LEUTHOLD FUNDS

July 30, 2025

2Q2025 Market Commentary

Nonetheless, we don't believe the U.S. stock market qualifies as a bubble (yet). At the same time, there are signs that have us wondering if that view is too complacent.

Doug Ramsey
Chief Investment Officer

There were enough signs, earlier this year, that a major bull-market top could be at hand, so we shifted our tactical portfolios to a much more defensive posture. It turned out that February's market peak was an important one, but not the final one of the bull market. Fortunately, our investment disciplines have numerous elements that are "self-correcting," and we restored stock exposure to higher levels before the S&P 500[1] embarked on a month-long string of all-time highs in June and July. Our tactical asset allocation portfolios are currently positioned with net equity exposure of 55-56%.

What now?

The post-COVID economic expansion is already in its sixth year, outlasting our expectations and those of most economists. It's been more than three years since the Index of Leading Economic Indicators[2] (LEI) issued its initial recession warning. One might think the LEI would have finally righted itself after that long stretch. Instead, in the last two months, the LEI has "reiterated" its initial recession call of three years ago.

While a recession has so far been averted, many measures of economic performance have behaved in a way we've described as "pre-recessionary." In some cases, even that description is too generous: Several job market indicators have performed much worse over the last 9-12 months than what's usually experienced in the final lead-up to an economic downturn. The current twelve-month growth rate in employment is now just 1.1%—a pace so sluggish that the economy has never before evaded a recession at that level. Maybe this time is different. (We're skeptical.) Meanwhile, the number of unemployed workers still job hunting bottomed out almost three years ago and is now 23% above the recovery's low point. That's three times more than any previous increase recorded in the period preceding a business cycle top.

The stock market has powered ahead despite those signs of weakness. Indeed, we believe stock price action, itself—via the wealth effect—is what has helped keep personal consumption growing, forestalling what we still see as an eventual lapse into recession. We contend that the wealth effect has never been more important to the U.S. economy than it is today, primarily because the stock market has never been so sizable relative to U.S. GDP[3] (just over 2x). But the wealth effect doesn't come without troublesome side effects. Asset price inflation is "leaking" into consumer prices, as it did in 2021, forcing the Federal Reserve to hold interest rates above levels that might be warranted with a fading job market.

Nonetheless, we don't believe the U.S. stock market qualifies as a bubble (yet). At the same time, there are signs that have us wondering if that view is too complacent. On June 30th, exactly one-tenth of companies in the S&P 500 traded above 10x revenue[4]. That's more than the Y2K high-water mark of 40 firms. In the late 1990s, executives at internet darling Sun Microsystems boasted, "We're the dot in dot-com." Near the 2000 market peak, that stock briefly traded at 10x revenue. After the Tech Wreck of 2000-2002 (which saw the NASDAQ fall 83%),

[1] The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy.

[2] LEI s a composite index that predicts economic turning points by analyzing trends in a variety of economic indicators.

[3] GDP is a key indicator of a country's economic health; it measures of the total value of goods and services produced within a country or region over a specific period of time.

[4] Price/Revenue is a valuation metric that compares an company's stock price to its revenue.

2Q25 Market Commentary (continued)

Sun Microsystems CEO Scott McNealy had this to say about his company's peak valuation:

> *At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for ten straight years in dividends. That assumes I can get that from my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next ten years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at $64? Do you realize how ridiculous those basic assumptions are? You don't need transparency. You don't need any footnotes. What were you thinking?*

We don't quite agree with the "payback" methodology McNealy uses here; it's clear he was a "visionary," not an investment analyst. Nevertheless, his calling out the absurdities of Tech-Bubble-era valuations is admirable (though belated). We wonder if today's exuberant Tech investors might someday get a similar scolding from Palantir CEO Alex Karp, whose company now trades at 112x revenue.

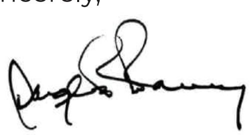
At the end of July, the S&P 500 traded at 22.5x twelve-month-forward earnings per share[1] (EPS), and 32.0x estimated five-year normalized[2] EPS. Those figures are about 5% below levels recorded at the March 2000 Tech Bubble peak. Based on the stock market's current momentum, we wouldn't be surprised to see those Y2K valuation extremes surpassed.

In sum, there are certainly many elements of this market we find worrisome, but our answer to the bubble question is, we are "not quite" there. And, while we cite the unmistakably lofty valuations of the major benchmark averages, those indexes are less and less representative of the broader universe of U.S. stocks. From that perspective, the availability of reasonably priced (even undervalued) equities is progressively becoming more abundant, which is an environment decidedly favorable to our approach.

We'd like to express our heartfelt appreciation to Leuthold clients and shareholders. Trusting your assets with us is the greatest compliment, and we are proud to say we are fellow shareholders, with significant personal assets invested alongside yours. We'd love to hear from you if you have questions or want to discuss anything.

For those who are not shareholders, we encourage you to consider our strategies. Leuthold investments tend to have a lower correlation and therefore play a distinctive role as a complement to mainstream style-box products, passive funds, static target-date portfolios, and the endless lineup of copycat offerings from the household-name giant fund firms. To accommodate investor preferences, we manage ETFs, traditional mutual funds, and separately-managed accounts. Please reach out if you would like to learn more!

Sincerely,



Doug Ramsey, CFA, CMT
Chief Investment Officer

[1] Earnings per share is a company's total profit divided by the number of shares outstanding.

[2] The normalization technique smooths out cyclical fluctuations in earnings, yielding a valuation figure that's less distorted by the current phase of the business cycle.

Other Market Notes

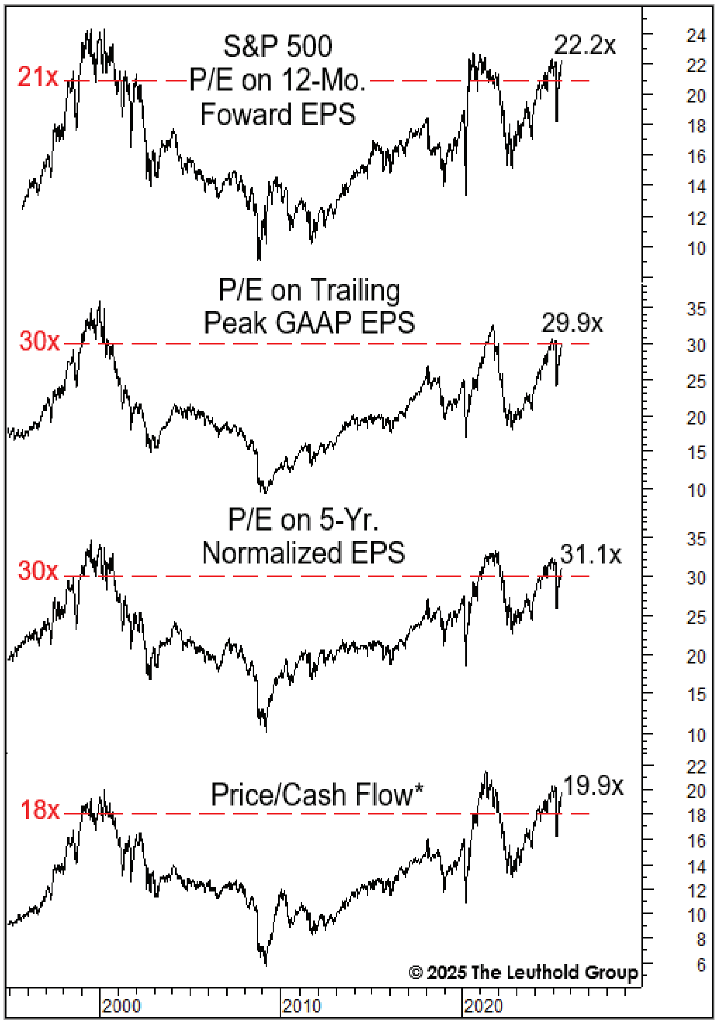
BUBBLE OR NOT?

We've had some good internal debates as to whether or not the U.S. stock market now qualifies as a bubble. Our tentative answer is "not yet."

First, measured by the use of margin debt, options, levered ETFs, and the like, speculative enthusiasm is high, but not yet at truly manic levels. Second, the market's rate of advance over the last year (S&P 500 +12%) is pretty muted compared to the terminal blow-off phases seen in genuine asset bubbles: U.S. stocks in 1929, Japan in 1989, and the U.S. again in 1999 all showed a narrow acceleration into their respective bubble peaks. Today, we have the narrowness, but not the acceleration.

While neither speculation nor momentum has entered the bubble zone, we believe that *valuations have*. Three of the four measures we've monitored over the last year-and-a-half are trading above what we consider historical bubble thresholds (chart). If the market is fated to enter the kind of acceleration phase characteristic of the greatest historical bubbles, the all-time valuation highs of Y2K are at risk.

With valuations already matching the levels seen at their early-2022 peak (table), is that a gamble worth taking?



*Data for the MSCI USA Index.
Weekly data through July 3, 2025.

S&P 500 Valuations:
Latest High Versus January 3, 2022 Mania Peak

© 2025 The Leuthold Group Dates	Forward P/E	P/E on Peak EPS	Normalized P/E	Price/ Cash Flow*	Average
July 3, 2025	22.2 x	29.9	31.4 x	19.9 x	
January 3, 2022	21.3 x	30.0	32.9 x	19.0 x	
Pct. From January 3, 2022 Level	**4 %**	**0 %**	**-5 %**	**5 %**	**1 %**

*Data for the MSCI USA Index

DEFINITIONS

Forward P/E Ratio is a company's current stock price divided by its estimated earnings per share (EPS) for the next 12 months; Trailing P/E Ratio is the current stock price divided by earnings per share (EPS) over the previous 12 months; Normalized P/E Ratio is the five-year arithmetically-averaged annual earnings (six-months ahead and 54-months back); Price/Cash Flow is a company's market capitalization divided by the most recent fiscal year's operating cash flow; GAAP is Generally Accepted Accounting Principles.

MSCI USA Index measures the performance of the large- and mid cap-segments of the U.S. market.

Other Market Notes

"BLESSED" BY BREADTH?

"Sell In May" has historically been better advice than random chance would suggest, as long as investors re-enter the market in late October or early November. Nonetheless, that well-known seasonal pattern has so far been "Trumped" this year, with the S&P 500 up about 12% since April (through June 30th).

Measured back to 1928, the index has made a 12-month high during the month of June in one-third of the years—but such events didn't portend the market's path for the rest of the year. In fact, following the June 52-week highs in 1987, 1990, and 2007, the bull market peaked. Furthermore, average second-half performance for all years when June saw a 52-week high was +4.8%—not much better than years when June did not produce a new 52-week high (+3.9%).

That said, action in the NYSE Daily Advance/Decline Line[1] has provided a clue as to whether mid-year market strength is likely to persist. When the A/D Line "confirmed" a June 52-week high, the average second-half performance for the S&P 500 was +8.5%. Conversely, when the A/D Line failed to validate a June high, the year's second half return was -1.0%.

[1] NYSE Daily Advance/Decline Line tracks the difference between the number of stocks rising in price versus the number falling in price.

Are June Highs Bullish?

Years In Which S&P 500 Made A 12-Month Closing High On Any Day During June	Second Half S&P 500 Performance
1929	-22.3 %
1933	-7.4
1935	31.3
1943	-5.5
1944	2.3
1945	16.0
1948	-9.2
1950	15.4
1952	6.5
1954	23.2
1955	10.8
1964	3.8
1968	4.3
1975	-5.3
1976	3.1
1983	-1.9
1985	10.1
1986	-3.5
1987	-18.7
1989	11.1
1990	-7.8
1995	13.1
1997	9.6
1998	8.4
1999	7.0
2003	14.1
2007	-2.3
2014	5.0
2017	10.3
2019	9.8
2021	10.9
2023	7.2
2024	7.7
2025	?
Average	**4.8 %**
Avg. When S&P Did Not Make 12-Mo. High In June	**3.9 %**

© 2025 The Leuthold Group

Does A Breadth "Confirmation" Impact Second-Half Stock Returns?

Years In Which S&P 500 Made A 12-Month Closing High On Any Day During June	Second Half Performance	
	S&P 500 High Confirmed By NYSE A/D Line	S&P 500 High Not Confirmed By NYSE A/D Line
1929		-22.3 %
1933	-7.4 %	
1935	31.3	
1943	-5.5	
1944	2.3	
1945	16.0	
1948		-9.2
1950	15.4	
1952		6.5
1954	23.2	
1955	10.8	
1964		3.8
1968		4.3
1975	-5.3	
1976		3.1
1983	-1.9	
1985	10.1	
1986		-3.5
1987		-18.7
1989	11.1	
1990		-7.8
1995	13.1	
1997	9.6	
1998		8.4
1999		7.0
2003	14.1	
2007	-2.3	
2014	5.0	
2017	10.3	
2019	9.8	
2021	10.9	
2023		7.2
2024		7.7
2025	?	
Average	**8.5 %**	**-1.0 %**

© 2025 The Leuthold Group

LEUTHOLD FUNDS

100 North Sixth Street, Suite 600A
Minneapolis MN 55403

612.332.9141
info@LeutholdFunds.com | https://Funds.LeutholdGroup.com