Dear Investors,

In Q1 2025, Luna returned -4.0% on net assets under management.[1]

Market Musings

The news cycle is always saturated, but Q1 seemed to shift into overdrive following the new administration's arrival. Headlines and commentary around the historical significance of the new legislative agenda have been plentiful. Confidence and sentiment have become apocalyptic (or euphoric) depending on what corner of society or the market you find yourself in. These macro narratives have a minimal impact in terms of how we manage the portfolio (more on this later), and as communicated in past letters, to prognosticate on these events and where they may lead with any specificity is largely a waste of time (given the unpredictable nature of the world). That being said, most of the conversations we are having with people in our ecosystem tend to gravitate towards these developments so we will offer our two cents.

We have found the societal and market shock to many recent developments surprising given most were well televised in advance. Certainly, the argument can be made that the messenger and architect of these changes has not always followed words with action. However, several of the constraints from his first administration have been eliminated, and he has become even more effective at “flooding the zone.” Our observation is that those offering predictions and analysis are heavily biased by identity politics, social polarization and their own pocketbooks. It is difficult to find an unbiased observer or analyst, and the lack of clear minds is debilitating to those looking to digest recent information. Walter Cronkite was before my time but was known for his measured nature and impartiality. I do wonder how he would have delivered the headlines of the modern era (I am sure I can find an AI application that would generate this for me).

In many ways, the past few months have felt like a cold plunge – the first few seconds are a shock but with each passing moment, your body acclimates. In my experience, repeated use does not make those initial seconds any easier physically. Mentally though, you are warmed by the idea that it does get better and more “normal” as time passes. This was one of the major learning points we took away from COVID: people generally underestimate societal and market elasticity and durability. The world either ends or it doesn’t, and as soon as it becomes clear the world isn’t ending, people adapt and move on.

[1] Net asset value calculations are provided by Interactive Brokers and returns are after expenses and fees. Clients should always check their individual statements for returns which may vary due to timing and other factors. Past performance is not indicative of future returns.

This is not meant to be insensitive to the direct, near-term, impact these developments can have on members of our society. However, for the sake of our business centric readership, we try to focus on long-term economic and market considerations.

Much of the commentary hyperbolizes the significance of events and/or gives their readers whiplash as opinions and news develop. This was on full display in early April when Goldman released a report “Moving to a Recession Baseline” only to release another report less than two hours later “USA: President Trump Announces 90 Day Pause; Reverting to our Previous non-Recession Baseline.” They were not alone in the recent flip-flopping of recession predictions and fall into a category of commentators who we believe are missing a few key points.

The first is that the proverbial saber is being rattled by a single individual with flexible (sometimes rapidly changing) opinions and goals. He can snap his fingers and take us one way and just as easily snap them again and go another way. However, even if he was more rigid in his views, the vessels of global trade, international relations, and domestic affairs cannot be turned by a single individual. He may cause the boat to sway from side to side for a time, but real, long-lasting change is too difficult to accomplish unless it becomes a bi-partisan effort with public support. Second, the mandate is only for four years (regardless of what he says), which is a drop in the bucket in the context of history. Third, he ultimately still operates in a system with guard rails and holds public opinion as his north star. Many leaders have the appearance of support from members of their party, other branches of government, and financials backers, but for the most part, these are chameleons just trying to maintain their own positions and influence.

Jobs will be lost and gained, domestic norms will be tested, foreign policy will fluctuate, and historians will debate the outcomes, but this has always been the struggle and triumph of America. For those jubilantly awaiting the next four years, I would say temper expectations, and for those predicting the end of our society, I would say take a deep breath. The four years that followed 2016 left most people desiring either more or less, and these next four will be similar.

As it relates to the portfolio, we have little in the way of direct exposure to fallout from things like tariffs. We are not immune to a broader recession, but we take the same stance we always have, which is to protect ourselves by not overpaying for businesses. MercadoLibre has very little in the way of direct trade exposure with the US. Most of the technology companies we own will only experience the impact indirectly through higher hardware and infrastructure costs, etc. Cleveland-Cliffs’ feedstock and products are primarily procured and sold in the US. Boeing may be our most exposed position. Roughly 45% of sales come from abroad, and

China is a significant market. That, along with a complex supply chain, make them the most likely to experience a material impact depending on the depth and length of tariffs.

We hesitate to make any meaningful portfolio moves based on recent tariff policies because as we noted above, they are unlikely to last long, and we try not to make investments that are competitively advantaged or disadvantaged by short-term government intervention. All that being said, to the extent these market dynamics cause broad-based selling, we are ready to acquire businesses we have had our eye on at attractive discounts.

We're grateful for the ongoing trust and support from our investors, mentors, and partners. We look forward to continuing our work and keeping you updated on our progress.

Warm Regards,

Lucy and Nate

04/01/2025

Appendix – Performance Since Inception

	Q4 2021	CY 2022	CY 2023	CY 2024	Q1 2025	Since Inception
Luna Partners (Net)	5.6%	-24.6%	36.7%	-3.4%	-4.0%	**0.9%**
Luna Partners (Gross)	5.8%	-23.7%	38.7%	-1.8%	-3.5%	**6.1%**
S&P 500	10.6%	-19.4%	24.2%	23.3%	-4.6%	**30.3%**
S&P MidCap 400	7.6%	-14.5%	14.4%	12.2%	-6.5%	**10.6%**
S&P SmallCap 600	5.3%	-17.4%	13.9%	6.8%	-9.3%	**-4.1%**
Russell 3000	8.9%	-20.5%	24.0%	22.1%	-5.0%	**24.5%**

Note: Equity market returns above based on underlying index prices. Index prices are sourced from Koyfin, Yahoo Finance or other publicly available sources. S&P 500 is a popular stock market index representing 500 large companies. S&P MidCap 400 is a stock market index representing 400 mid-sized companies. S&P Small Cap 600 is a stock market index representing 600 small-sized companies. The S&P indices are composed of companies on the US stock exchanges, and each S&P index has distinct constituents. Russell 3000 is a stock market index representing the 3000 largest companies on the US stock exchanges.

Luna Partners' inception date is October 1, 2021. Luna's net performance is based on net asset value calculations provided by Interactive Brokers and calculated net of expenses and fees. Luna's gross performance is calculated before fees to Luna. Luna's portfolio typically consists of 10-15 long, US based public equity positions. Returns are presented on a time-weighted basis to be comparable to the index returns in the table. Past performance is not indicative of future returns.

Luna Partnership LLC is a state registered investment adviser located in Miami, Florida.

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