ADVISORY RESEARCH
INVESTMENT MANAGEMENT

Select Dividend Investment Team
Adam Steffanus | Portfolio Manager
Michael Valentinas | Portfolio Manager
July 2nd, 2025
Quarterly Investor Letter

Running from one side of the ship to the other

Heading into 2025, investors were fairly blasé about President Donald Trump's tariff threats assuming they were largely a negotiating ploy. We took the president at his word and assumed tariffs would be higher than what most investors expected. Investors quickly raced to the other side of the ship on Liberation Day and assumed the worst. In the second quarter, we found ourselves leaning in the other direction yet again (bullish). We view Trump as a market-implied President – notoriously focused on his importance vis-à-vis polls and the S&P 500 index. After all, equity markets appear to be the new bond vigilantes willing to discipline foolish public policy.

Tariffs are not inflationary

Macro doomsters are now spinning gloomy narratives about tariffs, inflation and the Fed's next rate cut. Tariffs are not inflationary. Tariffs are a tax hike[1] and taxes are widely considered anti-growth. The U.S. will generate roughly $100B in tariff duties during the first half of 2025. Yet, consumer prices have remained in a steady downtrend with nary a tariff driven inflation data point. What gives? We suspect that businesses front loaded inventories in anticipation of tariffs and are still likely working down pre-tariff inventories. Businesses are likely reluctant to pass along price increases to customers, especially if trade deals could soon emerge and reduce overall tariff rates. If trade deals do not arrive, then tariffs will show up as either higher prices or will squeeze corporate margins.

The tariff end game

We have long thought that Trump's tariff goals are less about reindustrialization and more about sourcing new tax revenue to finance individual and corporate tax cuts. The U.S. announced an early trade deal with the UK and appears to be close with the European Union. We expect more trade deals to be announced in the next 90 days, mostly likely with Japan, Korea, Mexico, and Canada. We expect tariffs to be negotiated down to an effective rate of ~10% for all countries except China, where we expect a ~30% tariff rate. As with NATO defense spending, the Mad Man Theory negotiating tactic will successfully raise tax revenue and open foreign markets to U.S. exporters, but at a cost to corporate margins.

The Federal Reserve is like a teenager

The more politicians tell the Fed to cut rates, the less likely they will be to cut. The Fed's dual mandate – jobs and inflation – has them momentarily paralyzed as the former softens slightly while investors wait for the latter to spike. Hard data has eased as the U.S. labor market returns to pre-pandemic levels. There are some signs of weakening labor demand with employers implementing hiring freezes rather than actively trimming their

[1] Per TrendMacro (a macroeconomic firm), a 10% tariff is roughly equivalent to a 1.3% increase in personal income rates.

workforces. Inflation lags employment, which lags growth and if the economy continues to cool ever so slightly, then inflation will likely follow, tariffs or not.

While the Fed is unlikely to pre-emptively cut on signs of weakening labor demand before September, its narrative will likely soon shift from whether it is necessary to cut interest rates to how many cuts will stabilize the labor and housing markets. The market is pricing in a Fed Funds rate of 3% by the end of 2026. It's hard for us to see the Fed Funds rate below this level as yields have increased from the post-financial crisis lows of ~0% for "good" reason, mainly because the economy has shown it can handle higher interest rates.

What to watch this summer

While most investors will watch the tariff and inflation headlines, we will watch the U.S. labor market. If the labor market softens more, the Fed will cut rates, even if faced with higher than desired inflation. Recessions – lowercase or uppercase – are scarring events economically and the Fed wants to avoid this at all costs. As the summer lengthens, we further expect the Administration to focus more on the "good" stuff (tax cuts, deregulation and growth) and less on the "bad" stuff (tariffs). For example, look for DOGE to shift its focus from cost cutting to regulatory cutting. We expect economic slowdown in the U.S. (but not a recession) as policy uncertainty remains high and fiscal stimulus peters out. The tariff shock shelved capital spending plans, delayed hiring and reduced business confidence. This policy volatility will show up in 3Q data and will take their toll this summer. But a tariff shock is not inevitable, and we think the U.S. economy is resilient enough to trump policy volatility.

Fiscal tightening in the U.S.

Pundits describe Trump's Big Beautiful Bill (BBB) as expensive fiscal stimulus. This is because the non-partisan Congressional Budget Office scores the legislative proposal against existing law, which sunsets taxes. However, what's most important for the capital markets are flows. The BBB mostly extends existing tax law permanently, which isn't stimulative. The BBB doesn't deliver materially new dollars into the capital markets or real economy. In fact, Trump's policies – a 10% universal tariff, Medicaid and SNAP cuts, rollbacks of the Inflation Reduction Act – is likely to raise $3T of revenue over the next decade. This is the largest tax hike in a generation. Investors should focus on flows and the BBB doesn't deliver materially new dollars into the economy but rather takes them out over the medium to long term. This is classic fiscal tightening and an important shift as over the past 15 years, expansionary U.S. fiscal spending has provided liquidity that has likely benefitted domestic markets and helped fuel U.S. outperformance vs. developed international markets.

The fiscal pivot is happening outside the U.S.

In a watershed moment, Germany is abandoning a decade of fiscal austerity in favor of fiscal excess. In response to the shifting U.S. foreign and economic policies, Germany has begun implementing its own paradigm shifts after removing its constitutionally enshrined debt brake. The German government intends to increase deficit spending to 5-6% of GDP. The broader European Union is also aiming to boost economic growth primarily driven by significant public spending on infrastructure, digitalization, and defense spending. The tailwinds of fiscal coordination and rate cuts will likely result in positive economic surprises in the coming months in Europe. China is also waiting to fire their fiscal bazooka once they sense Trump's endgame.

ADVISORY RESEARCH
INVESTMENT MANAGEMENT

Global growth prospects are looking up as the immediate threat of extreme U.S. tariffs has receded, calming fears of a recession and stabilizing GDP predictions. Structural factors outside the U.S. will continue to weigh on the strength of the USD and lead to a more diversified global trading system and international asset holdings. This is a slow-moving multi-year process which is underappreciated by investors and a key reason why we remain very bullish on Global equities.

Performance Update

Trailing Returns as of 6/30/2025							
Strategy	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Global Select Dividend (gross)	**16.1**	**20.5**	**19.6**	**16.9**	**10.1**	**10.2**	**12/31/10**
Global Select Dividend (net 0.75%)	**15.7**	**19.7**	**18.8**	**16.0**	**9.3**	**9.4**	**12/31/10**
iShares MSCI ACWI ETF	*9.5*	*15.4*	*17.0*	*13.6*	*10.1*	*9.4*	
U.S. Select Dividend (gross)	**8.1**	**14.8**	**19.1**	**18.3**	**12.8**	**13.5**	**12/31/10**
U.S. Select Dividend (net)	**7.7**	**14.0**	**18.2**	**17.4**	**12.0**	**12.6**	**12/31/10**
iShares Russell 1000 ETF	*5.7*	*15.2*	*19.3*	*16.1*	*13.2*	*13.4*	
Small Cap Core (gross)	**5.6**	**17.8**	**12.9**	**13.8**	**9.2**	**11.3**	**9/30/12**
Small Cap Core (net)	**5.2**	**17.0**	**12.1**	**12.5**	**8.2**	**10.3**	**9/30/12**
iShares Russell 2000 ETF	*-1.9*	*7.6*	*9.9*	*9.9*	*7.1*	*9.2*	

Disclosures:

Past performance does not guarantee future results. Investing in securities involves risk, including the possibility of the loss of principal.

Gross performance is shown net of all trading costs/commissions and gross of all management fees. Net performance is shown net of all trading costs/commissions and a model management fee of 0.75% for all strategies. Unless otherwise stated, performance greater than one year is annualized. Actual client portfolio results may differ, based on, among other things, an account's particular investment objectives and restrictions, asset levels, and timing of contributions and withdrawals.

Please see Advisory Research's Form ADV Part 2A, which is available upon request, for more information.

Certain information contained herein constitutes forward looking statements, projections and statements of opinion (including statements of financial market trends). Such information can typically be identified by the use of terminology such as "may", "will", "should", "expect", "anticipate", "project", "estimate", "intend", "continue" or "believe" or comparable terminology. All projections, opinions and forward-looking statements are based on information available to Advisory Research as of the date of this presentation, and Advisory Research's current views and opinions, all of which are subject to change without notice. Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in forward looking statements. Additionally, information and views presented herein may be drawn from third-

party or public sources which are believed, but not guaranteed, to be reliable and which have not been verified for accuracy or completeness.

Advisory Research is providing this material for informational purposes only. The information provided is not intended to recommend any company or investment described herein and is not an offer or sale of any security or investment product or investment advice. Before making any investment decision, you should seek expert, professional advice and obtain information regarding the legal, fiscal, regulatory, and foreign currency requirements for any investment according to the laws of your home country or place of residence.

Benchmark comparison is presented using the iShares MSCI ACWI ETF, iShares Russell 1000 ETF, and the iShares Russell 2000 ETF as Advisory Research considers these ETFs to parallel both associated risk and the investment style presented by each strategy.

The iShares MSCI ACWI ETF seeks to track the investment results of an index composed of large and mid-capitalization developed and emerging market equities. The iShares Russell 1000 ETF seeks to track the investment results of an index comprised of large- and mid-capitalization U.S. equities. The iShares Russell 2000 ETF seeks to track the investment results of an index composed of small-capitalization U.S. equities.

Advisory Research's strategies are actively managed and not intended to replicate the performance of any cited index: the performance and volatility of Advisory Research's investment strategies may differ materially from the performance and volatility of a cited index, and their holdings will differ significantly from the securities that comprise the index. You cannot invest directly in an index, which does not take into account trading commissions and costs.

Advisory Research is an investment adviser in Chicago, IL. Advisory Research is registered with the Securities and Exchange Commission (SEC). Registration of an investment adviser does not imply any specific level of skill or training and does not constitute an endorsement of the firm by the Commission. Advisory Research only transacts business in states in which it is properly registered or is excluded or exempted from registration. A copy of Advisory Research's current written disclosure brochure filed with the SEC which discusses among other things, Advisory Research's business practices, services and fees, is available through the SEC's website at: www.adviserinfo.sec.gov.

Click for GIPS.