

INVESTMENT VIEWS

MAY 31, 2025

UNCERTAINTY IS THE NEW CERTAINTY

As we have said many times over the years – beware of the financial media. Uncertainty is becoming an overused word in the financial media. It has been tirelessly used to describe the unknown potential effects of trade policy initiatives of the current administration. As these policies work their way through our system, it eventually will become more clear how they will affect our economy and financial institutions. The markets are grappling with these unknowns.

Our question is though – when has there not been uncertainty? Over the years there is always a wall of worry that the market climbs. Whether it is concerns about interest rates, inflation, GDP growth, global trade – there is always something the market is worried about. Only in hindsight do we look back and laugh at what seemed like very valid concerns at the moment. Perhaps there is more uncertainty now and in areas of the market that investors are not used to worrying about. However, we remind our readers that “uncertainty” is really nothing new to investors and should be taken in stride. We make our investment choices based on valuation, potential catalysts and focusing on longer-term trends. Again, uncertainty is nothing new to investors.

U.S. DOWNGRADE NO BIG DEAL?



The stock market mostly shrugged off the recent U.S. downgrade by Moody's, albeit yields on the 10-year rose to over 5% due to a poor auction of 20-year notes. This caused some consternation in the markets on the day, but overall was also treated as noise. The reason for the muted reaction was mostly due to the fact that the U.S. was already downgraded by S&P in August 2011 and the markets went into a tailspin. Back then all contracts for derivatives, loans, etc prohibited including any security that was less than AAA rated. This downgrade put those contracts in violation/default. Since then, those contracts were rewritten to remove the specification of a rating on government securities. Then in August 2023 when Fitch downgraded the U.S. as well, it had almost no effect since the U.S. was now a split rated country as Moody's still maintained their AAA rating. Now that Moody's has joined the party, the U.S. still has the same credit rating as before; it's just now unanimous. Since all the contracts were rewritten a decade ago, nobody was forced to do anything as there was no technical defaults.

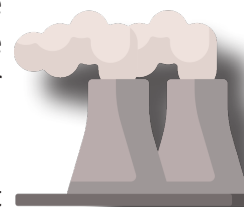
All said, this is still pointing out the fact that U.S. is in a very serious fiscal situation. Credit default swaps (essentially insurance policies against government default) on U.S. government debt are rising to levels not seen since 2008. Sharp spikes in these rates have lately revolved around debt ceiling and government shutdowns. The current spike involves tariffs as well since they stoke fear of economic troubles.

The rise in gold also points to the potential of treasuries losing their status as the world's reserve asset. As the world moves away from the lower rated US Treasury market, gold bullion is resuming its historic role as a neutral form of payment and collateral. Gold is recognized and accepted everywhere and with higher prices, it has become suitable for a certain amount of international trade. Central banks, led by China have been buying gold in place of US Treasuries. Until the U.S. government gets its financial house in order, nations will continue to seek other forms of currency reserve and trade collateral. As of now the current risk of default is quite low, but market anxiety is definitely elevated.



NUCLEAR RENAISSANCE IN BLOOM

The Trump Administration recently issued 3 executive orders (EO) that strengthen and affirm the ongoing nuclear energy renaissance in this country. Additionally, the EO's streamline the intense regulation the industry faces. These actions are extensions of policy initiatives that began under the first Trump administration and were continued under the Biden administration.



The United States had been badly lagging the rest of the world in nuclear energy development for many years. The unfounded public fears and misconceptions around the safety of nuclear energy is the main culprit in allowing this to happen.

Fortunately, with rapidly growing demand for electricity due to concerns about the climate, as well as, higher demand from blockchain and artificial intelligence, nuclear energy is now taking center stage. New technologies involving smaller, more economical reactors, as well as new fuel technologies and reactors that improve the already high safety profile are now speeding towards development and approval.

Our main investments in this area include Cameco (CCJ), BWX Technologies (BWXT), Centrus Energy (LEU) and the Sprott Uranium Miners ETF (URNM). These investments now make up a sizable portion of our portfolio, however keep in mind that they grew to this weighting through appreciation. We have and will continue to take profits to manage the size of the positions, although we believe that this renaissance is just now getting underway and is only starting to be recognized by general investors.

BREADTH THRUST FOLLOW UP

In our last newsletter we wrote about the market experiencing a Zweig Breadth Thrust at the end of April. As we stated, this has been a very positive market indicator going back to 1950. Returns six and twelve months later have been positive every time.

As an update to that, after one month, the S&P 500 has the fourth best gain at 8.0% out of all the previous 19 recordings of the Zweig thrusts in this time period.

As we said, uncertainty is the name of the game right now and we can not rule out the market hitting lower lows as it did in 2015. However, even then the returns were positive after six and twelve months. Even more encouraging, a recession has never occurred within 12 months of one of these readings. As the current market consensus is that a recession is coming, this would go deeply against history.

Recommendation List: A list of all previous specific investment discussions published over the past 12 months will be provided upon request. Please email lara@mhandassociates.com or call our office for this list.

HALLIBURTON

Biding Our Time

Halliburton (HAL) has been a frustrating investment for our portfolio. Despite excellent management, a strong financial profile and a decent longer term outlook, the oil services stock has continued to trade in a very wide range, moving from a profitable stock to a loss, to a profit and back to a loss. We continue to be steadfast in our conviction that HAL will have its time and with some patience will be very rewarding to investors.

While Halliburton is a global company, it is known for a few key markets including North America and the offshore segments, which are usually strong earnings growth drivers. With oil prices recently weakening, demand for HAL services has softened. However, we do not expect low oil prices to last forever and a strong recovery to get underway, especially in the North American and offshore segments.

Until then, management is buying back shares at these low prices. We are likely to take advantage of the situation, doubling our position with any eye to selling earlier lots for a tax loss write-off. The strong financial position of the company gives us comfort to bide our time until the situation turns favorable to us.

