Eagle Strategies LLC

The Eagle Edge

Quarterly

MARKET & ECONOMIC OUTLOOK

JUNE | 2022

On the Radar Screen

1. **Inflation—as seen in consumer price inflation,** producer price inflation, and employment costs—remains front and center.
2. **Consumers report rather bleak perceptions of the economy, yet household spending has not fallen off materially.** Watch the trajectory. Stabilizing retail sales would be welcome (if they indicate a relief from inflationary pressures), but a sharp contraction could portend recession.
3. **A modest cooling of labor markets is desirable.** We would like to see (and expect to see) labor force participation continuing to rise, which reduces pressure on employment costs; the number of monthly new hires to slow; and the number of unfilled job vacancies to contract.
4. **Earnings season is again upon us.** Forward guidance and changes in profit margins will be especially important. While growth is slowing at the margin, we expect earnings estimates to be relatively resilient.

Insights from Multi-Asset Solutions' Portfolio Managers

"There are those who have learned from the mistakes of the past how to make new ones."
– A.J.P. Taylor

A year late and $1 trillion too much. Jay Powell is the 16th Chairperson of the Fed to serve over the past 100+ years. The U.S. economy has witnessed many a business cycle over that span, providing a wealth of data as to how economic conditions respond to policy, and supplying the current FOMC membership with ample opportunity to learn from the missteps of committees past. Yet today we find ourselves staring down what appears, in retrospect, to be an embarrassingly elementary policy blunder. Even the most qualified and well-educated among us apparently struggle to draw useful lessons from history, it would seem.

Last summer, economic output was growing explosively; unemployment had plunged from about 15% down toward 5%, a level close to what many consider the natural rate of unemployment; and inflation was rising above 5%, well above the Fed's stipulated target of 2%. Nevertheless, the FOMC maintained full throttle "emergency" stimulative policy, with the Fed Funds target rate pinned at zero and the proverbial money printer that is Quantitative Easing churning relentlessly away. FOMC members were only just beginning to talk about tapering asset purchases, a process that wouldn't actually begin until late in the fall of 2021.

Policy impacts are known to be felt only after a long lag—and today's inflation problem is in no small part a function of those decisions made a year or more ago. Potentially adding insult to injury, the Fed now appears in jeopardy of making a similar mistake in the opposite direction, belatedly tightening policy—and perhaps doing so more aggressively than required to tame inflation. The full magnitude of the impact on economic growth and capital market activity will take some time to materialize.

PROTECTION. RETIREMENT.
INVESTMENT. ESTATE.

Continued

Insights from Multi-Asset Solutions' Portfolio Managers

"The only function of economic forecasting is to make astrology look respectable." – John Galbraith. Economics is a soft, imprecise science. Nevertheless, active asset management requires some adeptness at gauging the probability of various potential outcomes and weighting them accordingly. The general tenor that has emerged this spring in the financial press and amongst investment strategists at various banks and brokerages is one of gloom, casting an air of inevitability to a coming Fed-induced recession. Despite our misgivings about the trajectory of Fed policy, we're not inclined to embrace that narrative so enthusiastically. There are simply too many supports still in place for continued economic expansion for us to accept that a contraction is on the immediate horizon: consumers and businesses alike are flush with cash; job growth has slowed from earlier peaks, but remains robust; business investment continues to grow steadily; reengineering energy policy, improving/updating infrastructure, and expanding defense budgets globally should provide a boost to spending from both public and private sources.

Such positive and sustainable momentum is very likely to prevent the economy from rolling over quickly (though we are well aware that there are some pundits suggesting that we are already in a recession!). The call becomes more difficult as we look into 2023 and 2024, but it is difficult to accept the idea that recession is simply unavoidable. Our hope – dare we say our expectation? – is that inflation will soon begin to moderate, relieving some of the pressure on the Fed. A more gradual policy adjustment than the dot plot implies may indeed allow supply and demand to come back into equilibrium without a painful overshoot, reflecting the proverbial "soft-landing" we so often hear mentioned in the press.

Until a downward trajectory in key inflation metrics is evident, however, market pricing is likely to remain quite volatile. We view this volatility to be an opportunity. Our belief is that stocks are close to fairly priced or even a little bit cheap already – hence our modest overweight to equities. Should we see another sharp down leg this summer, which is entirely possible, we anticipate adding to our positions with the expectation that pricing will recover - and then some - as we move through year-end and into 2023. Our prognostications are only moderately less favorable on the fixed income side. While we do see Treasury yields moving somewhat higher from here, much of the adjustment (and hence the pain) is likely already behind us.

Viking swim lessons. Those of us old enough to remember investing through the dotcom era remember the enthusiasm that permeated the market at the time and the depths of the correction that followed. A new generation, having embraced the hype around digital assets as we did all things internet related, is now attending the school of hard knocks from which we graduated two decades ago. But the tech-wreck occurred within a mature and well-regulated securities market, whereas the crypto implosion is now unfolding in a marketplace with few such guardrails or investor protections. As such, it's not unreasonable to suspect considerably more damage may yet lie ahead. Digital assets are outside of our purview, but we monitor developments in that

space all the same due to their connections to traditional capital markets and the potential for contagion from one to the other. It's not a coincidence that crypto has become so highly correlated to technology stocks over the past few years. We consider the crypto bust to be a meaningful threat to investor confidence and stock market stability over the summer months.

There is no assurance that the investment objectives will be met.

Past performance is no guarantee of future results, which will vary. All investments are subject to market risk and will fluctuate in value.

The opinions expressed are those of Multi-Asset Solutions' Portfolio Managers as of the date of this report and are subject to change. There is no guarantee that any forecast made will come to pass. This material does not constitute investment advice and is not intended as an endorsement of any specific investment

This material represents an assessment of the market environment as at a specific date; is subject to change; and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the funds or any issuer or security in particular.

The strategies discussed are strictly for illustrative and educational purposes and are not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. There is no guarantee that any strategies discussed will be effective.

This material contains general information only and does not take into account an individual's financial circumstances. This information should not be relied upon as a primary basis for an investment decision. Rather, an assessment should be made as to whether the information is appropriate in individual circumstances and consideration should be given to talking to a financial advisor before making an investment decision.

About Risk

All investments are subject to market risk, including possible loss of principal.
Stocks and bonds can decline due to adverse issuer, market, regulatory, or economic developments. Bonds are also subject to credit risk, in which the bond issuer may fail to pay interest and principal in a timely manner, or that negative perception of the issuer's ability to make such payments may cause the price of that bond to decline. A bond's prices are inversely affected by interest rates. The price will go up when interest rates fall and go down as interest rates rise.

New York Life Investments is both a service mark, and the common trade name, of certain investment advisors affiliated with New York Life Insurance Company. New York Life Investment Management LLC is an indirect wholly-owned subsidiary of New York Life Insurance Company and a wholly-owned subsidiary of New York Life Investment Management Holdings LLC. Multi-Assets Solutions Team is a part of New York Life Investment Management LLC. Securities distributed by NYLIFE Distributors LLC, 30 Hudson Street, Jersey City, NJ 07302, a wholly owned subsidiary of New York Life Insurance Company. NYLIFE Distributors LLC is a Member FINRA/SIPC.

Not FDIC/NCUA Insured	Not a Deposit	May Lose Value	No Bank Guarantee	Not Insured by Any Government Agency

Eagle LLC, A Registered Investment Adviser. Eagle Strategies LLC (Eagle) is an SEC-registered investment adviser. Registration with the SEC does not imply a certain level of skill or training. Eagle investment adviser representatives (IARs) act solely in their capacity as insurance agents of New York Life, its affiliates, or other unaffiliated insurance carriers when recommending insurance products and as registered representatives when recommending securities through NYLIFE Securities LLC (member FINRA/SIPC), an affiliated registered broker-dealer and licensed insurance agency. Eagle Strategies LLC and NYLIFE Securities LLC are New York Life Companies. Investment products are not guaranteed and may lose value. No tax or legal advice is provided by Eagle, its IARs or its affiliates.

ES.EagleEdge
SMRU 1944807 (Exp. 10/31/2022)