The U.S. Auto Industry

Lucas Kopp

Our last report on the US Auto Industry was an outlook on how the playing field is changing now and in the coming years. Since then, we've seen a sustained 25% tariff on all imported automobiles and some auto parts. Our report dived into who was most exposed to a tariff regime in the auto industry, ranking General Motors, Stellantis, Ford, and Tesla as most affected, respectively. Fears over rising car prices fueled a massive quarter for light vehicles sales, particularly in the month of march with a 4.8% rise in sales year-on-year. General Motors appeared to have led the charge, with a 17% increase in sales for the quarter, grabbing an estimated additional 17.6% of the market share. However, all Detroit automakers have had their earnings forecasts cut significantly, with GM lowering its own EBIT guidance by $3.5 billion dollars since Q1 of 2025. The market consensus has turned and has remained cautious since these tariffs were implemented on April 3rd. However, policy has shifted to help American companies stay afloat during what will be a tough change.

The quick moving tariff regime, that has shaken up the industry, has disrupted pricing and supply chains globally. Historically, half of US light vehicle sales have been imported, meaning costs will certainly rise at least marginally in the coming months. This led to the Trump Administrations implementation of the "Import Adjustment Offset", a program that will alleviate some of the burden on domestic manufacturers. The offset is an automaker credit equal to 3.75% of the MSRP for every US built vehicle and will last until April of next year, before dropping to 2.5% as automakers add more US part content through shifts in supply chains. This gives companies like GM, Ford, Stellantis, and Tesla a cushion as they readjust. Ford, with imports of some models and car parts from

China and Mexico, warned of a $2.5 billion-dollar gross cost of tariffs, with around $1.5

after mitigation. GM, which we established as possibly the most exposed US car manufacturer, indicated an around $6 billion-dollar annual cost impact, which they expect to offset by around 30% with supply chain adjustments. Worth noting, these adjustments are before factoring in new offsets, which could significantly help keep the US auto healthy as decisions are made.

Company-Specific Outlooks

1) General Motors

General Motors, which still appears as the most tariff vulnerable American car company, had a robust quarter, with up 2% YoY and a healthy EBIT margin in North America at 8.8%. Unlike its competitors, GM kept incentives below a rising industry average, as companies looked to sell off inventory as they shifted production. This past month, GM disclosed an expected $5 billion EBIT impact for the rest of the year from trade policy and that they are continuing their plan internally to cut around 30% of tariff costs. GM's 17% growth in market share in Q1 is a good sign that they can remain healthy enough to sustain short-term rising costs. However, the key to success for GM is to convince investors that a post tariff operating margin of 6% can be rebuilt to 8-10% within the next two years.

2) Ford Motor Co

Ford, with 80% of US car sales built in the US, stands less vulnerable to this tariff regime so far. However, Ford has cited high costs and launch disruptions as a basis for a weaker Q1 this year. After an estimated $1 billion in mitigation, Ford will take a $1.5 billion-dollar net EBIT hit

from tariffs this year. This puts their initial mid-single digit target out of reach, without pricing changes or significant cost cuts. Ford's performance this year will depend on it's mostly

American made high-volume vehicles like the F-series, Explorer, and Bronco. Additionally, Ford's momentum in a growing EV market has been undercut by Tesla's recent price cuts, creating skepticism of their goal of EV profitability by 2026. Like GM, Ford's performance in the next 6-12 months, as it manages tariff fallout and recent quality issues, will determine whether its marginal advantage in a new playing field in the auto industry pays off.

3) Tesla

Tesla now has a much different position than legacy automakers. Elon Musk's return, after a substantial compensation package, boosted Tesla's market price to its post-election levels back in November. This being after a substantial dip in net income and 9% decline in YoY revenue in Q1 of 2025, fueled by boycotts of Tesla vehicles in Europe and in the United States. Tesla's advantage in the growing EV sector remains to be its aggressive reduction in manufacturing costs, with costs per vehicle dropping 30% from 2018-2022 and newer factories in Berlin and Texas that will contribute to a continued trajectory of lower costs as they reach scale. Battery material pricing, which could be marginally affected by tariffs, has been coming down, which has allowed Tesla to cut costs and slash prices when it needs to boost sales. Tesla's P/E remains substantially high, at levels up to 190, powered by massive future growth expectations in AI and technology. Something to look out for is Tesla's new, soon to be announced, vehicle platform that promises to be a game changer in the EV sector, potentially making a profitable 25k EV vehicle. Tesla has a stunning level of protection against tariffs with cars almost always sold in the same country or continent as they are made, protecting them from

tariffs from and against the US. Overall, Tesla has a very strong potential for growth this year if Musk continues to deviate his attention away from politics and back on his many businesses.

“Most Favored Nations” Executive Order

Paul Reilly

President Donald Trump passed an executive order called the “Most Favored Nations” policy May 12, 2025. The order states that the United States will align its drug prices with the nations with the lowest prices. Since the announcement of this act, third party pharmacy benefit manager stocks such as CVS Health Corporation (CVS) fell 6% and United Health Group (UNH) fell 16% on Monday the 12th. Concerns surrounding this policy are that it could potentially hurt innovation and development due to lower market prices. How much prices will lower is uncertain as of now, but Trump and his administration predicts a number around 50%. There are multiple possibilities for how lower prices would be put into effect, but it is nearly certain that pharmaceutical benefit managers (PBM’s) will lose some of the control they currently possess over the industry

Historically administrators of prescriptions drug programs (the PBM’s) have been able to implement hidden fees and high costs into commercial health plans, self-insured employer plans, Medicare part D plans, state government plans, federal employes health benefits program, and the list goes on. Because of their ability to distribute nationwide and large scale, pharmaceutical benefit managers make incredibly high margins through administering the listed programs. For example, for a patented name-brand drug like Prilosec (omeprazole), the profit margin earned by PBM’s sits around 80%.

One plan the Trump administration is adamant on is to establish a direct to consumer (DTC) sales approach. This plan will work around the costs that PBM’s have and their high prices. The policy would facilitate sales directly with the manufacturer and consumer, meaning that middlemen such as CVS would be cut out of a large segment of their business operations either somewhat or entirely. It is unlikely these companies are going to disappear entirely, but it is certain they will lose market control and negotiation power. This is where the negative effects of the executive order come into effect, if DTC sales were to be mandated there would be lower profit margins on all pharmaceuticals which is great for consumers but would likely lower the incentive to innovate and develop new drugs.

What does this mean for pharmaceutical benefit managers

The executive order will impose regulations on PBM’s that will enhance the transparency of their compensation gained through administration health care programs. The reason for this being that the practices of pharmacies have received scrutiny for being contributors of high-cost prescription drugs and the ability to hold to control of drug pricing at their discretion. Because both manufacturers and pharmacies will need to lower drug costs, PBM’s specifically will lose their ability to control the market price of their goods. With lower priced drugs, PBM’s can expect decreased revenue. For the company CVS, the Caremark segment they operate makes up a large portion of their business and contains their PBM's. In Q2 of 2023 CVS recorded a total revenue of $88.9 billion with CVS Caremark achieving $36 billion in net revenue for the first half of 2023. It is evident that Caremark is a significant contributor to the revenue that CVS generates, this indicates that with decreased revenue in that internal business segment the company may suffer.

Important factors to consider with the "Most Favored Nations" executive order

The plan for how this order will be enforced is loosely outlined and the mechanisms are yet to be established, according to the deputy director of the program on Medicare policy at the health policy research group KFF Juliette Cubanski "How this executive order will translate into lower prices that patients in the U.S. will pay for prescription drugs is pretty unclear". Alongside a brief outline for how the policy will be enforced are also legal challenges the order may incur which would significantly hinder its effectiveness. It is mandated through the order that the Health and Human Services secretary communicate the most favored nation's prices targets to pharmaceutical companies within 30 days of the order. Depending on the cooperation with companies in the industry, the secretary will propose a rulemaking plan to impose the most favored nation pricing. What countries will be used as price targets is currently unknown, and how these price changes will affect the current system the United States has for paying for drugs through programs. Within the executive order the Department of Health and Human Services is directed to facilitate DTC purchasing programs for manufacturers of pharmaceuticals that sell at the most favored nations price. However, it is uncertain what sort of system HHS wants to operate and the mechanisms they will use to facilitate.

Energy Transfer LP (NYSE:ET)

Chase Boddison

Overview

Energy Transfer LP (NYSE: ET) remains a strong contender in the midstream energy sector, offering a mix of stable cash flows, infrastructure growth, and attractive income potential. As a master limited partnership (MLP), ET specializes in transporting and storing natural gas, crude oil, and NGLs across the U.S.

Financial Health

ET closed 2024 with solid numbers:

- Net income grew to $4.39 billion, up 26.6% YoY.
- Adjusted EBITDA hit $3.88 billion in Q4, an 8% increase YoY.
- Distributable cash flow (DCF) stood at $1.98 billion in Q4, comfortably covering dividends and growth capex.

The company is on track for a $16.1–$16.5 billion EBITDA range in 2025, backed by robust demand and infrastructure expansion.

Dividend Opportunity

The current yield is impressive, with a $0.325 quarterly payout, up 3.2% year-over-year. That's about an 8% yield at today's price, making ET a favorite for income investors.

Growth & Outlook

Energy Transfer is leaning into expansion, including a $3+ billion deal for WTG Midstream and development of the 400-mile Hugh Brinson Pipeline. These projects should drive volume growth and further diversify its asset base in the Permian and Gulf Coast regions.

Investment Considerations

Pros:

- High and sustainable dividend yield
- Strategic growth in key U.S. energy basins
- Strong free cash flow and distribution coverage

Risks:

- Exposure to commodity cycles and regulatory risk
- Potential for overbuilding in the pipeline sector

Bottom Line

ET is a compelling option for investors seeking dependable income with modest growth. It's not going to fly high, but if you're looking for a stable, cash-generating asset with a solid yield and long-term upside from infrastructure build-out, Energy Transfer may be something to keep an eye on.

AI Oversaturation

Daniel O'Hara

The AI and machine learning industries have become oversaturated with random AI venture capital and startups, creating obscure applications that may not benefit society or economies in the long run. While AI advancement is undeniable, maybe getting ahead of it and restricting the industry could have more beneficial outcomes. There are so many companies making cloud computing software or AI infrastructure that do the same exact thing. What if these markets were more concentrated with fewer competitors and more innovation? Larger scale AI companies would benefit from the economies of scale, able to produce at cheaper costs. It would also simplify trade, regulation, and foreign relations through more manageable data points. This might stop AI from replacing medial jobs and information systems.

70,000 machine learning startups and companies exist, and about 65% of them make the same product: cloud computing and digital infrastructure. If all these services could be produced by a smaller group of suppliers, we may see a new kind of value in this industry.

As we look closer at the segments within the AI space most affected by oversaturation, a few sectors stand out: natural language processing (NLP), generative media tools, and synthetic data generation. Every week brings another "chatbot-as-a-service" startup or AI image generator that promises marginal improvement over existing tools. In many cases, these new entrants are simply wrappers around open source models or rebrands of existing frameworks, offering little to no proprietary value. The consequence is a crowded market with duplicative tools fighting for the same enterprise customers.

Healthcare AI is another domain experiencing dilution. Thousands of companies claim to optimize diagnostics, automate patient scheduling, or triage medical records using machine learning, but few make it to deployment. Regulatory complexity and data sensitivity mean only a fraction of these solutions scale or become economically viable. Meanwhile, capital continues to flow into similar, unproven concepts. Rather than addressing root challenges in medical data access and model transparency, startups often race to deliver minimum viable products that won't withstand real-world scrutiny.

Fintech and algorithmic trading have also seen AI saturation. Countless platforms offer predictive analytics for investment, AI credit scoring, or fraud detection with only superficial differentiation. With such redundancy, investors and firms struggle to identify unique value propositions. More concentrated efforts in this field—via consolidation or targeted funding—could produce deeper innovation with clearer paths to integration and regulation.

In each of these industries, the current trend promotes redundancy over depth. A more centralized, better-regulated AI industry could refocus efforts on pressing global problems—climate forecasting, energy optimization, or public infrastructure planning—rather than spinning out the thousandth GPT-powered notetaking app. The promise of AI was to reshape civilization. Saturating markets with generic clones only dulls that edge.

Good luck and thank you for reading.

---

respective research reports, BayMar equity group Research makes no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or regarding the results to be obtained from its use. Further, any research report contains a very large measure of analysis and opinion. All expressions of opinion are subject to change without notice, and BayMar equity group does not undertake to update or supplement any reports or any of the information, analysis and opinion contained in them.

In no event shall BayMar equity group Research or any BayMar equity group Related Persons be liable for any claims, losses, costs or damages of any kind, including direct, indirect, punitive, exemplary, incidental, special or consequential damages, arising out of or in any way connected with any information presented in any BayMar equity group report. This limitation of liability applies regardless of any negligence or gross negligence of BayMar equity group Research or any BayMar equity group Related Persons. You accept all risks in relying on the information presented in any report.

You agree that the information in any BayMar equity group research report is copyrighted, and you therefore agree not to distribute this information in any manner without the express prior written consent of the applicable BayMar equity group Entity. If you have obtained BayMar equity group research reports in any manner other than as provided by BayMar equity group, you may not read such research without agreeing to these Terms of Use. You further agree that any dispute between you and BayMar equity group and their affiliates arising from or related to this report or viewing the material presented herein shall be governed by the laws of the State of Florida, without regard to any conflict of law provisions. The failure of BayMar equity group Research to exercise or enforce any right or provision of these Terms of Use shall not constitute a waiver of this right or provision. You agree that each BayMar equity group Related Person is a third-party beneficiary to these Terms of Use. If any provision of these Terms of Use is found by a court of competent jurisdiction to be invalid, the parties nevertheless agree that the court should endeavor to give effect to the parties' intentions as reflected in the provision and rule that the other provisions of these Terms of Use remain in full force and effect, in particular as to this governing law and jurisdiction provision. You agree that regardless of any statute or law to the contrary, any claim or cause of action arising out of or related to BayMar equity group report or related material must be filed within one (1) year after