



TSCM: Inside the Investment Room

TSCM: Inside the Investment Room is a bulletin offering the Firm's perspectives on current market developments.

Higher for Longer Rates, AI Endures, and Selective Opportunities Emerge

In this edition of *Inside the Investment Room*, we explore how higher interest rates, easing energy prices, and continued AI investment are creating an increasingly selective market environment. While higher borrowing costs are reshaping leadership across housing, industrials, and long-duration growth stocks, resilient demand for AI infrastructure, improving regional bank fundamentals, and renewed healthcare opportunities continue to reinforce several compelling long-term investment themes. As earnings season approaches, our focus remains on identifying businesses we believe are high-quality and positioned to outperform through disciplined execution and durable secular growth.

Executive Summary

The market continues to navigate competing macro forces, with higher interest rates weighing on long-duration assets and housing-related businesses, while lower oil prices provide a tailwind for transportation, logistics, and consumer spending. Against this backdrop, the investment team remains focused on identifying durable secular growth opportunities, particularly across AI infrastructure, regional financials, and healthcare, while maintaining valuation discipline as earnings season approaches. The consensus remains that fundamentals continue to outweigh headlines, with stock selection becoming increasingly important in a more bifurcated market.

Sector Perspectives — Takeaways

Technology

The AI investment cycle remains firmly intact despite recent volatility, with portfolio rebalancing, not weakening fundamentals, driving much of the recent pullback. While AI fundamentals remain robust, the team believes elevated valuations leave little room for disappointment, making earnings execution and disciplined stock selection increasingly important.

- AI infrastructure demand remains robust as hyperscalers continue investing aggressively through the remainder of the decade, supporting long-term semiconductor and infrastructure spending.
- Recent weakness across AI-related equities appears driven by positioning and multiple compression rather than deteriorating fundamentals, reinforcing confidence in the secular growth story.
- Elevated valuations require companies to consistently exceed expectations, increasing the importance of disciplined stock selection and earnings execution.

22

AVERAGE YEARS
OF EXPERIENCE

18

INVESTMENT
PROFESSIONALS



Financials

Financials remain one of the team's preferred cyclical opportunities, with regional banks potentially benefiting from improving commercial lending activity while maintaining awareness of interest rate and commercial real estate risks.

- We believe regional banks will continue to benefit from accelerating commercial loan growth and capital spending, supporting the case for increasing exposure.
- Higher long-term interest rates create selective pressure for commercial real estate lenders and consumer finance businesses, reinforcing a preference for diversified financial franchises.
- Portfolio positioning remains balanced between potential cyclical beneficiaries of economic acceleration and more defensive financial businesses positioned for a slower macro environment.

Energy

Despite lower oil prices, the longer-term investment backdrop for energy infrastructure remains constructive, supported by global energy security initiatives and sustained offshore investment.

- Chinese demand and strategic reserve activity continue to support oil markets despite near-term supply volatility.
- Offshore drilling activity and energy security investments across Southeast Asia continue to favor midstream infrastructure and energy service providers.
- Higher interest rates remain a headwind for leveraged industrial cyclicals, while specialty chemicals and select infrastructure businesses may benefit from lower input costs and improved pricing dynamics.

Industrials & Infrastructure

Industrials remain highly sensitive to the interest rate environment, with investors favoring companies tied to long-term infrastructure spending and recurring demand while avoiding highly leveraged cyclical businesses.

- Higher borrowing costs continue to pressure capital-intensive industrials and housing-related suppliers, reinforcing a preference for businesses with stronger balance sheets and recurring revenue.
- Energy infrastructure investment and offshore drilling activity remain supportive for select industrial companies benefiting from long-term energy security initiatives.
- Specialty chemicals and defensive industrial businesses could benefit from lower input costs and improving margins, while distributors remain exposed to slowing inventory cycles.

Consumer

The consumer backdrop is improving modestly as lower fuel prices support discretionary spending, although higher interest rates continue to weigh on housing-related demand and long-duration consumer growth companies.

- Falling gasoline prices are easing pressure on household budgets, supporting retail, dining, transportation, and logistics businesses.
- Housing-related companies continue to face headwinds as elevated financing costs delay remodeling activity and extend the housing recovery.
- Long-duration consumer growth stocks remain vulnerable in a higher-rate environment, making valuation discipline and earnings execution increasingly important.

Health Care

Healthcare continues to offer attractive long-term opportunities, with depressed medtech valuations and an improving biotechnology merger & acquisition backdrop creating selective opportunities.

- Medtech valuations remain near multi-year lows, presenting attractive entry points for long-term investors.
- Continued pharmaceutical acquisition activity is supporting biotechnology valuations as large-cap companies seek to replenish product pipelines.
- Portfolio positioning remains focused on later-stage commercial biotechnology while selectively adding higher-growth opportunities where risk-reward has improved.



Key Macro Trends

- **New Fed Chair:** With Kevin Warsh now leading the Federal Reserve, markets are adjusting to a more hawkish policy stance, placing greater emphasis on valuation discipline and earnings execution in a higher-for-longer rate environment. The higher for longer rate stance continues to pressure housing, long-duration growth stocks, and leveraged cyclicals while supporting more value-oriented financials.
- **AI Investment Cycle Intact:** Strong enterprise and hyperscaler capital spending continues despite recent market rotations and valuation resets.
- **Lower Oil, Better Consumer:** Falling fuel prices are improving consumer purchasing power while supporting logistics, transportation, and distribution businesses.
- **Selective Cyclical:** Investors continue to favor companies with durable recurring revenue and pricing power over highly leveraged businesses sensitive to financing costs.
- **Earnings Matter More:** With valuations elevated across several growth sectors, the upcoming earnings season is expected to be the primary catalyst for stock selection and portfolio positioning.

The Bottom Line

As earnings season begins, we believe stock selection and company-specific execution, rather than macro calls, will drive returns. Our bottom-up process continues to surface durable earnings power within long-term secular themes, including AI infrastructure, regional financials, energy security, and healthcare innovation, well before the broader market catches on. Heading into the second half of the year, we remain disciplined on valuation and committed to uncovering businesses we believe are high-quality and well-managed.





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Read the prospectus or summary prospectus carefully before investing.

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