

Rail-Splitter Capital Management

Rail-Splitter Insights

a weekly commentary on
investing

Rail-Splitter Capital Management is focused on protecting and growing wealth for our clients. Our services are provided through Delta Investment Management a registered investment advisory firm.

We welcome discussions on how we can help you manage your assets and maximize your wealth.

Please contact us at info@rail-splitter.com or 312-724-8722.

Road Map Through Tariffs

March 28, 2025

President Trump announced that there will be a 25% tariff on all imported passenger vehicles starting April 3 and select auto parts starting May 3. These tariffs, he said, will be permanent.

The top ten cars with the most U.S. content include no offerings from Ford or General Motors. The most American cars as a percent of content are made by Tesla, Honda, Toyota/Lexus and Volkswagen. About 50% of parts content in US made cars is foreign (per the White House fact sheet), suggesting that a 25% tariff could raise the cost of locally made vehicles by roughly \$3K-\$8K prior to any offsets.

The fundamental issue with car manufacturing is cars have become a globally produced commodity. Nearly half of the cars bought in the United States are foreign made. Additionally, the technology shift from internal combustion engine to all-electric may further commoditize automobile manufacturing reducing profit margins further – BYD in China is selling technology-leading electric cars for \$10,000. Cost pressures in the car business are intense.

The tariff news is not new news. Tariffs have been in the headlines for months. Like all news, the market impact diminishes with time. In the wake of the tariff announcement this week, the reaction by the S&P 500 was muted.

Economic Momentum

Helping support stock valuations are indications the U.S. economy continues to have forward momentum.

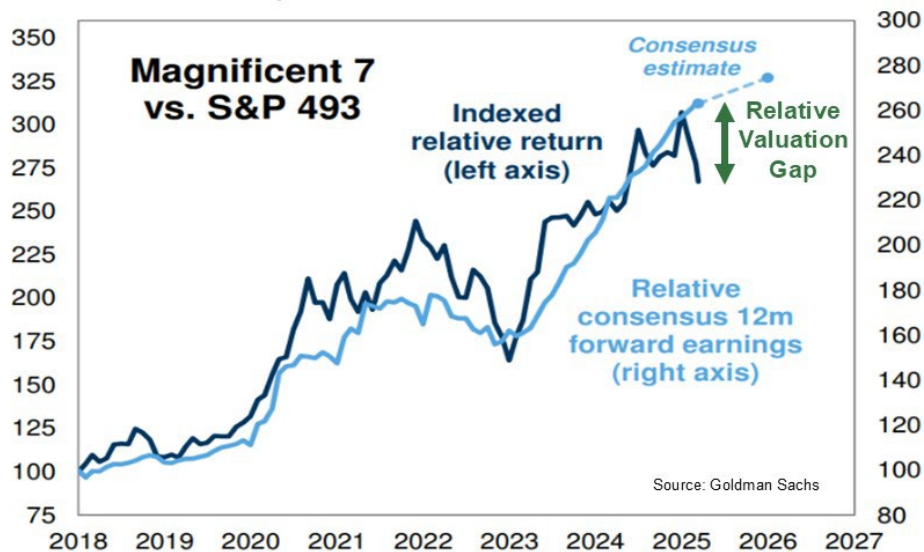
- The third estimate of Q4 2024 GDP was revised up to 2.4% from 2.3%.
- Initial jobless claims (a leading indicator) decreased slightly indicating a solid labor market.
- The high-yield spread (a measure of economic risk by the bond market – differential between treasury rates and non-investment grade interest rates) has subsided from its recent peak and is near multi-year lows at 3.2%.
- The Atlanta Fed adjusted its GDPNow model for imports and exports of gold which were extraordinarily lopsided earlier this year. The “evolved” model now forecasts Q1 2025 GDP as slightly positive, up from a non-evolved forecast of negative 1.8%.

The Mag 7 and Market Trends

The largest driver of S&P 500 appreciation over the past several years has been the appreciation of the Magnificent 7 (Mag 7) stocks. Conversely, the Mag 7 led the market lower over the past six weeks. The Mag 7 is down roughly 12% versus the S&P 500 down by about 3% year-to-date.

On a relative earnings and valuation basis, the Mag 7 has not looked so attractive going all the way back to 2018. Below is a chart showing an emerging relative earnings/valuation gap.

Mag 7 Versus the S&P 493



Looking Ahead: Employment, Inflation, and Earnings Reports

Next Friday, the non-farm payrolls report will be released. The following week, we will see the March Consumer Price Index (inflation) report. Earnings season begins in earnest during the week of April 14. Over the next three weeks, investors should gain increased clarity regarding the Big 3: employment, inflation and earnings.

Let Us Help You Position Your Portfolio – Give Us a Call Today

We pride ourselves on our unique and sophisticated investment strategies designed to capture the gains of the stock market while minimizing drawdowns during bear markets. If you're seeking expert guidance in your financial planning journey, we're here to assist you.

Whether you're a seasoned investor looking to optimize your portfolio or someone just starting to explore investment opportunities, our team is dedicated to providing tailored solutions to meet your financial goals.

To learn more about how we can help you navigate the complexities of the financial markets and achieve your investment objectives, we invite you to reach out to us. You can give us a call at (312) 724-8722, visit our website at www.rail-splitter.com, or simply email us at info@rail-splitter.com.



"I can't remember—do I work at home
or do I live at work?"

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

39.6

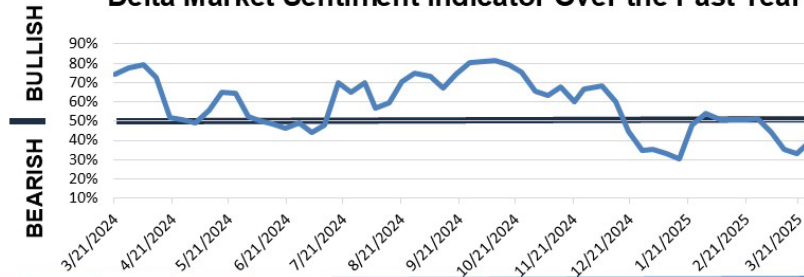
Our technical indicator increased
from 33.0 to 39.6 this week

INDICATOR STATISTICS

| | |
|----------------------------|-------------|
| Consecutive Bearish Weeks: | 4 |
| Cycle Inception Date: | 3/6/2025 |
| Range: | 33.0 - 43.9 |
| Mean: | 37.9 |
| Bullish Weeks YTD: | 5 |
| Bearish Weeks YTD: | 8 |
| *S&P 500 | -0.8% |
| *DJIA | -0.5% |
| *NASDAQ | -1.4% |

* Percentage change during current cycle

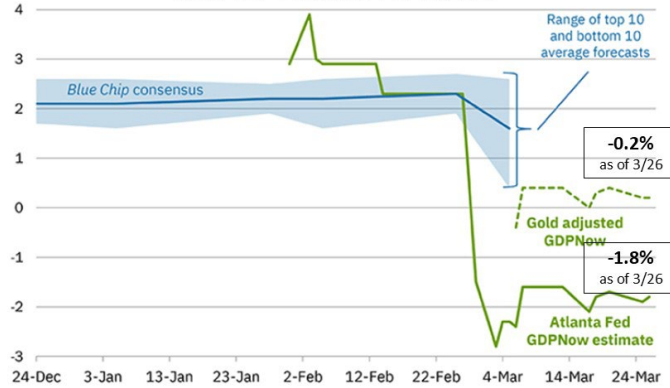
Delta Market Sentiment Indicator Over the Past Year



Delta Market Sentiment Indicator (MSI) is published weekly in Barron's

Evolution of Atlanta Fed GDPNow Forecast

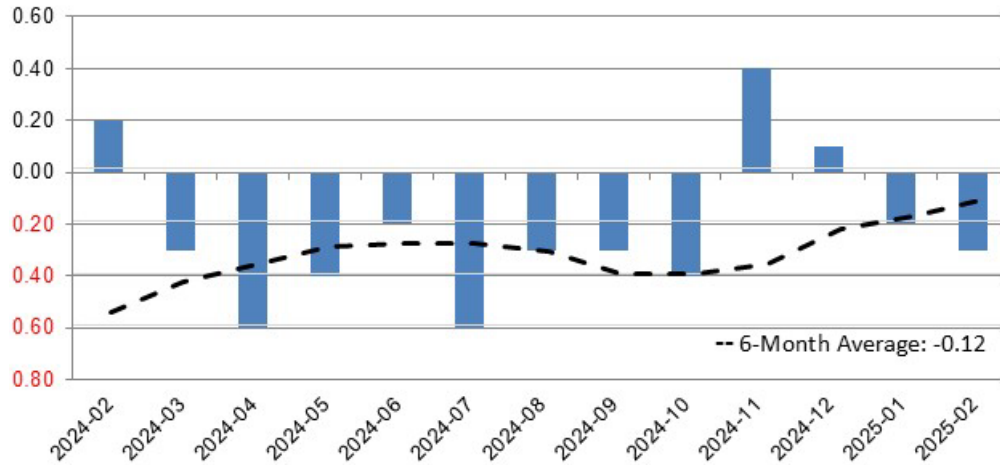
Real GDP Estimate for 1Q2025



A large part of the drop can be attributed to accelerated imports due to potential tariff policy.

Leading Economic Index % Change Monthly

Feb 2024 – Feb 2025



Source: The Conference Board – last update 3/20/2025

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Our mailing address is:
Rail-Splitter Capital Management
200 S. Wacker Drive, Suite 2650
Chicago, IL 60606