BELVOIR
CAPITAL AG

February 2025

Belvoir
Global Allocation II
Universal

Monthly Update

- Macroeconomics – Softer US, Recovering Europe, China ready to act. Tariffs' war is here to stay, for now
- Equities – Profit taking and uncertainty in February, with Europe outperforming again
- Bonds – Rally in both Government and Corporate bonds
- Currencies – Softer USD amid uncertainties and weaker macroeconomic data
- Other – Sell off in Cryptos, Gold still close to all-time highs
- Belvoir Global Allocation II Universal Fund lost a mild **-1.6%** despite heavy market volatility, now **+2.7% YTD**

Global equity markets were down during the month of February, with Europe partly balancing the bad performance of US and Asian indexes. However, inter-country and inter-region returns were vastly different. While the main US market index (S&P 500) was slightly up in the month, the tech-heavy Nasdaq took an almost 4% hit, as did the small cap index (losing more than 5%). Asia was also mixed, with the Japanese Nikkei 225 and the Indian Nifty 50 slashing over 5% while the Chinese Hang Seng gaining over 13%. Europe won again the western trophy, adding on average over 3% (German DAX +4%, French CAC40 +2%, Swiss SMI +3%). Fixed Income was almost unanimously in the green. Government bonds gained ground (the US 10-year Treasury yield dropped by 30 basis points (bps) from 4.54% to 4.24% and the German 10-year Bund yields by 10 bps from 2.47% to 2.38%). A similar trend has been seen in Investment Grade and High Yield Corporate bonds. The US dollar slightly fell against major currencies while gold appreciated to touch almost USD 3,000/ounce, after retreating below USD 2,900/ounce.

Such performance can be explained by four forces: Geopolitics, corporate earnings, macroeconomics, and global trade discussions. (1) Geopolitical risks are quickly softening after the recent peace talks (at times not so peaceful) between the United States, Russia and Ukraine, with Europe being sidelined, for the moment. The recent release of hostages from Gaza has also added to the positive geopolitical environment, although we are still probably months away from the temporary end. (2) Meanwhile, companies continue their regular activity. The Q4 2024 earnings season is almost over. In the US, 75% of S&P 500 companies have reported a positive EPS surprise (+18.2%, the highest quarterly growth in 3 years), with 63% surprising on revenues. However, for the next quarter, 59% of them issued negative EPS guidance vs 41% positive. In Europe, only 48% of companies have beaten on sales and 64% on earnings. (3) The month of February started strong on macroeconomic indicators for the United States (with a healthy Manufacturing PMI back above 50 and strong employment and inflation figures) but ended soft (with a drop in retail sales and negative consumer sentiment, alarming markets that Trump's tariff policies will soon start showing a negative impact on two-thirds of US GDP – that is, consumption). At the same time, macroeconomic indicators in Europe continued to show a tepid recovery, with an increase in consumer inflation to 2.5% from 2.4% (still relatively low but above the Central Bank's target), strong growth in Germany factory orders, the Eurozone GDP growth (barely) above the 0% line, and improving manufacturing and consumer sentiment. (4) Trump's tariff plans have accelerated during February. He recently imposed (again) the 25% tariffs on Canada and Mexico, added another 10% to Chinese tariffs, and is now preparing reciprocal tariffs, most likely also affecting Europe. Companies, consumers, and ultimately markets do not like uncertainty, and it is still not clear how many of these announcements are to be considered as negotiating tactics (probably most) and how many as an open-field permanent battle (most likely with China). The latter is ready to retaliate even further (the National People's Congress starts on March 4th), and Europe mentioned it is ready to respond too. Uncertainty abounds and that explains this month's market jitters.

Performance and positioning

During the month of February, the fund has been able to contain losses to a mere -1.6%, with a year-to-date performance still in positive territory (+2.7%). As expected, the equity portion detracted while our cash position increased during the course of the month, added.

Our expectation that year 2025 will experience bouts of heavy volatility is materializing. Hence, we have taken a very active fund management approach. During February, we have reduced our allocation to equities from 88% to today's 67%, opportunistically selling a few positions, such as Amazon, Hermès, Colgate-Palmolive, Freeport, and Mondelez. At the same time, we closed our long positions on the S&P 500 and Nasdaq 100 futures and reduced one corporate bond which performed very solidly since mid-January. With the promise of preserving capital while being invested when opportunities arise, we have added positions in conservative and solid names such as Netflix, Kering, LVMH, Pfizer, Merck, McDonald's, Lonza, Nestlé, and Berkshire Hathaway, increasing our equity allocation in Consumer Discretionary (the sector with the highest EPS growth recorded during this earnings season) and the more conservative Pharmaceutical sector.

Our top positive contributors to performance during February have been Intel (+18.6%), Coca-Cola (+11.2%) and Holcim (+8.1%) while negative contributors were PayPal (-20.7%), Tesla (-17.8%) and Estee Lauder (-15.8%).

Looking ahead, we remain cautiously optimistic about equities in 2025. Growth, last year feared to slow down dramatically, is holding up in the US and picking up in Europe, supported by expected further interest rate cuts by the European Central Bank. China's growth around 5% is endangered by further tariffs. However, the country's leadership has reiterated its focused efforts to keep stimulating the economy with further actions. The recent volatility in the markets underscores once again the importance of a diversified investment approach.

Further information on the Belvoir Global Allocation II Universal Fund can be found on our Website. Feel free to contact us with any questions about the fund—we appreciate all feedback.

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