

July 15, 2025

Quarterly Commentary

2nd Quarter 2025

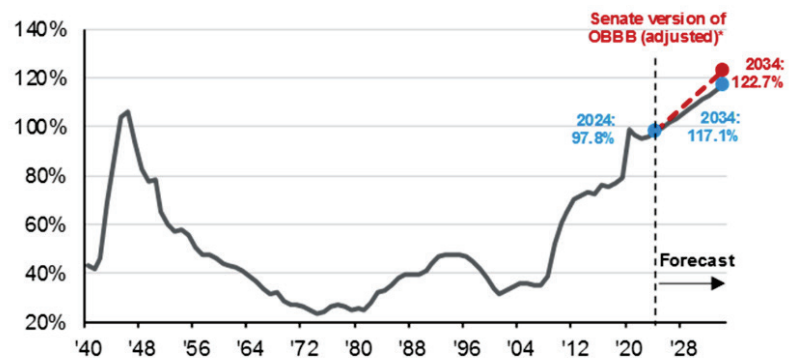
Changing Tides

What a volatile year 2025 has been so far. Financial markets and the global economy have been experiencing some significant crosscurrents. Many long-held understandings of how financial markets behave are being upended and questioned. A number of these developing themes have been favorable to our portfolios and have led to outperformance in the first half of this year. Below, we outline why we believe these trends will continue, as the market has begun to recognize some risk factors that we have positioned our portfolios to protect against for some time. We also highlight the return of very speculative valuation levels in other parts of the market that have driven index levels back to all-time highs and very stretched valuations. This return of speculation confounds us given so many rapidly evolving risks and changing dynamics, and thus we feel compelled to prepare our clients for the possibility of continued broad market turbulence. Overall, we remain optimistic about our diverse exposure to areas that we believe will continue to protect our clients in this period of rapid change.

There is increased discussion of the unsustainability of US federal government debt levels. Federal debt levels as a percentage of our gross domestic product (GDP) are approaching the all-time high, which was achieved while financing World War II. Currently, US federal debt totals \$36 trillion and with a budget deficit of around \$2 trillion this year, absolute debt is increasing at a rate of over 5% per year. The recently passed “One Big Beautiful Bill Act” is projected to add to this burden.

Persistently increased interest rate levels are expected to add to US federal government debt as the US refinances short-term debt

Chart 1: Federal Net Debt (Accumulated Deficits)
(% of GDP, 1940-2034, CBO Baseline Forecast, end of fiscal year)

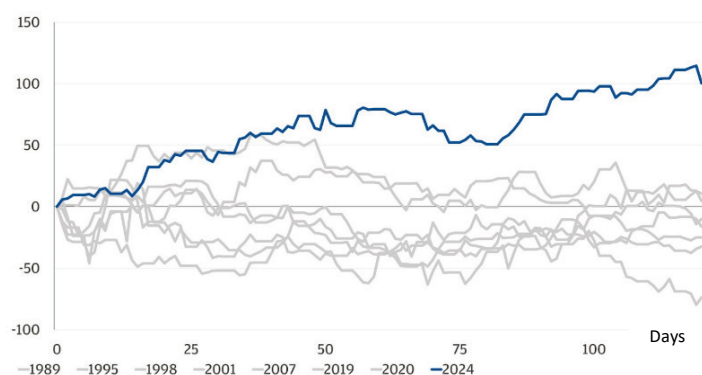


Source: JP Morgan Guide to the Markets

maturing in upcoming years. The average interest rate on US federal debt has nearly doubled in five years – rising from 1.77% in 2020 to 3.32% in 2024¹. Combining higher debt balances with higher interest rates creates a “snowball effect” on interest expense which has more than tripled over the last decade, growing from \$402 billion in 2015, which was ~12.5% of federal revenues, to an estimated \$1.250 trillion in 2025 or ~25% of annual US tax revenues. For the first time in history, the US interest expense is expected to surpass defense expenditures in 2025, barring a large military engagement.

Some of the most predictable ways that heavily indebted nations attempt to manage increasingly unsustainable debt levels are by attempting to reduce short-term interest rates (saving interest expense) and by devaluing their currency (reducing the purchasing power of dollars returned to bondholders). In late June, President Trump made it clear that he is likely to replace Federal Reserve Chairman Jerome Powell at the end of his term in May 2026, and he has even stated his inclination to nominate a successor amenable to lowering interest rates regardless of the impact on inflation. Since then, Powell has stated publicly that the Fed may lower the bar for cutting rates. We are not surprised that, presidential pressure or not, the monetary policy makers at the Federal Reserve will seek to reduce short-term interest rates as soon as they can. However, we have long warned in our commentaries that it is a fragile assumption to believe that the Federal Reserve can continue being a grand puppet master for the entire interest rate curve. While the Federal Reserve does have significant power to set short-term interest rates, it is the market that sets longer term rates. And we believe we have seen evidence that the unsustainable fiscal path is beginning to influence rates that investors require the US to pay when borrowing for longer durations. For example, when the Federal Reserve cut short-term interest rates last year, 10-year government yields actually climbed. This is highly unusual compared to prior rate-cutting cycles in history as shown in Chart 2. The blue line shows the path of the 10-year yield (vertical axis) in the days (horizontal axis) following the Fed’s first cut in September 2024 compared to the initial rate-cuts of previous

Chart 2: Change in 10-Year Yield After First Fed Cut
(in basis points)



Source: JP Morgan, Bloomberg Finance LP. Data as of 1/15/24.

cycles back to 1989. Despite the Fed reducing short term rates, the 10-Year yield actually rose by around 100 basis points (moving from 3.6% to 4.6%) during the initial 100 days, reflecting investors’ expectations for the Fed to attempt to inflate its way to a lower debt-to-GDP ratio. Historically, US Treasuries are an unusually reliable safe-haven asset, meaning when investors start to panic about most any negative headline, US Treasuries rise in value and decline in yield. In the

¹ <https://fiscaldata.treasury.gov/interest-expense-avg-interest-rates/>

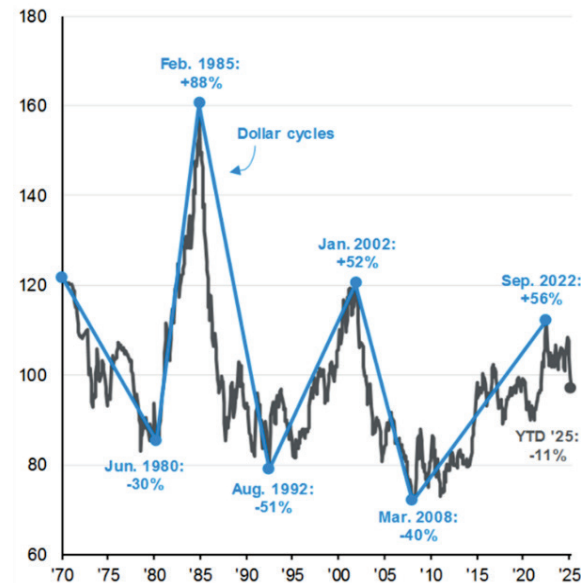
past, this has even been true on panic days, even if the panic was over the US Federal fiscal situation! Two examples of this flight-to-safety behavior were when US Treasuries increased in value after Moody's downgraded the US sovereign credit rating and during the days of broad market selloffs surrounding the debate over raising the debt ceiling. In both examples, capital flocked to US Treasuries as safe-haven assets. Yields on Treasuries fell as their prices rose. However, on several occasions this year, this traditional relationship has begun to breakdown and US Treasuries have declined in price (risen in yield) on pessimistic days, notably when the US bombed Iranian nuclear sites and when markets sold off after broad tariffs were initially announced for US trading partners in April. We are not saying that these examples are evidence that US Treasuries are no longer safe-haven assets, but we do believe they represent cracks in what has been a bedrock assumption in capital markets over the last 40 years. These examples are hints that perception may be changing regarding the future creditworthiness of the United States.

Secondly, there is increasing recognition that inflation is a persistent problem plaguing our economy and the world, and investors are rewarding assets with both long histories (i.e. gold) and short histories (i.e. bitcoin) of hedging inflation's erosion of fiat currency purchasing power. We have exhausted readers of this commentary through the years with our continued discussion of inflation's harmful impact on savers. For many years, the "consensus" view was that inflation was no longer a concern in this country (who remembers the April 2019 Barrons cover story "Is Inflation Dead?") resulting in industries that typically serve as inflation hedges being offered at discounted valuations. We considered the acceleration in money printing since the financial crisis, which grew even more aggressive after the pandemic, to be highly inflationary. As a result, inflation was a chief risk we aimed to protect our clients against. Our concerns over inflation helped increase our assessment of intrinsic value in sectors and businesses that traditionally serve as inflation hedges. Because the market wasn't concerned about inflation, these sectors became bargains, and thus we made them outsized exposures in our clients' portfolios. Examples of these areas of exposure are agricultural fertilizer and chemical producers, miners of base metals such as copper and zinc, producers of oil and gas, and miners of precious metals such as gold. The increasing awareness of inflation's persistence has finally begun to reward these areas of our portfolio, which have been some of our strongest performing investments year-to-date as we discuss further below.

We see no end to the persistence of inflation in our economy, especially given the many evolving fiscal and monetary policies that will continue to add inflationary fuel. The recently passed "One Big Beautiful Bill Act" will add to our federal deficit, which is inflationary. Broad implementation of tariffs with many major trading partners is inflationary. Appointment of a more dovish (favoring looser monetary policy) Federal Reserve chair is inflationary. All of these themes point to a lack of fiscal discipline and further degradation of our currency, so we remain happy to have a portfolio that is overweight industries and businesses at low valuations which own tangible assets that have typically served a role as inflation hedges.

Chart 3: The US Dollar Index (DXY)

USD relative to a basket of foreign currencies

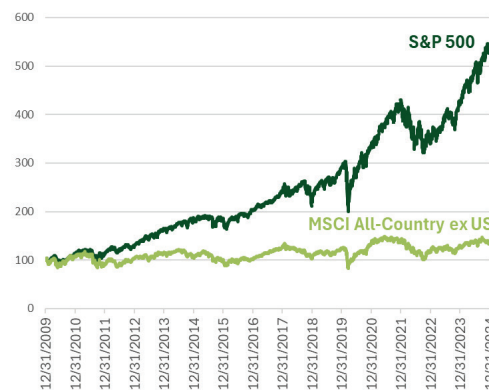


Source: JP Morgan Guide to the Markets

Finally, these rising concerns have led to declines in the value of the US Dollar (USD), which is down -11% in value so far this year (relative to a basket of foreign currencies), the most depreciation to start a year since President Nixon untethered the value of a dollar from gold. Many well-respected economists and investors from Ken Rogoff to Ray Dalio are forecasting the end of what Rogoff refers to as the “Pax Dollar Era,” or the era since WWII when the US has been the dominant economy and the US dollar the dominant currency. Regardless of how this plays out, a lower valued USD makes overseas sales more valuable to US companies, and our portfolios are more exposed than ever to international sales. We never set out to orient our portfolios more towards international companies and businesses – it was primarily the result of our value discipline. Let us explain.

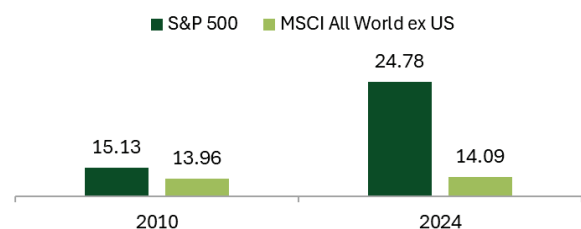
The last decade has seen a persistent outperformance of US stocks versus international stocks, as shown starkly in Chart 4 that contrasts the performance of the S&P 500 (in dark green) to that of the MSCI All Country ex US Index, an index of large and mid-cap non-US stocks (in light green). Much of this outperformance has been driven by valuation expansion here in the US. In 2010, the S&P 500 Index traded for a price to earnings ratio of 15 times, while the MSCI All Country ex US Index traded for a relatively similar 14 times earnings. Fast forward to year-end 2024, and the S&P 500 traded for 25 times earnings, while the MSCI All World ex US Index still traded for around 14 times earnings. This helps explain why we have been identifying more and more opportunities to add high-quality international businesses to our clients’ portfolios for what we considered to be much more reasonable valuations than were available in US markets.

Chart 4: US vs Non-US Stocks Total Return Since 2009



Source: Bloomberg LP

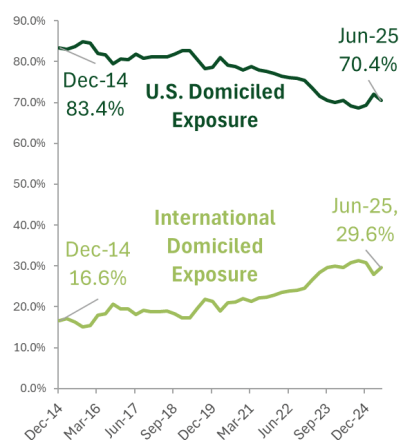
Chart 5: Price to Earnings Ratios of US vs Non-US Stocks



Source: Bloomberg LP

Chart 6 shows how our domicile exposure has changed over time with increasing exposure to companies domiciled outside of the US. That said, we have exclusively invested in countries

Chart 6: Domicile of the FRM Equity Composite



Source: FRM

where we feel we understand the business environments and the legal protections for shareholders. The bulk of our international domiciled companies are based in Canada, but we have expanded in recent years to some European countries as well. This increased exposure to international companies has benefitted our portfolios this year as the trend of US outperformance highlighted above has finally reversed. The MSCI World ex USA Index was up 19.5% in the first half compared to the S&P 500 up 6.2%. Roughly 58% of our year-to-date gains have come from companies domiciled outside of the US. The continued uncertainty in the US and the possibility of further dollar erosion in our economy makes us comfortable continuing to have more diversified exposure to other parts of the world.

Despite all of these changing dynamics, the broad US stock market is surging to all-time highs. At the peak of the tariff swoon in April, just as we were writing our first quarter commentary, the stock market was on the verge of a bear market with the S&P 500 down -15% and investors the most bearish since 2009.² (FRM clients who take our advice to never watch CNBC might not have even known this because their accounts have generally grown so far this year). Since then, we have had new fronts in global wars, rising concerns about federal debt levels and the US's reserve currency status, ongoing uncertainty in global trade relationships, a US President questioning the independence of the Federal Reserve and the US bombing of a major adversary. And yet, stock markets have staged a historic 25% rally to end the quarter with the S&P 500 up +6.2% year-to-date through June 30. The consensus view seems to be that "all is fine."

We are pleased to see the market start to appreciate the value we have seen in some of the companies we own for you, with our year-to-date performance fairly diversified across sectors. Materials businesses (including fertilizer producers, copper miners and gold miners) contributed around 40% of our gains this year, followed closely by Financials (primarily insurance businesses), which contributed around 36% of our gains. Consumer Staples (primarily Dollar General, which was one of the best performing stocks in the S&P 500 during the first half) and Energy (led almost exclusively by uranium miner Cameco which overshadowed poor performance from our oil and gas companies) each contributed around 10% of our gains.

This market rally has been broader than those of recent years, and the "Other 493" have actually outperformed the "Magnificent 7" year to date. However, there remains a frenzied

² <https://www.wsj.com/livecoverage/stock-market-tariffs-trade-war-04-04-2025/card/mood-among-everyday-investors-hits-lowest-since-2009-RBXZQ82ntqm0aKuZpsMB>

optimism in the market that has driven a resumption of speculative behavior. There are public companies speculating in cryptocurrencies, all-time high flows into ultra-leveraged stock market exposure and a return of “meme stocks.” Analysts at Bespoke Investment Group point out that of the 14 companies in the Russell 3000 index that have more than tripled since the market bottomed on April 8, 10 don’t generate any profits. Artificial intelligence companies are going public and then soaring 450% in three months to trade for 23x sales³. The CNBC “Fear and Greed Index,” which uses seven indicators to measure which emotion is dominating the stock market at any given time, has now crept up to “Extreme Greed.”⁴

We believe there is danger in speculation and that stock market values are ultimately driven by the future earnings power of the underlying businesses. With so many evolving dynamics taking place, we continue to prefer owning our diversified portfolios that remain much more reasonably valued than the broad market on every measure (see Chart 7), even after outperformance so far this year. And we like that our stocks pay us more than DOUBLE the dividend rate of the broad market. We continue to find opportunities to add new companies to your portfolios, including one very high-quality company we were able to begin purchasing during the market volatility in early April. Our clients can read about this new addition in the Portfolio Activity section of this commentary.

Though we are most certainly not market prognosticators, we would not be surprised to see additional volatility in broad stock market prices for the rest of the year. Broad stock market valuation levels seem a bit Pollyannaish given the litany of above-mentioned risks. In contrast, we believe our portfolio offers diverse exposures to the most promising and underappreciated sectors of the market and could continue to protect our clients during future uncertainty.

Chart 7: Valuation Levels at 6/30/2025

	FRM Equity Composite	S&P 500
Price to Earnings	17.7x	25.9x
Price to Book Value	1.7x	4.7x
Price to Free Cash Flow	17.7x	30.1x
Price to Sales	1.31x	2.82x
Enterprise Value to EBITDA*	8.6x	16.8x
Dividend Yield	2.72%	1.26%
Debt/Equity	58%	122%

If everyone is thinking alike, then no one is thinking.

- Benjamin Franklin

³ See CoreWeave Inc (Nasdaq: CRWV)

⁴ <https://www.cnn.com/markets/fear-and-greed>

Déjà vu

We have been looking for a good example to illustrate to our clients the mania still persisting in parts of the stock market today. We didn't have to look far, with the slow 4th of July week providing a prime example just as we were drafting this commentary. There remain countless examples of a frenzied mania to gain exposure to what are considered the “trends of the future,” notably artificial intelligence and cryptocurrencies. One example of this is a highly speculative trend emerging lately where publicly traded companies, many with no tie or relation to cryptocurrencies, have either raised funds for cryptocurrency speculation or are using cryptocurrencies as part of their operating cash assets. On June 30, a tiny, little-known company named BitMine Immersion Technologies (Nasdaq: BMNR) with a market cap of around \$27 million announced a new stock offering. BMNR raised a fresh \$250 million for the sole purpose of purchasing the cryptocurrency Ether because they believed it would appreciate. The stock immediately took off, trading from a closing value of \$4.26 per share on June 29 to a close of \$33.90 on June 30, and ultimately to a high of \$135/share as of July 3. The stock has already retreated back to \$61 on July 9 (~45% off its peak), but it remains illustrative of the frenzied mania still shaping stock valuations in today's goldilocks market. Even though we all know how this ends, it still surprises us that investors would again fall for such rampant speculation and risk taking.

Chart 8: BitMine Immersion Technologies Stock Price
(Nasdaq: BMNR)



Source: Bloomberg LP

One of our more gray-headed portfolio managers loves to remind us of similar irrational exuberance he observed during the peak optimism over the “internet” and the mania that ensued as investors raced to gain exposure to any company possibly benefiting from this theme of the future. One such story he tells took place during the slow week of Thanksgiving 1998. To set the scene, internet-related stocks had trounced other market sectors over the prior few years. The S&P 500 Info Tech Sector performance was up +380% since 1994 compared to +180% for the S&P 500 and +148% for the Russell 1000 Value. Investors could not get enough exposure to internet-related stocks. On the morning of Wednesday, November 25, 1998 two news stories hit the tape:



Michael Lewis highlights the response in Books-A-Million (Nasdaq: BAMM) stock in his book “Panic: The Story of Modern Financial Insanity:”

“Never mind that the Birmingham book retailer, which had posted lackluster financial results for the past year, already had been operating a Web site, booksamillion.com, for two years. Investors nonetheless started buying... The reason: ‘dot.com frenzy,’ says Kate Delhagen, an online retail analyst at Forrester Research.”

Over the next three days, BAMM rose 790%, from \$4.38 at Tuesday’s close to close at \$38.94 on Friday, November 27, representing a cumulative increase in value of around \$600 million on 423 times the 30-day average volume. Books-A-Million had sold \$325 million worth of primarily books in the prior year with profits of around 2% of that or \$6.97 million. The irrationally exuberant market of the day believed that suddenly BAMM was worth \$600 million more (or 86 times prior-year profits) simply because they updated their existing website. Even more astonishing was the fact that their announcement mentioned that their new website would offer members of their “Millionaire’s Club” discounts of between 28% and 46% on various book categories, cutting their already thin margins! (Unsurprisingly a number of BAMM executives registered to sell shares during the stock run-up.)

In contrast, Exxon (NYSE:XOM) was a vertically integrated, diversified oil company with prior year revenues of \$120 billion and annual profits of 7% or \$8.4 billion, making them the largest oil company in the country. Their announcement to buy Mobil, at the time the second largest oil company in the country, would form the world’s largest energy company. Exxon estimated \$2.8 billion in cost savings due to the transaction. (Ultimately, Exxon captured an astonishing \$10 billion of synergies during the subsequent 5 years.⁵) Over the following two days, Exxon’s stock rose 3% on 2.3x the 30-day average volume for a total increase of ~\$4 billion or (about half of the prior-year profits.)

It probably won’t surprise readers of these pages which company ended up being a better investment over the proceeding years. An investor who purchased BAMM on the first day the news was announced would have generated a -63% loss over the following 17 years until BAMM was taken private on 12/9/2015. Contrast this with a 211% cumulative return for XOM shareholders compared to a 127% return for the S&P 500 over the same period.

The irony is that everyone knows how rampant speculation ends. And yet human nature makes people think, “this time could be different!” Time will tell what happens to BitMine Immersion Technologies stock from here. But our clients can rest assured that we won’t expose their hard-earned money to this type of wild speculation. Instead, we own a diversified portfolio of real businesses with hundreds of thousands of employees going to work each day aiming to grow the intrinsic value of the companies we own. We continue to believe that owning portfolios with profitable enterprises and tangible assets purchased at reasonable valuation levels will serve as a solid anchor for our clients amidst the rapidly changing tides.

⁵ <https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/mergers-in-the-oil-patch-lessons-from-past-downturns>

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