

Special Coverage:

Fears of rising inflation keep Fed on hold

Key takeaways

- ◆ At its March meeting, the Fed again left the policy rate unchanged at 3.50%–3.75% and signalled a clear “wait-and-see” stance. Persistent inflation and rising geopolitical risks have created uncertainty for Fed members.
- ◆ We maintain our view that the Fed will keep rates unchanged throughout 2026 and 2027. Inflation risks have moved higher, particularly due to the spike in energy prices, while labour market risks have shifted modestly to the downside. Volatile energy prices and geopolitical risks should continue to support safe-haven demand and the USD.
- ◆ We remain overweight on US and global equities, supported by strong earnings and structural tailwinds, as US stagflation risks remain low in spite of the Middle East conflict. In fixed income, we stay neutral on Treasuries given range-bound yields, while favouring investment grade corporate bonds for their attractive yields and emerging market local currency debt for diversification. We complement this with allocations to gold and alternatives to manage volatility and enhance diversification.



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What happened?

- The Federal Reserve left the federal funds rate unchanged at 3.50%–3.75%, as widely expected, extending its pause for its second meeting in a row. The Fed is potentially signalling that it has moved into a holding pattern, choosing to wait for greater clarity on inflation dynamics, labour market conditions, and, increasingly, the economic implications of geopolitical developments.
- The vote was 11–1, with Governor Stephen Miran dissenting in favour of a 0.25% rate cut, highlighting some internal divergence but not enough to alter the broader stance. Importantly, the Fed didn’t meaningfully adjust its policy guidance. Instead, it emphasised that policy is appropriately positioned and that future decisions will be made on a meeting-by-meeting basis, based on incoming data and evolving risks.
- The revised “dots” didn’t suggest a major recasting of policymaker perspectives. The median dot for 2026 was left unchanged at 3.375%, still implying just one cut this year (in line with the market’s revised view).
- The key takeaway from the decision isn’t that the Fed is leaning in one direction or another, but that it’s intentionally not leaning at all.

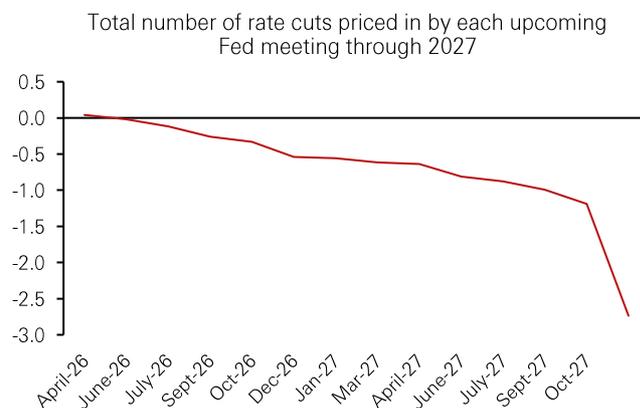
The Fed sees stronger economic growth with inflation more persistent

Variable %	Summary of Economic Projections: March			
	2026	2027	2028	Longer run
Change in real GDP	2.4	2.3	2.1	2.0
December projection	2.3	2.0	1.9	1.8
Unemployment rate	4.4	4.3	4.2	4.2
December projection	4.4	4.2	4.2	4.2
PCE inflation	2.7	2.2	2.0	2.0
December projection	2.4	2.1	2.0	2.0
Core PCE inflation	2.7	2.2	2.0	
December projection	2.5	2.1	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.4	3.1	3.1	3.1
December projection	3.4	3.1	3.1	3.0

Source: Federal Reserve, HSBC Private Bank and Premier Wealth as at 18 March 2026. Forecasts are subject to change.

- The most meaningful change in the March statement was the introduction of explicit language around the Middle East and the Iran conflict, with the Fed noting that the implications for the US economy are “uncertain.” This is a notable shift and reflects a recognition that the recent rise in oil prices and broader geopolitical tensions are now relevant to the policy outlook.
- Beyond this addition, the statement reinforced a tone of heightened uncertainty. The Fed continues to acknowledge that inflation remains somewhat elevated, with no change in its core assessment of price pressures.
- The updated Summary of Economic Projections points to an economy that is stronger than expected, but with more persistent inflation, and a policy path that remains largely unchanged as a result.
- Regarding the labour market, Chair Powell acknowledged that while the unemployment rate has been stable, underlying job creation has slowed significantly. He noted that when adjusting for weaker labour-force growth, the economy may effectively be operating with near-zero job growth. While this doesn't currently imply a deterioration in unemployment, he admitted that it carries a downside risk profile and is something the Fed is watching closely.
- On growth, Mr. Powell emphasised that the US economy continues to perform well despite repeated shocks, and he resisted the idea that the current environment should be characterised as stagflationary. While higher energy prices could weigh on consumption if sustained, he stressed that it is simply too early to draw firm conclusions about the magnitude of that impact.
- Inflation remains the binding constraint. Mr. Powell made clear that the Fed is highly sensitive to the fact that inflation has been above target for several years. While central banks typically “look through” energy shocks, he suggested that doing so in the current environment is more complicated, given the risk that repeated shocks could begin to affect inflation expectations. The Fed, therefore, cannot treat this as a standard, temporary price increase without first seeing renewed progress on underlying inflation.

Markets are roughly pricing in one rate cut by year end 2026 and two more rate cuts in 2027



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 18 March 2026. Forecasts are subject to change.

Investment implications

- For equity investors, the backdrop remains constructive in the long term. The Fed isn't tightening, and growth remains resilient, which continues to support risk assets. However, rising input costs, particularly energy costs, and persistent inflation pressures could weigh on margins, especially in more interest rate-sensitive sectors.
- We prefer companies with pricing power, strong balance sheets and exposure to structural growth themes such as AI and infrastructure. We maintain an overweight stance on US equities, with a preference for growth-style stocks alongside cyclical exposure, particularly in the technology, industrials, materials, financials and communication services sectors. Even in a more uncertain macro environment, the US market remains best positioned given its strong earnings, pricing power and greater exposure to domestically driven growth.
- In fixed income, we favour high-quality credit with medium to long duration. We maintain exposure to fixed income both as a diversifier and a stable income generator, with a preference for investment grade and emerging market debt, while remaining underweight on high yield.
- In currency markets, the combination of elevated yields, relative US growth resilience and geopolitical uncertainty should continue to support the US dollar in the near term. However, this strength is likely to be tactical rather than structural. Should geopolitical risks fade or inflation begin to normalise more convincingly, the dollar could retrace some of its recent gains.
- Finally, the Fed's emphasis on uncertainty and two-sided risks reinforces the role of diversification and alternative assets. Global multi-asset strategies are a good way to diversify currency exposure, while allocations to gold and hedge funds remain relevant as protection against both inflation surprises and geopolitical shocks.

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