

April 14, 2025

Dear Friend of Valara Capital Management,

For the first quarter ended March 31, 2025, Valara Partners, LP. produced returns, net of fees, of 7.40 % versus -4.27% for the S&P 500.

QUARTERLY REVIEW

The three main events of the first quarter, in ascending order of importance, were the appearance of DeepSeek (Chinese AI engine) out of left field and its impact on the Mag-7 leadership, the initial actions taken by President Trump following his inauguration and, most significantly, the reciprocal tariffs that the US imposed on its trading partners – especially China.

The early February emergence of DeepSeek AI caught the markets by surprise. The Nasdaq 100 (large Tech) started the year anemically, rallied to a marginal new high in the first half of February and steadily sold off into a bear market (-20% or more) by Friday, April 4th. While DeepSeek's inexpensive and competent product was part of this, the Mag-7 stocks appeared exhausted as a market force - albeit still growing robustly but over hyped and expensive. By the end of the quarter, they were being mocked as the Lag-7.

Trump's immediate post inauguration actions were numerous, aggressive and positive for markets. He immediately and successfully closed the southern border, attacked illicit drug trafficking and sent his new Department of Government Efficiency into a handful of obvious agencies, with dramatic results. USAID was deemed so far astray from its original mission, corrupt and wasteful, that it was shuttered and dissolved. The US Department of Education, with a long record of high-cost failure, was similarly closed (full closure requires an act of Congress). The exploration is ongoing. As someone who has lived in the more economically grounded business world, I welcome these actions. While I understand those that view this as distressing, if the government does not discipline itself, to produce reasonable results for a reasonable cost, we all lose. Our taxes go up (or stay high) and we become less globally competitive. Our bureaucracy was long overdue for a thorough reevaluation.

The main story was, of course, Trump's tariffs. While everyone knew these were coming (central to his campaign platform) they surprised in their size, scope and immediate effect. In his second term, the President has not been cautious and measured about anything. In my last letter I touched on free trade, noting that the devil is in the details – much like Justice Stewart's views on obscenity/pornography, it's hard to define but you know it when you see it. Despite all the lip service there has been very little genuine free trade really going on. As the administration has pointed out, actual tariffs are just part of the calculation. The multi-decade gutting of the US manufacturing base is prima facie evidence that we have a complex problem – economic, social and national security.

After Covid, thoughts began to change about global supply chains. They have changed a bit more as geopolitical conflicts/rivalries have recently intensified. You do not have to be a dyed in the wool nationalist or a hard-core prepper, to support strengthening our domestic production capability, particularly of key essentials. As the dominant global economy and certainly the richest, the US has been complacent about its trading relationships and spending, frequently being overly generous with our long standing and strategic allies. Unfortunately, along the way we lost all grasp of financial discipline. Before Trump and his tariffs, this was already generating alarm with our creditors. Something had to change.

No one knows if Trump's aggressive plan is going to work. As far as I know there has never been a broader, wholesale attempt to reorder global trade. However, without trying something like this, which in theory has a shot at improving our trading revenues, the only avenues available to right our fiscal ship are belt tightening (efficiency) and deregulation. As discussed above, Trump is doing these too. This plan may fail but there was no good argument for staying the course of "borrow and spend" and I am unaware of any credible alternative proposal. My primary critique of Trump's tariffs is their overwhelming magnitude, and the lack of time provided for any real response. I

believe that this is just Trump's negotiation style – but it is not indicative of high character nor dependability. As a result, it does not bode well for our (United States') reputation, a concern which seems to be supported by the recent weakness of the dollar and longer duration Treasuries. It's purely backseat driving but I would have started off with 10% tariffs across the board and warned everyone that they would rise 5-10% every 3 months until a new deal was reached which would include credit for moving production to the US.

PERFORMANCE COMMENTARY

Value produced a rare (recently) outperformance in the quarter – rising 1.64% (price only) versus a decline of 4.55% for the S&P 500 and a decline of 10.08% for the Russell 1000 Growth.ⁱ The leading sectors were Gold Miners (not really a sector but important to Valara) Energy and Health Care. The lagging sectors were Consumer Discretionary, Technology and Transportation. With our three overweighted sectors leading the market and our largest underweight lagging meaningfully – sector weighting was an unambiguous positive. Our six top performing stocks were all gold miners, the worst of which was up 25%, followed by Gilead, Amgen and AIG, all up 20% and TechnipFMC and Mosaic up 10%. We did have a few poor performers, notably Fluor Corp and Viatris, down 27% and 30%, respectively, on disappointing quarters.

Our trading picked up in the quarter as the market provided increased opportunities. We eliminated our position in Wheaton Precious Metals and reduced our exposure to Agnico Eagle Mines, Gilead and Baker Hughes. We moved the proceeds to Newmont, Barrick Gold, Mosaic, NOV, Murphy Oil, Viatris, BorgWarner and Fluor Corp. We slightly increased our portfolio concentration, capturing massive valuation spreads (opportunity) and increasing expected return. We continue to emphasize healthy balance sheets, strong, predictable cash flow or both.

OUTLOOK

The possibility of a recession has increased with Trump's tariffs. Frankly, we are overdue for one and, in all likelihood, have a pile of bad economic decisions that need cleaning up. Admittedly, that process is usually not pleasant and is one reason I have been cautious about banks. They are typically a receptacle for their share of related bad loans. Should we encounter a recession, I still expect the Fed and Treasury to attempt to mitigate some of the normal pain/fallout – with the traditional cut (interest rates) and spend. The evidence continues to mount that our creditors may be less tolerant of that game plan – more so since we dropped the tariff bomb on them. The dollar has already sold off dramatically and longer dated treasuries have sold off with it. This all ties into an amazingly strong gold price to paint a concerning picture. At this point, many reluctant experts are joining a growing band wagon worried that the US pushed its privilege too far, acted too erratically, arrogantly (seizing Russian reserves and Trump tariffs) and independently to sustain global central bank confidence. A diversification of reserve assets appears under way. The world is very heavily exposed to US dollar assets and, for the first time in ages, money is leaving. It's not a foregone conclusion that this continues but it bears close attention.

Meanwhile, we keep doing what we do – methodically looking for attractive valuation spreads that should help us outperform the indices over investment cycles. Aside from low valuation, we are not particularly recession resistant, but if we choose our positions wisely (on average - we will always have mistakes) we should thrive over time. Thanks for your continued confidence and support. Please feel free to call or email with any questions you may have.

Sincerely,



Robert W. Simmons, CFA
Managing Member

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ⁱ YCharts price data