# **Inflation-beating Strategies**

Inflation hedging funds require specific asset allocation strategies that maintain purchasing power during periods of rising prices. Moolah Capital applies traditional inflation-resistant strategies to crypto and digital assets to provide comprehensive protection against monetary debasement.

## **Traditional Inflation Hedging Assets**

Established asset classes provide proven inflation protection through historical performance data and fundamental economic relationships.

• **Treasury Inflation-Protected Securities (TIPS)**: TIPS bonds adjust principal values based on Consumer Price Index changes, providing direct inflation protection through automatic principal adjustments. Focus on 5-10 year maturities that balance inflation sensitivity with interest rate risk. Real yields above 1% provide attractive entry points for new positions.

• **Commodity Futures and ETFs**: Broad commodity exposure through vehicles like DJP, DBA, and GSG provides inflation protection through direct exposure to raw material prices. Energy futures (crude oil, natural gas) show strong sensitivity to inflationary pressures, while agricultural commodities respond to supply chain disruptions. Consider exposure across energy, metals, and agriculture subsectors.

• **Real Estate Investment Trusts (REITs)**: Equity REITs provide inflation protection through rent escalation clauses and property value appreciation during inflationary periods. Focus on sectors with strong pricing power including data centers (DLR, EQIX), cell towers (AMT, CCI), and industrial properties (PLD, EXR). Emphasis on REITs with debt-to-equity ratios below 40%.

• **Infrastructure and Utility Stocks**: Regulated utilities and infrastructure companies with rate-setting mechanisms provide inflation pass-through capabilities through automatic rate adjustments. Target companies with regulated asset bases exceeding 80% and automatic inflation adjustments in rate structures. Examples include NEE, SO, and AEP with stable dividend policies and dividend yields above 3.5%.

• **Precious Metals and Mining Stocks**: Gold maintains purchasing power over long periods through scarcity and monetary hedge properties. Silver provides higher volatility but benefits from industrial demand growth. Mining stocks (GDX, GDXJ) offer leveraged exposure with 2-3x gold price sensitivity. Consider split between physical metals and mining equities.

## **Cryptocurrency Inflation Hedges**

Digital assets provide alternative inflation protection through scarcity mechanisms, decentralized monetary policy, and store-of-value properties.

• **Bitcoin (BTC)**: Fixed supply cap of 21 million coins creates mathematical scarcity similar to gold, with current inflation rate of 1.7% annually declining to near-zero by 2032. Growing institutional adoption and store-of-value narrative support inflation hedge potential. Consider accumulation during periods when realized volatility drops below 60% annually.

• **Ethereum (ETH)**: Post-merge deflationary mechanism burns transaction fees during high network usage, creating negative supply growth during bull markets. Gas fee burning responds to network activity and provides inflation hedge through supply reduction.

• **Inflation-Linked DeFi Protocols**: Olympus DAO (OHM) and similar reserve currency protocols attempt to maintain purchasing power through algorithmic monetary policy and treasury backing. These protocols target price floors above $1 with backing ratios maintained above 100%. Consider limited exposure due to smart contract risks and protocol governance uncertainties.

• **Commodity-Backed Tokens**: PAXG (gold-backed), PDXG (palladium), and similar tokens provide crypto exposure to physical commodities with 1:1 backing ratios. These tokens combine precious metal inflation hedging with blockchain custody and fractional ownership benefits. Consider for portfolio diversification and reduced custody complexity.

• **Real Estate Tokenization**: Platforms like RealT and Lofty tokenize rental properties, providing fractional real estate ownership with rental income distribution. Properties generate 6-12% annual yields with potential appreciation during inflationary periods. Consider limited exposure due to liquidity constraints and regulatory uncertainties.

## **Portfolio Construction and Allocation Models**

Optimal inflation hedging requires dynamic allocation between traditional and crypto assets based on inflation regime analysis and correlation monitoring.

• **Base Case Allocation (2-4% Annual Inflation)**: Traditional assets form the portfolio foundation including TIPS, commodities, REITs, utilities, and precious metals. Crypto allocation provides diversification through Bitcoin, Ethereum, commodity tokens, and other alternatives. This approach targets real returns while maintaining reasonable portfolio volatility.

• **High Inflation Scenario (>5% Annual Inflation)**: Increase commodity exposure, maintain real estate positions, expand crypto allocation with increased Bitcoin weighting and commodity-backed tokens. This rebalancing targets real return preservation during extreme inflation periods with acceptable volatility increases.

• **Deflation Protection (Negative Inflation)**: Reduce commodity exposure, increase TIPS allocation, maintain defensive utilities. Decrease crypto allocation focused on established assets. This allocation preserves capital during deflationary periods while maintaining some inflation hedge capacity.

• **Dynamic Rebalancing Triggers**: Monthly portfolio rebalancing when asset class weights deviate more than 3% from targets. Quarterly strategic allocation review based on inflation expectations derived from TIPS breakeven rates, FOMC projections, and economic indicators. Emergency rebalancing triggers include CPI prints exceeding 6% annually or crypto correlation with traditional assets exceeding 0.7 for 30-day periods.

## **Risk Management and Implementation**

Effective inflation hedging requires careful risk management across traditional and crypto asset classes with specific attention to correlation breakdown and liquidity constraints.

• **Correlation Monitoring**: Daily correlation analysis between inflation hedging assets using 60-day rolling windows to identify correlation breakdown periods. When inter-asset correlations exceed 0.8, reduce position sizes by 20% and increase cash allocation until correlations return below 0.6. Monitor crypto-traditional asset correlation spikes during market stress periods.

• **Liquidity Management**: Maintain 5-10% cash allocation for rebalancing opportunities and redemption management. Traditional assets provide daily liquidity while crypto assets may experience reduced liquidity during volatile periods. Stagger crypto position sizes to ensure no single position exceeds 2% of portfolio value for risk management.

• **Regulatory Risk Assessment**: Monitor regulatory developments affecting crypto assets including potential taxation changes, custody requirements, and trading restrictions. Maintain compliance with investment mandate limitations on alternative asset exposure, typically capped at 20% for registered investment funds.

• **Performance Measurement**: Track portfolio performance against inflation benchmarks including CPI, core CPI, and producer price indices. Target real returns exceeding inflation by 200-400 basis points over 3-year rolling periods while maintaining maximum drawdown below 15% during any 12-month period.

## **Conclusion**

In conclusion, effective inflation hedging combines traditional assets with proven inflation correlation alongside emerging crypto alternatives that provide diversification and technological innovation.

Traditional allocations to TIPS, commodities, REITs, and precious metals form the portfolio foundation with 80-85% weighting, while crypto assets contribute 10-20% through Bitcoin, Ethereum, and commodity-backed tokens.

Dynamic allocation adjustment based on inflation regime analysis and correlation monitoring ensures optimal hedging effectiveness while managing portfolio risk and liquidity requirements.