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## Market Update: Inflation Fears Put Rates on Pause

By Kostya Etus, CFA®, Chief Investment Officer, Dynamic Asset Management

As the war in the Middle East continues, so does market volatility. The market (as measured by the S&P 500) experienced its fourth consecutive negative week (through March 20). Yet, if you look at year-to-date (YTD) returns through March 23, the S&P 500 is down less than 4%. Meanwhile, international stocks, value stocks and bonds are down less than 1%. Small caps are up close to 1% on the year. Volatility doesn't necessarily spell negative returns; it means that daily swings in the markets are more prevalent. And the best way to combat volatility is to stay diversified!

The primary risk in today's market environment is the uncertainty surrounding the impact of the war on inflation and the economy. While oil prices have stabilized, they remain well above the average levels over the past year. But this oil spike may be different from ones experienced in the past: Energy is a smaller share of consumer spending, the U.S. is more insulated in terms of supply, and the economy is less oil-intensive (less manufacturing dependent). So, the overall impact may be less significant than news headlines would suggest.

In terms of market outlook, investors are still looking to the Federal Reserve (Fed) for guidance. Let's review three key takeaways from last week's Fed meeting:

1. **Rates on Hold.** As expected, the Fed kept rates unchanged at 3.5% to 3.75% at their March meeting. Chairman Jerome Powell emphasized the uncertainty surrounding the war in the Middle East and the potential for higher inflation due to increased oil prices was a primary concern to lowering interest rates. Lowering rates tends to put upward pressure on inflation, and the Fed will want to see stability before proceeding with more cuts.
2. **Economic Projections are Stable.** The Fed shared their projections for key economic data points at this meeting. Notably, their estimates for economic growth were revised higher over the next several years, as well as in the long run. Unfortunately, they also revised their inflation estimates higher for 2026 at 2.7% (well above their 2% long term target) but left future estimates unchanged (signaling that an inflation increase may be shorter-term in nature). Lastly, the unemployment rate forecast remained unchanged for 2026, but had a slight uptick in 2027, highlighting that a recession is not expected on the horizon.
3. **Uncertainty is High.** The Fed also released their closely followed "dot plot," which shows expectations for future rate changes by each Fed member. While the median consensus was for one cut in 2026 and another in 2027, the individual forecasts were all over the board. For example, through 2027 and starting from current levels, three officials see no cuts, four expect a single cut, six see two more cuts, three predict three cuts, one voted for four, and one for five... Not to mention, one predicted a rate hike!

Bottom line: There is too much uncertainty right now. Given how data dependent the Fed is, upcoming inflation reports will be key to try and gain clarity on future steps.

Looking beyond the headlines, investors need to focus on key economic data points, which the Fed is projecting out as stable-to-improving. While uncertainty is driving volatility, it's reassuring the stock market appears to be holding up, and more importantly, diversified portfolios are delivering their value as expected during tumultuous times.

### **Reasons Not to Invest**

Regardless of whether the market is going up or down, there are always reasons not to invest. It's as easy as opening your favorite news site and reading the first few headlines. Remember, bad news sells a lot better than good news. But the main question is, how much impact do geopolitical or even economic events really have on long-term market returns?

The chart below looks at each decade over the past 50 years and highlights some of the key events that could have been reasons to not invest in those years. It then shows the market return that year and illustrates how an investment would grow if held to today. Let's review the results:

1. **Always a Reason.** There are a wide range of economic, environmental and geopolitical events on the list including high inflation, the Cold War and the housing bubble. While each year lists three significant events, there could be many missing. Looking at the list, any one of these events could derail the market — yet annual returns tell a different story.
2. **Market is Resilient.** In all the years evaluated, the stock market ended the year in positive territory. In fact, all the years posted double-digit returns. While this is a small sample size, the point of the story is these major events did not derail markets. If investors got out of the market because of one of these events, or due to a short-term market drop caused by the event, they may have missed out on significant upside on the rebound.
3. **It's a Long-Term Game.** The right column (Growth of \$10,000) shows the number gets exponentially larger as you go back in history. The power of compounding cannot be overlooked, but it only works if you stay invested. Shifting in and out of the market based on headlines can have a detrimental effect on long-term returns. Staying diversified and invested for the long-term is the best way to increase the chances of reaching investment goals.

*Stay diversified, my friends.*

### **Staying Invested Despite Negative News**

Year	Reasons Not to Invest	Stock Market Return for Calendar Year	Growth of \$10,000 Investment From Year in Column 1* to 12/31/25
1976	High Inflation	23.93%	\$2,939,582
	High unemployment		
	China earthquake kills 240,000		
1986	Cold War	18.67%	\$769,374
	Chernobyl meltdown		
	Iran-Contra Affair		
1996	"Irrational exuberance" speech	22.96%	\$192,167
	Federal Reserve rate hikes		
	Atlanta Olympics bombing		
2006	Housing bubble	15.79%	\$80,619
	Subprime loans surging		
	Global credit risks rising		
2016	Trump vs. Clinton	11.96%	\$39,827
	Brexit vote and fallout		
	Zika virus outbreak		
2026	US and Israel attack Iran	???	???
	AI bubble fears		
	Contentious midyear election		

As always, Dynamic recommends staying balanced, diversified and invested. Despite short-term market pullbacks, it's more important than ever to focus on the long-term, improving the chances for investors to reach their goals.

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