# Edgemoor's Quarterly Report

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**July 2025**

**Stocks Hit Record Highs in Q2 Despite Ongoing Noise**

A tumultuous second quarter ended on June 30th with stock market indices reaching record highs, despite ongoing concerns about tariff and trade policies, slowing economic growth, and geo-political crises around the world.

The S&P 500 index surged 10.9% in the second quarter and the Nasdaq returned 17.8% for the three months from April to June. These marked strong rebounds from the negative 3% and negative 8% returned by each index, respectively, in the first quarter of 2025. For the first six months of the year, the S&P 500 delivered a positive total return of 6.2% and the Nasdaq returned 5.5%.

The strong turnaround in stocks in the latter part of Q2 was led in large part by technology shares, which had previously been hit hard by China's DeepSeek AI scare as well as by tariff concerns. But these concerns proved to be short-lived, as investors applauded strong first quarter earnings reports, ample capital expenditure plans by AI hyper-scalers, and an overall belief that the AI growth story remains intact.

The dramatic swings in equities were captured by the VIX, the broadest measure of stock market volatility, which peaked at 52 in early April, before settling back below its long-term average of 20 in May and June.

Bonds also posted gains, with the Bloomberg U.S. Aggregate Bond Index returning 1.2% in the second quarter and 4.0% for the year-to-date period, as many investors flocked to the safe haven of bonds amid equity market volatility.

**April: A Faded Memory?**

We wrote the following preamble in our first quarter report describing the market's rapid decline in the early days of April and thought it would be useful to revisit it:

***April Update:*** *The sharp selloff in global stock markets in the early trading days of April has roiled investors and sent most major indices into or near bear market territory (defined as a fall of 20% or more from a recent high). The cause was sweeping new tariffs announced by the U.S. on April 2nd on nearly every nation at levels which far exceeded market expectations.*

*This policy shock threatens to undermine a U.S. economy which, up until now, has shown remarkable resilience. A prolonged tariff war could slow economic growth, raise unemployment, and re-ignite inflation.*

*We obviously don't know how things will play out in the short term, but we remain committed to our long-term investment strategy of constructing broadly diversified portfolios of high-quality stocks and income securities that can weather periods of volatility. We also stand firm in our* *belief that good investments should not be sold at depressed prices.*

The good news is that we did stay the course and stick to our disciplined, long-term investment strategy. We didn't panic and sell good investments at depressed prices. We didn't try to time the market or predict the direction of short-term swings. Instead, we stayed the course which is, admittedly, difficult during times of market stress. However, the sharp sell-off in April and subsequent snap-back to all-time highs by June provided evidence of the efficacy of this long-term investment philosophy.

**U.S. Economy: Still Showing Remarkable Resilience Despite Headwinds**

The U.S. economy is once again showing, we believe, that it's the strongest, most resilient, and adaptable economy in the world. Despite all the economic uncertainties around tariffs, inflation, interest rates, and budget deficits, investors continue to find more reasons to be optimistic. Strong corporate earnings, solid GDP growth, and a remarkably resilient job market suggest that the U.S. economy remains on solid footing.

According to the Fed's GDPNow estimate, U.S. GDP is expected to post a solid growth rate of 2.4% in the second quarter, a rebound from the negative 0.5% rate in the first quarter. The expected reversal in Q2 is in large part due to the normalizing of trading patterns, after U.S. businesses rushed to front-load imports in Q1 ahead of the threat of higher tariffs. With those pressures having subsided (for now), a more normal level of business investment and consumer spending has resumed.

Corporate earnings, as measured by S&P 500 Index aggregate earnings, have also shown strong growth. Year-over-year earnings grew by nearly 13% in Q1 and are expected to grow by 5% in Q2, which, while slower, is still solid. The profit cycle for many companies could be further extended by tailwinds from fiscal stimulus and government deregulation.

Finally, the U.S. labor market is still showing remarkable resilience. Nonfarm payrolls increased by 147,000 in June, well above the consensus estimate of 118,000 and slightly ahead of May's revised growth of 144,000 new jobs. The overall unemployment rate ticked down to 4.1% in June from 4.2% in May. Many observers are now looking to the job market rather than inflation as the key indicator of the underlying health and direction of the economy.

**Headwinds Remain**

Despite these positive economic signs, a number of significant headwinds remain.

Fears about inflation re-igniting from prolonged tariff disputes with key trading partners such as Canada, China, Japan, and the EU are top of mind for investors and policymakers, alike. The Fed recently increased its inflation forecast for full year 2025 to 3.0% from 2.8%, reflecting this uncertainty.

Higher inflation also risks slowing GDP growth, with the Fed reducing its GDP forecast for 2025 to 1.4% from 1.7% at the beginning of the year.

Consumer and business confidence also seems to be waning, as exhibited by disappointing retail sales and worsening manufacturing data in May.

It is proving difficult for American businesses and consumers to plan and spend without more economic and fiscal clarity. Consumer spending, adjusted for inflation, declined 0.3% in May.

Finally, concerns about the U.S. debt and deficits have grown with the passage of latest government tax and spending bill, which is projected to add to the deficit over time. In addition, Moody's downgraded the U.S. credit rating in May, joining other major agencies in stripping the U.S. of its once-coveted AAA rating.

**One Thing that Hasn't Changed: The Fed**

Amid all this uncertainty, the one thing that hasn't changed is the Federal Reserve's policy stance on interest rates, which has held steady since December.

Fed Chair Jerome Powell has continually reiterated his position that any action to cut the Federal funds rate will be data driven. He recently cited the ongoing uncertainty about the effects on prices from tariffs as the reason for the Fed holding rates steady. Notably, the impact of tariffs has so far been blunted by the front-loading of imports which curiously also caused the negative GDP reading in Q1.

Chairman Powell has also responded to ongoing pressure from the White House to cut rates by stating that, absent the tariff wars started by the Administration, the Fed likely would have already cut rates this year.

We'll see how this all plays out. Either way, the markets are remaining hopeful, currently pricing in two rate cuts before the end of the year which, if they happen, should be a tailwind for equity prices.

**Portfolio Implications and Actions**

We remain cautious on equities in the near term given the economic, fiscal, and geo-political uncertainties. We also consider the broad market to be fairly valued, based on the current forward price-to-earnings ratio of the S&P 500 of approximately 22 times, just ahead of its 5-year average of 20 times.

Still, not all segments of the market carry such high valuations. For example, healthcare, energy, and financial stocks are substantially below the market's average multiple, and we continue to look for opportunities in undervalued sectors.

Overall, we continue to favor value-oriented, dividend-paying stocks that have strong cash flow characteristics, leading market share, a wide economic moat, and solid growth prospects. We also still like short-term Treasury bills with annualized yields of 4.2%+ for excess cash.

**Outlook**

Our outlook for the markets is guardedly optimistic, as we believe volatility may continue until there is more clarity on tariffs and their longer-term impact on the economy.

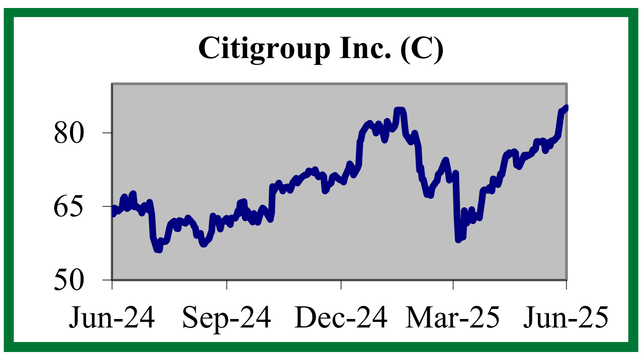
Despite expected short-term volatility, we emphasize to our clients the importance of sticking to a long-term investment plan focused on their specific goals and objectives. Our patient, disciplined approach to individual security selection offers our clients strong long-term return potential in a cost effective and tax efficient manner. This discipline guided our actions during the market upheaval in April and ultimately served our clients well.

We appreciate your confidence in our time-tested investment philosophy, and we remain steadfast in our belief that the U.S. is still the best economy to invest in over the long-term.

## Analysis of Selected Securities

The following are analyses of three securities we are currently buying for client accounts:

**Citigroup Inc. (C)**




Source for chart and financials: FactSet. Past performance is not indicative of future results. Please see disclosures on page 8.

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|---|---|---|---|
| Price (06/30/2025) | $85.12 | Forward P/E | 10.2 |
| Market Cap ($B) | $159.0 | Price/Book | 0.8 |
| Dividend Yield | 2.6% | | |
| Return on Equity | 6.9% | | |

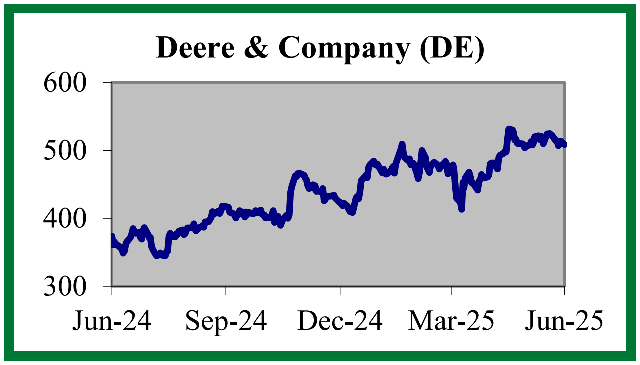
Citigroup is one of the world's largest banks with more than 200 million customer accounts and global operations in over 160 countries. The bank's core competencies include cross-border services for multinational corporations, as well as investment banking, trading, wealth management, and credit card services.

Citigroup shares have outperformed the S&P 500 Index on a year-to-date, 1-year, and 3-year basis, as the company has successfully pursued a multi-year strategic restructuring. Under the leadership of CEO Jane Fraser, who took the helm in 2021, the bank has sold off noncore businesses to free up capital, de-risk its business, and unlock shareholder value. More streamlining of operations is planned with the expected IPO of Citi's consumer banking business in Mexico, a deal that could bring a potential $6-$8 billion windfall to the bank.

We expect further structural changes to result in improved profitability, fee revenue growth, and market share gains in its wealth management business. Additionally, the bank has increased its share repurchase activity, offering further support for the stock. Overall, the bank's significant progress in its turnaround efforts has given investors a high degree of confidence in the firm's ability to hit its medium- and long-term targets, offering a catalyst for continued gains.

Citigroup shares are attractively valued, trading at 0.8x book value and 10.2x forward earnings, and pay a solid and growing dividend currently yielding 2.6%.

**Deere & Company (DE)**




Source for chart and financials: FactSet. Past performance is not indicative of future results. Please see disclosures on page 8.

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| Price (06/30/2025) | $508.49 | Forward P/E | 24.2 |
| Market Cap ($B) | $ 137.7 | Price/Book | 5.7 |
| Dividend Yield | 1.3% | Price/Sales | 3.0 |
| Return on Equity | 35.5% | | |

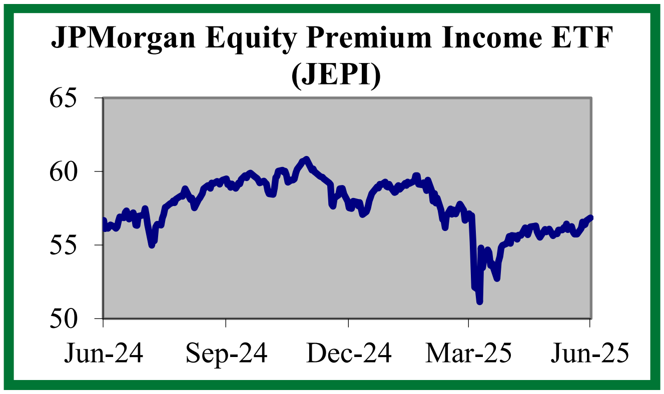
Deere is the world's largest manufacturer of farm equipment, as well as a large producer of construction machinery and lawn/garden equipment. For over a century, the company has been the pre-eminent manufacturer of mission-critical agricultural equipment, creating its highly valuable brand. The company operates across four business segments: Production and Precision Agriculture (41% of fiscal 2024 sales), Small Agriculture and Turf (22%), Construction and Forestry (26%), and Financial Services (11%).

The company has a long and successful track record of innovating new products and upgrades to its large installed base of equipment that drives greater machine efficiency. Deere's agricultural equipment helps farmers save on operational costs while also increasing crop yield, which has led to intense brand loyalty and pricing power. The company's products are sold through an unmatched and dedicated dealer network, with over 2,000 dealer locations in North America. Deere has spent decades cultivating these dealer relationships, which are a significant competitive advantage for the company.

Deere is increasingly adding technology and innovation to its products, from guidance systems to seed placement and spacing and customized spraying applications. These value-added features help their customers increase productivity, profitability, and sustainability. These next-generation products and services also increase Deere's addressable market, while allowing the company to generate and maintain healthy margins through various business cycles.

Deere generates substantial cash flow which the company has deployed to buy back stock, increase the dividend annually for over 30 years, and maintain an "A" debt rating from Standard and Poor's. We expect significant earnings growth over the coming years given Deere's growing addressable market and structurally higher margins. We believe the stock is trading at an attractive valuation for a high-quality business with a valuable brand, unmatched competitive advantages, and strong growth tailwinds.

**JPMorgan Equity Premium Income ETF (JEPI)**




Source for chart and financials: FactSet. Past performance is not indicative of future results. Please see disclosures on page 8.

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|---|---|---|---|
| Price (06/30/2025) | $56.45 | YTD Return | 2.5% |
| AUM ($B) | $ 40.9 | | |
| 30 Day SEC Yield | 8.4% | | |

JEPI is an actively managed, exchange-traded fund (ETF) from J.P. Morgan that is designed to generate current income and capital appreciation by selling call options on the fund's portfolio of large cap U.S. stocks. JEPI produces monthly income from option premiums and stock dividends while providing equity market exposure from its underlying stock holdings.

The ETF's strategy also serves as a hedge to the downside risk of equity markets. The premium income earned from selling options is directly correlated to the volatility experienced in the stock market, i.e. the more volatile the stock market, the larger the premium income earned by JEPI.

In addition, JEPI is a solid diversifier to traditional bonds given its ability to distribute monthly income without exposure to duration or credit risk.

The fund's equity portfolio consists primarily of defensive stocks selected using a proprietary research process designed to identify stocks with favorable risk-return characteristics and lower volatility relative to the market. JEPI's diversified portfolio currently holds over 100 stocks and has total fund assets over $40 billion.

JEPI offers investors access to a unique income strategy that would be difficult to replicate on a stand-alone basis, and its low volatility and high yield of 8.4% make it an attractive holding for our clients' income portfolios.

*Source for text and charts: FactSet, Morningstar, S&P/CFRA, Schwab, ValueLine, Black Diamond Performance Reporting, Yahoo Finance, Bank of America, JP Morgan Markets, MarketWatch, WSJ and Argus reports.*

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The S&P 500 index is an unmanaged market-capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. The S&P 500 index is discussed for comparative purposes only. The comparisons have limitations because the indexes have volatility, investment, and other characteristics that differ from the investment strategies of Edgemoor. Further, it is not possible to invest directly in the indexes.

The NASDAQ measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite includes over 3,000 companies.

The Barclays U.S. Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. The Index is frequently used as a stand-in for measuring the performance of the U.S. bond market. In addition to investment grade corporate debt, the Index tracks government debt, mortgage-backed securities (MBS) and asset-backed securities (ABS) to simulate the universe of investable bonds that meet certain criteria. In order to be included in the Index, bonds must be of investment grade or higher, have an outstanding par value of at least $100 million and have at least one year until maturity.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries*. With 2,308 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

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