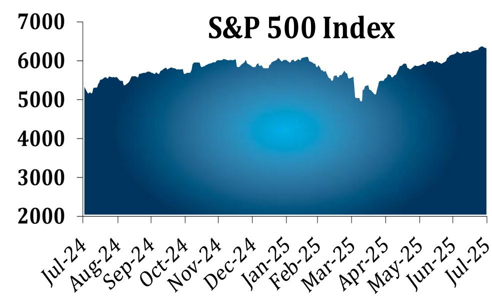
This Month in the Markets

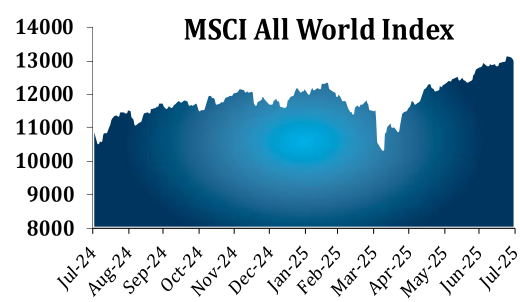
July 2025

Equity Commentary: Mag-nificent

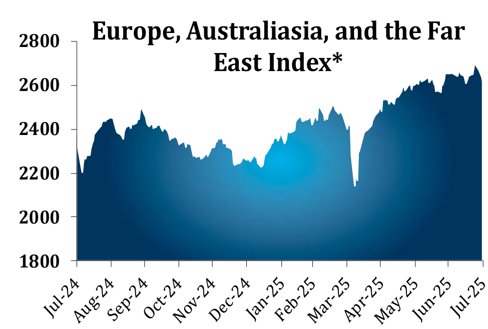
Solid earnings reports from several of Magnificent Seven Stocks drove the U.S. stock indices higher in July. Alphabet, Meta Platforms and Microsoft reported better than expected second quarter results and positive outlooks from their artificial intelligence ("AI") investments. The AI euphoria also drove Nvidia 12.6% higher. All four stocks are in the Anchor equity portfolio, and they represent 23% of the S&P 500 Index market cap. The market concentration of these shares drove the out-performance of the U.S. benchmark which gained 2.2% in July compared to 2.1% decline for the MSCI EAFE Index and +0.7% return for the MSCI Emerging Markets Index. The U.S. dollar rebounded in July after sliding on the tariff announcements.



The dollar rally hurt returns on foreign shares. The STOXX Europe 600 Price Index returned 0.9% in euros but lost 2.0% when measured in US dollars. The MSCI ACWI USD benchmark rose 1.4% for the month. The MSCI ACWI Information Technology Sector Index led with a gain of 4.1%, driven by the strong growth of AI stocks. Conversely, the MSCI ACWI Staples and Healthcare Sector Indices fell by 2.6% and 2.7% respectively. Many consumer staple products are experiencing volume weakness along with margin pressure from higher tariffs. Health care service providers are experiencing rising medical costs and disappointing earnings.



The best performer during the month was Performance Food Group which rose 14.8% on US Foods Holding Corp takeover speculation. The worst performing position for July was UnitedHealth Group which fell 20% on the back of a series of negative news announcements including disappointing second quarter financial results and guidance and confirmation the largest health insurance company in the U.S. was under Department of Justice investigation. The team reduced trading as we entered earnings season in July, as we quantified the impact of the U.S. trade policies on economic activity and company results. While there were some stock-specific results which impacted our quantitative models, economic activity and quarterly results were better than most investors feared.



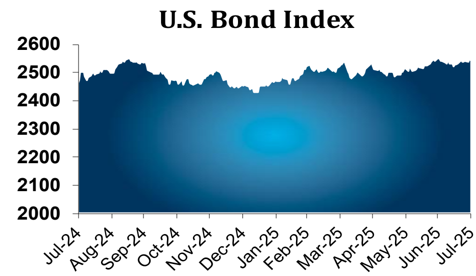
We were encouraged to see the major trading partners sign trade agreements with the U.S. but there will be significant medium term economic pressure on specific companies. We believe the largest impact will be on foreign companies who rely on exports to the U.S. This unprecedented tariff experiment is difficult to quantify, especially with the goalposts constantly moving.

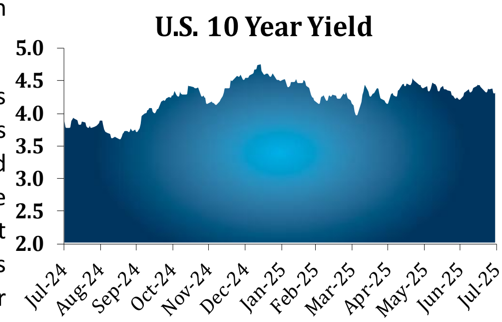
Fixed Income Commentary: Too late?

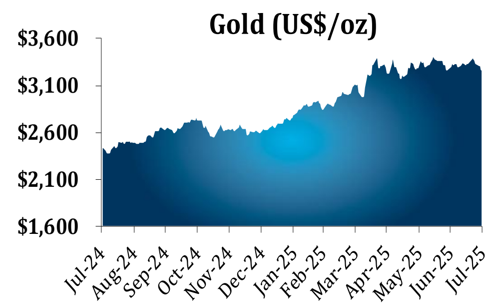
Treasury rates were higher across the curve in July. The 10-year treasury rose 0.15% to 4.37% ending the month in the middle of the year-to-date (YTD) range. Meanwhile the 30-year treasury is much closer to the upper end of its 2025 range. The steepening of the yield curve this year is due to the long-term uncertainty surrounding the U.S.'s fiscal spending and resultant impact on the country's growing debt load. The elevated level of the 30-year treasury rate likely also reflects some uncertainty with respect to the Fed's independence which has been under the spotlight in recent months. The weaker than expected U.S. payrolls jobs report caused yields to tumble on August 1st but the curve steepening trend accelerated. The 10-year treasury yield fell more than double the 30-year treasury yield (15.8 versus 7.8 basis points).

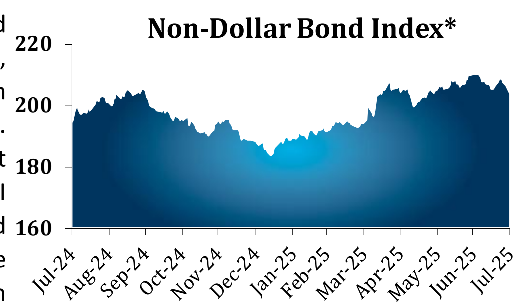
In last month's bond market summary, we commented on President Trump's public criticism (bullying?) of Fed Chair, Jermone Powell. President Trump has referred to Powell as "Jerome 'Too Late' Powell" in social media posts, called him a "stupid person" in interviews, and even sent Powell a handwritten note criticizing him. In July, the pressure and criticism ramped up further. The latest avenue of attack on Chair Powell stems from the increasing costs of the Fed's renovation of two historic buildings - the Eccles Building and the old Interior South Building. Projected costs have increased from $1.9 billion to $2.5 billion due to the discovery of more asbestos and lead than initially anticipated, and architectural challenges associated with modernizing the old buildings. The Director of the Office of Management and Budget, Russell Vought, sent Powell a letter accusing him of mismanaging the project. A few days later the WSJ reported that President Trump had polled Republican lawmakers on whether he should fire Powell during a closed-door meeting. Later that day, after an adverse market reaction to the news, President Trump denied he was considering firing Chair Powell.

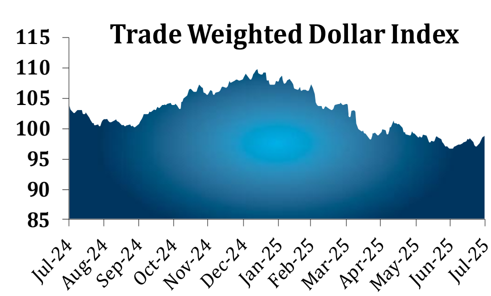
President Trump cannot fire Chair Powell on a whim. As per Section 10 of the Federal Reserve Act the President can only remove a governor from the Board of Governors "for cause" - not for policy disagreements. We are not lawyers, but it seems to us that renovation cost overruns on historic buildings from hazardous materials is a far stretch to qualify as cause to fire a Fed Chair. President Trump seems to realize this. After telling reporters he was not planning on firing Chair Powell, he later added, "I don't rule out anything, but I think it's highly unlikely. Unless he has to leave for fraud." Powell's term as Fed Chair ends in May 2026. President Trump is certainly going to appoint a more dovish candidate to be the next Fed Chair. However, that does not mean he can simply appoint a puppet to cut rates and do his bidding willy-nilly. Whoever he nominates will need to be approved by the Senate. Also, decisions for cutting/hiking interest rates by the Federal Open Market Committee (FOMC) are voting decisions. It is not solely the Chair's opinion. Additionally, the FOMC meetings are itself a vote - it is not necessarily the Chairman of the Federal Reserve, though that is the convention. This brings us to an interesting possibility: whereby Powell and his anointed successor are both on the (FOMC) at the same time (if the anointed successor isn't already on the Board they could be added in January 2026 when Adriana Kugler's term ends). We see this as a more likely scenario than President Trump outright removing Powell or Powell stepping down.











*Merrill Lynch Global Broad Market, Ex US Dollar Index

Disclaimer

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 this report 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.