Monthly Commentary 6th of March 2025

Market Overview

In February, global financial markets experienced notable volatility influenced by geopolitical developments, economic indicators, and corporate earnings reports. The MSCI World Index finished lower by 0.89%.

Equities

Global equity markets had a mixed performance in February:

- **U.S. Equities**: The S&P 500 index declined by 1.42% for the month. This decline was primarily driven by analyst earnings downgrades and investor concerns over potential economic slowdowns. Factors contributing to market uncertainty included pending US tariffs on imports from Canada, Mexico, and China, potentially impacting consumer prices and economic growth. The technology sector faced significant challenges, with companies like Nvidia experiencing substantial stock declines due to perceived underwhelming earnings reports. The day following Nvidia earnings was the Nasdaq 100's worst session in nearly four months, highlighting investor sensitivity to corporate outlooks amid broader economic concerns.
- **European Markets**: European stocks (MSCI Euro Index) advanced by 3.33% amid improving economic sentiment and expectations that the European Central Bank (ECB) may cut rates later in the year. U.K stocks advanced by 1.57% for the month.
- **Japanese Market**: Japanese stocks saw the largest foreign outflow in nearly five months in the latest week, hit by a stronger yen, rising inflationary concerns, and uncertainties over US tariff policies. The index lost 6% in February, its biggest monthly loss in more than two years.

Fixed Income

The bond market as measured by the Global Aggregate bond index finished higher (up 1.43%) for the month amid the recent economic and geopolitical developments.

Commodities & Currency

- **Oil**: Crude oil prices declined by 3.82%, their biggest monthly losses since September.
- **Gold**: Gold prices closed higher, posting a gain of 2.12%. Experts suggest this surge is from the fear of inflation stoked by US President Donald Trump’s threats of tariffs, along with increased demand from central banks.
- **Dollar**: The U.S. dollar as measured by DXY Index dropped by 0.7%.
- **Bitcoin**: Bitcoin was down 17.53% for the month.

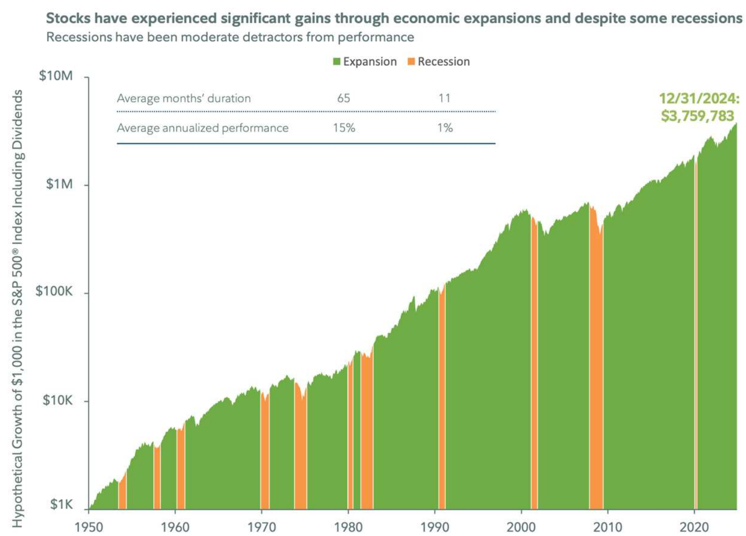
Nervous Times

We have had quite a few calls from clients who are nervous about geopolitics and the potentially negative effects on markets. Many are worried about a potential recession and the market implications. It is true that lately we have seen some selling, especially in growth stocks where Elgin is particular exposed to.

The below three graphics (and explanations) from Fidelity reflect our views and it is something that all our clients should have in mind.

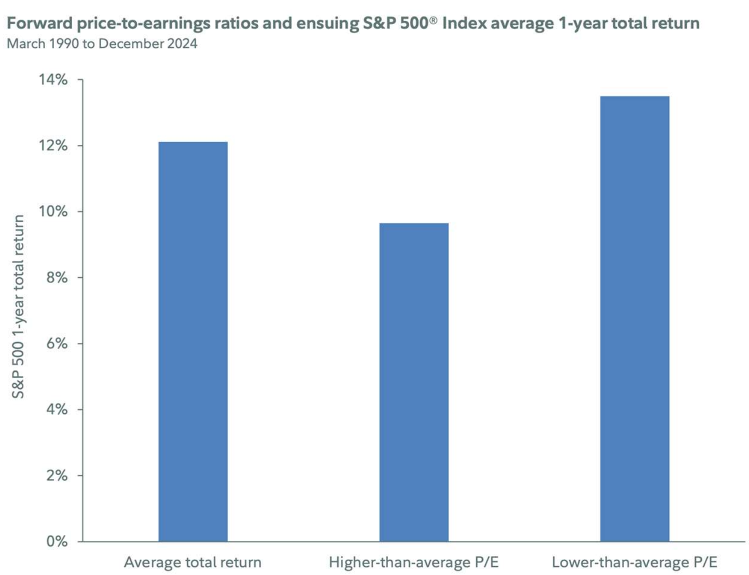
1. Keep the big picture in mind.

- Recessions and swift market declines are stressful, but contractions are often much shorter than expansions.
- Each of the past recessions (orange areas) on the chart likely felt challenging in the moment, but they pale in comparison with expansions (green areas), when stocks experienced significant growth.
- After every past recession, the markets and the economy have eventually stabilized, and an expansion has followed.

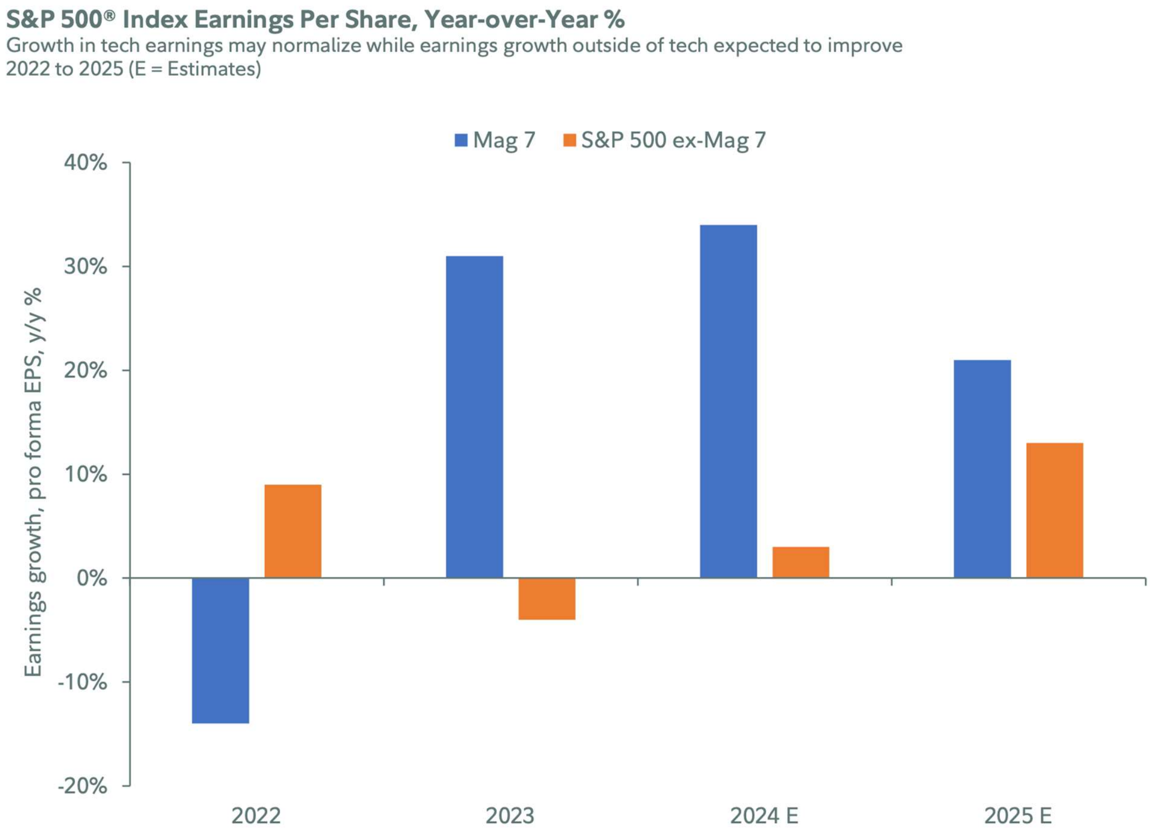


2. Markets can do well even after two years of large gains and higher than normal valuations.

- After two consecutive years of strong returns, U.S. stock market valuations are higher than average, as measured by forward price-to-earnings ratios.
- Historically, higher-than-average valuations have often led to lower-than-average stock market returns, rather than sharp contractions.
- Valuations may drift lower to more typical levels if earnings growth outpaces stock price appreciation.



3. Large tech companies are still growing their earnings faster than the market.



So, while it is uncomfortable to see the likes of Microsoft, Alphabet and Amazon falling as much as 15% from their recent highs, we are not worried about their prospects.

Taking some Profits on NVDIA

We want to take this opportunity to provide clarity on our decision to **take some profits for some clients** on Nvidia which has been our largest holding. This decision was made after careful analysis of market conditions, valuation metrics, and portfolio risk management. Below, we outline the key reasons behind this move:

1. Significant Stock Appreciation and Profit Realization

Nvidia has experienced a substantial surge in its stock price, driven by robust earnings growth, strong AI-driven demand, and continued leadership in the semiconductor industry. As a result, our investment in Nvidia has generated significant returns. In alignment with our investment approach, we believe this is time to realize some profits in our position.

2. Concerns on Current Market Sentiment

While Nvidia remains a fundamentally strong company, the current market sentiment might be negative for the sector in the short term. As the market adjusts to macroeconomic factors, there is a possibility of near-term volatility, and we see prudence in taking some profits at these levels.

3. Portfolio Diversification and Risk Management

As Nvidia became our largest holding, its outsized influence on our portfolios introduced concentration risk. By trimming our position, we are rebalancing our portfolios to maintain a diversified allocation that mitigates potential downside risks. This aligns with our long-term investment strategy of maintaining a well-balanced mix of assets across sectors.

4. Capital Deployment for Future Opportunities

By taking profits on Nvidia, we are freeing up capital to invest in other high-potential opportunities that align with our investment philosophy. We continue to seek undervalued stocks with strong growth potential and believe this move will allow us to capitalize on emerging trends while maintaining an optimal risk-reward balance.

Conclusion on Nvidia

Our decision to partially take profits on Nvidia for some clients does not reflect a loss of confidence in the company's long-term prospects. Rather, it is a strategic move to optimize our portfolio, manage risk, and ensure sustainable growth for our investors. As always, we appreciate your trust and support. Should you have any questions or require further clarification, please do not hesitate to reach out to our team.

The Elgin Analysts' Team