

## Monthly\_Market\_Insights\_Podcast\_030526

[00:00:07] **Lars Schuster:** Hello, I'm Lars Shuster, institutional portfolio manager with Fidelity Strategic Advisors. And welcome to the Fidelity Investment Insight Podcast series to help us understand the current market environment, I'm joined today by Dirk Hofschire, Managing Director of Asset Allocation Research with Fidelity Investments. Welcome to the program, Dirk.

[00:00:28] **Dirk Hofschire:** It's great to be here.

[00:00:29] **Lars Schuster:** Super. Well, like we usually do every month, Dirk. Maybe you could just opine a little bit of what you've been seeing in the markets most recently.

[00:00:37] **Dirk Hofschire:** Yeah. You know, in general so far here in 2026, the markets have been doing okay. And overseas markets have been in pretty good shape, leading some of the equity gains that we've seen early in the year. Interest rates have been going down some. So that's helped bond prices and bond returns. But I think the big headline here in the recent days, right out of the gate here in March was the conflict in Iran. And obviously there are military implications, geopolitical implications. But what it's meant for the market in the near term is a lot more volatility, not anything, you know, extremely scary or super disorderly, but a lot more bouncing around and certainly some headwinds for some of those riskier assets like stocks that had been doing pretty well.

[00:01:23] **Lars Schuster:** Well, so I think history would suggest that major geopolitical events, military actions, it's not uncommon to see some volatility in stock markets. That probably makes a lot of sense. But where else are you seeing the major implications, maybe for investors, given some of that more recent military conflict in the Middle East?

[00:01:44] **Dirk Hofschire:** Yeah, I think as you mentioned, the geopolitics, these geopolitical events, there's certainly a long history of them. All sorts of different bad things can happen around the world and have throughout history. And the really important thing when you're thinking about the markets is it does interject an amount of uncertainty as to what the outcome will be. It's something that sort of maybe came out of nowhere, or at least was not the most probable thing to happen, and all of a sudden it's there. And there's always things that can go wrong or differently than what people

were perceiving before the conflict began. So that uncertainty is what tends to create the volatility. Now, whether or not it's lasting and how impactful it is has a lot to do with what actually is happening. And that's the part that we don't know right now for sure. We'll see. You know, at this point, it appears to be a reasonably contained conflict to the Middle East. And when you think about that region, this is an area we've had a lot of geopolitical conflicts over a long period of time. You instantly think about oil, you think about the supply of oil. And that's probably the market that has showed up the most here in the early going. Oil prices have gone up in response. Iran's production has been very restricted for a number of years under heavy sanctions. So, it's not necessarily that. It's just the Iranian oil that's not getting out. It's also the transportation in the region. Iran has launched attacks on many of its neighbors. Very difficult to get oil out of the region now. And it just raises that sort of risk premium around the supply that we hadn't had there before. So, I don't think at this point it looks like it's going to, you know, evolve into some major great power confrontation that sort of engulfs the entire world or anything like that. But it certainly does have some economic impacts. And I think you start with the Middle East as an oil and, and transportation hub for oil, and that's what the markets are reacting to right now.

[00:03:41] **Lars Schuster:** So, disruption of oil and gas that often leads to higher prices. And maybe we'll just focus maybe here in the US and individuals and households, the prices they pay off and at the pump or maybe energy needs. Uh is that a concern from an inflation perspective in your mind?

[00:04:00] **Dirk Hofschire:** Yeah, it certainly doesn't help, you know, inflation. If we go back to the trends that you and I have been talking about for a while now. It's a lot lower the inflation rate today than it was 2 or 3 years ago when we had the, you know, post pandemic run up, you had commodity prices along, many other prices going up, got up to 9% inflation. We've been drifting lower since then, but it's been sort of steady and has stopped falling. And it's still somewhere in the neighborhood of 3% across a lot of different ways of measuring inflation, which is quite a bit higher, as you know, than the Federal Reserve sort of targets at more of a 2% stability rate. And so we're already having problems getting that sort of last mile of disinflation, the inflation rate to go lower. You mentioned consumers. They have been kind of gloomy in a lot of these sentiment surveys. And they mentioned affordability types of issues, things becoming too expensive as one of their biggest concerns up to this point over the last several months

or the past year, actually, oil and gasoline prices hadn't been part of this. Had actually been going in the right direction, going down and providing some relief, even as some of the other areas of the economy had seen higher prices.

[00:05:11] **Dirk Hofschire:** So, this doesn't help. Obviously, you know, oil's in a lot of different things as an input. It certainly obviously does affect people's psychology, especially at the at the gas pumps, because you're seeing that that big number every, every time you fill up your car. So, it won't help. We'll see. You know, oil prices have gone up. We'll see to the extent obviously we don't know how long the conflict is going to last. We don't know what the outcome is going to be. And then we don't know then is the follow through how long these oil prices will stay pretty high. We we started out with a pretty well supplied global oil market. And so you know taking a near-term hit if things sort of fade back to normal, the conflict ends, things stabilize. Probably won't be a huge deal. But the longer it goes on, the more the uncertainty stays. And if it does, you know, spread beyond what people are expecting now, it does raise those upside risks to the inflation forecast.

[00:06:04] **Lars Schuster:** So, duration of the conflict magnitude of increases in oil prices. Those things matter. And they are a little unknowable at this point. But given that people kind of thinking about maybe the bank shots here, think about interest rates and particularly the Federal Reserve, it's certainly been square on some investors' minds that perhaps the Federal Reserve may continue to lower interest rates in 2026, like they did in some meaningful way over the last couple of years. Does that pause this in your mind?

[00:06:37] **Dirk Hofschire:** I think interest rates in general, if you think about so the fed [00:06:40] controls sort of the really short term interest rate, its policy rate. There's also interest rates across the entire bond yield curve. So longer term interest rates like [00:06:50] the ten year Treasury yield that is used oftentimes to price mortgage mortgages for example. So when you think about all those interest rates, we've been in a bit of a rangebound period now for a lot of the interest rates that are sort of longer term, you know, ten year yields been a little above 4% or so for a while, moved around a little bit, but not a ton. But we had seen it drifting a little bit lower at the beginning of this year. And we've seen some of those shorter rates come down over the past several months as the fed resumed its cutting cycle late last year. So now you kind of think

about it. And we have had in just in the past few days, with the oil prices going up, you've seen some of those longer term bond yields tick back up. And I think the base case for the way the Federal Reserve is feeling about this, even before you got the oil prices, was you're not seeing a ton more progress on inflation. And the fed might have already been at a place that was going to pause a little bit here early in the year to see how things shape up.

[00:07:52] **Dirk Hofschire:** And probably now if oil prices continue to stay higher than people expected with the conflict in Iran, then you probably say, yeah, they might even be on hold a little longer to make sure that some of that oil inflation, which again, hadn't been part of the base case, um, maybe moderates before they start easing again. I think they're going to want to ease again. But the big issue this year is how much is the economy going to pick up? How much is some of the fiscal stimulus as part of the legislation passed last year, going to start to take some effect, both for businesses as well as consumers now getting some of their tax rebates as a result of some of the lower some of the tax cuts that were enacted. So I think there's some reasons to think that the economy was already going to be solid and maybe even solidify with some of this stimulus coming on. Federal Reserve, I think, still feels it's restrictive and wants to bring the interest rate down more, but it now has to counter with some possibilities that things are strengthening. And maybe there's some oil supply and other inflationary issues probably will make them a little bit more patient on the margin.

[00:09:02] **Lars Schuster:** So when we bring it all together and you think about the pace of economic growth in the US, it goes much further than just what has transpired in the last several days here in the Middle East. Has any of your views of the US economy and the pace of growth shifted significantly because of this event?

[00:09:23] **Dirk Hofschire:** No, I don't think you know, what's happened so far is probably enough to throw either the US or the global economy off track. Things are kind of fine. You know, some places around the world we look at are gaining a little bit more steam than others. The US, as I mentioned, has growth has been fine at a very high level. It's maybe uneven across different sectors of the economy and even different sectors of the consumer market. But when you think about it in the aggregate, kind of the broad growth that the market is most concerned about, things are kind of fine. And as I mentioned, some of this fiscal policy and other things are probably giving it just a

little bit of extra tailwind as we go forward. So no, I think nothing so far. And you know, the big caveat here is we are living in probably a more dangerous time than we have when we think about these other geopolitical episodes that have maybe been quick and flash in the pan over the past 3 or 4 decades, you now do have a lot more global rivalry between the US and China and Russia. There obviously is already a hot war in Europe and the Ukraine. You now have a hot conflict in in the Middle East. We've seen a lot more aggressive actions by the US government in the Western Hemisphere. So there's just a lot more going on with these great powers. And that does create a somewhat more unstable geopolitical landscape. So we do always have to remember, when you think about managing the risk and thinking about the overall portfolio, that there are things that can go wrong that we don't expect. But I think for what we know at this point in time, we don't really see anything that would completely knock us off track from what today is a pretty reasonable global US economic environment, as well as corporate environment, which is a reasonable landscape again for asset markets as we sit here early in the year.

[00:11:18] **Lars Schuster:** So with all those things going on, it kind of leads to this usual story that we talk about at the end of these conversations, which is the potential benefits of owning many different assets. That hasn't shifted in any sort of way.

[00:11:31] **Dirk Hofschire:** No, I don't think so. And I think, you know, some of the other countries that have had really strong equity performance out of the gate better than the US, as I mentioned, sort of at the top, they've actually gotten disproportionately hit in recent days by some of this volatility in the US has actually done better than some places. I don't know if that's a really lasting thing. I tend to think this is maybe just a resetting of of positioning and other things that are kind of technical and going on in the markets. But if you just think beyond this really narrow window to what You and I always go back to having that global diversification, even in a scary world, and perhaps even more importantly, when the world is a little more disjointed, you need it even more because you're not sure what's going to happen in any single place. That type of diversification, in addition to across different sectors, different asset classes, very, very important for that long term portfolio.

[00:12:24] **Lars Schuster:** Well, Dirk, I'd be remiss if I didn't just spend a quick minute and reflect back on doing this particular discussion with you on a monthly basis for

many, many, many years. But you are retiring from your post here at Fidelity Investments at the end of the month. And I just wanted to give you a moment just to a quick sign off.

[00:12:46] **Dirk Hofschire:** Well, thanks for the opportunity. Uh, it's been a true pleasure, uh, hanging out with you here, uh, very frequently, having these discussions. Lars, I my understanding is this is, uh, Fidelity's longest running podcast. And I believe we started doing this back before a lot of people even knew what podcasts were. Definitely before I knew what a podcast was, so it's been a great run. I'm finishing 25 years at Fidelity. It's been a terrific experience. I've really enjoyed these type of opportunities to bring some of our research and some of our discussions to conversations that our clients are able to listen to as well. So, thank you. On a personal level, very much for continuing these conversations with me, and also very much to everyone who's been listening over these many years. And best of luck as you keep this going forward.

[00:13:38] **Lars Schuster:** You got it. Thank you. Dirk. And I will say that we have all appreciate your insight over the years, understanding the market environment, the economic patterns that are unfolding, and the spirit of always looking to the long term and diversification to help all of our investors have a better financial outcome over time. We wish you the very best and thanks very much.

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Title	Market Insights: How Geopolitics Are Shaping 2026
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<p>Description</p> <p>(250 characters)</p>	<p>Dirk Hofschire and Lars Schuster explore the impact of Middle East tensions on oil, inflation, interest rates, and investor sentiment, plus why diversification remains essential. Recorded on March 5.</p>
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