The Conservative Strategist

JULY 2025

A QUARTERLY INVESTMENT NEWSLETTER PUBLISHED EXCLUSIVELY FOR CLIENTS OF SEASONAL STRATEGY

Q2: In like a lion, out like a lamb

I mentioned volatility in the second sentence of last quarter's newsletter. The hallmark of early April? Volatility. Trump's April 2 announcement of deep and sweeping tariffs surprised and stunned investors. But equally surprising was the comeback from the deep hole dug by the markets.

V is for victory

Consider this: By April 8, just four sessions after the announcement, the S&P was down 11.19%, and even our low-risk benchmark *Vanguard LifeStrategy Conservative Growth* (VSCGX) fell 4.49%. I was getting calls from concerned clients for the first time since the early pandemic lockdown phase in March 2020 (which was a much more severe decline).

Then came the swift comeback no one expected and few believed. By the end of April, the S&P was down only 0.69% for the month (and thus quarter), and VSCGX was actually up 0.93%. The follow-through continued through May (the best May for the S&P in 35 years) and June, with even the Israel-Iran conflict failing to derail the rally.

April fooled

Some of the most successful traders, managers, and analysts on Wall Street have been flummoxed by the rally, among them Steven Cohen, Paul Tudor Jones, Jeffrey Gundlach, and William A. Goldthwait, Portfolio Strategist for State Street Global Advisors, who on April 8, the precise bottom, wrote: "The current administration's aggressive stance on tariffs, particularly its intent to impose levies on all imports, injects a significant layer of uncertainty into the global economic outlook.... Until there is greater clarity on policy direction and macroeconomic stability, exercising patience and prudence remains the wisest strategy."

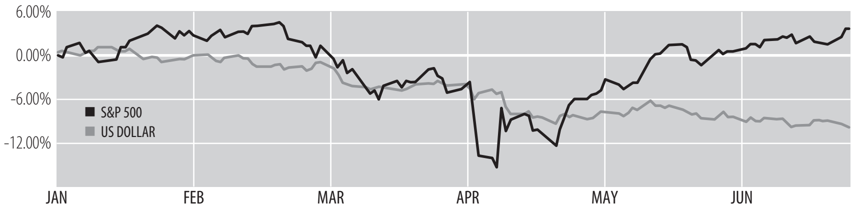
I was skeptical enough of the early rally that I did not add risk. But as it persisted, I did not take risk off the table either, as I was encouraged by a study cited by research service *Bespoke Investment Group,* which found that sharp V-bottoms like April/May's are inevitably followed by even higher prices 1, 3, 6, and 12 months later.

Don't get distracted

The tariffs and the US stock market action can distract from what are key investment developments that seem significant and far-reaching. The US Dollar seems to be in secular decline, and neither the early year weak stock market nor firmer interest rates (usual upside catalysts) can seem to stem the decline. The Dollar has fallen more than 10% in the year's first half, boosting returns denominated in foreign currencies. And those foreign investments are the other story of 2025 thus far, with the World Ex-US beating our stock market by the widest margin in many years. It appears investors have finally discovered a world of opportunity beyond the so-called Magnificent 7. Finally, our alternative investments, particularly private credit, demonstrated resilience throughout the April volatility and contributed considerably to portfolio stability. ■

Stocks down, dollar down; stocks up, dollar down

Performance of S&P 500 and US Dollar, 2025 YTD 6/25/25



While the S&P was carving its steep V-bottom from February to June, the US Dollar was declining relentlessly. This may be an indication that global investors are beginning a secular abandonment of the Dollar due to America's new budget-busting bill and the increasing unpredictability of its putative leader. Source: YCharts

The Markets June 30, 2025	Price/Yield	Gain, Qtr	Gain, YTD
US Stocks (S&P 500/Vanguard Index)	6204.95	10.91%	6.13%
International Stocks (Vanguard Index)	22.18	12.07%	18.19%
Emerging Markets Stocks (Vanguard Index)	31.22	9.46%	11.74%
Real Estate Stocks (Vanguard REIT Index)	29.60	-0.73%	1.89%
Bonds (30 year US Treasury/Vanguard Index)	4.78%	-1.87%	2.77%
Dollar (US Dollar Index)	96.80	-7.07%	-10.77%
Gold (London Afternoon Fix)	$3271.75	5.03%	25.40%
Money Market Funds (Vanguard Federal - VMRXX)	4.24%	0.00%	-0.18%*

*change in yield

Portfolio Planning

The Newark nightmare and our aging infrastructure

I grew up in Northern New Jersey and spent the first 28 years of my life there and in New York City. When I had to travel, Newark Liberty International Airport (EWR) was my airport of choice. To me, it always seemed one modernization away from being tolerable.

Time and neglect caught up with the airport this Spring, when it was plagued by a series of significant disruptions that hobbled millions of travelers and exposed critical vulnerabilities of America's aging infrastructure. The troubles at Newark are a stark illustration of how decades of underinvestment and reliance on outdated technology can cripple critical systems.

System failure

At the heart of Newark's issues are failures in its air traffic control (ATC) systems, compounded by a severe shortage of air traffic controllers. On multiple occasions, controllers lost communication with planes for as long as 90 seconds(!) due to the failure of main radar signal lines and malfunctioning backup systems. Some of these critical lines, vital for radar and communications, were reportedly old copper wires, relics of an era long past. These outages have been so traumatic for controllers that several have requested trauma leave, further exacerbating staffing shortages at an already understaffed facility. The Federal Aviation Administration (FAA) typically aims for 38 certified controllers at Newark, but only 22 are currently available. How safe would you feel flying in or out of Newark today?

Newark's predicament is not an isolated incident but a microcosm of a nationwide problem. The American Society of Civil Engineers (ASCE) has consistently highlighted the dire need for infrastructure investment, giving the U.S. an overall "C" grade in its 2025 Report Card for America's Infrastructure. The ASCE estimates a staggering $3.7 trillion investment gap for infrastructure needs across all categories to reach a state of good repair. Airports, in particular, received a D+ grade in the 2021 report, with an estimated $111 billion funding shortfall over the next decade. Much of America's airport infrastructure – including terminals, runways, and ATC systems – is aging and was not designed to handle today's immense passenger and cargo volumes.

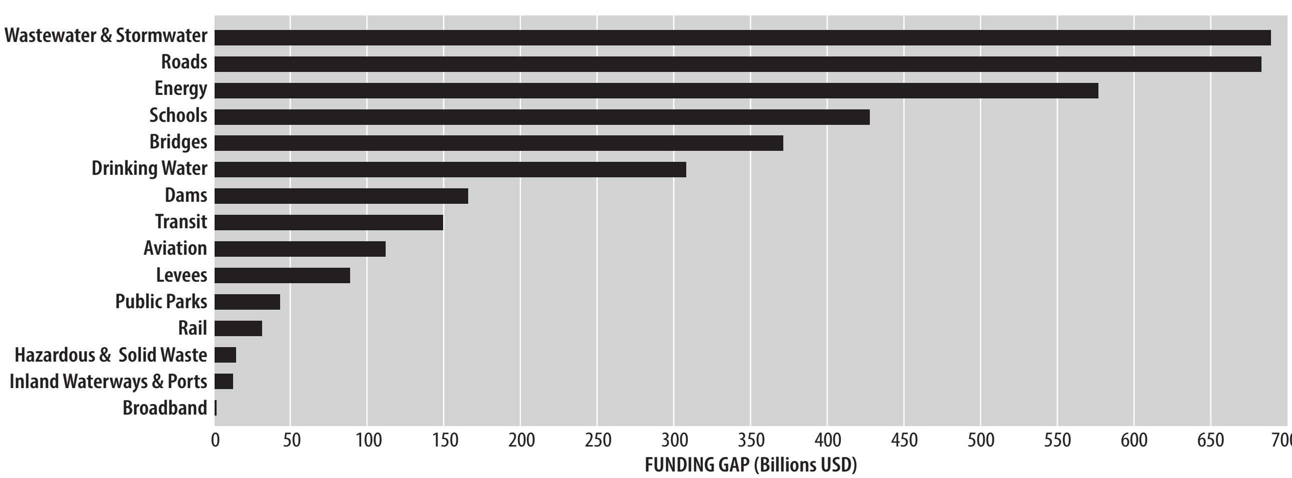
No organized response

The impact of this aging infrastructure extends beyond mere inconvenience. Flight delays and cancellations lead to significant economic losses for airlines and passengers, and can disrupt supply chains. While the FAA is implementing some immediate fixes at Newark, such as installing new fiber optic lines, a comprehensive overhaul of the national air traffic control system is critical. The U.S. is one of the few developed countries that hasn't fully adopted modern, satellite-based air traffic control systems, relying instead on a radar-based system with antiquated components. American exceptionalism – in the wrong direction.

Investing in infrastructure improvement is not just about avoiding future crises; it's about ensuring safety, enhancing economic competitiveness, and improving the quality of life for all Americans. Without a proactive and significant commitment to upgrading these vital systems, we'll see more "Newark moments". Modernizing infrastructure requires broad and patient investment, leading to the opportunity we discuss on Page 4. ■

Lots of spending ahead

U.S. infrastructure funding gap by system (2024-2033)



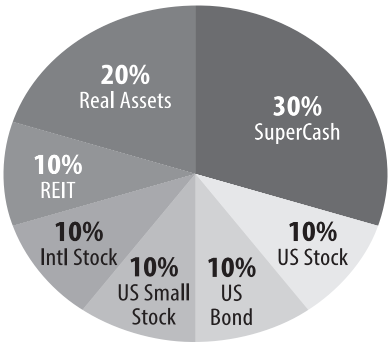
The funding gap for all of these needs over the next ten years totals $3.7 trillion – and that's just for the United States. Government alone is not prepared to fill that gap. That's where private sector infrastructure investment comes in.

Source: Chart created with the help of Gemini AI, from data in ASCE's 2025 Report Card for America's Infrastructure

SuperDiversified Portfolios (SDPs)

Advisors looking overseas, but not quite there yet

SDP1 *Conservative*

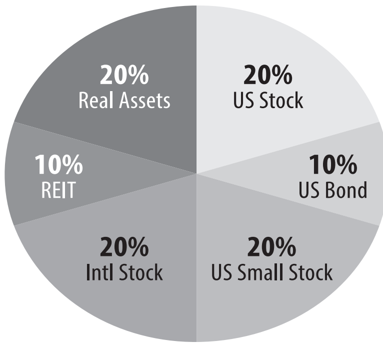


2nd Quarter **2.97%**

Year-to-Date **4.64%**

The whole world has poured into the Magnificent Seven top tech stocks in the past few years, creating a world market cap imbalance. The US stock market recently accounted for a record 70% of world stock market capitalization. Kind of nuts for a nation with about 4% of the world's population.

SDP2 *Moderate*



2nd Quarter **2.43%**

Year-to-Date **3.60%**

But advisers here are even more lopsided, with only 25% of their equity assets overseas vs. 75% here. That may soon change. Among 113 registered investment advisors (RIAs) recently surveyed, 38% identified as bearish on the U.S. market, while only 11% are bearish internationally. It just takes a while.

The above model portfolios are not intended to indicate the performance of any real account, but reflect the composite performance, before fees, of the percentage allocations in the asset classes and funds listed in the table below. Seasonal Strategy's actual allocations vary from these models, and among portfolios.

How the Sectors Performed

Global real estate trouncing US in 2025

Asset Class	Mutual Fund	Performance 2nd Quarter '25	Performance Year-to-Date	
SuperCash	PIMCO Instl Low Duration	0.94%	2.63%	Best
	Merger	2.45%	4.73%	Worst
	Calamos Market Neutral	2.02%	3.34%	
US Stock	Vanguard Index Trust 500	10.91%	6.13%	
US Bond	Vanguard Long-Treasury	-1.87%	2.77%	
US Small Stock	Vanguard Small-Cap Index	7.26%	-0.68%	
Intl Stock	Vanguard Intl Index	12.07%	18.19%	
REIT	Vanguard REIT Index	-0.73%	1.89%	
Real Assets	PIMCO Commodity Real Return	-3.28%	7.10%	

In few places is the overseas renaissance clearer than in real estate. The US REIT bounceback this quarter has been less than complete; REITs are still down 1% in Q2 as of late June, and up only 1.6% year to date. But global real estate is another story entirely, up 10% in Q2 and up 17.8% at the half-year mark.

The reasons include the 8%+ swoon of the US Dollar (accounting for about half of the outperformance), the fact that many overseas economies are easing monetary policy while we are tightening, and a reversal in the global safe haven trade.

StepStone... A step ahead

When the S&P suffered its worst drawdown in years (2/19 to 4/8; –18.7%) *StepStone Private Infrastructure Fund* (STRUX) was up 3.21%. It not only crushed the S&P in that scary time. It also far outperformed its private infrastructure peers.

Part of the reason is STRUX's heavy use of co-investments and secondaries.

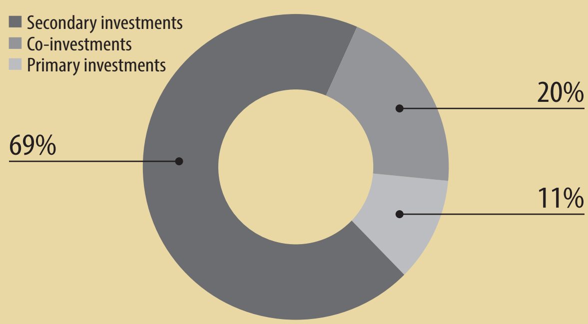
Co-investments involve a limited partner (LP), like STRUX, investing directly alongside a general partner (GP) in a specific private company or asset, rather than just committing capital to a blind pool fund. Result: Enhanced due diligence and selection, faster capital deployment, more direct control and influence, and earlier cash flows from more mature assets, as well as reduced fees.

Secondaries involve the buying of existing interests in private equity or private infrastructure funds, or direct stakes in portfolio companies, from a private investor. Result: Vintage year diversification, often bargain pricing, faster distributions, and access to already proven managers and assets.

Benefit: Often better performance with lower risk – as was demonstrated by STRUX during April's crisis.

The StepStone formula

STRUX, diversification by strategy, 2025 Q2



Fully 89% of STRUX's assets are in co-investments and secondaries, differentiating it from other private infrastructure funds from Cantor Fitzgerald, Meketa, and CION. STRUX's performance has been smoother than its rivals, in part thanks to this strategy diversification.

Allocations rounded to nearest full percent.

Source: STRUX fact sheet

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The case for infrastructure investing

Generally, when there's not enough capital to finance the growth of a supply-constrained sector, those who supply the capital tend to do quite well. On Page 2, we found that there will be a $3.7 trillion financing gap in US infrastructure out to 2033. Globally, the figure is closer to $15 trillion. That spells opportunity for investing in the infrastructure sector.

Compelling attributes

Infrastructure is often cited as the conservative investor's dream asset class (technically, we classify it as a subclass of Real Assets). It has gained many adherents among institutional and high-net-worth investors.

First, cash flows tend to be stable and predictable. Many infrastructure assets (think regulated airports, toll roads, utilities) provide essential services. This brings consistent, non-cyclical demand. And revenues are frequently secured through long-term contracts. You want reliable income? Infrastructure is right up there with real estate.

Second, major projects tend to have high barriers to entry and little competition. They often require massive upfront capital, complex regulatory approval, and long construction periods. This means strong pricing power.

Third, infrastructure is a natural inflation hedge. Project contracts usually carry built-in CPI escalators.

Fourth, lower volatility and recession resistance. Due to the essential nature of infrastructure services, demand tends to hold up well in downturns. Even in recessions, people still need electricity, water, and transportation.

Fifth, infrastructure is an ideal portfolio diversifier, as it has very little correlation to conventional stocks and bonds.

Public/private

Once only the playground of institutions and bigwigs, infrastructure is now available to the smaller investor, in two flavors.

Listed infrastructure (mutual funds, ETFs, limited partnerships) trade on public exchanges like most stocks and bonds. They tend to be the more volatile flavor as they are subject to investor sentiment as well as their underlying prospects.

Private infrastructure funds (mostly interval funds which allow only a portion to be redeemed during quarterly windows) are growing in number and popularity. They tend to invest in smaller and more specific projects.

Which is better? Both, we think.

While their overall long-run returns are similar, public and private infrastructure investments are often composed of widely different projects and project types. So owning some public and some private infrastructure tends to smooth out risks without damaging returns.

Among listed infrastructure, we like *Brookfield Infrastructure Partners, LP* (BIP), which is part of the Canadian behemoth *Brookfield Asset Management* (BAM), and benefits from its scope and sourcing. BIP invests globally with a "buy, enhance, sell" philosophy. It sports a dividend yield currently above 5%, and aims to increase that yield by 5% to 9% per year.

Among private interval funds, we like *StepStone Private Infrastructure I* (STRUX), which takes a multi-asset, multi-geography approach to broaden the portfolio and also differentiate it from listed infrastructure assets. Unlike most other funds, STRUX invests substantially in secondaries (see Page 3 sidebar). Often, there are bargains to be had among such issues. ■

Private Infrastructure: A high-performing diversifier

Correlations of asset classes, December 2007 to Sept 2023

	GLOBAL EQUITIES	GLOBAL BONDS	LISTED REAL ESTATE	LISTED INFRASTRUCTURE	PRIVATE EQUITY	PRIVATE CREDIT	PRIVATE REAL ESTATE	PRIVATE INFRASTRUCTURE
Global Equities	1							
Global Bonds	0.35	1						
Listed Real Estate	0.88	0.41	1					
Listed Infrastructure	0.86	0.41	0.89	1				
Private Equity	0.78	0.13	0.70	0.69	1			
Private Credit	0.70	-0.02	0.66	0.69	0.79	1		
Private Real Estate	0.38	-0.15	0.37	0.40	0.70	0.60	1	
Private Infrastructure	0.04	-0.09	0.08	0.11	0.26	0.12	0.39	1

LOWER CORRELATION — HIGHER CORRELATION

We are always looking for asset classes that perform well, but have very low correlations to mainstream stocks and bonds. Private infrastructure fits that bill. Since inception in December 2007, the Preqin Private Infrastructure Index *has delivered a 9.3% annualized return, actually edging US stocks. From 2007 to 2023, it has exhibited an ultra-low correlation to global equities (and other private asset classes), and has been slightly negatively correlated to global bonds.*

Source: Guide To Alternatives, JP Morgan Asset Management, May 2024