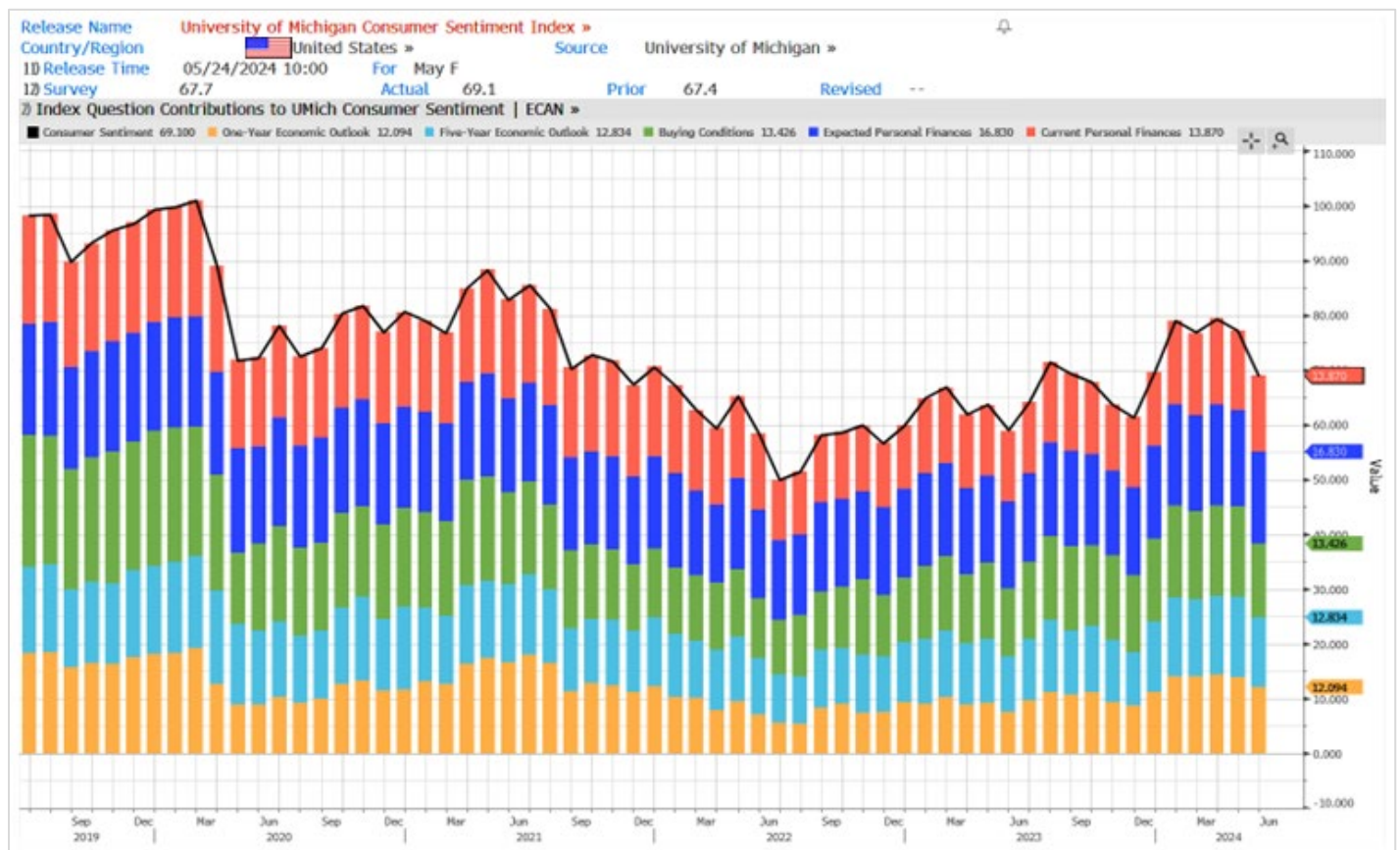


Despite positive economic indicators, U.S. consumer sentiment is unusually pessimistic, impacting investment strategies. This disconnect suggests investors need to consider how sentiment might influence short and long-term strategies, including potential impacts on business investments, wage negotiations, and policy decisions. Utilizing dynamic investment models can provide a strategic advantage by allowing flexibility and optimization in asset allocation.

## Pessimistic Consumer Sentiment

Recent surveys reveal a significant disconnect between public sentiment and actual economic conditions in the U.S. An April Gallup poll showed only 23% of respondents were satisfied with the state of the nation, while a staggering 74% were dissatisfied. Similarly, a Harris poll in May indicated that 72% of Americans believed inflation is increasing, 56% believed the country is in a recession, 49% thought the stock market had fallen over the past 12 months, and 49% perceived unemployment rates to be at all-time highs.

However, JPMorgan's estimates, using historical drivers of consumer sentiment such as changes in consumer prices, unemployment levels, the performance of the S&P 500, payroll employment figures, gasoline prices, home prices, and wage growth, suggest that the sentiment index reading should be closer to 97.2, significantly higher than the actual reading of 69.1. This discrepancy may stem from factors like personal dissatisfaction, growing concerns over income inequality, and biased news consumption habits.



Source: Bloomberg

Interestingly, while Americans generally feel gloomier about the broader economic outlook, they have expressed more positive sentiments regarding their personal lives. For example, a January Gallup poll showed that 78% of people were satisfied with their own lives, only slightly below the long-term average of 83%. In contrast, 23% expressed satisfaction with how things were going in the U.S., far below the 37% long-term average.

## Investment Implications

The prevailing negative sentiment could lead businesses to adopt a more cautious approach to capital spending and expansion plans, potentially impacting sectors sensitive to business investment levels, such as industrials and technology. On the other hand, the general negativity might soften wage demands, which could benefit companies by keeping labor costs in check and potentially improving profit margins. Investors should consider sectors with high labor costs, as these might experience improved financial performance.

Furthermore, pessimistic sentiment might increase support for populist economic policies that could negatively impact the economy and markets. Investors should remain vigilant about potential policy changes from misinformed public sentiment, such as increased tariffs or restrictive immigration policies. Diversifying investments globally can help mitigate the risks associated with such policy changes.

## Conclusion

In light of the current disconnect between consumer sentiment and economic reality, investors may benefit by adopting strategies to navigate this uncertainty effectively. Utilizing dynamic investment models from money managers provides a structured yet flexible approach to asset allocation, helping investors manage risks and optimize returns. By diversifying globally and staying informed about potential policy impacts, investors can better position their portfolios to withstand the effects of persistent economic pessimism and capitalize on opportunities as they arise.

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Except as otherwise specifically stated, all information is as of May 31, 2024.