

This Month in the Markets

April 2025

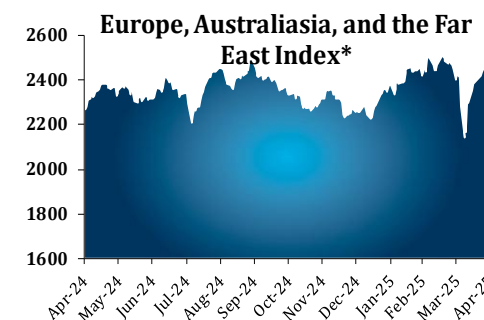
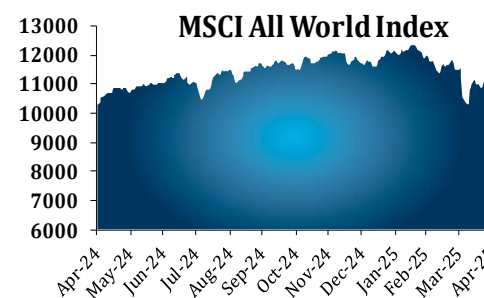
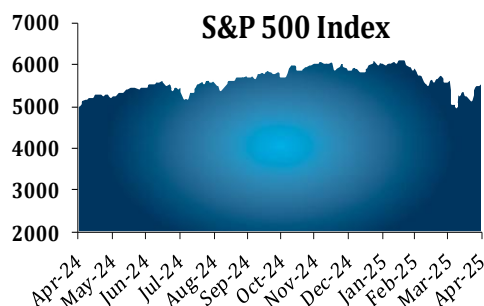
Equity Commentary: Policy Uncertainty

Liberation Day did not initially prove to be very liberating. April was a volatile month, with the S&P 500 Index initially plummeting nearly 20% off its high intra-day before staging a grinding recovery. Believe it or not the MSCI ACWI Index actually rose 1.0% for the month. The MSCI EAFE Index led with a gain of 4.7% while the S&P 500 Index dropped slightly by 0.7%. The MSCI Emerging Markets Index also eked out a gain of 1.3% as China continued to rally, even in the face of enormous tariff threats. Growth outperformed value in terms of investment styles, with the MSCI All Country World Growth Index up 3.1% while the MSCI ACWI Value Index was down 1.1%. The MSCI ACWI Consumer Staples Index led with a gain of 4.0%, driven by a rotation into defensive quality. Conversely, the MSCI ACWI Energy Sector Index fell by 10.1%, primarily due to growth concerns and a surprise slated supply increase by OPEC+.

The initial sell-off after the rather rudimentary tariff announcement was followed a week later by a 90 day pause on reciprocal tariffs, except for with China. This rather dramatic V-shaped drop and recovery may make it seem that macro conditions have not changed in any significant way. We would suggest this is not the case, but like in many volatile sell-offs, many individual equities are dumped without deep consideration of their resilience or medium-long-term prospects. This is why it's important to maintain calm amidst the storm. While some sectors and companies may indeed be faced with a series of more daunting conditions in the near to medium term, others have the flexibility and financial strength to adapt and/or even thrive in this shifting environment. Ultimately, we would suggest that the overall risk premium now embedded in the market should be higher to correspond with heightened uncertainty and valuations should reflect this.

In turbulent markets, attempting bold macro calls is like repairing your ship amid a storm: you risk doing more harm than good. Instead, we recommend a two-stage approach—"dry-dock" fixes when the seas are calm, and cautious sailing when waves are high.

At the heart of this strategy lies a bottom-up philosophy. We prefer to concentrate on the one thing that we feel we can forecast with more confidence: each company's competitive moat and long-term prospects. Questions about tariffs, interest rates, or GDP growth are considered but treated more passively. By balancing exposures—owning names that benefit from various macro scenarios—the portfolio avoids extreme directional bets on factors beyond anyone's control.



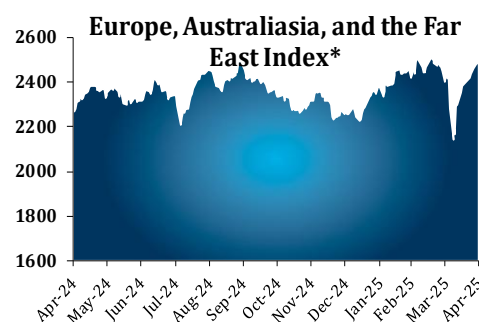
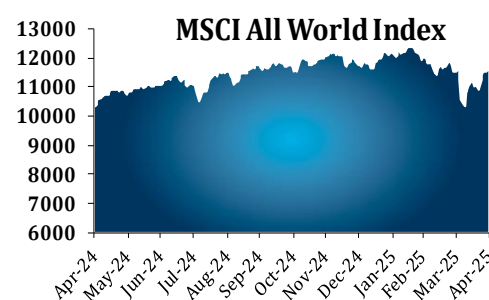
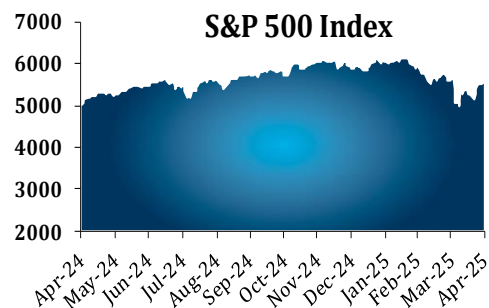
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We prefer to make any major tactical shifts only when a new regime has clearly arrived. For example, once tariff changes took effect on April 2, the team updated assumptions and considerations where warranted. We did not make large structural shifts in the portfolio. This disciplined neutrality helps contain adverse outcomes during bouts of volatility and saves oneself from getting whipsawed by changes in sentiment or even political policy. There are still various areas of the market that have embed lower valuations and lower expectations that we will move further into over time.

The biggest detractor in April was UnitedHealth Group Inc. Its last quarter's report amounted to a rather shocking quarterly miss on surging medical costs. That marked the first time the company had failed to meet analysts' estimates since the quarter ended March 31, 2008. We still believe the managed care industry offers a safer port-in the storm as it is essentially devoid of tariff effects. The largest gainer in April was MercadoLibre (MELI). Off the back of strong year-end results, MELI announced significant investments for 2025 into two of its largest markets. Plans to invest \$5.8b into Brazil and \$2.6b into Argentina were favorably received as MELI continues to grow its' market share in South America.

We had two purchases and two sales in April. We purchased UnitedHealth Group Inc. ("UNH") at the beginning of April. UNH, we believe, still is the strongest managed care organization that has the financial and operational expertise to continue to provide longer term value despite its recent executional error. We still believe the company can get back on track to provide 15% annual earnings growth in the long run and offers shelter from any possible negative outcomes surrounding tariff negotiations. We also added U.S. Bancorp ("USB"). USB is the fifth largest U.S. commercial bank (by deposits) and has a well-diversified business mix, which includes a sizable global market position in payment services. USB has faced headwinds in recent years including SVB's collapse of 2023 and most recently U.S. economic uncertainty. As a result, it is currently at an attractive valuation, and we believe there are prospects for improving trends in coming periods that should help the stock regain momentum.

We sold Micron technologies Inc. as we felt we have adequate exposure to AI trends and the company was more of a commodity producer even with its High Bandwidth memory product. It is still tied to consumer electronic sales to a large degree, and we suspect we could see a material slowdown in overall consumption. We also sold Skechers USA Inc. given their significant exposure to China where 60% of their products are currently manufactured. With ongoing trade wars and tariffs this represents significant uncertainty for the company and investors and was highlighted during its Q1 earnings when it pulled all guidance for the remainder of the year.



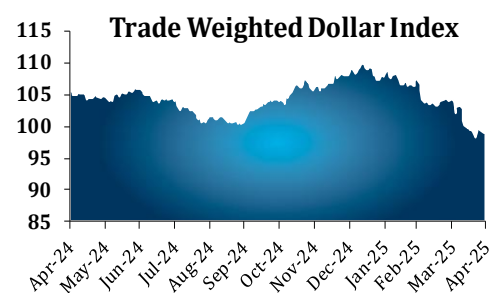
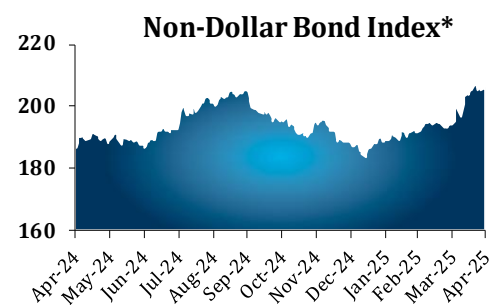
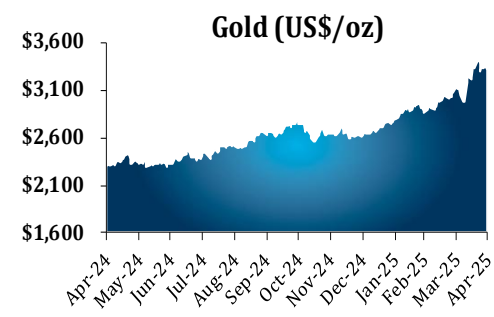
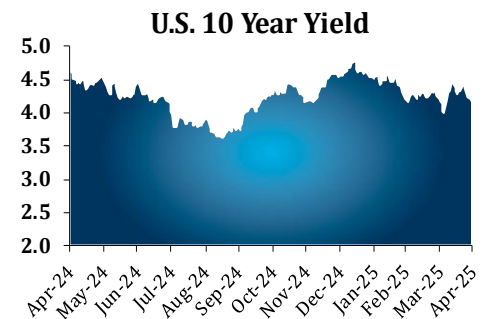
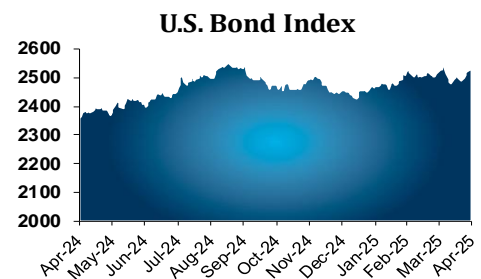
Fixed Income Commentary: Return of the Bond Vigilantes?

April started with a bang. On April 2nd, President Trump announced a raft of (so called) reciprocal tariffs on countries across the globe – “Liberation Day” had arrived. The initial market reaction saw equities and the dollar decline while safe haven assets (US treasuries) rose in price. However, on Monday, April 7th the landscape shifted. The dollar and equities continued to sell off, however long-term treasury yields began to rise aggressively (prices falling). President Trump’s tariff policy (or gambit?), which included ramping tariffs on all countries at a minimum of 10% but in many cases much higher, was going pear-shaped. On April 9th Trump ultimately delayed the reciprocal tariffs on all countries for a period of 90 days with the exception of China where he increased the rate to 145%. However, it wasn’t until April 11th that the 10-year and 30-year treasury rates peaked (intraday) after the president of the Federal Reserve Bank of Boston (Susan Collins) said the Fed would “absolutely be prepared” to intervene to stabilize the treasury market. From April 7-11th the 10-year treasury yield rose 0.67% to an intra-day peak of 4.55%, with a similar sized move in the 30Y treasury yield.

This extreme volatility in the treasury market – the “risk-free” asset and deepest bond market in the world - caused significant financial market stress. High yield credit spreads surged wider on rising fears of a US recession. Historically, in risk-off periods the yield curve steepens: the decline in short-term rates (from increased expectations for more Fed rate cuts) would exceed the decline in long-term rates (safe haven flows into long-term treasuries). However, the yield curve steepening we saw in mid-April was driven by a sharp increase in long-term treasury rates. Additionally, the dollar was selling off at the same time. We have never seen the dollar decline and long-term treasury yields shoot higher at the same time in a risk-off episode. This is the type of dynamic emerging markets experience (and the UK after Liz Truss’ 2022 budget announcement!).

Treasury Scott Bessent is a former hedge fund manager. In his career he worked for hedge fund legends George Soros and Stan Druckenmiller. This price action undoubtedly spooked him. Indeed, Bessent is widely credited to have convinced President Trump to delay the reciprocal tariffs (on countries other than China) for 90 days after flying to Mar-a-Lago on April 9th to speak to him in person. Since this episode of heightened volatility, the tariff rhetoric out of the administration has softened. Long-term treasury rates have steadily declined from the intra-day highs of April 11th. Almost inconceivably, the 10-year treasury yield ended the month at 4.16% or 0.04% lower than the start of the month! The 30-year yield was just 0.11% higher ending April at 4.68%.

The mid-April treasury market riot brings to mind a quote by James Carville, a political adviser to President Bill Clinton: "I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a 0.400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody."



*Merrill Lynch Global Broad Market, Ex US Dollar Index

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