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U.S. stocks entered 2025 with the bull market intact, as a soft landing looked likely with rate cuts still in view and a business friendly administration in power. That began to change when signs of a trade war emerged, and by late February, the hottest stocks of 2024 were falling precipitously, ultimately erasing 12 months of gains by quarter's end. After cutting by a full point in fall, the Fed held rates steady in January and March, while continuing to indicate that two more quarter-point cuts were likely later in the year. As turmoil intensified into the start of the 2nd quarter, U.S. Treasuries began to sell off as the trade war called into question their safe-haven status. European stocks were a bright spot for the first time in recent memory, as German spending plans that broke the country's long-standing tight fiscal discipline boosted stocks there by 15% and in the U.K. by over 8%. Gold and copper surged on safety and tariff concerns respectively, while oil prices fell. Bitcoin and crypto plunged alongside tech and AI stocks, while Tesla fell 35%. After un-inverting last year, the yield curve steepened slightly, with the 10-year Treasury dropping to 4.23% after peaking about a half point higher.

Against this backdrop of falling prices, our Kirwan Capital Strategy portfolios lost 5.62% for the quarter**, versus the market as measured by the S&P 500 ETF*, which finished with a loss of 4.27%. The quarter's result leaves our average compound annual return after fees since Jan 1, 2013 at 12.52%, which would have turned a $10,000 investment into $42,421 in 12 1/4 years.

Our underperformance in the quarter was mostly due to our outsized positions in four of the Magnificent 7, which had grown as a percentage of our portfolios by being the biggest winners over the last couple of years. Those top losers were Alphabet, Amazon, Apple, and Microsoft, which all lost more than 10%. Our winners included Berkshire Hathaway, Casey's, Visa, and Kroger. The only significant move we made during the quarter was purchasing shares of Hershey, as fears of lower demand and a cocoa shortage had pushed the stock lower for several months.

As I write this, turmoil has taken over the market and 5% daily moves have become commonplace based on the latest trade war headlines. While reduced global trade and tariffs will affect costs and have a significant risk of upending the global economy, I remain hopeful that the ultimate result will be far more innocuous than the initial proposal after upcoming negotiations run their course. The market has very quickly priced in a negative scenario that has at least made valuations no longer appear rich, and offers the cheapest buying opportunity since early 2024.

Sincerely,

Patrick J. Kirwan
President and Portfolio Manager
Kirwan Capital LLC

* The benchmark I use against which to gauge our performance is the SPDR S&P 500 ETF (ticker symbol SPY). It's purpose is to closely track the stocks in the S&P 500 Index. Often cited as a proxy for the U.S. equity market, it is the most heavily traded security in the world. It can thus easily be purchased by any investor, as opposed to the oft quoted S&P 500 Index, which is simply a calculation, and does not include costs of ownership.
** Kirwan Capital Strategy quoted returns are calculated using the quarterly composite average of all accounts using the strategy in aggregate. Due to the individually managed nature of our accounts, not all accounts have similar performance. Factors such as available cash, tax considerations, and timing of previous purchases or sales can effect returns. Transactions noted may or may not have been made for all accounts. Past performance is not indicative of future results and investing entails a degree of risk and potential loss of principal. The Kirwan Capital Strategy uses fundamental analysis in an attempt to measure the intrinsic value of securities with the objective of buying undervalued securities and realizing dividends and capital gains over a long-term (at least one year) holding period.