The Eagle Edge

Eagle Strategies LLC

Quarterly

MARKET & ECONOMIC OUTLOOK
Insights from Multi-Asset Solutions' Portfolio Managers

Quarter ending
SEPTEMBER | 2025

On the Radar Screen

1. **Inflation: Readings remain elevated.** Any meaningful uptick from here may force the Fed to put their rate cut plans on hold.
2. **Employment: Conversely, new hiring has been very soft.** Should we start to see headcount reductions rise, leading to increased unemployment rates, the Fed is likely to accelerate the timeline for rate cuts.
3. **Earnings Season: Most of the mega-cap tech companies report earnings at the end of October.** Given their weight in the market and high expectations for continued rapid growth, we'll be paying close attention.
4. **Policy Volatility: The administration continues to adjust policy in unexpected ways.** The $100,000 application fee for H-1B visas being among the latest examples. Anticipate more such policy shocks in the quarters ahead.
5. **Housing: New home sales bounced in August.** If this is the beginning of a recovery in housing that would bode well for cyclical strength more broadly and a less narrow market moving forward.

"Those are my principles, and if you don't like them...well, I have others." – Groucho Marx

Moving off the sidelines.

After a prolonged period of neutrality—marked by persistent concerns over elevated valuations and policy uncertainty—we find ourselves increasingly inclined to reconsider our posture. As the proverb goes, "a wise man changes his mind; a fool never," and we'd rather not be labelled a fool. Our prior caution has proven mostly misplaced, and the rationale for maintaining a defensive stance is beginning to erode.

Valuations remain elevated, yes, but they have been so long enough that their persistence may reflect structural shifts rather than temporary exuberance. Moreover, some of the policy developments that initially compounded our caution appear to be losing their sting. Tariff effects have been less disruptive than anticipated and may even be reversed through judicial channels. Meanwhile, the feared wage inflation tied to labor supply constraints has yet to materialize, as demand for labor shows signs of softening.

At the same time, several tailwinds are emerging that merit attention. The provisions under One Big Beautiful Bill Act (OBBBA) are quietly supporting business investment. The ongoing buildout of artificial intelligence infrastructure continues to drive capital expenditure and productivity optimism. And wealth effects—fueled by strong asset performance—are bolstering consumer sentiment and spending, particularly among higher-income households.

Personal consumption has remained resilient, and we anticipate further support from upcoming national events. The U.S. hosting of the 2026 World Cup and the approaching 250th anniversary of the Declaration of Independence are likely to inject a celebratory boost into spending patterns, reinforcing the broader economic backdrop.

Taken together, these developments suggest that a modest tilt toward risk assets may be warranted. We are not abandoning prudence, but we are acknowledging that the balance of risks and opportunities is shifting. While we remain vigilant, the case for active weight within equities is strengthening and we are watching closely.

To be clear, this is not a wholesale pivot. But the tone of the conversation is changing. The defensive posture that once felt like a seatbelt now feels more like a parking brake. And while we're not yet speeding down the highway of risk, we may be easing off the clutch.

Rational exuberance?

Mega-cap technology companies continue to dominate headlines, as they have for the past several years. These firms have delivered exceptional earnings growth, with names like Nvidia, Microsoft, and Alphabet posting double-digit revenue gains and maintaining strong profitability. Year-to-date, this cohort has again easily outpaced the broader market, underscoring investor enthusiasm for companies at the forefront of AI and digital transformation. Innovation in artificial intelligence, cloud computing, and enterprise software remains a powerful tailwind, and many analysts expect these trends to support earnings growth into 2026.

However, valuations remain stretched. The Russell 1000 Growth Index trades at a forward P/E almost double that of value stocks—an extreme divergence. These multiples imply lofty growth expectations that could be difficult to sustain if economic conditions soften or if competitive dynamics shift. Historically, high starting valuations have correlated with lower long-term returns, particularly in growth-oriented segments.

We are also mindful of the extraordinary capital being deployed into AI infrastructure—data centers, advanced chips, and cloud capacity. While these investments aim to capture the promise of generative AI, the risk of overbuilding is real. Advances like smaller, more efficient models could reduce the need for massive computer resources, raising the possibility of stranded assets and rapid hardware obsolescence. Adoption hurdles ranging from integration challenges to cost to regulatory uncertainty further complicate the outlook. This dynamic evokes parallels to the late-1990s telecom buildout, when exuberant spending on fiber networks far outpaced actual demand, ultimately leading to significant write-downs and bankruptcies.

Against this backdrop, our positioning reflects both respect for momentum and caution about concentration risk. While we are not inclined to overweight this segment given valuation and structural concerns, being materially underweight carries its own risks in a market so heavily influenced by a handful of dominant players. We're content participating at near market weight going forward.

Humility in Forecasting

"We're blind to our blindness. We have very little idea of how little we know. We're not designed to know how little we know." – Daniel Kahneman. In an era awash with data and advanced analytics, it's tempting to believe that predicting market outcomes should be easier than ever. Yet the reality is quite the opposite. The sheer volume of information, combined with the complexity of global markets, often creates more noise than clarity. Add to that the unknowns—those things we don't know, or worse, think we know but don't—and it becomes clear that any claim of special foresight is suspect.

History reminds us that markets have always been difficult to forecast, but today's rapid technological and societal changes make the task even more daunting. Artificial intelligence, shifting geopolitics, and evolving consumer behaviors introduce variables that models struggle to capture. As Yogi Berra famously quipped, "Forecasting is very difficult, especially when it involves the future."

Our best advice is to build a sound, long-term investment program and stay tethered to it. Adjust risk at the margins, lean modestly toward or away from certain asset classes, but avoid big, binary bets. Nobody knows the future, and pretending otherwise can be costly. In investing, humility is not a weakness; it's a strength.

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 of 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.

ES.EagleEdge
SMRU 8472105 (Exp. 10/01/2026)