Eggspectations: Hard, Soft or Scrambled? Navigating Markets and the Economy in Uncertain Times without Walking on Eggshells

Early in his term as Fed Chair, Jerome Powell likened monetary policy decision-making during uncertain times to walking through a dark room—when the path ahead is murky it makes sense to slow down. His inference was that, in time, additional data would illuminate the correct path for FOMC policymakers to take. At the time, the message of data as a clarifying force seemed unimpeachable. But this year, a new question has emerged: *What if data itself is the source of uncertainty?*

To be sure, the quest for definitive answers has faced a host of challenges this year, with data volatility, significant revisions, and more recently the government shutdown all obfuscating the economic outlook. With data difficulties exaggerating the challenges, how should investors navigate the current environment?

Not Eggsactly What We Thought

Egg prices surged early in the year, and the price of a dozen eggs became a flashpoint in political debates and a visceral proxy for inflation's trend. A significant culling of chickens to prevent the spread of avian flu led to supply shortages, but as new hens quickly matured, prices quickly normalized. Was this inflation or nature?

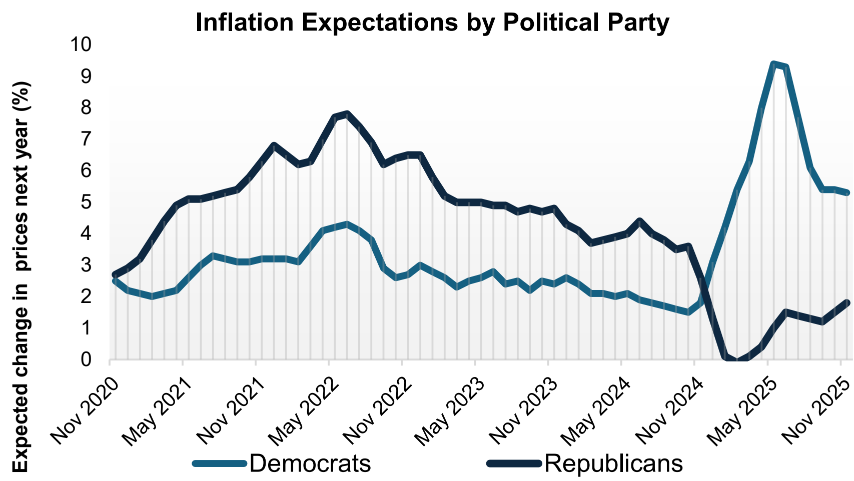
It is easy to frame this situation as an exception, and for their part, the Federal Reserve has historically looked-through supply shocks, characterizing them as one-time price level adjustments. But when considering the sharp rise in housing costs, the jump in used car prices during COVID or the more recent increase in tariffed goods prices should these "exceptions" continue to be discounted? Or is there a risk that the growing prevalence of supply shocks, combined with general data uncertainty, begins to contaminate inflation expectations?

Retail Egg Prices

Source: USDA

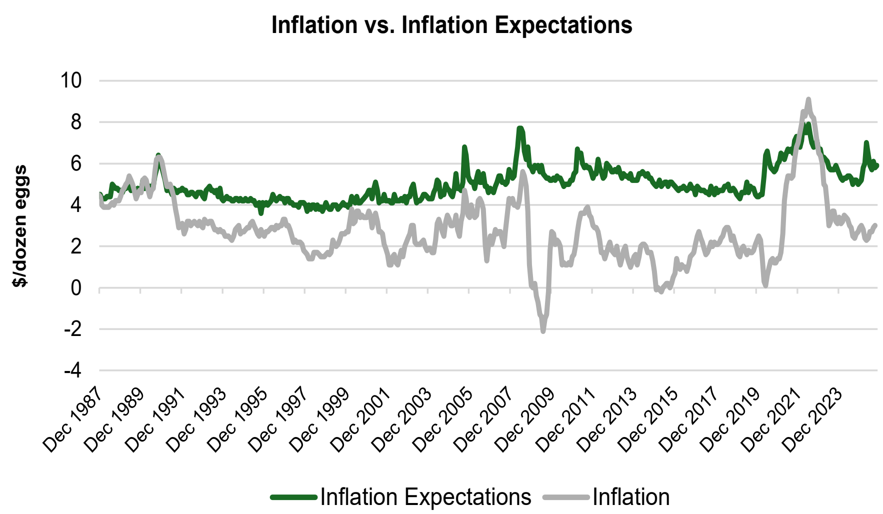
Hard Boiled, Soft Boiled or…

This question is not academic. At the start of the year, the gap between hard and soft data was at its widest in recent memory. Hard data—actual realized results collected about the economy—showed a reasonably strong economy. In contrast, soft data—surveys and measures aggregating how people perceive the economy—reflected significant weakening. Differences between perceptions and expectations of the economy (soft data) and what the data collected from official statistics (hard data) show are routine and often influenced by factors outside of the economy itself. For example, political sentiment plays a role, with views of the economy flipping along party lines in January 2025.



Source: Bloomberg

Nonetheless, while hard data can only reflect what happened in the past, soft data, though subjective, can offer insights into what may happen in the future. In other words, expectations shape behavior so if consumers and businesses anticipate a downturn, they may reduce spending and investment, creating a self-fulfilling slowdown. This is especially true for inflation, where expectations often drive future outcomes. For this reason, policymakers battle to keep inflation expectations anchored, recognizing the difficulties and pain of calming inflation once set loose on an economy.

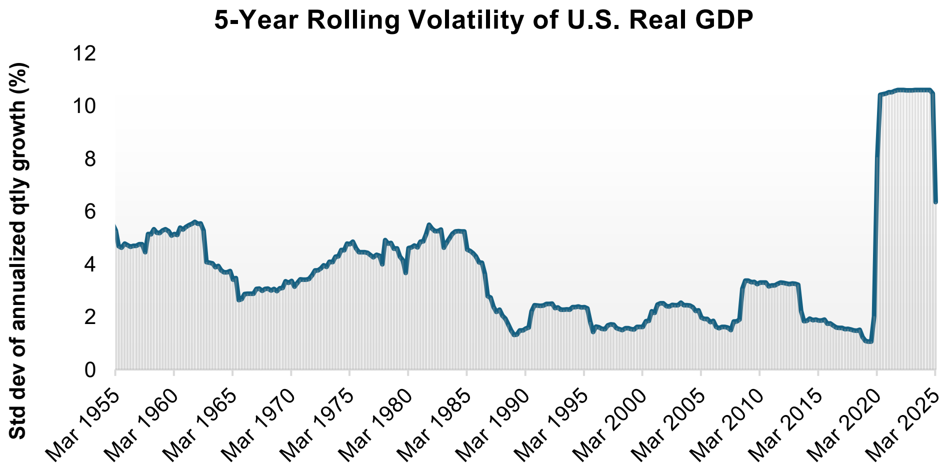


Source: Bureau of Labor Statistics, Conference Board

Scrambled

Significant policy shifts—such as the initial tariff announcements—scrambled inflation expectations, sending them to heights not seen in decades. As tariff policy was softened and consumers and markets adjusted to the new situation, expectations moderated as well.

For one tempted to critique the volatile sentiments of the average survey participant, it is worth considering the volatility of hard data as well. Following the COVID-19 pandemic, we hypothesized that while the acute phase of the crisis had passed, the significant shock would leave long-lasting economic ripples. A chart showing GDP growth that once had a range of roughly 20%, now had to account for net swings of 60% over the first 2 quarters of COVID. Those extreme data points rendered year-over-year comparisons nearly useless given the rampant disruptions to the economy and its correlated data.



Source: U.S. Bureau of Economic Analysis; LCAM

Additionally statistical models that are used by government agencies to estimate economic activity needed to be recalibrated and have struggled to accurately capture seasonal tendencies in the post-pandemic data. Indeed, this year, significant revisions to monthly non-farm payrolls including the largest ever annual adjustments to non-farm payrolls further highlight the fragility of relying on “final” data.

An Omelet with Government Cheese

Much of the data financial markets rely on is produced by federal government agencies—many of which were shut down due to the federal budget impasse. While in the past these shutdowns were typically brief, prolonged shutdowns like the recent one threaten the timeliness and reliability of official data and hinder policymaker decision-making. Given the length of the shutdown, some data may now be permanently skipped in the historical record further complicating objective analysis. Though the current shutdown has ended, government shutdowns appear to be increasingly popular as a policy negotiating tool, suggesting we will encounter this challenge again soon.

Robot Chicken

Interestingly these questions around disruption of data come at the crossroads of important broader technological developments. In a world of instantaneous data, real-time financial feeds and AI-powered analysis have increased expectations that everyone, not just financial professionals, can see and react to data in near real time. The accessibility of AI has shifted expectations about how quickly new information can be analyzed; of course, as with any analysis, garbage in means garbage out. As AI-generated content becomes more prevalent the amount of data available for analysis will increase, but this is likely to come at the expense of data quality, limiting the ability to discern signal from noise.

So how should one reconcile the growing demand for data with its increasing imperfections? This question is particularly important when markets respond faster than ever, but the “true” data may not be known for months or years.

Conclusion: Don’t Get *Eggsasperated*!

Though the speed and complexity of these challenges are new, data revisions and volatility around key events and policy decisions have always been part of the market landscape. Policymakers—and investors—have always had to make decisions with imperfect information. In many ways, what seems new is just the newest iteration of long historical patterns.

With these factors at play, it is worth stepping back to consider the purpose of how we use and consume data in the investment process. Data is a tool. It is a means, rather than an end. We observe, digest and analyze data to come to the best conclusions we can – in a world of imperfect information – about how to invest capital for our clients. We avoid overly relying on any single piece of data and instead seek to discern patterns, inflection points, and opportunities in the aggregate trends of the underlying data. With this in hand, we can map out scenarios to guide our decision-making process while keeping in mind that one must have the humility to recognize that even with the best people and tools, no process captures every opportunity and avoids every pitfall.

A strict relative value framework, which underpins our approach, helps mitigate some of the challenges when macro data is flawed, revised, or delayed. While policymakers may advocate slowing down in the dark, as investors we must recognize that the world continues to move faster. This faster moving environment may result in more policy missteps and more frequent mispricings and therefore more opportunities for those with a disciplined and adaptable process.

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