

HOLLOW BROOK

WEALTH MANAGEMENT

Hollow Brook Quarterly Roundup

2Q 2025

Market Overview

“All past declines look like an opportunity; all future declines look like a risk.”

Morgan Housel



This quote captures the tone of 2025, so far. Uncertainty remains high, driven by not only geopolitical tensions, but fiscal pressures, rapid shifts in trade policy and technological change. Yet, markets have proven resilient. In only 55 days, the S&P 500 recovered from its low in April to a new high in late June. This marks the fastest rebound from a -15% decline in 75 years.

As our friends at Strategas point out, the market’s foundation can be understood through a balance sheet that consists of 16 key building blocks. Today, those inputs are evenly split, with a focus on a few key items.

ASSETS	LIABILITIES
1 Economic Growth	1 Valuation
2 Profit Growth/Margins	2 War vs. Peace
3 Liquidity	3 Free Trade/Protectionism
4 Sentiment	4 Administration
5 Monetary Policy	5 Fiscal Policy
6 Commodity Prices	6 Dollar
7 Price Stability (Inflation)	7 Fiscal Health
8 Technical Picture	8 Demographics

Innovation continues to advance, but questions remain: will AI truly boost productivity? What impact will it have on long-term growth and market leadership? Geopolitically, the Israel-Iran conflict escalated in June when the U.S. launched strikes on Iranian nuclear facilities, which was then followed by a temporary ceasefire. On the fiscal side, Moody’s downgraded U.S. debt, citing rising deficits and interest costs. Economic policies have remained in flux as well with tariffs coming back into focus. The original 90-day tariff pause was set to expire on July 9th, but it now appears the deadline has shifted to August 1st. Between now and then, trading partners will have the opportunity to renegotiate more favorable terms or face a reversion to the country-specific tariffs initially proposed.

These moments highlight the importance of managing both sides of the equation, guarding against downside volatility while remaining positioned for upside. In our view, the most reliable path forward is staying grounded in a clear financial plan, maintaining a diversified asset allocation, and focusing on long-term fundamentals.

Structural Shifts

Two powerful structural shifts appear to be reshaping the economy in real time, one driven by policy, the other by technology. Together, they are changing how companies operate and allocate resources.

The first major shift this year has come from policy. Goods imported into the U.S. are now subject to an effective tariff rate of 13%, the highest since 1939. In sectors like logistics, consumer goods, and autos, we are already seeing companies respond to rising trade costs.

Walmart, the country's largest retailer, recently warned that *"even at the reduced levels, the higher tariffs will result in higher prices."* CFO John David Rainey noted that price hikes will begin to show up in the coming months, particularly on toys, electronics, and even everyday staples like bananas, avocados, and coffee. **Target** echoed these concerns, with CEO Brian Cornell stating that their team is working hard to lessen the tariff impacts, but admitted, *"the difficulty level has been incredibly high, given the magnitude of the rates we're facing."* **Nike**, which gets about half its products from China and Vietnam, is raising prices by \$5 to \$10 on many products.

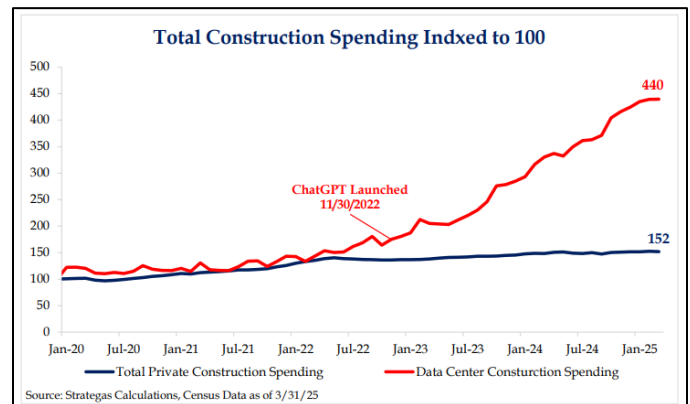
It is not just prices; jobs are also affected. **UPS** is cutting 20,000 jobs, citing higher expenses tied to global trade friction. **Procter & Gamble** is eliminating 7,000 roles – about 6% of its workforce – as it restructures under the weight of increased input costs. **Stellantis** has temporarily laid off over 1,200 workers in Michigan, directly linked to new vehicle tariffs and cross-border production delays.

"It takes some time for tariffs to work their way through the chain of distribution... ultimately, the cost of the tariff has to be paid."

~ Fed Chair Jerome Powell

With tariff costs becoming more apparent, the Fed is also responding. In June, the Fed lowered its 2025 GDP forecast to 1.4% and raised its inflation outlook to 3.1%. By adjusting forecasts, the Fed is acknowledging that growth and inflation may change.

Artificial intelligence is driving the second structural shift, with growing momentum and investment behind it. Alphabet recently joined Microsoft and Meta in reaffirming their AI infrastructure spending plans, with combined capital expenditures now exceeding \$300 billion across the Magnificent Seven (Mag 7). As highlighted in a recent Strategas research report: *"This all became very real post the launch of ChatGPT, with construction spending for data centers skyrocketing..."*



While AI investment accelerates, more than 100,000 tech jobs have been cut this year. This raises important questions: are firms learning to do more with less? Will AI boost productivity or create new challenges? The long-term impact remains to be seen.

Julien Garran and the team at MacroStrategy offer a grounded counterpoint to the euphoria, noting that *"The greatest risk of all to the US economy... is the huge amounts of money that have been invested in AI infrastructure..."* While AI investment continues to increase, the economic model is still evolving. Nvidia's newest Blackwell GPUs — the chips powering much of this transformation — cost over \$75,000 each, and early data suggests that many deployments are not yet earning a return above their cost of capital. *"Early pricing suggests a 30–50% loss on the cost of capital over the life of the chip"*

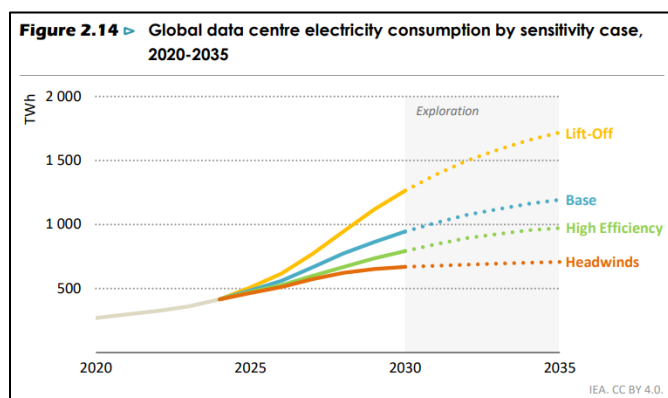
This is not to diminish the long-term opportunity, but to acknowledge that meaningful innovation can take time to translate into durable, broad-based returns.

With that said, we currently believe the path forward is higher when it comes to demand. This leads us to our next viewpoint: AI doesn't run on euphoria alone, it runs on energy.

Just \$10 billion in AI infrastructure could consume as much electricity as Japan. In the U.S., data centers are expected to drive 130 gigawatts of new power demand this year—up from only 23 GW in 2020. (For perspective, 1 GW powers 100 million LED bulbs.)

Transmission spending is projected to rise by 40% over the next four years. Nuclear capacity is expected to nearly double by 2050. And data center power needs are forecast to quadruple by the end of this decade.

According to the International Energy Association (IEA), global electricity demand from data centers is projected to reach about 1,200 TWh, accounting for roughly 3.5% of global electricity use by 2035.



Yet despite this future demand surge, the energy sector remains underrepresented in public markets. It makes up just 3.2% of the S&P 500, well below its historical average of 7.8%, even as it contributes nearly 6% of total earnings. Defensive sectors more broadly (i.e., Energy, Utilities, Healthcare, and Consumer Staples) account for just 21% of the S&P 500 index, the lowest share in 35 years. The last time we saw this level of underweighting was in 2000, before a major rotation back to value, stability, and cash-generating businesses.

With current valuations elevated and much of the recent rally fueled by AI enthusiasm, we continue to ask: will we see a similar rotation to the one that followed the year 2000 – when capital flowed from tech to the market more broadly? We continue to ask ourselves what happens if AI begins to enhance margins and productivity across industries like energy, healthcare, and industrials? Could this drive long-term structural change?

Other Forces at Play:

While tariffs and AI dominate the headlines there are other market dynamics that are also shaping our long-term outlook

On the fiscal front, the narrow passage of the “One Big Beautiful Bill Act” signals Washington’s continued commitment to deficit spending. Servicing that debt is becoming increasingly costly, with interest payments now totaling \$776 billion annually – 16% of total federal spending. With over \$9 trillion in Treasury bills maturing over the next year and a recent U.S. debt downgrade by Moody’s, the question of who will buy all this government debt is becoming more important.

**U.S. CONTINUES TO ADD TRILLIONS OF DOLLARS OF DEBT
IN RECORD SPEED**

Time Required to Reach Total U.S. Debt Levels	
Of:	
\$10 Trillion	232 Years
\$20 Trillion	9 Years
\$30 Trillion	4.5 Years
\$31 Trillion	8 Months
\$32 Trillion	8 Months
\$33 Trillion	3 Months
\$34 Trillion	3 Months
\$35 Trillion	7 Months

*Six months on
average to reach
each additional
trillion in debt
from \$31 - \$35.*

That's where recent regulatory shifts may come into play. For example, officials can adjust the Supplementary Leverage Ratio (SLR) and regulate stablecoins.

The Federal Reserve's proposal to ease the SLR could unlock \$5.5 to \$7.2 trillion in balance sheet capacity for large U.S. banks. Under the old rules, even safe assets like Treasuries counted against leverage limits, discouraging banks from holding them. The proposed changes would give banks more flexibility to hold low-risk assets, like Treasuries, potentially improving liquidity and demand.

Stablecoins – digital currencies tied to the U.S. dollar – are also emerging as potential large buyers of Treasuries. To stay “stable,” these coins are typically backed by reserves, often in short-term Treasuries. The newly proposed Guarding Against Unbacked Digital Assets (GENIUS) Act would establish stricter oversight for stablecoin issuers, requiring full reserve backing, regular audits, and bank-like standards.

Could clearer regulation and broader adoption turn stablecoins into a reliable source of Treasury demand? Could these parallel shifts – bank reform and digital asset regulation – help to ease the government's growing debt burden? The answers

are not clear yet, and therefore we remain mindful of the potential risks of long-term treasuries

Geopolitical tensions also flared this quarter, with the U.S. launching strikes on Iranian nuclear facilities in June – marking a re-entry into Middle East conflict zones. While a ceasefire is now in place, the risk of renewed escalation remains. Meanwhile, tensions between India and Pakistan also rose before settling into a ceasefire, and the Russia-Ukraine conflict continues with no clear resolution in sight. Historically, markets have often rebounded in the months following major U.S. military actions, but uncertainty still lingers.

All this leaves us with a few overarching inflection points:

- AI CAPEX spending may not come to full fruition
- Tariffs remain an unknown
- Inflation may re-accelerate
- Subdued earnings may impact consumer confidence
- Federal borrowing may continue to increase
- New buyers of U.S. debt may emerge
- Geopolitical tensions are on the rise

Portfolio Positioning

While the market dynamics outlined above continue to evolve, they have not materially altered our core outlook from the previous quarter. That is not a result of complacency, but conviction. At Hollow Brook, our investment approach is to exploit favorable asymmetries and avoid negative ones where we can identify them. We position portfolios to limit downside risk and capitalize on long-term opportunities, owning high-quality businesses with strong cash flow, durable balance sheets, at reasonable valuations.

We are also maintaining elevated cash and gold levels, not out of fear, but to preserve flexibility and growth in a rapidly evolving environment. Speaking of gold, during the quarter we increased our allocation to the asset class. Gold has been one of the standout performers this year, rising nearly 27% and on pace for its best annual return since 1979.

Here is how we are navigating the current environment:

- **Focus on Quality:** We favor businesses with strong balance sheets, healthy free cash flow, pricing power, and durable models built to weather inflation. We are still cautious when it comes to valuation and believe current growth expectations can be questioned given current global trade frictions.
- **Asset Allocation & Diversification:** Equities remain foundational; however, we believe true diversification means more than owning the index – which has become increasingly concentrated in a few large-cap tech names. We continue to remain largely underweight the Mag 7 names and focus on differentiated high-conviction ideas designed to deliver durable returns over time. For larger portfolios, we complement them with assets like opportunistic credit, farmland, real assets, and unique, asymmetric investments.
- **Focus on Liquidity:** Liquidity in financial markets is a given until it is suddenly nowhere to be seen. We believe that the cornerstone of prudent portfolio management and risk control is to continually monitor liquidity and position portfolios so a client's life is not disrupted should there be a change in market liquidity.

Staying the Course

As we said at the start: *"All past declines look like an opportunity; all future declines look like a risk."* Our role is to bridge that gap in real time – not by reacting to headlines, but by identifying situations where the potential upside far outweighs the downside.

While challenges remain, so does opportunity. We continue to position portfolios with care, confidence, and a steady eye on the long term.

Thank you for your continued trust and partnership. As always, we are here to help you navigate whatever comes next as well as stay focused on what matters most: your long-term financial goals.

Sincerely,
The HBWM Team



Alan Bazaar

CEO & Partner



Philip E. Richter

President & Partner

Equity Indices	Price	MTD	QTD	YTD
S&P 500	6204.95	5.08%	10.52%	6.20%
Nasdaq	22679.01	6.34%	16.90%	8.35%
Dow Jones Industrials	44094.77	4.47%	5.49%	4.55%
Russell 2000	2175.035	5.43%	8.47%	-1.79%
Russell 3000	3526.4	5.08%	10.55%	5.74%
S&P 500 Sectors				
Utilities	414.79	0.31%	3.95%	9.41%
Consumer Disc.	1753.806	2.23%	10.27%	-3.87%
Telco	377.94	7.28%	17.30%	11.14%
Consumer Staples	897.1	-1.89%	0.83%	6.40%
Industrials	1249.13	3.57%	12.27%	12.72%
Technology	4964.64	9.77%	22.54%	8.05%
HealthCare	1572.52	2.05%	-5.53%	-1.11%
Materials	556.09	2.32%	2.75%	6.03%
Financials	871.95	3.19%	5.68%	9.19%
Energy	648.68	4.85%	-9.09%	0.77%
Real Estate	260.3	0.16%	-0.18%	3.52%
US Interest Rates				
3 Month	4.29	-0.90%	-0.01%	-0.54%
2-Year Note	3.72	-5.52%	-4.17%	-12.32%
5-Year Note	3.80	-5.15%	-3.26%	-13.35%
10-Year Bond	4.23	-4.77%	1.42%	-7.46%
30-Year Bond	4.77	-3.85%	5.53%	-0.14%
Commodities				
Crude (WTI)	65.11	8.90%	-6.42%	-6.30%
Brent	66.74	7.56%	-7.93%	-8.11%
N. Gas	3.46	-1.90%	-21.19%	-2.92%
Gold	3303.14	0.42%	6.10%	25.86%
Silver	36.11	9.48%	7.17%	24.94%
Currencies				
DXY	96.88	-2.47%	-7.08%	-10.70%
EUR	1.18	3.88%	9.21%	13.82%
CAD	1.36	-0.95%	-4.86%	-5.42%
GBP	1.37	2.03%	6.26%	9.71%
JPY	144.03	0.01%	-3.73%	-8.40%

Source: Bloomberg as of 6/30/2025

Quotes of the Quarter

“

An investment in knowledge pays the best interest.

Benjamin Franklin

“

CEOs named geopolitical instability, followed by trade and tariffs, as the two top business risks impacting their industry in Q2.

Roger W. Ferguson Jr.

“

There has been a mentality of kicking the can merrily down the road. A feeling among many in Washington that "someone else eventually will fix it." That is a mirage. The more debt and interest payments grow, the more difficult it will be to solve the problem.

Robert Hormats

“

The market is increasingly receptive to AI agents...we can achieve hyperautomation of complex variable processes that were previously beyond the reach of traditional data RPA or conventional AI methods.

Aiman Ezzat

“

The secret to success is to do the common things uncommonly well.

John D. Rockefeller

“

The future of AI is not about replacing humans, it's about augmenting human capabilities.

Sundar Pichai

Headline Highlights

Trump Announces Tariffs on China, EU and Rest of the World

On 2 April US President Donald Trump announced a sweeping set of tariffs, arguing that they would allow the United States to economically flourish. These new import taxes, which Trump imposed via executive order, sent shockwaves through global markets.

After a thrilling 7-game series, the Oklahoma City Thunder are finally NBA champions

It is the Thunder's first NBA championship since the franchise relocated to Oklahoma City in 2008. And the Thunder are the seventh different NBA team to win a title in the past seven years, a remarkable run of parity for the league.

Nippon Completes Acquisition of US Steel

Japanese steel giant Nippon Steel closed a \$14.9 billion acquisition of US Steel, both companies said on Wednesday. US Steel will retain its name and headquarters in Pittsburgh, Pennsylvania. The "partnership" will also include "massive investments in steelmaking" in several US states.

Ovechkin Breaks Gretzky's All-time Record with 895th Goal

Washington Capitals forward Alex Ovechkin scored his 895th career NHL goal to break the hallowed all-time record of Wayne Gretzky that was once considered unbeatable.

Trump Officials Halt \$1 Billion in Funding for Cornell, \$790 Million for Northwestern

More than \$1 billion in federal funding for Cornell University and around \$790 million for Northwestern University have been frozen while the government investigates alleged civil rights violations at both schools, the White House says.

Nvidia to Mass Produce AI Supercomputers in Texas as Part of \$500 Billion U.S. Push

The company said it plans to produce up to \$500 billion of AI infrastructure in the U.S. via its manufacturing partnerships over the next four years.

Titans Pick Cam Ward at No. 1 and Shedeur Sanders Slides out of First Round

The NFL draft's first round unfolded in Green Bay, Wisconsin, and the Jacksonville Jaguars quickly added a jolt by trading for the Browns' No. 2 pick to take Travis Hunter, the Heisman Trophy-winning cornerback and wide receiver from Colorado.

US and Ukraine Sign Long-Awaited Natural Resources Deal

The deal aims to provide an economic incentive for the US to continue to invest in Ukraine's defense and reconstruction - as well as to address Washington's concerns over the amount of aid it has already contributed.

Sovereignty Wins 2025 Kentucky Derby as Trainer Bill Mott Sees His First Horse Cross First in Iconic Race

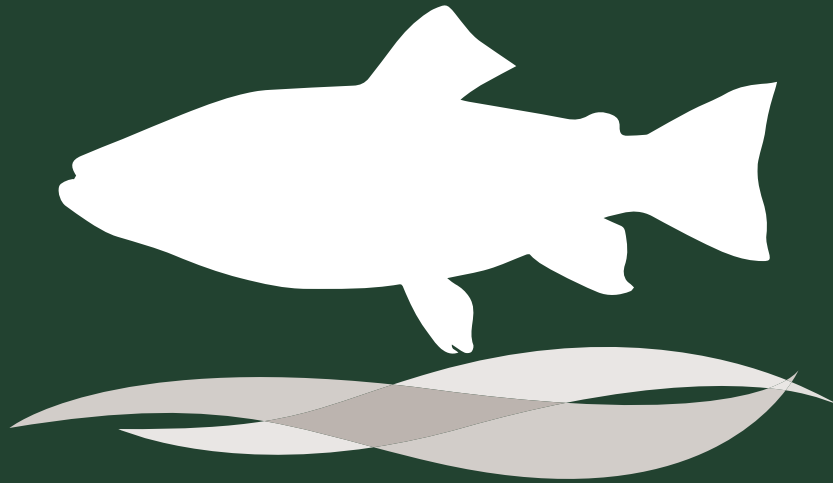
As expected, Sovereignty stayed towards the back out of the gate and let the frontrunners set the early pace on the sloppy track on a rainy Saturday at Churchill Downs, but an off track didn't stop him from his customary late charge to the front.

Trump Signs Executive Order That Aims to Slash Drug Prices by at Least 50%

The order, experts say, is a reimagined and far more aggressive version of Trump's policy during his first term to cut drug costs, which failed to take effect after a federal judge blocked it. Like the original policy, health policy experts expect it will meet significant pushback from the drug industry.

Panthers defeat Oilers for second straight Stanley Cup title

The first 25 years of the Florida Panthers' existence were anything but synonymous with hockey success. The Panthers made the NHL postseason only five times and advanced past the second round just once, all while cycling through 10 coaches. Now, they are hockey's most dominant franchise — again.



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