LOUDON
INVESTMENT MANAGEMENT

July 15, 2025

Dear Clients and Friends:

Re: Q2 Investment Review

While the first quarter of the year was lackluster in terms of stock market performance, the last quarter more than made up for it with the S&P 500 returning over 10%. The Magnificent Seven again took charge of the aggregate returns while other equity comparisons with less emphasis on these companies lagged well behind. This did seem to start to correct itself more recently as the advance has started to become more broadly based.

Benchmark Index Total Returns	Year to date Ending 6/30/2025	Quarter Ending 6/30/2025
Lipper Balanced Fund Index	6.00%	6.20%
S&P Dividend Aristocrats	2.42%	-0.75%
S&P 500 Stock Index	6.20%	10.49%
Russell 1000 Value Index	6.00%	3.78%
3-month US Treas. Bill Index	2.12%	1.06%
S&P-7-10-Year-US Treas. Bond Index	5.30%	1.40%
S&P U.S. Gov & Corporate 30 Year Bond Index	3.69%	1.15%

Given all that has happened this year, it is small wonder that the stock market has been volatile, yet in aggregate it has held its own. Like him or not, President Trump has been one of the most consequential influences we have seen in politics and the stock market for some time. Just as startling for a political figure, is that he (love it or hate it) is working through each and all of his campaign promises. Now it will be interesting to see whether those who elected him are happy with the results.

The Budget Bill

The so called "Big Beautiful Bill" has passed, and the demagoguery has now begun on how good or bad it actually is. Our preference would have been for a simple but permanent extension of the 2017 tax cuts that were due to expire at the end of this year.

Our belief is that the fiscal outlook is better than what is currently being suggested by the estimates now being thrown around. As we write this, there are thousands of accountants and analysts across the country trying to figure out what it all means. This may truly be a case where the bill was so complex that it had to be passed in order for the rest of us to figure out everything that is in it.

It should be noted that the bill does not take into account whatever the final tariff regime turns out to be. The huge, implied deficit contained in the calculations will be offset by whatever revenue is raised from this source.

Tariffs

The proposed tariffs on the import of foreign goods could be nearly as important to future growth and inflation as the budget bill. Just what the tariff impact will be is the subject of intense debate. There is general agreement that there will be a one-time bump in inflation as US sales prices will reflect the increased costs of imports to sellers. But so far this has not shown up in the inflation numbers themselves. There is some evidence that this may be the result of more front-end purchasing in anticipation of higher prices in the future, but this only delays the impact. It does not eliminate it.

A new, apparently firmer, deadline of August 1 has been set for trade negotiations to be completed or the proposed tariffs set in April will go into full effect. Some of these are dramatic and they often apply to some of our otherwise strongest allies. For instance, Japan and Korea would see tariff rates increase to 25% on most goods. Hopefully, this will push negotiations along at a faster pace than we've seen so far.

On the positive side, Treasury Secretary Scott Bessent has reported that tariffs this year have so far raised over $100 Billion and that is expected to reach $300 Billion by the end of the year. Were the tariffs to remain in place at the current rates, simple math suggests that they will offset almost all of the deficit additions projected by the budget bill, though this seems unlikely.

The main rejoinder to all of the above is that nothing stays in place for ten years – neither the budget deficits as projected nor the offsets suggested by tariff revenue above. So where we ultimately end up is anyone's guess. As in the past, we will need to rely mostly on the inherent responsiveness and flexibility of the US economy to change.

Financial Markets

Given all that has gone on this year, the financial markets have acquitted themselves quite well with all of the stock market indexes producing positive returns. Bond indexes were also slightly positive. However, not surprisingly, it has been anything but a smooth ride. From a financial perspective, one of the only good things to come out of the Covid epidemic is that it forced many companies to drastically reduce costs to stay in business. These business improvements are now beginning to show themselves in higher profit margins and through earnings growth, even when volume has not returned to previous levels.

Corporate earnings reports for the second quarter are due to begin next month. So, it won't be long before we begin to see how this all shakes out. As future earnings estimates and expectations are a mainstay of our analysis of individual companies, we will be watching with great interest.

Top 20 Holdings

The market fluctuations mentioned earlier have provided plenty of opportunities for investment over the last few months. As a result, we have been fairly active traders recently, adding several new names to portfolios as well as cleaning out some older holdings that have not met expectations. As a result of this activity, long-term holdings Amgen and Stanley Black and Decker have fallen off our top twenty list, both due to selling. Meanwhile we welcome tech company Taiwan Semiconductor (TSMC) as well as pharmaceutical maker Novo Nordisk to our top holdings. Our current top twenty holdings list is below.

06/30/2025 Top Holdings

ABBV	AbbVie Inc	ITW	Illinois Tool Works Inc
ABT	Abbott Laboratories	JPM	JPMorgan Chase & Co
AMP	Ameriprise Financial Inc	LNC	Lincoln National Corp
AMT	American Tower Corp	LOW	Lowes Companies Inc
CAT	Caterpillar Inc	MSFT	Microsoft Corporation
CSCO	Cisco Systems Inc	NVO	Novo Nordisk
DLR	Digital Realty Trust Inc	QCOM	Qualcomm Inc.
EPD	Enterprise Products Partners LP	TFC	Truist Financial Corp
FAST	Fastenal Company	TSM	Taiwan Semiconductor Manufacturing Co.
G	Genpact Limited	XLK	SPDR Technology Sector ETF

On the new holdings side, the company we are most enthusiastic about is Denmark based pharmaceutical company Novo Nordisk, which is a stock we have recently been buying for the first time. A huge player in the obesity and diabetes markets, over 95% of the company's sales come from these two areas - its GLP-1drugs for weight loss (Ozempic and Wegovy) and diabetes care (largely insulin). Novo Nordisk came onto our radar after the stock was cut by more than half since its all-time high about a year ago as competing weight loss drugs began to come onto the market, primarily from drug marketing powerhouse Eli Lilly. More broadly, the company also seemed to have stalled as a new in-house CEO, more focused on operations rather than marketing, did not live up to expectations.

The CEO issue is in the process of resolution as the previous CEO, especially known for aggressive marketing, is now back in place while a permanent replacement is sought. Further, the obesity market is huge and our analysis concluded that the market for these drugs should continue to grow strongly in the coming years. This should leave room for several major competitors, even if prices become squeezed a bit. Additionally, Novo has a robust pipeline of new formulations of its GLP-1 treatments along with combination therapies that could potentially be used for other indications such as Alzheimer's and metabolic diseases. When we add drug companies to portfolios we are particularly interested in future blockbuster potential as all patent protection on new discoveries eventually runs out.

Novo stock provides an income yield of around 2.4%, very high relative to its historical rate of around 1.4%, and it is likely to grow strongly from here. And even with the threat of competition priced in, earnings growth is expected to remain in double digits in the coming years. We believe this is a stock that may require some patience as we have not yet seen much recognition of these facts in the price, but looking out over a 3 to 5-year time horizon this is a company with superior expected earnings and income yield selling at no more than a market valuation.

The other addition to our Top 20 list is Taiwan Semiconductor which has elbowed its way onto the list due to stellar stock performance over the last year and a half. It is one of the best AI stocks that you've probably never heard of. TSMC was founded in 1987 and pioneered the pure-play foundry model. It produces semiconductor chips for those who design chips but outsource some or all of their manufacturing. The big story here is Artificial Intelligence (AI) which has driven demand for the company's products to unprecedented levels. With growth expected to continue in double digits for the foreseeable future, this is a company we plan to continue to hold, although the stock is no longer what we would consider cheap. Additionally, as the price has gone up faster than the dividend, the yield has now dropped to around 1.3%, close to our general minimum expectation. Overall, we rate TSMC as a hold at current prices, though we might consider adding shares if the stock price were to dip. This is a company we would love to own a bit more of at the right price.

On the sell side, Amgen is one of the world's largest independent biotech companies and has been a winning stock over the long term while paying a nice dividend along the way (the current dividend yield is about 3.25%). The stock was a stellar performer in the first quarter, returning over 20%. But the price has retreated a bit since then. There is uncertainty around Amgen due to tariffs and potential drug price cuts, and there was also a recent lawsuit in which Amgen was forced to compensate a competitor for monopolistic practices related to major seller Repatha, its cholesterol reducing drug. All of this has weighed heavily on the stock price. While we don't consider Amgen to be "grossly overvalued", our usual sell signal, we do believe that the future is a bit less certain as we take a fresh look at the company. As the fundamentals have changed, this is a company where we feel comfortable selling in order to find better opportunities. Novo Nordisk is our current prime alternative.

Stanley Black and Decker is a stock we have owned for many years in a large number of client accounts, and it is one we have been very patient with. This has been due mostly to our belief that it has one of the best management teams in the consumer tool business.   It is also a Dividend Champion having increased its payout every year for more than 50 years, quite amazing for a company in a cyclical business. But during the Covid epidemic in particular, it was overwhelmed by issues related to low volume and less reliable sourcing resulting in a huge penalty to earnings and cash flow. It also has used China as a large source of what it sells, but tariffs are likely to make these goods much more expensive. While these problems have been addressed to the extent possible, we believe that it will take a number of years for Stanley to get back to where it was prior to Covid though they are likely to continue to raise the dividend on an annual basis.

Another nudge toward selling Stanley is that many accounts now hold it at a loss. As the stock market has moved higher over the past five years, selected stocks, such as Microsoft, have outperformed and become a larger and larger percentage of the portfolios where they are held. We now have very few, if any, companies in taxable accounts that are selling at a loss to offset the prudent trimming of overly large positions. The result is that this will be a year of capital gains for most portfolios. As there are many alternative stocks to own, we are likely to be more aggressive in selling those now at a loss to keep taxable gains to the minimum possible.

Selling at a loss is not what anyone likes to do, but as long as the stock we are buying is also down in price, with similar or better fundamentals, no potential for future returns is likely to be lost.

Summary

Although the future is always uncertain, changes created by the budget bill and the new tariff regime are large and it will take some time to learn where it all comes out. So, while the stock market has been positive so far this year, the odds of a substantive correction are growing as the market hates uncertainty. Since the market hit bottom in late 2023, it has risen over 90%, clearly an unsustainable advance particularly as several indexes recently hit all-time highs.

AI stocks have deservedly (based on earnings growth and potential future growth) led the advance. Because of valuation risk, we have never been full participants in this sector. We have participated mostly through Microsoft, a few other technology stocks and the Technology Sector Fund ETF.   The largest stock in this fund is NVIDA, the world leader in AI chip design.

As a result, we have lagged the S&P 500 index but have led the major dividend-oriented funds over time, due to our selection process. We rarely buy anything that has an income yield less than the S&P.   One result of this is lower volatility. And because of that we have done better than the S&P in virtually all down markets, when all of you are most likely to be concerned about your asset values.

As we have said in the past, our primary objective is your peace of mind. Our selections should provide this as most are high quality, have positive growth characteristics and are selling at reasonable valuations. We expect them to hold up well whatever the future may bring.

Sincerely,

Loudon Investment Management LLC

ELS/DML/JJS/LRO