Weybosset
RESEARCH & MANAGEMENT LLC

July 17, 2025

Dear Fellow Investor,

What a difference a few months can make!

My last letter to you was written in the immediate wake of "Liberation Day", the day last April when the U.S. president revealed his table of tariffs, effectively upending the global trade and economic order in a single stroke. Financial markets panicked in a manner reminiscent of the Global Financial Crisis of 2008-09. Unlike the GFC, however, safe havens such as the US dollar or US Treasury securities were not safe havens this time. Stocks, the dollar, and Treasuries all tanked in what came to be called the "Sell America" trade. It looked bad, potentially disastrous.

Fortunately, "Sell America" was superseded by the "TACO" --Trump Always Chickens Out— trade. Moved, apparently, by the violence of the negative reaction to his announcements, Trump subsequently announced a pause in the implementation of new levies. The world would end, not in a few days, but at least 90 days later; and then maybe another 90, and then maybe...

The stock market, already washed out by the post-" Liberation Day" trauma, rallied to a new all-time high in recent weeks. Granted, it remains a very narrow market, perhaps narrower than ever, but the change in direction and sentiment is the difference between night and day. Over this past weekend, new and strenuous tariffs were announced, as usual mostly on long-time allies of the United States. This time, however, the markets trembled but did not collapse. It looks like we survived that one, at least for the time being.

As of June 30, the S&P 500 Index was up 6% year-to-date. The accounts for which we are responsible were also up on the year, if not quite as much as the headline index. (I enjoy being able to report that we are again making money, if not a lot.)

Our decision in April not to respond to the "Liberation Day" shock but to rely on the resiliency of the businesses we own while waiting to see what happens next appears to have been the right decision. Nevertheless, insight into what will replace the old order is difficult at present.

We at Weybosset Research & Management LLC are monitoring the situation closely, you can be sure. We are gratified that: 1) the U.S. economy chugs merrily along, defying any

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prediction (and there are many) of recession; 2) headline inflation remains under control; 3) enemies of the United States have not been able to take advantage of the chaos in Washington; and most importantly, 4) our companies are doing somewhere between OK and just fine, thank you. We are alarmed, on the other hand, that the capriciousness that characterized policy in the first half of this year is likely to continue.

As this communication arrives in your inbox, we are beginning the 2nd quarter earnings reporting season in which publicly traded companies weigh in on how business is going and what the future looks like. The signal we got just before "Liberation Day" was positive, so we sat pat. Let's see what we learn in the next few weeks. Personally, I am optimistic that the American economy and our friends elsewhere will find their way to a new order, even if it turns out to be much like the old order.

Thanks for sticking with us through all this. We are determined to earn the trust you have placed in us.

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Dear Fellow Investor,

The first half of 2025 was a highly kinetic period, to say the least. U.S. exceptionalism was a bright and shining position at the start of the year. After Liberation Day, that gave way to the worst sell-off in U.S. equities since the depths of COVID, only to see the S&P 500 close out the first half of 2025 at its dead highs, up 6% year to date. How did we get here?

It's Nvidia's world, and we are just living in it. Nvidia is now 7.8% of the entire S&P 500, the highest percentage weight of any single stock in history (!!), surpassing Apple's 7.5% weight in 2020.

Nvidia alone accounted for 35% of the S&P 500's year-to-date gain. The S&P 500 Equal Weight Index (where the index assigns an equal weight to each of its 500 constituents) finished the quarter year to date up 0.25%. The accounts for which we are responsible were slightly behind the market-weighted S&P 500, but better than the Equal Weight Index by a handful of percentage points.

Liberation Day created mass uncertainty in financial markets and at business roundtables. As I mentioned in our previous letter, every financial statistic flashed "panic," and that a fantastic buying opportunity was upon us.

"It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent." --**Charlie Munger**

You may have noticed that during this period of chaos, we took the liberty of upgrading our portfolios to purchase securities in the aviation aftermarket business—jet engine leasing and repairs—as well as a cybersecurity and networking company. Each company boasts excellent balance sheets, growing and stable earnings, solid shareholder returns, and dividends.

We believe that we have curated the strongest portfolio of businesses possible, one that can thrive in good times but, most importantly, can survive negative financial conditions. **Protect your downside, and the upside will take care of itself.**

Stocks are not just ticker symbols that go up or down; they are shares (equity) in a business. We do not get elated when things go up or depressed when they go down. We use the market to our advantage as it declines to buy high-quality businesses. Stocks are very easy to transact; therefore, human emotions come into play more than any other investment. People make mistakes in markets, both in terms of fear and greed, because of their emotions.

Given all the uncertainty and volatility, it's hard to look back and **not** be impressed with how the U.S. economy has performed. Many investors either panicked and sold in April or stood pat on the sidelines, as shown by the roughly 7 trillion dollars sitting in money market funds since 2023.

The U.S. economy has withstood five shocks since 2020: the pandemic, a supply-chain shock, an inflation spike, the steepest rise in interest rates, and tariffs.

The housing, transportation, and manufacturing sectors (to which the Weybosset portfolio is exposed) **are in a three-year recession (!!).** New housing sales and existing home sales are below 2008 levels. And yet, the market is sitting near all-time highs. Our portfolio of companies has a long runway ahead when these three main sectors of the economy start to improve.

The U.S. economy is more dynamic than at any other time in history. 70% of our economy comes from the services sector, while 30% comes from manufacturing goods. 25% of the 30% of goods manufactured come from imports. Tariffs, assuming an average tariff rate between 10-15%, should only increase the total cost of goods by 1-2%.

As inflation has cooled and closes in on the 2.5% Federal Reserve target, the Fed should be able to cut interest rates at some point this year. By cutting rates, the Federal Reserve will spur business activity, home sales, increase earnings, and increase the shares of the other 499 companies in the S&P 500. Most importantly, this will be highly beneficial to the Weybosset portfolio.

Economic forces are strong and last longer than political forces. Despite the chaos, the outlook for the financial markets remains positive, especially for the companies in which we are invested. As the third-quarter earnings season kicks off, we look forward to reporting back to you next quarter regarding our companies and their outlooks for the rest of the year and beyond.

Thank you for your continued support and for the privilege of working for you. As ever, if you have any questions or comments, don't be shy—get in touch with us. We hope you have some time to relax and enjoy *The Psychology of Money*. We welcome the opportunity to further discuss with you the interesting times in which we live.

Yours very truly,

Justin Edward Deutsch