2025

GKV CAPITAL

SECOND QUARTER

MARKET REVIEW AND OUTLOOK

Data Dependent

2Q25 DATA POINTS

S&P 500	+5.5%
GLOBAL EX. US	+18.3%
REAL ESTATE	+1.1%
US BOND INDEX	+4.0%
10-YEAR TREASURY YIELD	4.24%
S&P 500 LTM DIVIDEND YIELD	1.25%
S&P 500 12-MONTH EPS	$276.41
S&P P/E	21.8x

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Opening Thoughts

Investing is difficult. Particularly when you take the frequently irrational and emotional elements of human behavior into account. Benjamin Graham famously wrote “The investor’s chief problem- and even his own worst enemy – is likely to be himself”, when he wrote the book on behavioral finance with *The Intelligent Investor* in 1949. Graham was less concerned with how people ought to act and instead focused on how people actually behave in the real world. Years later, Nobel Laureate Daniel Kahneman followed up Graham’s work, clearly demonstrating many of the common mistakes that frequently recur in our decision making, particularly with regard to money.

With the advent of the information age, we are incessantly flooded with… information! The deluge of content from so many sources instantly passed around the globe has made it difficult to discern what information is relevant, what should be ignored and what information is even based on reality. This makes decisions that involve finances and investment even more fraught.

This quarter we take a look at the current investment landscape and focus on the data that actually moves asset prices, separating out the opinion and emotion. Jerome Powell, Chairman of the Federal Reserve, likes to say that interest rates will be data dependent. We agree and believe that there should be some academic rigor to making investment decisions.

We have made some significant upgrades at GKV Capital behind the scenes in our portfolio management software. New tools are available to us for the analysis and evaluation of client portfolios. We are definitely data dependent. The biggest benefit to our clients of the software will be the launch of a new client portal which will have significant improvements to view your portfolio and track detailed performance. We will have a GKV Capital app available on both the Apple and Android platforms so you can access your portfolio anytime, easily from your phone. Expect details before the end of the summer.

GKV Capital Management was incorporated in California by Peter Vogel in 1975. This year marks the 50th anniversary of our firm. Back in 1975, Peter had two children, Greg and Kristen who were 4 and 2 years old respectively. He named the firm GKV using their initials. We will be hosting friends and clients at our Westlake Village office on August 22nd followed by food at Boccacio’s in Westlake. If you are able to attend, we would love to see you there.

2Q25 Review

Investors were taken for a ride in the second quarter. Although markets had already begun to sell off at the end of the first quarter in response to tariff headlines, the April 2nd, "Liberation Day" announcements took the selling to a new level as the far-reaching and punitive tariffs exceeded the worst expectations of investors. The U.S. announced tariffs on virtually every trading partner in the world and engaged China in a tit-for-tat escalation that reached tariffs of 145% on imports from China, effectively creating a trade embargo.

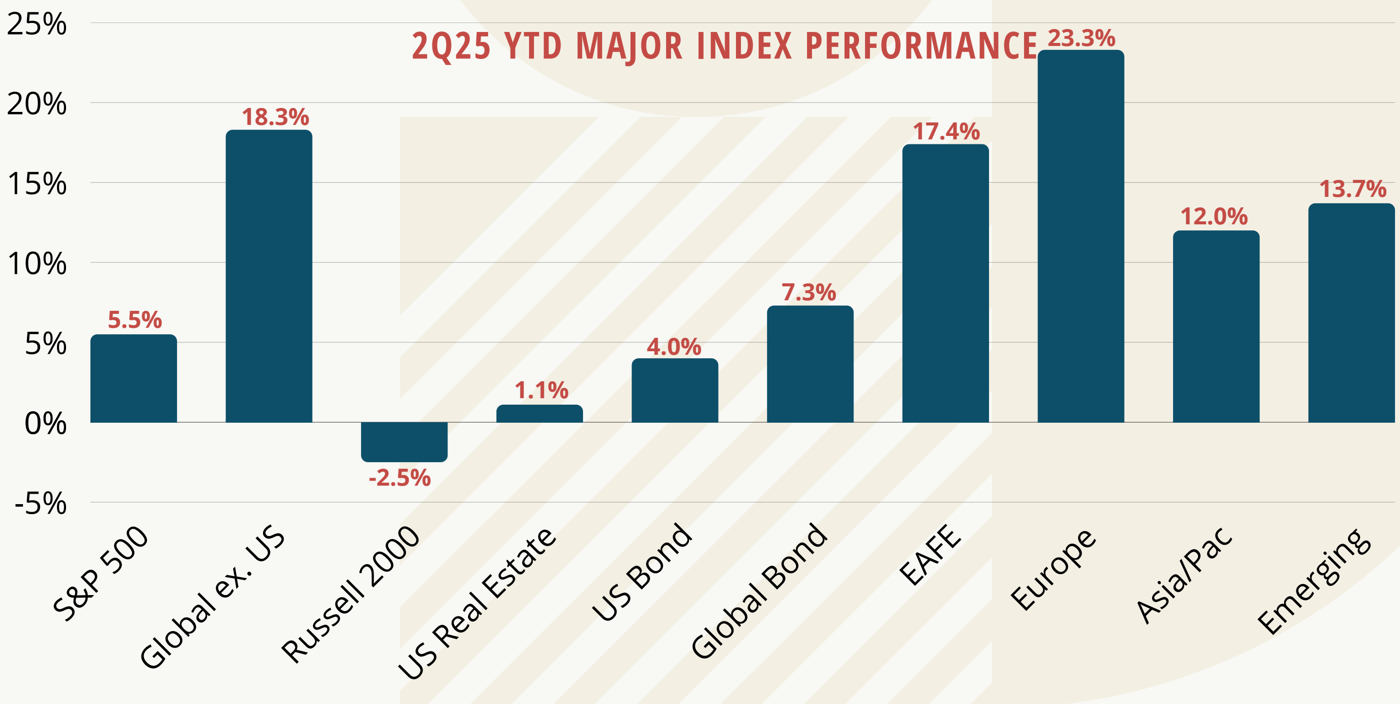
The S&P 500 plunged 12% in the span of a few days at the beginning of the second quarter and was down 15.3% for the year at the April 8th low. The Nasdaq and Russell 2000 Index were both down 21%, and even the Barclays U.S. Aggregate gave up most of its gains for the year due to concerns about the primacy of the U.S. dollar. Investors fled to the safe haven of gold, with peak fear and uncertainty driving the asset to well over $3,000 an ounce.

By the next day, on April 9, the S&P 500 and other indices had rocketed up 10% in a single day after a 90-day pause on tariffs was announced to allow time for trade negotiations with dozens of countries. Since then, the market has staged a remarkable recovery as first quarter corporate earnings reports remained strong, pushing stock prices to new highs.

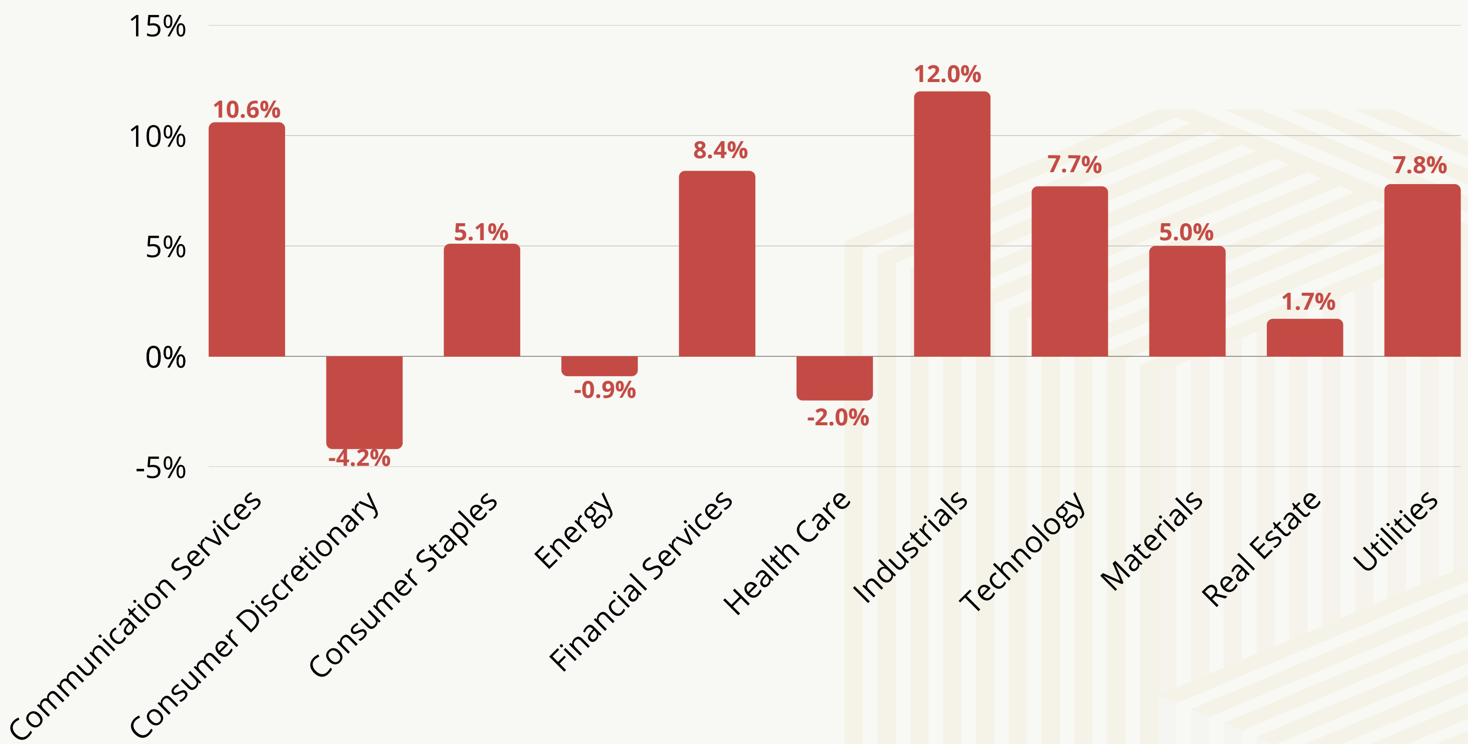
Despite the unprecedented volatility and uncertainty, the major indices ended the first half at record highs. As of June 30th, the S&P 500 index and the Nasdaq are both up 5.5% for the year, and bonds are up 4.0%. Larger companies are perceived by investors as better equipped to handle the tariff turbulence, and the Russell 2000 index that tracks small companies closed the quarter down 2.5% year to date.

International equities have been far outperforming U.S. equities largely due to the U.S. trade war with the rest of the world, a weaker dollar, and relative low valuations after several years of U.S. company outperformance. The MSCI EAFE (Europe, Australia, Far East) index gained 17.4% in the first half of 2025 while European equities gained an impressive 23.3%. Nearly every geography outside the U.S. managed to outperform, with Asia Pacific recording a 12% gain and emerging markets surging 13.7% for the first half of the year.

In the first quarter the launch of Deepseek, the Chinese artificial intelligence large language model, forced a reevaluation of investment in artificial intelligence. Fears of an AI industry collapse dissipated in the second quarter as investment in AI has continued to grow. After seeing some of the biggest declines in the first quarter, the tech sector led the rebound with strong gains of 21.9% in the second quarter. Consumer discretionary rebounded 10.9% after a punishing first quarter as the prospect of tariff



2Q25 YTD SECTOR PERFORMANCE



negotiations moved forward. One of the best-performing sectors in the first quarter, healthcare, dropped to the bottom of the pack in the second quarter and was down 6.1% due largely to anticipated cuts to Medicaid. Industrials outside of automotive also rallied on renewed enthusiasm for AI that promises continued demand for power-hungry data centers and the equipment to run them, gaining 13.1%. Energy continued to underperform as logistics carriers and airlines cited lower demand due to tariffs, and not even the prospect of war in the Middle East could sustain oil above the $65/barrel range.

Despite the extreme levels of volatility and uncertainty reflected in weak consumer sentiment surveys, core economic fundamental data in the U.S. has continued to hold up through the second quarter of 2025. It is still very possible that the impact of tariffs on spending and hiring will appear in the second half data. Over two-thirds of the U.S. economy is driven by consumer spending. We track employment data, income, debt, interest rates and inflation rates to gauge the health of households and by extension, the health of the U.S. economy.

Unemployment remains low at 4.1%, household income per capita is up 3.4% versus a year ago, and retail sales increased 3.0% compared to last year. Many of these indicators are backward looking- they won't tell you what is going to happen in the future, but there has been little sign of real weakness apart from the negative sentiment.

Both global and U.S. economic forecasts have been re'vised downward since the beginning of the year, due to the impact of tariffs. According to The Conference Board forecast, global GDP is now expected to grow at 2.9% in 2025, down from 3.0% at the beginning of the year. U.S. real GDP is now forecast to grow 1.2% in 2025, down from 1.3% previously. The level of tariffs that will actually be implemented is very uncertain, making these forecasts equally opaque. Despite the Administration's protestations, tariffs will be a drag on economic activity.

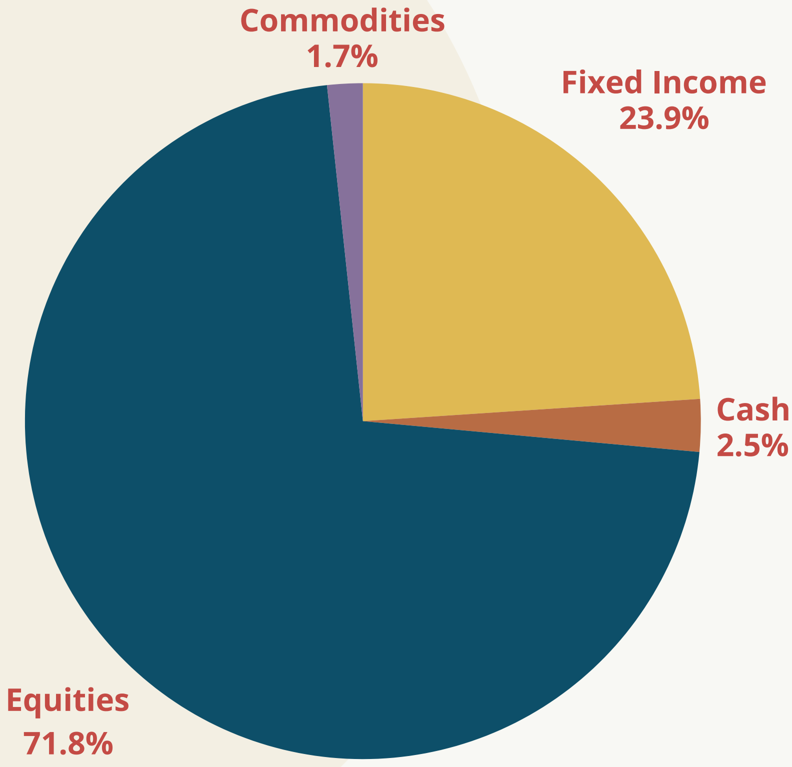
While first quarter earnings results were generally positive, many companies elected to suspend earnings guidance for the year, leaving little information for analysts to rely on for how earnings might look for the second quarter and the rest of the year. As a result, estimates are likely to be more uncertain than typical. The combined earnings estimate for all of the companies in the S&P 500 is currently $255.30 for 2025, down a modest 5.9% from $271.25 that was forecast at the start of the year. Although the earnings forecast has been steadily reduced from earlier forecasts, the current estimate would represent growth of 9.4% from $233.35 in 2024. For comparison, earnings grew 8.4% in 2023 over 2022 and 9.3% last year.

The 10-year Treasury yield ended the quarter at 4.24%. Despite demands for lower rates from President Trump, the Federal Reserve has held steady on interest rate changes. Ironically, Trump's threat of extreme tariffs on imports to the U.S. also threatens to reignite inflation which would precipitate higher, not lower, rates from the Fed. Inflation has remained tame at 2.35%, which bodes well for more dovish monetary policy. Cuts this year are still anticipated by the markets, but the Fed is not likely to prematurely pull the interest rate lever due to the uncertain impact of tariffs.

30-year mortgage rates remain stubbornly high and increased slightly in the quarter to 6.77% from 6.64%. Again, due largely to the threat of tariffs and the declining value of the dollar relative to global currencies. The spring housing market has turned into another bust with a combination of high mortgage rates, high prices, and economic uncertainty freezing the market. The Dow Jones real estate index gained a paltry 1.1% through the first half of the year.

The U.S. Aggregate Bond Index finished the first half with a strong gain of 4.02%. High yield corporate bonds are currently yielding more than 6.5%.

WE MANAGE SEPARATE ACCOUNTS FOR EACH OF OUR CLIENTS. EACH PORTFOLIO IS CUSTOM TAILORED FOR THE CLIENT



GKV FIRMWIDE

Asset Allocation

Data Dependent

Not all risks are equal. Stock market investors take a somewhat surprisingly narrow view of what drives stock prices.

When the U.S. bombed three nuclear sites in Iran on Sunday, June 22nd, friends and clients were concerned that Monday would be a difficult day for stocks. Our callous response was that the market would be indifferent to the geopolitical drama in the Middle East. Economically speaking, Iran has very little global impact. The price of oil briefly spiked higher, but unless there was a lasting impact to corporate earnings, we expected investors to ignore the event. Sure enough, the S&P 500 gained nearly 1% on Monday, June 23rd.

Contrast that event with the market's reaction to President Trump's Liberation Day. In the afternoon of April 2nd, Trump unveiled his posterboard charts presenting a massive new tariff regime that would impact all imports to the U.S. As announced, it would represent the single largest tax hike since the 1980s, totaling over $250 billion annually. The tariff rates as presented would surely increase inflation, increase interest rates and dampen consumer demand with higher prices. The market reaction was unequivocal, dropping nearly 5% on the 3rd and falling an additional 5% the following day. With a spike in 30-year Treasury rates on April 9th, Trump capitulated and announced a 90-day pause on the tariffs to enable time for trade negotiations. The S&P 500 hit its low this year on that morning, down more than 16% from January 1st. Since the announced suspension of tariffs, the S&P 500 has gained more than 25% from the low through the end of the second quarter on June 30th, recording a positive return of 5.5% for the year.

Right now, it feels like the risks in the world are multiplying. Geopolitical risks have increased since Russia invaded Ukraine in 2022. The war in Gaza continues. Tensions between the U.S. and China remain high. Trade wars and sanctions with allies and enemies alike are upending global trade and economic stability. Climate change and extreme weather events are increasing in frequency and cost, with devastating wildfires and supercharged storm cycles. Cybersecurity concerns are growing, and societal polarization and misinformation campaigns are increasing civil instability. The unabated political polarization in this country continues to grow with more extremists on both sides of the political spectrum. The obvious question is, with stocks at all-time highs and a laundry list of risk factors, is it time to take profits?

The risks are all very legitimate concerns in our day-to-day lives, but few of these problems will have an impact on your investment portfolio. We caution investors to take a step back from the alarming headlines and carefully look at the factors that really matter for positive investment performance. The stock market evaluates risk through the lens of

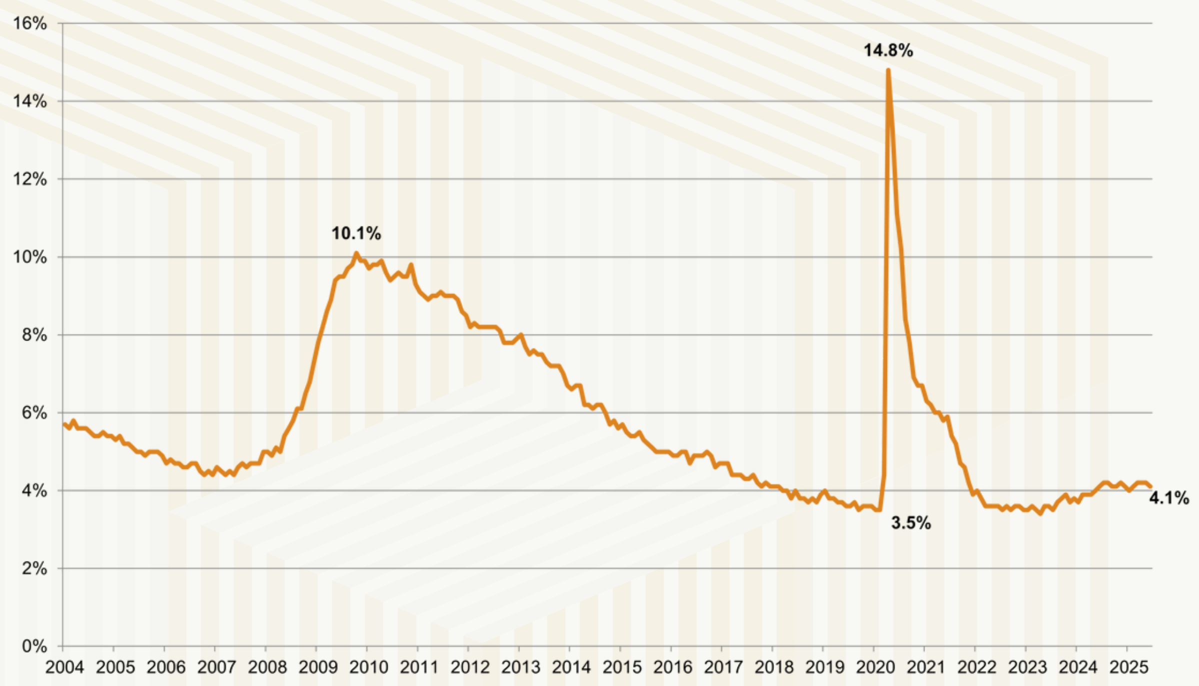
THE OBVIOUS QUESTION IS, WITH STOCKS AT ALL-TIME HIGHS AND A LAUNDRY LIST OF RISK FACTORS, IS IT TIME TO TAKE PROFITS?

economic impact and little else. Severe storm cycles will negatively impact reinsurance companies while providing a boost to home improvement retailers, for example. Greater cybersecurity risk only increases the capital spending allocation for enterprise cybersecurity software and hosted applications. That raises expenses for banks and critical infrastructure companies while benefitting the software sector. Unfortunately, one of the best buys this year has been European weapons and defense firms. This is a direct result of Trump pulling away from NATO and Russian aggression in Ukraine. In fact, non-U.S. equity markets have been outperforming this year, with global stocks outside the U.S. up 18.3% through June 30th. The gains have been driven by lower relative stock valuations outside the U.S., the U.S. trade war with the rest of the world, and a rapid decline in the value of the U.S. dollar, also largely due to the proposed tariffs and ballooning federal debt.

Despite tremendous turmoil in the second quarter, the major indices finished in record territory. While popular sentiment is that the U.S. economy is struggling, the data says otherwise. Our economy and most importantly corporate earnings have been fine. Negative sentiment and positive results are often a good combination for stock price performance. It's a good reminder of what drives successful investment and what should be ignored. Pay attention to the numbers.

Most important is the fiscal health of the average consumer. It's hard to have a recession when unemployment is low and household income is rising at the pace of inflation or better. We carefully watch unemployment statistics and per capita household income. While the employment outlook has been softening somewhat, the jobs numbers have been slightly better than expected. Unemployment in June came in at 4.1%, a decline from 4.3% in May. Household income in May totaled $65,651 up 3.43% from $63,475 one year ago and is keeping up with inflation. It should be no surprise that retail sales also grew 3% in May 2025 from May 2024.

»U.S. UNEMPLOYMENT RATE SINCE 2004



Bureau of Labor Statistics July 2025

Here are some of the things we are paying close attention to that are likely to impact both equity and credit markets as the year progresses:

Trump's One Big Beautiful Bill

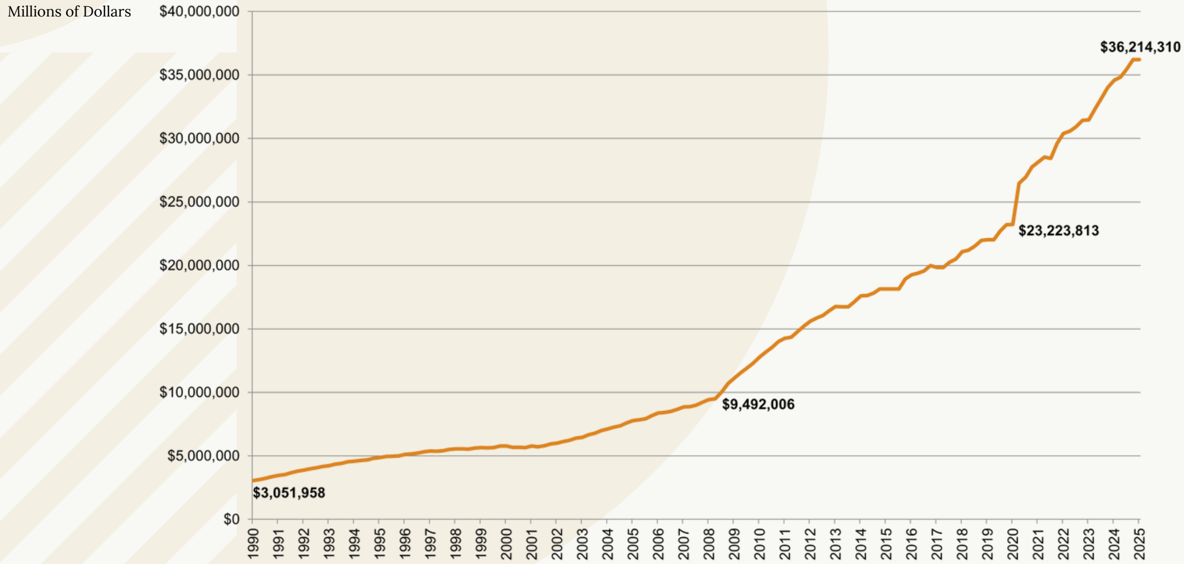
The sprawling new tax and spending bill signed into law on July 4th, 2025, will likely provide a slight boost to stocks in the short-term. If the now permanent tax cuts materially increase the federal debt, the boost to growth will likely be offset by a weaker dollar and higher interest rates in the long term.

The high-level features of the bill:

- The U.S. debt ceiling is raised by $5 trillion to $41 trillion, avoiding a typically contentious congressional showdown that often comes with unlikely threats of a U.S. default on bond payments. The national debt is currently at $36 trillion.
- The bill generally makes the tax rates enacted in the 2017 Tax Cut and Jobs Act permanent.
- Increases the federal deduction for state and local taxes (SALT) to $40,000 from $10,000 and adjusts the amount 1% annually for inflation. The provision will expire in 2030 and revert to $10,000 unless revised with new legislation. There is a phaseout for taxpayers making more than $500,000 in adjusted gross income.
- Mortgage interest deduction is limited to the first $750,000 of loan debt and excludes home-equity debt.
- Eliminates many green energy tax credits by December 31st, 2025.
- Cuts of approximately $863 billion to Medicaid and Children's Hospital Insurance Program over the next 10 years.
- The non-partisan Congressional Budget Office estimates that the tax cuts in the bill will reduce collections by $4.5 trillion over 10 years while the cuts to entitlements will save an estimated $1.2 trillion.

The tax and spending bill may very well increase our federal debt as forecast by the non-Partisan Congressional Budget Office, causing ballooning interest payments down the road. Or it may be possible that economic growth is enough to offset the projected costs. The potential problems are long term and will not negatively impact corporate earnings this year or next. The concern is that the debt servicing, the interest payments, will become significant enough that future taxes will need to be raised or services will need significant cuts as more federal funds are required to pay interest. More federal dollars for interest, higher taxes and fewer entitlements all leave less for consumers to spend and companies to earn down the road.

»U.S. PUBLIC DEBT SINCE 1990



Department of the Treasury, March 2025

From Wall Street's perspective, there is little risk of U.S. credit default. The problem is that if the interest payments become too significant, the economy as a whole will suffer. The growth of corporate earnings will slow in the face of higher interest rates and a weaker dollar, producing lower stock market returns over the long-term. When interest rates rise, the cost to borrow for the government, businesses and individuals all increases which will slow economic growth and impact future corporate earnings. It is far too early to anticipate the likelihood of this scenario, and it will take years to play out, but this is the concern.

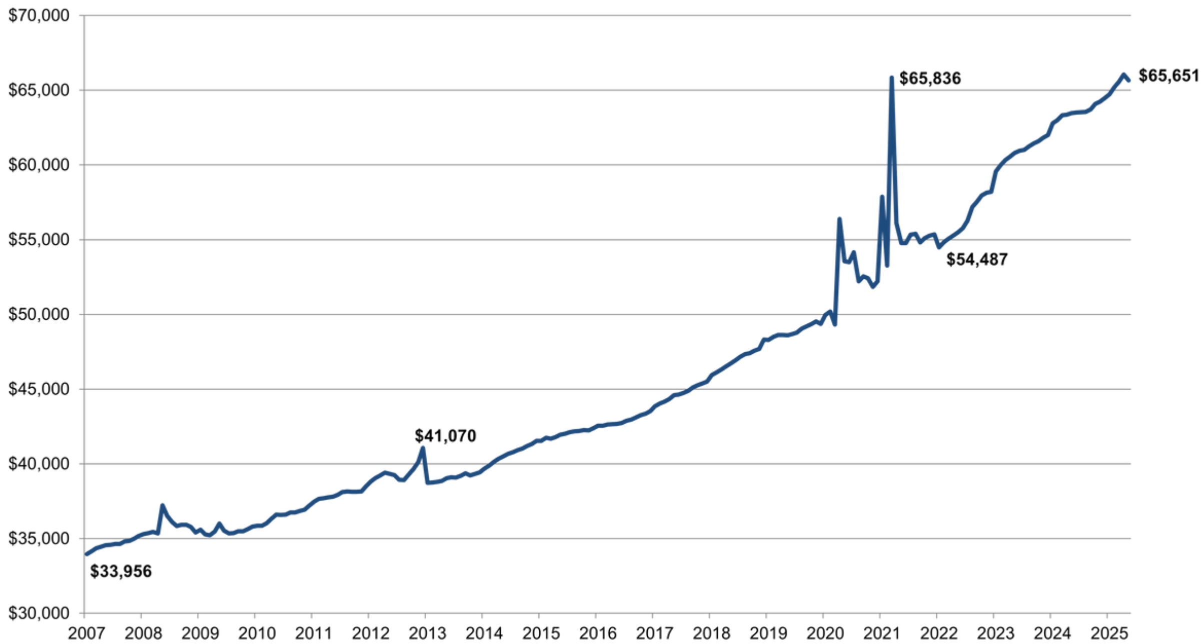
The Geoeconomic Trade War

While the media has been focused on the One Big Beautiful Bill, we are paying much closer attention to the ongoing threat of tariffs. Free trade has been a significant driver of economic growth globally since the end of World War II. Most U.S. businesses depend on the ability to import parts or goods cheaply sourced overseas. Broad tariffs will directly eat into corporate profits and make goods more expensive, reducing demand. The cost of tariffs is not paid by countries, they are paid by businesses, and the additional tax will either be absorbed, reducing earnings, or passed on to consumers, or some combination of the two. Regardless, corporate earnings will be negatively impacted.

Free trade is so important to U.S. businesses that Wall Street doesn't believe Trump's tariff regime is tenable. The market is currently assuming that any enacted tariffs will be at considerably lower levels than what was proposed on April 9th. In fact, traders coined a new acronym, TACO, which stands for Trump Always Chickens Out to describe the most likely scenario for Trump's tariffs. Of course there is risk in this assumption.

Trump's 90-day pause after the disastrous rollout of tariffs back in April ends on July 9th. Trump has indicated that tariffs will go into effect on August 1st. We speculate that the level of tariffs will continue to be far reduced from the shocking levels announced initially, but they are likely to have some impact.

»U.S. HOUSEHOLD INCOME PER CAPITA SINCE 2007



Bureau of Economic Analysis, May 2025

LOWER CORPORATE EARNINGS WILL DIRECTLY CORRESPOND TO LOWER STOCK PRICES

Our first concern is the impact to corporate earnings. If corporate earnings estimates must be reduced due to tariffs, either because of lower profits to pay the tariffs or lower demand because of high costs passed on to consumers, the result is the same. Lower corporate earnings will directly correspond to lower stock prices. If earnings estimates are reduced from the current 9.5% growth in 2025 to something like 5% growth due to the impact of tariffs, then we should not anticipate any further gains in the broad S&P 500 index this year. We would, however, anticipate increased inflation, a further deterioration in the job market and higher interest rates which will all have a negative impact on the economy and corporate earnings through 2026.

The Federal Reserve

The Federal Reserve, too, is waiting for clarity. At a European Central Bank conference on July 1st, Fed Chair Jerome Powell said the central bank "went on hold when we saw the size of the tariffs and essentially all inflation forecasts for the United States went up materially as a consequence of the tariffs." Those concerns are reflected in the latest Summary of Economic Projections issued by the Fed in June, which looked for the personal consumption expenditure gauge of inflation to run at 3% and the unemployment rate to rise to 4.5% by year-end.

Despite President Donald Trump's increasingly strident criticisms of Powell, the stronger than anticipated job numbers for June make a rate cut in July unlikely. The market still anticipates a quarter-point-rate cut from the current range of 4.25% to 4.5%, in September, with another such move in December.

While a reduction in interest rates from the Fed would spur some economic growth and may give a brief lift to stocks, The Fed will only lower rates if the economic data is weakening. We would prefer to see continued strength in the economy and higher interest rates instead.

We are greatly comforted by the continued political independence of the Federal Reserve Board. Any move from the administration to forcibly alter the Federal Reserve Governors would be detrimental to the U.S. economy and equities, in our view.

Equity Valuations

It is easy to assume that with the market at new highs, and much to be concerned about, that it might be a good time to take profits. What matters for stocks and stock valuations are corporate earnings.

Recent strength in the S&P 500 performance has been driven by positive earnings reports in June from the likes of CarMax, Coinbase, JPMorgan Chase, Micron Technology, Walt Disney, and Oracle. Earnings results for the second quarter for most of the market will begin to be released beginning in mid-July. Those results and comments from management on the outlook will determine earnings estimates for the second half of the year. Positive results will drive earnings forecasts higher while shortfalls will do the opposite. We are anticipating generally positive results. The wildcard will be the impact of uncertain and yet to be implemented tariffs.

Corporate earnings are how stocks are valued. We started this year with analysts projecting a very optimistic earnings growth rate of 16% in 2025. In our fourth quarter 2024 report published in January, we stated that 16% earnings growth was probably too optimistic. In

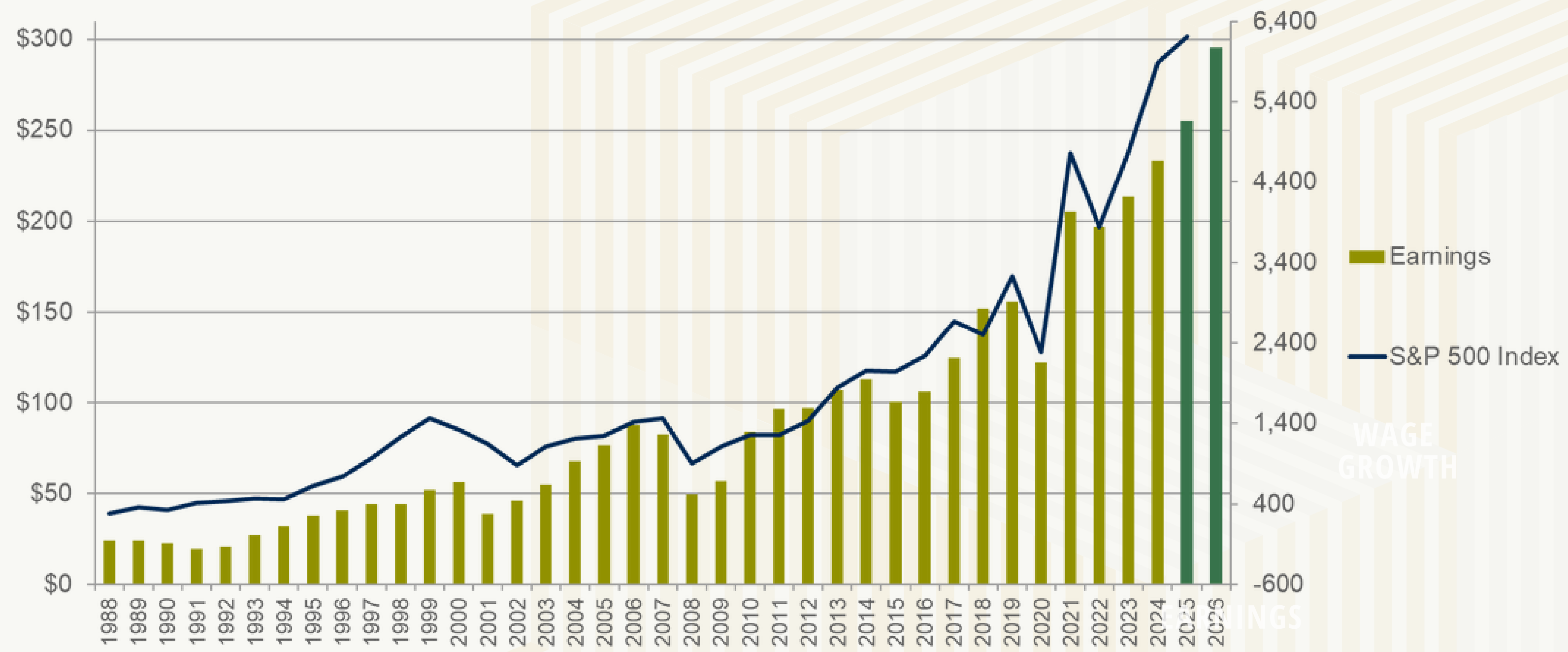
April, just before the announced tariffs regime, we wrote that 10% earnings growth was a more likely assumption. With the closing of the second quarter, the consensus analyst forecast for S&P 500 earnings is $271.25 per share, which represents 9.4% growth over last year. Although the estimates have been revised down, 9% earnings growth is enough to move the market higher in the second half of 2025.

It's not intuitive, but a stock can increase in price and be less expensive. A stock price can fall precipitously and still be more expensive than before the decline. The value depends on the price relative to anticipated earnings. If the price of the S&P 500 index goes up 5.5%, as it has so far this year, and earnings grow 9.5% from last year, then the S&P 500 is still 4% cheaper than it was at the start of the year, despite being at all-time highs.

In evaluating any investment, consider whether there is good reason to question earnings growth expectations. Be data dependent in the analysis and outlook for earnings. Bring the same rigor to evaluating opportunity. If the AI investment cycle continues, for example, rapid earnings growth will drive rapid stock appreciation in that sector of the economy even if the overall economy remains weak.

Despite our optimism, due to the threat of tariffs and their potential risk to earnings, we have reduced exposure to equities while simultaneously moving a greater equity allocation to companies outside the U.S. Firmwide, we started the year with 81% in equities, 15.6% in bonds and 3.5% in cash. At the end of the June quarter, our asset allocation was 72% in equities, 24% bonds and 2.5% cash. With bond yields around 5%, we have traded some of the volatility in equities for increased stability in fixed income. If the aggressive fiscal policies and tariffs continue to push interest rates higher, we will continue to increase our fixed income holdings.

»S&P 500 INDEX AND EARNINGS GROWTH SINCE 1988



2025

BUILD YOUR WEALTH

To Fund Your Passions

GKV Capital Management is an independent investment advisory firm registered with the Securities and Exchange Commission since 1975. We provide portfolio management services for our clients which include individuals, families, charitable trusts, corporations and retirement plans. We are an independent, fee-only advisor. We do not receive commissions, and we do not sell any financial products. We have a fiduciary responsibility to put our clients' interest first.

Client accounts are separately managed and tailored to meet the specific needs, including risk tolerance, investment objectives, and tax consequences of each client. Client assets are held at an unaffiliated brokerage firm.

With extensive expertise in security analysis, we make direct investments on behalf of our clients buying individual securities. This eliminates costly mutual fund fees and increases the flexibility to manage volatility. We actively allocate capital to take advantage of investment opportunities altering exposure to individual companies, industry sectors, and asset classes in anticipation of the changing investment and economic environment.

We are transparent in all facets of our asset management practice and believe it is important for our clients to know what they own, why, what their performance is, and what they are paying in fees. We build comprehensive portfolios for our clients with a goal of reducing volatility and producing prudent growth.

We protect and build wealth at GKV Capital.

GKV CAPITAL

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