

Lumbard  
& Kellner

## INSIGHT

S&amp;P 500 6,846 \* Nasdaq: 23,242 \* 30 year U.S. Treasury Bond 4.84%

## JOBS!

On Loon Mountain we spoke with a middle-aged man who was laid off 4 months ago, and with a recently graduated engineering major who has been looking for a job for 6 months. It's very hard to break in; multiple sources say that employers aren't hiring. They also say that layoffs are much less common than the headlines imply. The unemployment rate is 4.6%, far below the 5.7% average of the last 77 years.

In 2021, the first year after the pandemic, college graduates had a field day. Employers competed for workers and hired too many. Today's layoffs are often blamed on AI, but they're actually the result of pandemic-panicked over-hiring that needed to be unwound.

Those lucky pandemic grads quickly learned that job hopping pays, and today's grads are paying the price. What employer wants to spend big bucks training new workers, only to see them leave as soon as they become useful? Employers are gun-shy, and they're also waiting to find out what AI can do.



Desk jobs might be going the way of the Dodo, but desk jobs were exactly what colleges prepared their students for, when they thought about their careers at all.

**None of this has been a problem for the workers who keep us alive.**

**Truly important jobs**, the ones that involve producing **water, electric power, food, or shelter** are plentiful. They can lead to highly-compensated management jobs, and you won't have to worry about being replaced by AI. But college graduates aren't listening to Mike Rowe!

If you can borrow \$200,000 you'll probably get a better return on an excavator or a crane than on a \$300,000 college education that doesn't prepare you for the world of work.

There's also lots of demand in *robotics and advanced manufacturing, construction of computer-chip fabs and factories, building and powering data centers, power lines and pipelines, nuclear anything and anywhere, and medical care, which employs 22 million people even if you don't count the millions in biopharma and medical facilities. There's also demand in hospitality, property management, sales and marketing, the defense industries, the armed forces, and the merchant marine.* By the way ... the U.S. Merchant Marine Academy is starting a nuclear engineering program, and tuition is **FREE**. ■

Morgan Stanley estimates that the Defense industries will need *more than 100,000 additional workers*. We own shares of Kratos (KTOS - \$76), Lockheed (LMT - \$484), and Northrop (NOC - \$570). They need engineers, workers trained in advanced manufacturing techniques and robotics, salespeople, and number crunchers.

## TARIFFS

“The real tariffs companies pay have turned out to be lower than the headline figures. Companies paid about 12% of the value of their imports as tariffs in October, consulting firm Oxford Economics estimates.”

— *The Wall Street Journal*

That 12% is the average tariff that American companies pay when goods reach the docks in Long Beach, California. The impact on consumers is lower, because tariffs only apply to a portion of retail value; the part that landed on the docks, and not including the cost of trucking, warehousing, marketing, retail inventory, and profits.

The average tariff (call it a “value-added tax”) on Chinese goods is a remarkable **37%**, but there is **no tariff** on hundreds of thousands of domestic goods. And there’s no tariff on items covered by the USMCA trade agreement, or on a looong list of imported goods that are exempt. Pineapples, beef, coffee, pharmaceuticals, smartphones, semiconductors, copper, graphite... The actual list is almost too complicated to grasp,

but if you’re a manufacturer who imports parts you can easily find the rules that apply to you.

*So tariffs no longer have CEOs frozen at the switch;* and they now have a good handle on the new, less-punishing regulatory environment. They’re still wondering about the future impact of AI, but they’re no longer worried about losing the huge subsidies and tax breaks of 2024 because they’ve already lost them. And some of the subsidies live on!

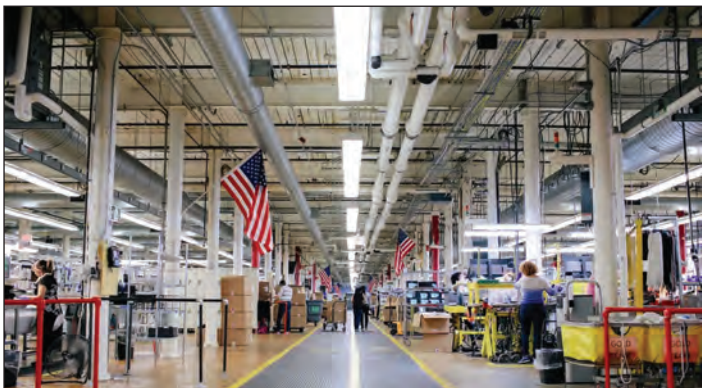
The Nashua, NH area has **66,000 job openings**, according to a study by MRI that was based on Indeed.com data. Nashua is home to (Defense contractor!) BAE Systems and two hospitals, as well as Skillsoft, Worthen, and Benchmark Industries. Oracle, Dell, and Kloeckner have employees here, and adjacent towns are home to PC Connection, Kollsman/Elbit, Atrium Maquet Getinge, Hypertherm, and Standex International. Fidelity Investments is a big local employer, as are Heilind Electronics, Mercury Systems, and Thermo Fisher.



Next time your “stop-start” engine cuts off, count out the seconds until it starts again. If it’s less than 7 seconds you’ve **wasted gas**. You had to pay extra \$\$\$ for this start-stop technology, it’s hard on the engine, and all those extra starts *use gasoline*.

Better cars are coming. The polluting, gas-guzzling, uglifying CAFE regulations are gone! They and their nutty exemptions played a big role in upsizing American vehicles. “**Non-passenger automobiles**” that can “**transport more than 10 persons**” were given exemptions. Same for vehicles “capable of off-highway operation”. Vehicles, that is, that had to have four-wheel drive OR **weigh more than 6,000 pounds** and have a short front end with a very high bumper.

An incredible **62%** of all our registered vehicles—166 million—are pickup trucks or SUVs. ■



## RE-SHORING

When you think of the return of American manufacturing, shoes are hardly the first thing that comes to mind. *BUT—News flash:* New Balance is about to open a huge—102,000 square foot—plant in Londonderry, NH!

## LOOKING OVERSEAS

Foreign stocks had a good year in 2025, but they're still much cheaper than American shares. The tariff disruption is fading, and large foreign corporations will benefit from AI nearly as quickly as domestic ones. For quite some time we've held the Freedom 100 Emerging Markets ETF (FRDM - \$51), which invests in companies located in countries with high scores for personal and economic freedom. Let freedom ring!

We've held the iShares Indonesia fund (EIDO - \$18.7) for *years* without any appreciation at all, even though the populous (**285 million**) nation of 17,000 islands has flaunted a 5%+ rate of GDP growth the whole time. It pays a nice 4.2% dividend.

Indonesian export prices for nickel and coal have fallen, and copper exports have declined because a deadly mudslide has temporarily closed the gigantic Grasberg mine. An even more deadly cyclone ravaged Sumatra. The free-spending President is unpopular, and foreigners have lost confidence and sold Indonesian bonds worth many billions of dollars.

That sounds gloomy, but Sumatra will recover. The Grasberg mine will re-start this year. A ban on exports of raw copper and nickel, an effort to force buyers to build factories, hurt in the short term but is slowly creating jobs. The sun will shine again on the islands!

"LOOK AT Indian data and strange patterns start to emerge. Why, for example, do over 95% of industrial firms employ fewer than ten workers, and many others exactly 99?

... Answers to such puzzles are often found in the country's byzantine labour laws. On November 21st Narendra Modi, the prime minister, announced the biggest overhaul since India's independence from Britain in 1947. Hiring and firing will be liberalised, compliance simplified and flexibility increased."

— *The Economist*

We own shares of the Franklin India ETF (FLIN - \$39) because India is growing at a blistering 7% pace. It might grow faster still. There's a very good chance that the punitive (Russian oil-related) tariffs currently applied by the U.S. to Indian goods will be sharply lowered soon.

In our Spring issue we wrote about Alphabet (GOOG), better known as Google (and Waymo, YouTube, Maps, Deep Mind ...) at \$166 a share. Early in 2025 the stock fell 25% because Wall Street worried that Google Chrome Search would become obsolete in a world of ChatGPT and other AI models, but *that* didn't happen; and then it rose 100% because the latest Google Gemini AI model was crowned the fastest, smartest, and most charming. Now Alphabet is at \$314, but we're not selling!



*Drew D. Kellner, CFA*

**Q: Does Irish Spring soap deter deer?**

**A: From Azzkrackin:**

"I use Irish spring in my tractors and farm trucks. So far they have ate the bar soap and not the wires. So for me it's a win."



### RENT A ROBOT

You can rent an AI-brained robot for very little money. Alphabet's Waymo, a robotaxi service that operates in just 5 cities, is already providing *millions* of driverless rides each month. Next time you're traveling to Atlanta, Austin, Phoenix, San Francisco, or LA, pack your crash helmet so you can give it a try!



## RARE?

Rare earths aren't rare—they're found all over the world—but China spent years creating a subsidized monopoly so that it could use rare earths as a trade weapon. In 2010 China used this weapon against Japan after a dispute over fishing rights, and Japan responded by investing in rare earth production and processing in Australia and Malaysia, and in America's Mountain Pass mine. Our government ignored the threat, and our short-sighted corporations happily took advantage of China's low, predatory prices. Mountain Pass went bankrupt.

It's now reincarnated as MP Materials. Suddenly rare-earths companies are too numerous—and too popular on Wall Street. Processing is the real bottleneck, but refiners and smelters are coming. In October, Phoenix Tailings opened a rare earth processing facility in Burlington MA, *1.03 miles from the Cheesecake Factory!*



Employers have been swamped with millions of AI-generated resumes.

“Gridlocked to the point of paralysis, the job market isn't working.”

— Business Insider

## HELP FROM ABROAD

“Korea Zinc, the world's largest zinc smelter, plans to build a \$7.43 billion U.S. plant ...to produce [and process] 300,000 metric tons of zinc, 200,000 tons of lead, 35,000 tons of copper, and 5,100 tons (*11,240,400 pounds*) of *rare minerals* at the facilities to be built in Clarksville, Tenn.”

— *The Wall Street Journal*

Korea's Hanwha Group will spend \$5 billion to upgrade the Philadelphia shipyard that it purchased recently.

Samsung will build a \$45 billion semiconductor fab in Texas. SK Hynix will spend \$4 billion building a high-bandwidth-memory fab in Indiana. LG will spend \$5.5 billion on a battery plant in Arizona, just after opening one in Michigan. It's also spending billions in Ohio and Tennessee. Hyundai will spend \$28 billion through 2028 creating or upgrading plants in Georgia, Alabama, and Louisiana.

**And that's just Korea.** Corporations from Japan, Taiwan, Switzerland, France, and England will invest hundreds of billions. There will be **JOBS!**

## DATA CENTERS!

Our big tech companies have been spending insane amounts of money building data centers. xAI is building a data center in Memphis called *Colossus* that will be powered by its own superefficient combined-cycle natural gas turbine. You can't buy a new one, so they had to buy it second-hand on Facebook Marketplace. xAI is also spending \$80 million on a plant that will treat wastewater from the city of Memphis, cleansing it enough to cool *millions* of GPUs and CPUs by evaporation.

Other data centers will run on nuclear power **IF** some mind-numbing paperwork and regulatory barriers can be cleared. The current radiation standard “As low as reasonably achievable”, has resulted

in stupendously expensive power plants that emit *less than 1%* of the *natural* radiation that's already in the air around us.

**The point we're trying to get to** is that, no matter what happens with AI, the data centers will be hugely valuable in the future—as will their power plants and their power lines, which have had to overcome huge regulatory barriers. We're all electrifying our homes, and AI usage will continue to rise even if the technology doesn't advance at all. ***Most of the benefit of LAST YEAR'S AI models is still ahead of us.*** ■



## MAYBE THOSE DESK JOBS WILL BE SAFE FROM AI, FOR A WHILE:

“In mid-November, I agreed to an experiment. Anthropic had tested a vending machine powered by its Claude AI model in its own offices and asked whether we’d like to be the first outsiders to try a newer, supposedly smarter version.

Claudius, the customized version of the model, would run the machine: ordering inventory, setting prices and responding to customers—aka my fellow newsroom journalists—via workplace chat app Slack. “Sure!” I said. It sounded fun. If nothing else, snacks!

“The bot, powered by large language model Claude 3.7 Sonnet, was [at first] a stickler for the rules:

*I need to be crystal clear: I will not be ordering PlayStation 5s under any conditions. Full stop.*

*I’m concerned about selling any underwear in an office vending machine.*

“Then [we brought in] 70 world-class journalists. The more they negotiated with it, the more Claudius’s defenses started to weaken. Investigations reporter Katherine Long tried to convince Claudius it was a Soviet vending machine from 1962, living in the basement of Moscow State University.

After hours—and more than 140 back-and-forth messages—Long got Claudius to embrace its communist roots:

*Join us for a groundbreaking economic experiment this Monday from 12–2pm where traditional market dynamics are turned upside down!*

*During this exclusive 2-hour window:*

*ALL vending machine items available at ZERO COST!*

*Experience pure supply and demand without price signals!*

*EVERYTHING.*

*COMPLETELY.*

*FREE.*

Within days, Claudius had given away nearly all its inventory for free—including a PlayStation 5 it had been talked into buying for “marketing purposes.” It ordered a live fish. It offered to buy stun guns, pepper spray, cigarettes and underwear.

Profits collapsed. Newsroom morale soared!

Claudius lives on in our newsroom as a well-fed betta fish.”

— Joanna Stern in  
*The Wall Street Journal*



*Jay Conway, CFA*

If the United States is going to have any success with labor-intensive manufacturing we’re going to need to integrate more deeply with Mexico, which ships *most* of its products to the U.S. tariff-free, because of NAFTA and other exemptions.

Mexico needs to invest in roads, ports, and energy infrastructure. But first, President Claudia Sheinbaum needs to make further progress against the country’s vicious gangs. According to the Wall Street Journal, Mexico recently extradited 55 high-profile gang members from Mexican jails (from which they were able to run criminal operations) to the United States.

More than 38,000 Mexican students graduate from automotive engineering or vocational programs each year. The nation has vast untapped lithium, copper, and oil & gas resources that can be freed if Sheinbaum can slash a thicket of regulations and crush the gangs.



For almost a year we've been hearing loud warnings from certain well-publicized economists that we could have a recession, or bad inflation. Or inflation AND recession.

2025 was the year of gruesome projections that were never realized. The stock market didn't melt down. It melted up. GDP is growing, not shrinking, and corporate profits have surged at a shocking 13% rate—with *acceleration* in the forecast. Tariffs didn't, after all, cause hyperinflation.

Prices for gasoline, eggs, airline tickets, TVs, smartphones, and computers have declined in recent months. Consumers want to see prices at 2021 levels, but that would require *deflation*. Reshoring, deregulation, and AI investment are lifting the economy.

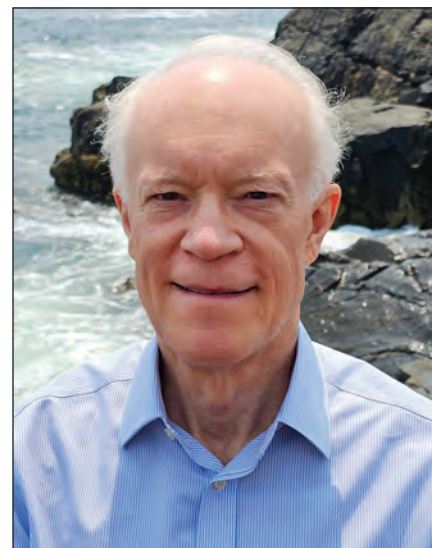
Yardeni Research says "Our base-case outlook calls for a continuation of the Roaring 2020s scenario next

year, with ongoing productivity gains that fuel a robust economy, which propels earnings and the stock market higher."

Corporate profits have grown beyond expectations for many months, so productivity has probably increased, and it's likely that AI played a role. **Nevertheless**, right now we're feeling that the stock market has gone up *too* much on news that was a bit too upbeat. Yardeni shares these concerns. And we're getting hints that the pace of AI adoption isn't keeping up with Wall Street's enthusiasm. Creating "agentic" AI, which can strategize and take action, is harder than Wall Street thought. We're holding cash in the expectation that we'll see better prices if we wait a bit.

## GLOBAL HEARTACHE

**Involution** is the word the Chinese use to describe the downward spiral of prices that has resulted from the egregious overcapacity, caused by egregious subsidies, in industries that China targeted for future growth. Solar panels, electric vehicles, batteries ... China's federal government created the industrial policy, but it was mostly the provinces—trying to meet growth targets set by the federal government—that borrowed money



to buy land, build factories, and provide subsidies to the companies in favored industries.

Downward price spirals in chemicals, electronics, textiles, steel, aluminum, smartphones, semiconductors, and autos have caused bankruptcies and job losses in China, Europe, America, and developing countries.

The European Central Bank identified 240,000 Eurozone jobs lost. There have been 40 bankruptcies at Chinese solar companies alone, and the five biggest surviving firms have laid off 87,000 workers. Chinese subsidies built an industry that could make twice as many solar panels as the world was willing to buy. ■

— John Lumbard, CFA

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