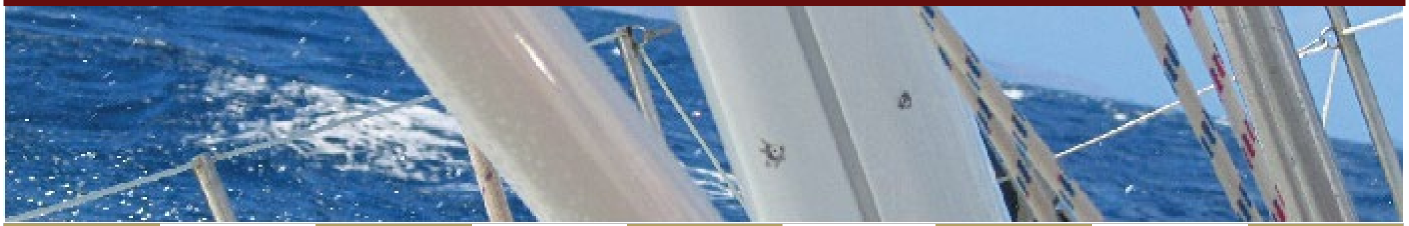
July 2025

Carret Equity Insights



It is difficult to make predictions, especially about the future.

Yogi Berra, 1925-2015

Co-Directors Equity

Wayne S. Reisner
212.207.2345
wreisner@carret.com

Elizabeth A. Newberry, CFA
212.207.2346
enewberry@carret.com

Firm AUM (6/30/25)

$3.370 Billion

Timothy Dexter (1747-1806) was perhaps the most accidentally successful businessman in American history. He was a man so bewilderingly eccentric that his life reads like a satire, yet his fortune was undeniably real. Largely uneducated and fond of calling himself "Lord," Dexter made a name for himself through a series of baffling business ventures that, by all logic, should have failed spectacularly. Most famously, he shipped ***coals to Newcastle***, a British town known for its abundant coal supplies; a move so absurd that it had already become shorthand for futile efforts. Yet, as luck or blind fortune would have it, a miners' strike had hit the region just before his shipment arrived, and his coal was snapped up at a tidy profit. Emboldened by this accidental success, Dexter next sent ***bedwarmers to the West Indies***, a tropical region where, to anyone with a shred of common sense, the idea of warming beds is as useful as selling snow to penguins. But once again, the universe seemed to be in on Dexter's joke: the locals repurposed the bedwarmers as ladles for the sugar and molasses trade, turning another seemingly idiotic move into a lucrative windfall. Dexter's book, titled *A Pickle for the Knowing Ones*, is a bizarre, mostly nonsensical rant that defies conventional description. First published in 1802, the book is a chaotic stream of consciousness in which Dexter airs his grievances, brags about his accomplishments, criticizes politicians, clergy, and his wife, and rambles on in a tone that swings between arrogance and incoherence. Written with little regard for grammar, spelling, or logic, the original edition contained ***no punctuation at all***, leading to confusion and unintended comedy. After readers complained, Dexter added a page full of punctuation marks, periods, commas, question marks, etc., at the end of the second edition, instructing readers to "peper and solt it as they plese [sic]." Despite or perhaps because of its sheer strangeness, *A Pickle for the Knowing Ones* became oddly popular and was reprinted multiple times. It stands today not as a work of literary merit, but as a historical curiosity and a perfect encapsulation of Dexter himself: baffling, ridiculous, and weirdly unforgettable. The story is a chaotic legend in the annals of entrepreneurial history, proving perhaps that in the 18th century, success favored the bold, the bizarre, and the blissfully unaware.

Key Market Levels	6.30.25	12.31.24	12.31.23
S&P 500	6,205	5,880	4,770
Dow Jones Industrial Average	44,095	42,544	37,690
NASDAQ	20,370	19,311	15,011
S&P 500 Dividend Yield	1.19%	1.22%	1.42%
S&P 500 Trailing 4 Quarter P/E	26.3	27.0	21.9

Source: FactSet

We opened with the story of Dexter, which is a tale of *outcomes* that defy *expectations*. The extreme pessimism in place at the start of the quarter led to a market that reached new highs by the end of the quarter; this was hardly the anticipated outcome. We should explore this further. Recall that the market began to exhibit what we will euphemistically term *downside volatility* from the February 19th recent high. Vague uncertainty about a looming but as yet undisclosed tariff regime provided the proximate cause for this volatility. Other pertinent background items of note: The technology stock leadership fell out of favor, inflation was still running above the Federal Reserve's target, consumer confidence was collapsing, PMI data suggested a slowing industrial economy. On April 2nd, the details of the proposed tariff regime were made public. Suddenly, our year-end discussion of the perils of the Smoot-Hawley Tariff of 1930 became quite timely. Everyone became an expert on the danger of retaliatory trade actions. The market's response to this reveal was to sell off to a bear market level, down 20% from the recent high by April 8th. And then, with some fanfare in an initial reversal on April 9th, the market began its dramatic recovery to new highs. What happened? First, we can assign some of the relief to a phenomenon we have discussed before, the transition from *vague uncertainty to known certainty*. As incoherent as the tariff announcement was, at least we knew what was in store. We have observed that the market can deal with bad news as long as it has the knowledge and insight from which to base a response. It is not a far-fetched concept; each of us can respond to a known set of circumstances better than to vague worry about possible events, and the market is essentially just a reflection of many thousands of individual responses. There is another factor at play here, importantly, that is the short attention span of market participants. When the administration offered postponements and delays, the market behaved as if it was just a bad dream. In our view, the *uncertainty remains*. And if we were sitting in a corporate boardroom making investment decisions, we are sure that uncertainty is a factor. And if we were a consumer contemplating a major purchase, we would admit uncertainty into our thinking. Three months later, we still do not know what the tariff regime will be. Therefore, despite the enthusiasm of the market to advance unabated, we remain *skeptical*.

There is one group of individuals whose consistent skepticism has probably done more for the health and well-being of the market than any other, and that is the members of the Federal Reserve Open Market Committee. Having moved from a nominally *restrictive* posture to a *neutral* stance in October 2023 with the cessation of a series of interest rate hikes, the Fed moved to a more *accommodative* position in September of 2024 with the first of three rate cuts. Despite pressure from the Administration to cut rates further and faster, the Fed has remained vigilant against inflation, with particular concern for what we might term tariff-inspired inflation. Some have argued that the Fed is hamstrung by concerns over inflation when it should be reacting to concerns about a slowing economy. The problem is that the economy is not yet visibly slowing. Corporate earnings have remained intact, employment likewise, despite the obvious logic that uncertainty should lead to slowdown. We have envisioned the problem as such: There are two packages of information that are inbound to the Federal Reserve. One contains reports of resurgent inflation that might lead the Committee to toughen up their language through the time-honored act of *jawboning*, and in the extreme, add a slight tightening to rates to show that the Fed was not going to let up on its core mission of keeping inflation in check. As much as we might admire a Fed that would take such action, we are fairly convinced that the markets, in all their collective wisdom, would have a panic attack. The other packet of information contains news of lower employment, softer retail sales, weaker business investment, in short, a slowing economy. In that case, the Fed would simply continue on its accommodative path and announce further rate cuts geared towards easing any slowdown. We are fairly convinced that the market would accept such a development with open arms, as the positive factor of lower rates would offset the negative factor of a slowing economy in investors' minds. At this point, both of these packets of information are still *en route* to the Fed. Much will depend on which package arrives first. Meanwhile, the Fed is wise to maintain a cautious, even stoic position. We believe that this stability, in the face of continued uncertainty, has been one of the principal drivers of the market's resurgence.

We note with some skepticism the fact that we once again have a highly *concentrated* market, with close to 40% of the S&P Index dominated by the top ten stocks, compared to the long-term trend of 24%. Having collapsed during the recent sell-off, technology has resumed its leadership position. Underlying that dominance is the inexorable march of AI in all its glory to revolutionize everything we do. We do not want to diminish the power of such a theme to drive markets to new heights, but we do want to offer the caution that it sometimes appears that it is a *fait accompli* that every dollar invested in AI will be immediately productive and profitable.

We are skeptical about the overall valuation levels of the S&P 500. Currently at 22 times 2025 estimates and 20 times 2026 estimates, this suggests a market on the *high side* of fairly valued. The brief April bear market did very little to reset *prices* or *expectations.* One gauge that we trot out from time to time is the comparison of the earnings yield of the S&P 500, currently 4.22%, to the yield on the ten-year treasury, currently 4.23%. This suggests that there is little *quantitative* advantage to one investment over the other. Expected returns and required returns take on additional significance in establishing a portfolio.

And finally, we are skeptical about the onslaught to the Federal Budget deficit of the recently enacted "OBBB" Act. Our concern exists on several levels. In our Economics 10 survey course, we were taught that the ideal fiscal policy was for the government to run *surpluses in good times* and *deficits in bad times*. Those deficits would act as a stimulus to the economy. Indeed, we saw how this works during the Covid crisis, where the government spending rose to meet the challenges of an economy experiencing both demand and supply side shocks. But what in the current economic environment suggests that we need to add trillions to the deficit by enacting such a spending bill? What happens when the economy actually does stumble, as it invariably will? About fifteen years ago, we heard the late Peter Peterson, banker and former Commerce Secretary, rail against our massive deficits, and the eventual harm to our economy that might ensue. Fortunately, we have kept any day of reckoning at bay all this time. We would look to the long end of the bond market, where the aptly named *bond vigilantes* operate outside of the Fed's purview, for signs of growing skepticism.

None of these factors sway us from our long-held belief that one should stay invested in the markets to take advantage of the expected rise in corporate profits and the market's ability to anticipate that growth. However, as we constantly note, individual risk tolerance must be considered in setting proper asset allocation. Phil Carret's *patience* and yes, even Timothy Dexter's confounded *good fortune* remain important to our outlook.

Laurence R. Golding, Managing Director, July 14, 2025

Separately Managed Account Strategies:

Large Cap Equity: Carret's Large Cap Equity Strategy seeks to provide long term capital appreciation by owning companies with attractive growth prospects, and by acquiring this ownership interest at a reasonable price. We invest in seasoned companies with strong marketplace and financial characteristics. Fundamental analysis and quantitative screening drive this active management strategy. Portfolios are broadly diversified and customized to meet client objectives and risk tolerances.

Important Disclosure Information

Investment advice offered through Carret Asset Management LLC, a registered investment adviser. This presentation is neither an offer to sell nor a solicitation of any offer to buy any securities, investment products, or investment advisory services. All investment portfolios carry risk, including the risk of loss. No assurances can be given that Carret will attain its investment objective or that an investor will not lose invested capital. Past performance is not a guarantee of future results. This material is for informational purposes only and is not intended to serve as a substitute for personalized investment advice or as a recommendation of or solicitation of any particular security, strategy, or investment product. Carret does not provide legal or tax advice, and nothing contained in these materials should be taken as legal or tax advice. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm.

Although Carret believes the data to be reliable, Carret does not guarantee the accuracy of third-party data. Indices are presented herein for illustrative and comparative purposes only. Such indices may not be available for direct investment, may be unmanaged, assume reinvestment of income, do not reflect the impact of any trading commissions and costs, management or performance fees, and have limitations when used for comparison or other purposes because they, among other things, may have different strategies, volatility, credit, or other material characteristics (such as limitations on the number and types of securities or instruments).

This material is for informational purposes only, as of the date indicated, is not complete, and is subject to change. Additional information is available upon request. Any opinions expressed herein represent current opinions as of the date of publication only and may change based on market or other conditions. This material may contain assumptions that are "forward-looking statements," which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual results will not be materially different from those described here. Certain information herein has been provided by and/or is based on third-party sources and, although believed to be reliable, has not been independently verified, and Carret is not responsible for third-party errors.

No representation is made with respect to the accuracy, completeness or timeliness of information or opinions herein and Carret assumes no obligation to update or revise such information or opinions.

Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk. Therefore, it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended and/or undertaken by Carret Asset Management, LLC

("Carret"), or any non-investment related services, will be profitable, equal any historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Carret is neither a law firm nor accounting firm, and no portion of its services should be construed as legal or accounting advice. Moreover, you should not assume that any discussion or information contained in this document serves as the receipt of, or as a substitute for, personalized investment advice from Carret. Please remember that it remains your responsibility to advise Carret, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure Brochure discussing our advisory services and fees is available upon request. The scope of the services to be provided depends upon the needs of the client and the terms of the engagement.

The referenced performance results reflect the reinvestment of dividends and other account earnings and are gross of applicable account transaction fees (unless indicated) and Carret Asset Management (CAM)'s investment management fee. In instances where performance figures are presented gross, performance would be lower as a result of transaction fees and CAM's investment management fee. Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges and the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your Carret account holdings correspond directly to any comparative indices or categories. Please Also Note: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your Carret accounts; and, (3) a description of each comparative benchmark/index is available upon request. The historical benchmark performance results are provided exclusively for comparison purposes only, so as to provide general comparative information to assist an individual client or a prospective client in determining whether the investments meet, or continues to meet, his/her investment objective(s). It should not be assumed that account holdings will correspond directly to any of the comparative index benchmarks. No current or prospective client should assume that future performance will be profitable, or equal to either the composite performance results reflected above, or the performance results for any of the comparative benchmarks provided. For reasons including variances in strategy, account holdings, variances in the investment management fees incurred, market fluctuation, the date on which a client engaged CAM's investment management services, and any account contributions or withdrawals, the performance of a specific client's account may have varied substantially from the indicated composite performance results.

Neither rankings and/or recognition by unaffiliated rating services, publications, or other organizations, nor the achievement of any designation or certification, should be construed by a client or prospective client as a guarantee that he/she will experience a certain level of results if Carret is engaged, or continues to be engaged, to provide investment advisory services. Rankings published by magazines, and others, generally base their selections exclusively on information prepared and/or submitted by the recognized adviser. Rankings are generally limited to participating advisers. No ranking or recognition should be construed as a current or past endorsement of Carret by any of its clients.

Portfolio managers at Carret generally make collective investment decisions. However, in certain instances, portfolio managers may make client specific investment choices. As a result, portfolio dispersion may be increased in certain time periods. Dispersion can also be impacted by factors including but not limited to individual client investment objectives and guidelines, tax considerations, allocation of investment opportunities, order execution, and timing of funding. The material is intended as a broad overview of portfolio, philosophy, process, and style.

Holdings are as of the date indicated and subject to change without notice. The list does not constitute a recommendation to buy, sell or hold a security. Individual accounts may vary. The Representative Holdings have been selected based on objective, non-performance-based criteria. Holdings shown in this presentation may or may not be suitable for an individual's account. Holdings are provided to illustrate a broad view of a particular strategy and are for illustrative purposes only.

Due to various factors, including the passage of time and changing market conditions, content in this presentation may be outdated and no longer reflective of current conditions.