

# This Month in the Markets

May 2025

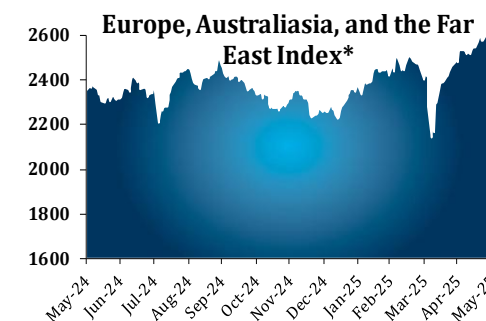
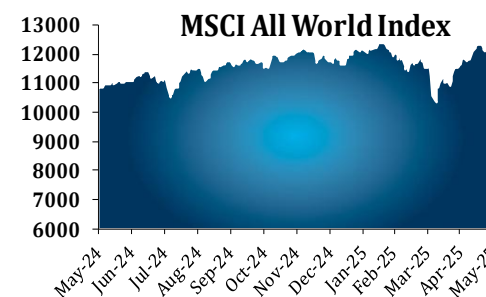
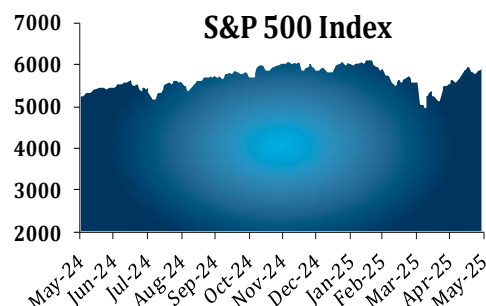
## Equity Commentary: TACO Trade

Easing trade tensions helped global equities deliver their strongest monthly performance since 2023. The MSCI ACWI Index rose 5.8% for the month. The S&P 500 Index led gains with a rise of 6.3% and the MSCI EAFE Index was up 4.7%. The MSCI Emerging Markets Index also posted a gain of 4.3%. Growth outperformed value in terms of investment styles, with the MSCI All Country World Growth Index up 8.3% while the MSCI ACWI Value Index was down 3.2%. The MSCI ACWI Information Technology Index led with a gain of 10.4%, driven by a rotation back into various AI names. Conversely, the MSCI ACWI Healthcare Sector Index fell by 3.4%, primarily due to weakness in the managed care sector.

On May 2, Rob Armstrong in a Financial Times article coined the term TACO (“Trump Always Chickens Out”) to help explain how the current US administration has the tendency to back away from policies after push back from the market. There have been many examples of this including the roll back on the ultimate China tariff levies, the walk back on the rate to be charged to Europe and the acknowledgement that Powell will not be fired. One could be excused for feeling somewhat frustrated if the idea were to take the various initial pronouncements as truth only to be told “just kidding.” At least so far, the irony is the best strategy would have been to ignore or at least not overreact to the series of tariff announcements through April and May. We have cautioned on this in the past and have suggested it is likely more productive to focus on company level data and ideas which can handle macro dislocations. The TACO trade may have worked, but we would suggest that thinking long term around company fundamentals is likely to be a better strategy than gambling on the ephemeral emotions around policy pronouncements.

The worst performing position for May was UnitedHealth Group which fell 26.6% on the back of a series of negative news announcements including the CEO departure, suspension of its 2025 outlook, and a Wall Street Journal article suggesting the company was under Department of Justice investigation for Medicare fraud. The best performer was Rheinmetall AG which rose 26.5% on continued positive news flow surrounding increasing defense spending in Europe.

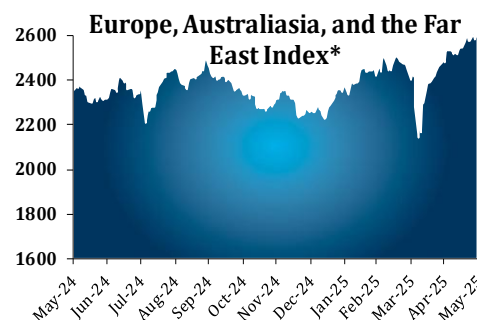
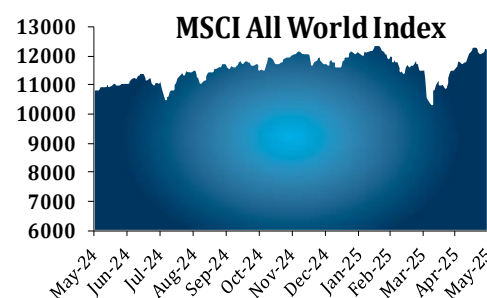
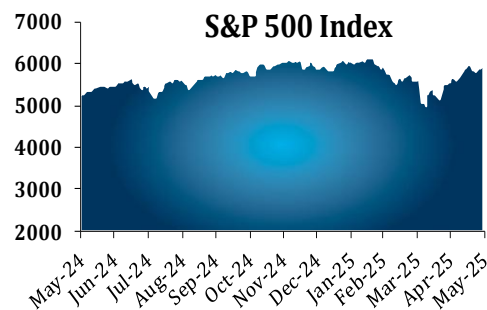
In May, we liquidated two positions. We sold one of Anchor’s oldest holdings, Berkshire Hathaway, after Warren Buffet announced his retirement. The shares had gained more than 150% since we bought them in 2019 and we are concerned that the new management team may find it difficult to produce similar returns with the company’s growing cash hoard. We also sold Salesforce Inc. as it missed one of our signposts around margins and we are concerned with its large acquisition of Informatica.



## Equity Commentary: Policy Uncertainty

We bought two positions in May. We purchased Newmont Corporation (“NEM”). NEM is the world’s largest gold miner by reserves and has a diversified footprint with 11 operational mines with NEM as the operator, 3 mines that are coming online over the next few years, and 2 additional mines owned through a joint venture. At gold prices above \$3,000/oz, NEM is generating in excess of \$4.4B in FCF which equates to a FCF yield of 7.5%. With debt levels back to below target we would expect continued share buybacks in addition to a solid dividend yield. We are also attracted to the non-correlating aspects of gold which will be the largest driver of returns for NEM. In a world where geopolitical uncertainty is rising, we believe that central bank diversification away from the US dollar and investment demand will remain strong.

We also bought Taiwan Semiconductor Manufacturing Co. (“TSM”). TSM continues to dominate the artificial intelligence chip space and remains at the cutting edge for the most sophisticated and advanced chips. We see the world as one in which semiconductor chip content will only increase in verticals, including robotics, autonomous cars, and even further data center expansion. TSM has little competition at this stage in the highest and most advanced chip space, and we think it can maintain this with its unmatched research and development budget. The geopolitical risk surrounding Taiwan is partially the reason we have been able to buy the company at major discount to the overall market despite its dominance and growth and we believe that at ~10x enterprise to EBITDA on 2026 estimates, we have some margin of safety.



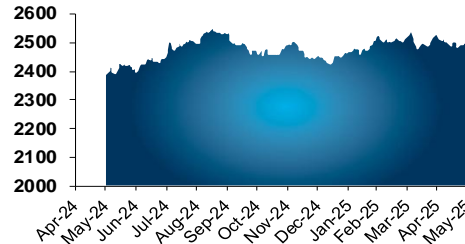
## Fixed Income Commentary: Steeper Curves Globally

After market close on Friday May 16th, Moody's downgraded the US's Aaa credit rating one notch to Aa1. The Moody's downgrade brings the US's credit rating in line with that of Fitch (AA+) and S&P (AA+). The practical consequences of the Moody's downgrade are limited. S&P downgraded the USA from AAA in August 2011 and Fitch in August 2023. The treasury market is still the largest, deepest bond market in the world, and the dollar is still the reserve currency. Nonetheless, the downgrade comes at a time when the Trump administration is attempting to pass the One Big Beautiful Bill Act (OBBBA). The Congressional Budget Office (CBO) estimates that the OBBBA would increase the budget deficit by \$3.1 trillion over the next decade. The US has been running an annual budget deficit since mid-2002. However, the OBBBA projected deficit would continue the trend of procyclical budget deficits that began in President Trump's first term and subsequently followed up by President Biden. Moody's referenced the US's fiscal profligacy in the downgrade release: "Successive US administrations and Congress have failed to agree on measures to reverse the trend of large annual fiscal deficits and growing interest costs. We do not believe that material multi-year reductions in mandatory spending and deficits will result from current fiscal proposals under consideration."

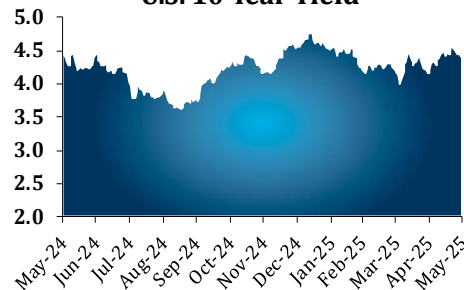
The most notable implication for the US's fiscal profligacy is a steeper yield curve - the long end of the bond market has awoken. Long bond investors have become more leery of financing the US government. Since "Liberation Day" on April 2nd, the 5-year to 30-year (5Y-30Y) slope of the treasury curve has steepened 0.35% to 0.97%. However, steeper yield curves due to higher long-term rates aren't a US-only phenomenon. Germany's 5Y-30Y slope has steepened 0.17% since April 2nd as German bund issuance is set to rise materially to fund military and infrastructure spending. Meanwhile in Japan the Bank of Japan (BOJ) is stepping away from the bond market amid elevated inflation. This is notable as the BOJ owns over 50% of the Japanese government debt market! While the BOJ has officially ended its Yield Curve Control (YCC) program, it will step into the bond market to ensure financial stability. The BOJ did exactly this in April/May. The 30-year Japanese government bond yield rose 0.50% since April 2nd, while the 10-year was virtually unchanged. On May 27th it was reported that Japanese Ministry of Finance had consulted primary dealers (buyers of government debt at auctions) and large market participants regarding weak demand in long bond auctions and long-bond issuance levels. The 30-year yield declined 0.19% on the news. Nonetheless, the Japanese yield curve has steepened notably. The 5Y-30Y Japan government yield curve has steepened 0.57% since April 2nd, driven by the move higher in the 30-year.

As per fed fund futures, the market now expects just two 0.25% rate cuts in 2025, compared to four cuts at the end of April. This has led to an increase in rates across the curve. The 2-year treasury yield rose 0.30% to 3.90%, while the 10-year treasury rose 0.24% to 4.40%. The recalibration of rate cut expectations and increase in rates suggests the market expects the US economy to remain buoyant. The Atlanta Fed Real GDP Nowcast expects Q2 growth to rebound to 4.64% after U.S. GDP contracted 0.2% in the first quarter. While the figures are distorted by the tariff impact on imports, the employment and hard data indicates that U.S. growth remains strong. Meanwhile official inflation figures continue to show the disinflation continues to play out. The April Personal Consumption Expenditure (PCE) came in at 2.1% YoY, down from 2.3% prior. However, it should be noted that the impact of tariffs hasn't really filtered through to the official inflation (CPI or PCE) data as of yet. The Truflation inflation measure (which uses live market pricing data) ended May at 2.05% up from the 1.21% low reached on April 5th. The combination of buoyant growth and tariff-induced inflation uncertainty is likely to keep the Fed cautious on rate cuts. Fed fund futures pricing suggests either the September or October FOMC meeting for the next rate cut.

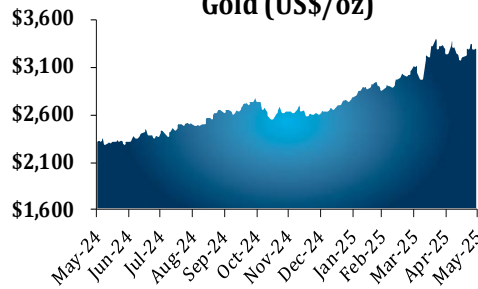
### U.S. Bond Index



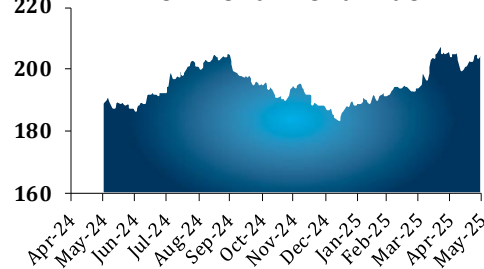
### U.S. 10 Year Yield



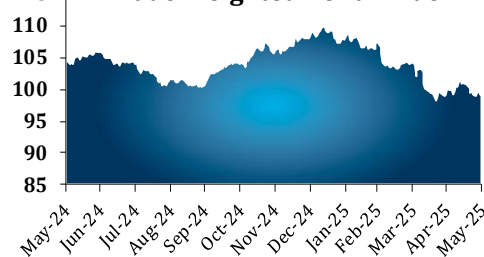
### Gold (US\$/oz)



### Non-Dollar Bond Index\*



### Trade Weighted Dollar Index



\*Merrill Lynch Global Broad Market, Ex US Dollar Index

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