



## Notes From the Road

December 2025

### What does your portfolio manager's research process look like?

Over the last few months, George Henning met with executives of many of the companies we invest in. **Personal visits with management yield valuable information and insights on individual companies as well as trends in various sectors and the overall economy.** In addition to companies in our portfolios, he also meets with companies that we are considering for investment or that may supplement our research to corroborate economic and sector trends. These periodic meetings are key to our in-depth research process - particularly for small and mid-cap companies - which also includes accessing public information, general industry research and participating in conference calls with management.

### What makes Pacific Global's research process unique?

As long-term investors, we typically invest in a company for many years. Cultivating established relationships with executives at many of these companies facilitates in-depth discussions about business operations which significantly benefit our decision-making process. **Direct access to, and personal conversations with, company management provide an invaluable supplement to general research.**

### Notes from the Road

Following are some of George's notes from his recent meetings which provide a preliminary outlook for the New Year and insight into our investment strategies. **2026 may unfold differently than these companies anticipate. Nevertheless, developing trends support an optimistic economic outlook with a variety of investment opportunities as we enter the New Year.**

- Notably, companies in various sectors anticipate good economic growth in 2026 due in part to significantly higher tax refunds resulting from 2025 tax legislation.
- Many companies benefited from a cash windfall this year because of the retroactive amortization changes in the 2025 tax legislation.
- Many foreign companies have committed to building plants in the U.S. due to tariff pressures as well as lower operating costs and taxes relative to other countries.
- **AI** remains an important developing tool but *its adoption by most companies will be evolutionary rather than revolutionary*. It provides opportunities to enhance operations through access to more data that can be useful in various applications. Job creation/elimination will vary among industries and companies.

### Automotive Industry

**Many companies anticipate benefiting from developing trends including: aging cars and declining interest rates leading to increased sales; aging car population increasing service center revenue for dealerships; and growing demand for certain auto parts used in industrial and data center operations.**

- Average age of cars on the road exceeds 14 years; 63% over 9 years old
- Declining interest rates should improve new/used car sales; leasing expected to facilitate lower monthly costs as older cars are replaced
- 80% of new cars sold are pickups/SUVs
- Electric car sales decreasing (approx. 30% in U.S.; approx. 50% in China/UK)
  - U.S. sales may drift lower as tax incentives expire
  - Without tax incentives EV vehicle/insurance/repair costs approx. 20% higher than internal combustion vehicles

- Hybrid sales increasing, yet studies show drivers rely on gas, don't plug in to recharge (in U.S., England, China)
- Service center business a significant part of revenue/earnings for auto/truck dealers
- Auto-parts manufacturers seeing increased demand for turbochargers used in industrial and data center operations

## Transportation Sector

**The Transportation Index, a leading indicator of economic growth, is positive for 2026 and economic growth fuels transportation business. Well-positioned trucking companies expect to benefit from industry consolidation driven by increased regulatory enforcement and tort reform.**

- Key contributors to economic growth may include:
  - Tax refunds in Q1 2026 will be higher, more broad-based due to 2025 tax law changes
  - Significant increases in capital spending in the U.S. on new plants and other products in response to tariff policies
  - Declining interest rates, pent-up demand should increase home sales/construction
- Increased enforcement of laws governing driver qualifications and electronic driving logs benefiting compliant trucking companies
  - Non-compliant trucking companies/private fleets leaving the market
  - Market share/pricing power increasing for remaining companies
- Legislative changes to reduce lawsuits (tort reform) likely to lower trucking insurance; rates may decline due to reduced liability and new insurers entering the market

## AI Initiatives

**The market has largely focused on Technology companies developing AI models and processing. Less recognized is the significant growth potential for undervalued companies providing construction, infrastructure and operational support to AI companies.**

- AI initiatives presently limited for some companies by inadequate historical data and unreliable data assumptions needed to create new programs/procedures
- Crypto currency mining declining as costs outweigh growth in the currencies
  - Crypto mining demand varies often resulting in shutdowns during peak demand
  - Some crypto companies transitioning to AI data centers which run 24/7 and offer backup generation during peak periods
- Power demand becoming a significant problem
  - Electric companies reluctant to add capacity for industrial/technology demand given the required rate increases which will affect the general population
  - Data facilities require 24/7 power and temporary power solutions until permanent generation can be acquired
  - Many data centers being built off the grid to avoid surge problems, brownouts/blackouts, and complaints from other users on the grid about rising electricity costs
  - Uncertainty regarding timelines/commitments from electric companies to provide power from the grid leading to use of alternative power sources
- Natural gas the preferred energy source for data centers given its abundance/lower relative cost
  - Companies in this space profiting from long-term contracts to design/install systems
  - Construction times will depend upon delivery of turbines which are in limited supply

- Data center spending projections may be higher than actual costs
  - Management eager to show better returns on investment
  - Estimated investment amounts may be higher than actual costs to generate a marketing edge in touting **AI** capabilities
  - Significant borrowing to fund data centers raises questions about returns on investment

## Employment Trends

**Overall jobs data do not reflect job growth or demand for workers in various sectors and industries. Individual company reports suggest a potential incongruence between the roles that job seekers want, or are qualified for, and areas with the greatest labor needs.**

- *Ford* CEO, Jim Farley, recently told a podcast the company can't find enough skilled mechanics to run its auto plants; *Ford* has 5,000 unfilled mechanic jobs that pay \$120,000/year
- National Federation of Independent Business recently reported: ⅓ of small business owners reported jobs they couldn't fill; 49% reported few or no qualified applicants for open positions; 27% cited labor quality as their most important problem
- Job growth accelerating in healthcare; funding increasing for many U.S. health programs/agencies after government spending cutbacks earlier this year

## Banking Industry

**Expectations for lower interest rates restrained lending activity in 2025; but banks expect activity to pick up in 2026 as rate cuts take effect. Lending practices emphasize the need to assess the potential impact of tariffs individually by company. Industry consolidation will likely increase particularly with larger regional banks looking to acquire smaller banks to enter attractive markets.**

- Banking consolidation expected to increase significantly with a regulatory environment more favorable to bank mergers
  - Regional banks looking to enter California; with many CA banks serving niche markets, large regional banks may be challenged to find smaller banks that fit their management culture
  - Many smaller banks under pressure to grow lending business to become more attractive to potential acquirers
- Lending business challenged in 2025 by expectations of lower rates in 2026 and an increase in non-bank lending
  - However, pipeline of new loans robust as borrowers anticipate lower interest rates
  - Lending by private equity providing competition; loans originated at lower margins with more favorable underwriting requirements
  - Refinancing activity developing for higher interest housing loans
- Fed Funds Rate expected to settle at 3.5% to 3.75%
  - New Federal Reserve Chair in May 2026; may pursue more aggressive interest rate cuts
  - Uncertainty regarding extent/timing of interest rate cuts challenges banks in setting rates paid on CDs; banks developing alternative scenarios to cover rate spreads on CDs
- Banks providing import/export loans illustrate need to determine the potential impact of tariffs individually for each company
  - Ability to pass along price increases to customers varies by company
  - Companies with current inventories in U.S. raising prices; profits on current sales may mask future prospects
  - For some companies, tariffs may turn thin operating margins negative
  - Fewer competitors in some markets may increase profitability for remaining companies
- **AI** an important component in lowering costs to maintain margins and compliance requirements