

The Long Run

Investment Letter
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CAPITAL MANAGEMENT, LLC

*"You got a fast car
I got a plan to get us out of here."*

—Fast Car, Tracy Chapman

I scream, you scream, we all scream over....uncertainty? Or so we have been told. In periods without clarity, businesses postpone hiring, investors sell stocks, and consumers avoid buying. And, if ever there was a period of extreme uncertainty, it would seem like now. One day tariffs are 20%, the next 145%. The head of the Federal Reserve might be fired. All undocumented residents might be removed from the country. The threat of nuclear war is ever present. Who knows what could happen under the current Administration.

The Federal Reserve, the guardians of our economy, seem to share this outlook. As counted by economist Ed Yardeni, at the end of last year, the words "uncertain" and "uncertainty" appeared 12 times in the minutes of the December 17–18 meeting of the Federal Open Market Committee, but increased to 28 mentions in their June meeting minutes. During his June press conference, Fed Chair Jerome Powell mentioned the two words 19 more times—just in case anyone missed his message.

Right on cue amidst the tariff madness, stocks declined by around 21% from mid-February to early April. And yet, they have come roaring back, finishing the second quarter about 1% higher than the February peak and sitting at all time highs as we write this missive. How do we explain that?

Give Me One Reason

Our simple response is that things just aren't as uncertain as they seem, and the stock market's rapid rebound reflects that. For example, while stocks declined on the increased likelihood that immense tariffs would cause a recession, they rebounded once the courts ruled that Trump does not have the power to impose broad-based tariffs under the International Emergency Economic Powers Act (IEEPA). Two federal courts have ruled that President Trump's IEEPA tariffs are unlawful and unconstitutional. While Trump has appealed these rulings, it seems highly likely that these decisions will be upheld. If they wind up at the Supreme Court, it may be a rare time when we receive a unanimous decision.

As a result, countries have increasingly ignored the threat of tariffs and the financial markets have accepted that there will be no broad-based tariffs under the IEEPA. This is not to say that NO tariffs will be imposed, but the likelihood of massive tariffs that will cause a recession is very low.

In response to other issues of uncertainty, we offer the following thoughts:

- 1) Despite all the headlines wondering "Will Trump or won't Trump fire Fed President Jerome Powell?" it is clear that he doesn't have the power to do this without cause.
- 2) Whatever your views on the wars in Ukraine and the Middle East, imminent threats of nuclear war have lessened with the bombing of Iran's nuclear facilities. (China's 2027 deadline to annex Taiwan will move to the forefront soon enough, however.)
- 3) A major issue for corporations was uncertainty due to the previous tax cuts set to expire. With the passage of the "One Big Beautiful Bill," not only have these cuts been made permanent, companies have been given a host of new tax benefits. The Administration has also given businesses a boost by massively cutting regulations, though these actions do increase uncertainty for the environment.

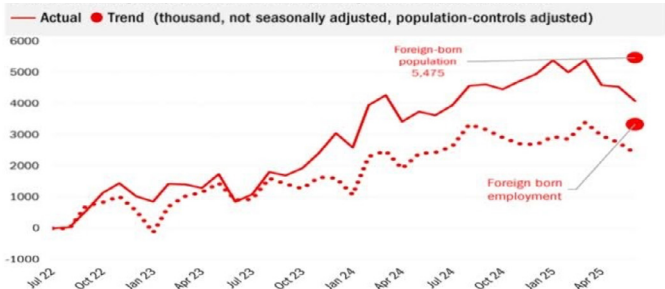
Crossroads

While the business community is generally happy that IEEPA tariffs seem to be off the table, and they are receiving the benefits of tax breaks and less regulation, there are still at least two topics to be concerned with: innovation and valuation.

In terms of innovation, the Administration has a decidedly mixed record. While fully supporting advances in artificial intelligence (AI), it has taken a backward-looking view elsewhere. It has chosen to fund industries of the past (fossil fuels) at the expense of the future (renewables). It has also cut basic research (55% cut at the National Science Foundation, 80% cut at DOE clean energy, etc.) and driven away people

from other countries who are key parts of our economy. For the past three months, as the following chart shows, there has been a sizable decline in our foreign-born population.

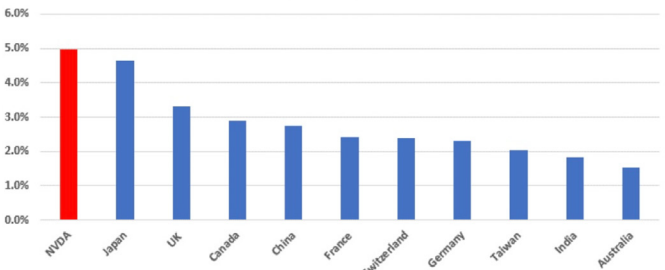
Cumulative immigrant population and employment growth after pandemic normal



Source: BLS Current Population Survey. TrendMacro calculations

We also continue to have valuation concerns about some segments of the market. As we have pointed out in past letters, investors have become overly concentrated in a few stocks. The technology and communications sectors now make up 43% of the S&P 500, above the 41% level at the peak of the internet boom in 1999. And in one of the most surprising statistics, NVIDIA now has a larger weight in the MSCI All Country Index than most countries. (NVIDIA is actually greater than France and Germany combined.)

Weight within MSCI ACWI Index (As of 7/17/25)



Source: Richard Bernstein Advisors LLC, MSCI, Bloomberg.

New Beginning

Quarterly investment letters typically focus on confusing macroeconomic issues, and often ignore major transitions. We would be remiss if we didn't touch upon what the financial markets have been really reacting to this quarter and that is the unleashing of AI. The fast car (AI) has been taken out of the garage and is now speeding down the road. Humanity is on the verge of digital superintelligence, a concept that scares a large number of us. Twice as many Americans view AI negatively versus positively. We share those concerns, but also are curious about how AI can be used to spur innovation.

AI experts more likely than the public to say AI will have a positive effect on the U.S. over next 20 years

Percent who say they think the impact of artificial intelligence (AI) on the U.S. over the next 20 years will be...



Note: "AI experts" refer to individuals whose work or research relates to AI. The AI experts surveyed are those who were authors or presenters at an AI-related conference in 2023 or 2024 and live in the U.S. Expert views are only representative of those who responded. For more details, refer to the methodology. "Very/somewhat positive" and "very/somewhat negative" are combined. Those who did not give an answer are not shown.

Source: Survey of U.S. adults conducted Aug. 12–18, 2024. Survey of AI experts conducted Aug. 14–Oct. 31, 2024.

PEW RESEARCH CENTER.

We live in a time where the world's population will soon stop growing. In 2024, the U.S. recorded its lowest fertility rate ever. Similar records are being set in the rest of the Developed World. We have been told that we need more people for a healthy economy, despite the stresses population places on the environment. Will AI change this? Will AI unleash more ideas, innovation and productivity gains? Are we on the verge of renewables and batteries taking over the world's energy system? Will diseases increasingly be cured rather than treated?

What is our plan to get us out of here? While we will continue to react to threats created by unwise political decisions, we also will continue to look for opportunities that this innovation transition is presenting. As we have always done, we will focus on themes that others aren't looking at. We recognize that investors are overly concentrated in a handful of stocks, many of which we have been reducing in size in your portfolios. The past ten years have been about creating technology that can power AI. The next ten will be about how companies can responsibly use this technology to become more innovative in their businesses and benefit the world. It is an evolving, highly significant transition that we welcome discussing with you.

All That You Have Is Your Soul

Twenty years ago, we started Reynders, McVeigh with the intent of providing exceptional service to our clients, a great environment for our employees, and hopefully a positive impact on the world. We think we have made a good start on these goals and want to keep going down this path for many, many more years. To that end, we have decided to start spreading ownership among more employees rather than seeking an outside owner. We have seen too many companies lose their soul when they change ownership. Both of our founders are committed to remaining at the firm for as long as possible. Our only change, and a very positive one it is, is that more of our employees will also be owners. 

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