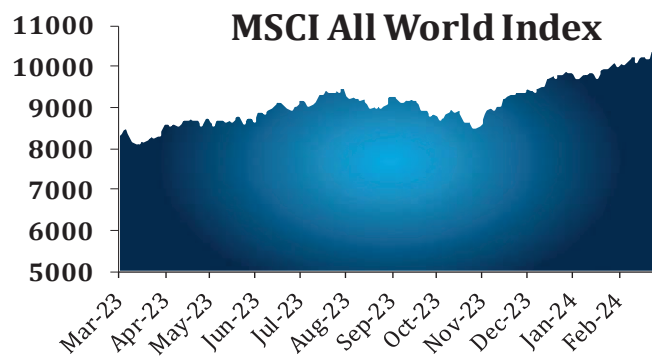
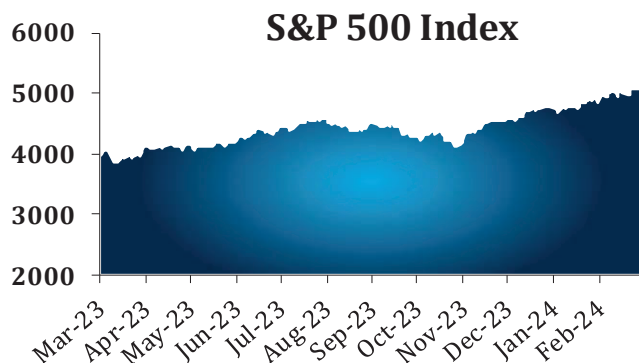


Stock Market Analysis

The Bull Market Continued in the First Quarter



The stock market momentum continued in 2024, once again driven by the artificial intelligence frenzy. The MSCI ACWI Total Return benchmark returned 8.1% in the first quarter. The MSCI technology and communication sectors both rose more than 11% in the period. Investors were encouraged by the decline in inflation and the strength of the U.S. economy. U.S. GDP grew faster than economists expected at a 3.4% annualized rate in the fourth quarter. The Federal Reserve's preferred underlying inflation gauge cooled in February while household spending rebounded. The core personal consumption expenditures price index, which strips out the volatile food and energy components, slowed to 2.8% year-over-year down from 7% in 2022. At the same time, inflation-adjusted consumer spending exceeded all estimates on the heels of the biggest gain in wages in over a year, according to the report from the Bureau of Economic Analysis.

U.S. short-term interest rates remain at a two-decade high, but the Federal Reserve has indicated that they will reduce the Fed Funds rate later this year with a narrow majority penciling in three rate cuts for 2024. The Chairman of the U.S. Federal Reserve, Jerome Powell, said at the end of the quarter, "The fact that the US economy is growing at such a solid pace, the fact that the labor market is still very, very strong, gives us the chance to just be a little more confident about inflation coming down before we take the important step of cutting rates."

The U.S. market again out-performed global indices with the S&P 500 producing its best first quarter return in five years, rising 10.4%. The Japanese market produced the strongest developed market returns in the quarter with the Nikkei 225 surging 20.6%, but the decline in the Japanese yen reduced the US dollar return to 11.2%. The breadth of the market remained a challenge for investment managers, with the average company in the MSCI ACWI Total Return Index underperforming the market-cap weighted index by 6.2% in the first quarter. The MSCI ACWI Equal Weighted Net Total Return Index has produced a five-year average annual return of 4.1% compared to 10.9% for the cap-weighted benchmark.

Stock Market Analysis



The “Magnificent Seven” became the “Magnificent Five”, as Apple and Tesla ran into challenges in their Chinese businesses. The artificial intelligence boom continued with Nvidia surging 82% during the first quarter, extending its five-year gain to more than 1900%. Meta Platforms was the top-performing stock in the Anchor portfolio, climbing another 34% in the quarter after the shares jumped 194% last year.

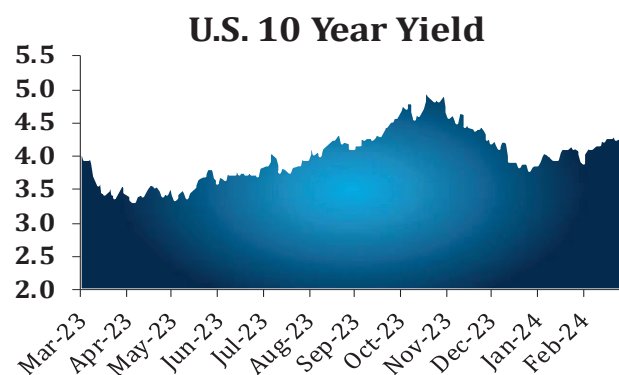
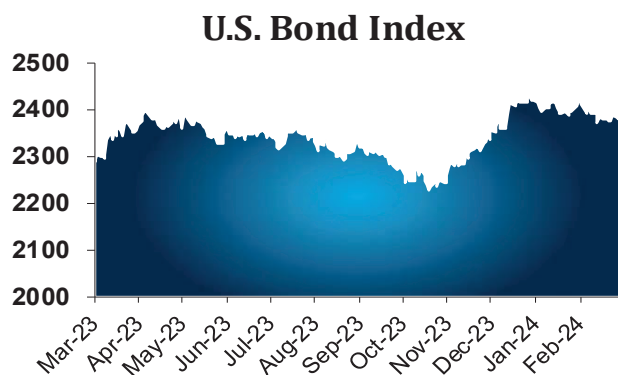
While individual stock valuations have become more challenging, we believe artificial intelligence (AI) will drive a new decade of growth and productivity. Anchor’s equity portfolio continued to benefit from AI earnings strength, but we believe individual stock analysis is imperative after the recent market gains. Trading activity picked up in the portfolio in the quarter, as our portfolio managers adjusted the technology exposure but also stepped into under-performing companies with strong fundamentals. While trimming some of the portfolio technology exposures, in March we added Micron Technology, one of the leading computer global memory manufacturers. We believe that Micron will be part of the backbone of the AI buildout with strong profit growth over the next five years. We also replaced Palo Alto Networks with CrowdStrike Holdings, which we decided is better positioned in the fast-growing cybersecurity market.

The Anchor Equity Composite was up +8.53% in the first quarter and returned +30.0% over the past 12 months, compared to +8.05% and +23.2% respectively for the MSCI ACWI Total Return benchmark. The composite has produced a 12.7% average annualized return over the past 5 years compared to 11.2 % for its benchmark. Quality dividend shares lagged the major benchmarks in the first quarter due to the narrow market breadth, but the Anchor High-Quality Income Portfolio out-performed its benchmark by 2.3%. The High-Quality Income Composite returned +5.4% in the quarter compared to 3.1% for the SG Global Quality Income benchmark. The portfolio has produced a +6.3% annualized return over the past five years compared to 4.8% for the benchmark. *

**Performance is based on Anchor equity composite portfolios. Returns include changes in unit value, reinvestment of all distributions, investment management fees, execution, custodial and other charges. Investment results are best judged over the long term. Performance should be evaluated with consideration of the client’s specific goals and investment objectives. Past performance is not necessarily indicative of future results. Returns for indices or benchmarks are provided in U.S. dollar terms and solely for informational purposes. These indices or benchmarks are non-managed indices that do not accrue advisory or transactional expenses. Benchmarks are based on the client’s selected asset allocation and are calculated in U.S. dollar terms. The Anchor Equity Portfolio benchmark uses the MSCI AC World Total Return Index. The Anchor High Quality Income Portfolio benchmark uses the SG Global Quality Income (USD) Index.*

Fixed Income Analysis

Central Bank Divergence



The year's first quarter was characterized by higher interest rates and tighter credit spreads in a generally risk-on environment. The 10-year treasury yield ended March at 4.20% (-0.05% month-on-month and +0.32% year-to-date). On the back of rampant investment grade primary market issuance investment grade credit spreads are one standard deviation below the 10-year average. As a reminder, the lower the credit spread the lower the compensation the investor receives for taking on credit risk. Looking down the credit spectrum, this is also the case for high yield credit spreads. The credit spread differential between BBs (highest rated cohort in the high yield universe) and BBBs (lowest rated cohort in the investment grade universe) is also one standard deviation below the 10-year average. Meanwhile the credit spread differential between CCCs (lowest rated in the high yield universe) and BBs is in line with the 10-year average. Not as tight but nonetheless notably tighter than where it began the year. Credit spreads have benefitted from generally buoyant economic data, and the rising belief that a recession will be avoided.

The Federal Open Market Committee (FOMC) met in March, which further reinforced the market's no recession view. The FOMC released an updated Summary of Economic Projections, where the 2024 projections for the unemployment rate and Personal Consumption Expenditure (PCE) inflation declined (from the December 2023 projections), while real GDP growth and core PCE were higher. The median DOT remained at 3 rate cuts for this year, however if one member's projection was less than 3 cuts the median would have been for 2 rate cuts. Thus, it was close to a more dramatic headline. In the press conference Powell generally reinforced a data-dependent, wait and see approach (despite the committee's higher median core PCE projection). He intimated that the rate hiking cycle is over, but the timing of the first rate cut isn't yet clear. This rhetoric was in line with the shift in market pricing over the last few months. The number of Fed rate cuts for 2024 has been reduced from six at the beginning of the year to about two and a half 0.25% rate cuts. At the end of 2023, the market was pricing in three rate cuts by June alone! Similar situations are also playing out in other developed countries around the globe. Since the end of 2023, rate cut expectations have been pared in Europe, Canada, Great Britain, Switzerland, and Australia. The Bank of Japan (BOJ) is the major outlier...

Fixed Income Analysis



In a landmark moment, the BOJ exited its negative interest rate regime (raised the overnight rate range to 0%-0.10%) and ended yield curve control, saying they had “fulfilled their roles.” Prior to July’s meeting, the BOJ would explicitly buy 10-year bonds if needed to cap the 10-year bond yield at 1.0%. While the explicit ceiling has been dropped, the central bank said it could act “nimble” by purchasing government bonds if long-term rates rise too quickly. Additionally, the BOJ maintained its quantitative easing program of buying Japanese government bonds but said it will gradually reduce the amount of corporate bond and commercial paper purchases, eventually ending both purchase programs altogether in a year’s time. Japan’s largest labor union, the Japanese Trade Union Confederation (comprised of 771 member unions), received an average wage hike of 5.3% year-on-year in March. Japan inflation (both core and headline) has been above the central bank’s target since late 2022. Nonetheless, BOJ maintained a dovish tone, saying, “accommodative financial conditions will be maintained for the time being.” After all, the BOJ is in the midst of exiting arguably the biggest central bank experiment of all time. It’s clear they intend to do so in an orderly fashion (if possible). The market expects the BOJ to raise rates twice in 2024 as of the end of March – the only central bank expected to raise rates in 2024.

In March we reinvested the proceeds from the Norway government bond which matured, into a nine-year US treasury bond. Interest rate differentials continue to favor the greenback, buoyed by a resilient economic backdrop. If in the future a developed market sovereign bond stands out as particularly attractive, we may decide to switch out of a (highly liquid) treasury and take on the currency risk.



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