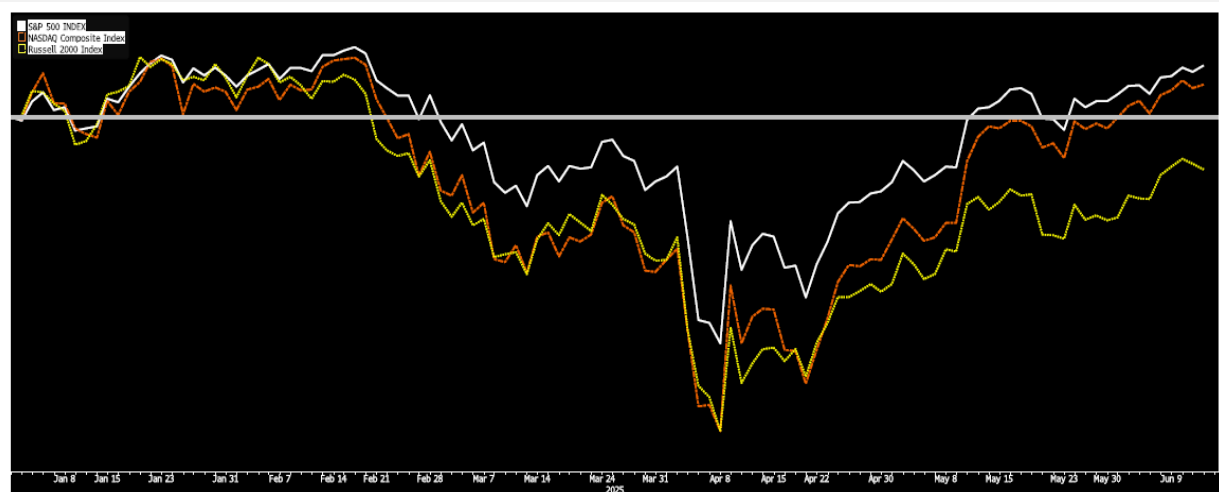


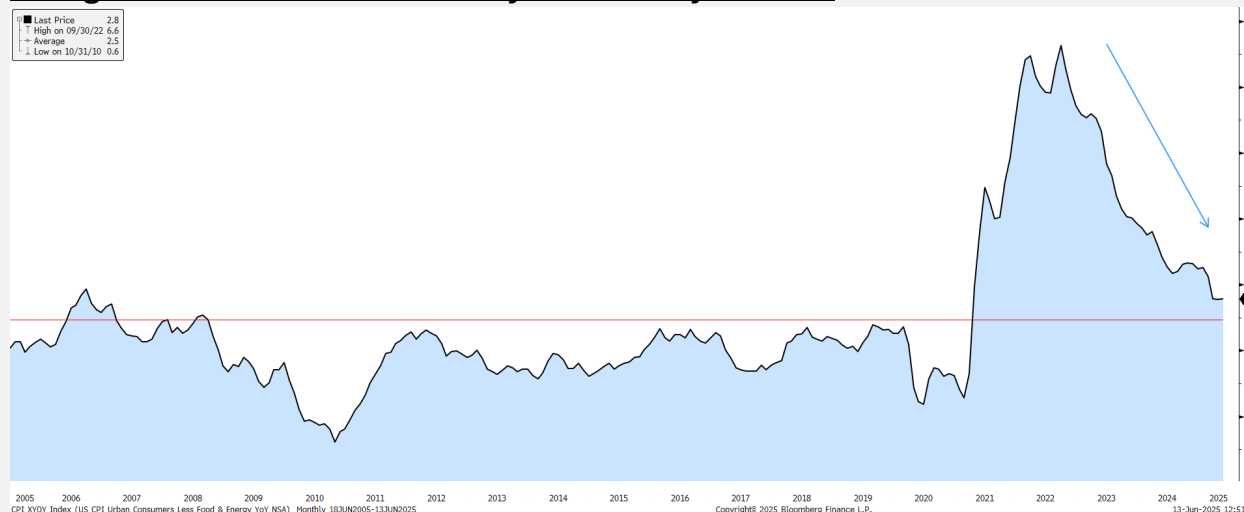
After a 15% drop for the S&P 500 and a 20% fall for the NASDAQ from mid-February to the post-Liberation-Day lows in early April, stocks have staged a furious rally through the middle of June, recovering most of the tariff-related losses. Large-cap stocks are again in positive territory for the year, with the S&P 500 up about 3% and the NASDAQ roughly 2% higher year-to-date. As seen in the chart below, small-cap stocks represented by the Russell 2000 index have yet to recover fully and remain lower by about 3.5% for the year, given they tend to be more economically and interest rate sensitive. Stocks rallied as the administration walked back their most extreme proposed measures by reducing and/or delaying most Liberation Day tariffs. In addition, the first quarter earnings season wrapped up on a positive note, with S&P 500 companies posting healthy earnings growth of 13.3% year-over-year. Many companies also chose to cut or pull their guidance for the year due to tariff related uncertainty, possibly setting up an easier path to beat numbers going forward. Moreover, the AI infrastructure spending boom continues unabated, with mega-cap tech companies all recently maintaining or boosting their capex spending plans—now projected to be more than \$300 billion in 2025.

**Stocks staged one of the fastest rallies in history from the April lows marking one of the strongest 2-month periods on record**



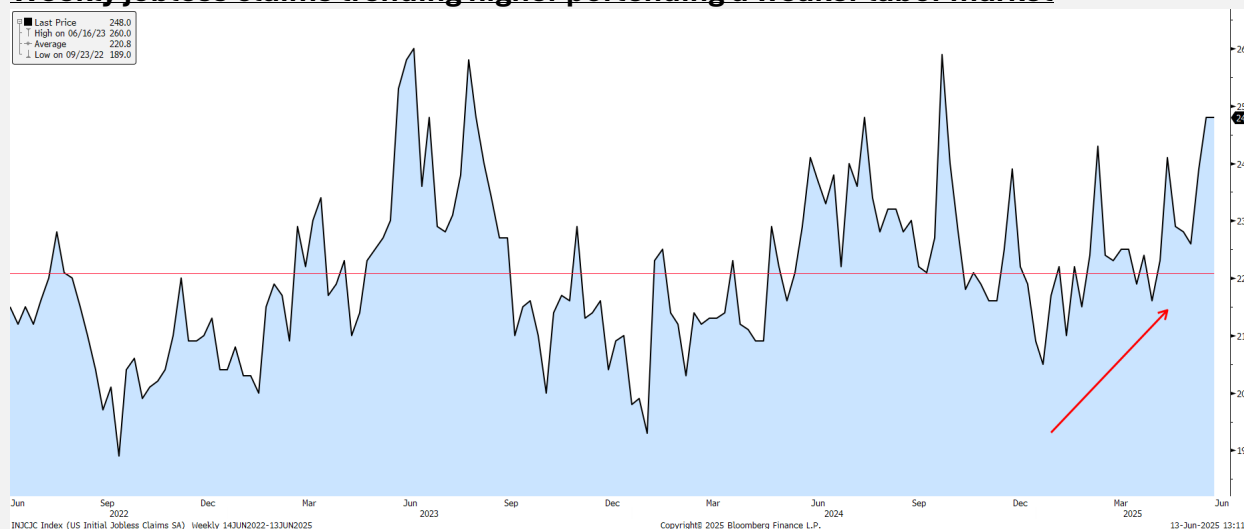
While investors are now more comfortable that the left tail on tariffs has been removed and are increasingly unfazed by tariff-related headlines, uncertainty around the final negotiations and ultimate economic impact remains. The US collected a record \$23 billion in tariffs in May, up from \$6 billion in May 2024, and economists are bracing to see if this translates into a pickup in inflation. Unfortunately, that means the Federal Reserve is in wait-and-see mode and not likely to cut rates soon despite moderating inflation and a slowing labor market. The headline May CPI report came in weaker than expected, rising 0.1% year-over-year, while the Core increase of 0.3% matched expectations. Moreover, most goods that increased in April fell last month, and with core goods prices rising at a slower pace than core services prices, it suggests tariffs are not having an impact so far.

## No signs of tariff induced inflation yet in the May CPI data



Meanwhile, recent data suggests the labor market is softening. Weekly jobless claims have been trending higher over the last few months, coming in at 248k last week, while the latest continuing claims reading of 1.96 million is the highest level since 2021. Moreover, while the headline number for last month's nonfarm payrolls report shows the economy added 139k jobs last month ahead of the roughly 120k expectation, the prior two months were revised sharply lower by 95k. The average monthly gain in payrolls is down to 124k per month this year vs 250k/month last year. Lastly, there has been a sharp divergence between the Nonfarm Payrolls report (Establishment Survey), which polls businesses, and the Household Survey, which polls individuals and recorded a drop of 696k jobs last month. While the Household Survey can be more volatile, big divergences have been seen at economic turning points in the past.

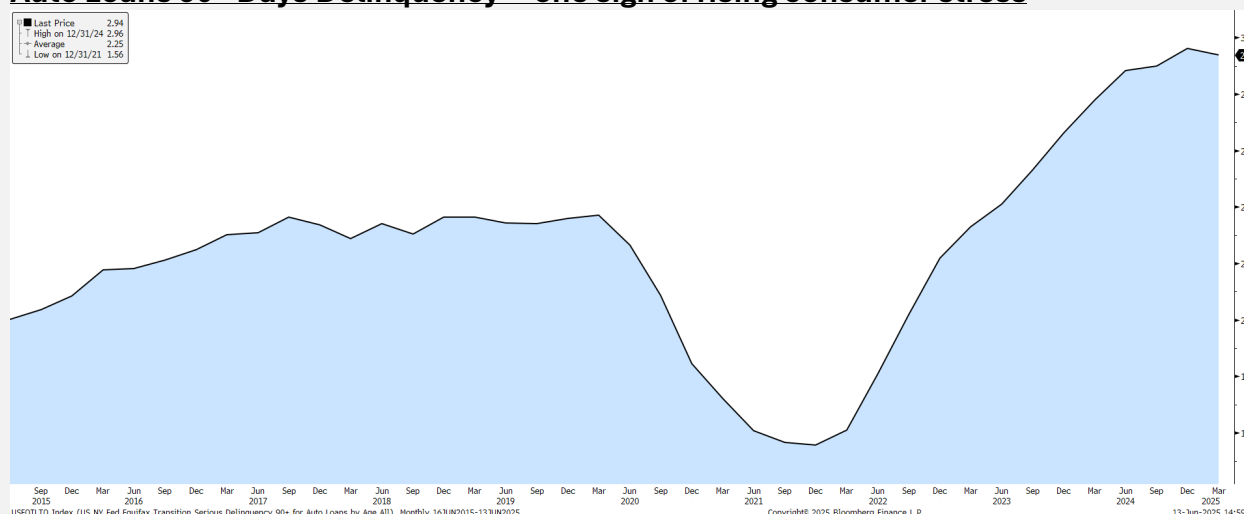
## Weekly jobless claims trending higher portending a weaker labor market



Again, given tariff uncertainty, the Fed will likely leave interest rates unchanged at its June meeting next week and continue to be in wait-and-see mode. Absent tariffs, however, we think the Fed would likely be

easing, particularly given a stalled housing market and increasing signs of consumer stress with auto loan and credit card delinquencies rising.

### Auto Loans 90+ Days Delinquency -- one sign of rising consumer stress



We remain somewhat cautious in the short term given signs of potential further softening in the labor market, more political wrangling around the budget bill ahead, still unsettled tariff policy as deadlines for deals approach, and considering the Fed is not likely to cut rates soon. Looking further out, we are more positive, however, as we think once there is more certainty around the final level of tariffs, the Fed will be poised to ease rates starting later this year, and fiscal policy once the spending bill is passed should provide a boost to growth. Accordingly, we are prepared to incrementally add exposure on pullbacks to areas that could see outsized benefits from lower rates over the next 12 months and a cyclical pickup, including smaller cap companies (the valuation discount to larger cap peers remains wide and they typically carry more debt), analog semiconductors (coming out of cyclical trough), and building materials (cyclical trough, longer-term secular drivers, and ongoing industry consolidation). Moreover, the AI buildout should continue to provide a tailwind and lift productivity, although we maintain our concerns about the implications to the labor market in the long term. Lastly, geopolitical risks remain elevated and have just ticked higher with the developing conflict between Israel and Iran. We will continue to monitor these events, including any potential longer-term impact on energy prices and whether other countries are drawn into the conflict. While we could see continued volatility in the short term, particularly given recent signs of complacency, markets have historically regained their footing relatively quickly after similar shocks.

Jed Glick, CFA, Portfolio Manager – U.S. Equities

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### Our Independence Prioritizes the Client

*Seelaus Asset Management, LLC is a private, women-owned investment manager providing expertise in active fixed income and equity portfolio management and designing customized investment strategies.*

### Our Vision

*To be a best-in-class asset manager that leads with value in a client driven, partnership model.*

### Our Values

- Innovative
- Impactful
- Diverse Perspective
- Authentic

### Our Mission

*To be an agent for change in the finance industry by demonstrating a straight line between the support we receive as a women-owned firm and the support we provide to women in the industry and in the community.*

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To learn more about our investment offerings, please call 212-935-0755, email [ir@seelausam.com](mailto:ir@seelausam.com) or visit <https://www.rseelaus.com/asset-management/>

26 Main Street, Suite 304, Chatham, NJ 07928

Tel: 212-935-0755 Fax 888-901-4201

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ASSET MANAGEMENT

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