



## **Sapphire Star Capital Mid Cap Strategy Q1 2025**

### **Commentary**

The first quarter of 2025 ushered in a period of noticeable change compared to the stability of 2024, characterized by some volatility and significant market challenges. During this time, the Russell Mid Cap Growth Index experienced a decline of 7.12%, while the Russell Mid Cap Index fared somewhat better, with a decline of 3.40%. This movement underscores the dynamic conditions and evolving economic environment of the early months of the year.

The start of President Trump's second term in January initially sparked a wave of optimism, creating a positive market sentiment. This led to a remarkable gain of 4.25% for the Russell Mid Cap and an impressive 6.38% surge for the Russell Mid Cap Growth Index. Although this buoyant momentum was short-lived, facing challenges as the quarter progressed, it highlighted the market's potential for resilience.

Throughout the quarter, the market navigated several unpredictable events stemming from rapidly evolving policies in Washington D.C., which created a challenging environment for mid-cap stocks. However, despite these hurdles, there were promising signs of stabilization by the end of the quarter. The new administration's efforts to find its footing and create a more predictable policy landscape offered hope for a more stable and prosperous market environment in the coming months.

These initiatives, aimed at mitigating the adverse effects of earlier policy shifts and fostering a supportive atmosphere for economic growth, could potentially restore investor confidence. With a focus on creating a conducive environment for growth, there is an optimism that the mid-cap sector will experience a recovery, benefiting from the administration's commitment to stability and predictability.

### **Portfolio Review**

During the past quarter, the portfolio experienced notable performance in the Technology, Consumer Discretionary, and Materials sectors, which significantly contributed to positive results. The strong performance in these sectors can be attributed to various factors including innovative advancements within the technology sector, increased consumer spending on discretionary items, and robust demand for materials. These elements combined to drive the portfolio's performance and underscored the strength of investments in these sectors. Conversely, the Energy, Financials, and Industrials sectors adversely affected relative performance. The downturn in the energy sector was primarily influenced by volatile oil prices and regulatory challenges, while financials faced headwinds from fluctuating interest rates and market uncertainties. Industrials experienced setbacks due to supply chain disruptions and decreased demand in key markets.

Regarding absolute performance, substantial contributions were observed from Howmet Aerospace, Palantir Technologies, and Super Micro Computer, with respective gains of 18.71%, 11.60%, and 12.34%.

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Howmet Aerospace benefitted from increased aerospace manufacturing and strong demand for its products. Palantir Technologies saw growth due to expanded adoption of its data analytics platforms across various industries. Super Micro Computer's performance was driven by heightened demand for high-performance computing solutions. However, Quanta Service, Apollo Global Management, and Tetra Tech were the primary detractors, experiencing declines of 19.55%, 16.85%, and 26.45%, respectively. Quanta Service faced challenges from project delays and cost overruns. Apollo Global Management was impacted by unfavorable investment conditions and market volatility, while Tetra Tech's downturn was influenced by reduced government spending on environmental services.

The portfolio's sector weightings indicate an overweight position in Electronic Technology, Non-Energy Minerals, and Finance sectors. The Electronic Technology sector continues to show promise due to ongoing innovation and digital transformation across industries. Non-Energy Minerals have demonstrated stability driven by demand for precious metals and key industrial materials. The Finance sector is positioned to capitalize on the evolving financial landscape and technological advancements in financial services. Conversely, the portfolio maintains an underweight position in Communications, Commercial Services, and Consumer Non-Durables sectors. The Communications sector faces competitive pressures and regulatory challenges. Commercial Services are impacted by shifts in consumer behavior and service delivery models. Consumer non-durables struggle with changing consumer preferences and supply chain complications.

### **Looking Forward**

Sapphire Star Capital's Mid Cap Strategy holdings have demonstrated exceptional resilience amidst a challenging economic landscape. The following key points outline our future outlook:

- **Forecasted Growth:** Our holdings are expected to achieve an average forecasted sales growth of 20%, accompanied by a 9.4% increase in analyst earnings estimates over the past three months, positioning them advantageously for the forthcoming earnings announcement season.
- **Market Strength:** We have observed an enhancement in the breadth and robustness of the overall stock market, further supported by flagship stocks such as Google and Netflix exceeding analyst estimates, thereby augmenting investor sentiment.
- **Sensitivity to Trading Volume and Domestic Focus:** Our portfolio consists of mid cap stocks that demonstrate a slightly higher degree of sensitivity to trading volume compared to large cap stocks, providing significant appreciation potential. Moreover, these stocks possess less direct international exposure, allowing them to benefit from substantial onshoring efforts anticipated to bolster U.S. GDP growth.
- **Favorable Trade Environment and Positive Momentum:** With discussions surrounding tariffs becoming less contentious and more countries finalizing trade agreements with the United States, the environment is increasingly conducive to a robust and sustained recovery in mid cap stocks. The reduced rhetoric on tariffs has contributed to the stabilization of financial markets, fostering a favorable environment for mid cap stocks to thrive. This evolving trade landscape lays a solid foundation for a long-term bull market in mid cap stocks, enhancing investor confidence and market participation. As additional trade agreements are concluded, the positive

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momentum is expected to further bolster mid cap stocks, ensuring a prosperous future for these investments.

As always, we welcome any questions or concerns that you have and thank you for your confidence in the Sapphire Star Mid Cap Strategy.

Regards,

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***Important Disclosures:***

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