STEWARD

MARCH 2026

A QUARTERLY PUBLICATION OF ALLODIUM INVESTMENT CONSULTANTS ▪ VOLUME 19, ISSUE 1

Interest Rates, Inflation, and Investment Strategy

Part 2: Understanding Inflation

In our last piece, **"Understanding Interest Rates,"** we explored how rising and falling interest rates can impact a healthy economy. Today, let's add inflation to the conversation.

How Do We Measure Inflation?

Inflation is the rate at which money loses its purchasing power over time. As you might guess, there are many ways to measure such a squishy figure. There are various economic sectors, such as energy, food, housing, and healthcare, which can complicate the equation by exhibiting wildly different inflation rates at different times. There is ongoing debate over which figures are most relevant under what conditions. For example:

- Measured by the **U.S. Consumer Price Index**, inflation peaked in 2022 at levels not seen in decades before gradually moderating in 2023 and 2024. CPI reflects changes in the prices consumers pay for a broad basket of goods and services, but it is only one way to measure inflation.
- Market-based measures such as the **Intercontinental Exchange** (ICE) U.S. Dollar Inflation Expectations Index tend to fluctuate with energy prices, economic data, and Federal Reserve policy signals. These measures reflect what markets anticipate over the next year and can be more volatile than longer-term projections.
- Other measures, such as the **Personal Consumption Expenditures** (PCE) Index, use different weighting methodologies and data sources. As a result, PCE often reports somewhat different inflation figures than CPI.
- Longer-term expectations, such as the **Federal Reserve's 10-Year Break-Even Inflation Rate**, the market's estimate of average annual inflation over the next decade, have generally remained closer to historical norms.

Inflationary Times: Past and Present

The U.S. experienced a prolonged stretch of high inflation beginning in the late 1960s, peaking at **14.8% in 1980**. Rising prices strained household budgets and sparked widespread concern.

Federal Reserve Chair Paul Volcker (1979–1987) is credited with helping bring inflation under control by sharply tightening monetary policy. The federal funds rate climbed to nearly 20% in the early 1980s, slowing borrowing and spending. Although the policy contributed to a recession, inflation declined significantly in the years that followed.

For much of the next four decades, inflation remained relatively modest, often hovering near the Federal Reserve's long-term 2% target. The surge in 2021–2022 marked a clear break from that stability. However, unlike the inflation of the 1970s, price increases were shaped by pandemic-related supply disruptions, fiscal stimulus, labor market shifts, and global energy dynamics.

Inflationary cycles vary in their causes, intensity, and duration. Viewing current conditions through a longer historical lens can help reduce emotional reactions and support more disciplined financial decision-making.

History May Not Predict the Future

Inflation does not stem from a single cause. It can result from shifts in supply and demand, rising labor and production costs, or fiscal and monetary policy, often working in combination. Because each inflationary period reflects a unique mix of forces, policy responses that worked in one era may not produce the same results in another.

Efforts to reduce inflation typically involve tightening financial conditions, often through higher interest rates. While this can help slow price increases, it may also restrain economic growth, hiring, and investment. Policymakers must balance the goal of stabilizing prices with the risk of slowing the broader economy.

The early 1980s illustrate this trade-off. The Federal Reserve's aggressive rate increases ultimately curbed inflation but contributed to recession and elevated unemployment. Although inflation has moderated, economic remedies can carry costs, and outcomes depend on the circumstances surrounding them.

"If/Then" Stage Two Thinking

In periods of elevated inflation, it's natural to wonder how long it will last, how policymakers will respond, and what the broader economic effects might be. Rather than reacting to headlines alone, we find it helpful to apply what economist Thomas Sowell described as "stage two thinking" in his pivotal book, **"Applied Economics: Thinking Beyond Stage One."**

Sowell describes "stage two thinking" as looking beyond an event's immediate impact by asking a simple question: *And then what happens?*

Viewed through that lens, the 2022 rise in inflation reflected a combination of pandemic-related supply disruptions, strong consumer demand, tight labor markets, and policies that kept interest rates low and supported economic growth. Stage two thinking asks us to look beyond these immediate drivers and consider how they influence behavior over time.

When price pressures build, policymakers adjust interest rates and financial conditions, businesses revisit pricing, investment, and hiring plans, and consumers modify spending patterns. Together these help shape what follows. Economic systems are inherently adaptive, with financial markets continuously incorporating new information and expectations.

These responses rarely reduce inflation immediately and may slow economic growth along the way. Over time, however, policy shifts and changing behaviors influence the next phase of the cycle. Inflation, like all economic forces, moves in stages—accelerating, moderating, and evolving in ways that are not always predictable in the short term.

While headlines focus on current data, long-term financial plans are designed to endure a range of economic environments, including periods of higher inflation.

A well-constructed plan does not depend on any single forecast. Instead, it is designed to adapt over time, helping investors stay focused on their goals rather than reacting to short-term market or economic shifts.

Eric Hutchens
Chief Executive Officer

Headlines

- Allodium was excited to host Scott Bosworth of Dimensional Fund Advisors as a featured speaker. He presented "The Psychology of Investing" webinar on January 27, 2026. In case you missed it, you can access the presentation on our website and YouTube channel: **youtu.be/h8UQOBAMJcI**
- David Bromelkamp was published in Kiplinger three times!
- Join us in congratulating the following team members for promotions!
  - Eric Hutchens, Chief Executive Officer
  - Derek Van Calligan, Senior Wealth Advisor & Director of Investment Research
  - Saul Baumann, Senior Wealth Advisor & Financial Planning Specialist
  - Kimberly Hamlin, Wealth Advisor
  - Naomi Rogness, Client Service Associate & Portfolio Administrator
- Share your experience with Allodium by leaving a **Google review** (click on the link)—it helps others who are seeking fiduciary advice.
- Our office will be closed April 3 and May 25 for company holidays. For more of Allodium's news, visit **www.allodium.com**

Safeguarding Tips to Protect Against Fraud

1. Freeze credit at all three bureaus.
2. Turn on two-factor authentication wherever possible.
3. Ask banks and financial institutions about added security features.
4. Consider a credit monitoring service.
5. Review credit reports periodically for anything out of the ordinary.
6. Use strong, unique passwords.
7. Have several email addresses to help filter spam such as financial accounts email, friends and family email, and shopping email.
8. Don't send sensitive information (Social Security number, birthdate, account numbers) by email or text.
9. Never click links or attachments that are not from a known, trusted source.
10. Let unknown calls go to voice mail. Don't respond to unexpected texts.
11. Never give out bank, credit card, or account numbers to an unknown person.
12. Never allow anyone remote access to your computer.

Staying informed and vigilant can help you protect your financial well-being. To learn more, visit our **cybersecurity** page on our website.

WE APPRECIATE YOUR INTRODUCTIONS

Do you have a friend or family member who could benefit from independent, fee-only, fiduciary financial advice? We are here to help. Please contact us to arrange a friendly, no-obligation introduction. Our mission is to simplify and improve the financial lives of our clients.

NEW EMPLOYEE SPOTLIGHT:

Emily Nelson

Allodium is growing! We are happy to welcome Emily Nelson to our team. Get to know Emily.

Role at Allodium:
Client Service Associate

Joined firm on:
February 17, 2026

Hometown:
Brooklyn Park, MN

Favorite movie: *A Cinderella Story* or *She's the Man*

Favorite book: *Funny Story* or the *Harry Potter* series

Favorite TV show: *Bridgerton* or *Ozark*

Favorite food(s): Pizza or tacos

Favorite news source: The Associated Press

Favorite place in Twin Cities: The Children's Theatre Company because I have fond memories of going to shows there as a kid.

Favorite gadget/technology: Either my Nespresso machine or my Oura Ring

Favorite activity: Hiking and traveling

Favorite music: Country, early 2000s pop, or the 80s

Person I admire most: My parents

What I'm most thankful for: The life I get to share with my boyfriend, the love and support of my family, the close relationships with my friends, good health, and my sweet dog, Nova!

> Whether socks or stocks, I like buying quality merchandise when it is marked down.
> – Warren Buffett

Steward is published quarterly by Allodium Investment Consultants. Please contact iavraamides@allodium.com if you have comments about this publication or wish to be added to or removed from our mailing list.