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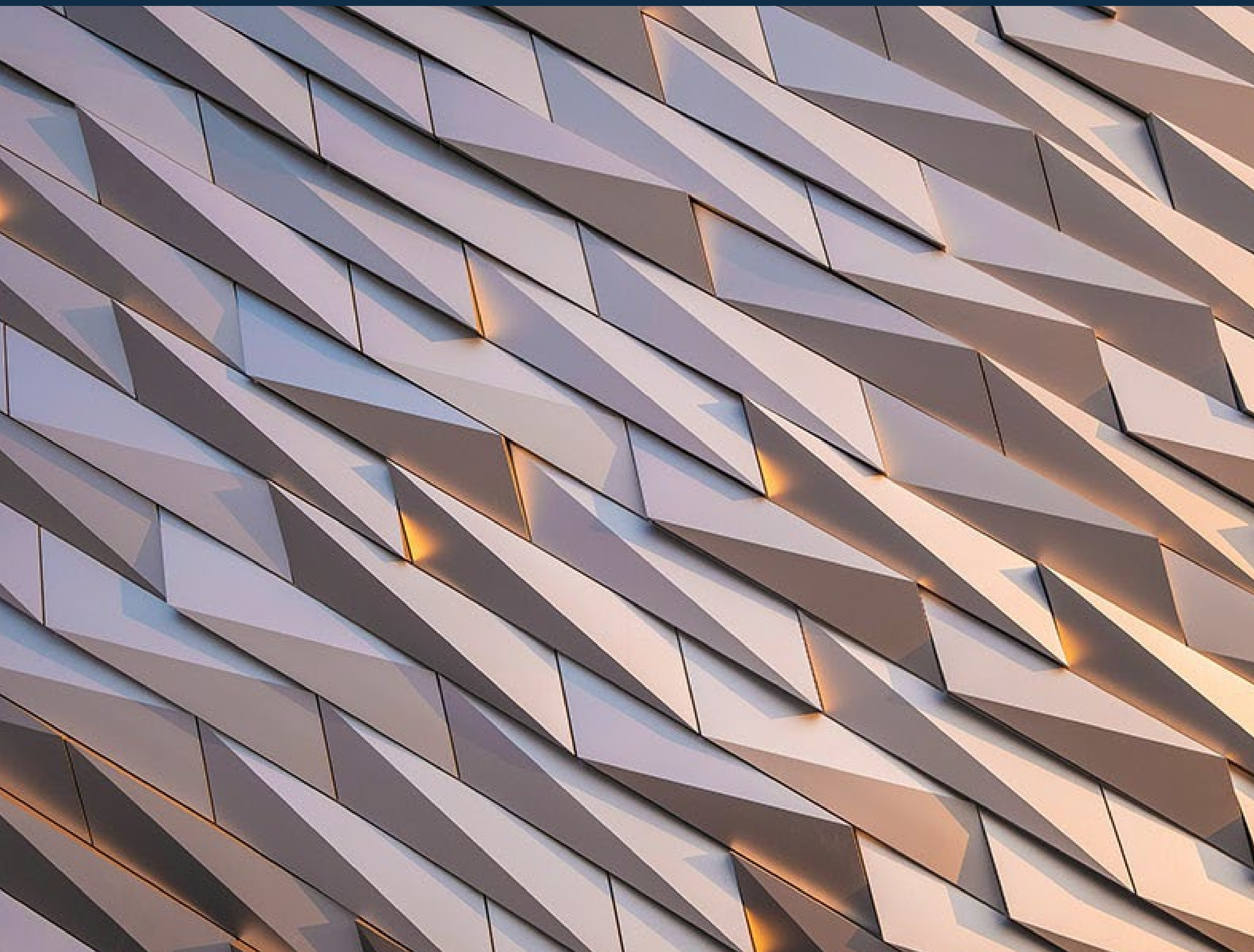
Atlas Monthly Equity Navigator

FEBRUARY 2025



February: Geopolitics, Tariffs & Rotation

February saw markets tiptoeing cautiously through a thin layer of ice, namely, the geopolitical circus swirling around the White House. What *killed it* in 2023 underperformed *bigly* in February 2024. The rotational moves – many of which already took flight in January – really picked up steam last month. Value plays, like China, Europe, and Financials, roared ahead, while the momentum darlings – USA, Tech, and Japan – took a breather (or perhaps a tumble). Surprisingly, tariff talk and Trump's *interesting* peace plan for Ukraine had only a marginal ripple effect. The slightly wobbly January macro data out of the US revived growth jitters for Q1, even though the end of 2023 was brimming with robust economic and earnings numbers. Speaking of themes, European defence companies were having a moment. And value had a good run, not just in Europe, but also in the US and Japan. Small caps, though, lagged their larger peers on both sides of the pond.

1. America First
    - Tariff headwinds persist, yet Chinese equities rallied, led by tech stocks buoyed by DeepSeek and other AI-related news out of China. Despite increased tariffs, the market seemed to shrug them off.
    - The US administration's controversial ceasefire negotiations serve as a stark reminder of the "America First" agenda. Europe's measured response, however, signals progress towards greater unity and bolstering of defence spending.
2. European Defence Outperfomance
    - The surge in European defence stock prices reflects a tangible market response to evolving geopolitical dynamics.
    - Irrespective of potential ceasefire agreements, sustained investment in defence is anticipated, driven by the need to address heightened long-term security concerns.
3. Magnificent 7 Underperformance
    - The "Magnificent 7" mega-cap technology stocks have collectively underperformed the S&P 493 (ex-Magnificent 7) by over 10% year-to-date in 2024. Individual performance within the group has varied significantly, ranging from Tesla's -39% decline from December highs to Meta's +14% year-to-date gain. Overall, the Magnificent 7 index has experienced a -10% correction from its peak at the end of 2023.
    - Q4 Earnings Data: While some positive reports and robust growth within the AI sector were noted, earnings surprises were generally good but not exceptional compared to those observed in 2023-24. Forward guidance anticipates continued strong demand in 2025; however, certain data points, such as the decrease in Nvidia's gross margin forecast, raised concerns.

Global Equity Performance

Global equity markets were slightly down in February, pulled down by USA (-1.1%) and Japan (-0.8%), while Europe (3.7%) and emerging markets (0.5%) gained in euro terms.

- Global equities were -0.4% in euro terms, pushed by US mega techs.
- US markets continued to underperform, as the Magnificent 7 index was -5.3% in February.
- Europe continued to outperform led by financial stocks. China (12%) was also strong led by technology.

United States

- The US market continued to underperform for a second consecutive month, potentially due to investor portfolios being overweight in American equities, particularly mega-cap technology stocks, at the close of 2023.
- The earnings season presented robust results overall, with earnings growth reaching 17.8% (source: FactSet). However, the "Magnificent 7" companies, while still showing strength in the AI sector, generally failed to meet the most optimistic projections.
- Large-cap value and quality companies demonstrated positive performance. From a sector perspective, defensive consumer staples (5.6%) emerged as the top performer during the period.

Europe

- Europe continued its positive trend, with Spain, Austria, and Italy leading country performance.

— Large-cap value stocks were the top-performing factors in the European market, while growth stocks underperformed. Small caps continued to lag, despite their attractive fundamentals.

Emerging Markets

— Emerging markets was decent in February mainly driven by Chinese technology stocks rallying more than 20%.

— The strength of Chinese equities over the past six months, particularly relative to India, represents a noteworthy market dynamic. This highlights the potential for sentiment-driven market behavior, where value-oriented themes (China) can exhibit significant mean reversion against established growth themes (India).

Themes & Styles

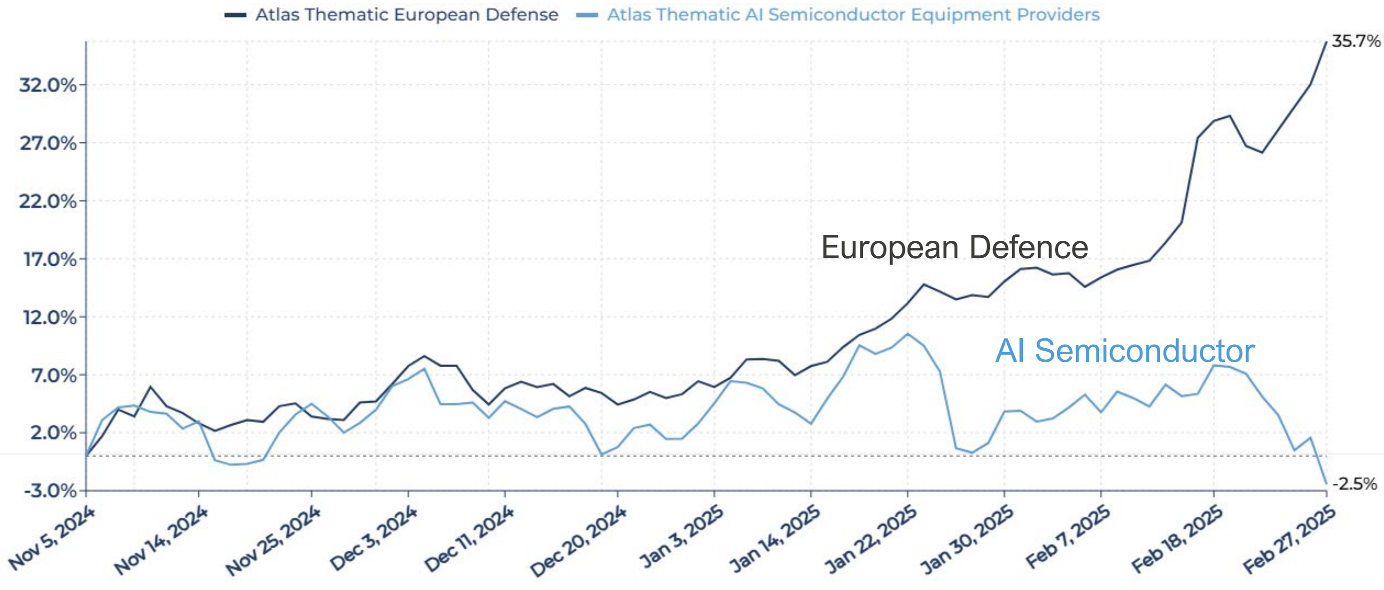
— European Defence:

Increasing geopolitical tensions are prompting European nations to increase defence spending, targeting 2.5% of GDP by 2027. This trend is expected to drive sustained revenue growth for European defence companies, potentially exceeding growth rates of their U.S. counterparts. Despite stronger growth prospects, European defence stocks currently trade at a 20%+ discount to U.S. peers based on EV/EBITDA multiples. Within the defence sector, high-quality growth companies with robust profitability are our preferred investment strategy.

— AI – A Transition, Not a Termination:

The emergence of DeepSeek and other competitive AI models from China signals that AI sector growth is not confined to a few U.S. tech companies. This suggests an evolving investment theme, potentially entering a new phase. Goldman Sachs notes that DeepSeek presents both micro-level risks and macro-level opportunities. While short-term AI-related capital expenditure (capex) risks may exist, lower barriers to entry could necessitate further capacity investment from new market entrants. Consequently, overall capex growth may remain high.

Atlas Equity Chart of the Month: European Defence vs. AI Semiconductor – divergence since Trump 2.0



Source: Evli Atlas Portfolio Technologies; Past performance of these portfolios does not guarantee future results, and the results shown are illustrative only.

Looking Ahead: Growth Worries and Tariff Uncertainty

Similar to conditions observed in the summer of 2023, concerns regarding US economic growth have re-emerged, prompted by several weaker data points in January, despite strong US GDP growth driven by robust domestic demand and Q4 earnings growth of nearly 18%. Compounding these concerns, tariff tensions appear to be escalating alongside ongoing diplomatic challenges. As noted in our previous commentary, a defensive investment posture may be prudent in the near term. The European defence sector currently represents a compelling growth opportunity. Overall Outlook: The broader economic outlook continues to indicate robust economic and earnings growth in the US. However, Q1 growth may be impacted by tariff uncertainties and policy volatility. While the bull market that began in late 2022 may experience a pullback, a sustained downturn appears unlikely.