

Interest Rates, Inflation, and Investment Strategy

Part 3: Investing in Uncertain Times

In our last two issues, we looked at the first two parts of our three-part series “Understanding Interest Rates.” Now we have come to the heart of the matter: *When interest rates, inflation, or both are on the rise, what’s an investor to do?*

We continue to deploy the same core principles we use to help people invest over the long term and through various market conditions. These include:

- Building and maintaining personalized investment portfolios of stocks, bonds, select alternative investments, and cash reserves
- Minimizing exposure to concentrated investment risks through global diversification
- Reducing the impulse to act on fear, excitement, and similar reactions to unfolding news
- Keeping an eye on tax ramifications and other costs

Future Uncertainty

With so much going on, there are many views about what to expect across various markets, and what investment actions you should take based on these forecasts. If we look to the past, we can find ample evidence of how hard it is to reliably anticipate various markets’ reactions to current events.

Global investing and inflation: In their 2021 analysis, “US Inflation and Global Asset Returns,” Wei Dai and Mamdouh Medhat of Dimensional Fund Advisors (DFA) studied how bonds, stocks, industry portfolios, factor premiums, commodities, and REITs performed during periods of high and low U.S. inflation from 1927–2020. They found that “most assets had positive average real returns in both low- and high-inflation years.”

Bond investing and interest rates: In “All Eyes on the Fed?” DFA also examined whether Federal target funds rate changes have influenced either global government bond returns, or longer- vs. shorter-duration bond returns. They concluded: “Our analysis of global government bond data from 1984–2021 shows no reliable relation between past changes in the federal

funds rate and either future bond excess return over cash or future term premiums.”

Factor investing and economic cycles: One of our investment strategies is to allocate our portfolios across various market “factors,” or sources of expected return, in pursuit of long-term outcomes. In an Alpha Architect guest post, “Factor Investing Premiums and the Economic Cycle,” Larry Swedroe examined whether it had made good historical sense to shift those allocations in response to economic cycles. Bottom line, it had not. Compiling the findings from a number of academic studies, he concludes: “Although a factor’s return changes throughout the business cycle, the ability to predict economic regimes and alter factor allocations accordingly produces less successful results despite being intuitively pleasing.”

Global investing and geopolitics: Even if we can’t peer into the future, we may assume that global events translate into predictable “winning” and “losing” investments. Once again, the practical answer is no. In his recent work, “Chaos is a friend of mine,” financial columnist Bob Seawright points to a range of historical events demonstrating why complex adaptive systems like financial markets are essentially unpredictable. This reflects chaos theory, aka, “the butterfly effect,” which suggests that even minor or seemingly insignificant events can have major and unforeseeable consequences.

Market news can feel overwhelming, contradictory, or emotionally charged all at once. But it’s important not to let short-term headlines drive investment decisions, because the world is inherently unpredictable and chaotic.

Layers of Protection

By now, we hope we’ve described what NOT to do in response to current events: Across stock and bond assets alike, it remains as ill-advised as ever to chase or flee individual positions, markets, or economic cycles.

A well-structured portfolio is generally built to capture long-term investment opportunities while helping manage inflation and risk. Although current market conditions may

feel uncertain, and no strategy guarantees success, the odds often favor staying disciplined and committed to your existing long-term plan.

Hedging against inflation: To preserve the spending power of upcoming cash flows out of your portfolio (such as in retirement), you can hedge some of your assets against rising inflation.

Outperforming inflation: At the same time, your longer-term financial goals typically require a portion of your portfolio to outperform inflation over the long haul. For that, you need to stay invested in various markets.

Stocks: Equities in general, and stock factors such as the value premium, have handily outpaced inflation over time.

Bonds: Investing in bonds that offer the highest yield for the least amount of term, credit, and call risk is also expected to help a portfolio stay ahead of inflation over time.

Alternative investments: As costs and complexities are coming down among certain alternative investment solutions, you may consider allocating a modest portion of your portfolio to alternative markets such as infrastructure or alternative lending; this may help lower your portfolio’s overall volatility without sacrificing expected returns.

Most investors require elements of both hedging and outperforming inflation, calling for portfolios that are constructed accordingly. Additional defenses against inflation can include: (1) using relatively realistic inflation estimates in your financial and retirement planning; and (2) delaying taking Social Security when possible, to maximize the power of the COLA (cost of living adjustments) on higher monthly payments.

This concludes our three-part series on inflation, interest rates, and investing. While we covered a lot, these insights are meant to start the conversation—not provide one-size-fits-all answers. The best investment decisions are based on your personal circumstances, and we’re here to help guide you forward.

Eric Hutchens, CFA®, CFP®, AIF®
Chief Executive Officer

NEW EMPLOYEE SPOTLIGHT: JESSICA DOLMAGE

Allodium is excited to welcome Jessi Dolmage to our team.



Role at Allodium: Wealth Advisor

Joined firm on: April 13, 2026

Hometown: I consider Cedar Rapids, Iowa, as my home base because I lived there for over twenty-two years.

Favorite book: I listen to more podcasts than read lately. Currently I love *Financial Advisor Success* with Michael Kitces, *Conan Needs a Friend*, *Wiser than Me*, and *Hidden Brain*.

Favorite movie: I can't choose one, but my top picks include *The Fifth Element* and *The Family Stone*.

Favorite TV series: *The Pitt*, *Dark Winds*, *Shrinking*, and *Stranger Things*.

Favorite food(s): Far too many, but my go-tos are peanut butter and donuts.

Favorite place in Twin Cities: Ask me in a few months, but it's likely to be a park with trails where Jake, Scout and I can recharge and have fun!

Favorite gadget/technology: Renewable energy.

Favorite activity: Hiking, snowshoeing and surfing.

Favorite music: Depends on what I'm doing. Driving calls for classical, sing-alongs or softer yoga-style music. Workouts need upbeat songs with the right BPM for the activity. Teaching group fitness made matching movement to music a habit.

Person I admire most: My sister and best friend Jenni. She's extremely thoughtful, kind and dependable. I especially admire the way she blends her intelligence and creativity.

What I'm most thankful for: My health (knock on wood), the unconditional love of family and close friends, humor, and the way life's wrinkles smooth themselves out or create something beautiful.

Someone is sitting in the shade
today because someone planted
a tree a long time ago.

– Warren Buffett

Headlines

- Allodium was excited to welcome two new team members in April. Say hello to Jessi Dolmage and Anastasiia Miller. To learn more about them, you can read their bios on our website: [Meet the Team](#).
- Several team members attended the recent NAPFA Spring Conference in Minneapolis to connect with fellow fee-only advisors from around the country.
- 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 June 19 and July 3, for company holidays.

For more of Allodium's news, visit www.allodium.com

Team Highlights

- We are thrilled to announce that Derek and Kelly Van Calligan welcomed their second son in May 2026! Congratulations to the growing family!
- David Bromelkamp and several Allodium team members hosted fifteen BYU-Idaho financial planning students and their professor, Dr. B. Taft Dorman, for a special dinner in Minneapolis during the 2026 NAPFA Spring National Conference. The students were serving as Student Ambassadors at the NAPFA conference and enjoyed hearing career stories from Allodium financial planners about comprehensive, fee-only financial planning.

Learn more news about Allodium's team members at www.facebook.com/AllodiumInvestmentConsultants/

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.

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



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