



The board didn't change; the position did!!!

The board didn't change ... the position did

Last month, we framed the environment through a game of chess ... not because markets are a game—but because the analogy holds:

The outcome is rarely determined by a single move ... but by the position that move creates. We also noted:

When pressure builds, it doesn't create weakness—it reveals it.

Over the past several weeks, the pressure has only intensified ... geopolitical headlines have accelerated ... energy markets have moved violently.

Narratives have grown louder... and more certain ... and yet—markets are higher!

Which raises a simple question:

If the story hasn't changed... why has the market?

What we expected

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Other Side Asset
Management
4141 Banks Stone Dr.
Raleigh, NC.27603
1-844-300-7344
www.othersideam.com

Managing Principal
Mitchel Krause

Coming into the quarter, the data pointed us toward a Quad 3 stagflationary backdrop:

- Inflation accelerating
- Growth decelerating
- Policy increasingly constrained

The drivers were clear:

- A tightening energy supply backdrop amid middle eastern/Iran oil constraints
- A labor market showing signs of slowing beneath the surface
- A policy framework with limited flexibility

But we also made an important distinction:

This would not be linear ... and more importantly, we outlined **what would need to change** for that environment to be interrupted.

When the game changes

At the time, we noted that a shift away from Quad 3—even temporarily—would require:

- A short-term **reacceleration in growth (rate-of-change)**
- A boost from **liquidity and fiscal flows**
- Favorable **base effects and timing dynamics**

Not a change in the long-term structure ... but a change in the **sequence of the data**.

Which is exactly what we've seen.

Over the past several weeks:

- Tax-related liquidity entered the system
- Economic data benefited from easier comparisons
- Growth, on a **rate-of-change basis**, firmed relative to prior quarters

From a Monthly Quad perspective, the shift has been clear:

- **April** → **Quad 2**
- **May** → **Quad 1**
- **June** → **Quad 1**

At the same time:

- Inflation has continued to **accelerate across multiple measures**
- Energy has remained the primary transmission mechanism

The result is not a contradiction of the original thesis ... it's a **fluid shift in positioning on the board.**

What is ... (NOT what's expected)

This distinction matters!

There's a difference between:

- **What is happening**
- And what people believe *should* happen

Right now, the data is telling us:

- Growth is **positive** and has **reaccelerated vs. prior quarter (on a RoC basis)**
- Inflation is **accelerating broadly**
- Liquidity, while uneven, is still present in the system

That combination ... particularly within a Hedgeye **Quad 2/Quad 1 monthly sequence** ... has historically been supportive for risk assets.

Which brings us back to the market.

Same Headlines. Different Outcome.

A few weeks ago:

- Markets declined
- The explanation: *war, oil, supply shocks, uncertainty*

Today:

- Markets have recovered
- The headlines: *war, oil, supply shocks, uncertainty*

Same narrative ... different outcome!

If the inputs haven't changed ... but the result has ... **then the narrative was never the primary driver** ... which is why we continue to stress:

Process over narrative

Market reactions to headlines and opinions only last so long before the economic regime defined by rate-of-change data regains control over the emotional reactions of the now, less than half of market activity now driven by human decision-making.

The mechanical aspects driven by flows and positioning continues to be underestimated by the majority.

In a Quad 3/stagflationary environment, we typically see ... a reduction in risk asset exposure, with increased volatility leading to drawdowns ... which is what we saw in March.

Where the opposite can often be said in Quad 2/Quad 1 environments as volatility compresses ... methodically forces capital back into the system.

Additionally, "risk-on" can often create short squeezes ... perpetuating what pundits call "irrational markets".

Today's markets are not "irrational" ... they are "mechanical" ... which is what we're seeing in real time.

The geopolitical backdrop didn't improve meaningfully.

The narrative didn't soften.

The data changed—and flows followed!

What didn't change

It's just as important to understand what *hasn't* changed:

- The energy shock remains unresolved
- Inflation continues to build across the system
- Growth, while stable in the short term, remains vulnerable beneath the surface
- Policy constraints are still firmly in place

In other words:

The underlying structure is intact ... even if the current position has improved ... and the sequence matters!

From here, we'll be mindful of the most probabilistic path ... not as a prediction, but as a process-driven sequence:

Now → Early / Mid-June

- Quad 2 / Quad 1 mix
- Supportive for markets

Mid → Late June

- Transition phase
- Data begins to shift
- Positioning becomes more important

July → August

- Higher probability of a return to **Quad 3 conditions**
- Increased risk of:
 - Volatility
 - Drawdowns
 - Regime-sensitive repricing

Before what appears to be more favorable conditions into the back half of the year.

We've already seen what that looks like. While March provided the template, no one transition is ever the same.

Final Thought: Watching the Board, Not the Commentary

One of the challenges in environments like this is the volume of interpretation.

Every move is explained ... every headline is assigned meaning ... every outcome is rationalized ...
AFTER THE FACT!

But markets doesn't operate that way ... it moves through regimes ... and those regimes are defined not by opinion, but by **the direction and rate of change in the data**.

As of last Friday, the S&P posted 3 straight weeks of +3% gains ... a rarity that's only happened two other times since 1950 (as our friends at Hedgeye recently pointed out).

The same headlines that explained the decline ... are now being used to question the rally.

That's not inconsistency—it's confirmation:

Narratives follow price ... process anticipates it!

As always, the question isn't:

What do we think will happen next? It's: Are we positioned for the regime we're in... and prepared for the one that may follow?

That's the purpose of the process.

And it's the foundation of every plan we build ... ensuring that income, assets, and long-term outcomes aren't dependent on guessing the next move ... but on understanding the board as it evolves.

If you haven't recently mapped out how your plan holds up across different economic environments ... or if you're unsure how shifts like these impact your income, taxes, or long-term goals ... though, more importantly if you're leaving your retirement solely to market moves ... we're happy to walk through the difference between a "portfolio" vs. a "retirement plan".

At Other Side, every conversation starts with a **comprehensive retirement income plan**, built around your full financial picture ... no cost, no obligation.

Because clarity doesn't come from reacting to headlines ... it comes from understanding the process.

[CLICK HERE TO BOOK YOUR FREE CONSULTATION NOW!](#)

As always, never hesitate to call with any questions or concerns!

Good investing!

Sincerely,



Mitchel C. Krause
Managing Principal & CCO

4141 Banks Stone Dr.
Raleigh, NC. 27603
phone: 919-249-9650
toll free: 844-300-7344
mitchel.krause@othersideam.com
www.othersideam.com

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