

BULL & BEAR *Bulletin*

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Mark Time, March!

The Federal Reserve has lowered the short-term overnight policy rate by about 75 basis points or 0.75% from 4.5% to 3.75% since August of last year. The 2YR US Treasury note yield has only been marking time near a 3.5% level over that same period (see graph). This may show that market participants are waiting for more information before settling on whether policy makers are headed towards more aggressive rate cuts in the future or simply settling in on further light easing from here on out.

Upcoming inflation and labor market data may be determinative. Continued disinflation alongside weaker labor market conditions may resolve shorter term interest rates lower, consistent with present Bloomberg survey of economist forecasts. At the median, the Federal Funds rate is set to see two more cuts down to a level of 3.25% by the end of the year. High forecast views register near 3.75% (unchanged from the current setting), and low forecasts are near 2.75%, which implies four more 25 basis point cuts through year end. The scope of outcomes from private forecasters matches the Federal Reserve's FOMC participants' range of projections for appropriate monetary policy throughout the year. What range of economic landings fit within these forecasted views and what market environments overlay?

Cautious Optimism – 50 bps of cuts

In the more consensus view, two more rate cuts are enacted by policy makers due to a weaker near-term labor market. The disinflationary impulse from last year continues in 2026. Strong productivity growth alongside a capital investment cycle gets the consumer and labor through to happier times without having to experience dramatically roiling stock and bond markets. Economic growth may remain slightly above trend. Markets could be range-bound as company expectations are met and investors are allowed time to find measured growth opportunities and selective cyclical value trends as the understanding of the future environment is clearer.

Sanguine – Deeper cuts 100 bps

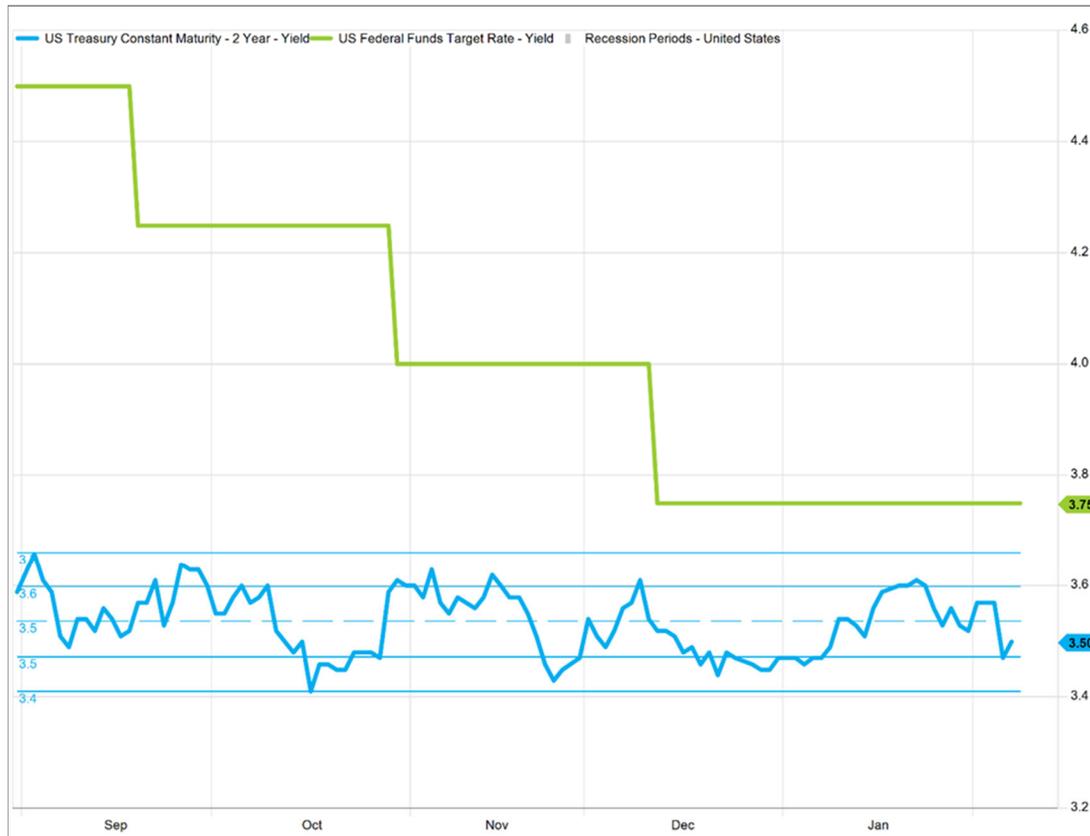
To get beyond the consensus towards even more rate cuts this year would likely have to see an economy where consumers experience increased economic insecurity induced by labor market weakness. Therefore, the disinflation trend may hit stronger than expected. Near term cyclical economic weakness could in time be countered by cyclically exposed sectors elsewhere. Those areas which gain from the One Big Beautiful Bill Act and a capital investing cycle deepening may begin to gain momentum and stabilize economic growth. Stronger Fed action on the policy rate could then potentially reinforce this counter trend as interest rate sensitive sectors factor in the reduced cost of capital. The potential for slightly lower longer rates could have in time a bull-steepening impact with market "broadening out" trades gaining favor. Should foreign economies perform alongside a slightly weakening dollar trend, international allocations could help diversify portfolios and gain exposure to returns outside the US domestic economy.

Less Sanguine – Deeper cuts amid weaker trend growth

Deeper cuts without a smoother landing in the consumer driven parts of the economy could materialize but this would likely entail a capital investment cycle defined as narrowly driven by technology sector investment for the AI/compute infrastructure buildout. Aggregate economy-wide numbers may hold depending on how weak the consumer gets and for how long. Broadly

felt consumer health would become elusive alongside no meaningful rise in labor market strength and diminished savings rates. Below trend economic growth would likely produce weaker earnings growth and large, quality earnings profiles could once again dominate as the broader participation narrative fades.

Unexpected shocks, recessions, trade and/or tariff uncertainties, and re-emergence of inflationary pressures should not necessarily be forgotten altogether. For now, these outcomes seem to have faded slightly from consensus views where the most probable outcomes are likely to lay. As for equity allocations, we believe in strong large-cap quality growth exposures alongside cyclical sectors that may offer value. Any international opportunities in developed markets which offer acceptable risk and return profiles could also be considered. In fixed income, we believe investors can continue to explore yield and credit opportunities mostly across the short-to-intermediate maturity space. In other words, investors can prepare for the quick-step, double-time, mark-time, or even a halt all at once.



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