

What Does Rhetoric Tell Us?



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We finished the first half of 2025, six months dominated by ruption and volatility. As Dr. Seuss put it....



Nasdaq fell -27% from February to April, a bear market, before recovering. For all that, our Thematic Equity clients emerged with favorable results versus the S&P 500 and Dividend Income clients continued to receive a yield near 3x the market average.

Volatility has and will be part of investing. It isn't about certainty, but statistical probabilities. It is hard to ignore shrill headlines that arrive not just with the morning paper, as once was everyone's reality, but every second. Urgent as tweets might seem, we must assess the larger context. A rich history of economic and market data measure value, cost and growth relationships, there to help navigate market flows that have coursed by the snags of politics and war throughout the past. I thought to comment on how we are weighing what appears in the news and individual company selections.

Technology has accelerated. Other innovations are making whole industries more efficient and profitable. Apart from those two sources of thematic growth, the speechifying does tell something that suggests other secular investment themes. Secular means things that can persist longer than a single presidential term or business cycle.

We foresee continuing wealth dislocations and a persistent noisy populism as their product.

Our brains are wired for survival with the ability to organize stimuli into patterns; when we look backward, we see patterns that seem directional, yet what we truly experienced were the anarchic inputs of the moment. Are politics truly worse than ever seen as the press tell us? No. History has seen far worse.

From 1946-1989, the USA and USSR divided the globe between two spheres of influence. The Cold War evolved into a stasis that Boomers remember as a less volatile norm. It is easy to forget that people went to bed fearful of being nuked to a cinder and awoke to news of a post-colonial order being settled by bloodshed: millions suffering the partition of India and Pakistan, the sanguinary birth of Bangladesh, more than the population of the UK perishing under Mao's policies, invasions in Hungary and Czechoslovakia, and wars in Korea and Vietnam.

America emerged the industrial economy undamaged by WWII and its population prospered. But that is to forget those who were marginalized and riots (150 in 1967 alone) and cities aflame.

In 1989, Leninism imploded and America emerged a unipolar leader. Global growth spurred the rise of China and emerging markets. Two generations experienced more growth than ever in history. Millennials remember that as a norm.

We have entered upon a multipolar era, with politics and economics in flux. Academic outlooks provide structured frameworks that look beyond the passions of the moment. Educated debate offers perspectives the daily press hasn't time for.

Conflict in this new world will not be primarily ideological or economic. The great divisions among humankind and the dominating source of conflict will be cultural. The nation-state will remain strong.

—Samuel Huntington

The social elites of most of the more advanced countries will be highly internationalist or globalist in spirit and outlook. The nation-state is gradually yielding.

—Zbigniew Brzezinski

The Western system is broken in some fundamental ways, but the Chinese system is not going to work either. It is a deeply unfair and immoral system where everything can be taken away from anyone.

—Francis Fukuyama

Workers are not being exploited. But if their share of growth doesn't increase, this could be a potential cause of social tension worldwide.

—Kenneth Rogoff

Had history been democratic, there would have been no farming and no industrial revolution. Both leaps into the future were occasioned by... crises that made most people wish they could recoil into the past.

—Yanis Varoufakis

Political rancor can make one want to recoil into the past. But remember that...

All of the violence that doesn't occur doesn't get reported on the news.

—Steven Pinker

If you think everything is getting worse, do read Pinker's *Better Angels*. It is a data-based exposition showing the broad human condition to be improving.

Is there value in trying to build a macro view on the future and its opportunities? Jeff Bezos extrapolated historic trends in the marketplace for books, consumer behavior and the workings of the internet to imagine Amazon. Every investor wants to pick the next Amazon. Such a successful macro view is a rarity. Numbers rule in the end. Intuitions can run Palantir to lofty heights (P/E of 220x) but realized growth, return on equity and cash flow will be what counts 3 years hence.

What to make of humanity in continued progress (even while manners are in decline?) Progress is unevenly experienced. Therefore, populism will be with us over several market cycles. We look past individual politicians to recognize that demagoguery is a symptom and not a cause.

Competing successfully for global trade, China lifted 600 million people into its middle classes and India 400 million. The global supply of skilled blue and white color labor has increased by a billion people since 1989.

Economics 101 taught us that an increase in supply presses prices lower. A greater global supply of labor lowers the price (wages) that workers in older economies can ask. This applies not just to legacy industrial nations, but others that have lost whole segments of their economies—e.g. Brazil, Mexico or Bangladesh being undermined in shoes and textiles by China. AI will phase out other jobs.

Segments of populations have seen stagnating real wages while wealth grows in others.

Yet the average person lives with greater amenities than imagined in 1989. Countries once poor in absolute terms are now disadvantaged relatively. As an example, owners of mobile devices are:

83% in Botswana	47% in Mozambique
76% in Lesotho	46% in Zambia
61% in Zimbabwe	

People are able to spend in ways once unimagined. Even though China's growth stalled, and low growth is the norm elsewhere, recession spending doesn't look like it used to. America is the #1 consumer economy with personal consumption accounting for ~70% of GDP. People are reducing purchases that were formerly resilient, or demand inelastic, e.g. grocery stores and fast food, while still spending on things like air travel, cruise lines, online video. We are allocating for new realities with a range of such companies as those below:

Walmart: is now America's largest grocery store, a destination for those on limited budgets. Low priced goods retailers like Family Dollar, Dollar General, Ollie's, and Five Below cater to the same demographic, but we selected Walmart for historic consistency in revenues/profits. However, even Walmart has seen a decline in spending by the lower income quintile among its shoppers; with tariffs potentially squeezing margins, the investor must be vigilant.

Costco: discounts higher value items than Walmart, appealing to the cost-conscious middle-income consumer. Continues to grow while other mall retailers languish, posting a 6.1% increase in same store sales last month.

Champion Homes and Cavco: what were trailers are now called manufactured housing for 20 million residents priced out of traditional bricks & mortar. The companies' vacation RV production faces demand headwinds, so some caution is required here at present.

EZCorp: provides access to short-term loans and payment processing for the unbanked, recently expanding to Mexico.

Apple: Apple continues dominant in mobile phones, devices and an interconnected ecosystem. However, our clients maintain a reduced position because it is not innovating as aggressively as formerly and demand has slowed.

Amazon: figures as a large retailer, although the greater interest is AWS and other internet infrastructure, advertising and data. It is a most efficient sales and fulfillment company. For a time-constrained consumer with modern life demands, purchasing data shows convenience seems worth paying for. Amazon warehouses now employ more robots than people—with further macro implications for employment and wages.

Uber: another form of consumption where the cost of rides or food delivery matters less versus convenience and new priorities. Car ownership is becoming an antiquated aspiration; simply getting about now means more than owning a depreciating asset that sits idle most of 24 hours. Waymo and Tesla are robotaxi competition, but we believe Uber can compete successfully. Its accumulated user data has great value. The corollary is that Avis and Hertz are in trouble—those who have experienced their tricky charges will shed few tears.

Sea Limited: headquartered in Singapore, it provides online entertainment and shopping in Asia and Latin America, filling niches not currently exploited by Amazon.

Coupang: is a Korea-centric shopping and grocery platform in a mobile consumer economy; potential growth in other nations.

Netflix: sees subscriber numbers growing as its online movie and TV content outcompetes cinemas and network TV.

Consumer Staples: are on our radar. These include Hershey, P&G, Pilgrims Pride, Pepsi and beverages, and cleaning products. Staples face slight demand headwinds and margin pressures at a time that they are working off elevated valuations from Covid days (when “stay at home” was the mode for the world). These goods are in demand even in slow economic times. There could be relative future value and revenue stability here if future tech growth slows. Clients have initial positions in Brazil Foods for its low valuation.

Axon: crime and public disorder will remain with us. Axon offers non-lethal solutions. Their police body camera records both offender and law enforcement, with video evidence stored in the cloud for a fee. Institutional investors love subscription business models, supporting the stock price. Axon has trebled in price since 2023 for many of our clients, reaching a PE of 130x so we might have to trim a bit.

Mosaic: fertilizers support the food needs of a growing population. For all the handwringing about a decline in births, the Earth’s population is on the way from 8 billion to 10 billion. All need to eat. We had a position in Nutrien, the largest owner of potash reserves. Trump targeted it for tariffs—before reversing—and we replaced with Mosaic. We learned that tariff threats are often transitory.

Chewy: a high quality pet food as more people live with companion animals, particularly among young adults. It sells on a subscription model with automatic replenishment.

Serve Robotics: makes autonomous robots for food delivery. An introductory position in a new technology that we will monitor closely to see if financial success truly follows innovation.

Adtalem Education: specializes in the healthcare field. With populations aging, demand for workers is on the rise. That requires training, especially if they are leaving fields where employment is on the decline for one where it is rising.

Royal Caribbean: is one of several major cruise lines, its management enjoying a high reputation within its industry. We have watched to see if spending might taper off as it has done across consumer discretionary companies, but numbers to the present show consumers of essentially all income levels continuing to book travel.

Restaurants: have offered a solution for households pressed for time with modern life schedules. Some novel restaurant concepts are thriving, despite inflation (Cava, Texas Roadhouse.) However, we were surprised to see sales declines at McDonalds and Dominos Pizza within the USA, traditionally a destination for quick affordable meals. There is indication of straitened personal budgets.

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