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# The one-handed economist

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**On one hand, earnings are growing and the Fed is cutting rates; but on the other, various uncertainties loom, warranting caution. So what should investors do in this backdrop?**

Former US President Harry S. Truman is said to have once asked for a one-handed economist, because none of his many advisors gave him clear recommendations. Instead, he always received a convoluted “on the one hand ... and on the other” answer.

Most readers will agree that good advice is expensive. And it becomes even more valuable in times of increased political, economic, and geopolitical uncertainty—which undoubtedly applied to Truman’s term in office. But even today, there are good reasons why investors can view markets with both growing optimism and increasing skepticism.

Let’s start with the positive arguments: Corporate momentum remains solid and is tending to improve. Earnings season is just around the corner, and the bar for positive surprises is low—this is especially true for many US technology companies. For the S&P 500, consensus expects earnings growth of 6 percent. In recent years, S&P 500 earnings growth has exceeded analysts’ expectations by an average of 4 percentage points; it’s quite possible this quarter will be similar. And investors may also be pleasantly surprised in Europe, Japan, and some emerging markets. Falling interest rates, more expansive US fiscal policy, and robust US consumer behavior round out this optimistic picture.

At the same time, however, warning signals are increasing: In the US, the government shutdown, weakening labor market, and declining consumer confidence are reasons for caution. In addition, rising inflationary pressure is making the Federal Reserve's job more difficult. Given the priced-in expectations for further US rate cuts and elevated valuations in the equity and bond markets, there is very little room for negative surprises. In Europe, the political situation remains tense with a fragile government in France and weak growth conditions. Additional tariffs and ongoing geopolitical tensions also loom. It is possible that these factors could lead to a correction and cloud growth prospects.

So what options do investors have to aim for attractive and diversified income with their portfolio amid these uncertainties? Instead of focusing on a scenario that we don't know will occur, we prefer a portfolio orientation that can generate optimized returns under various market conditions. In our view, this includes a well-diversified core portfolio to benefit from rising prices over the long term. Since interest rates are low and likely to fall further, we favor a tactical focus on equities rather than bonds or money market instruments. Structured strategies, especially reverse convertibles, can offer an attractive and often underestimated way to benefit from increased uncertainty in this environment. Well diversified, they can become a solid source of income, with returns that clearly exceed those of bonds. And in the event of a major correction, investors could shift into carefully selected equities that are likely to recover in the medium term.

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