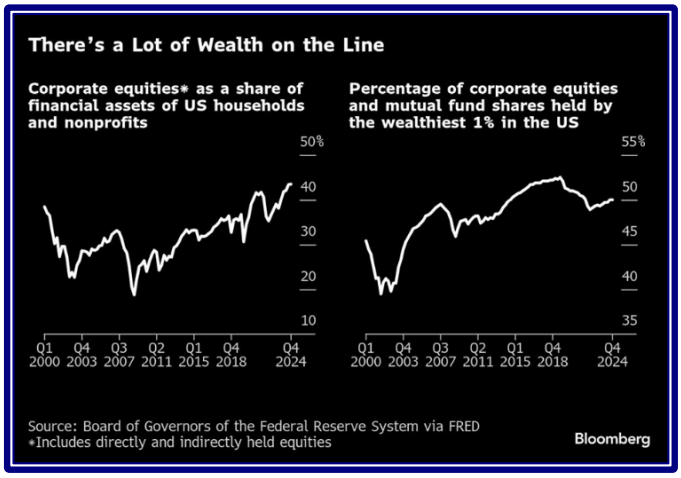
ALTMAN
INVESTMENT MANAGEMENT

EQUITY STRATEGY FOCUS

MAY, 2025

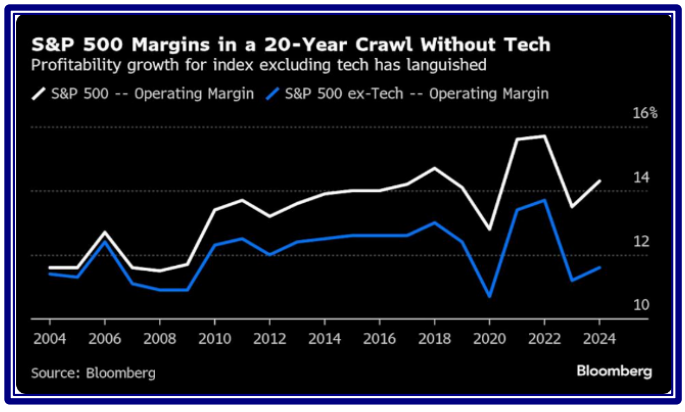
IN VIEW: Corporate Earnings Outlook

To date, the resilience in the economy has been supported by government spending, strong consumption, particularly by upper incomes, and AI spending. DOGE initiatives are focused on reigning in excess government spending. However, there is an overhang of concern surrounding whether tariff revenues will be enough to offset proposed tax cuts. This is particularly worrisome given the growing size of our national debt relative to GDP.



The wealth effect is a key lever that supports consumer spending in that people choose to spend depending on the value of their investment portfolios. As market volatility weighs on investment portfolios, diminishing sentiment could be a source of decline in overall spending levels.

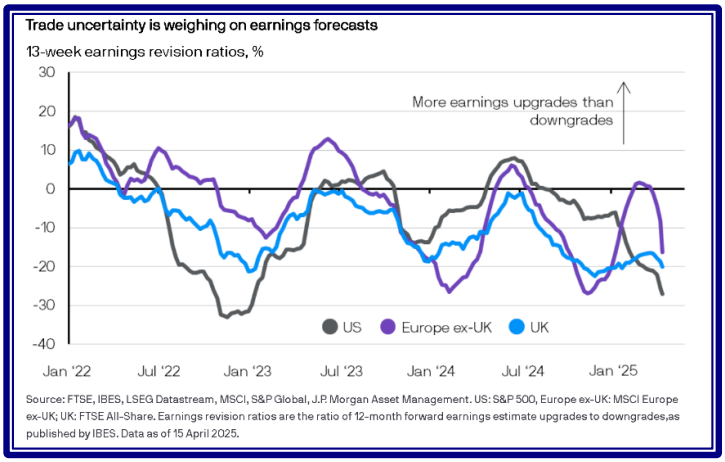
A higher inflationary environment stemming from tariff policy will only impede spending further. The Consumer Sentiment Index dropped significantly in April across multiple categories, such as age, income tier, education level, and political affiliations. Dwindling demand for auto loans and more conservative credit card spending are reflecting consumer caution. The 12-month Consumer Inflation Expectations remain elevated, reaching the highest levels since the early 1980s. This comes on growing fears of deteriorating business conditions, higher inflation expectations, and labor shortage concerns.



On the corporate side, Bloomberg Intelligence conducted a study highlighting that profitability growth has been narrow, with growth primarily emanating from within the Technology sector. Although this is not surprising, it emphasizes that company margins may be more vulnerable to tariff headwinds than the market is pricing in at this juncture. Excluding Technology, corporate operating margins remain below pre-covid levels. Balance sheets are indeed in better shape. However, the ability for companies to absorb higher input costs lacks flexibility and therefore higher costs will likely be passed through to end consumers.

The consequences for corporate profits based upon slower U.S. economic growth, is one of the most significant issues facing corporate America today. First-quarter earnings results so far this season underscore this concern. Major CEOs across all industries are warning of vulnerabilities. Lack of clarity on the trade policy front makes it nearly impossible to plan. As we await visibility, corporations are hesitant to hire, expand, or make any major strategic decision in general. Forecasting profitability is complicated when the outlook is uncertain. Consequently, we anticipate the lowering of guidance to continue, with some dropping guidance all together.

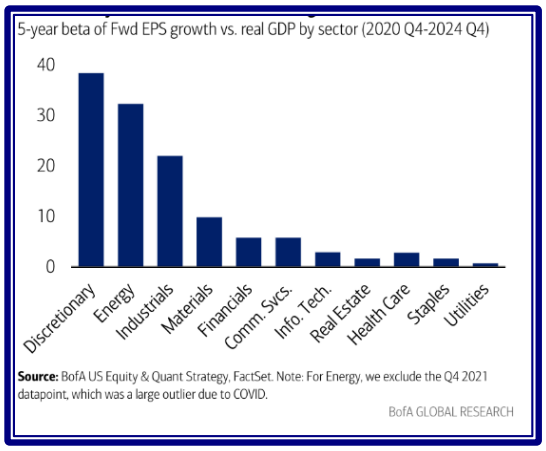
With limited forward guidance, analysts began cutting estimates before the start of the earnings season and they will presumably be looking for clues to gauge how much tariffs will weigh on future profitability. It is likely that full year earnings will be reined in further as tariff impacts funnel into upcoming economic data releases. Wallstreet bull Bankim Chadha of Deutsche Bank just lowered his earnings growth forecast, citing tariff impacts that are likely to disproportionately hit U.S. companies. He now predicts a 5% decline in earnings growth this year, while also lowering his S&P 500 year-end target by 12% to 6150. Chief global strategist David Kelly at JPM Morgan Chase is relatively more optimistic, with a 6% eps growth rate for 2025. That figure was recently revised downwards from 12% on tariff concerns and the impact on margins and consumer demand.



Consensus estimates have been revised lower by 4% over the past 3 months. Analysts now expect 6% earnings growth in 2025 and 14% in 2026. As noted by Bank of America (BofA) strategist Savita Subramanian, the 6% growth in 2025 includes a large write-down by Bristol Myers Squibb a year ago, and therefore excluding BMY, overall earnings growth is expected to be closer to 4%. We expect consensus estimates could come down further, as new economic data releases begin to reveal the impact of initial tariff policies. Analysts' estimates tend to be lagging and based upon current available data. The next few months of economic releases will begin to reflect changes in trade policy. Should this data reveal a slowdown in growth, we could see more pairing of earnings to come. According to BofA global research, the average hit to earnings is 20% during a recession. For every 1% slowdown in real GDP the negative effect on earnings growth in the range of an estimated 5-6% decline.

The majority of stocks are trading at a multiple of 18.3x earnings, as compared to 24.4x for the largest 10 companies in the S&P 500 index. During uncertain times such as these, focusing on high quality large cap companies with relatively low valuations helps control risk while staying invested.

Sectors Most Sensitive to Economic Activity



CLOSE-UP: Equity Sector Overview

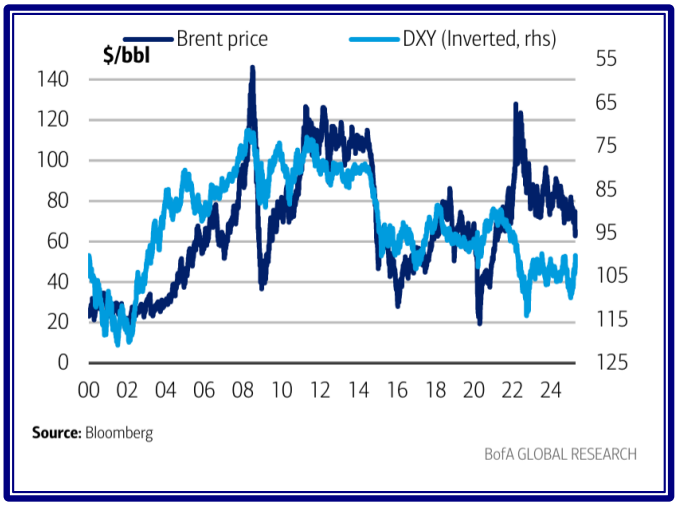
This earnings season, most banks beat earnings expectations on higher trading activity, deposit growth, lower net-charge-offs and expense management. Commercial and Industrial loan losses are still running below long-term median levels; however, they are beginning to show signs of stress. Capital market activity was mixed with lower investment banking volumes but higher trading activity. Buybacks ticked up in Q1, demonstrating ample excess capital. On the back of solid earnings, the outlook for banks depends upon deregulation, tax cuts, immigration policy and tariffs, all which lack clarity currently. A more significant economic slowdown risks impeding loan growth and net charge offs. With negotiations still on the table, and the promise of deregulation for the industry, following solid Q1 earnings, banks are in good position should the economic slowdown be short-lived thus avoiding a recession.

Bank of America (BAC) posted a strong quarter with earnings per share up 18% along with revenue growth, falling delinquency rates, and improving net charge-offs. CEO, Brian Moynihan, feels confident they are prepared at least over the short term for higher unemployment rates and slower economic growth. A strong capital liquidity posture, with credit quality built upon forward-looking reserve requirements, should help them navigate an environment should growth slow significantly from here. BAC has not yet seen an outsized demand for credit from its customers, as it did in the early days of the pandemic. But its business clients remain concerned about the potential impacts to supply chains and changes in costs. U.S. Bancorp also posted better than expected earnings. Management believes it has enough flexibility in expense control to meet its operating leverage targets. Loan growth and repricing should help reach its net interest margin targets. Buybacks are likely to continue, albeit with caution given the ever-changing policy landscape. Citigroup beat estimates with higher net interest margins and lower funding costs, and solid fixed income and equity trading revenues and merger and acquisition activity. CEO Jane Fraser is confident the company can "perform in a wide variety of macro scenarios", based upon U.S. remaining the world's largest economy and the dollar remaining the reserve currency.

The Financial sector has benefited, as investors have been focusing on limiting portfolio exposure to companies at risk from U.S. tariffs. The sector has strongly outperformed global benchmarks as well over the past two years, benefiting initially from rising rates, economic expansion and easy global liquidity conditions. The sector has been somewhat insulated from the threat of U.S. tariffs, as compared with the more trade-oriented sectors such as Technology, Industrials, Materials and Consumer Discretionary. Although the Financial sector could be vulnerable to a near-term consolidation phase given its relative outperformance, the sector has very positive longer-term fundamentals still in place. In addition, it remains at valuations well below even the weak levels of the 2010's, when financial companies were struggling to recover from the Global Financial Crisis (GFC).

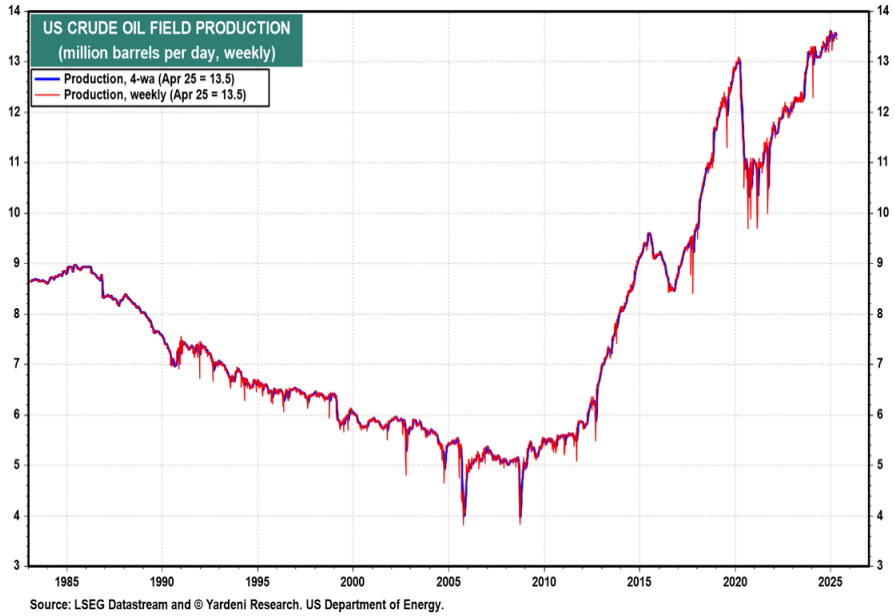
The rise in net interest margin has been escalating for the past three years, positively impacting the Financial sector's Return on Equity since the GFC. With the U.S. leading the pack, it still warrants a significant overweight in portfolios for the next 9 to 12-month time horizon. Although we believe this trend should continue in the near term for U.S. banks, we are focusing our research efforts on the international banking sector for the most dramatic outperformance ahead.

The Inverse Relationship Between the USD and Oil Has Broken Down



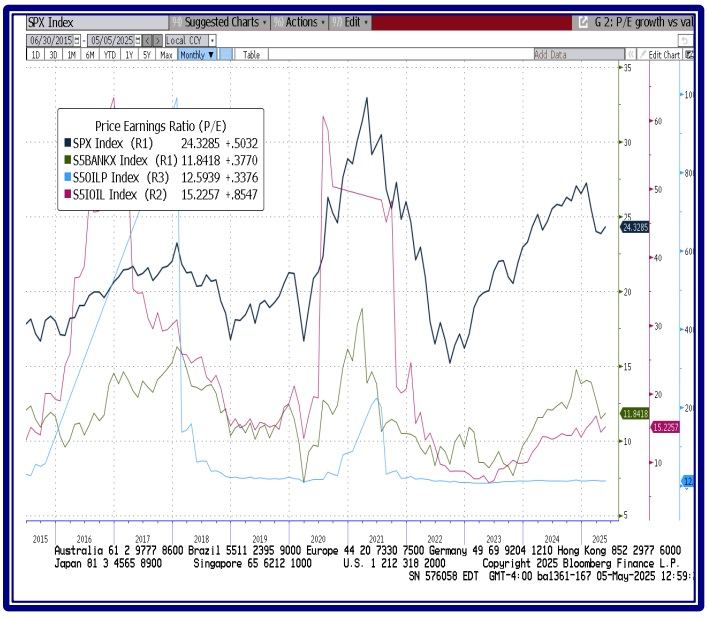
Oil prices have traded down to ~$60 a barrel, down from $80 in January. This comes as tariffs threaten demand on slower economic growth. Additionally, the unwinding of OPEC+ production curtailments stands to increase supplies on top of a weakening economic outlook. Oil prices are linked to trade not just directly through tariffs, but also via transportation costs across all market sectors and the value of the U.S. dollar. Historically, a weaker dollar makes oil more affordable, thus increasing foreign demand and in turn oil prices. However, since the U.S. has become a net energy exporter, a weakening U.S. dollar has been unable to support oil prices. Concerns surrounding a slowdown in economic growth appear to be overshadowing any positive price impacts on oil from a weaker dollar.

Comment on the recent OPEC announcement: As the second quarter unfolded, OPEC has been again the subject of the global landscape in which investors need to consider following a surprising move to increase production for a second consecutive month this year. This year's geopolitical surprises appear to be inconsequential, against the fear that the tariff uncertainty will end in recession and result in capping oil prices. One can at least surmise that U.S. oil producers are now faced with some real challenges in the year ahead, as OPEC opened the spigot (see chart below). No doubt, one could conclude that low oil prices will further weaken Russia's negotiating position with regards to any resolution of the war in Ukraine.



Banks, Oil Exploration and Production, and Integrated Oils Have Strong Relative Valuation Metrics





SUMMARY:

Treasury yield swings and stock market volatility have been wild enough to impact trade policy to some degree. However, more stable and transparent policies are necessary to support the markets going forward. Ideally, any progress made on negotiations coupled with pro-growth initiatives would be a welcome turn of events and could stave off fears of stagflation. For now, companies are in limbo awaiting clarity with regards to severity and sustainability of trade policies. If the road the U.S. is on goes unfettered, inflation from a weakening U.S. dollar and tariff impositions will prevail and corporations will be left to navigate the impacts of a slower growth and higher inflationary environment.

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Any performance reference represents a hypothetical composite compiled from actual equity, fixed income or balanced client portfolios and includes cash. These three composites reflect aggregated returns that address differing objectives. As such, the performance of each composite does not reflect the actual total portfolio returns earned by our clients. The investment performance records are compiled from a capital-weighted average of the equity, bond and cash components of a broad representative group of discretionary accounts that meet certain minimum size thresholds.

No gross performance returns referenced are calculated after brokerage commissions but before investment counsel fees are presented without the comparable net performance figures after both commissions, investment counseling fees and other custodial charges. The net counseling fees are the actual average counseling fee calculated across all the portfolios included in the composite. All performance figures are presented on a time-weighted total return basis and assume all income is reinvested. The investment advisory fees are disclosed in Part II-A of the Investment Form ADV. Some clients may benefit from available discounting in the management fee schedule associated with the overall size of the portfolio. Management fees will reduce overall returns to the client.

The composites were created in 2001, and the inception dates start on August 17th, 2001.The composites include only discretionary fee-paying accounts managed in the strategies, and additional information associated with the composites are available such as: dispersion in individual portfolio results as well as the % of the firms AUM in the strategy. All performance calculations are presented within the GIPS® guidelines of the CFA Institute. The CFA institute does not endorse or promote this organization, nor does it warrant the accuracy of the content herein.

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