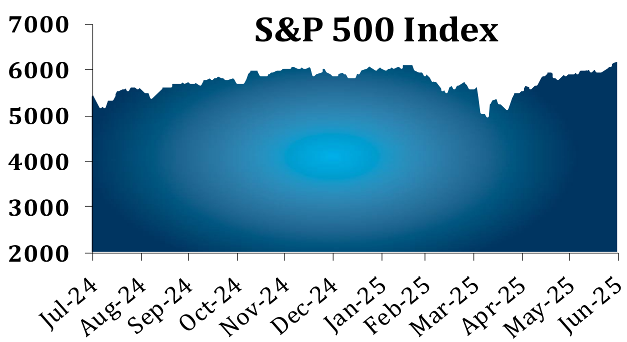
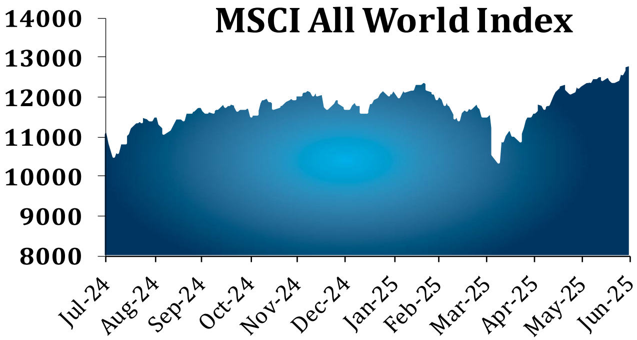
Public

Stock Market Analysis

War and Peace





The second quarter was another example of how treacherous market timing can be. Investors ran to the exits when Trump announced hefty tariffs on global trading partners in early April. We then witnessed one of the largest market reversals in recent history. The MSCI All-World Index lost 11% in the first six trading days in April but finished the quarter up 11% at a new record high. This volatility is why Anchor has consistently recommended that clients avoid market timing. In last quarter's report we stated, "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."

After several weeks of turmoil, investors appear convinced that the U.S. trading disputes will be settled with little economic impact and the rigid U.S. trade policies will force countries to become more competitive. European equity indices have led global markets this year and the returns for dollar-based investors have been compounded by the 14% appreciation of the euro in 2025. The STOXX Europe 600 Index returned 24.4% in the first half of the year when measured in U.S. dollars. The Europeans have elected to move from a period of conservative austerity to significantly increasing defense spending which will likely stimulate economic growth. Anchor recognized the potential for increased European defense spending and added Rheinmetall AG (RHM GR) to the equity portfolio at the end of last year. Germany's largest defense company rose 187% in the first half of the year (200% including FX gains). This has allowed us to return 84% of the entire investment in RHM GR to our clients and still hold a full position in our equity portfolio.

Artificial intelligence (AI) has been the big driver for the stock market again this year as investors expect significant productivity gains from machine learning and robotics. Investors should understand that disruptive technologies lead to winners and losers. Only a small number of companies that emerged from the internet technology bubble in the 1990's are still around today, although the internet led to significant innovation in many sectors of the economy. We anticipate that AI will help many companies but many of the new start-ups coming public at extravagant multiples will not produce reasonable returns for their investors. AI investment requires significant scale and Anchor clients have benefited from strong performance in the technology mega caps. META has rose 26% in the first half of 2025 and 46% over the past 12 months. The company's name is a misnomer because the social media bellwether shifted its focus from the metaverse to artificial intelligence over the past two years. It is a leader in AI investment and benefits from AI innovation in advertising to millions of its App users. But META also illustrates how the company that started out as Facebook has learned to adapt and keep pace with technology innovation. We recognized management's transition to AI leadership when we repurchased shares in the first quarter last year and have been rewarded with a 130% return.

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ANCHOR
Investment Management

The markets are also convinced that the Middle East will become more stable as the Israelis and Americans dealt a significant blow to the Iranian nuclear program. The conflicts in the Ukraine and the Middle East have resulted in significant economic impacts on the regions. It is still unclear whether regional wars will spread to the global superpowers and the tensions between China and Taiwan need to be monitored. The question for investors is whether the current market euphoria is warranted since the economic and political uncertainty remains elevated.

Looking forward, stock selection is critical due to the current market dislocation. Not all shares have participated in the 2025 rally as the Russell 2000 declined in the first half of the year due to fears of the impact of the U.S. administrations trade policies on smaller businesses. U.S. shares have lagged international shares with the S&P 500 Index returning 6% in the first half of year versus 10.1% for the MSCI All Country World Benchmark (“ACWI”). The Anchor Equity Composite outperformed the benchmark by 4% returning 14.1% over this period. The equity composite has produced a 16.0% average annualized return over the past five years compared to 13.9% for its benchmark.

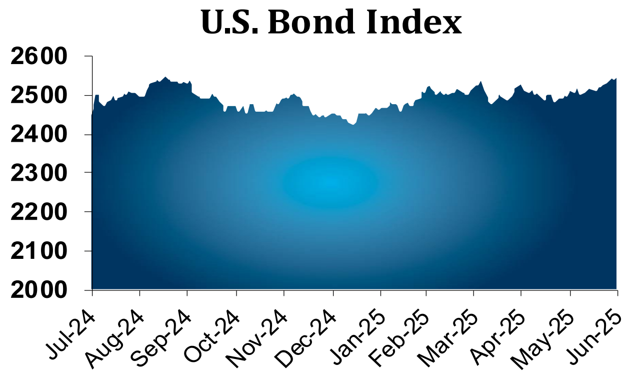
The Anchor High-Quality Income (“HQ”) Composite returned 9.2% in the first half of 2025 compared to 15.5% for the SG Global Quality Income benchmark. The underperformance this year is primarily related to Anchor’s higher U.S. dollar exposure versus the benchmark which only has 26% U.S. stock exposure. The 14% appreciation in the euro and gains in other currencies versus the greenback drove the benchmark returns. We historically hold a higher U.S. exposure in the Anchor HQ portfolio versus the benchmark since most of our clients are dollar based. The HQ portfolio has produced an 11.2% annualized return over the past five years compared to 10.4% for the benchmark.*

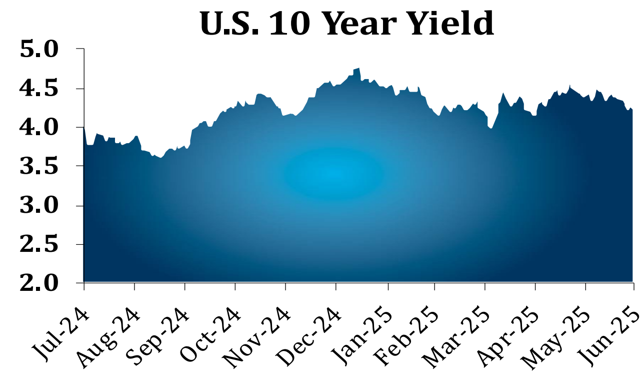
*Performance is based on Anchor equity composite portfolios. Returns include changes in unit value, reinvestment of all distributions, investment management fees, execution, custodial and other charges. Investment results are best judged over the long term. Performance should be evaluated with consideration 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.

Public

Fixed Income Analysis

Rates and Chair Powell Steady





The Federal Open Market Committee (FOMC) kept the fed funds rate range unchanged at 4.25%-4.50%. The Fed is still very much in data dependent, wait and see mode as plainly spoken by Chair Powell, “For the time being we are well positioned to wait to learn more about the likely course of the economy before considering any adjustments to our policy stance.” As evidenced in the summary of economic projections, the FOMC believes the tariffs and the surrounding trade uncertainty will negatively impact the economy. The median expectation for 2025 GDP growth fell from 1.7% in March to 1.4% in June, while the unemployment rate expectation was revised higher (from 4.4% to 4.5%). The unemployment rate is currently 4.2%. The Kansas City Fed Labor Market Conditions Level of Activity Indicator Index is comprised of 24 labour market data points. It is a broad gauge of employment market health. The index continues to deteriorate, however, we note the companion momentum indicator is not showing rapid deterioration. This suggests a weakening labour market at the margin, but the pace of which hasn’t quickened.

The Committee’s 2025 inflation expectations were nudged higher also. The median 2025 forecast for the personal consumption expenditure index (PCE) rose from 2.7% to 3.0%, while the core PCE projection rose from 2.8% to 3.1%. These projections are notably higher than the latest PCE (2.3% YoY) and core PCE (2.7% YoY) figures. Chair Powell is particularly wary of the potential impact from tariffs on inflation commenting, "Everyone that I know is forecasting a meaningful increase in inflation in coming months from tariffs, because someone has to pay for the tariffs ... between the manufacturer, the exporter, the importer, the retailer." Long short, we think he will not want to lower rates prematurely given these concerns. There is also the subject of fed credibility. On numerous occasions President Trump has publicly criticized Chair Powell for being too slow to cut interest rates. President Trump has referred to him as "Jerome 'Too Late' Powell" in social media posts and even called him a “stupid person” in interviews. On June 30th President Trump sent Chair Powell a handwritten note: “Jerome — You are, as usual, ‘too late.’ You have cost the USA a fortune — and continue to do so — You should lower the rate — by a lot. Hundreds of billions of dollars being lost. No Inflation.” Unfortunately, we’ve come to expect this type of bullying behavior from President Trump. However, Chair Powell has consistently ignored Trump’s prods and questions from the media on the subject.

Fixed Income Analysis

Ironically, President Trump's antics may have the opposite effect. Chair Powell may want to ensure the Fed's independence and perceived credibility are maintained until his term as Fed Chair ends in May 2026. With regards to the next Fed Chair President Trump will almost certainly appoint a dovish candidate. Speculation includes Scott Bessent (current Treasury Secretary), Kevin Warsh (former Fed Governor), Kevis Hasset (economic advisor to President Trump), and Christopher Waller (a Trump-appointed Fed Governor) to name a few.

Treasury rates moved in a wide range in the second quarter. However, they ended June largely unchanged from March-end. The 10-year treasury yield rose just 0.02% to 4.23% while the 2-year yield declined 0.16% to 3.72%. The 30-year treasury yield experienced the largest move QoQ rising 0.20% to 4.77%, driven by US fiscal/budgetary/debt dynamics stemming from the One Big Beautiful Bill Act (OBBBA). Credit spreads ended the quarter marginally tighter and near all-time record tight levels. Meanwhile, the dollar declined notably in the quarter. The DXY index, a proxy for the dollar, declined 7.0%. We participated in this dollar weakness through the addition of a Norwegian krone-denominated government bond in March. The Norwegian krone rose 4.1% versus the dollar in Q2. As always, our focus is on the risk-reward trade-off and not reaching recklessly for a few extra basis points. We continue to believe this is a prudent strategy over the course of the business cycle.

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