

January 12, 2026

Dear Friend of Valara Capital Management,

For the fourth quarter and twelve months ended December 31, 2025, Valara Partners, LP. produced returns, net of fees, of 12.87% and 59.87%, versus 2.66% and 17.88% for the S&P 500, respectively.

## **QUARTERLY REVIEW**

The main influences in the markets remain, broadly, the AI “arms race” trade, underlying global economics, Federal Reserve anticipation (rate cuts) and geopolitics. While the primary enthusiasm in share prices still centers on AI-related growth, the Magnificent 7 stocks were mixed in the quarter with NVIDIA, Microsoft and Meta all down slightly. There is an emerging awareness that the capital required to reach scale is a preposterously large number. That concern is in addition to questions about energy supply and distribution capacity and a noticeable lack of profits to date. Most new technology introductions go through cycles of enthusiasm and reality as they progress, but the sheer magnitude of the AI project makes it unique in history.

Underlying economics in the US remain favorable – albeit reliant on heavy AI spending and steady fiscal/Fed support. Q3 and anticipated Q4 GDP growth were 4.3% (actual) and 5.1%+ (estimated), respectively.<sup>1</sup> Labor markets continue to produce jobs and consumer sentiment/spending, while depressed, is ticking up. CPI has drifted down but critical areas like health care, food and housing remain challenging. Third quarter earnings were strong.

Somehow, with strong markets and good economic growth, the conclusion at the Federal Reserve has repeatedly (September, October and December meetings) been that more support is needed. There is no doubt, from all the hand wringing (before), and the relief (after), that Wall Street is delighted. While recessions are generally as welcome as the flu, the timing at the moment would be particularly bad. It would mean another ballooning of the deficit just when we can least afford it. As a result, Federal Reserve and Fiscal policies continue to be a key focal point in markets.

Putting the entrenched conflicts in the Middle East and Eastern Europe aside (for the moment), the geopolitical backdrop is challenging and getting worse. President Trump has tried various things to reign in our budget since coming into office (DOGE, tariffs, OBBB, development deals...). Despite general agreement on the need for action, he has been blocked and rebutted every step of the way. He is attempting to maintain a difficult balance, wanting to cut long-term spending but knowing that, done without a temporary offset, it will produce the recession we can ill afford. He is trying to raise revenues without burdening US citizens – hence tariffs and asset “acquisitions”. Yes, that is an exceedingly polite way to describe his approach in Gaza, Venezuela and Greenland – but I believe that is what it’s all about. He is a deal-maker and he sees America as having the upper hand when it needs it. Unfortunately, there will be a price to pay in terms of our global reputation/leadership position. Ironically, if it makes the US dollar weaker, I believe that suits Trump fine (makes the US more trade competitive). As someone who grew up naively believing in “Truth Justice and the American way” I find it hard to watch, but I am not sure I disagree with it. We are in a pickle and, if nothing else, I applaud his willingness to try to solve it instead of just kicking the can.

Lastly, a brief comment on Japan’s bond market. Ominously, the 10-year Japanese interest rate keeps rising. So far this has not created any difficulties globally, but the possibilities are there. The fact that the Yen is depreciating as interest rates rise suggests investors may be fleeing a country they perceive to be in trouble. This is something to keep an eye on.

## **PERFORMANCE COMMENTARY**

More than any quarter in years, the style (growth/value) and market cap (large/mid/small) indices were tightly clustered together in terms of returns. Large cap growth lagged (the S&P 500) but only by a little more than 1%.

Value led by less than 1% and Small Cap lagged by 50 basis points (all price only). The only two sectors that stood out to the upside were Gold Miners (not really a sector but important to Valara) and Health Care. The two big laggards, Real Estate and Utilities, were only down slightly. Our remaining overweight in gold miners helped us considerably – making our sector weighting a clear and significant positive. Our stock selection was an even greater positive. Warner Brothers was our big winner, receiving a rival bid from Netflix followed by a “raise to match” by Paramount. WBD shares rose 48% in the quarter. Over half of our positions were up double digits (in percentage terms) with PanAmerican Silver (+34%), Barrick Mining (+33%), Viatris (+26%) and Newmont (+18%) rounding out our top five. Our laggards were Mosaic (-31%), Mohawk (-15%), Baker Hughes (-7%) and Fluor (-6%).

Our trading exploded in the quarter as we reduced our gold mining stocks across the board, cut Warner Brothers Discovery to reflect its diminished upside, trimmed Citigroup into strength and eliminated our remaining position in TechnipFMC. The proceeds, so raised, were reinvested in Bunge, Mosaic, Murphy Oil, Viatris, NOV Inc, Franklin Resources, Amgen, Mohawk and new positions in Baxter International and Apache Corp. The net effect of these trades was to significantly improve the expected return of the portfolio.

## OUTLOOK

As noted previously, Trump is walking a difficult road. He knows that a recession would mean a drop in tax revenue, a surge in social spending and a substantial cyclical increase in the Federal budget deficit. Nobody (administration) wants to find out if that is financeable, or not, so Trump has turned up the dials on growth support. We have substantial tax refunds coming for most filers in April and now have the mortgage agencies buying back their debt and lower interest rates. It is helpful that governments and the markets view the massive AI development spending to be existential. With this as a backdrop it's likely that the economy keeps plodding along unless we run into a surprise problem in the markets. I have not changed my mind that, left alone, we are overdue for a recession. My inner financial physicist expects eventual fallout from all this meddling – along the lines of an equal and opposite reaction (Newton's Third Law).

Venezuela deserves a few comments. What the administration did in abducting Maduro and taking control of the country's oil reserves was shocking and felt un-American. For decades the US has been the shining light in terms of the rule of law and property rights – how does this fit? I found it confusing until the following week when the administration started making the rounds (at the UN, in the media and Trump's public comments). It got even clearer as we seized two Russian shadow fleet ships transporting Venezuelan crude and ratcheted up the aggressive remarks concerning Iran, Columbia, Mexico and Greenland. I infer that for some time the administration has downplayed its views on China (and accomplices), believing that what has happened over the past two decades (Fentanyl trade, and the infiltration of our government, institutions and media) amounts to undeclared war. Last week's moves and associated commentary reflect the gloves coming off. Apparently this surprised and unnerved more than me – gold and silver (political safety) took off again to new all-time highs. We will see if this is another instance of TACO (Trump Always Chickens Out – back peddles) but I doubt it. He may be right that it is time to address the issues head on. Either way, it appears that the post WW II era of globalization and restraint is ending, with turbulence likely.

As we continue forward, Valara Capital will manage our portfolio with the same disciplined and rigorous investment process that got us here. I am confident that by doing so we can continue to produce compelling results over time. Please feel free to reach out to me with any questions or concerns you may have.

Sincerely,



Robert W. Simmons, CFA  
Managing Member

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<sup>i</sup> [Tradingeconomics.com](http://Tradingeconomics.com)