

Feelings

Expectations and sentiment act as the invisible inner framework shaping our emotional experiences, often setting the stage for how we feel before events even unfold. They can act either as “mental friction” or a source of comfort, influencing the way we interpret and respond to situations. Expectations function like the mind’s internal guidance system, while sentiment reflects a more enduring attitude towards something. Together, they create a dynamic where differences between what we anticipate and reality drive emotional reactions. When a high level of uncertainty enters the picture, these reactions can intensify, often activating cognitive biases that skew perceptions toward negative outcomes.

Q PERSPECTIVE

The University of Michigan conducts a monthly survey measuring U.S. consumer confidence regarding the economy, personal finances, business conditions, and purchasing conditions. Recent results in **Chart I** indicate that the Iran conflict has negatively affected consumer sentiment, largely through spikes in gasoline prices and concerns about broader price increases. Sentiment levels are now approaching those recorded last year following the implementation of the reciprocal tariff regime. Declines in confidence were observed across political affiliation, income brackets, age groups, and education levels. These perceptions have also pushed year-ahead inflation expectations to 4.7%, exceeding levels seen in 2024 and remaining well above the 2.3%–3.0% range that prevailed during the two years before the pandemic.

Chart II measures policy-related uncertainty by tracking the frequency of articles published in major U.S. newspapers that include terms such as “economic,” “uncertain,” “Congress,” and “deficit.” Although large-scale fiscal stimulus from the 2025 Reconciliation Act and the One Big Beautiful Bill Act has helped sustain short-term economic growth, it has also driven federal deficits to record levels. Ongoing tariff policies and geopolitical tensions, particularly implications from the Strait of Hormuz on global energy and semiconductor supply chains, continue to represent major headwinds. While the economy has remained relatively resilient in recent months, periods of elevated uncertainty often take 6 to 18 months to fully translate into slower hiring activity and reduced business investment.

Chart III shows optimism among investors about the near-term outlook for stocks dipping to levels seen following last year’s “Liberation Day” announcement. Investors have pointed to the ongoing conflict with Iran, along with instability in private credit markets, as key sources of concern. Despite these pressures, the latest earnings season offered some reassurance, as reported corporate results modestly exceeded expectations and investor attention returned to company fundamentals and competition in the artificial intelligence race.

INVESTMENT IMPLICATIONS

Maintaining a disciplined focus on a broad set of indicators and surveys can help uncover early signals of future market trends. Capturing the collective psychology driving economic behavior can offer valuable insight into future activity that traditional hard data may not immediately reveal. Monitoring consumer and investor feelings provides a more complete understanding of economic conditions. In an environment where uncertainty is constant, investors are best served with portfolios that are thoughtfully diversified for the return opportunities and risk challenges ahead.

CHART I

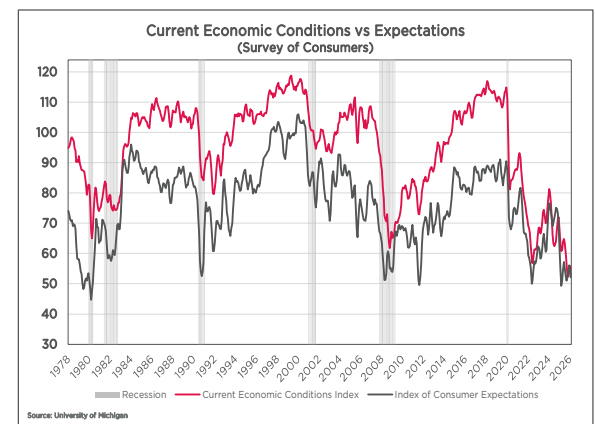


CHART II

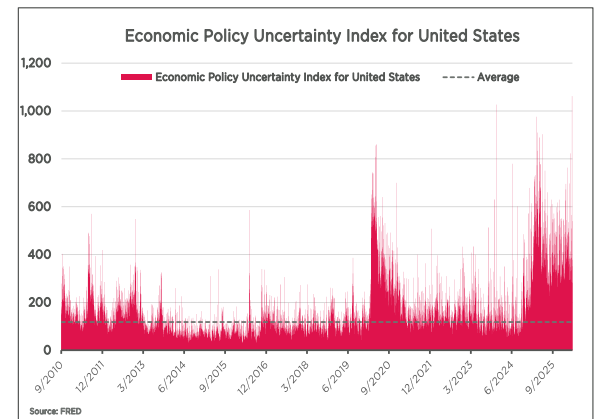


CHART III

