Rest Well Jeremy

Weekender

March 29, 2025

Life is too short to wake up with regrets. So love the people who treat you right.
Forget about those who don't. Believe everything happens for a reason.
If you get a chance, take it. If it changes your life, let it.
Nobody said life would be easy, they just promised
it would most likely be worth it.

Harvey Mackay

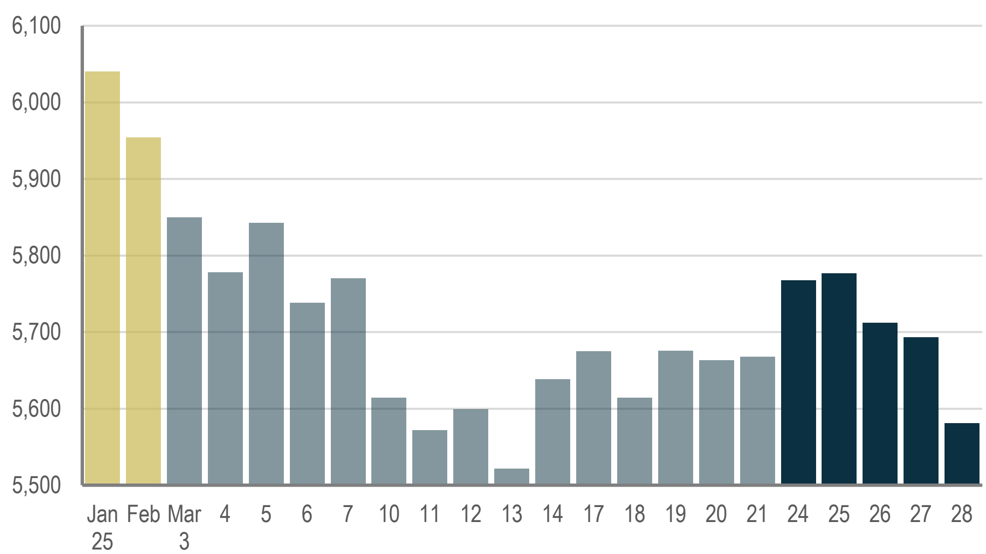
And above all, watch with glittering eyes the whole world around you
because the greatest secrets are always hidden in the most unlikely places.
Those who don't believe in magic will never find it.

Roald Dahl

Good morning, and welcome to the *Weekender* for Saturday, March 29, 2025. Equities were buffeted by the changing trade winds of tariffs on and off, strong and soft, transitory and permanent. By Wednesday, US markets, as measured by the S&P 500 Index, seemed poised for a positive week after five consecutive negative ones. But Friday's market swoon, motivated by concerns that additional tariffs to be announced next week would tip the economy into recession, erased positive gains, sending the S&P 500 lower by -1.9 % at Friday's close.

S&P 500 Index Levels

(Source: Bloomberg)



US equity markets peaked on February 19, 2025, feeling their oats from expectations that a Trump presidency would be stimulative for the economy and good for stocks. However, tariff rhetoric, which most thought would only be used as a cudgel in "high-stakes" bargaining, morphed into reality, and target countries responded in kind, igniting a tariff war among friendly nations. The pedestrian realities of tariffs began to weigh on markets. The S&P 500 is lower by -9.2% since the peak in February.

The S&P 500 lost 10.1% of its value from mid-February to mid-March. After an incredible post-pandemic bull run, finally, a correction. Hoping for a bottom, market strategists quickly published bullish tropes suggesting that markets had now reset with only upside remaining. The waters were warm and inviting. But crocodiles hunt in warm water.

We do not believe the current market retrenchment is a harbinger of better days around the corner. While equity prices have blown off some foam, no mending has been accomplished. In October of 1942, during a period commonly referred to as "The Hinge of Fate," Russia stopped the Germans at Stalingrad. The British opened a successful offensive in El Alamein. Rommel's forces were entirely retreating in East Africa, and the Allies began landings under "Operation Torch." Churchill was asked if it wasn't time to raise the hearts of Britons and proclaim that an end to war was on the horizon. His response was, "Now, this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning."

Comparing current financial market behavior to the greatest struggle in history risks bending credulity to a breaking point. Even so, we believe any attempt to wave off the challenges ahead for financial markets is equally foolhardy and disingenuous. We do not think markets are near capitulation or reset.

Given Friday's market moves, we changed the focus of the *Weekender*. In this issue, we provide a snapshot of equity markets and drivers. Our one more thing segment is about the dangers of supporting untrue things. Remember to discuss all financial decisions with a qualified financial advisor.

Market Narrative

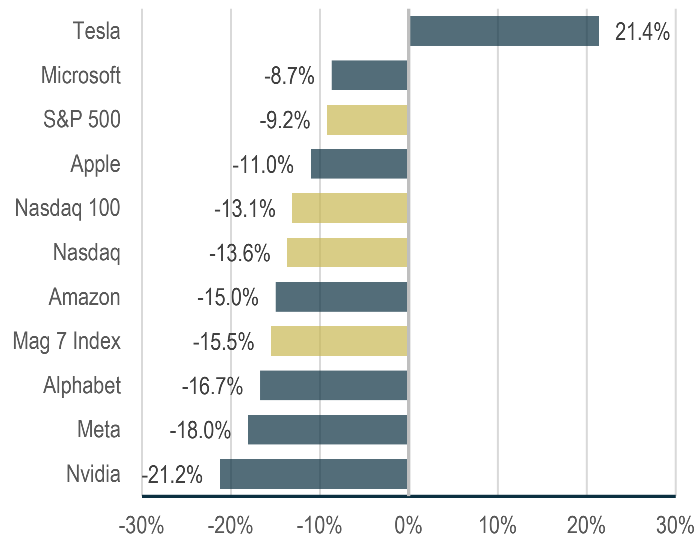
For almost all of 2023-24, equity performance was driven by large equity whales, sometimes called the magnificent seven. A lopsided market developed where the Mag 7 was highly overvalued, and many once notable ordinary names were underappreciated and cheap. Since the market peak in February, the Mag 7 has been retreating, except for Tesla. More on that next week.

We have been holding Nvidia for years and, by necessity, trimming positions as stock gains made the position too large to accommodate diversification. However, having lost a third of its value in the last few weeks, Nvidia currently trades at 23.9x estimated profits, which are expected to grow at 55.2% annually over the next three years. The stock is the cheapest it has been in a decade. We believe the artificial intelligence story is in its infancy, and Nvidia makes diapers.

Percent Returns

February 19 - March 28, 2025

(Source: Bloomberg)



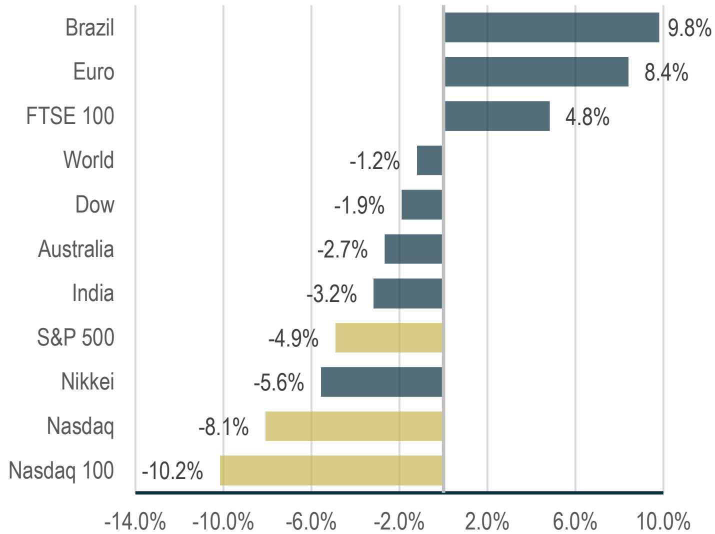
Telsa, on the other hand, trades at a valuation almost twenty times that of its peers. Props to Elon Musk in every way possible as perhaps the greatest entrepreneur of our time. However, there is nothing to justify such a valuation asymmetry. As markets gyrate, divergent opportunities like Nvidia and Tesla will be revealed, creating unsuspected opportunities and entry points.

We remain broadly overweight in the United States and have an opportunistic outlook abroad. That means our primary equity exposure is in the US. However, when we find a non-US company that is reasonably priced and not handicapped by the secular decline in Europe, creative stagnation in Asia, or market dysfunction in Latin America, we consider them seriously. Candidly, such opportunities are rare.

Year-to-date outperformance in Europe has not come from superior fundamentals. Outperformance is strictly a function of discounted valuations. Given the deteriorating fundamentals, the valuations deserve to be discounted. For that reason, we remain highly suspicious and selective when looking abroad.

Year-to-Date Returns

January 2 - March 28, 2025
(Source: Bloomberg)



Gold continues to hit new highs on concerns about the strength of the US economy and, more significantly, the US dollar. Dollar spot prices have been lower by 5.4% since the mid-January highs. Over the same period, gold was higher by 15.8%, and Bitcoin was lower by -12.6%. When the world feels worried, gold beats Bitcoin as the stable reserve.

At the end of last year, we expected our 2025 fixed-income allocations would be thin. In January, we changed

Year-to-Date Returns

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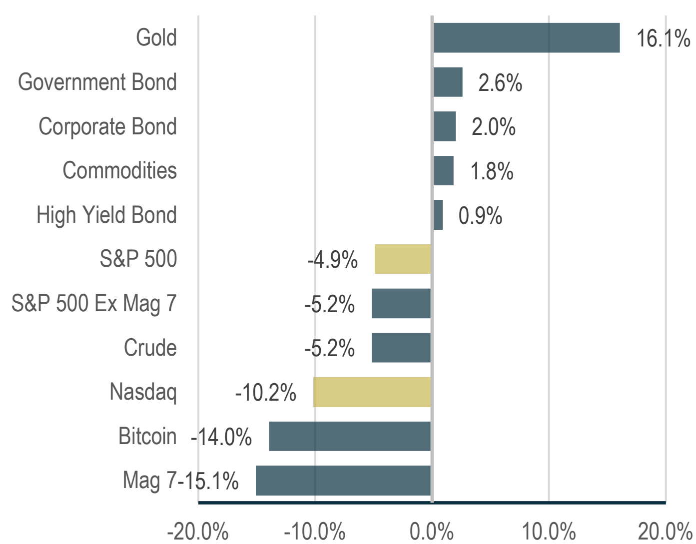
(Source: Bloomberg)

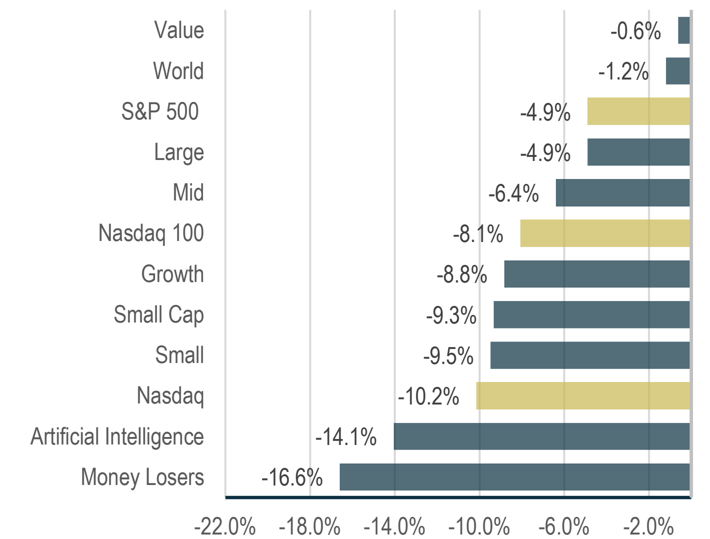


our minds and made considerable allocations, primarily to investment-grade bonds. The primary reason is continuing our "higher for longer" interest rate outlook. We expect bonds to carry their weight for the rest of this year.

Another shift we have been telegraphing for a few months is the relative attractiveness of value versus growth. Year-to-date, value stocks have done much better than more expensive growth stocks. This shift in sentiment and performance has been a primary driver in our 2025 reallocation.

Year-to-Date Returns

January 2 - March 28, 2025
(Source: Bloomberg)



The riskiest stocks are shedding returns much more than stable players. Money-losing companies were the worst performers among equity categories, suggesting investors

Year-to-Date Returns

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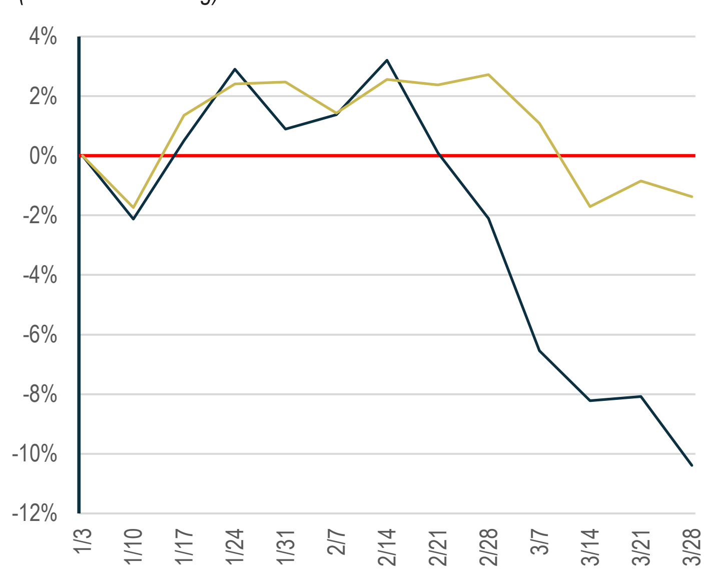


no longer take a wait-and-see stance. Instead, they are looking for companies with a proven profit model, pricing power, and resilient demand—constraints we also find essential.

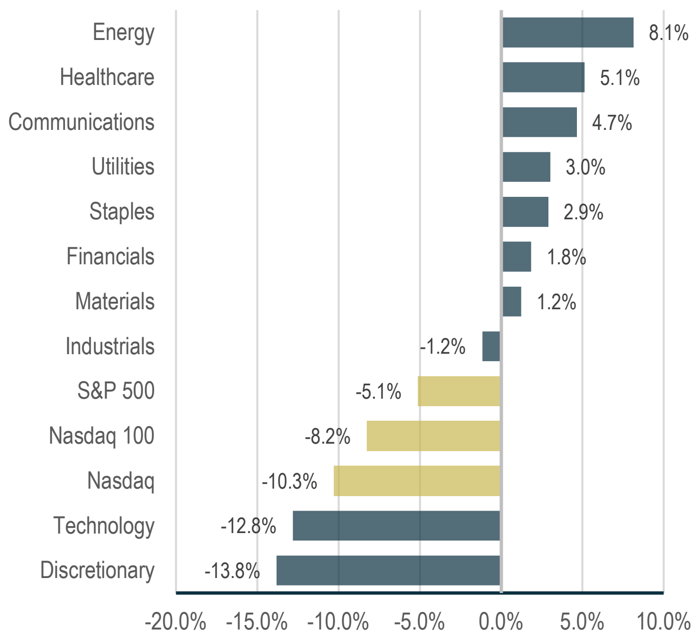
Taking a short-term perspective, value (gold) has taken a very protective mantle since the equity market peak in mid-February compared to growth (blue)

Similar protective instincts can be seen comparing year-to-date sector returns. Healthcare, communications, utilities, staples, and, to some extent, financial services have been historically protective in times of economic distress. Energy is an outperformer for different reasons. Having spent the Biden years in the woodshed, energy is coming out in the world of "drill baby drill."

Year-to-Date Returns

January 2 - March 28, 2025

(Source: Bloomberg)



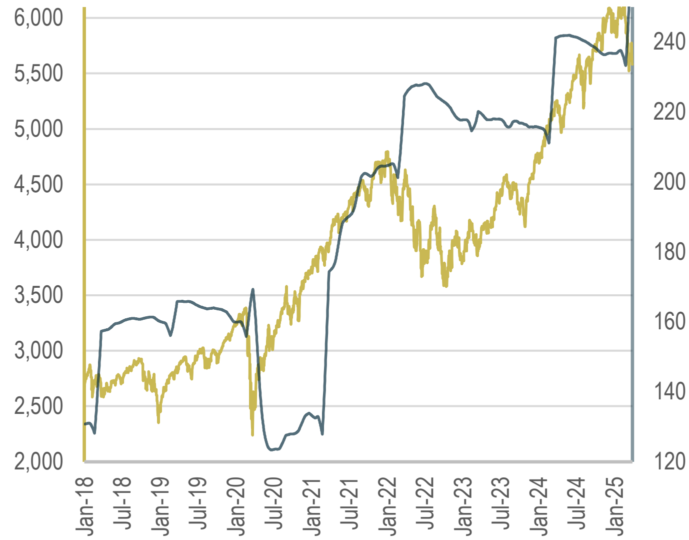
Based upon historical comparisons, every sector, except energy, trades at premiums to "steady state" valuation multiples. A steady state multiple is an average multiple during periods that do not include recession or post-recession bull markets.

Over the last few weeks, several companies have begun releasing earnings. The cadence for such releases will increase dramatically in April. We expect companies to highlight their concerns about profits, margins, and demand in the coming year. We expect profit expectations to begin falling, wiping out any profit growth by the fourth quarter of the year. This is not baked into current stock prices, suggesting continued softness ahead.

S&P 500 (Gold) and EPS Estimates (Blue)

January 2, 2018 - March 28, 2025

(Source: Bloomberg)



Economic Roundup

For months, markets have been flummoxed by increasingly negative consumer sentiment data and corporate profit warnings suggesting the consumer was weakening, while macroeconomic data suggested everything was full steam ahead.

In staccato form, the US economy seems well centered on the consumer. Retail sales are strong, the residential home building space is as profitable as ever, and new additions to inventory are sufficiently constrained to keep pricing taut. Inflation has flattened at about 2.8-2.9%, depending on the survey, which, although almost a whole percentage point above the Federal Reserve target of 2.0%, is at a level signaling neither concern nor contentment. Labor market indicators suggest the labor force is fully employed with sufficient employment opportunities to mop up potential job seekers.

However, survey data also show that consumers are worried about the future. Inflation expectations a year ahead are rising, which, if they come to fruition, will keep interest rates higher for longer. Tariffs are, by their nature, inflationary. How they are being applied today seems haphazard and thoughtless, creating heightened insecurity and resulting in consumer decisions that are not always rational or predictable.

Car buyers have been rushing to dealers to pick up vehicles likely impacted by tariffs in the coming months. Automakers are also pushing out inventory to their dealers. The net and proximate result is higher new car prices, which will also lift used car prices. Without question, consumers will see higher prices because of tariffs. Not just on cars and trucks. In the long term, manufacturing may return to the United States to some degree or even a large degree. But that is not a real solution. Moving manufacturing to the United States will create more expensive cars and trucks. In many ways, the Trump Administration is falling for the deception of all commanders. He is fighting the last war.

We should focus on training our citizens to succeed in an AI-infused world that even the smartest prognosticators cannot fully elucidate. By focusing on tariffs, we are, in effect, preparing to bring sticks to a gunfight.

In next week's *Weekender,* we will provide a more thorough assessment of the US economy using a full slate of March data.

One More Thing

One more thing. Our family is getting together this weekend to celebrate the life of our eldest child, Jeremy. We will have a big bonfire, eat treats, and share Jeremy's memories. We do it every year. We all carry a keychain with his birth date as a remembrance. His impact on all of us is so lasting that we regularly engage his memory in everyday conversation, "Jeremy would like this or that."

In January of 2006, our daughter Rebekah, who struggled with various autoimmune illnesses her whole life, was admitted to the University of Washington Medical Center intensive care unit. Her lungs were stiffening, making it difficult to breathe. Within a day, she was placed in a medically induced coma and intubated to enable a respirator to take over her breathing. While in a coma, she suffered four different watershed strokes from extremely low blood pressure.

Because of the acute nature of her condition, Rebekah was kept in a coma for months. When the doctors finally felt it was safe to bring her out, we had a complicated discussion with neurologists as they tempered our expectations given the nature of her brain injury from the strokes. We brought the family together and shared all we knew.

As Rebekah was put into a coma, she was justifiably nervous and worried. We promised her that my wife or I would stay in the hospital with her until she recovered. Through a series of miracles, her body eventually began to mend, and the drugs keeping her still and unconscious were gradually tapered, allowing her to come out. One of her new and now persistent cognitive limitations is her inability to form new memories.

As Rebekah continued to recover, we invited her siblings to spend time with her in the hospital so she could become reacquainted with family and recall memories lost during the ordeal. One day, when we came back to the hospital, we found her crying, which was not uncommon given the emotional incident of her situation. While we were away, her two brothers, at that point about 12 and 10 years old, informed her that while she was unconscious, their oldest sibling, Jeremy, had passed away in a tragic accident. In her hospital stupor, she confessed no memory of Jeremy. Sensing an open door, the brothers spent hours regaling her about this beloved brother by creating a complete narrative and persona for Jeremy out of whole cloth.

It was a relatively harmless prank by typically deviant children. To be clear, Jeremy doesn't and has never existed, but we have memorialized his fictitious birth and added life stories that are now part of our family lore and heritage. When someone does something untoward, we blame it on Jeremy and escape the burden of investigation or personal responsibility. As a family, Jeremy is a humorous cultural oddity, an outlet for stress, and a source of small talk. But he's not real.

For those interested, no children were harmed in making this story, which was certainly justified. However, like most childhood adventures, the parents did not find out until long after the infraction, so the humor outweighed the offense.

So much of what we believe as a society and individuals is not real. We sometimes create dominant narratives based on complete fiction. Therapeutically massaged facts often inform a false narrative used to justify ourselves or our positions or beliefs. Sometimes, a convenient but false belief permits us to deflect responsibility or accountability, successfully delaying or removing a need to change in the face of contravening facts or conflict.

My personal story is included here as a preface to the coming *Weekenders.* We believe it is increasingly important to present accurate and clean data and extrapolate narratives based on the data. In short, let the data tell the story. Some stories will not comply with firmly held narratives. Be prepared.

Conclusion

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

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