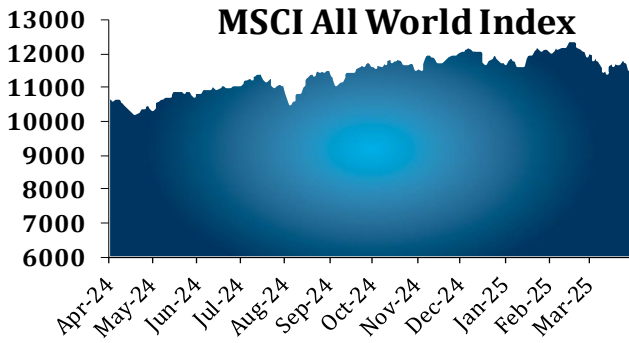
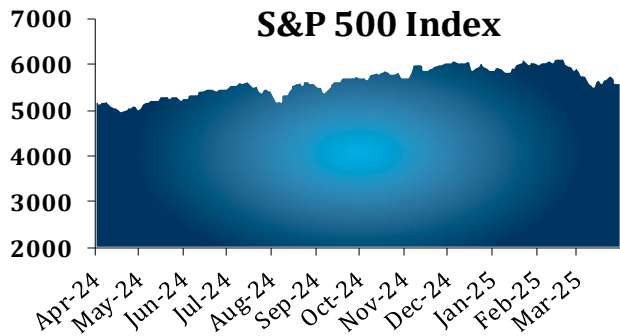


Stock Market Analysis

Finding Alpha in a Volatile Market



The recent political and market volatility has caused rising concern among many of our clients. Our research team has managed through many turbulent times over the past four decades, including the Covid pandemic, the financial crisis and the technology bubble. The depth and duration of market corrections are difficult to predict, and we remind clients that they should focus on their long-term investment goals. While we do not believe in market timing, selloffs do create opportunities, and Anchor believes detailed fundamental analysis provides investors with opportunities in these periods. We were able to successfully create positive returns both in absolute terms and relative to our benchmark in the challenging first quarter. The Anchor team is actively monitoring the market turbulence. While it is difficult to predict all outcomes, we believe that we can use volatility to identify undervalued companies with experienced management teams and superior business strategies to produce strong long-term returns for our clients. We realize you may have areas of concern at this time, so please know that our team members are available should you have any questions.

Economists reduced their expectations for US growth this year, predicting weaker consumer spending and more limited capital investment amid rising uncertainty created by the Trump administration's changing trade policy. The consensus 2025 Gross domestic product growth estimate has fallen to 2.0%, according to the latest Bloomberg survey of economists, down from the 2.3% estimate in last month's poll. Their first-quarter growth estimate was marked down a full percentage point to 1.2%. We assume the downward trend will continue based on weakening consumer and business sentiment and rising inflation expectations due primarily to tariffs. Consumers expect prices to rise over the next five to 10 years at the highest rate since February 1993 according to the latest University of Michigan survey.

The concepts of lowering the U.S. fiscal and trade deficits while promoting US domestic businesses are potentially positive on paper, but the chaotic short-term execution is causing economic uncertainty. Implementing complicated domestic and international policies will be challenging. More importantly, the concept that higher tariffs will create more jobs doesn't pass the test of sound economic theory. President Trump argues that the tariffs will create more US jobs as companies relocate production into the US and consumers substitute to domestic goods and away from imported ones. However, we believe the world has benefited from the expansion of global trade over the past 40 years and that tariffs will likely hurt this progress as countries become more parochial and protectionist.

Stock Market Analysis



The current “trade war” is increasing prices, lowering selection and strangling business investment. We assume over time these policies may lower unfair trade practices, but the current heated rhetoric makes the long-term aspiration difficult. It is unclear whether the tariff impact will be transient, or the policies will have long-term benefits to the U.S. economy.

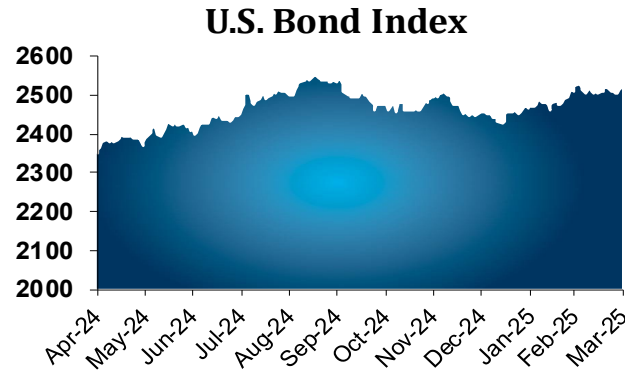
We are also concerned that Trump’s immigration policies may slow longer term growth and increase wage inflation. The U.S. is a country of immigrants which has played a vital role in America’s growth. Most countries are fighting the demographic headwinds of low birthrates and aging populations. Industries such as agriculture and construction in the U.S. have become dependent on both documented and undocumented immigrants. While this is not an ideal situation, simply deporting all undocumented immigrants in a short period of time will have a negative impact on the economy. Long-term policies to promote legal immigration will ultimately make countries more competitive.

The S&P 500 and Nasdaq indices produced their worst quarterly returns since 2020 in the first three months of 2025 due to concerns that the tariff and immigration policies will hurt the U.S. economy. The two indices fell 4.3% and 10.3% respectively in the quarter. The mega-cap dominance began to unwind as the average company in the MSCI All Country World Index (“ACWI”) out-performed the market-cap weighted index by 3.4%. After years of underperformance international stocks proxied by the MSCI Europe Asia Far East Index outperformed U.S. stocks by 11.3% returning 7.1%. The Anchor Equity Composite returned 3.25% in the first quarter compared to the -1.15% return for the MSCI ACWI benchmark. The equity composite has produced a 17.5% average annualized return over the past five years compared to 15.3% for its benchmark. The Anchor High-Quality Income Composite returned 7.9% in the first quarter compared to 9.3% for the SG Global Quality Income benchmark. The portfolio has produced a 13.6% annualized return over the past five years compared to 11.8% 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

March /Q1 Madness



In January and February, we wrote of the significant uncertainty that has plagued financial markets due to a slew of tariff-related headlines and announcements from President Trump. This trend continued uninterrupted in March. The flurry of negative headlines and constant news flow has led to plummeting consumer sentiment. Perhaps the best example of this is the University of Michigan Surveys of Consumers – specifically the inflation expectations component. In this survey 500 households are surveyed every month; 60% are new respondents, while 40% are re-interviewed from the previous month. As per the latest survey release, the median inflation rate expected in the next 12 months is 5.0%. When taking the mean response, the figure jumps to 9.4%! For context, this mean expectation is higher than 2022 when the consumer price index (CPI) reached a 40 year high of 9% on the back of supply chain issues and a demand boom. Meanwhile, the market derived measure of 12-month inflation expectations, the 12-month breakeven (the difference between a nominal treasury yield and a treasury inflation protected security yield), stands at 3.25%. This is higher than the latest CPI reading of 2.82% but is well away from the University of Michigan survey levels.

The Fed also expects inflation to rise in 2025 as per the updated Summary of Economic Projections. The median projection for individual FOMC members is for headline personal consumption expenditure price index (PCE) inflation of 2.7% (up from 2.5%) and core PCE inflation which excludes food & energy of 2.8% (up from 2.5%). After leaving the fed funds rate (range) unchanged in the March meeting, Chair Powell indicated the FOMC was very much data dependent and wanted to see how tariffs would affect the economy before acting. This sentiment was also evident in the dot plot which summarizes individual members' expectations for the fed funds rate. The median expectation for year-end 2025 (YE25), YE26, and YE27 were unchanged from the December release with two 0.25% cuts in 2025 and two more in 2026. Meanwhile, as per fed fund futures pricing, the market expects three rate cuts in 2025 (one more than last month) and a further rate cut in 2026.

Fixed Income Analysis



The majority of the Q1 decline in treasury rates came in the first two months of the year. For example, the 10-year treasury yield declined by 0.41% in January and February, however, was unchanged in March. This wasn't the case with corporate credit spreads. After relatively muted increases in January and February, credit spreads widened notably in March as tariff fears ramped up. This spread widening was most evident in high yield credit - bonds rated BB+ and lower. The Bloomberg U.S. Corporate High Yield index's average credit spread rose 0.67% from the near historical lows to 3.47%. As a reminder a widening credit spread has a negative impact on the price of a fixed coupon corporate bond. We have been wary of pushing out the risk curve on higher risk bonds for some time given the poor risk reward. This focus on credit quality showed up in March as our high yield holdings (and higher beta investment grade bonds) did not experience nearly the same amount of credit spread widening in March as the high yield index.

In March we added non-USD exposure in the form of a 3-year Norway government bond (NOK denominated). The dollar has started to roll-over, and we did not want to be left without any non-USD exposure in the event this weakening continues. Norway boasts a comparable yield to the U.S. treasuries, however, has stronger fundamentals including a positive current account and government funding profile. Germany is Norway's largest trade partner. Norway accounted for 48% of Germany's 2024 natural gas imports. In March Germany made a tectonic shift towards fiscal spending by exempting defense spending above 1.0% of GDP from the country's constitutional debt brake and by creating a €500 billion off-balance sheet infrastructure fund. The combined measures are expected to lead to €1 trillion of additional spending over the next decade. The NOK's performance has historically been positively correlated with the EUR/USD and has a higher beta than EUR/USD. Given Germany's spending plans and status as Europe's largest economy (28% of euro area GDP), we think the NOK is set to benefit over the medium term.



Disclaimer

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. Past performance is no guarantee of future results. The opinions expressed may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by the authors to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecasts made will be correct. Reliance upon information in this material is at the sole discretion of the reader. Investment involves risks. Readers should consult their financial advisors prior to any investment decision. Index performance is shown for illustrative purposes only. You cannot invest directly in an index. Sources may include MSCI, Bloomberg, and S&P Global. Information contained within is private and confidential and for the sole use of clients of Anchor Investment Management Ltd. ("AIM"). AIM respects the intellectual property rights of others. If you see a copyright or trademark of yours which is being infringed, you may notify AIM at info@anchor.bm. We will contact you to obtain details of your claim.