# Cougar Global Viewpoints

## More forecast uncertainty is all but certain (So stay flexible)

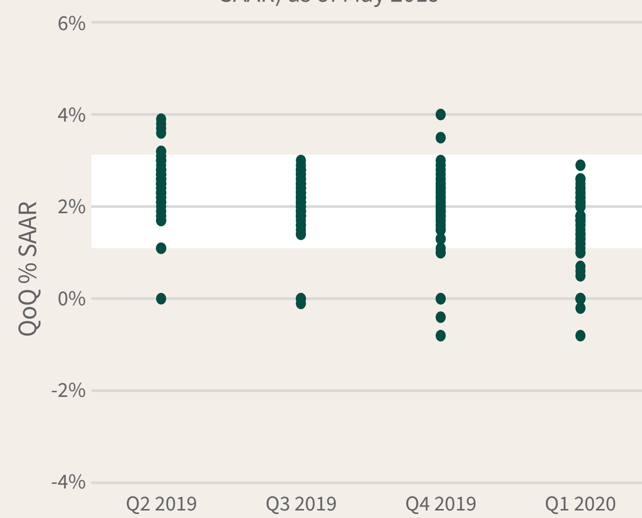
JUNE | 2024

**Takeaways:**

- **Economists are doing some soul-searching as economic forecasts are more muddled compared with those before the pandemic.**
- **Data is mixed, but the business cycle might have another couple of years left.**
- **It seems odd that 5+ percentage points of U.S. Federal Reserve interest rate hikes would not impact the U.S. economy.**
- **Now is a time to stay flexible – both with economic assumptions and investment approaches.**

**U.S. quarterly real GDP estimates**

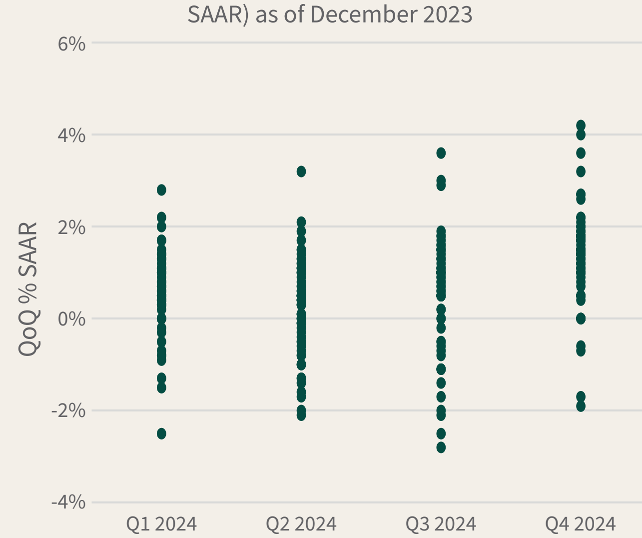
Quarter over quarter seasonally adjusted annual rate (QoQ SAAR) as of May 2019




Source: Bloomberg, as of 1/29/24.

**U.S. quarterly real GDP estimates**

Quarter over quarter seasonally adjusted annual rate (QoQ SAAR) as of December 2023




Source: Bloomberg, as of 1/29/24.

*"I always say, one month is no months, but three months— that's at least one real month."*

This quote sounds like it could have come from Adam Sandler's character in the movie "Billy Madison."

Instead, it's from Austan Goolsbee, president of the Federal Reserve Bank of Chicago.[1]

Whether from an actor or an economist, Goolsbee's comment accurately reflects the frustration economists are having with data forecasts in the post-pandemic environment. Many investors, including us, share that frustration: We're well into the fourth year of uncertain economic forecasts marked by wider error terms and confidence intervals.

For reference, we've included four quarters' worth of individual U.S. gross domestic product (GDP) projections on the next page, from both a pre-pandemic and post-pandemic view. Each dot represents a single forecaster

1 "The Dream of Fed Rate Cuts is Slipping Away," April 25, 2024, Wall Street Journal. Accessible at https://www.wsj.com/economy/central-banking/the-dream-of-fed-rate-cuts-is-slipping-away-55903ca5 (subscription required)

in Bloomberg's monthly survey, with a total of 60 to 70 estimates. As you can see, five years ago, quarterly U.S. GDP forecasts were reasonably tight around +2%, with a few outliers, as should be expected. Fast forward to the end of 2023, and GDP projections were notably wider for each future quarter, included more extremes, and offered far more negative GDP forecasts.

It's a similar narrative for many other well-known economic categories, including labor market measures, retail sales, certain manufacturing data series, and consumer sentiment. Forecast bands have been wider, even in the near term. And a much larger question persists: Why wasn't there a recession?

It's too early to answer that question, given that we aren't exactly out of the recession woods yet. Still, the issue hangs over the heads of investors and the interpretation of various data trends. From a portfolio management perspective, how should a macro-focused firm like ours approach a persistently murky macroeconomic environment?

The first step is to recognize the environment and to remain disciplined with our risk objectives and constraints. And the second step is to adapt to the environment, erring on the side of caution when necessary. Going forward, we're assuming spikes in market volatility, with ongoing forecast uncertainty. This could create a healthy environment for more flexible multi-asset portfolio management styles.

A 5+ percentage point increase in short-term interest rates resulting from U.S. Federal Reserve (Fed) policy decisions should have a substantial theoretical impact on the U.S. economy. Said another way, very few economists predicted the mostly lacking impact of monetary policy to this point, with the U.S. economy moving along rather nicely regardless of interest rates. Perhaps the business cycle has structurally changed as the United States has become less dependent on manufacturing, and thus is less dependent on inventories. Or maybe the U.S. consumer is less impacted by interest rates relative to history. Or it may be that a service economy is inherently more stable than a goods economy. Whichever theory you believe, they remain incomplete in the absence of time and data, creating a challenge for economic modeling.

In the meantime, while the business cycle might be breathing new life, it still appears extended rather than renewed. Regardless, we'll welcome any extra return equity markets can give us before the business cycle turns. Overall, in the absence of a clear economic picture, we must err conservatively in our portfolio construction, with an eye on taking advantage of market opportunities as they appear.

Jason Richey, CFA
Portfolio Manager

subject to a greater risk of loss than investments in issuers located or operating in more developed markets. This is due to, among other things, the potential for greater market volatility, lower trading volume, higher levels of inflation, political and economic instability, greater risk of a market shutdown and more governmental limitations on foreign investments in emerging market countries. High Yield/Junk Bonds are not investment grade securities, involve substantial risks and generally should be part of the diversified portfolio of sophisticated investors. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity and redemption features. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Mortgage-Backed Securities are subject to credit, default risk, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extensions risk, the opposite of prepayment risk, and interest rate risk. Investing in IAU involves additional risks. The market price of the Shares will be as unpredictable as the price of gold has historically been and the price received upon the sale of Shares may be less than the value of the gold represented by them. Government bonds and Treasury bills are guaranteed by the U.S. Government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. The fund's concentrated holding will subject it to greater volatility than a fund that invests more broadly. The fast price swings of commodities will result in significant volatility in an investor's holdings. Precious metal investing is subject to substantial fluctuation and potential for loss. All indexes mentioned are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results. The indexes don't reflect charges, expenses, fees and is not indicative of any particular investment. Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, disease, and regulatory developments.

This research material has been prepared by Cougar Global Investments. Opinions and estimates offered constitute Cougar Global's judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. Under no circumstances does the information contained within represent a recommendation to buy, hold or sell any security and it should not be assumed that the securities transactions or holdings discussed were or will prove to be profitable. All holdings are subject to change daily.

Link(s) are being provided for informational purposes only. Raymond James Investment Management is not affiliated with and does not endorse, authorize or sponsor any of the listed websites or their respective sponsors. Raymond James Investment Management is not responsible for the content of any website or the collection or use of information regarding any website's users and/or members.

Cougar Global Investments Limited (Cougar Global) is an investment manager that utilizes tactical asset allocation to construct globally diversified portfolios. Effective 4/30/15, Cougar Global Investments is a wholly owned subsidiary of Raymond James International Canada which is a wholly owned subsidiary of Raymond James International Holdings. Raymond James International Holdings is a wholly owned subsidiary of Raymond James Financial as is Raymond James Investment Management. Prior to 4/30/15, Cougar Global was an independent investment management firm not affiliated with any parent organization. Cougar Global is registered as a Portfolio Manager with the Ontario Securities Commission (OSC) and with the United States Securities and Exchange Commission (SEC) as a Non-Resident Investment Advisor. Prior to 01/02/2013, the firm was named Cougar Global Investments LP.

## DEFINITIONS

A confidence interval, sometimes referred to as a forecast band, reflects the degree of certainty for a particular sampling method in statistics. It is the probability that a parameter for a population or set of data will fall between a specified pair of values around the mean.

An error term reflects the level of uncertainty or the margin of error within a statistical model that produces different results when applied to data in the real world.

Gross domestic product (GDP) is the total value of goods and services provided in an economy during a specified period, often one year.

A quarter-over-quarter seasonally adjusted annual rate (QoQ SAAR) compares data from one quarter to the next while making adjustments to account for seasonal variations in the data. The goal is to provide a meaningful and consistent basis of comparison from quarter to quarter.

## ABOUT COUGAR GLOBAL INVESTMENTS

Cougar Global Investments is a global macroeconomic asset allocation manager that believes the goal of investing is to achieve compound annualized returns for clients. We use a disciplined portfolio construction methodology combining post-modern portfolio theory and risk management to pursue our clients' objectives.

## ABOUT RAYMOND JAMES INVESTMENT MANAGEMENT

Raymond James Investment Management is a global asset management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. Together with our boutique investment managers – Chartwell Investment Partners, ClariVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management (a division of Scout Investments) and Scout Investments – we offer a range of investment strategies and asset classes, each with a focus on risk-adjusted returns and alpha generation. We believe providing a lineup of seasoned, committed portfolio managers – spanning a wide range of disciplines and investing vehicles – is the best way to help investors seek their long-term financial goals.

**To learn more about Cougar Global's strategies, philosophy and capabilities visit cougarglobal.com or call 1.800.521.1195.**

COUGAR GLOBAL
INVESTMENTS

200 King Street W, Suite 1901 | Toronto, Ontario, Canada M5H 3T4 | 551939 | Exp. 6/30/2025