<u>"Did I say that? I can't believe I said that"</u>

The week commenced with Bitcoin prices falling, with the $1.5bn ByBit hack by the infamous North Korean Lazarus Group seemingly to blame. Of course, there is always a shroud of mystery around cryptocurrencies as it is not clear which market participants are not price takers, leaving the unregulated market open to manipulation.

It doesn't help that regulators have allowed for greater access for retail investors through typically more regulated mediums such as ETFs which can be traded on common investment platforms. Outflows from these ETFs reached $3bn this week yet financial institutions are increasingly adopting Bitcoin as an asset class comparable to gold and researchers are pinning up price targets.

Geoffrey Kendrick, head of digital assets research at Standard Chartered has since iterated a Bitcoin price target of $200k by the end of 2025 and an increase of $100k per annum until 2028. If I was asked for my own forecast, I would expect something similar under a Trump-Musk Presidency, but I would be the first to admit it is all built on air out of, maybe ironically, Death Valley, California, i.e. of the hottest kind. Maybe research built on sand, or less, should not be broadcast in mainstream media.

European equity markets have performed well this year catching back up with US stocks in the post-US-election period, despite the ongoing threat of 25% tariffs on exports to the US, with particular attention to the automotive sector. The EU has expressed a willingness to negotiate, proposing a reduction of its 10% tariff on US car imports to align more closely with the US rate of 2.5%. BMW was worst hit, falling 4%.

Chinese equities have been improving steadily since the DeepSeek news with the Hang Seng, illustrated below, the standout performer in the region. With restrictions on foreign ownership of Chinese companies, the Hang Seng benefits from being more politically secure than US listed Variable Interest Entities (VIEs) which should be viewed with greater caution since November.

(Many Chinese companies listed in the US, and particularly those in the technology sector, are not actually shares but instead are VIEs which are a contractual arrangement to mimic shareholder rights that could theoretically be invalidated by the Chinese Government.)

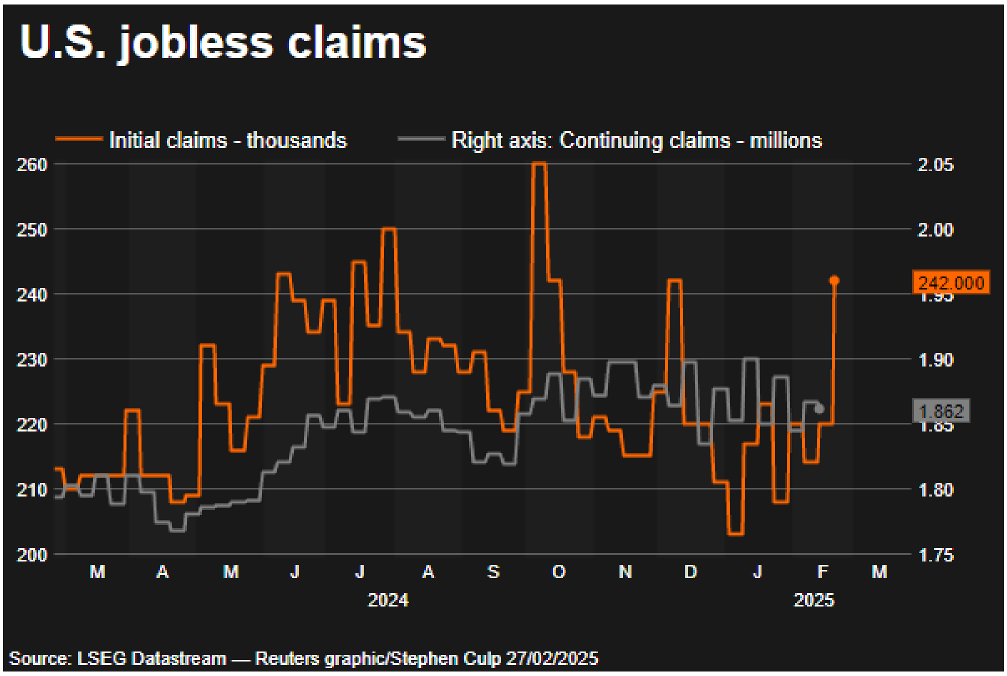
Hong Kong listed China "H" shares have been trading at a heavy discount compared to mainland listed China "A" shares, but the price gap has narrowed to its lowest in 15 years as sentiment improves alongside improvements to cross-border trading.

DeepSeek has also had the impact of stymying excitement over US tech and the most important bellwether for the technology sector, Nvidia, reported its earnings on Wednesday. The initial reaction was that the company was on trend with 78% revenue growth in the fourth quarter, beating estimates and resulting in 114% revenue growth in 2024.

CEO, Jensen Huang, reaffirmed that the demand for AI chips remained and noted the widespread adoption and integration of AI. Yet the share price fell 8% through the day as investors focused on a gross margin that fell from 76% to 73%. This trend is expected to continue, and while the drop was partially blamed on the accelerated production of new Blackwell chips, for which demand has been "extraordinary", this could be the tailing off from supernormal profits for the chipmaker.

The general trend for the US has weakened, soured by an unexpected fall in consumer confidence reports from both the Conference Board and University of Michigan, which puts the data at a level that often precedes recession. Higher inflation expectations in the presence of tariffs have been a key driver of this trend but it is also becoming evident that the poorest third of American consumers are really feeling the pinch.

The efforts of the Department of Government Efficiency (DOGE) are expected to have a significant impact on employment in the near term and it is reported that up to 100,000 federal employees have been laid off or accepted deferred buyouts already. This week jobless claims jumped ahead of expectations, adding to concerns over the economic outlook.



While this may be concerning to economists who pour over every piece of lagging data, it does help to alleviate one of the concerns over US protectionist trade and immigration policy. The country has suffered from tight labour markets since the pandemic and freeing up the labour force could be helpful once industrial reshoring and migration controls are in full swing.

As we alluded to in our last quarterly update, we expected some disruption in expectations in this regard but prefer to look through this short-term noise in anticipation of tax cuts down the line. The sooner DOGE can achieve some of its goals in this regard, the sooner that door will open, and as a boon for the consumer, President Trump and Musk, may also look to return 20% of the efficiency gains direct to taxpayers in the form of "DOGE dividend" cheques.

It was Kier Starmer's turn to meet with the President this week and in contrast to the palpable sense of unease and caution exhibited by European leaders, it was maybe the first example of Trump warming to a foreign government official since re-election – a healthy dose of flattery and an invitation to meet with the King certainly helped to build rapport.

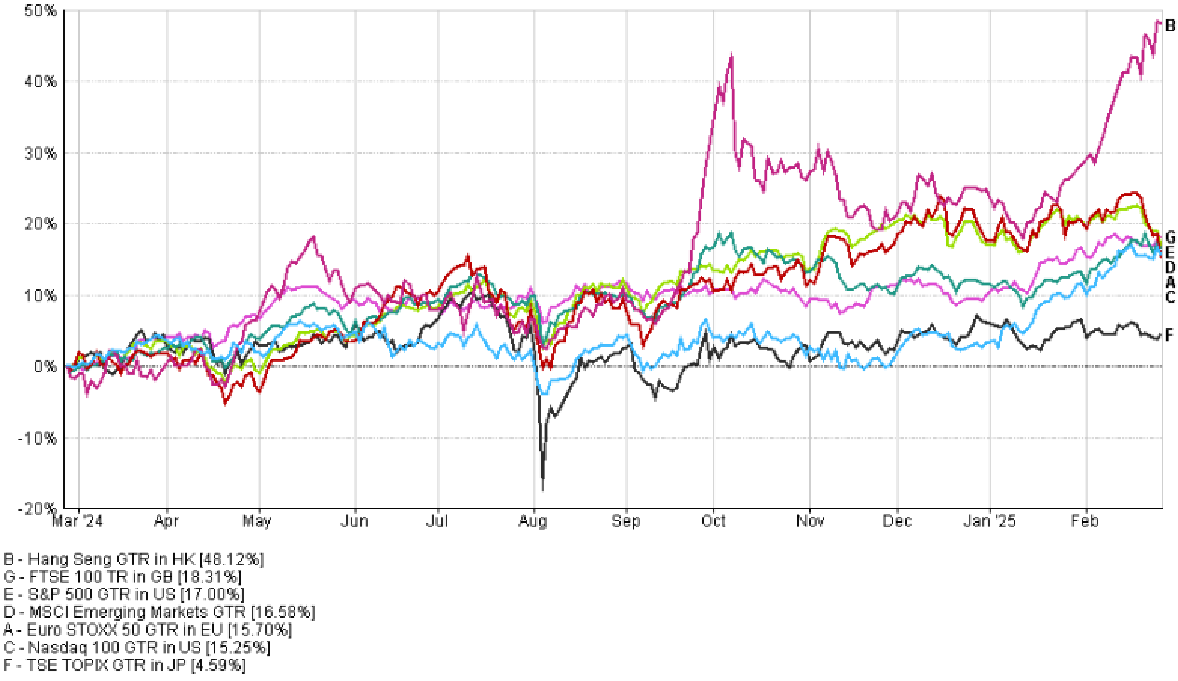
The Prime Minister was successful in gaining some positive reinforcement on keys points including the procurement of the Diego Garcia military base in the Chagos islands and while Trump did not commit to direct support for a British peacekeeping force in the Ukraine, he softened on his view of Ukraine President Zelenski responding, "Did I say that? I can't believe I said that" when asked by reporter about calling him a dictator.

Despite Starmer's best efforts to exempt the UK from the proposed tariffs on Europe, however, they remain an ongoing concern.

And finally, attitudes are gradually moving from idealism to realism, illustrated by news that BP (amongst others), under pressure by shareholders, are scaling back their renewable energy investment in favour of traditional oil and gas. Drill, baby, drill! I can't believe I said that…

Where are markets up to?

The rolling 12 month % cumulative returns in local currency from various indices is shown in the following chart:



27/02/2024 - 27/02/2025 Data from FE fundinfo2025

Where are the portfolios up to?

The portfolio performance, net of fees, to close of business on Thursday is as follows:

	1 week	1 month	3 months	12 months
Cautious	-0.78%	-0.07%	-0.07%	+6.03%
Balanced	-1.56%	-0.57%	+0.12%	+6.19%
Adventurous	-2.15%	-1.04%	-0.52%	+5.90%

As ever, if you would like to discuss any aspect of your portfolio, please do not hesitate to contact us on service@blythefinancial.com.