MUHLENKAMP

QUARTERLY LETTER, APRIL 2025

Fellow Investors,

In many respects the first quarter of 2025 was little changed from the recent past. For example, inflation, as measured by the Consumer Price Index (CPI), was 2.8% on February 28, 2025, right in the middle of the 2.4% - 3.4% range it established in 2024. Similarly, the yield on the 10-year U.S. Treasury was 4.35% on March 26, 2025, again in the middle of the 4.0% - 4.5% range that's been in place since late 2023. Unemployment was 4.1% on February 28, 2025, the same level we saw in June, September, October, and December of '24. Even the Federal Reserve left well enough alone and didn't make any changes to the Federal Funds Rate in the quarter.

So, a pretty "ho hum" quarter. Not much to talk about, should make for a short memo, right?

Well, no.

There has been plenty of excitement in the government policy arena, mostly centered around tariffs and regulations. President Trump has imposed a number of tariffs against a broad array of countries and industries and promises to impose more. The specifics can vary on a daily, or even hourly basis. The President appears to have three goals: encourage businesses to invest in the U.S. creating a renaissance in manufacturing, raise revenue for the government, and use the threat of tariffs as leverage to get agreements in other areas of foreign policy. The sudden imposition of tariffs and the rapid changes have created chaos with businesses as they do their best to keep input costs low and make long-term plans. We think the rapidly changing tariff policy has contributed to stock market volatility and weakness in business and consumer sentiment surveys. From an economic perspective, higher taxes (which is all tariffs are) reduce overall economic activity and prosperity. They are also not new. Countries are often only willing to open their markets to foreigners if they get some of the jobs that come with the product. That's why there is a Honda plant in Ohio, a BMW plant in South Carolina, and a Tesla plant in both Germany and China. It does mark a significant shift in U.S. policy, and it will take time for businesses to adjust. There is also the fear that a global "trade war" will fuel a new depression just like the Smoot-Hawley tariffs did in 1930. We think the likelihood of that outcome is remote as the context in which the tariffs are being imposed are very, very different today. Finally, some are concerned that the tariffs will stoke inflation. We have no opinion on whether these tariffs will increase inflation or not. We have plenty of other reasons to remain concerned about a resurgence of inflation, which remains high on our list of things to watch for.

Equally as interesting as the change in tariffs are the efforts by the new administration to restructure the government itself and reduce the regulatory burden it imposes on the country. The restructuring has captured the most media attention, particularly the Department of Government Efficiency's (DOGE's) "shock and awe" campaign against the bloated bureaucracy. We applaud the top to bottom effort to reduce waste and fraud and hope that when mistakes are made, as they inevitably will be, they are quickly corrected. Little noted by the media, but we think of enormous importance are the announcements by the EPA (Environmental Protection Agency) and FCC (Federal Communications Commission) to relook all of their regulations from top to bottom (including the EPA's "Endangerment Finding" which concluded greenhouse gasses including carbon dioxide pose a threat to public health and welfare) and a Presidential Order requiring the elimination of 10 regulations for every new one imposed. The EPA announcement in particular caught our attention, and we realized that we must re-examine all of our investments to make sure we understand the impact a significant change in regulations would pose – both threats and opportunities. That process is ongoing and has already resulted in the sale of one holding.

In the stock market we are seeing a rotation away from the darlings of the last two years. So far that rotation has generally worked to our advantage. We remain concerned about the possibility of a recession as some recent consumer data has come in weaker than expected and businesses are cautious given the changing rules as described above. As always, we continue to search for profitable investment opportunities and will put money to work when we find them.

If you have any questions please get in touch with us, we'd love to hear from you.

With our best wishes for your continued success and good health in 2025,

Jeff Muhlenkamp, Portfolio Manager
Muhlenkamp & Company, Inc.

Ron Muhlenkamp, Founder
Muhlenkamp & Company, Inc.

CPI *- The Consumer Price Index measures the average change in prices over time that consumers pay for a basket of goods and services, commonly known as inflation. One cannot invest directly in an index.*