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Landing the Plane

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It was 7 pm this past Sunday when our plane began its approach into Cleveland. The sky outside was dark and cold, with a wintry mix streaking past the window.

The airplane made its decent. As we approached, a shift happened.

We suddenly sped up and started climbing again.

The pilot said nothing.

Tension was in the air as passengers looked around. Or maybe it was just me.

Finally, the captain came on and said we came in too high. We would circle around and give it another try.

The loop took all of ten minutes.

The pilot lined us up again and touched down with a calm, steady landing, as if it had been the plan all along.

For the last few years, people have asked when the next recession might arrive.

In September 2024, the Fed began cutting interest rates for the first time this cycle.

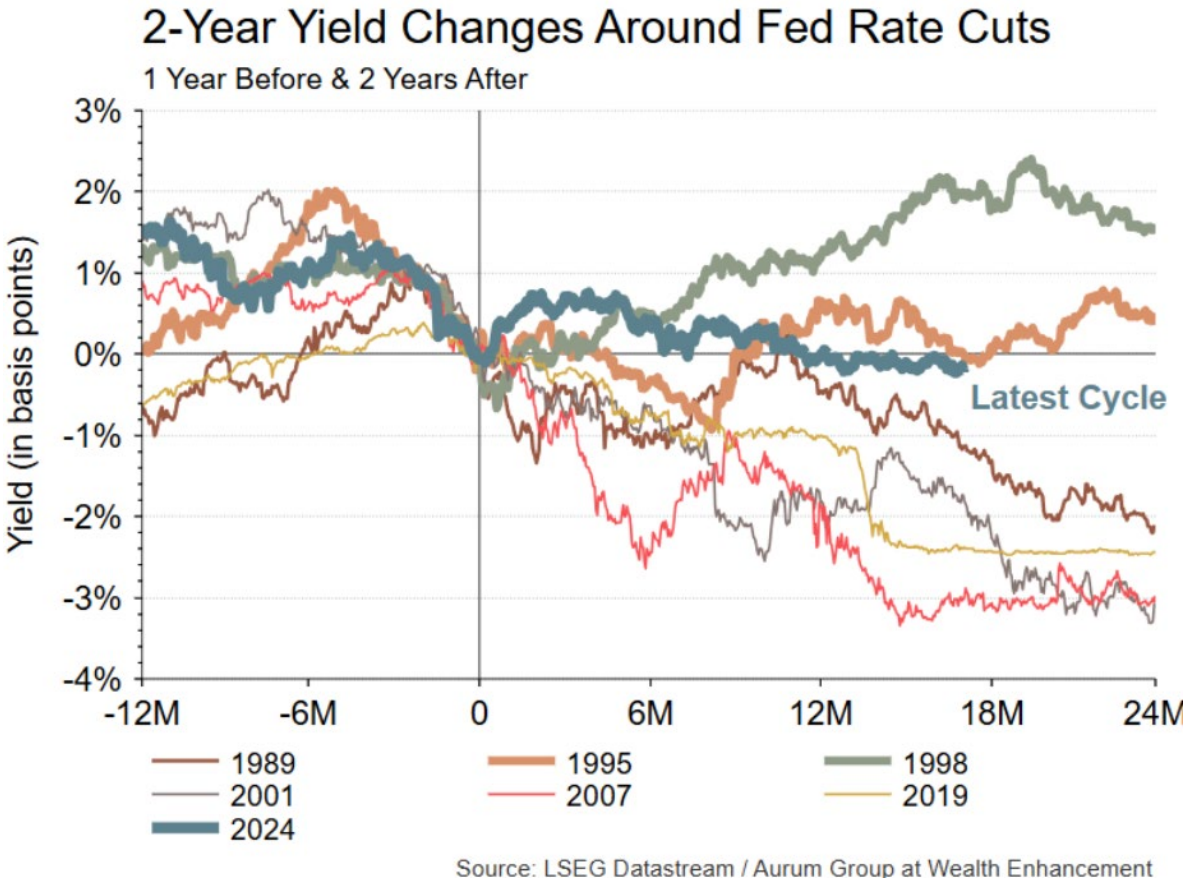
The big question was: could the Fed guide the economy to a “soft landing,” something it has rarely pulled off since 1950?

The challenge was finding the right balance—slowing inflation without hurting economic growth.

We started to see signs that things were going well. The 2-year Treasury yield often predicts where the Fed funds rate is headed. After the first few interest rate cuts beginning in September 2024, the pattern looked a lot like the 1990s, a

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period without a major downturn. This was different from past recessions, when the 2-year yield dropped sharply in the months that followed.

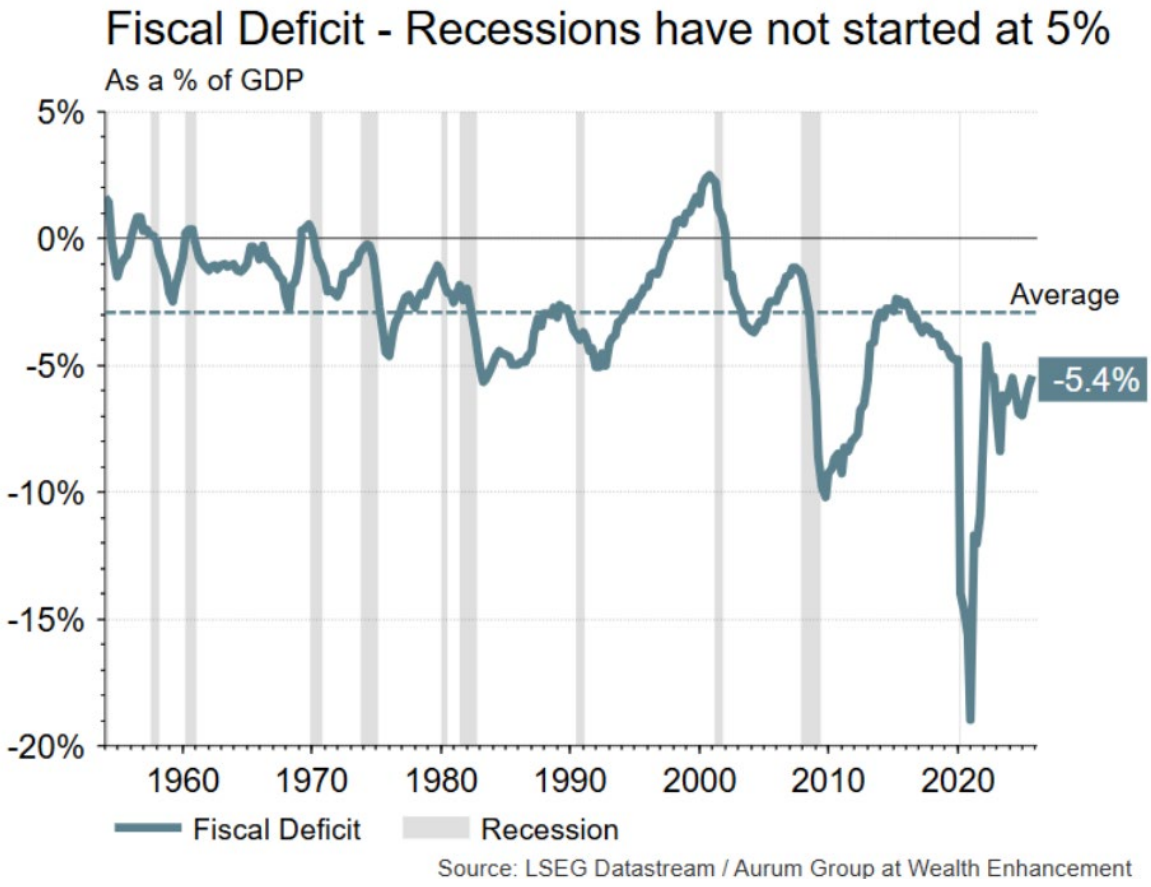


Eighteen months later, the economy is still growing.

This is not only because of the Fed. Our modern, service-based economy is less cyclical than the past. That has helped reduce big swings since inventory is less about capital goods production and more about time.

Large government deficits also supported growth. Running a deficit is a bit like keeping your foot on the gas pedal.

It is rare to have a recession start when we already have a 5% deficit. One side effect finally caught up to us, and that has been a weaker dollar.



Will these trends continue for years? Not necessarily.

But for now, credit is due. The Fed, policymakers, and the strength of the U.S. economy managed to “land the plane.”

Even with today’s stability, there are concerns.

Tensions in the Middle East are one risk. These events usually don’t affect the U.S. economy directly. Oil prices could rise, but there seems to be plenty of supply available.

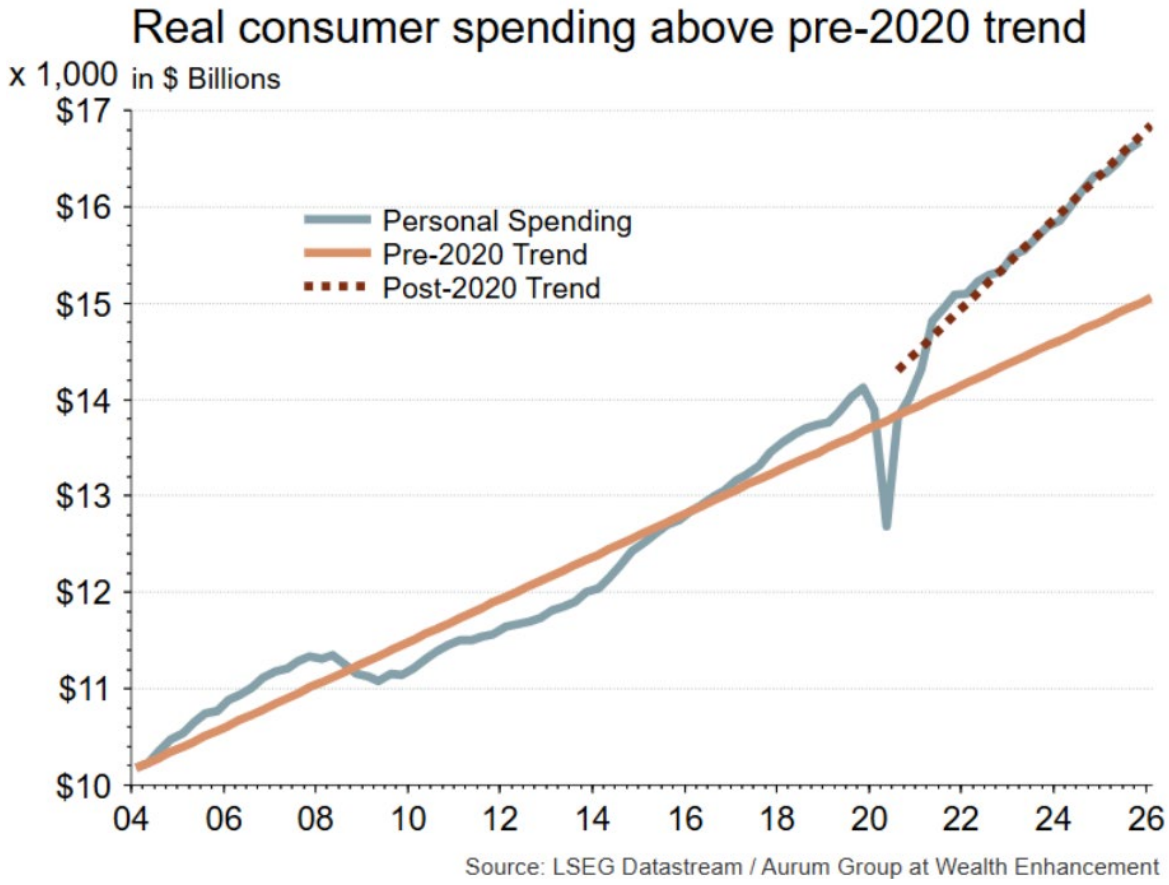
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Tariffs remove money from the economy, but overall, they have been trending lower, not higher. Even with the new 15% global tariff level, the effective rate drops from 13.6% to 12%. If you factor in all exemptions and not the new 15% rate, the effective rate falls to 10.2%.

Technology and the fear of AI disruption are real concerns, but we believe the biggest long-term effects will take more time to develop.

Some job seekers say finding work is harder. This can lead to weaker job growth ahead, and it is something we are watching closely. Still, weekly jobless claims have stayed in the same range for four years and remain near 50-year lows.

If there's trouble ahead, U.S. consumers don't seem to feel it yet. Spending is still stronger than it was before 2020, even after adjusting for inflation.



We continue to follow the data, public policy, and company announcements closely. We do know that markets are not the economy. Markets often peer around the corner before a shift in the data occurs.

We expect and hope for a smooth takeoff and landing. But like any good flight crew, we have our backup plan ready in advance for portfolios if the ride gets rough.

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