



# Sound Income Strategies

## Monthly Equity Newsletter



Sound Income Strategies, Monthly Equity Update

May 31, 2025

### Monthly Maxims

*"You never reach a final answer in this business. You reach a point of action that you take."*  
– Warren Buffet, 2025 Annual Shareholder Meeting

*"Do you know the only thing that gives me pleasure? It's to see my dividends coming in."*  
– John D. Rockefeller

### Executive Summary

- Macro:** Consumer sentiment and security prices improved in May, as tariff expectations continued to soften. However, financial markets remained volatile due to a combination set-backs for the economy and the administration, including: a Moody's US sovereign debt downgrade, ongoing trade, Federal deficit and tariff uncertainties, slowing consumer and business spending, a wait-and-see Federal Reserve, and dramatic headlines about various US courts declaring that President Trump has over-used his executive orders powers by implementing tariffs, spending cuts, and border security without explicit authority from Congress. With these battles now entering the courtroom, the passage of the President's first budget bill through the House, which contained less austerity than expected, is in jeopardy, because it needs the \$2T of tariff revenue to pass. The Senate will still consider the measure, but its passage without more spending cuts is increasingly in-doubt. With so many uncertainties in the air, more companies pulled or reduced their full-year guidance in May, with more than a dozen cutting their dividends, out of precaution for greater pressures ahead.
- Markets:** US equity indices posted strong gains in May, with most segments moving higher, led by Internet, AI, and growth names. Healthcare, energy and value stocks struggled, as softening fundamentals in those areas led to aggressive repositioning into secularly stronger groups, especially AI, which saw the Deep Seek (Chinese low-cost AI) threat blocked by the trade war, and stronger than expected orders for AI gear at Dell and Nvidia.
- Portfolios:** Both core portfolios gained ~2.8% in May. These results trailed the S&P 500, as technology names that do not fit our yield mandates rebounded more than our diversified, cyclically exposed funds did. With software and IT services largely immune to tariffs, in contrast to old-world companies that are in their cross-hairs, this outcome makes sense. Against this backdrop, we sold four positions and added two. Our exits were Organon, HR Block, and Carters in Dividend River, and Dun & Bradstreet in Total Return Yield. Our new positions were Scotts Miracle Grow in Dividend River and Carlyle Group in Total Return Yield.

### Part I: Macro Factors and Thoughts

#### May's Performance Was Exceptional, in the Face of Meaningful Uncertainty

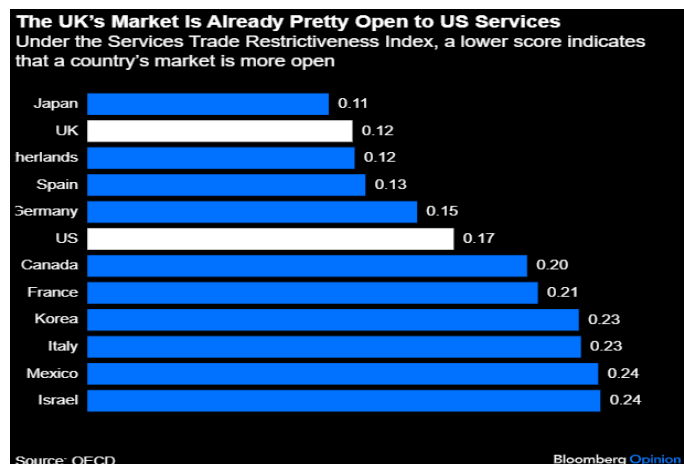
Thanks to the strong sentiment swing from reduced tariff threats, the swift passage of the President's low tax budget in the House, and better-than-expected economic data, including AI orders, personal income,

and inflation, the major US indices surged in May, led by a 9.7% gain in the NASDAQ, and a 6.3% gain in the S&P 500. In fact, the S&P 500 reported its best month in two years and its best May since 1990. Half of the S&P 500's gain was due to technology stocks, but good earnings elsewhere also helped to lift the index's forward valuation and Q1 EPS growth rate to new highs.

What made this rebound exceptional was that it overcame increasing levels of uncertainty surrounding the economy and US policies going forward. For example, bond yields, risk and term premiums all rose, following Moody's downgrade of the US credit rating early in the month and weak Treasury auctions. Later on, the President's "Big Beautiful Bill" budget plan did not cut spending nearly as much as deficit hawks had hoped, but rather it foretold of rising deficit spending which will increasingly jeopardize America's capacity to respond to threats. Further, toward the end of the month, the US Court of International Trade ruled that Trump has exceeded his authority by imposing punitive tariffs without Congressional approval. This came after numerous other judges found the President had overstepped his authority on border security, foreign student protesters, and DOGE matters. While this tariff ruling received a swift stay on its appeal, it still has ramifications that potentially undermine the Administration's tariff agenda, its negotiating leverage, and the viability of its budget plan that has penciled in \$2.3T of tariff revenue to fund the many new tax breaks promised. With the US counterparties now having a reason to question the durability of Trump's tariff threats, they have a reason now to slow their efforts to cut deals with the US until they know if the President's threats have teeth or not. Already, the Chinese appear to have slowed their approval of rare earth metals deals, to the chagrin of the President, which led him to threaten more reprisals last week and break the bonhomie that seemed to be forming over developing a new cooperative trade policy between the two largest economies.

Some of this falling and then rising trade uncertainty is captured in the line chart below on the left. Despite the back up, towards the end of the month, the trade uncertainty index still ended May lower than it was in April and stocks finished the final week of the quarter with strong gains.

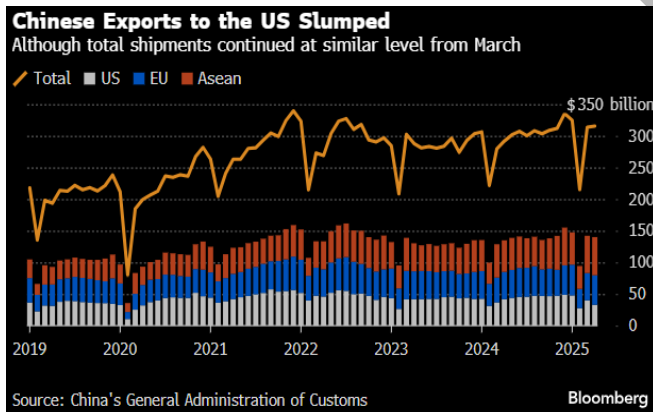
The chart on the right indicates a surprise wrinkle in the Administration's touting its progress in negotiating with the United Kingdom this month, with its unspecified, but lauded trade deal. As it turns out, the UK had some of the least restrictive tariff and administrative trade burdens of any of country in the world, including the US, before the negotiations started, so it is not surprising that at fast deal was made, but with so little friction in place beforehand, one questions the logic for putting them on notice in the first place. Such false and real dramas are all part of the circus. Hopefully, we can find some enjoyment in the show's death-defying antics, even though it seems like our fate is being juggled in a clown car that has lost its steering wheel. As Alfred E. Neuman (recalling 19<sup>th</sup> century ads for painless dentistry that was a myth at that time) famously quipped, "What, me worry?" Yes. We are concerned.



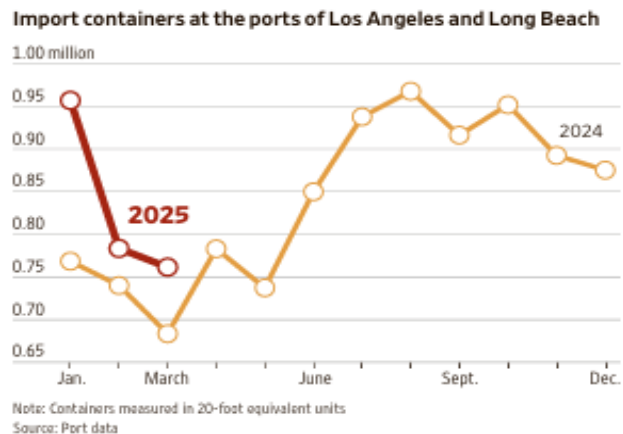
### GDP & Tariff Effects

Thanks to the pull forward of import demand to get ahead of the tariffs, Q1 GDP in the US was technically negative (0.2%), but functionally Q1 consumption grew a very healthy 3% year-over-year. The big question remains, “what will happen next,” both during the 90-day delay for full imposition of the new tariff regime, and then with the renegotiated terms? What is clear is that some level of tariffs is here to stay and the current rates imply ~\$110B per year of higher tax revenue (12X the April levy increase collected by the US Govt). If the rates gapped up to 50% for Europe, which is unlikely, the additional tax on the American people could reach \$300B per year. It isn't trillions per year, but it is material. Most economists are assuming tariffs of 10% to 25%, which would be the highest in the US since the Great Depression. Can the consumer bear these higher taxes without seizing? Probably, but not without a reset. As many times as Americans are reminded that the alternative would be a reversion to higher income taxes (which seem inevitable down the road), this truth does not erase the other that incrementally most people will feel the change – save for those who have jobs that pay tips and where overtime is a big factor, such as police and firemen; their purchasing power will grow.

Stepping back from the revenue side of the equation, the charts below indicate some of the effects that the tariffs have had on imports so far, and their likely impact, on current rates on technology hardware prices. As we noted in last month's letter, software and services prices are largely immune to tariffs, which is one of the reasons (along with a jump in cost-cutting efforts) why companies that sell software or Internet services have seen a lift in their economics, where physical goods which are bearing the brunt of the tariff hits, have seen retreats.



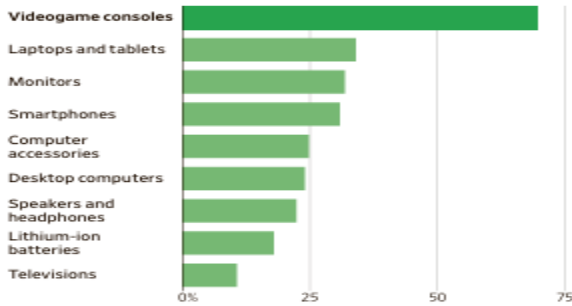
Notice how quickly US firms shifted imports from China to Vietnam in the charts above. This sudden spurt in demand has raised the cost of Vietnamese goods, which has pressured margins there too.



## Tariffs to Push Up Tech Prices

New modeling from the Consumer Technology Association shows price increases of up to 70% for videogames and 30% for laptops if they aren't exempted from Trump's tariffs.

Potential price rises due to tariffs



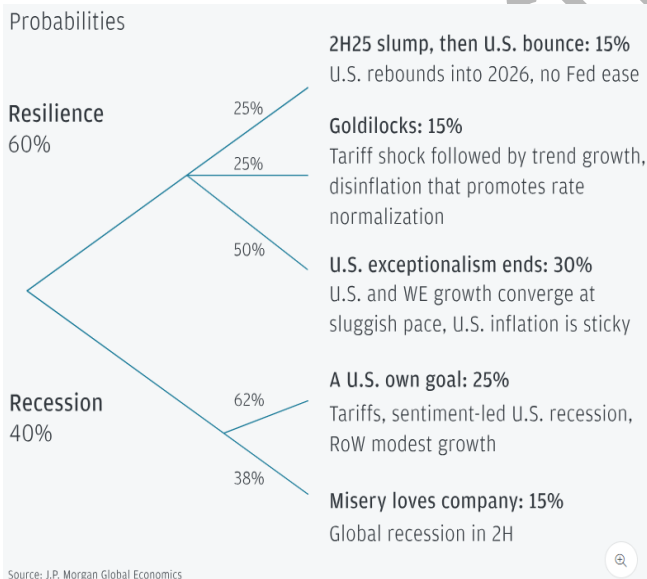
Note: Modeled using April tariff announcements and projecting 25% charges on tech products after Section 232 investigation  
Source: Consumer Technology Association and Trade Partnership Worldwide

The bottom three charts above reflect several factors coming to play: the pulling forward of imports to avoid tariffs in Q1, the backup in processing containers, which have piled up in

port facilities due in part to the changing rules that have made what were rubber stamp processes take days, and the forecast increase in consumer technology products from Asia, for which there are few substitution options. Consumers are aware that prices are going to rise, so we have seen some buying ahead, to the extent that there are inventories. This phenomenon has lifted near-term sales, at the likely cost of forward sales. As a result, many companies have pulled or reduced forward guidance, despite solid Q1 and even strong Q2 results so far. Optimists are extrapolating that the good times reflected in recent sales will continue to roll, and the tariff protests are much ado about nothing. However, the data away from where there are pull-forward opportunities, such as in travel, suggest this view is off-base.

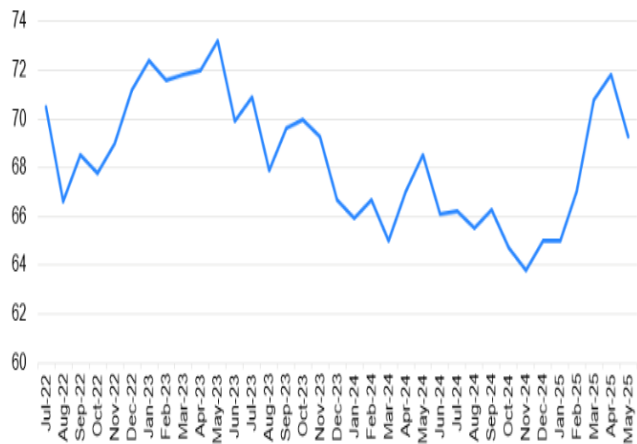
## The Probability of a Recession in the Next 12 Months is ~35% to 40%, per GS and JPM

This is an improvement from April, but up a touch from the 30% level reached on the initial delay of the full tariff effects last month, by the average brokerage economist. Last week, Goldman revised its probability to 35% and JPM 40%. The May 27<sup>th</sup> JP Morgan chart below is a helpful illustration of the consensus logic, though it is a little more dour than the average. Of note, these figures are low in contrast to the Conference Board's Consumer Confidence Survey, which showed a drop in consumers' perceived likelihood of a recession, but still indicated that 69% of survey participants thought it was likely.



Source: J.P. Morgan Global Economics

Perceived likelihood of a US recession over the next 12 months "Somewhat + Very Likely" (Percent)



Source: The Conference Board, Consumer Confidence Survey®

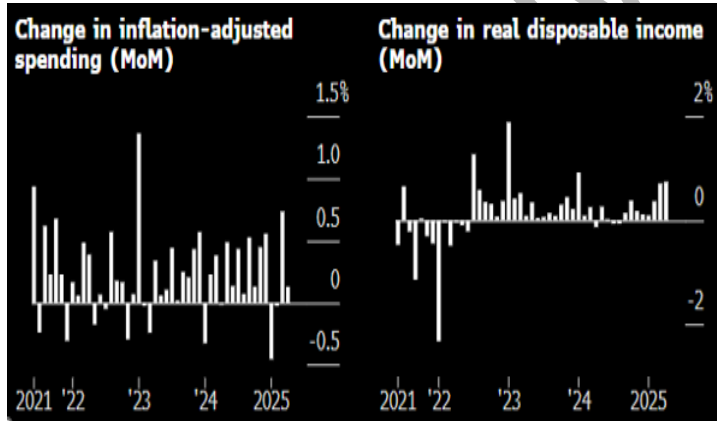
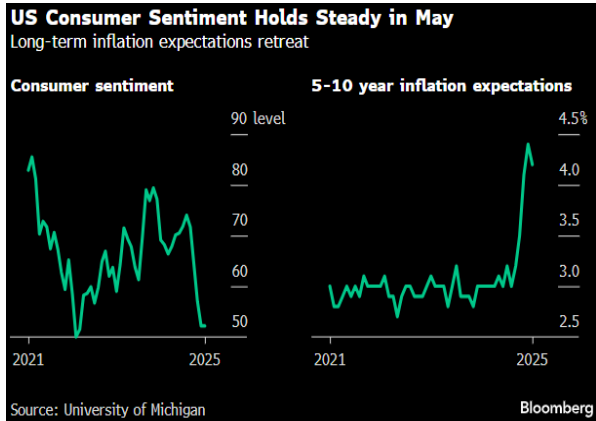
The Federal Reserve's forecasts remain more sanguine than this view, forecasting solid, albeit reduced growth rates for the next three years, which supports that body's hesitancy to lower the overnight lending rate, even though many of its global peers are cutting rates. The dot plots and verbal comments from the Fed governors still call for two rate cuts late in the year, in response to forecast rises in unemployment

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due to tariff effects, which will supersede the Fed's inflation battle, though inflation will likely worsen for a time, before the tariff costs annualize.

FOMC Forecasts	2021	2022	2023	2024	2025	2026	2027
Real GDP (yoy%)	6.10	2.50	2.90	2.80	1.70	1.80	1.80
Core PCE (yoy%)	3.57	5.35	4.15	2.81	2.80	2.20	2.00
Unemployment (%)	5.35	3.64	3.63	4.03	4.40	4.30	4.30

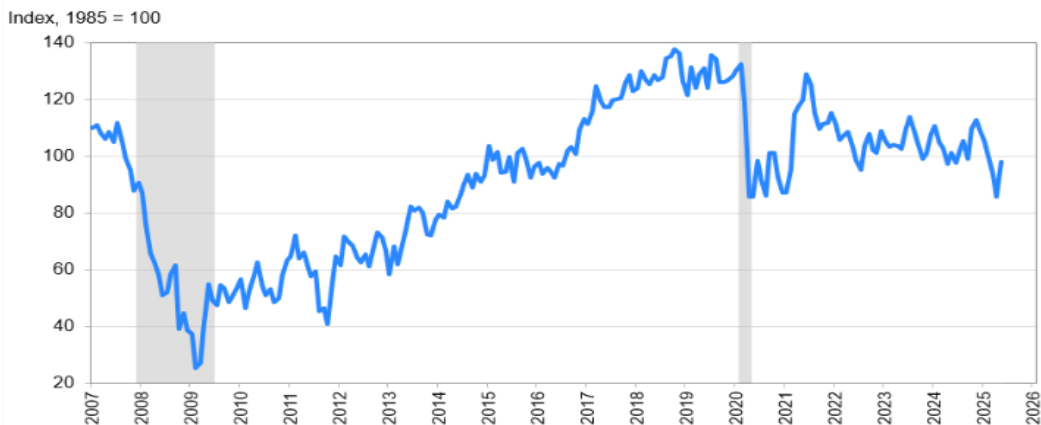
**The Latest Readings on Consumer Sentiment, Spending and Confidence Showed Improvement**



In the University of Michigan sentiment survey, consumers surveyed on 5/26 indicated they expected prices to rise by 6.6% in the coming year, up 0.1% from the prior month's survey. However, thanks to rising real disposable income, and some pull-forward buying, the latest consumer spending reports, which tracked data into April, continued to show progress. Next month, when May data come in, a small set-back is expected, in part due to poor weather, as much as economic uncertainty.

As reported by the Conference Board on May 27<sup>th</sup>, its Consumer Confidence Index rose by 12.3 points in May to 98, led by a rebound in all three components of the Expectations Index (business conditions, employment prospects and future income) from their drops in April. In particular, wealth effects from rising stock prices improved Consumers' moods. This reading is still below where it was in Trump's first term, before the pandemic, but it is a welcome improvement from last month's panic.

**Consumer Confidence Index®**



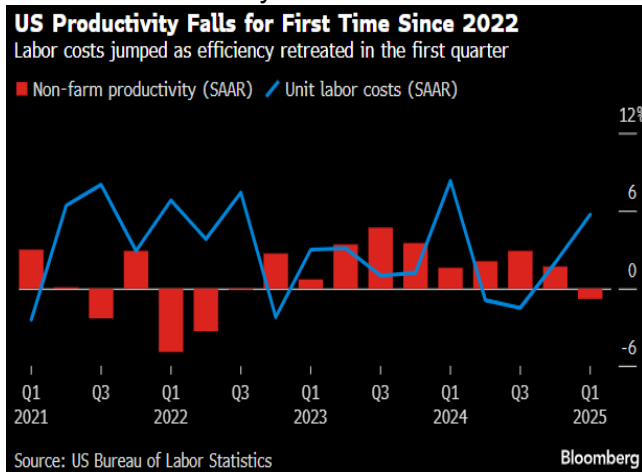
\*Shaded areas represent periods of recession.  
Sources: The Conference Board, NBER  
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**Wage, Job Creation & Employment Trends Remain Steady But Q1 Productivity Fell**

As reported by the US Bureau of Economic Analysis in early May, wage growth in April rose by 4.6% year over year, which was a pickup from the February and March data, but still a slowdown from the pace in 2024. The good news is that real wages grew, as inflation pulled back more, so consumers' purchasing power grew, offsetting wealth effect anxiety caused by the April stock market gyrations.

While continuing Jobless claims rose and job openings fell (both slightly) again this month, the level of employed people, in aggregate, expanded in April, which most economists and the Fed are characterizing as steady trends, in the "nothing to see here" category. Hence, the expectation that deteriorating labor trends might drive the Fed to action, remain a forecast more than a reality.

One counter-veiling datum was the jump in wages that led to a drop in productivity in Q1. Some analysts are attributing this dip to weather effects, others are unsure of what to make of the spike in manufacturing productivity, versus service declines, especially after two years of aggressive AI spending, which are expected to raise productivity in the service sector. This trend bears watching, though it may simply be a matter of pay raises being implemented to reward past activity at a time when current activity has slowed.



**Q1 Productivity Report Summary by Bloomberg AI (5/8/25)**

- US labor productivity fell in the first quarter, declining at a 0.8% annualized rate, due to a 0.3% decline in business output and a 0.6% increase in hours worked.
- The decline in productivity led to a 5.7% jump in unit labor costs, the most in a year, as businesses paid employees more to produce one unit of output.
- Despite the decline, productivity gains in manufacturing soared 4.5% in the first quarter, the most in nearly four years, driven by increased production of commercial aircraft.

**For the 2<sup>nd</sup> Month, Inflation Moved Lower, But Remained Above Fed's 2% Core PCE Goal**

Core PCE and CPI fell again in May, for the second month in a row, but the Fed continues to take a wait-and-see attitude towards lowering rates, even though their global peers have been cutting. The Fed, is more focused on the risk of tariff-induced-inflation thwarting its goal of achieving its below-historical-average inflation than worried about the prospects of a recession for now. While not getting as much attention as the battle between the Fed and the President, is the deficit spending, which is inflationary and undermining the Fed's tight monetary policy goals. Trump, Biden and Congress are all to blame here, because they fear the election ramifications of spending cuts more than the fear the risks of hyper-inflation from monetizing the debt.

Metric	Actual	Estimate
CPI MoM	+0.2%	+0.3%
Core CPI MoM	+0.2%	+0.3%
CPI YoY	+2.3%	+2.4%
Core CPI YoY	+2.8%	+2.8%

**What Bloomberg Economics Says...**

"The report shows that the inflation impacts of Trump's tariff policy have to be considered side by side with the indirect impact on services. Given the relatively higher importance of services in the CPI, disinflation in that sector could offset inflation in goods prices – as April's report shows."

– Anna Wong and Stuart Paul. To read the full note, click [here](#)

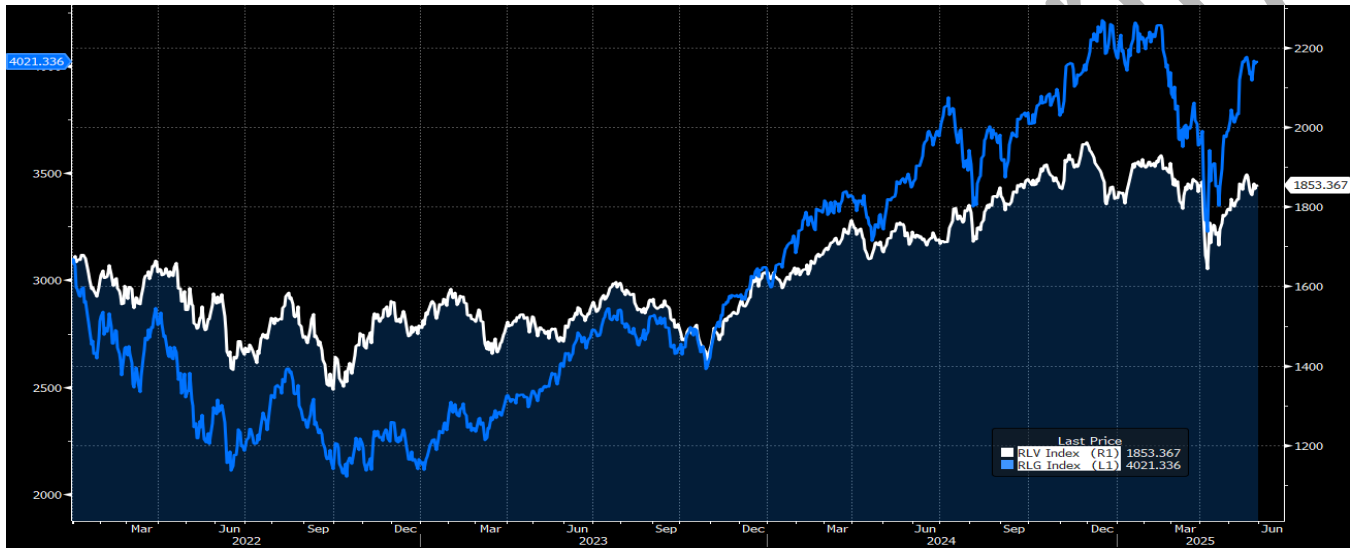


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strong earnings reports, with 78% of companies that had reported Q1 results, thus far, having beaten consensus estimates, which was about the 70% long term average.

Unfortunately for value investors like us, the tariff regime have favored software and we services companies that are largely immune from direct tariff effects and which benefit from the reinforced need for nearly all companies to cut costs to offset the tariffs, which has reignited the previously cooling AI boom. Hence, the large cap AI-related growth names which do not fit our fund mandates have reclaimed their market leadership positions, despite their very high valuation multiples, and the cheap, old economy stocks that make up the bulk of our holdings, have been relegated to being laggards again, despite their superior dividend yields.

**Russell 1000 Value Versus Russell 1000 Growth – Last 41 Months**



These growth over value results have been the norm since interest rates lifted treasury and bond yields materially higher than stock dividend yields in early 2023, which took some of the yield buyers out of the equity market. However, the bigger goose for the growth stocks was the decline in growth rates in the general economy, as a result of the Fed's rate hiking regime, in contrast to the acceleration in demand for cost-saving / productivity raising AI technologies, which manifest in strong orders, cash flows, and outlooks for companies tied to this trend.

The stark contrast between the AI haves and the rest of the market began to collapse in Q1, as growth picked up for the cyclicals and slowed in AI, but the tariffs changed that dynamic again. As a result, we expect AI stocks to sustain their valuation premiums for the foreseeable future.

**May Returns**

Russell 1000 Value (RLV)	+3.51%	Russell 1000 Growth (RLG)	+8.85%
S&P 500 (SPX)	+6.29%	Dow Jones Ind'l Average (INDU)	+4.16%
S&P 500 Equal Weight (SPW)	+4.35%	iShares Select Dividend ETF (DIVY)	+2.17%
NASDAQ (CCMP)	+9.65%	Sound Equity Income ETF (DIVY)	+3.25%

**Buying the Dip Worked Again Last Month; Now What?**

Brace for more volatility and a modest pullback from current levels. Based on management commentary and data already in the books, we believe that Q2 results are going to be uneven and less ebullient year-over-year than Q1 was. These data stem, in large part, from the significant inventory and order shifts that have resulted from the changing tariff regime. Similarly, the weather has been extra

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wet in April and May, which slowed transaction and building activity. Also, homes sales are down year-over-year in many areas. These trends forebode lower housing-related sales in Q2 than previously expected. Q2 is normally the second-biggest quarter of the year. So far, the evidence is building that this Q2 is going to be a step down from the better-than-expected Q1, in terms of traditional goods and services, but not be horrible, in part because of pulled forward sales.

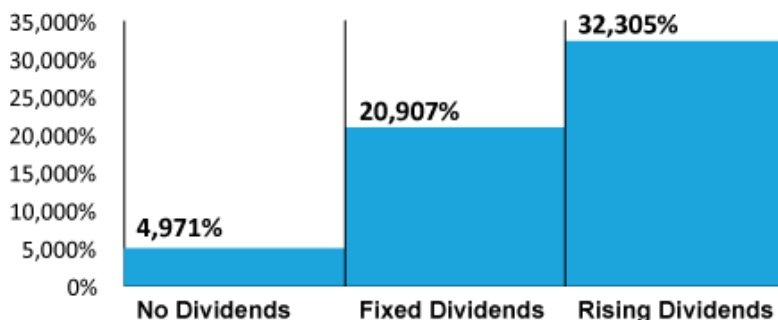
Q3, which is normally a softer quarter, with all eyes focused on the order rates for Q4, is going to be when we see more tariff effects and anxiety. That is also the spooky season for stocks, and when the Fed put is expected to come into play. With valuations already very high, and hints of slowness outside of AI creeping in, we are looking for chances to reposition into more durable names.

### Q. Why Aren't Dividends Working, Like They Historically Have?

We have all seen the historical evidence that extols the rewards for investing in dividend-paying stocks (see Ned Davis exhibit below), especially those whose dividends have grown over time, but the last two and a half years have not lived up to the billing. A large component of this is headwind has been idiosyncratic, such as the advent of the AI phenomenon, at the same time that rates rose such that bond yields become more competitive. However, some of this relative weakness reflects secular changes to the market, such as private equity displacing public equity as the place to source funding for traditional companies, due to the rising regulatory costs of being public, but that is not the only factor.

### Rising Dividend Stocks Outperform Every Other Stock

Total Return 1972-2019



Data Sources: Ned Davis Research and Hartford Funds, February 2020 "The Power of Dividends: Past, Present, and Future." Past performance does not guarantee future results. Indexes are unmanaged and one cannot invest directly in an index. All stocks are categorized by the following methodology for total return of each 12-month period since March 31, 1972 period ended December 31, 2019. Dividend Cutters and Eliminators represents stocks in the S&P 500; Dividend Payers With No Change represents all dividend-paying stocks of the S&P 500 that have maintained their existing dividend rate; All Dividend-Paying stocks represents all dividend-paying stocks in the S&P 500; and Dividend Growers and Initiators represents all dividend-paying stocks in the S&P 500 that raised their existing dividend or initiated a new dividend. Performance does not represent any unit trust or strategy.

Another one of the key drags for dividend stock performance is that companies and investors recognize the tax inefficiency of paying dividends relative to share repurchases, as well as they recognize the challenge that paying fixed dividends can present to managers of cyclical companies. As a result, Boards, with institutional investor encouragement, have been increasingly returning capital to shareholders in the form of share repurchases over dividends. This approach potentially gives investors a bigger tax-deferred gain (by avoiding double-taxation) than if the money were paid out as a taxable dividend. Hence, dividend yields are lower today than they were in the past.

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Another problem is that more companies are not paying dividends today than in the past, including some that are doing very well fundamentally. Hence, the nature of the dividend payors versus those that are not paying has changed. It used to be many of those who didn't pay dividends could not afford to do so. Now, many who can afford to do so, would rather keep their options open, for either acquisitions or share repurchases. These share repurchases help to raise the share price more, by reducing the share count, even after employee stock compensation dilution, which directly enriches the managers running the companies, in an often leveraged, tax-deferred manner. These executives would rather have more gains later, than higher taxable income now.

Finally, most of the higher dividend payers today are in companies that are mature and who are not growing their real incomes and cash flows, so the quality of the high dividend payers has fallen. There are still plenty of them out there, but not as many as there used to be, as a percentage of the whole.

For these secular issues to change, some tax reform on double taxation needs to be addressed, as well as the costs of being public. Having a broadly held ownership in the businesses that make up the US economy has been an enormous wealth creator for the country in its life. However, with more equity now in private hands, where ordinary people can't buy it, fewer folks are benefitting from these engines, which is widening the wealth chasm between those who are qualified investors (\$200K+ in income, over \$5MM in assets) and those who are not.

Having acknowledged all of these negative factors, which have been in place over the last 25 years, we must point out that the historical evidence on dividend stocks, up until these last two years, has been validated, and they do make sense for most investors, especially retirees, who need tax-advantaged income generators that have the ability to grow their dividends over time, to keep pace with, or outpace inflation, which is something that fixed income securities do not do.

As noted in most finance texts, investors buy bonds to protect against the risk of nominal capital loss and to secure fixed interest payments, while most investors buy stocks to capture the upside of economic growth and to protect against the loss of purchasing power with dividends that grow with the business. There is a need for both.

**Monthly US Equity Market Report**

5/30/2025

Fundamental, Technical, and Valuation Snapshots

**Fundamentals: Tariff costs have completely disrupted most cyclical industries.**

**Trends: AI demand is solid, but order rates for companies with large overseas sourcing have frozen.**

- ( + ) Communications      Telco & Internet names reported relatively strong results & are tariff insensitive
- ( - ) Utilities              Most stocks are holding up as a safe-havens, with a handful of exceptions.
- ( - ) Information Tech      AI and related demand for servers and chips continues to be strong.
- ( - ) Consumer Staples      Fundamentals are soft, but stocks are holding up as defensive plays.
- ( - ) Healthcare              Concerns about price controls & a pullback in elective care have hit stocks.
- ( - ) Financial Services      Trading & credit quality are good, but transaction volumes are falling.
- ( - ) Real Estate              Commercial occupancy has improved, but weak retail & high rates are biting.
- ( - ) Industrials              Mixed: data center & infrastructure demand is outpacing trad'l activity.
- ( - ) Materials                Worst hit by trade slowdown due to tariff and recession concerns.
- ( - ) Consumer Discretionary      Sentiment fell on tariff concerns & soft sales, but Tesla & AMZN rebounded.
- ( - ) Energy                  Opec production creep has hurt prices & recession concerns nicked outlooks.

	5/30/2025		Earnings Revisions			Performance (Total RoR)		
	Mix		3 Mo.	6 Mo.		MTD	QTD	YTD
S&P 500			-2.6%	-3.7%		6.3%	5.6%	1.1%
Communications	9.8%	Best =>	3.1%	2.4%	2nd Best =>	9.6%	10.4%	3.6%
Consumer Discretionary	11.2%	2nd Worst =>	-6.6%	-7.9%		9.4%	9.1%	-6.0%
Consumer Staples	6.5%		-2.1%	-5.0%		1.8%	3.1%	8.5%
Energy	3.0%	Worst =>	-15.9%	-19.2%	2nd Worst =>	1.0%	-12.8%	-3.9%
Financial Services	13.8%		-2.5%	-0.3%		4.4%	2.3%	5.8%
Healthcare	9.6%		-2.4%	-3.3%	Worst =>	-5.5%	-9.0%	-3.1%
Industrials	8.6%		-3.8%	-6.7%		8.8%	9.0%	8.8%
Information Tech	31.0%		-1.1%	-2.3%	Best =>	10.9%	12.7%	-1.6%
Materials	1.9%		-4.7%	-13.7%		3.0%	0.8%	3.6%
Real Estate	2.1%		-3.3%	-4.5%		1.0%	-0.2%	3.4%
Utilities	2.4%	2nd Best =>	-0.1%	-0.7%		3.8%	3.9%	9.1%

As we noted last month and for the past six months, earnings estimates across nearly all sectors continue to be reduced, but stocks have risen largely because the fear of recession inducing tariffs has come down, as well as the expectation that reduced regulatory burdens and lower taxes will spark a resurgence in the US economy under Trump.

It is hard to fathom how the stocks of companies, outside of those experiencing strong order growth, can rise along predictable paths, with so much uncertainty, but many have risen in fits and starts, in part because the valuation disparity between the most expensive and the least is so wide, it doesn't take much to send a cheap stock soaring or a super-expensive one plummeting.

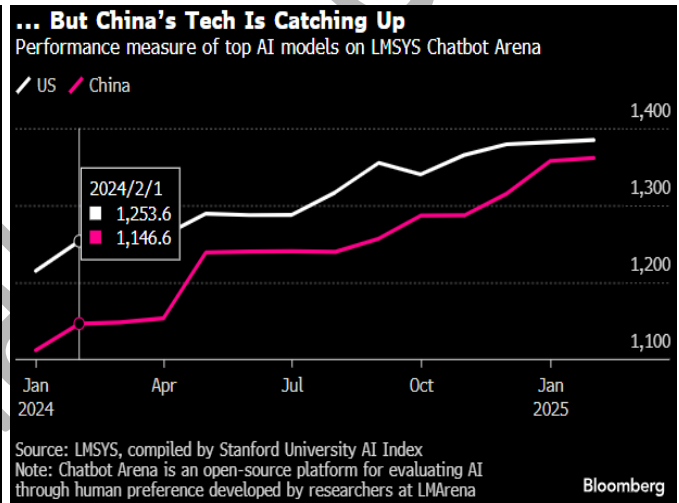
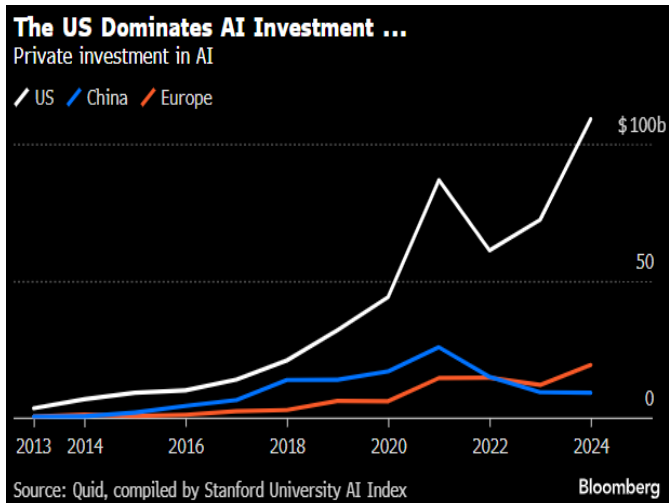
As one CEO put it to me, "we have all the ingredients for extreme success or calamity right now. I have never seen an environment quite like this, except for maybe in the midst of the financial crisis. All it should take for us to realize the former is keep focused and working towards it every day, without being distracted by the latter, but that is a tall ask, when every newspaper and anchorperson is just harping

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on risks and complaining.” The catch phrase this month has been, “we focus on controlling the controllables. Everything else is background noise.”

AI IS Everything Right Now, BUT Will Western AI Prevail in the Long Term?

After WWII, Japan was nowhere in global manufacturing, but with the help of the US, it started making toys, motorcycles, electronics, and eventually cars. 35 years later, it dominated the world in these fields. China seems to be trying to follow the Japanese model. 25 years ago, the best it could do was make pale imitation copies of western goods at fractions of the price, but it kept at it and today it dominates the global markets in solar panels, electric cars, ship-building, and manufacturing outsourcing, with its goods being every bit as good as its western equivalents. One area where China has invested billions but not been competitive so far is semiconductor manufacturing, but of the Deep Seek reports and others are correct, Chinese engineers have been managing to achieve near equivalent performance with inferior silicon. How long will it be before they are first-rate in that field too, at a substantially lower cost than the West? When it happens, if it happens, we could see another demand and margin collapse, akin to the post Y2K correction. The trade war with China may slow this event down slightly, but most of the world would love a lower-cost alternative to Nvidia.



**Technicals: Overall Neutral: ST & LT are Neutral; IT is Bullish, per StockTA.com**

**Key Positive indicators:** All EMAs, All Fibonaccis, IT: MACD, TDD, Highs, LT Lows, ST Trends  
**Key Negative indicators:** ST & LT MACD, ST & LT Highs, ST & IT Lws, IT & LT Trends, Stochastics

(+) Trend: 10/11 sectors rose on falling concerns about a tariff led recession.  
 (+) Fund Flows: May began strongly negative but finished on an upnote.

	Price	30 Day	50 Day	100 Day	200 Day	
(-) Golden Cross [50 dma > 200]	5,912	5,672	5,601	5,767	5,782	
(+) Price / Moving Average [4 / 4 are "< 1"]		1.04	1.06	1.03	1.02	
(-) Support Levels (scope for gaps)	5,797	-1.9%	5,682	-3.9%	5,578	-5.6%
(+) Resistance Points	5,960	0.8%	6,101	3.2%	6,171	4.4%
(+) Volatility, (VIX)	Dropped from 24.7 to 18.57 (6.13) on reduction in Tariff/Recession risk.					
(+) Trading Volume	Rose y/y, as investors continued to shift capital back into equities.					

Again, the technical have been as volatile as an EKG graph for a patient high on cocaine. Over the last six months they have jumped and dipped, giving more false signals than a blind weatherman. We find them interesting, in hindsight, but not as predictive recently as they historically might have been.

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Valuation: Cheap vs. Treasuries	PE		EPS			
	2024	2025e	2023	2024	2025e	
Yields rose, spreads tightened						
'25e PE is ~6.0 points > LTA	24.9	22.4	\$ 221.6	\$ 237.2	\$ 263.6	<= est.
10 Year US Treasury: (1/r) = PE Equivalent	22.7	22.7	-1%	7%	11%	= y/y %
10 Year BBB: (1/r) = PE Equivalent	18.3	18.3	2025 EPSe growth is slowly ebbing			
<b>Stocks are close to FMV Relative to Bonds based on LT Spreads</b>			<b>Upside For Stocks Relative to Bonds</b>			
10 Yr Treas: LT Avg (1/r) relative to S&P PE	1.0	1.0	vs. 10 yr	-9%	1%	Thin
10 Yr BBB: LT Avg (1/r) re spx	0.7	0.7	vs. BBB	7%	18%	
S&P 500 Earnings Yield (E/P)	4.01%	4.46%	<= Earnings yield up; risk prem up more			
10 Year US Treasury Yield (+ 19 bps in May)	4.40%	4.40%	10Y Tr. Downside to Parity			0%
Spread (E/P minus 10 Yr. %)	-0.39%	0.06%	<= PE rose; stocks very slightly cheap			
<b>BBB tightened vs. Treasuries, as BBB rates rose 7bps and T10 rose by 19 bps.</b>						
10-year BBB Corporate Yield (+7 bps in May)	5.46%	Norms	<- Rose by 7 bps in May			
Yield Spread of S&P E/P minus BBB	-1.45%	-2.68%	BBB downside to nomal SPX			-23%
Yield Spread of BBB minus 10 Yr T	Tight => 1.06%	2.20%	BBB upside to LT Spread vs. T			-17%

We reintroduced this historical valuation table of stocks versus bonds, versus their history, to illustrate that stocks are not cheap, at least as measured by the AI tech-inflated S&P 500, but neither are bonds. In the recent past, stocks were materially cheap, relative to bonds, due to the drop in interest rates, which would have justified high-20s PE multiples. Today, stocks are fairly priced, versus bonds, and not particularly cheap – it the historical averages can still be used as a guide. Back then, technology was a much smaller factor, and margins were materially lower too. One could argue that higher profit margins and free cash flow warrant a higher PE ratio. We think that argument should be tempered by the Icarus argument: higher prices can beget steeper declines, when an overheated market crashes. Hence more volatility should warrant a lower multiple too.

### Part III: Portfolio News and Changes

In May, we traded out of a few positions sooner than we would have liked, on account of their cutting their dividends, even though they did not have to. On the bright side, we added two higher-quality names that seem to be making the right moves to add long-term value for shareholders.

The dividend cutters that we sold were Organon, which has 3X coverage and had previously said sustaining the dividend was a priority, but with the tariff uncertainty, they changed their priorities to cutting debt and acquiring growth products, even though there was no immediate financial pressure to do so. Similarly, Carter's (CRI) reduced its dividend after installing a new CEO. Recall that CRI beat expectations for the last two quarters and has hardly any Chinese-made products. Nonetheless, management said they too wanted to preserve capital in anticipation of further sales and margin pressures ahead, as their non-Chinese suppliers raise prices and consumers become more price sensitive. Thirdly, Dun & Bradstreet, which had agreed to be acquired by private equity, cut its dividend at the request of the buyer, which removed our positive carry until the deal closed, so we sold that one too. Lastly, Xerox cut its dividend in order to close its Lexmark deal earlier than planned, as its debt financing costs rose more than expected. We did not sell that 1% position on its dividend cuts because it is too cheap, trading at ~\$5 per share, with \$1.50 to \$2 of EPS power, post-consolidation. Recall that Lexmark is a domestic supplier to Xerox for its toner, which should give it a cost shield, plus domestic production and scale synergies.

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On top of these names, we also sold out of HR Block, which quadrupled for us over the last five years. We sold HRB because we did not see much fundamental improvement taking place, the dividend had fallen (due to price appreciation) below 3%, and insiders had been selling. Altogether, we thought we could get better incremental returns in other names, such as the two names discussed below.

In Dividend River, we initiated a new position in Scotts Miracle Grow (SMG) following its good quarter, confirmation that it had exited the unprofitable cannabis hydroponic supplies business, and confirmation that it had more than adequate cash flow and reserve assets to sustain its dividend, while growing EPS. Since initiating a position in SMG, its stock price has “grown” nicely.

Descriptively, Marysville, OH-based SMG is a 150-year-old, \$3.4B market cap, US leader in branded consumer lawn, garden, and plant care products. It also provides lawn care services in select markets. Having recently separated from its struggling hydroponics business, which it retains an interest in, the company's profit growth is on a tear. EPS grew 89% last year; they are projected to grow another 51% this year, 22% next year, and 21% the year after, all while paying a 4.7% dividend yield. The stock trades at 17X 2025 estimates, but the forward multiple drops below 12X in two years, if the company continues to execute on its margin improvement story. Historically, Scott's core EBIT margins peaked at 18%, before they were undermined by the now-removed hydroponics business. In 2024, EBIT margins were just 5.9%. They are projected to rise to 11.6% in 2025 and 14.7% in 2026, still well below their prior peaks.

With leading brands and normally high EBIT and ROIC margins, SMG has frequently traded above 20X EPS, however, with net debt currently around 4X EBITDA, the FMV is more like 16X to 18X. If we put a 17X on the number two years out, it suggests an \$85+ price target, 40% higher than where it is today, and 50% above where we initiated our position. In the meantime, investors should enjoy a 4.7% dividend yield.

Total Return Yield, we initiated a position in Washington DC-based private equity firm Carlyle Group (CG). Carlyle is another company on the rebound from a couple of down years, in 2022 and 2023, due to the Fed tightening raising its financing costs and slowing its deal flow. With rates a little lower and companies eager to make acquisitions to grow earnings and reduce costs, CG is in an excellent position to capitalize on both sides of the transaction backlog.

With earnings momentum building, the stock remains surprisingly cheap at 11.3X current year EPS and 9.7X forward numbers, despite its strong backlog and improving fundamentals. With the Fed calming down, EPS grew 13% in 2024; they are expected to grow between 9% and 20% in each of the next three years, depending on how their backlogs close (they grew EPS by 13% in Q1 and gave above-consensus guidance). In fact, CG's fundraising and backlog are slightly ahead of where they were last year (when EPS grew 13%) and the Q1'25 tax rate was lower, year-over-year. If these trends were to persist, CG would report earnings growth of more than 15% this year, 6% above consensus. Already, the stock is 10% higher than our initial purchase, and if it trades back up to its normal 12.8 PE on forward earnings, without any surprises, there should be another 30% upside in the next year, plus a 3.1% annual dividend.

As indicated below, our performance this month again trailed the major indices due largely to our tariff exposed cyclical exposure and underweighting in technology and growth stocks that do not offer the level of dividend yields that we seek. We also got socked by a few dividend cuts that sent the prices of those shares markedly lower. The good news is that in absolute terms, our portfolios gained, and they delivered the high, qualified dividend yields that our investors seek. As we mentioned at SGOS, for investors who hold our portfolios in taxable accounts, the capital gains rates charged on qualified dividends are significantly lower than the typical ordinary tax rates for many clients, such that a 4% qualified yield can be equivalent to a 5% or higher corporate bond yield, plus it has the prospect of rising

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with the earnings of the company. That dividend growth is why Warren Buffett sometimes refers to his Coke holdings as having 50% yields on his original cost basis. This long-term thinking is something more positive to ponder than sulking about Nvidia stock performance envy.

<b>Performance (non-GIPSS)</b>	<b>Q1'25</b>	<b>April</b>	<b>May</b>	<b>5/30/25 YTD</b>
Dividend River (est.)	+1.61%	(6.13%)	+2.84%	(1.91%) gross
Total Return Yield (est.)	+2.60%	(5.58%)	+2.76%	(0.46%) gross
DIVY TRA (Bloomberg)	+1.34%	(6.56%)	+3.25%	(2.22%) (after fees)
DIVY NAV (Toroso)	+1.42%	(6.61%)	+3.30%	(2.17%) (after fees)

**Characteristics – Cheaper Than the S&P 500, With Lower Betas & Higher Yields**

Our portfolios are ~50% cheaper than the S&P 500 on a 2025e PE basis, with higher dividend yields and lower betas, which means that they should rise and fall less than the market.

As of May 30th, Dividend River was paying a 4.7% dividend yield, 3.4X that of the S&P 500 at 49% below its 2025e PE price, while the Total Return Yield was paying a 3.9% dividend, 2.8X the yield of the S&P 500 at 53% below its PE price. Dividend River has a 18.8% weighted average 2025e EPS growth forecast that is 7.6% above the S&P 500, while the Total Return portfolio is expected to grow EPS by 18.6%, 7.5% above the popular benchmark. With Betas of 0.7X the Index, both portfolios should be less volatile than the S&P, based on the historical movements of their constituent shares.

<b>Dividend River Portfolio Characteristics</b>						<b>Total Return Yield Portfolio Characteristics</b>					
May 30, 2025						May 30, 2025					
<u>SECTOR WEIGHTS</u>	<u>SIS</u>	<u>SPX</u>	<u>KEY METRICS *</u>	<u>SIS</u>	<u>SPX</u>	<u>SECTOR WEIGHTS</u>	<u>SIS</u>	<u>SPX</u>	<u>KEY METRICS *</u>	<u>SIS</u>	<u>SPX</u>
Communications Services	9.1%	9.8%	Dividend Yield	4.7%	1.4%	Communications Services	6.6%	9.8%	Dividend Yield	3.9%	1.4%
Consumer Discretionary	4.6%	11.2%	2025e PE	11.5	22.4	Consumer Discretionary	9.6%	11.2%	2025e PE	10.5	22.4
Consumer Staples	5.6%	6.5%	EV/ EBITDA	12.3	15.8	Consumer Staples	9.4%	6.5%	EV/ EBITDA	10.8	15.8
Energy	14.9%	3.0%	PB	9.8	5.0	Energy	12.6%	3.0%	PB	2.6	5.0
Financial Services	19.6%	13.8%	2025e Sales Growth	4.5%	4.7%	Financial Services	21.5%	13.8%	2025e Sales Growth	3.3%	4.7%
Healthcare	13.1%	9.6%	2025e EPS Growth	18.8%	11.1%	Healthcare	13.8%	9.6%	2025e EPS Growth	18.6%	11.1%
Industrials	3.2%	8.6%	BETA	0.7	1.0	Industrials	5.1%	8.6%	BETA	0.7	1.0
Information Technology	8.6%	31.0%	EPS Gr. + Div %	23.5%	12.5%	Information Technology	10.2%	31.0%	EPS Gr. + Div %	22.5%	12.5%
Materials	14.1%	1.9%				Materials	11.1%	1.9%			
Real Estate	0.0%	2.1%				Real Estate	0.0%	2.1%			
Utilities	7.3%	2.4%				Utilities	0.0%	2.4%			
Totals	100.0%	100.0%				Totals	100.0%	100.0%			

\* Based on Bloomberg consensus data.

The EPS growth plus dividend lines in the tables above indicate that our expected total returns for Dividend River is 11.0% above that of the S&P 500 in 2025 if multiples don't change, while the Total Return Yield combination is 10.0% higher. The reason for these differentials is that investors have more confidence in the durability of the earnings in the higher multiple, large-cap technology-based Technology, Communications, and Consumer Discretionary names than they do in the traditional brick and mortar based cyclicals, especially with a Tariff war making traditional products more expensive. If this situation is resolved favorably, we expect our stocks to rebound, but that won't likely happen until the end of the second quarter, based on Scott Bessent's negotiating timeline.

While stock prices are generally based on discounted future cash flows that look beyond the current year, the simple CY EPS growth + dividend yield heuristic has proven to be an accurate guide over time, and it suggests that our portfolios should perform relatively better than they have YTD. On these bases, we think it is fair to project a positive return for our portfolios this year, despite the rise in volatility.

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### Looking Ahead

In the face of all of this uncertainty we remain optimistic that there will be opportunities to be found during these uncertain times, and sooner or later, some of the necessary changes will be made that will reignite both the economy, in the short run, and a return to more sustainable economic path for the country in the long run. As Warren Buffett has said many times, in times of crisis, it has never been wise to bet against America, and certainly now does not seem like a wise time to begin.

Just like our portfolio company CEOs, we are focusing on controlling what we can control better, to elevate our results, which includes reaching out to companies more, to get better information, and looking diligently at new opportunities to upgrade our portfolios, in light of the shifting sands, so that we can generate substantial and improving yields for our clients, while capturing capital appreciation too. We have always done these things, but now, the heat is on, and the potential to make meaningful changes is more likely than normal.

The markets are not calm right now, but all storms pass and those that stay the course are usually much better off than if they bailed out -- just like the investors who held firm in early April, when everything looked grim, were rewarded last month when everything came roaring back. We expect more tempests and sunny days ahead, with a net positive slope running through those gains and losses. With positive GDP growth forecast and our companies generating cash flows, we should be fine after all the tariff noise settles down.

Thank you for your faith and endurance during these volatile times, and especially for all that you do to help and assure your clients. It is a pleasure to work with you.

Gratefully yours,

Eric

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