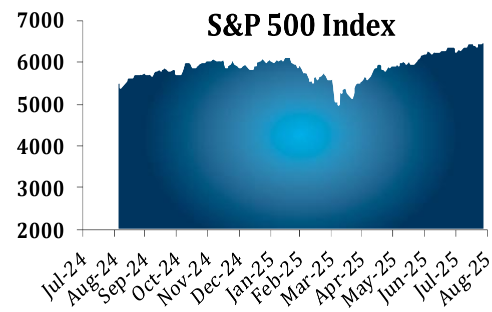
This Month in the Markets

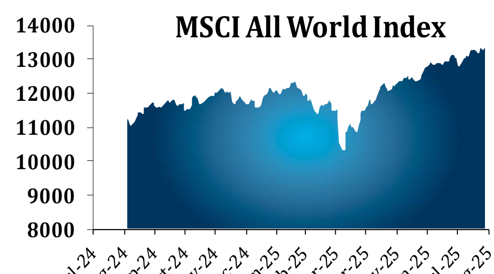
August 2025

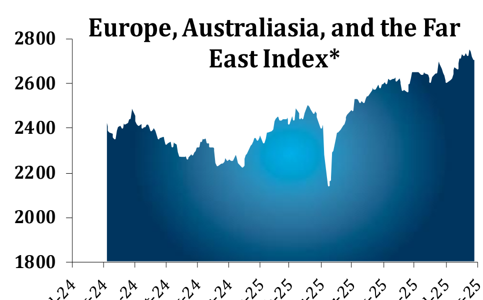
ANCHOR
Investment Management

Equity Commentary: Tip-Toeing Forward

August equity returns were solid. US non-farm payroll report for July suggested labor growth may be slowing which supported views of potential rate cuts by the Federal Reserve. Second quarter earnings season also continued with many companies soundly beating analysts' expectations and driving gains. The MSCI ACWI Index rose 2.5% for the month. The S&P 500 Index gained 2.0% and the MSCI EAFE Index was up 4.3%. The MSCI Emerging Markets Index also posted a gain of 1.5%. Value outperformed growth in terms of investment styles, with the MSCI All Country World Growth Index up 1.8% while the MSCI ACWI Value Index was up 3.3%. The MSCI ACWI Materials Index was the strongest sector with a gain of 7.2%, driven by a surge in gold. Conversely, the MSCI ACWI Utilities Sector Index fell by 0.3%, primarily due to profit taking after the recent the run-up.







As the market continues to hit new highs it is important to circle back to basics and become increasingly discerning. Successful investing with a focus on valuation means anchoring decisions to the relationship between price and value, while remembering that quality and growth drive what "value" really is. As Howard Marks notes, risk and return hinge on "the relationship between price and value," but an opinion on valuation must be both accurate and appropriately held, not dogmatic or flimsy. We believe business quality is as important as valuation because markets frequently underestimate superior firms' ability to compound. Paying a premium can be rational if returns on capital and reinvestment runways are durable. At the same time, classic value principles still matter. We insist on a margin of safety from more stable and understandable businesses. We try to be honest about our biases and the uncertainty of forecasts. As prices rise it is temperament more so than intellect that helps lead to satisfactory outcomes. The siren song of "easy money" is most persuasive at points when it is least true. These musings and cautiousness have led us to reduce exposure where we feel it is prudent.

The worst performing position for May was Intuit, which fell 15.6% on the back of a slightly less than expected earnings outlook given by management during their recent quarterly earnings call. The best performer was UnitedHealth Group, which surged 24.2% on news reports that have shown that Warren Buffett and several prominent investors bought sizable stakes in the company.

As noted above we are moving forward with more conservatism and have lightened up on our positions somewhat. In August, we liquidated three positions. We sold DBS Group Holdings Ltd. after the Singapore bank hit our price target. We also sold Siemens AG ("SIEGY"). Siemens, as a play on AI automation, and electrical infrastructure, also hit our price target, with the shares gaining 78% since our purchase in April 2022. When initially purchased, it traded at a large multiple discount to the industrial sector but this has now grown to a rather large premium where we believe a great deal of the positive sentiment is factored in given its estimated forward growth. We also sold CRH PLC ("CRH") which also hit our target price after more than doubling since our initial purchase less than 2 years ago.

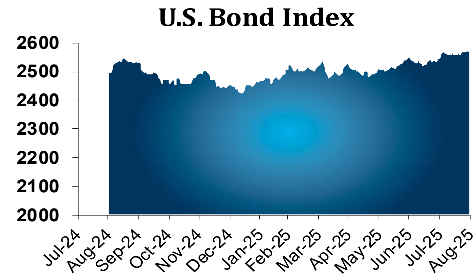
We bought one position in August. We purchased MSCI Inc. ("MSCI") which we believe is an attractive investment opportunity to participate in the fast-growing international ETF business. MSCI provides a broad suite of products and services, anchored by over 246,000 equity indexes spanning market cap, factors, thematic, sustainability, ESG, and climate benchmarks.

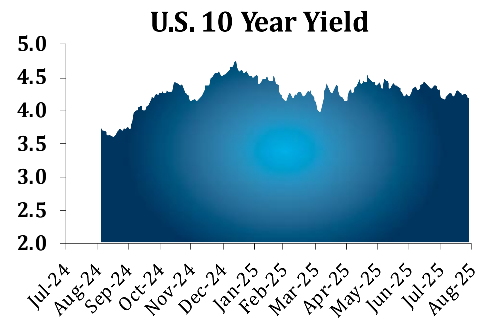
Fixed Income Commentary: Powell & Trump Pivot

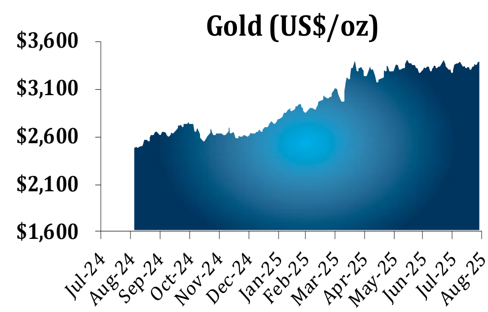
On August 22nd Fed Chair Jay Powell spoke at the annual Jackson Hole Economic Policy Symposium. This event, which includes a gathering of central bankers from around the globe has become an annual focal point for market participants ever since former Fed Chair, Ben Bernanke's 2010 speech where he laid the groundwork for a second round of quantitative easing. Since the tariff announcements in early April, Chair Powell has maintained a cautious approach with regards to lowering the fed funds rate, preferring to wait and see the potential impact on inflation, despite enduring bouts of public criticism from President Trump in the process. However, his tone in his Jackson Hole speech took a more dovish tone. With regards to inflation, his view shifted from waiting to see the potential impact of tariffs to expecting the effects to "be relatively short-lived — a one-time shift in the price level." The impact on the consumer price index (CPI) has been relatively muted, though the latest producer price index (PPI) came in well above expectations. With regards to the labor market, Powell commented that "downside risks to employment are rising." The latest payrolls figure, released on August 1st, came in well below consensus estimates and there were significant negative revisions to previous data.

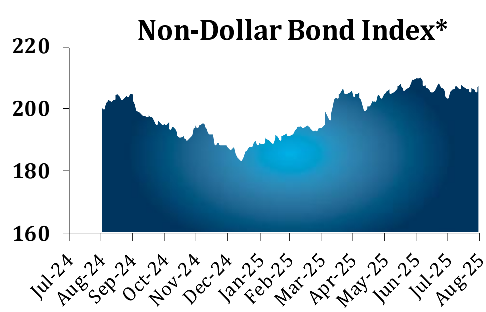
Markets liked what they heard from Chair Powell. Credit spreads tightened to historically tight levels, while interest rates declined on solidified expectations of a rate cut in the September Federal Open Market Committee (FOMC) meeting. The 2-year treasury fell 0.34% to 3.62%, while the 10-year treasury declined 0.15% to 4.23%. Meanwhile the 30-year treasury rose 0.03% in August. The difference between the 10-year treasury yield and the 30-year treasury yield ended August at 0.70%, compared to just 0.21% at year-end 2024. This widening spread reflects uncertainty – to the US's fiscal situation (persistent annual fiscal deficits since 2002) and worries around the Fed's independence given President Trump's assault on the Fed.

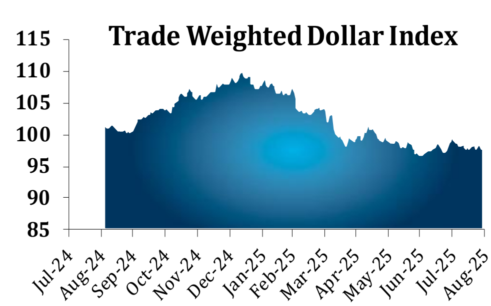
With regards to the latter, President Trump's attention has pivoted to Fed Governor, Lisa Cook. Governor Cook was appointed by President Joe Biden in 2022; her term is set to end in 2038. She has been accused of purposely listing two different homes as her primary residence on separate mortgages to gain more favorable terms (in 2021 before she was appointed as a Federal Reserve Governor). On August 25th President Trump announced on Truth Social that he had fired Cook citing "gross negligence." Governor Cook has refused to resign and hired an attorney. According to the Federal Reserve Act the President can only remove a Fed Governor "for cause." It remains to be seen if the actions taken before Cook was appointed as a Fed Governor meet this standard. Governor Cook and her lawyer clearly don't think so. Treasury Secretary Scott Bessant thinks otherwise saying, "The Fed is an unaccountable institution, and its relationship with the American people depends on a high level of trust, and incidents like this puncture that trust." As of now it appears the case will be heading to the courts for resolution.







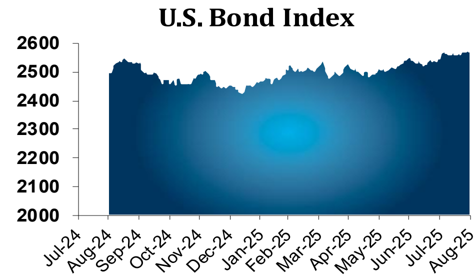


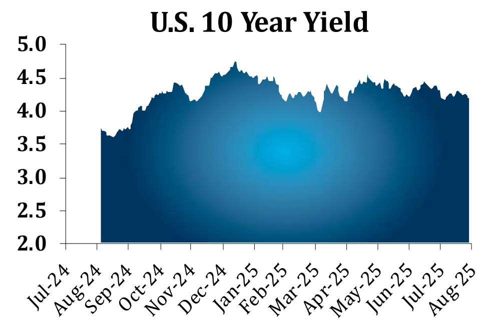


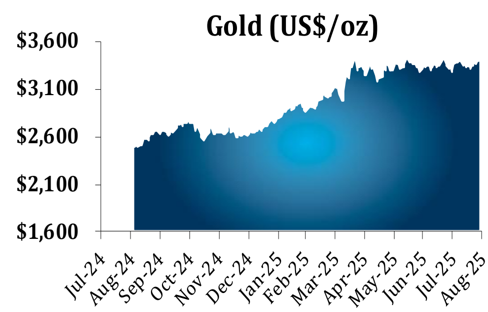
*Merrill Lynch Global Broad Market, Ex US Dollar Index

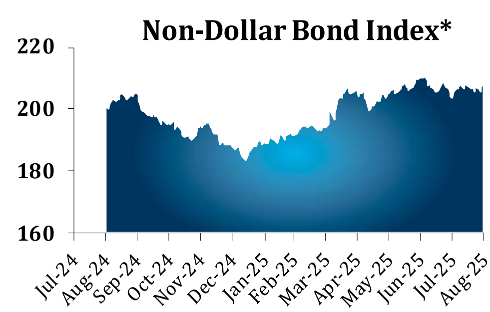
Fixed Income Commentary

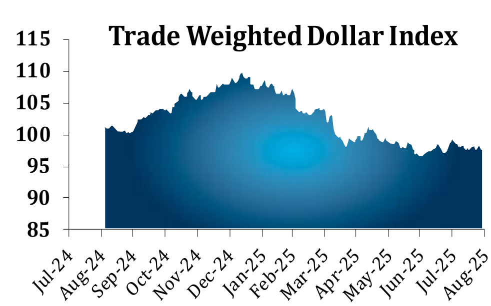
Why is this relevant? The Federal Open Market Committee (FOMC) is responsible for setting the fed funds range for which many other interest rates are dependent. The FOMC voting members include the seven Fed Governors, the NY Fed President, and four regional Federal Reserve bank presidents (they rotate annually). Each of the regional federal reserve bank president terms expire in February 2026. Regional bank presidents are appointed by their regional bank directors, however the Fed Board has final approval through a simple majority vote. The Fed board currently consists of four non-Trump appointed Governors and three Trump appointed governors (assuming Stephen Miran is confirmed by the Senate). If Governor Cook is ousted and replaced with a Trump appointee, the Fed Board would be majority comprised of Trump appointees who will then have the decision-making power over who become the next regional Fed presidents. Those decisions will then ultimately filter into the FOMC. Since Trump is pushing for much lower interest rates than market is currently pricing, inflation expectations could rise significantly with a more dovish Fed.











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