

Markets & Investing: Balancing Growth, Inflation, and Geopolitical Risk



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Executive Summary

As of March 13, 2026

- **The U.S. economy is likely to sustain growth in 2026**, supported by AI driven investment, fiscal stimulus, and resilient high income consumer spending.
- **Inflation has moderated significantly over the last several years**, but its compounding effect continues to pressure lower-income consumers.
- **Conflict in the Middle East has sent spot oil prices higher**, challenging both the near-term outlook for inflation and global economic growth complicating monetary policy.
- **Opportunities remain balanced across asset classes**, with equities supported by earnings and AI productivity, and high quality fixed income offering solid return and risk mitigation potential.

Setting the Macro Backdrop: Growth, Policy, and Uncertainty

The first quarter of 2026 has offered investors a full menu of threatening and promising issues to contemplate. Artificial Intelligence (AI) prognosticators have provided visions varying from a dystopian future to utopian, whispers of credit stress in private markets have emerged and continue to linger, AI disruption fears have made their rounds across sectors, the outlook for inflation and labor has varied widely, U.S. mid-term elections loom large, trade policy continues to be a source of confusion, and geo-political risks have risen considerably with large scale conflict in the Middle East. In this article, we seek to provide a general construct of the macro-environment, the investment landscape, and portfolio positioning.

Economic Growth Anchored by Investment and Fiscal Support

2026 U.S. economic growth is likely to continue at a moderate pace. Current consensus estimates for GDP growth are between 1.9% to 2.3%

for 2026. Key positive contributors to the U.S. growth outlook include a continuation of and likely increase in capital expenditures on AI infrastructure, fiscal stimulus from 2025's "One, Big, Beautiful Bill Act" (OBBBA), and high-income asset rich consumers ability to sustain spending. AI capital expenditures have become a significant contributor to GDP growth. We anticipate sustained growth in AI investments as cash rich hyperscalers continue to invest in their future. Lower taxes under the OBBBA, retroactive for calendar year 2025, are poised to meaningfully increase tax refunds for those in lower marginal income tax brackets in early 2026 providing a first-half boost to consumer spending power. Accelerated depreciation allowed under the OBBBA should boost capital investment across a variety of industries. High income earners continue to have confidence to spend liberally following years of strong asset appreciation. Threats to economic growth include continued financial stress for lower income earners, heightened uncertainty in the outlook for inflation, and a weakening labor market. These will likely be the front and center issues for the Midterm elections.

Inflation Trends and the Federal Reserve's Balancing Act

While price increases have materially subsided since 2022, lower income earners continue to be pressured by the compounding impact of inflation of the past several years. We anticipate inflation will continue trending towards the Federal Reserve's (the "Fed") 2% target rate in late 2026 as tariff related increases begin to lessen in the coming months. However, we

anticipate periodic bouts of volatility in the rate of inflation and believe sustained high oil prices have the potential to move near-term inflation expectations higher. Today the 10-Year TIPS breakeven rate (a market read of long-term inflation) is 2.33% which is in line with the Fed's long-term inflation target.

Geopolitical Risk and Energy Market Implications

Conflict in the Middle East will be a key market focus for the immediate future. An extended or widening conflict will result in higher oil prices and serve as a headwind to global economic growth. Oil futures currently indicate expectations for higher short-term prices and lower long-term prices signaling a temporary supply-driven price reaction rather than expectations for sustained higher prices. We note conditions and policy can change quickly and may be influenced by market forces. Also, global powers have alignment to keep the Strait of Hormuz open for business particularly those dependent on oil imports, notably China. The International Energy Agency (IEA) has proposed a historically large coordinated release of crude reserves by IEA member countries to moderate the price of oil. The outlook for the global economy also remains relatively sanguine as several major economies, including Germany and Japan, also participate in fiscal stimulus.

Monetary Policy: A Cautious Path Forward

With sustained progress on lowering inflation since 2022, the Fed lowered the Fed Funds target rate by 0.75% in 2025 accommodating

the economy and asset prices. However, the Fed declined to cut rates in January opting for a “wait and see” approach as recent inflation readings have remained stubbornly above the 2% target. Voting members of the Federal Open Market Committee (FOMC) expressed unusually disparate views on forward policy. U.S. non-farm payrolls unexpectedly declined by 92,000 in February, nudging slightly higher the unemployment rate to 4.4% which remains low by historical standards. On balance, the Fed and market participants see further rate cuts likely in 2026. Higher than expected inflation could challenge the timing of further rate cuts especially if conditions in the Middle East sustain higher oil prices. Stable or lower inflation, coupled with deterioration in the labor market, will likely accelerate the “Fed Put” (rate cuts). Fed Chair, Jerome Powell, is likely to be succeeded by President Trump’s nominee Kevin Warsh. Warsh is a well-known economist, academic, and former Federal Reserve Governor. Ironically, given President Trump’s well telegraphed desire for lower rates, Warsh is generally known as a policy hawk particularly as it relates to the Fed’s extensive use of Quantitative Easing (QE). Warsh is generally viewed by academics and market participants as a sound choice to lead the Fed. Warsh has indicated that he is in favor of lowering rates. While the Fed has likely never been fully immune from political pressure, we note the Fed Chair sets the Fed’s agenda and steers policy but does not have sole authority to set policy. Setting policy is the domain of the FOMC Committee’s 12 voting members, most of which serve staggered 14-year terms.

Trade Policy: From Headline Risk to Legal Reality

Concerns over U.S. trade policy continue but have changed. Over the course of 2025, hawkish trade rhetoric turned far less worrisome as exceptionally high headline tariff rates initially announced with great fanfare came nowhere near the actual effective tariff rates. In February 2026, the Supreme Court of the United States struck down tariffs issued by executive orders under the International Emergency Economic Powers Act (IEEPA). We expect more legal challenges to tariff policy as the Trump Administration has shifted to continue tariffs under Section 122 of the Trade Act of 1974 which requires Congressional approval after 150 days. Ultimately, the Administration may increasingly rely on other novel legal ways to manage trade policy, but we believe trade related risk and its inflationary impact will continue to diminish throughout 2026.

Fixed Income Markets: Yield Opportunities Amid Credit Vigilance

Since 2022, bonds have generated solid returns as moderating inflation has pulled down interest rates across the yield curve for government and corporate issuers. Despite persistent headlines of the “sell USA trade”, foreign demand for U.S. Treasuries remains strong. In the first quarter, despite high deficit spending and accumulating debt, the 10-year U.S. Treasury briefly dipped below 4%. The 10-year yield has moved higher following the start of the conflict in

the Middle East. At the same time, the U.S. Dollar has rebounded against major foreign currencies. Despite the “rally in rates” over the last few years, many fixed income asset classes continue to offer higher yields than pre-pandemic levels. Further supporting corporate bond returns, solid earnings, strong balance sheets, historically low credit defaults, and high global demand for fixed income have compressed credit spreads (excess yield investors require relative to U.S. Treasuries) across the quality spectrum to historical lows. Over the last several years, the private credit asset class has grown considerably. While there are solid private credits and good private credit managers, the asset class has unique characteristics including limited liquidity, non-marked to market valuations, and less transparency than public issues. Several high-profile private credit events have recently emerged, boosting investor anxiety towards the asset class. Several large, semi-liquid private credit funds have experienced high demand for redemptions as many retail investors have decided to head for the exits at the same time. Of particular interest to private credit investors is exposure to asset-light software borrowers where default recovery rates may be well below historical norms if new AI entrants truly pose existential risk. We stay vigilant on credit and view credit spreads as a key indicator on the health of financial conditions. So far in 2026, measures of stress in public credit markets indicate calm and orderly conditions. We do not believe the private credit asset class poses a systemic threat to financial conditions as it remains relatively small and exposure is distributed among a diverse investor base,

but the headlines are likely to persist and are worthy of attention.

Artificial Intelligence: Disruption, Productivity, and Long-Term Value Creation

AI continues to be a central topic in the financial press driving equity markets. The advent of low-cost, effective AI tools is dramatically accelerating already impressive adoption rates across industries. AI’s promise is profound as it will likely enable and accelerate innovation in potentially disruptive technologies such as blockchain, robotics, automation, genomics, and energy storage. The potential for AI disruption is real and offers both investment opportunities and threats. Common threats socialized in investment circles include a permanent drop in demand for human capital (high structural unemployment) and obsolescence of well-established technology, with a special focus on established Software as a Service “SaaS” business models. The ultra-bearish SaaS theme being promulgated, usually by obscure hedge fund managers talking their book, is that new entrants will develop cost-effective, capable software that will impair the competitive moats of established players. While the headlines are thought provoking, and there no doubt will be disruption, foundational enterprise systems have important advantages including proprietary data and context, well established security protocols, auditability, industry specific workflows, and critical regulatory and compliance features. The incumbent software players are likely to

leverage these strengths with AI tools to automate labor intensive work and drive improved performance which may strengthen their value making switching costs higher. While we believe AI will fundamentally change how humans work and may cause labor market disruptions periodically, we do not believe AI will lead to a permanent decline in demand for human labor. It is likely new jobs, we cannot imagine today, will exist in the future as workers are repurposed to higher value activities. It is likely that human capital will become far more valuable and productive as AI tools augment and enhance work. Long-term, AI productivity should fuel meaningful productivity growth, boost investment returns, and diminish inflationary pressures. If this comes to pass, benefits should accrue broadly to the economy across industries and sectors potentially unlocking tremendous value. While AI adoption is advancing quickly and new AI tools are seemingly ubiquitous, there are challenges to sustain the pace of growth including the ability to supply the required energy, regulatory constraints, and the capital markets ability to sustain investment on such a grand scale.

Equity Markets: Earnings Strength & Shifting Leadership

2025 was another stellar year for equity markets as the S&P 500 produced a 17.9% total return for the full year but similar to most years had its bouts of unwelcomed volatility. The strong performance of the S&P 500 in 2025 was fundamentally supported as earnings growth was nearly 11%. 2026 earnings estimates for the S&P 500, while subject to revision,

indicate a continuation of solid earnings growth for 2026. Supporting the outlook for continued earnings growth is a generally healthy backdrop for the U.S. economy supported by lower rates, fiscal stimulus, de-regulation initiatives, major sustained AI spending, and potential for additional monetary accommodation. The U.S. was not alone in producing strong equity market returns in 2025. After an extended period of outperformance, U.S. equities underperformed International and Emerging Markets by a wide margin. International stock indices outperformed U.S. equities in local terms and were further boosted for U.S. investors as the U.S. Dollar depreciated relative to major foreign currencies following a pronounced run. So far in 2026, cyclical sectors such as Energy, Materials, and Industrials are producing strong results and Technology has been a laggard relative to the broad S&P 500.

Portfolio Positioning: Quality, Diversification, and Risk Management

Within our client portfolios, we maintain strict adherence to each client's strategic allocation as defined in their investment policy. Within equities, we continue to emphasize quality compounders with compelling return on invested capital potential and strong balance sheets. We maintain a more diversified posture than broad equity indices that are heavily concentrated in Mega Cap Tech. We believe a wide array of companies, beyond the most obvious, will benefit greatly from AI tools and investments. We continue to find

attractive long-term investment opportunities. Risk management remains the fundamental underpinning of all investment decisions in all environments both at the individual holding and portfolio levels. Risk management considerations color our perspective on not investing in the riskier corners of the bond market. While we maintain a constructive view on risk assets in 2026, we recognize a more balanced investment opportunity set with high-quality fixed income offering attractive forward return potential and diversification benefits. We continue to favor U.S. equities relative to International equities given the relative size, strengths, energy independence, and innovation potential of the U.S. economy, but maintain a healthy allocation to International equities. The ongoing conflict in the Middle East will remain a major market focus. We hope the conflict de-escalates quickly without further loss of life and market disruption. If history serves as a guide, geo-political risks are often short-lived and do not register as impactful market events in the annals of time. Upcoming Midterm elections in the U.S. will again bring political issues and divisions to the forefront. We will remain vigilant on all fronts and we remain grateful for each one of our valued clients. ■