Eagle Strategies LLC

# The Eagle Edge

Quarterly

MARKET & ECONOMIC OUTLOOK

Insights from Multi-Asset Solutions' Portfolio Managers

*Quarter ending*

DECEMBER | 2025

## On the Radar Screen

1. **AI return on investment.** Look beyond hyperscaler Capex to "Day 2" adoption metrics. The critical signal is whether non-tech firms report tangible margin expansion, confirming AI is driving real-world productivity rather than just infrastructure costs.
2. **Fiscal stimulus transmission.** Monitor the impact of the One Big Beautiful Bill tax rebates (overtime, tips, interest). The key variable is whether this liquidity fuels immediate consumption or is merely saved by cautious households.
3. **Housing market velocity.** Keep a close eye on existing home sales and mortgage applications. A thaw in this frozen sector, driven by deregulation and easier money, is essential to unlocking trapped economic activity.
4. **Market breadth.** Track the equal-weighted S&P 500 and Russell 2000 vs. the "Magnificent 7." To validate the economic reacceleration thesis, the rally must finally widen to include industrials, financials, and small caps.
5. **The "experience economy" (World Cup & US 250th Anniversary).** Watch high-frequency travel and hospitality data. These mega-events are the likely catalysts to wake the dormant consumer, serving as a massive injection for the services sector.

***"I can calculate the motion of heavenly bodies, but not the madness of people." – Sir Isaac Newton***

**Bubble bath?** As investors, we must navigate a landscape littered with speculative micro-bubbles. We have witnessed a parade of rapid inflations and deflations in recent years, spanning the volatility of meme stocks and zero-day options to the "Labubble"—a recent global mania over Labubu vinyl dolls that mirrors the Beanie Baby and Cabbage Patch Doll crazes of decades past. While these pockets of excess generate headlines, they carry relatively little consequence for the structural health of the broader economy or capital markets.

The far more serious question for allocators is whether the extraordinary boom in artificial intelligence infrastructure constitutes a systemic bubble similar to that of the telecoms and their buildout of fiber optic cable networks around the turn of the century. With tech companies projected to spend nearly $1.6 trillion annually on datacenters by 2030, fears are mounting that we are constructing a "casino economy" built on assets that could quickly become obsolete. If adoption rates stall and the anticipated revenues fail to materialize, the unwinding of this trade could indeed be painful.

However, we remain doubtful that the AI buildout represents a Dotcom-style collapse, primarily due to three structural distinctions:

First, valuation and financial health differ significantly from the year 2000. While price multiples for thematic AI stocks are stretched, they have not reached the vertigo-inducing levels of the late 1990s in most cases. Furthermore, unlike the debt-fueled startups of that era, the current buildout is led by entrenched, highly profitable hyperscalers deploying massive operating cash flows rather than leaning heavily into leverage, significantly dampening credit risk.

Second, regarding adoption, we are merely in the opening innings. Skepticism regarding immediate ROI overlooks the time required for firms to effectively implement new technologies. As AI capabilities improve exponentially, these tools will gradually become embedded in business processes everywhere, validating the upfront capital expenditure.

Finally, the risk of hardware obsolescence is likely overstated. While newer chips capture the spotlight, the insatiable global demand for power and compute implies a long utility life for existing infrastructure. In a supply-constrained world, older, less efficient chips will not become "garbage," but will remain vital components of the datacenter ecosystem.

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**"Our economy might just be three AI data centers in a trench coat." – Rusty Foster.** Or just maybe it's more than that!

For the past two years, the economic narrative has been a tale of two markets. On one side, AI-related investment—driven by hyperscalers, chip manufacturers, and independent power producers—has served as the central pillar of growth. On the other, the broader economy has languished. Outside of healthcare and the gig economy, activity has been tepid, evidenced by soft manufacturing PMIs, a frozen housing market, and subdued consumer confidence.

With AI valuations rich and earnings growth among the "Magnificent 7" normalizing, skeptics warn that the market is vulnerable and returns likely to be disappointing. We disagree. Our belief is that we are emerging from a mid-cycle slowdown and are poised for a significant acceleration in economic output that will finally broaden market returns beyond the mega-cap tech cohort.

Our optimism is fueled by a powerful confluence of fiscal, monetary, and event-driven tailwinds. Foremost is the liquidity injection from the One Big Beautiful Bill Act, which will directly stimulate consumption through tax exemptions on overtime pay, tips, and car loan interest. Simultaneously, tariff headwinds will fade as favorable tax treatment for business capex and a deregulatory agenda are set to unlock pent-up corporate spending.

Beyond policy, 2026 offers a unique calendar of special events likely to ignite consumer spending. The US Semiquincentennial (250th anniversary) celebrations and the 2026 FIFA World Cup—projected to generate over $5 billion in economic activity across North America—will drive tourism and services spending in a way traditional models often miss.

This environment creates a compelling setup for equities outside the tech giants. Non-tech sectors and smaller companies currently offer attractive valuations and improving earnings projections. Crucially, as companies effectively implement the AI tools built over the last two years, we anticipate a wave of margin enhancements and a genuine productivity boom. As we head into 2026, the foundation for a broad-based economic expansion looks exceptionally sound by our lights.

**"All that we don't know is astonishing. Even more astonishing is what passes for knowing." – Philip Roth.** While we, like many in our industry, dedicate immense resources to analyzing market mechanics and forecasting the road ahead, we must candidly acknowledge the limits of this pursuit. Predicting economic tides is a highly imprecise exercise, and no one consistently foresees every turn. Consequently, chasing the "hot dot"—the fleeting theme of the day—or falling prey to extreme prognostications are often paths to financial hazard rather than prosperity.

Instead, we urge you to tune out the noise and recommit to the timeless fundamentals of sound investing. Anchor yourself to a well-considered, long-term strategy and remain disciplined in its execution. Ensure your portfolio is prudently diversified, both across asset classes and within them, to weather shifting climates. Periodically revisit your holdings and rebalance to maintain your intended risk profile. Above all, remember that uncertainty is inherent to investing over the short and medium term. When the market inevitably pulls back, resisting the urge to panic—or sell—is often the single most profitable decision you can make.

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## About Risk

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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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