February Market update

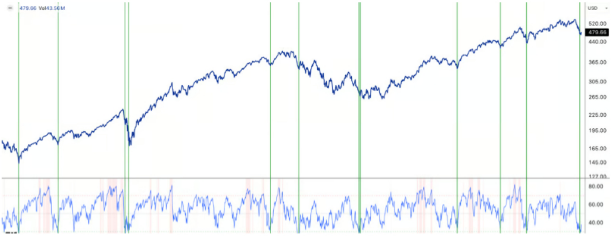
Michael Frazis
March 17, 2025

Dear investors and well-wishers,

The fund contracted 2.7% in February. I'll host a webinar this Friday at 10.30am Sydney time, please *register here*.

Around 19th of February a short term top was put in, and there have been remarkable moves in markets since. The Nasdaq dropped 13%, the cloud computing index dropped 23%, and ARKK dropped 28%.

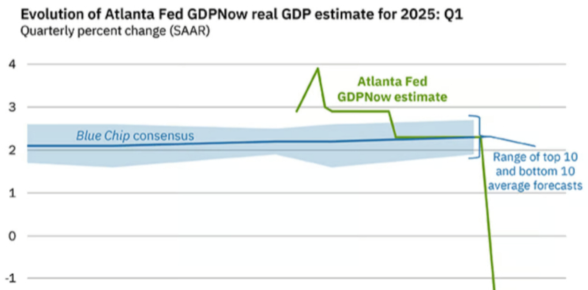
Last Thursday the market dropped to oversold levels where most (but not all) of the time, markets bounce.

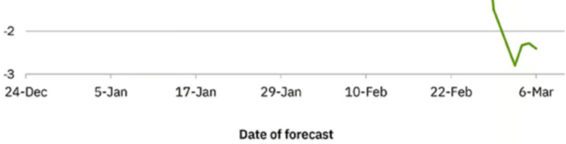


Nasdaq 100 (top) and RSI (bottom)

Over the same period economic data deteriorated.

The Atlanta Fed's GDP forecast collapsed from +2% growth to a ~2.5% decline.

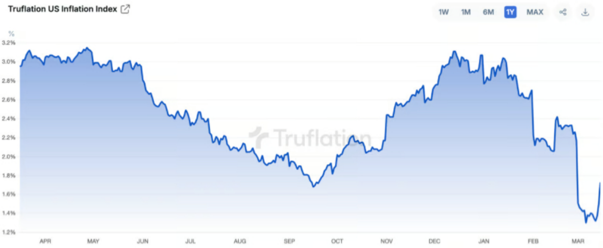




Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

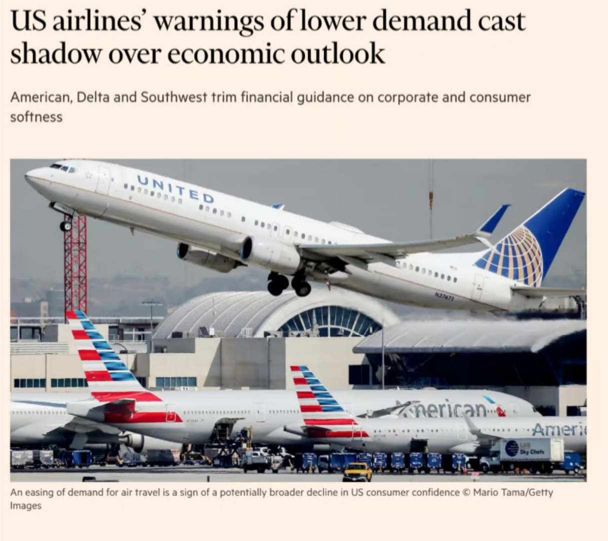
https://www.atlantafed.org/cqer/research/gdpnow

Real-time estimates of inflation also collapsed, albeit with a partial recovery yesterday:



Real time inflation estimate from Truflation.com

And newspapers blasted demand warnings from major companies:



US airlines' warnings of lower demand cast shadow over economic outlook

American, Delta and Southwest trim financial guidance on corporate and consumer softness

An easing of demand for air travel is a sign of a potentially broader decline in US consumer confidence © Mario Tama/Getty Images

Peter Wells in New York

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Market moves like this are common, but these datapoints suggest something more going on below the surface, perhaps driven by DOGE spending cuts in the United States, which have been called out as a factor in lacklustre travel demand.

Economic moves happen at the margin, and sacked civil servants will be cutting expenditure hard, as will the ex-employees of defunded NGOs. Instead of spending and investing, they'll be cutting costs, drawing down on savings and liquidating investments.

The shock of 2022 never escalated into a broader economic slowdown, other than a minor technical recession when US GDP contracted two quarters in a row.

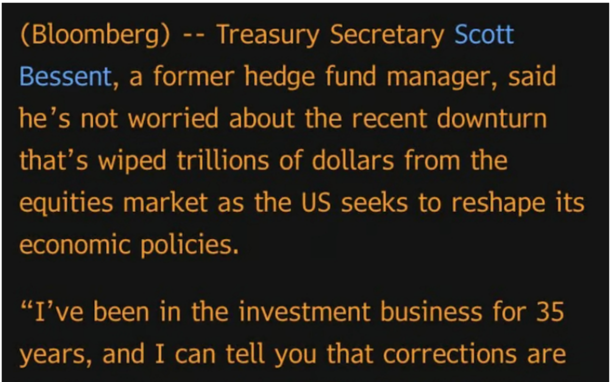
The reason why became clear from the data afterwards: Government spending increased *substantially* across the entire developed world, from the United States to Australia.

In Australia, private sector employment growth is basically non-existent and corporate bankruptcies reached an all-time high. But Government hiring and the NDIS blowout kept aggregate statistics high, even as productivity and GDP-per-capita collapsed.

Unfortunately, these must be funded by everyone else, which is why it feels like times are tough if you're not one of the lucky beneficiaries.

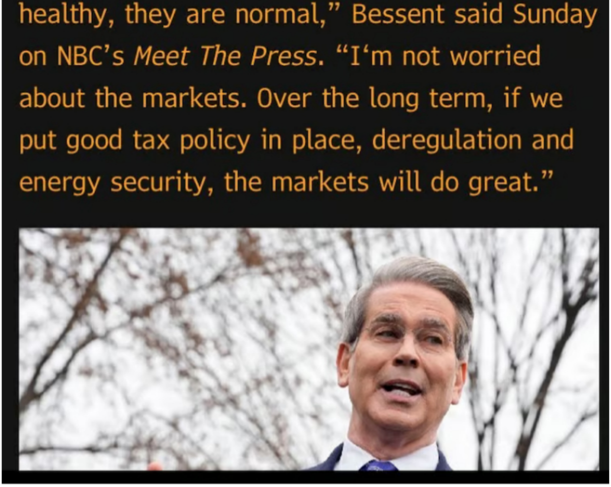
The US is reversing this spending, and it looks like this is causing a contraction, reducing consumer spending at the margin (and hence the pressure on prices) and investor demand.

Most would agree this is welcome (the US did just vote for it), and unlike in prior Trump regimes, where his focus was on boosting markets, priorities are now different. Judging from public comments the new administration is willing to go through pain now to set Government spending on a more sustainable path, and get unproductive employees into more productive lines of work.



(Bloomberg) -- Treasury Secretary Scott Bessent, a former hedge fund manager, said he's not worried about the recent downturn that's wiped trillions of dollars from the equities market as the US seeks to reshape its economic policies.

“I've been in the investment business for 35 years, and I can tell you that corrections are

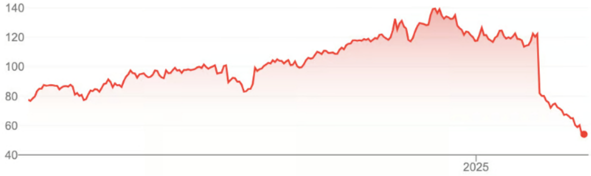


healthy, they are normal," Bessent said Sunday on NBC's *Meet The Press*. "I'm not worried about the markets. Over the long term, if we put good tax policy in place, deregulation and energy security, the markets will do great."

The may be powerful benefits in the future, but the spending cuts are happening today, as is the stock market sell-off.

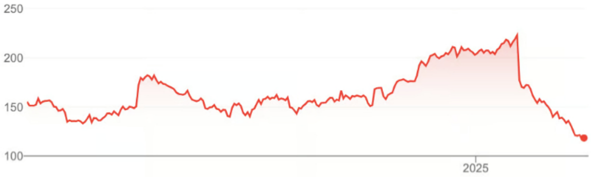
Market moves

Trade desk had a sharp collapse, down 62%.



Trade Desk (TTD)

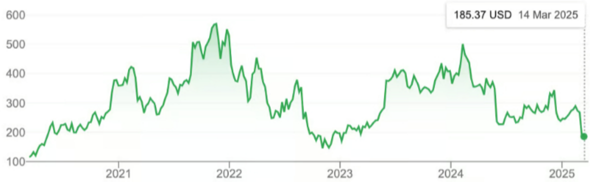
Deckers, which sells HOKA shoes and UGGs, also came under pressure.



Deckers (DECK)

DECK was a beneficiary of the shift away from Nike towards more cushioned running shoes. Perhaps the market has sniffed out an end to the trend?

Software companies like MongoDB were also hard hit, back to 5x EV/Sales and giving up the bulk of the recovery:



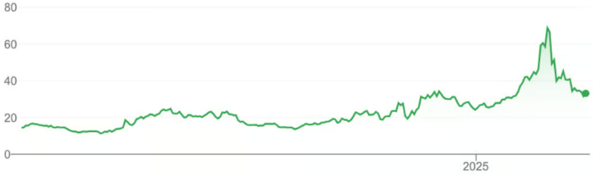
MongoDB, a new valuation low

Portfolio

In our portfolio HIMS went parabolic, and we've now closed most of the position. The FDA took GLP-1 drugs off the 'shortage' list, which means that HIMS can no longer sell cheap compound versions. The end state of this market is still in flux, as both Eli Lilly and Novo Nordisk are experimenting with marketing drugs directly to consumers themselves.

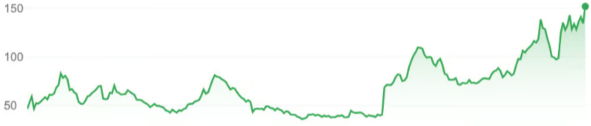
We have high conviction on HIMS but will manage the risk carefully, part of this sell-off involves the unwind of retail favourites like HIMS.

Ozempic patents start to roll off around the world next year, so access will soon be very cheap for most.



HIMS

ROOT insurance was one of the top performers and we hit our first profit target.



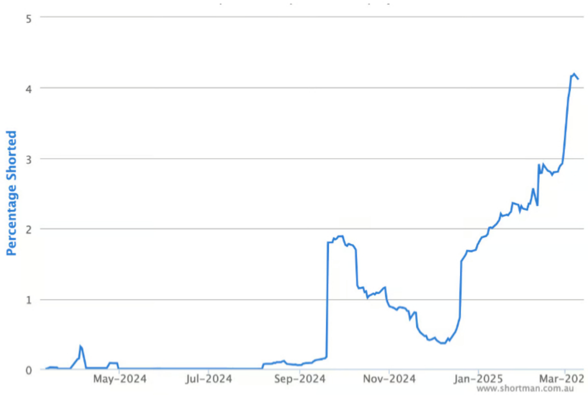
ROOT has bucked the trend

Aussie biotech was mixed. Clarity Pharmaceuticals has had a challenging period.

I recorded a podcast with Professor Louise Emmett from St Vincents, who is running multiple trials in the space, including a head-to-head for Clarity. Her comments around what it would take for a new radiopharmaceutical diagnostic to enter the market and take market share were particularly noteworthy, with implications for Clarity, Telix and Lantheus. I'll send out the podcast shortly.

The Clarity sell-off was large, but the stock ran from $1 to ~$9 in a very short period of time, so it looks like more a momentum unwind than anything else.

Relative to US companies, Clarity is underfunded relative to its opportunity, and short interest suggests local funds are building positions in anticipation of a capital raise. On some days 10-25% of the trading volume is short-selling, which partly explains the soggy price action:



Short interest in Clarity Pharmaceuticals

Syntara is set to release the final results of their trial. Our view remains that this is a $250-300m+ market cap in the near term, which would be ~2-3x return from here. This is a large position for us, but the interim data was extremely strong.

Where to from here?

The US administration seems comfortable with the market sell-off - the 'put' is clearly lower than where markets are trading today.

In the past Truflation has led the official moves. If official CPI follows the live data, the US would need to cut interest rates by 2-3% to come back to a neutral rate, which is clearly the policy goal. If this works, it would be a major policy achievement, and would lay the groundwork for a sustained rally.

We don't know yet whether those Atlanta Fed forecasts are too negative, whether these hints of a slowdown snowball into something more, or if/when the boost from lower inflation and a more business-positive environment flows through to asset prices.

We're approaching this cautiously, while preparing for the best performing companies when the dust settles.

Our risk management framework has moved us to >40% cash, which gives us a fair amount of breathing space to determine exactly what we want to own on the other side.

Growth stocks led the sell-off, and we noted that key positions rolled over many months ago. The companies that sustain growth and performance will be the first to rally when where lower interest rates and a base of investor pessimism invariably swings back.

We were in a similar position at the end of 2023, and the rally (which came fast) resulted in a >100% run in the fund in less than a year. The opportunity on the back end of this later this year will perhaps be greater, given the moves we just saw.

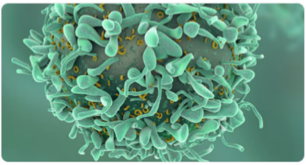
In the meantime, this has emphasized how powerful applying tight risk to our explosive growth/true customer love strategy can be. We had a 56% return last calendar year, and have already derisked, so will either be conservatively positioned if conditions deteriorate.

With US inflation falling hard, it does seem that the rate cycle will turn decisively, and when it does, the best place to be will be growth stocks. But for now, we have near term catalysts in some of our core holdings, but are managing our risks carefully so will be in a strong position to make sure our fund is the best place to be on the rebound, whether it started last Friday (where there was some recovery) or happens at a later date.

Best wishes
Michael

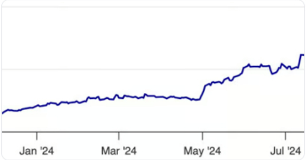
Keep reading

China rally - is this one for real?



Immutep interview with CEO Marc Voigt

And an impending update from Syntara



September 2024 Investment Update

The first rate cuts, a new scaling vector, and healthcare booms