

This Month in the Markets

February 2025

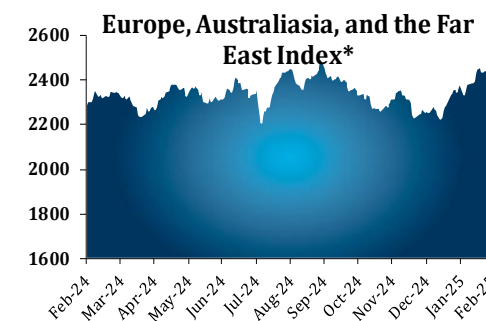
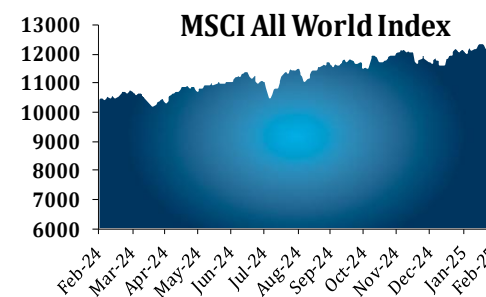
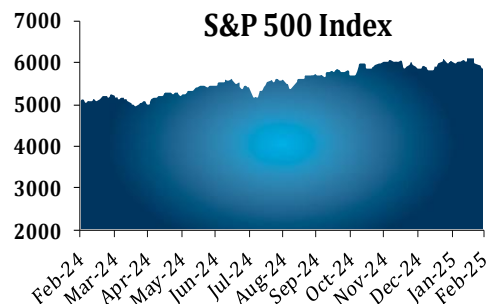
Equity Commentary: Policy Uncertainty

Unprecedented U.S. policy shifts are causing rising uncertainty in the financial markets. February saw U.S. shares stumble after a long period of out-performance as President Trump rapidly instituted his promised tariffs on trading partners. Besides losing to Canada in the Four Nations Cup, the U.S. stock market also underperformed global contemporaries. The MSCI ACWI Index fell slightly by 0.6%. The MSCI EAFE Index led with a gain of 2.0% while the S&P 500 Index dropped 1.3%. The MSCI Emerging Markets Index also eked out a gain of 0.5% as China rallied. Value continued to outperform growth in terms of investment styles, with the MSCI All Country World Growth Index down 2.6% while the MSCI ACWI Value Index was up 1.6%. The MSCI ACWI Consumer Staples Index led gains with a jump of 4.3%, driven by gains in brand name consumer product companies. Conversely, the MSCI ACWI Communications Services Sector Index declined by 4.9%, primarily due to reversals in big names like Meta and Alphabet.

Tariff jitters, weaker consumer and business sentiment data and firmer inflation reads all provided subject matter for economic concerns. The market is struggling to understand the impact of fiscal cuts from DOGE, the tariff and trade war and U.S. immigration policies. All three could be a hinderance to growth and possibly stoke inflation. The Global Economic Policy Uncertainty Index is now approaching all-time highs and at levels last seen in the heart of the pandemic. The market, currently, appears more worried about growth than inflation.

The biggest winner in the Anchor equity portfolio was Rheinmetall AG, which surged 39.6% after news that Germany will substantially increase defense spending. In a dangerous multipolar world, we still see the need for countries outside of the U.S. to materially ramp up defense spending amidst recapitalization and modernization efforts. The biggest detractor of the month was PayPal Holdings Inc., which slid 19.8% for the month, weighed down by concerns about weaker consumer spending and modestly disappointing branded checkout growth in the latest quarter.

We bought and sold one company in February. We sold Elanco Animal Health as its recent quarter was disappointing with forecasted revenues and the adjusted profit outlook for 2025 that fell short of our expectations. We do not feel the company is executing effectively. Our only buy during the month was Intuit Inc. It's a relatively stable double-digit top-line grower with high recurring revenue and pricing power. We believe the company possesses a wide economic moat based on strong switching costs and network effects given the dominant position of its QuickBooks, TurboTax and MailChimp offerings.



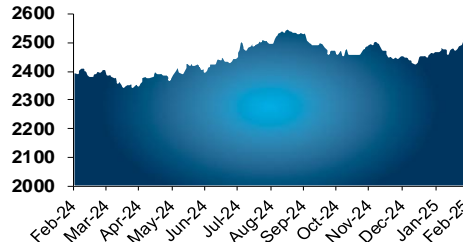
Fixed Income Commentary: Treasuries Benefit from Headlines

The headlines kept rolling in February, which included a slew of DOGE announcements, USAID cuts, multiple tariff announcements, and JD Vance lecturing European bureaucrats on the importance of free speech at the Munich Security Conference to name a few. Not to mention a number of erratic posts by President Trump on Truth Social with one where he called President Zelinsky of Ukraine a “dictator” in particular stands out. It is very difficult for market participants and pundits alike to digest the relevance of the various announcements, especially as President Trump has shown a tendency to change or alter his decision seemingly on a whim. We saw this with the tariff delays on Mexico and Canada which we wrote about last month. As of the time of writing 25% tariffs on Mexico and Canada began on March 4th with counter tariffs announced by Canada. President Trump has also announced a 25% tariff on all aluminum and steel imports, a 20% tax on Chinese goods, and his administration is looking into reciprocal tariffs which would also take into account any value added taxes. The Trump administration has hit the ground running to say the least.

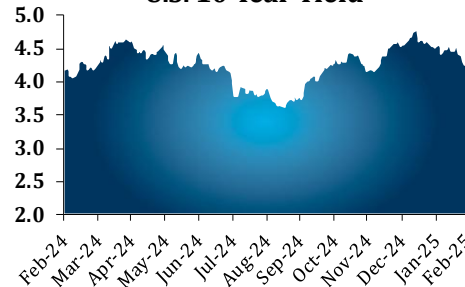
It appears the market has become more apprehensive over how the DOGE cuts and tariffs could affect the US economy. Inflation expectations over the next 2 years rose in February as evidenced by the rise in the 1-year breakeven rate (+0.72% to 4.10%), while 5-year and 10-year breakeven rates were largely unchanged. The breakeven rate is the difference between nominal treasury rate and the (real) yield of a treasury inflation protected security. If the breakeven rate rises it means inflation expectations are rising. This increase in short-term inflation expectations was likely driven by the higher than consensus Consumer Price Index (CPI) data released in February, and the various tariff threats/announcements. We also saw treasury rates decline in February, led by the long-end. The 10-year treasury declined by 0.32% to 4.21%, while the 2-year treasury only declined by 0.20% to 3.99%. Additionally, as per fed fund futures the market now expects almost four 0.25% rate cuts by year-end 2026 compared to just over two cuts at January-end. The flattening yield curve and increase in fed fund rate cut expectations suggests investors have become incrementally more concerned with the durability of U.S. economic expansion.

In February, our HCA bond matured. When we originally purchased this bond it was BB+ rated (high yield), and in time was subsequently upgraded to BBB- (investment grade). We reinvested the HCA maturity proceeds into a Ball Corp. (BALL) bond for accounts that could hold the name. BALL is a global aluminum can manufacturer, with pass-through clauses in its contracts that limit its exposure to aluminum prices. BALL is rated BB+ by S&P and Ba1 by Moody's – one notch below investment grade. Despite its status as a high yield company, BALL boasts a history of consistent earnings. Analysts' consensus is for BALL to generate \$917 million of free cash flow in 2025. In recent years we have been technically underweight high yield versus our neutral allocation due to the shrinking size of the high yield market and historically tight high yield spreads. Instead, we have focused on owning investment grade companies with a spread more akin to a BB-rated credit as high yield proxies – not simply buying a credit with a high yield rating just for the sake of it. We prefer our high yield exposure to consist of companies with strong recurring earnings with attractive risk/reward trade-offs. BALL fits the bill in this respect as despite its stable earnings profile we were able to pick up 130bps versus the comparable treasury. In bond land, boring is desirable. This is especially true with credit spreads near historically tight levels...

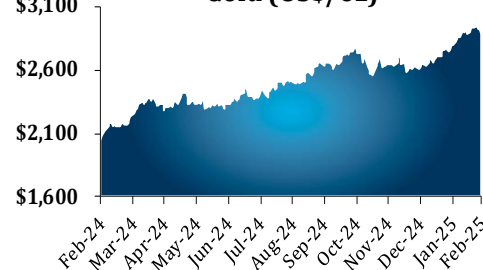
U.S. Bond Index



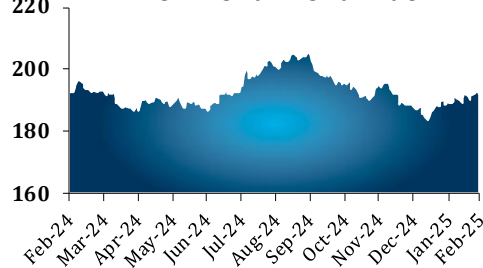
U.S. 10 Year Yield



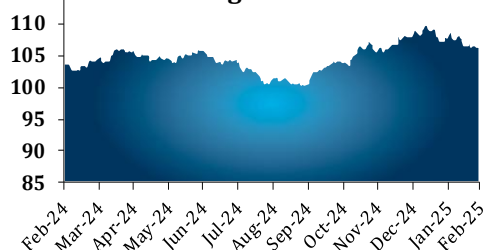
Gold (US\$/oz)



Non-Dollar Bond Index*



Trade Weighted Dollar Index



*Merrill Lynch Global Broad Market, Ex US Dollar Index

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