Economic and Investment Newsletter
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Current Market Commentary

The price of cross-border conflicts are becoming increasingly disruptive, as reflected in the recent surge in U.S. gasoline prices to over 4.56 dollars per gallon on average. In January 2026, the national average was about 2.96 dollars per gallon; this represents a very sharp price increase in a short period of time. The impact of higher gas prices tends to hit consumers first and most visibly, because the vast majority of U.S. households rely on gasoline-powered vehicles in one form or another. This sudden jump in fuel costs has complicated the Federal Reserve's path toward cutting interest rates, as it raises questions about how quickly inflation can return to target. Economists also expect both input and output prices to continue accelerating, in part because diesel—the main transportation and industrial fuel—has risen sharply following the disruption around the Strait of Hormuz.

Producer-side data confirm that inflation pressures are re-intensifying. The overall U.S. Producer Price Index (PPI) for final demand rose 4 percent year over year as of March 2026, the largest 12-month increase since early 2023. Within that, the PPI for total manufacturing is at a record high level (index around 265 with a 1984 base), underscoring how pervasive cost increases have become across the industrial sector. These developments raise a broader question: is elevated inflation, driven by recurrent geopolitical shocks, becoming a new normal that we must contend with more regularly, rather than an exception? Compared with the relatively subdued inflation environment of the 2000s, conflict-related and supply-driven inflation episodes have clearly become more frequent.

This leads naturally to the issue of the Fed's inflation target and possible anchoring bias. The current 2 percent target for PCE inflation was conceived in a world of relatively benign globalization, stable supply chains, and infrequent large-scale conflicts. As of March 2026, however, the year-over-year PCE price index is running at 3.5 percent. The last full calendar year in which core PCE inflation (excluding food and energy) was below 2 percent was 2019; since then, core PCE has consistently run above target even after the peak of the post-pandemic surge. This gap between realized inflation and the target raises the question of whether the Federal Reserve may be "anchored" to a 2 percent goal that reflects a prior regime rather than the world we now inhabit.

Conflict-driven inflation plays an important role in sustaining higher prices. Recent conflicts—whether in Ukraine and Russia or across the Middle East involving Iran, Israel, Lebanon, and the United States—have proved difficult to resolve through diplomacy alone and have increasingly tended to escalate or persist as active or quasi-active conflicts. Wars are costly not only in terms of direct human and capital losses but also through spillovers into logistics, transportation, insurance premiums, and a wide range of input costs. As global politics appears to be drifting away from steady reliance on diplomatic solutions and toward more frequent or prolonged conflict, the economic costs of these disputes are likely to remain elevated. In this changing geopolitical environment, it is reasonable to ask whether a 2 percent inflation target is still realistic, or whether it underestimates the structural inflationary impulse embedded in the new regime.

From a time-series perspective, it is possible that we are observing a structural shift in the inflation process rather than a temporary deviation. Headline PCE running at 3.5 percent and core PCE stuck above 2 percent for several years suggest that the underlying data-generating process may no longer be centered around 2 percent. It may be too early for the Fed to formally declare a new target rate; policymakers will understandably look for more data before concluding that there has been a permanent shift in the inflation trend. Nevertheless, it is increasingly appropriate for researchers to review inflation time series with an eye toward testing whether the process is stationary around a higher mean, especially given the way the COVID-19 pandemic and subsequent geopolitical tensions have reshaped technology, work patterns, trade, and cross-border relations.

This distinction matters because of how investors price assets. If the world has shifted toward resolving disputes more often through conflict than through diplomacy, then the underlying risk environment has changed, and the required risk premia on many assets should change with it. A world in which conflict-related shocks to energy, logistics, and supply chains are more frequent is a world with a higher structural inflation floor and higher macroeconomic volatility. Under those conditions, continuing to price assets using a 2 percent PCE target may systematically understate both inflation risk and risk premia.

In practical terms, this would imply that valuation models, including discounted cash-flow and risk-premium frameworks, should be re-examined. If inflation is likely to hover around 3 percent because the costs of resolving conflicts have risen and supply shocks are more frequent, then the discount rates used in asset pricing should reflect that higher inflation trend and the additional variability around it. Continuing to rely on a 2 percent target in risk-premium models may lead to overstated intrinsic values and underpriced risk, because the discount factor is anchored to an inflation schedule that no longer applies. In effect, many assets may already be worth less than current models suggest; markets simply have not fully repriced them using assumptions consistent with the emerging outlook.

Seen through this lens, the current disconnect between traditional models and market unease—captured by questions about “when the other shoe will drop”—may reflect a deeper mismatch between old assumptions and new realities. If there has been a systemic and stationary shift in the inflation and risk environment, then historical data taken from the pre-COVID, pre-conflict-intensive era may be a poor guide to forward-looking asset pricing model. Recognizing and explicitly modeling this shift—rather than forcing the data to fit a 2 percent world—could be essential for investors who want to avoid systematically mispricing risk and overvaluing assets.

Fintent Invest Strategy Outlook

Fintent Invest is committed to a disciplined portfolio construction process that prioritizes risk-efficiency and low-cost diversification across geographies, market capitalizations, and asset classes. In an environment of elevated volatility and economic uncertainty, our strategic asset allocation models remain focused on delivering long-term risk-adjusted returns and income while balancing capital preservation with growth.

Since last summer, our models have maintained an overweight to developed international markets, a positioning we expect to continue to capture more predictable return streams as Europe becomes less reliant on the United States both militarily and economically. At Fintent Invest, we have long believed that understanding how an asset behaves over a full business cycle—typically five to seven years—is essential when determining its inclusion in our model portfolios. We continue to have a balance between large-cap growth and large-cap core in anticipation of a potential correction driven by stretched valuations and uncertainty around the durability of AI-related earnings growth.

On the fixed income side, Fintent Invest maintains a nuanced approach, recognizing that a wider yield spread between investment-grade and non-investment-grade bonds is a matter of when, not if. Cash-flow pressures are likely to intensify for smaller, lower-quality issuers, while rising federal indebtedness raises questions about the long-term risk profile of extended-maturity Treasuries. The yield curve has flattened in the last twelve months, mostly due to a slower pace to short term interest rate cuts by the Federal Reserve. As labor markets continue to maintain its positive stance, the Federal Reserve must contend with taming inflation that has remained stubborn. In this context, we continue to emphasize a thoughtful balance between return and risk, with a focus on medium-duration (10-year), high-quality corporate bonds and Treasury within our portfolios.

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