Eagle Strategies LLC

The Eagle Edge

Quarterly

MARKET & ECONOMIC OUTLOOK

Insights from Multi-Asset Solutions' Portfolio Managers

Quarter ending
MARCH | 2025

On the Radar Screen

1. **Tariff announcements are of such obvious consequence it seems silly to call them out, but here we are.** April 2nd—"Liberation Day"—will be of particular importance, but we anticipate lots of adjustments to policy in the weeks that follow alongside retaliatory measures from our trading partners.
2. **Consumer confidence has plummeted in recent weeks.** We'll be monitoring 1Q earnings releases to see if there was any corresponding softening of sales.
3. **Business confidence has been likewise flagging with hiring intentions and capital expenditure plans rolling over.** It is yet to be determined if this will translate in an actual slowdown in activity.
4. **Deregulation was a primary theme of Trump's first administration.** We're surprised we haven't heard much on that front just yet but trust it is in the works and expect it to provide a lift to small caps and the energy and financial sectors in particular.
5. **Inflation has plateaued at a too high level, keeping the Fed on the sidelines.** We don't expect it to resume its decline anytime soon but will be watching closely—along with everyone else in this industry!

"You can't unscramble the globalization omelet"

- Jared Bernstein, former Chair of the Council of Economic Advisers

"Trade wars are good, and easy to win." – President Trump.

The new administration has firmly embraced a mercantilist view on trade that dominated economic theory during the colonial era. The President perceives international trade as a zero-sum game, where the gain of one country inevitably comes at the detriment of another, a perspective that sharply departs from the traditionally held belief in mutually beneficial trade relationships. Essentially, Trump argues that the U.S. has been on the losing side of international trade for decades, as evidenced by large and persistent trade deficits. Circumstantially, however, this view is hard to square with the reality that the U.S. boasts one of the highest GDP-per-capita metrics in the world, well above those of our trading partners with whom we run the largest deficits: China and Mexico. The idea that a trade deficit is synonymous with exploitation overlooks the nuanced dynamics of global trade. The U.S. has thrived in numerous sectors, indicating that trade relationships have been more symbiotic than the administration acknowledges. Regardless, we have now embarked on an aggressive campaign of economic nationalism, freely employing tariffs and other non-tariff barriers alike.

This effort marks a significant shift away from the liberal trade policies that have been prized in the post-World War II economic order the U.S. was central to building. This rules-based system prioritized open markets and free trade, fostering global economic growth and cooperation, but the new administration's approach is upending these long-standing principles. Imposing tariffs both to encourage reshoring of manufacturing and to raise revenue, Trump aims to bolster domestic industries and create fiscal space for tax cuts at the expense of global trade relations. This protectionist stance is likely to provoke retaliation from trade partners, sparking a tit-for-tat escalation that could spiral painfully. The implications are far-reaching: Global supply chains face potential disruption; domestic consumers are likely to see higher prices; and economic growth is expected to slow due to

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diminished demand. Furthermore, the fractures in historic alliances could weaken international cooperation, as nations prioritize self-preservation over collective progress.

U.S. equities are currently trading at historically high price multiples on what many consider to be rather lofty growth expectations, implying a greater-than-usual vulnerability to economic shocks. The risk/reward profile for equities has deteriorated in recent months. Accordingly, we have lowered our overall equity allocation at the margin.

"The uncertainty, it's like playing billiards on a sailing ship. There's no level ground." – NY Governor Kathy Hochul. The early weeks of the new administration have been marked by a flurry of activity, but perhaps not fully considered. Even by the standards of Washington D.C.—a town known for its Northern charm and Southern efficiency—policy implementation has been at times hostile and not infrequently rash: Tariff announcements made only to be almost immediately suspended; critical government workers fired only to be promptly rehired; and program cancellations/executive orders quickly and predictably reinstated or overturned by the courts. This unstable landscape is proving quite challenging for business leaders.

Indexes of economic uncertainty have spiked to levels previously seen only during the height of the COVID-19 pandemic, and they are having a tangible impact on business planning. Hiring intentions and capital expenditure plans have receded as management waits for the dust to settle. Companies are understandably cautious, preferring to hold off on significant investments until they can be more certain of the regulatory, tax and trade environment.

Though there is little evidence thus far that these concerns are spilling over into the hard data, that may not be far off. The longer this erratic policy-making continues, the greater the risk that it will start to affect broader economic indicators. Consistency and clarity in policy would go a long way toward alleviating these strains, offering businesses the stability they need to make informed decisions.

It remains to be seen, though, whether a president who prides himself on unpredictability can deliver such consistency. The business community is keenly watching for signs of a more stable policy environment, but until that materializes, caution is likely to remain the watchword.

Tiergeister. Nearly a century ago, John Maynard Keynes coined the term "animal spirits" to describe the instincts and emotions that sometimes drive human behavior as it relates to economic decision-making. The German equivalent is tiergeister, but it has been largely shackled in recent decades by a sclerotic bureaucracy and fiscal constraint. There are signs of change. Germany's election to release their debt brake and fund infrastructure and defense projects on a massive scale may reflect a sea change in attitude. And it goes beyond just Germany. Across the developed world, governments are rethinking regulatory structure and public financing, sparked by fears of the U.S. withdrawing from traditional economic and geopolitical alliances. We believe we are at the front end of a period of growth and innovation outside the U.S., while "U.S. exceptionalism" begins to fade. Our portfolios now tilt to favor foreign equities over domestic markets accordingly.

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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.

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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.

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