth from economic progress.

AL T E R R A E Q U I T I E S

RESEARCH & INSIGHTS

02

THE INVESTMENT QUESTION

Which assets protect the spending power that matters to your household – and under what conditions?

For U.S., India and UAE investors evaluating the role of global assets.

Executive perspective

An inflation hedge is only useful if it protects the right liability, at the right time, after the costs of owning it.

Inflation erodes the amount of goods and services a fixed sum can buy. A currency move changes what that sum buys abroad. Asset prices introduce a third variable: the market can value a stream of growing cash flow less highly if required returns rise. Treating these as one risk produces weak investment decisions.

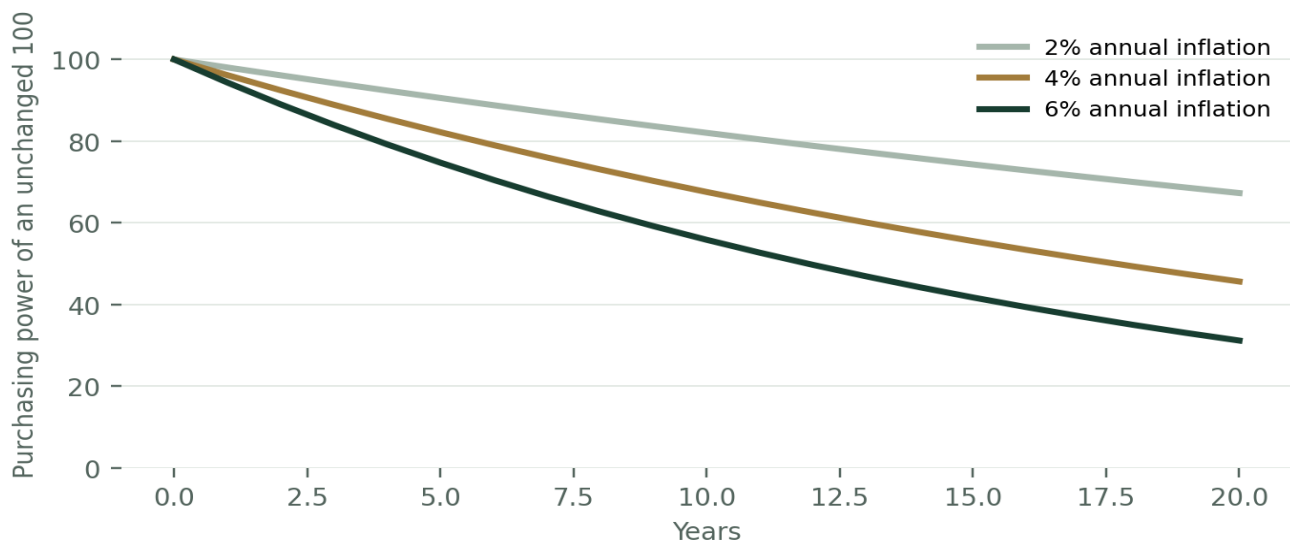


Exhibit 1. Hypothetical inflation compounded annually; no interest earned on the original 100. This is a purchasing-power illustration, not an inflation forecast.

At assumed annual inflation of 4%, an unchanged cash amount retains about 67.6% of its initial purchasing power after ten years and 45.6% after twenty. Interest income can offset some erosion, subject to taxes and the rate actually earned. The alternative to idle cash is not necessarily an illiquid investment.

Three separate decisions

Identify the currency of future spending. Select an investment whose underlying economics fit the goal. Then test whether liquidity, fees, taxes and financing could defeat the intended protection.

01 / Match the hedge to the exposure

Exposure	What helps address it	What can still go wrong
Domestic consumption inflation	Assets or contracts whose net cash flow can respond to the relevant prices.	Revenue may adjust slower than costs; taxes can consume the gain.
Future foreign-currency spending	Assets or cash flows in the liability currency, matched to the payment timetable.	Asset losses, legal access restrictions or maturity mismatch.
Rising discount rates	Shorter duration or a return cushion; evaluate financing terms.	A nominal income increase can coexist with a lower asset price.
Unexpected cash needs	Accessible reserves and realistic commitment sizing.	Selling a volatile asset or exiting a private investment at the wrong time.

BLS defines CPI around a representative consumption basket and explains that an individual family's spending experience can differ. [1] A property purchase price, a university fee and local household costs should therefore not be modeled as if they were the same inflation index.

Different starting points by residence

India: A dollar goal exposes INR-funded savings to exchange-rate changes as well as changes in the dollar price of that goal. Measure those effects separately from Indian household inflation.

UAE: The dirham is pegged to the dollar. [3] Moving AED into USD is primarily a change of asset, custodian or jurisdiction, not a new hedge against routine AED/USD depreciation. It does not remove exposure to inflation or currencies other than the dollar.

United States: A dollar salary and dollar investment may still be concentrated in one employer, industry or regional economy. A domestic currency match does not eliminate business or portfolio concentration.

02 / Real estate is a conditional inflation hedge

Real estate can benefit when achievable rents or room rates rise, replacement costs support the competitive position, and financing costs remain controlled. Those conditions are neither automatic nor synchronized. Labor, insurance, utilities, maintenance and renovation costs can rise before income catches up.

Simplified valuation example	Initial position	Later position
Net operating income (NOI)	\$1,000,000	\$1,100,000
Capitalization rate (NOI / value)	5.0%	6.0%
Value = NOI / cap rate	\$20,000,000	\$18,333,333
Change in NOI	-	+10.0%
Change in property value	-	-8.3%

Exhibit 2. Original hypothetical arithmetic. Unlevered property value, before transaction costs, capital spending, taxes and interim distributions. Capitalization rates are assumptions, not market estimates.

Growing income does not guarantee growing market value. If \$12 million of debt remained outstanding in the example, residual equity value would move from \$8 million to about \$6.33 million, a 20.8% decline before other adjustments. Leverage magnifies the effect on the owner.

Hotels can change room prices frequently, but the guest must accept the new price. A higher quoted rate accompanied by weaker occupancy can reduce total revenue. Pricing flexibility is an operating tool; pricing power is an economic outcome. The two should not be conflated.

The underwriting test

Model revenue and each major expense separately. Include debt repricing, replacement reserves and exit valuation. Ask whether the real cash distributed to the investor improves after those effects, not merely whether rents or average daily room rates rise.

03 / Compare the available tools

Asset or strategy	Potential use	Trade-off
Short-duration cash instruments	Liquidity and gradual reinvestment as rates change.	After-tax yield may lag inflation; not all cash-like products have the same protection.
Inflation-linked sovereign bonds	Explicit linkage to a specified inflation index.	Real yields, duration, taxation and the chosen index still matter.
Public equities	Exposure to companies able to grow earnings or pass through costs.	Pricing power varies; valuations and earnings can fall.
Private real estate	Control over asset operations and potential income repricing.	Capital intensity, leverage, illiquidity and sponsor execution.
Commodities / gold	Different exposure to supply shocks or monetary uncertainty.	Volatility, storage or product costs, and generally no operating cash flow.

U.S. Treasury Inflation-Protected Securities adjust principal with U.S. CPI. At maturity, Treasury pays the inflation-adjusted principal or original principal, whichever is greater; sale before maturity can produce a different outcome. [2] This is specific contractual protection, unlike the conditional economic behavior of real estate.

There is no single asset that reliably matches every currency, inflation basket and payment date. Evaluate the household's objectives before selecting a product. A credible diversification plan acknowledges where the proposed investment can fail.

Advisor review questions

Which inflation measure is being hedged? Which costs are omitted? Can the hedge be accessed when needed? Is the apparent resilience the result of infrequent valuation? What happens if inflation falls, the currency moves the other way, or refinancing becomes expensive?

Sources, methodology & important information

Scope: a conceptual asset–liability framework, not a backtest or estimate of expected inflation. All numeric examples are original hypothetical calculations. No assumed inflation or capitalization rate represents a current market quote. Inflation–linked bonds, public securities and private real estate are not presented as substitutes with equivalent risk.

Primary sources

[1] BLS: Consumer Price Index frequently asked questions

Background on the CPI basket and household–specific inflation experience.

[2] U.S. Treasury: Treasury Inflation–Protected Securities

Description of principal adjustment and maturity protection. Investors must separately evaluate tax and sale–before–maturity effects.

[3] Central Bank of the UAE: How the monetary system works

Official description of the UAE dollar peg and monetary framework.

Use of this paper

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Sources accessed September 11, 2026. Data cutoffs and dated rules are identified where used. Verify later changes and the investor–specific position before a transaction. Analytical frameworks and uncited worked examples are Alterra’s original educational analysis; source organizations do not endorse this paper.

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