

BRADYCO

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1st Half 2025 Results

During the first half of 2025, the stock market – as represented by the S&P 500 index – gained 6.2% (including dividends) following two consecutive years of over 20% returns.

The stock market began 2025 continuing the Artificial Intelligence (AI)-led momentum that commenced in 2023, with the S&P 500 index hitting a new all-time high on February 19th. However, this upward trend reversed when a Chinese firm claimed to have developed a powerful AI model at a fraction of the cost American companies were incurring. This downward shift accelerated significantly on April 2nd, 2025, when the administration sharply increased tariffs. The S&P 500 dropped by 12% before the President announced a 90-day pause on most major tariff increases. Since that announcement, the market has rebounded, with the S&P 500 index finishing the first half of 2025 at an all-time high, slightly above its February 19th close.

Warren Buffett's retirement

During Berkshire Hathaway's annual meeting in May, Warren Buffett announced his retirement at year end and the promotion of Greg Abel from Vice Chair to CEO of Berkshire Hathaway. My sense is that Mr. Buffett has already transferred many of the CEO responsibilities to Mr. Abel, so that this change in titles will largely formalize the shift in operational responsibilities that Mr. Buffett has already made. Next year's annual meeting will underscore this symbolic change as shareholders observe Mr. Buffett among the board members on the convention floor while Mr. Abel occupies the center stage, fielding shareholder questions. By making the change now, Mr. Buffett allows Mr. Abel to grow into his new role while Buffett remains available to offer assistance. While Mr. Buffett sets a high bar, I am optimistic that Mr. Abel—much like Apple's Tim Cook following the legendary Steve Jobs—will succeed in his new position.

Economic Trends I am Following

Several economic trends warrant close attention due to their potential long-term impact on our investments. On July 4th, the President signed the so-called "The One Big Beautiful Bill" into law. Depending upon one's perspective, this tax legislation either exacerbates or fails to alleviate our nation's persistent and growing fiscal deficits. The continued increase of our deficit relative to our Gross Domestic Product (GDP), a common measure of our country's economic output, is unsustainable. If this trend persists, it will likely trigger a crisis at some point, though the precise timing and circumstances remain uncertain.

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While many Presidents have tried to influence the policies of the Federal Reserve Bank, the actions of the current administration towards the Fed are unprecedented. The perceived independence, from executive branch political interference, of the individual nominated to be the next Fed Chair in May 2026 will be crucial in this regard. I believe this trend, coupled with our continued fiscal deficit growth, are two factors contributing to the steep (the worst in over 50 years) decline of the US dollar against foreign currencies during 2025. Ironically, the reduction in the value of the dollar has reduced the price of imports while increasing the cost of exports, directly contradicting the administration's tariff policy goals.

Finally, one impact of the administration's immigration policy has been a reduction in the total available workforce, thereby improving unemployment figures. However, the full impact of these policies on industries heavily reliant on immigrant labor, such as agriculture, healthcare, and construction, has yet to manifest in our economic statistics. Future growth could also be hampered by a shortage of workers given our nation's low birthrate. While AI will enable many sectors of our economy to grow with fewer workers, some labor-intensive industries will find this transition more challenging.

What's Next?

The stock market started the year fully valued. After considerable volatility, the S&P 500 index ended the first half of 2025 up 6.2%. Some observers credit the market's recent strength to the growing influence of retail investors, whose appetite for risk may have fueled growth in more speculative stocks. What's clear is that many companies with little or no earnings have seen their valuations soar since April. Another short-term factor has been the administration's tariff policy, which has seen numerous changes, including as recently as this week.

The character of Mr. Spock from "Star Trek's" TV show offers a valuable lesson for investors: logic and rationality should guide our actions, keeping emotions in check for the greatest success. The first half of 2025 certainly underscored the effectiveness of this approach. We witnessed a news cycle brimming with storylines that drove the stock market through extreme highs and lows. Concurrently, political and economic divisions within our society deepened. It is only by deliberately ignoring the noise of current events, effectively managing our emotions, and steadfastly focusing on long-term trends that we can both sleep better at night and optimize our performance over time.

Despite the turbulent, roller-coaster ride of the last six months for the stock market, the continued growth and innovation of American businesses reinforce my enduring faith in our nation's future.

Thank you for your confidence.



P. S. Please note my new address at the bottom of page 1. Marylou and I have moved from a house at one end of Cambridge to a condo on the other side of town.