

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.

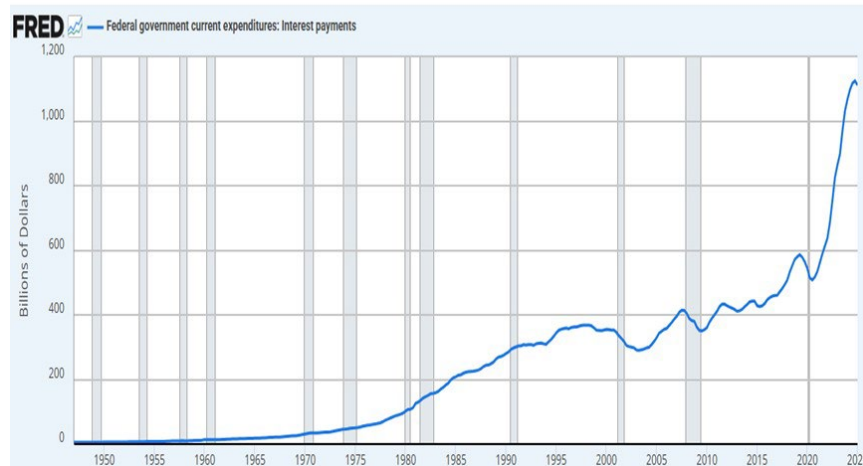
Please contact us at info@rail-splitter.com or 312-724-8722.

The U.S. Debt Problem

May 23, 2025

Moody's downgraded U.S. sovereign debt because they are increasingly concerned with the trajectory of our deficit spending and the roughly \$36 trillion of outstanding debt. Since Covid, interest expense on U.S. debt has doubled. Net interest payments are now the second-largest line item in the U.S. federal budget, trailing only Social Security.

Federal Government Interest Expense

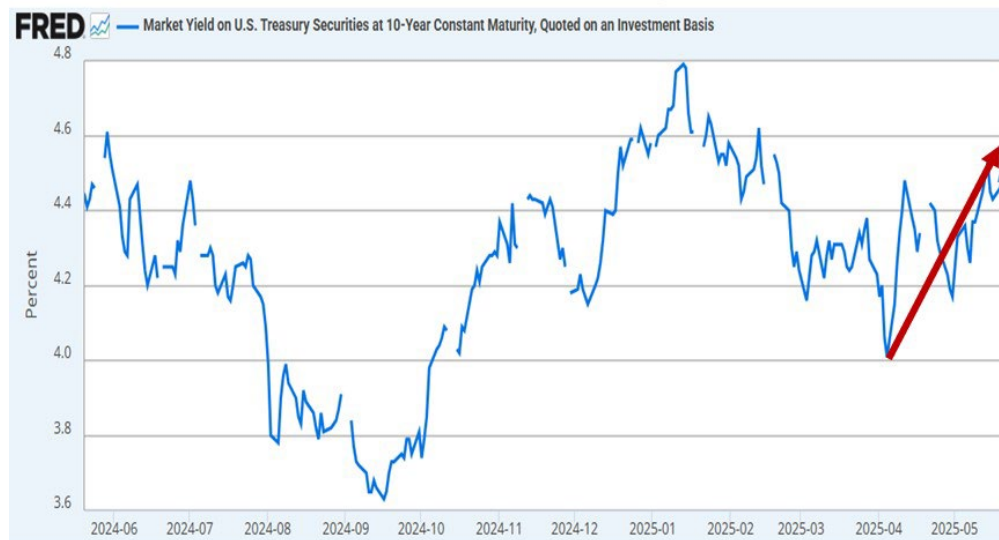


Debt expense is crowding out other government expenditures and may reach a point whereby the only solution is to substantially reduce entitlement spending and raise taxes.

Because of the increased debt financing requirement, the government interest expense burden has become highly sensitive to interest rate changes. Rising interest rates significantly exacerbate the high level of interest expense. The U.S. 10-year treasury yield is a benchmark for government borrowing costs. It is also a key driver in many consumer loans including mortgage and car loan rates.

The 10-year U.S. treasury rate has risen from about 3.9% to 4.6% in the past two months.

10-Year U.S. Treasury Rate



A treasury bond auction this week on Wednesday experienced relatively soft demand compared to the prior 12 auctions. The reconciliation bill passed by the House of Representatives this week is expected to add \$3.3 trillion to deficits over the next ten years. Rising borrowing requirements versus a backdrop of softening demand suggest 10-year rates may remain relatively high or move higher even if the Federal Reserve lowers the short-term Fed Funds rate.

Predicting future 10-year bond yields is notoriously difficult. Higher interest rates increase the discount rate of future earnings lowering the present value of stocks. However, interest rates are only one input to stock valuation. In the first quarter, S&P 500 companies collectively reported 4.4% revenue growth year-over-year and 12.6% earnings growth. The Magnificent 7 companies reported 28% year-over-year earnings growth. Corporate stock buybacks surged 24% year-over-year to about \$272 billion. The week, the intermediate term Market Sentiment Indicator (MSI) is bullish.

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.



Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

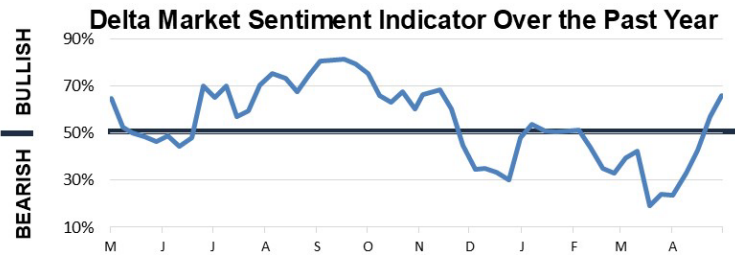
66.1

Our technical indicator increased
from 56.9 to 66.1 this week

INDICATOR STATISTICS

Consecutive Bullish Weeks:	2
Cycle Inception Date:	5/15/2025
Range:	56.9 – 66.1
Mean::	61.5
Bullish Weeks YTD:	7
Bearish Weeks YTD:	14
*S&P 500	-1.3%
*DJIA	-1.1%
*NASDAQ	-1.3%

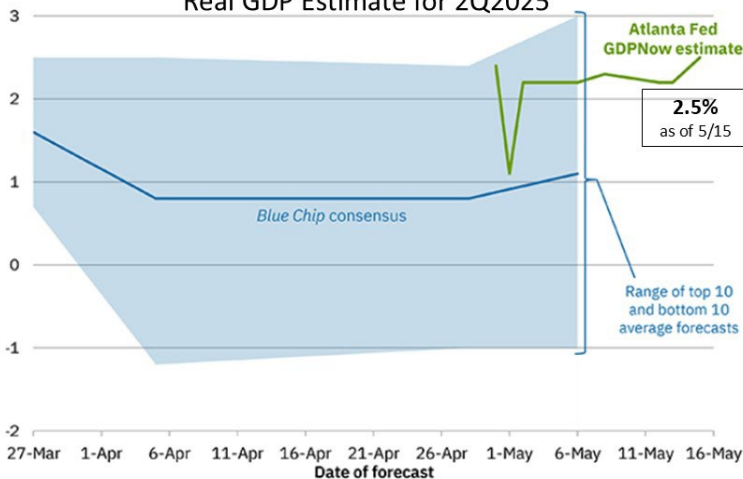
* Percentage change during current cycle



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

Evolution of Atlanta Fed GDPNow Forecast

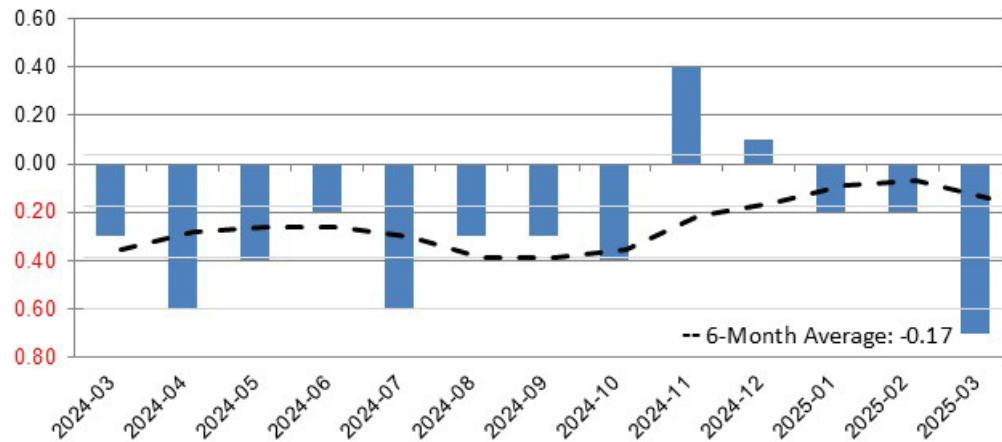
Real GDP Estimate for 2Q2025



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Leading Economic Index % Change Monthly

March 2024 – March 2025



Source: The Conference Board – last update 4/21/2025

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