



# Charts and Smarts®

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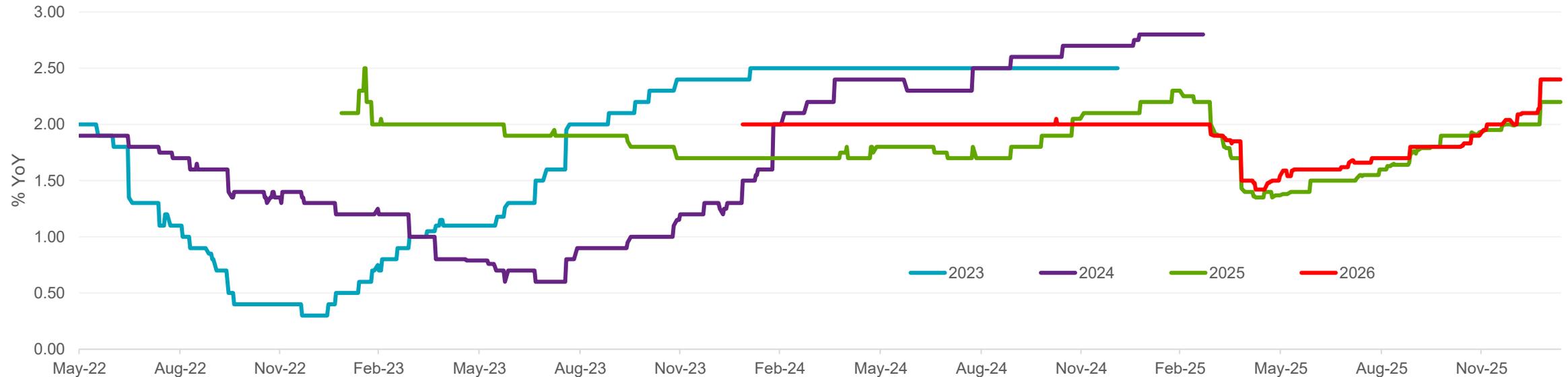
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# Little Red Corvette

## Consensus GDP Growth Estimates (5/31/22–2/10/26)

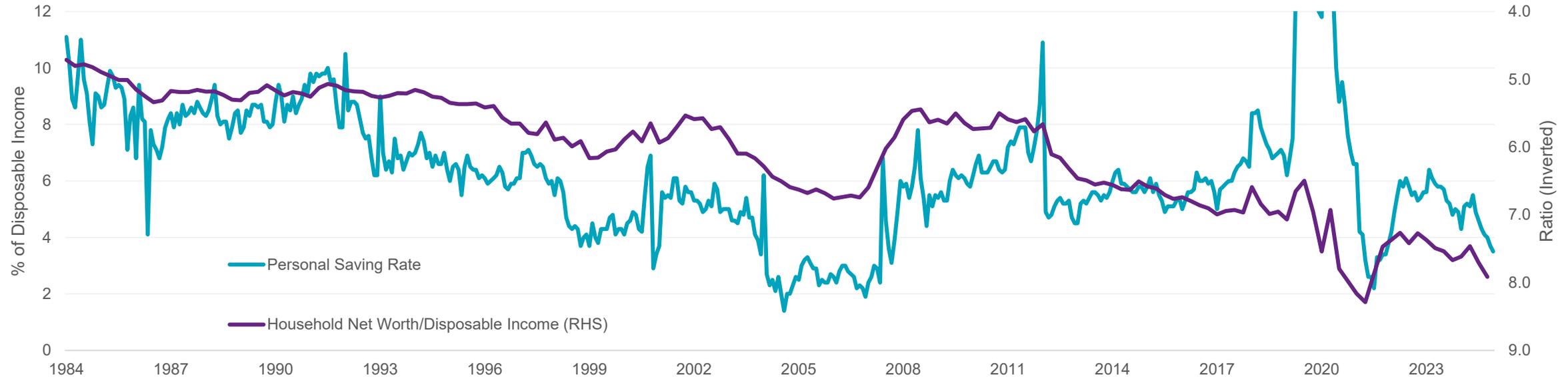


It may be a new year, but so far, it feels a whole lot like we're running back the script from 2025. Hyperscalers are massively raising capex guidance, international markets are leading, the Fed is on pause, confidence is rising around a stabilizing labor market, and the consensus is once again overly sanguine on the growth backdrop. Consensus growth expectations have been steadily rising in the wake of the sharp downgrade post-Liberation day, but as we've pushed through outlook season, those growth estimates have jumped back above trend, with the consensus now expecting 2.4% real GDP growth for full year 2026. But that consensus figure hides the plethora of calls for growth to come in closer to 3% thanks to the supposed stimulative effects of the One Big Beautiful Bill Act paired with expectations for a stabilizing labor market and the so-called lagged effects of prior rate cuts. We've poked plenty of holes in the case for a consumption surge on the back for tax refunds, so there's no need to rehash those here. But the other pillars of the bull case on growth are similarly tenuous. Aside from a large one-month decline in the unemployment rate in December, there's been little in the way of signs of a stabilization or even reacceleration in labor markets. And as we've argued repeatedly, the past few years have demonstrated not only that monetary policy is far less powerful than many believe, but also that it acts with fairly short and predictable lags thanks to the more powerful effects of signaling and forward guidance. We're by no means growth bears, but given the optimism in the current prevailing narrative, there's scope for markets to be forced to reassess the growth outlook should that expected boost fail to materialize in the next few months, opening the doors to a reversal of the sharp cyclical rotation we've seen in markets to start the year.

Source: Portfolio Analysis & Consulting, Bloomberg. GDP represents gross domestic product..

# Diamonds and Pearls

## Saving Rate vs Household Net Worth/Disposable Income (12/31/84–11/30/25)



One of the more surprising trends over the past few quarters has been the remarkable resilience in consumer spending, despite the continued grind higher in the unemployment rate and steady softening in nominal wage growth. Through November 2025, real personal consumption has grown 2.55% despite real disposable personal income excluding transfers rising just 0.46% as the saving rate has collapsed almost 1.5% in six months to just 3.5% as of the latest print. Unsurprisingly, wealth effects have taken center stage in economic discourse over the past few months, as market participants search for answers to the spending strength. We tend to push back on the idea that wealth effects fuel consumption for a handful of reasons. First, it's well known that upper income households exhibit a lower marginal propensity to consume. Therefore, incremental income or gains in net worth are more likely to be saved than spent. Second, organic wage income tends to be the underlying fuel for consumption and as such, job prospects and income expectations tend to be the marginal driver of consumption patterns. That said, it's hard to argue with the tight link between the personal saving rate and household net worth, relative to disposable income. This link broke down during the 2010's as consumers muddled through a prolonged period of balance sheet repair. But that linkage has re-emerged in recent years, suggesting that elevated home prices and rising financial assets are indeed influencing consumer saving and dissaving decisions. But the key to the outlook: The past few years have shown a consistent pattern of spending and incomes oscillating around each other with periods of dissaving tending to be followed by a period of softer consumption as income catches up. But with the saving rate already compressed and nominal incomes softening as wage growth cools, investors expecting a meaningful boost to consumption in the first half may find themselves disappointed by a continued moderation in consumption instead.

Source: Portfolio Analysis & Consulting. Bloomberg.

# When Doves Cry

## Cumulative Impact of Tariffs on Headline CPI (1/1/24–1/27/26)

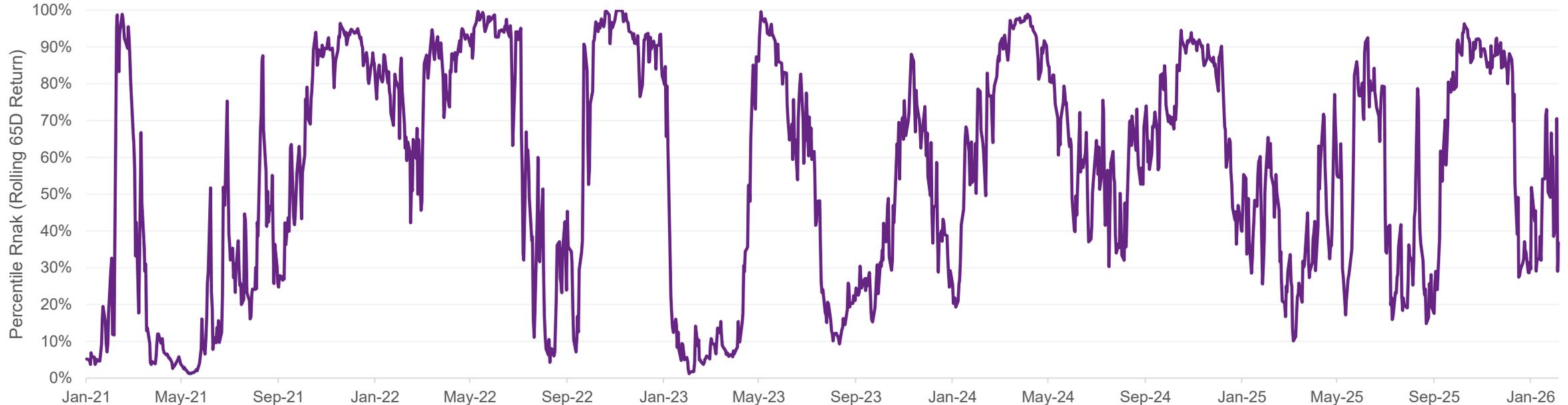


It's not just the consensus growth outlook that appears offside, just as it was last year, but the inflation outlook as well. The days of sticky inflation fueled by residual shelter costs and supercore services prices are over. Shelter's contribution to core inflation is back to levels consistent with the Fed's 2% target, with plenty more disinflation to come. At the same time, supercore services contributions have compressed with cooling wage growth likely to continue weighing on price growth moving forward. Nearly the entirety of the inflation overshoot relative to the Fed's target is now a function of goods prices, which, as data from the Harvard Pricing Lab shows, is almost entirely driven by tariffs. The cumulative impact of tariffs on headline CPI now sits at 1%, confirming what Powell has stated for months, that excluding the effects of tariffs, inflation is essentially consistent with the Fed's mandate. Yes, spot inflation prints remain elevated, but with those tariff effects set to roll off over the course of 2026 against a backdrop of continued softening it's hard to see why risks are still skewed to the upside, particularly given the ongoing linear cooling in the labor market. Once again the consensus as well as the Fed appear to be overly pessimistic on the inflation backdrop and overly hawkish on the rates outlook.

Source: Portfolio Analysis & Consulting, Harvard Pricing Lab. CPI represents consumer price index.

# Purple Rain

## Momentum Factor (1/1/21–2/5/26)



Market internals so far this year also have us feeling like it's 2025. While trade policy stole the spotlight for much of the year, let's not forget the sharp rotation fueled by the beta and momentum unwind that gripped markets in the back half of February. What to many at the time felt like a growth scare given rising concerns around the growth outlook, this had more the fingerprints of a classic unwind of crowded trades, led by AI, beta, and momentum names. Fast forward to this year, and we're seeing many of the same dynamics fueling the sharp reversals and rotations that have defined 2026 so far. Just like 2025, we entered the year with the momentum factor sitting well into the top decile of rolling 65-day returns as recently a mid-October as real money and systematic levered accounts continued to pile into the trades that worked. Of course this is nothing new. There's nothing like price to change sentiment, and investors almost always fall victim to performance chasing. But market structure has fundamentally changed over the past decade or so as markets have increasingly become defined by momentum. Systematic levered strategies in addition to levered ETF products and the associated dealer hedging tends to dampen volatility in upward trending markets. The more that low volatility trend persists, the more these strategies lever up as they increase gross and net exposures, and the more fast money chases into the trades that are working. What works tends to keep working, until it doesn't, as that crowding opens the door to sharp reversals. And once those reversals start and volatility spikes, the net and gross derisking begins, ultimately accelerating the move. The classic escalator up, elevator down. While investors scramble to attribute a fundamental trigger to the sharp rotation out of yesterday's favorite trades, the catalyst matters little. This smells of a classic positioning unwind.

Source: Portfolio Analysis & Consulting. Bloomberg. Performance data shown represents past performance and is no guarantee of future results.

# Sign o' the Times

## Sector Neutral Rolling 63-Day Correlation to Momentum Factor (1/25/16–2/5/26)



Where do flows go when the momentum trade unwinds? Well, into anti-momentum, of course! So, what is anti-momentum? The answer to that question is: It depends. Momentum isn't a static factor. It's composed simply of names that have worked in the past, and such, its constituents can change drastically over time. These inflections tend to be aligned with changes in the broader macro cycle as can be clearly seen by tracking the correlation of the momentum factor with various other factors. Historically the momentum factor has tended to lean more towards the growth side of the spectrum, but that's not always the case. 2022 is perhaps the most obvious exception in the recent past as the steady derating of tech and growth led to a steady shift from growth to value for the momentum factor. Given the steady outperformance of AI, the Magnificent 7, and the broader tech complex over the past few years, it should come as no surprise that momentum is once again dominated by tech and particularly semiconductors. That leaves high dividend value names with stable earnings as the antithesis of momentum. These are precisely the corners of the market that have benefitted this year as flows have rushed out of the crowded momentum names into laggards in both the cyclical and defensive corners of the value complex. While fundamentals have no doubt played a role in the sharp rotations this year, as is almost always the case with these unwinds, the technicals have taken firm control. Any fundamental explanation is largely just a matter of shoehorning a narrative to fit the price action.

Source: Portfolio Analysis & Consulting. Bloomberg.

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