Eagle Strategies LLC

The Eagle Edge

Quarterly

MARKET & ECONOMIC OUTLOOK

Insights from Multi-Asset Solutions' Portfolio Managers

Quarter ending
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On the Radar Screen

1. **Watch for market-impactful policy actions the new administration can take unilaterally and implement quickly.** Deregulation is likely to be received positively by capital markets, but immigration control and tariffs will be seen as being less constructive.

2. **Progress in the fight against inflation shows some signs of levelling off well above the target level.** A second wave may be building. Wage growth is a critical contributor to that dynamic that bears watching.

3. **Employment metrics are mixed.** As always, new and continuing unemployment insurance claims provide useful insight into the overall trend. The Fed's focus seems to have shifted toward emphasizing the fight against inflation over preserving maximum employment, so some weakness may follow.

4. **Equity price multiples are quite elevated in an historical context.** Strength in 4Q earnings reports will be essential to justifying those valuations and so must be monitored as we move through the upcoming reporting season.

"The first rule of compounding: Never interrupt it unnecessarily." – Charlie Munger

In One-way traffic? As of this writing in late December, equities are poised to close out yet another consecutive quarter of solid returns. This exceptional run, marked by double-digit gains in five of the last six years, rests upon a robust economic foundation. At its core, we find vigorous household consumption patterns intertwining with an investment renaissance driven by artificial intelligence advancements. This technological surge, coupled with substantial fiscal support and a resilient labor market, has created a fertile environment for investors over these past several years.

Moving forward, a measure of caution is merited, given that price gains have materially outpaced actual earnings improvements. This divergence reflects elevated valuations that may restrain large price gains ahead. Additionally, the market faces several potential headwinds: Restrictive policy rates continue to exert pressure; profit margins appear to be approaching their natural ceiling; and the Federal Reserve's progress toward its 2% inflation target has encountered resistance. The specter of potential tariffs looms as a tax-like burden on economic activity, while proposed immigration restrictions could create labor supply constraints in critical sectors, potentially catalyzing wage pressures and price increases.

Yet there is ample cause for optimism. Ongoing economic momentum, coupled with technological evolution and the prospect of regulatory streamlining through the DOGE initiative, suggests continued upward potential for equity markets. While elevated valuations may impose certain limitations on future returns, the absence of recession indicators in the near term provides a measure of comfort. In this context, maintaining strategic market exposure appears prudent, despite legitimate concerns about rich valuations. The path forward may not be linear, but barring significant economic deterioration, the fundamental supports for market stability remain intact. The old Wall Street saying "don't fight the tape" comes to mind—markets with this kind of momentum have been known to run over naysayers!

"Government is like a baby: an alimentary canal with a big appetite at one end and no sense of responsibility at the other." – Ronald Reagan. As we reflect on the quarter's defining moments, the U.S. electoral outcome and resultant prospects for government policy emerge as the paramount market catalyst. The stark contrasts between the major parties have set the stage for significant economic recalibration under the incoming Trump administration, presenting both opportunities and challenges that warrant careful consideration.

The administration's proposed deregulatory agenda represents perhaps its most unambiguously market-positive element. From a purely financial perspective, the streamlining of compliance requirements and simplification of permitting processes should reduce operational friction across industries. This regulatory unburdening, while potentially carrying social externalities that merit separate discussion, promises to enhance business efficiency and capital deployment flexibility. However, as Keynes reminded us, "The difficulty lies not so much in developing new ideas as in escaping from old ones." As always, the devil will be in the details.

The fiscal picture presents a more complex tableau. The proposed extension of tax cuts could provide continued stimulus, particularly if they can be paid for via Musk and Ramaswamy's ambitious plans to identify and eliminate government inefficiencies. Yet this optimistic scenario must be tempered with pragmatic skepticism about the challenges of meaningful federal budget reform. The trade policy landscape appears even more challenging—while the administration's stance on tariffs represents a departure from traditional free-market orthodoxy, their actual economic impact remains debatable. As Adam Smith observed in "The Wealth of Nations," restrictions on trade often carry hidden costs that manifest in unexpected ways. To be determined.

Perhaps most consequential are the proposed immigration policies, which could significantly reshape labor market dynamics. The planned reduction in immigration and aggressive deportation measures would likely create substantial workforce disruptions in sectors heavily dependent on immigrant labor, both documented and undocumented. These industries—agriculture, construction, and service sectors among them—may face upward wage pressures and capacity constraints, potentially feeding into broader inflationary pressures.

When viewed holistically, the incoming administration's policy mosaic suggests a potentially neutral net effect on aggregate economic activity, though with significant sectoral redistributions. While growth rates may maintain their current trajectory, the composition of that growth could shift meaningfully. As we navigate these changes, it becomes crucial to maintain analytical rigor while acknowledging the inherent uncertainties in policy implementation and economic response.

"Do you want to be right or make money?" – Ned Davis. While both logic and fundamental analysis suggest current equity valuations are stretched, warranting a measure of caution, the broader market context demands a more nuanced perspective. The present environment, characterized by robust economic momentum and favorable conditions, makes an overly defensive positioning potentially counterproductive. As the venerable Wall Street adage reminds us, "The trend is your friend"—a principle that has historically rewarded investors who align themselves with prevailing market dynamics rather than attempting to time tactical reversals. In this

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context, maintaining market exposure, while remaining cognizant of elevated valuations, represents a balanced approach. The current rally's strength and breadth suggest that despite theoretical concerns about valuation metrics, the market's underlying momentum remains a powerful force that shouldn't be dismissed purely on theoretical grounds. This environment calls for measured participation rather than aggressive contrarian positioning, acknowledging that market dynamics often persist beyond what fundamental analysis might suggest is reasonable.

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