

MARKET AND ECONOMIC OUTLOOK

Why Markets Are Near Highs Despite Uncertainty

The last several weeks have been a reminder that markets can absorb a great deal of unsettling news and still stay focused on the bigger picture. Conflict in the Middle East, swings in oil prices, and questions about inflation and interest rates have all created understandable uncertainty. Even so, U.S. stocks have remained near record highs, suggesting that investors are still paying close attention to the fundamentals: economic growth, corporate earnings and a labor market that continues to hold up well.

However, it's natural to be unsettled when events are moving fast and ambiguity is high. Markets can react quickly when new developments create fresh anxiety, especially when energy prices are involved. But short-term volatility is different from a lasting shift in the outlook. When the headlines feel loud, it can help to return to a simpler question: Has anything truly changed in terms of your goals, your time horizon, or the role your portfolio plays in your life?

The Price of Energy in Flux

Energy is among the biggest areas where geopolitics could affect the economy over the next few months. Renewed tension around the Strait of Hormuz and a fragile ceasefire has already led to sharp moves in oil prices, and energy costs tend to ripple outward. Higher oil prices can show up at the gas pump, in transportation costs, in airline fares, and eventually in the prices of everyday goods and services.

Consumer inflation is still higher than the Federal Reserve wants, but it is also far below the peaks reached a few years ago. In other words, it is still a challenge, but not an uncontrolled one. The question now is whether higher energy prices prove temporary or stay elevated long enough to put broader pressure on everyday costs. That matters for consumer spending and the economy, and it also poses a quandary for Fed policymakers.

It's also worth noting that the broad U.S. stock market is somewhat less directly tied to energy than many overseas markets, and many foreign economies are more dependent on imported oil and gas. That helps explain why some foreign markets can be more vulnerable to an oil shock, even when U.S. markets remain relatively resilient. It does not make the U.S. immune, but it does provide some perspective: Not every jump in oil prices has the same impact on every part of the market.

A Patient Fed?

The Federal Reserve still appears to be in wait-and-see mode. Inflation remains above target, but employment has held up well enough that policymakers do not seem to be under immediate pressure to cut rates. For now, the most likely near-term outcome appears to be patience rather than action.

At the same time, Fed leadership will be changing soon. Jerome Powell's term as chair ends on May 15, and Kevin Warsh has been nominated to succeed him—the confirmation process is ongoing. Warsh has signaled that he may bring a different style and emphasis to the role, including more openness to lower rates and a new approach to how the Fed communicates. Still, any shift should

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be kept in perspective. Monetary policy is set by committee, not by one person alone, and the Fed's core mission remains the same: balancing stable prices with maximum employment.

Is Recession a Concern?

Recession speculation is on the rise, and some of that concern is understandable. Oil shocks have a history of slowing growth, and higher prices can put pressure on both households and businesses. But analysts laying higher recession odds is not the same thing as an imminent recession. The most recent data still describes an economy that is growing, even if growth has become more uneven. Employment remains steady, unemployment is still relatively low and corporate earnings have continued to come in at healthy levels.

That can sound contradictory: markets near highs, yet recession worries still present. The reason is that investors seem to be weighing a more likely path of slower growth and periodic volatility, not an immediate economic downturn. So far, market behavior suggests investors are not pricing in a recession. That does not eliminate risk—at some point, an economic downturn is inevitable—but grounding our approach in fundamentals and tailoring your plan to your goals carries far more weight than theoretical forecasting or trying to time markets.

Your Plan Is at the Core

Geopolitics is undoubtably a destabilizing force today, and energy prices may stay volatile for a while as the U.S., Iran and other countries broker a resolution to conflict. But the bigger picture still points to an economy that is slowing in places while continuing to grow overall. Markets remain near highs, earnings are still supportive, and the labor market continues to provide an important foundation for consumer health.

The most important question for us is not whether the next headline will be good or bad. It's whether your plan still fits your life, your goals and the future you want to build. Periods like this can be a good time to review your allocation, your liquidity needs, and your comfort with risk. We're not looking to react to every headline, but to make sure your plan can help you weather patches both smooth and rough. If recent events have raised concerns for you or changed how you are thinking about your portfolio, your RWA advisory team is here to help you talk it through.

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