

## Fed extends policy pause amid heightened geopolitical tension

19 March 2026

### Key takeaways

- The Federal Reserve's (Fed) decision to keep rates unchanged highlights its cautious approach as inflation stays above target. The concern is that a prolonged Middle East conflict and higher energy prices may lead to an extended Fed policy pause.
- While global financial markets remain focused on the Middle East conflict, the broader outlook remains supported by continued global economic expansion and robust corporate earnings.
- Stay invested with a globally diversified and income generating portfolio, alongside a small allocation to Gold. For investors with higher risk appetite, consider selective growth exposure in technology, developed market financials, Asia ex-Japan and China equities.

### The Fed kept interest rates unchanged again

At the 17-18 March policy meeting, the Fed held the Federal Funds Target Rate (FFTR) unchanged at the range of 3.50% - 3.75%. The vote count to keep policy unchanged was 11-1, with Governor Miran dissenting again in favour of a 25 basis points (bps) reduction.

### Extended pause due to rising inflation concerns

- A policy pause at this meeting was widely expected as economic conditions remain resilient while inflation remains above the 2% target.
- Renewed tensions in the Middle East have also lifted Brent crude oil prices to around USD 110 per barrel, raising concerns over potential energy-driven inflation in the US.
- Underscoring the economic uncertainty caused by the Middle East conflict, the policy statement mentioned "the implications of developments in the Middle East for the US economy are uncertain" and "it is too soon to know the scope and duration of the potential effects on the economy".
- Pointedly, Fed Chairman Powell emphasised that if there is no progress towards lower inflation, "we won't see the rate cut", which suggests the Fed's policy pause may extend in the short term.

### Inflation projections were raised

- In its updated economic projections, growth was revised slightly higher across the forecast period.
- However, the Fed's headline and core PCE inflation forecasts for 2026 were also raised to 2.7% (from 2.4% and 2.5%, respectively) because of higher oil prices and tariff effects.
- There was no change to the median unemployment rate estimate of 4.4% for this year.

### No change to the Fed's interest rate projection

- In the updated dot plot, the Fed is still projecting one rate cut in 2026 and another reduction in 2027.
  - For now, no Fed officials have indicated a preference to raise interest rates this year.

### Fed leadership transition adds policy uncertainty

- Jerome Powell's term as Fed Chair ends on 15 May 2026, with Kevin Warsh nominated as his successor, introducing an additional layer of uncertainty to the US monetary policy outlook.
- Fed Chairman Powell has said that he will not leave the Fed board until the Department of Justice (DOJ) investigations are over. He also said that he has not decided if he would stay on as governor once he finishes his term as Fed Chair.

- Despite this leadership uncertainty, the Fed is sticking to its data-dependent approach, and the inflation outlook will dictate the upcoming policy decisions.

#### **Market attention remains focused on geopolitical risks**

- Geopolitical risks have intensified following the US-Israel military conflict with Iran. However, we expect the conflict to remain contained, given Iran's limited capacity to escalate meaningfully.
- Financial markets are likely to experience near-term volatility, characterised by safe-haven demand and upside pressure on energy prices, but we do not expect a sustained economic shock unless the conflict becomes prolonged.
- We anticipate volatility in commodity prices, but comparatively limited spillover to stocks and bonds.

#### **UOB's view: Two more rate cuts this year**

- We continue to expect a near-term policy pause followed by two rate reductions in 2Q and 3Q 2026, with the expectation of weakness in the labour market to emerge in the months ahead. This would bring the terminal FFTR to 3.25% by year-end 2026, consistent with our view of a gradual normalization path.
- That said, investors will be on heightened lookout for the risk of either a further delay in Fed rate cut timing or even increasing difficulty for the Fed to cut in the second half of the year, if energy prices rise substantially on a prolonged basis due to spillover from the US-Iran conflict.

#### **What can you do?**

- Stay invested as the global economy continues to expand while corporate earnings remain resilient.
- Nonetheless, it will be important to adopt a disciplined approach and maintain a diversified portfolio.
- Seek income via investment grade bonds and quality dividend-paying stocks.
- Go global to seek opportunities, with a particular focus on Asia ex-Japan and China given attractive stock valuations, corporate reforms and expectations of improving corporate earnings.
- Explore opportunities in the broader technology sector by looking beyond the mega-cap companies and also consider developed market financials.
- Maintain a small exposure to Gold as a portfolio stabiliser.
- Speak to a UOB Advisor on how to position your portfolio according to your risk appetite and goals.



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