

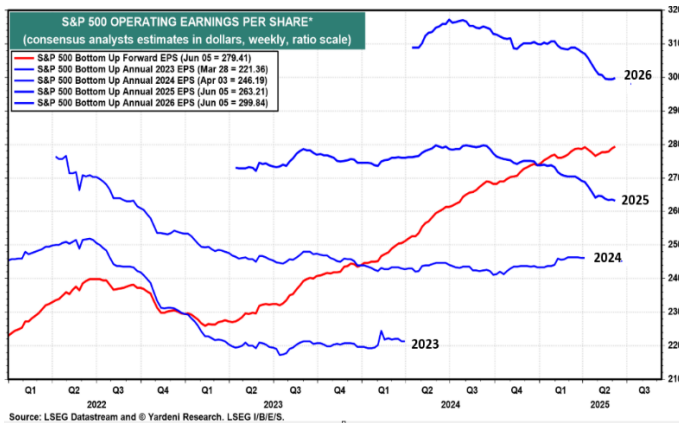
LAURELHURST ASSET MANAGEMENT

John's Market Outlook – June 23, 2025

Last Outlook, I said *"tariffs and trade threats [are] flip-flopping faster than business can adapt"*. I lowered equity exposure and added foreign stocks. In 2Q I added more foreign exposure.

US trade policy remains uncertain and volatile. Tariffs on China were raised to 125% then lowered to 30%, export bans imposed then paused, with more changes ahead. Tariffs on "rest of world" were set at 10% to 40%, quickly paused, new tariffs are promised in July. Industry tariffs (cars, steel, semiconductors, etc) are ever-changing. The US-UK trade pact may already be at risk¹; no-one else has made a "deal" with the US.

Investors see the House budget bill adding \$2.4 trillion to deficits.² Treasury yields are rising. Foreign investors fear higher taxes on US holdings.³ Federal funding cuts and immigration actions are business disruptors. Some industries are overtly slowing (manufacturing, transportation, retail, healthcare, renewables) with small businesses most affected. Employment is starting to weaken. Housing is getting weaker. Growth in the US economy is broadly slowing.



investment flows have started to shift from the US. S&P 500 earnings estimates are falling (see chart above). US markets have lagged foreign markets year-to-date.

Investors will soon turn focus to 2026. With current policies, the economy and corporate earnings will be pressured. Achieving the administration's economic goals will be harder/slower with the business environment so unpredictable. S&P 500 valuation is back to 22X P/E, which normally requires falling rates and/or rising estimates - I expect neither.

Portfolios are defensive but not yet "highly" so. With strong momentum exiting 2024, the US economy is still not near recession. Higher deficits may act as "fiscal stimulus" in the short-term. Investors expect the US to walk back tariffs if markets fall hard. Non-US markets are resurgent, and we are well exposed. Israel is

¹ The US agreed no tariffs on UK steel exports, but is now threatening to impose such tariffs.

² Congressional Budget Office, 6/4/2025 projected 10 year deficit increase versus current law.

³ House Budget Bill section 899: 20% sur-tax on investors from countries designated by the US government.

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eliminating the last nation-state threat to Middle East peace. China is the loser if Iran's oil exports are disrupted. Iran may block the Strait of Hormuz but as a last resort.

Our sector and stock outlook is overall similar to last quarter, with some adjustments.

- In addition to European defense names like Fincantieri (FCT-MIL), I added European industrial names like Siemens (SIEGY) and Bilfinger (GBF-ETR)⁴. Ex-US names are now over 30% of most portfolios, with diverse names like Danone (DANOY), BAE Systems (BAESY), Rheinmetall (RNMBY), Wal-Mart de Mexico (WMMVY), Coca-Cola Europacific (CCEP), Deutsche Telekom (DTEGY), and MercadoLibre (MELI).
- Concern over US policy, less global trade settling in \$USD, and dollar weakness has led some central banks to reduce reserve exposure to Treasuries. I continue to hold duration short, favoring T-bills over Treasuries. Gold (GLD) benefits from more central bank buying and weak \$USD.
- Slowing demand, excess inventory, and AI excitement put many non-AI semiconductor names in a deep slump last year. With pressures easing, I bought ON Semi (ON) and Microchip (MCHP).
- The construction outlook is getting worse from tariffs, Congress,⁵ and accelerating housing declines.⁶ I trimmed construction/materials names, like Knife River (KNF). Slower new housing supply is good for apartment REITs. I have exited REITs with retail and commercial exposure.
- Tariffs have so far *not* boosted US manufacturing, but *if* it does, new work will be automated; I added factory automation name Fanuc (FANUY). The quickest way to re-shore production is via outsourcers; we have Jabil (JBL) for electronics and Lonza (LONN-SWX) for pharmaceuticals.
- Tariff fears took some quality US consumer cyclicals, like Columbia Sportswear (COLM), Ulta Beauty (ULTA), Dow (DOW), and VF Corp (VFC), to Covid-low prices and I added. Note Dow's 10% dividend yield.
- While I like insurance, a non-discretionary sector benefiting from higher rates, I reduced Mercury General (MCY), the California insurer bought during the SoCal fires, after it recovered to its pre-fire price.
- The administration is pressing antitrust actions against mega-cap tech. I think Google (GOOG) faces more risk than Meta (META), which informs our exposures. The OpenAI-Microsoft (MSFT) partnership is fracturing. Investors are scrutinizing tech companies' huge AI spending⁷. I added to "secondary" AI names like Oracle (ORCL), Broadcom (AVGO) and Marvell (MRVL) which have more scope to impress.
- China's retaliatory rare earth ("REE") embargo exposed Western vulnerability. Our REE name, MP Materials (MP), lacks "heavy" REE; I may add Lynas (LYSDY) which has that capability.
- Damage to biomedical research and drug development is worse than I expected. HHS has cut access to current Covid vaccines and blocked new ones, halted avian influenza vaccine development. Beyond vaccines, FDA has slowed new drug approvals and NIH has slashed medical research. Medicaid cuts will hit some healthcare providers. I exited Moderna (MRNA) and all life science equipment names. On the positive side, HHS has not targeted diabetes/obesity treatment where Lilly (LLY) is taking share.

I would be happy to go deeper into this outlook and other investment topics than was possible in this brief summary. Please email johnliu@laurelhurstasset.com or call 510 847 0070. Thank you!

⁴ / FCT-MIL shown in portfolios as "FNCNF", GBF-ETR as "BFLBY", LONN-SWX as "LZAGY".

⁵ / New factory projects are stalled by business uncertainty. Congress will end most renewable energy incentives.

⁶ / House prices are declining in over half the country and slowing elsewhere. New and existing home sales are very weak.

⁷ / Total mega-tech AI capex 2023-2026 will exceed \$1TR, with AI revenue running about \$30BN/year at negative profit.

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APPENDIX TO JUNE 2025 OUTLOOK – SELECTED CHARTS AND TABLES

After two years of stability, current-year and out-year EPS estimates have started declining.

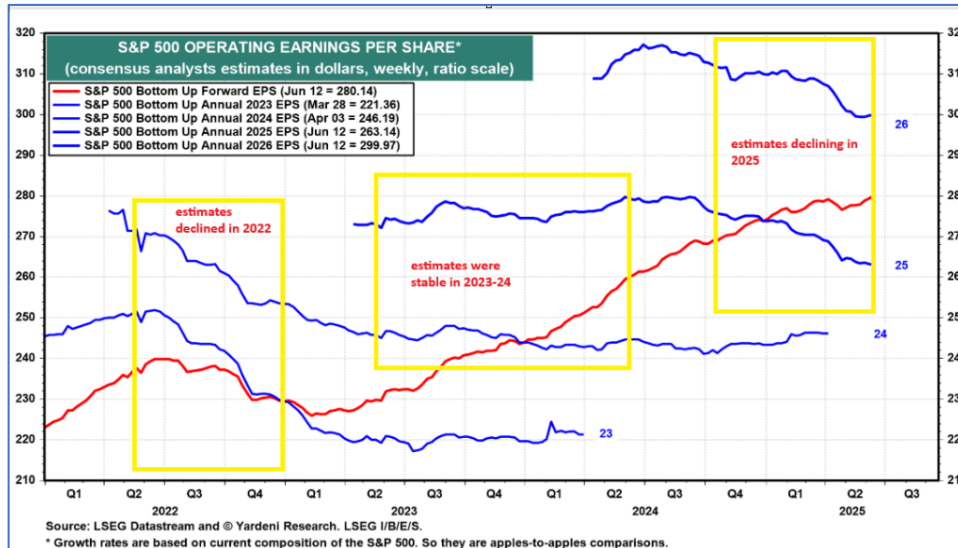


Chart from Yardeni Research

So far, the decline is from lower profit margin expectations.

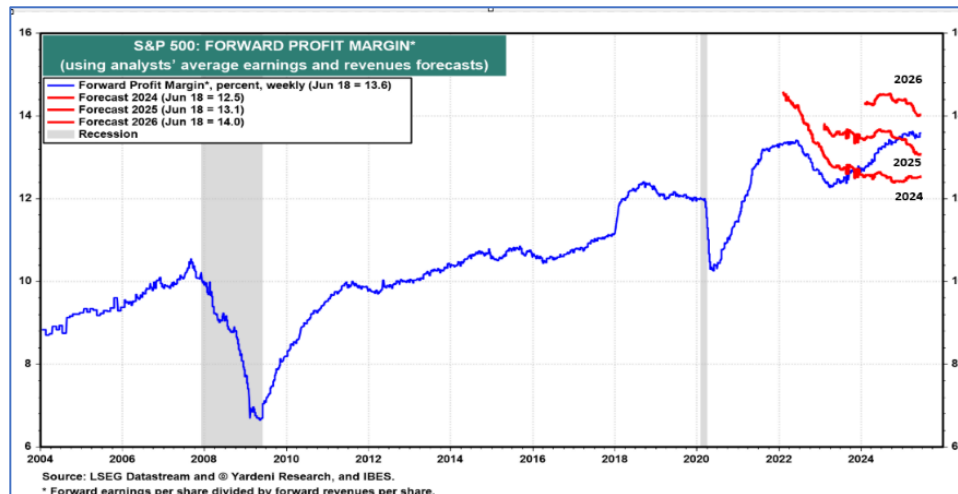


Chart from Yardeni Research

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Tariffs will show up in some combination of higher prices, lower sales, and lower margins. So far, investors are most concerned about margins.

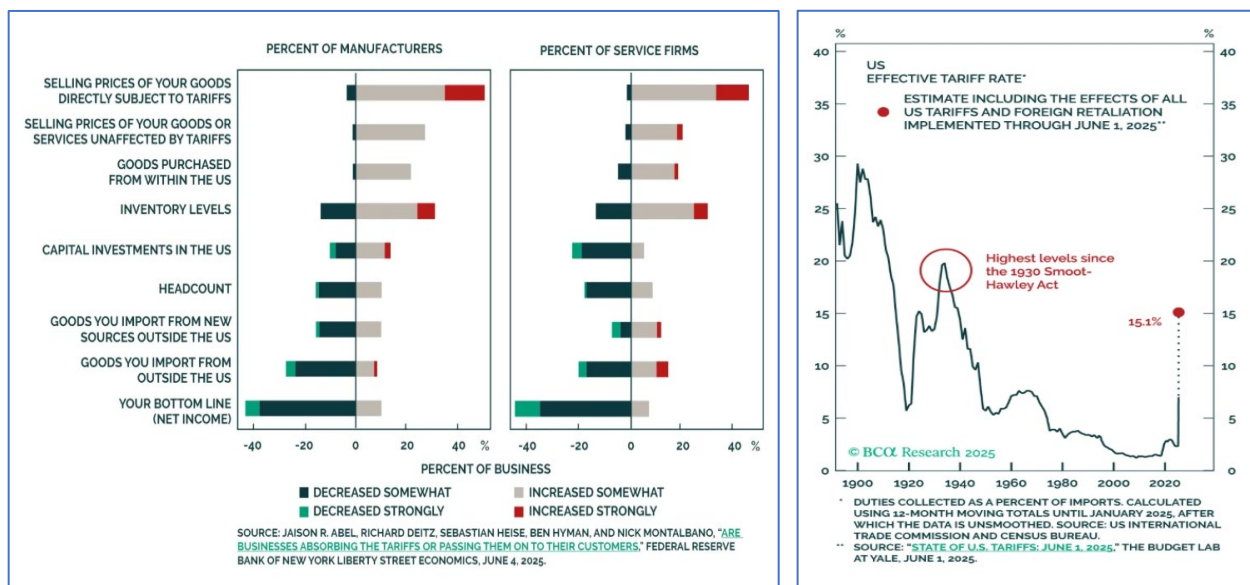


Chart from BCA Research

Companies built up enough pre-tariff inventory in 1Q and April to carry sales for several months. During 1Q earnings calls, most retailers expected tariffs to start significantly affecting margins starting in 3Q25.

Manufacturing indices have been contracting for two years. Services ("nonmanufacturing") indices have been solid but are now slipping toward contraction. Most of the economy is services.

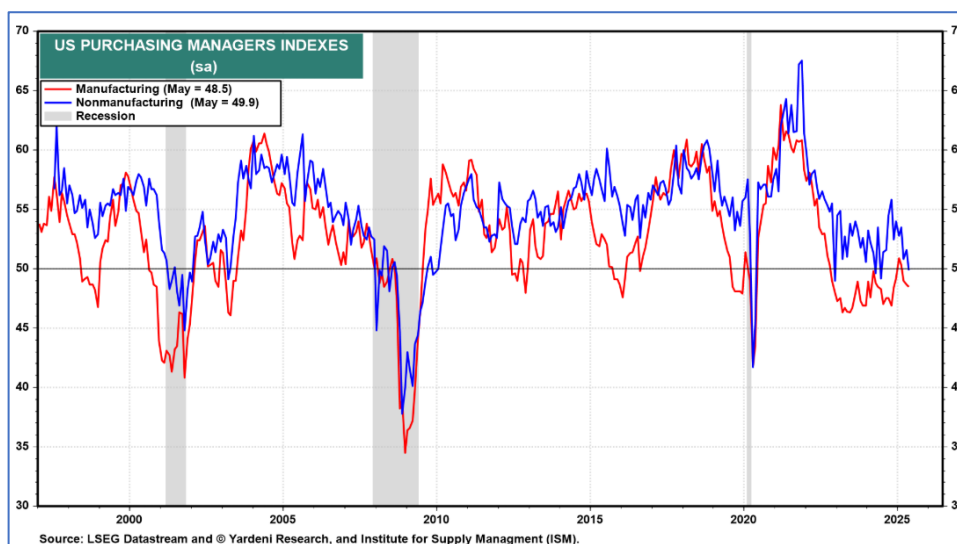


Chart from Yardeni Research

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The Federal Reserve's main inflation measure, core PCE, fell sharply in 2022-23 but progress stalled in 2024.

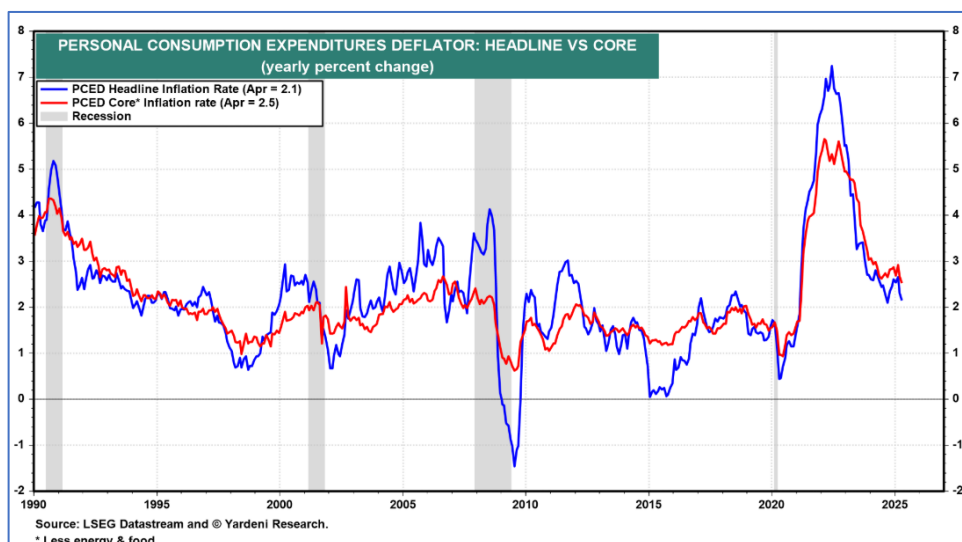


Chart from Yardeni Research

Unemployment and initial unemployment claims are still low, but continuing claims are higher/rising and job openings falling. Layoffs announcements are rising, not least in the technology sector.

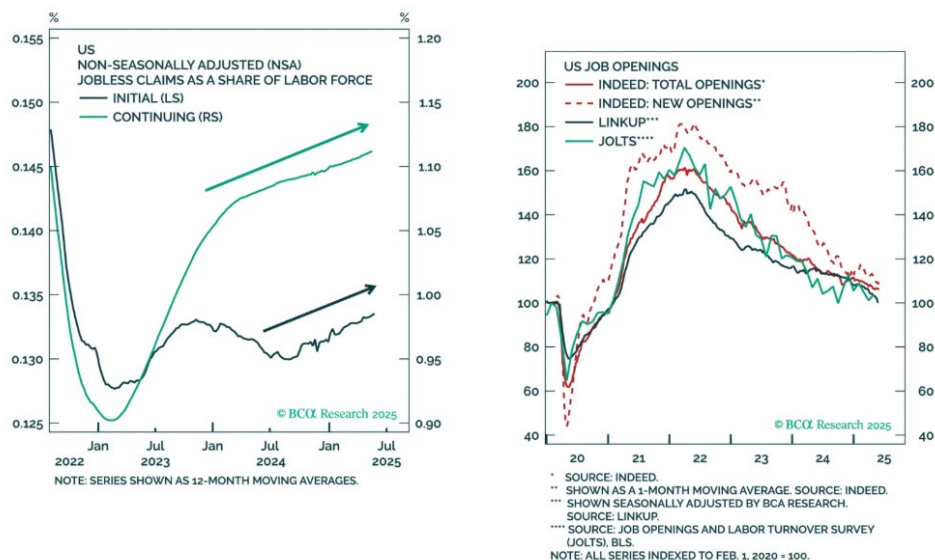


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With job openings falling, wage growth has slowed. Consumer spending is now outpacing income. Consumer credit delinquency is rising.

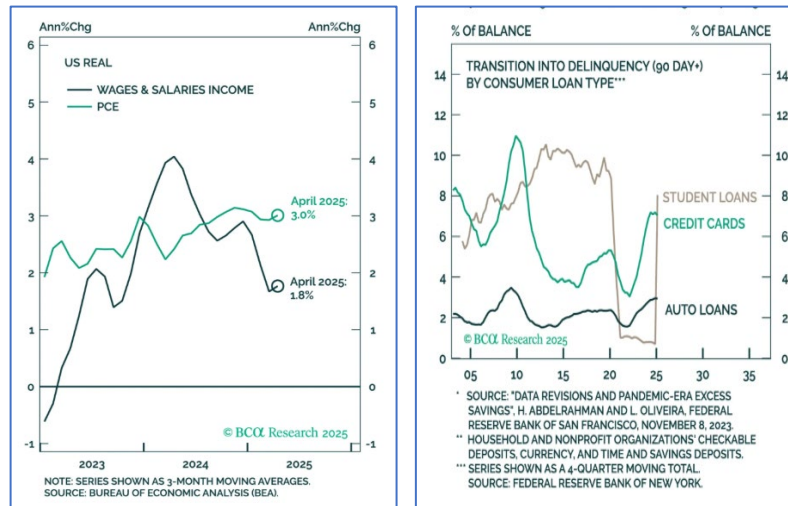


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