Contempt

Weekender

June 15, 2025

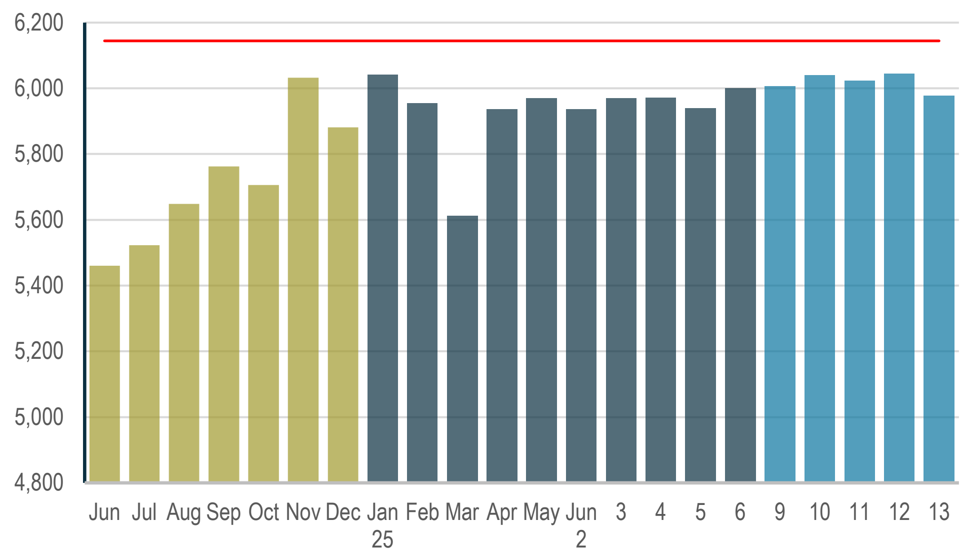
Don't mind anything anyone tells you about anyone else.
Judge everyone and everything for yourself.

Life is, in fact, a battle. Evil is insolent and strong; beauty enchanting, but rare; goodness very apt to be weak; folly very apt to be defiant; wickedness to carry the day; imbeciles to be in great places, people of sense in small, and humanity generally unhappy. But the world as it stands is no narrow illusion, no phantasm, no evil dream of the night; we wake up to it, forever and ever; and we can neither forget it nor deny it nor dispense with it.

Henry James

Good morning and welcome to the *Weekender* for Saturday, June 14, 2025. Writing the *Weekender* is an odd endeavor. I am a procrastinator. Only recently has research revealed that procrastination is a result of childhood trauma. I am so relieved that another personal inadequacy can be laid at the feet of others.

S&P 500 Index Levels
(Source: Bloomberg)



The events of this week justify and validate my traumatic practices. Every week, I tell myself, 'This is the week I'm going to get a jump on writing.' I will start on Monday and produce a few pages every day. By the end of the week, the pieces will be assembled and edited, and the weekend will be mine to do with as I please. It's never happened. Probably never will. But I remain an idealist. This week's *Weekender* was well thought out and outlined by Thursday. It was all meaningless after the first sorties left Israel's bases.

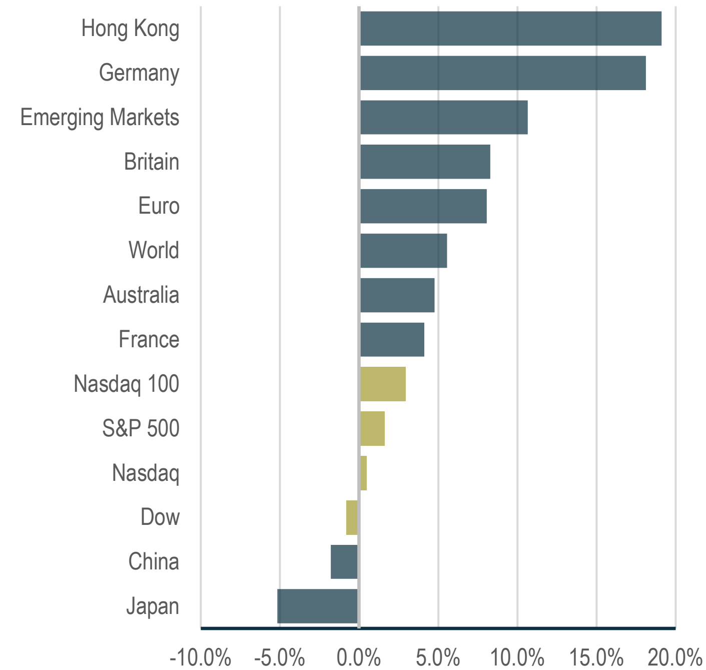
Equity markets, as measured using the Standard and Poor's 500 Index, were down slightly on the week, off by -0.39%. However, the move in equities soft-pedals a recent reality. On February 19, the S&P 500 hit an all-time high, just before President Trump's tariff talk reached fever pitch. From there, the index fell by -18.9% on expectations that tariffs would undoubtedly push the US economy into recession. Since the bottom on April 8, 2025, markets moved higher, recovering all the losses for the year. On a year-to-date basis, the S&P 500 is now higher by 1.6%, although it's still -2.7% lower than the peak on February 19, 2025.

Negative tariff expectations perpetuated the February and March downdraft. Higher tariffs would certainly be inflationary, at least in the near term. Higher prices impact both demand for goods and services as well as the margins of corporations. Lighter demand and profit are negative for stock prices and valuations. On April 9, 2025, President Trump announced a delay in the implementation of tariffs, and markets bolted higher by 9.5%. Since then, in the context of moderate volatility, equity markets have returned to their pre-tariff starting point.

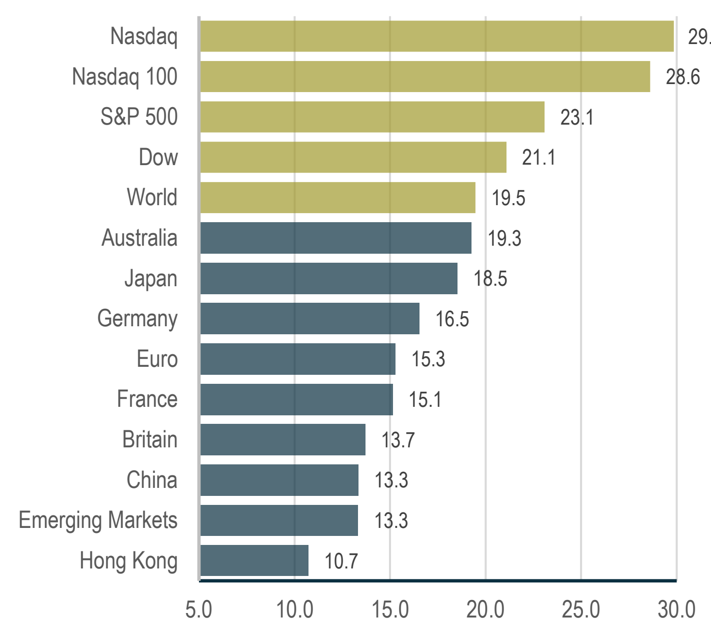
US equity markets remain some of the poorest performers in the world this year. Interestingly, Hong Kong tops the charts while China is close to the bottom. A primary reason for this discrepancy is that the China index is dominated by unprofitable government-owned or state-controlled companies, which tend to drag the index lower. In contrast, the Hong Kong index is primarily comprised of stronger private companies.

Given the disproportionate returns in foreign stock markets compared to those in the United States, many have asked if there is still room for such outperformance. Yes. Foreign stock markets remain significantly undervalued compared to US markets, especially with the resurgence of US equities over the last few weeks. We believe there is still more room for them to run.

Year-to-Date Returns
January 2 - June 14, 2025
(Source: Bloomberg)



Country PE Ratios
June 13, 2025
(Source: Bloomberg)



Elephant in the Room

Israel's attack on Iran's military and nuclear sites was no surprise. President Trump spent the better part of the last two weeks alerting non-essential personnel in the Middle East. The US embassy staff in Iraq was reduced to essential, and the perfunctory talks with Iran were going nowhere. Israel, the country with the most to lose from a nuclear-capable Iran, took the initiative and the responsibility despite the necessary calls for urgent diplomatic solutions by other regional players.

Behind the scenes, they breathe a sigh of relief. At the same time, they have no love for Israel. They are afraid of Iran. When the job is done, Israel will have neutralized a large part of global uncertainty. But the job won't be done in short order, and the long tail of Islamic extremism is likely to wag in the form of terrorist firestorms for the foreseeable future.

In the near term, Oil prices are expected to rise. Immediately after news of the attacks, crude oil prices jumped but then softened slightly. Bomb damage assessment from the first sorties suggested Iran's oil infrastructure was not a target. However, as more runs are being made, some of Iran's refineries and storage facilities are being destroyed.

While we expect oil prices to continue to be volatile in the early innings of the war, OPEC has more than enough spare capacity to cushion the blow. Members have expressed a desire to increase production significantly over the past few months. Consequently, we believe any impact on crude oil prices from the conflict to be relatively short-term in nature. However, all oil producers are incentivized to maintain stable oil prices. Consequently, expecting that they will fall toward fifty is no longer likely. We expect barrel prices to hover in the $70s from here through the end of the year.

Crude Prices per Barrel

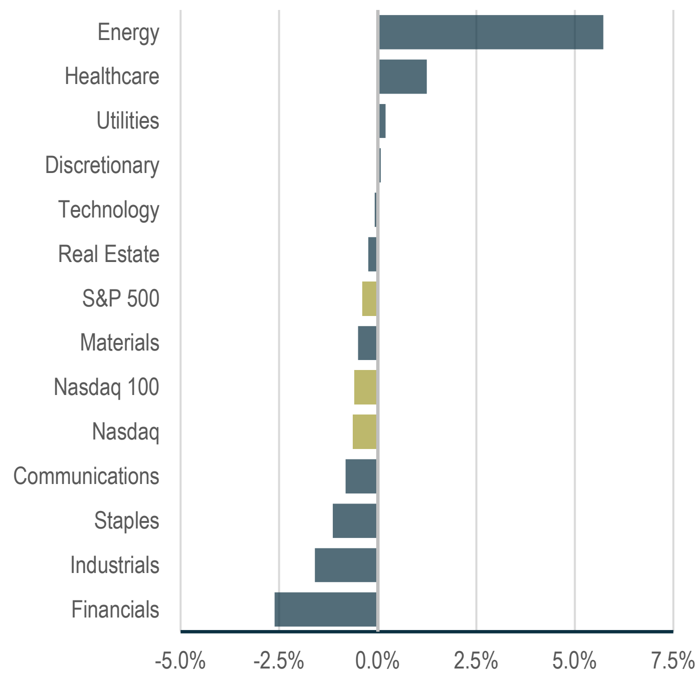
January 4, 2021 - June 13, 2025

(Source: Bloomberg)

Week-to-Date Gains

June 6 - 13, 2025

(Source: Bloomberg)

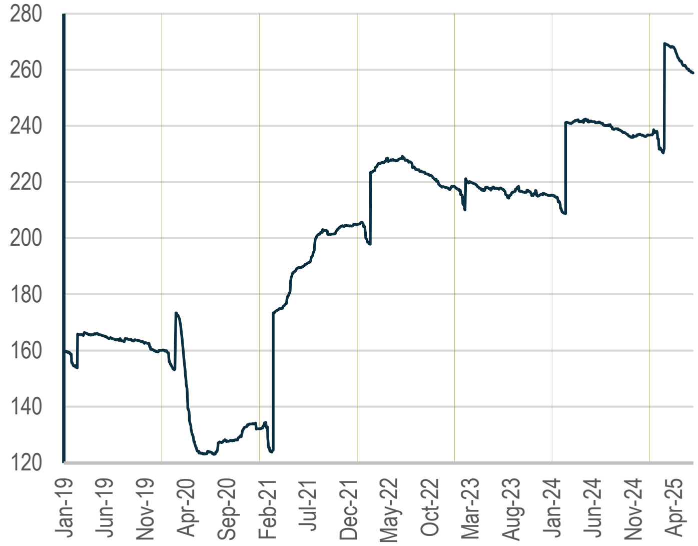


Earnings estimates for 2025 continue to fall. With second-quarter results in the tape, analysts will focus on the likely impact of tariffs on corporate earnings in the year ahead. They will, without any pretense of accuracy, attempt to measure the impact of tariffs. But, making any reasonable estimate of such an impact is nothing short of a fool's errand. Even so, as is typical, earnings estimates are beginning to fall. We expect them to fall further as tariff inflation chokes demand and compresses margins. It is essential to emphasize that US equity markets are currently priced for perfection. Perfection is the only outcome certain to elude us. Passive investing is likely to be hurt by this.

S&P 500 Earnings Expectations

January 2, 2019 - June 13, 2025

(Source: Bloomberg)



We find comfort in the fact that in the midst of high valuations broadly, there are stunning opportunities to own strong companies with pricing power, demand growth, and solid balance sheets.

Tariffs

Part of President Trump's management strategy, in general, and tariff strategy, in particular, leverages ultimate uncertainty in an attempt to achieve a specific outcome. We don't understand it and are not sure he does either. Last week, the president announced a trade deal with China. But in reality, no such deal exists. Representatives from the United States and China met a few times, and the result was a "framework" for how discussions would proceed. A summary of what issues were on the table and could be discussed, and those that were no-nos.

Laying aside any obfuscation, there have been no trade agreements to date. None. Frameworks, yes. Agreements, no. Even so, incremental tariff revenue has been generated from unilateral tariff impositions imposed on many countries. But if the objective is to reset the global trade landscape, it's not happening. But to be fair, we are in the early innings.

Intelligent people on both sides of the political spectrum disagree on the potential impact of tariffs on the consumer and the US economy. But they all believe there will be significant impacts. The President's whack-a-mole approach to implementation has resulted in a cloud of uncertainty so dense that many market participants are ignoring the fog altogether.

Soft economic data, like consumer sentiment and confidence, although improved somewhat since the announcement of a tariff stay, remain in the doldrums of depression. Most of that is due to future uncertainty, which consumers struggle to see through. Hard data, such as consumer prices, manufacturing and service output, jobs, and the like, do not indicate any tariff-related impact. The primary reason is that it's too soon for the tariff impact to be reflected in the data. In reality, most of the pontificated tariffs have not yet been applied.

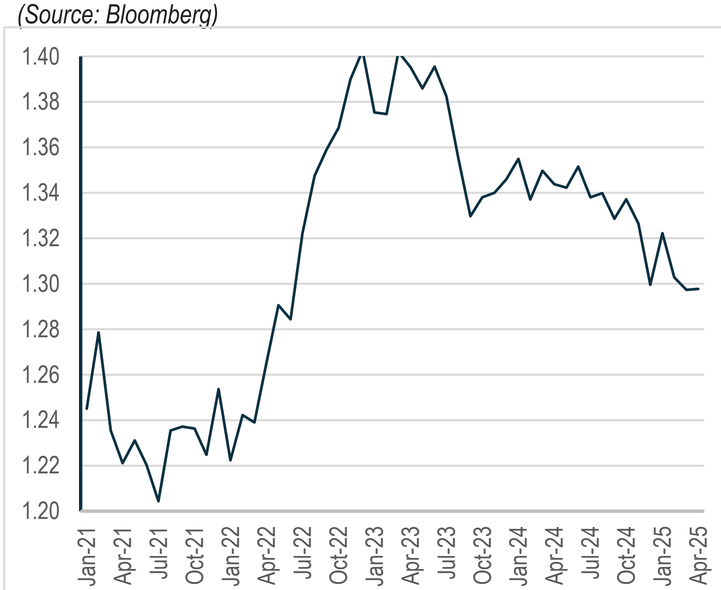
Inflation, meant to rise on the back of higher tariff-related costs, continues to be tame and tamer. Although not yet down to the Federal Reserve's target of 2.0%, consumer inflation continues to settle at lower levels. Although it ticked up a bit, the consumer price index, released last week, came in at 2.4%. The moderate print was helped by lower energy prices, which are likely to be a phantom in the future, given the unease emerging from the Middle East.

While we expect higher tariffs to have some imp act in the quarters ahead, it could take a while. Inventory in most parts of the US economy is between healthy and full. Excess inventory from the post-pandemic period has been persistently high. Inventory builds at the beginning of this year, in anticipation

Inventory-to-Sales Ratio

January 2021 - May 2025

(Source: Bloomberg)



of tariffs, are likely to provide a modest inflationary buffer this year. Next year is an entirely different story. The US economy may end 2025 with a very meager inventory balance, suggesting any inventory builds in 2026 will be at much higher prices.

Things That Go Bump in the Night

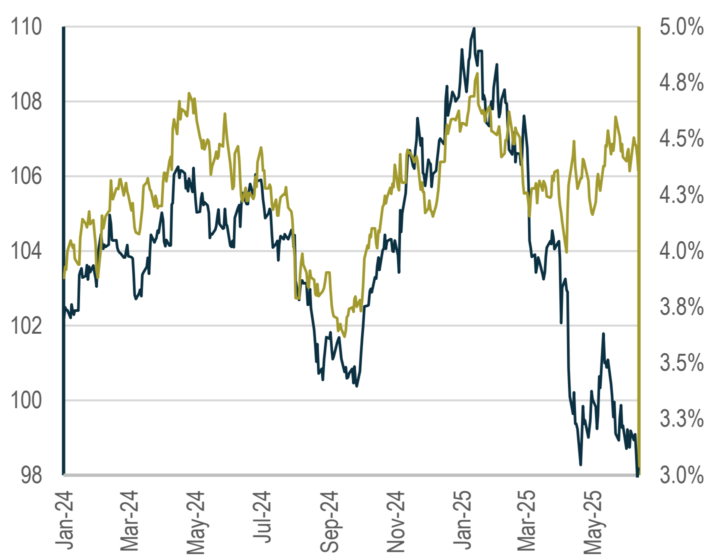
At the end of World War II, the United States assumed a global leadership role previously held by stolid European colonists. We largely funded the rebuilding of the world, protected global shipping routes and trade, and vanquished the only remaining political ideology that competed with liberal democratic capitalism. But since Brexit, the international system of collaboration has begun to give way to renewed nationalist tendencies. US exceptionalism, the idea that the United States is distinctive, unique, and exemplary compared to other nations worldwide, is beginning to fade. This is a perilous trend, which, if it continues, will have significant ramifications.

Throughout financial history, higher US interest rates have coincided with a stronger dollar, as foreign investors crowded the market for US sovereign bonds. Something different is happening recently. Dollar weakness is coinciding with high government bond yields. While not yet a buyers' strike, foreign bondholders are not clamoring for high US bond yields. To some degree, many countries are facing increased demand for investment capital within their borders, leaving less capital available for investment abroad. But there is also a growing lack of interest in US paper, in general.

If this environment persists or gets worse, the US government will be forced to pay higher and higher yields to attract sufficient demand for the record issuance needed to fund growing fiscal deficits. Increased issuance will begin to crowd out corporations and municipalities, which will push up US issuer borrowing costs across the yield curve. Higher bond yields will make US stocks less attractive.

Most of our client portfolios include fixed-income allocations, such as corporate and US sovereign bonds. We own these positions to provide yield income that is uncorrelated with equity exposure. We believe that using fixed income for this purpose remains appropriate. But investing in bonds for primary capital appreciation may be foolhardy for the next few years.

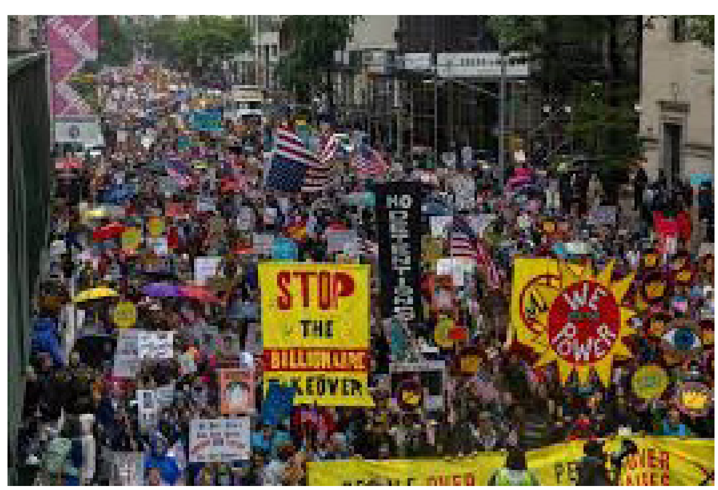
10-Year US Bond Yield (Gold) and Dollar Index (Blue)
January 2, 2024 - June 13, 2025
(Source: Bloomberg)



One More Thing

One more thing. In the history of world affairs, contempt of one class or race by and for another is the foundation of all revolution.

Over the weekend, Minnesota state representative Melissa Hortman and her husband, Mark, were gunned down. State Senator John Hoffman and his wife, Yvette, would be wounded in separate but related shootings. The suspect, Vance Boelter, impersonated a police officer to enter the victims' homes and then fled. While leaders from both parties were quick to denounce all political violence, it is being born, at least in part, by the vitriolic language used by both sides.



Demonstrations are sprouting in cities around the country. No particular issue seems to be driving the demonstrations, although immigration appears to be the match that lit the fire. Photographs show a plethora of placards, each advertising a different issue. One key element is their contempt for President Trump. A tag line is trending that many of the groups have latched onto—No Kings.

Without question, Donald Trump is a polarizing figure. But he is an elected figure. Elected by more than half of the Americans who cast votes last November. Not a king by conquest or ascendancy. Our constitution grants protestors the right to free speech and assembly. But courts have restricted that right not to include yelling "fire" in a crowded theater.
It's time for extreme caution. Contempt has no place in a free society. It breeds hatred, which has been the "justification" of all atrocities, large and small.

Conclusion

That's it for this *Weekender*. Have a wonderful week.

Disclosure Statement

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