



## Sapphire Star Covered Call Strategy Q4 2025

### Commentary

The confidence in our 5% U.S. GDP growth goal keeps increasing, highlighted by the Commerce Department's recent upward revision of third-quarter GDP to an annualized 4.3 percent. This represents the most rapid expansion observed in the past two years and surpasses prevailing consensus estimates. Growth has been notably broad-based, with net exports contributing 1.6 percent, consumer spending advancing at a 3.5 percent annual rate, and business investment increasing by 2.8 percent. While a slight deceleration is expected in the fourth quarter because of the federal government shutdown, this adjustment does little to diminish a positive outlook as the nation moves toward 2026.

Onshoring trends are intensifying, evidenced by foreign enterprises expanding U.S. manufacturing operations across the automotive, aerospace, and pharmaceutical industries. The current surge in data center construction, underpinned by ample domestic natural gas resources and technological innovation from organizations such as Bloom Energy and GE Vernova, is contributing further to the growth of U.S. GDP, with improvements in energy infrastructure and reduced reliance on the grid. Nevertheless, residential investment has posed a constraint, detracting 5.1 percent from GDP during the second and third quarters. The housing market continues to encounter headwinds from elevated mortgage rates, increasing insurance premiums, and excessive supply in key metropolitan areas. Data from the Intercontinental Exchange indicates that condominium prices declined by 1.9 percent in September and October, with more than 25 percent of units in nine major metropolitan regions now valued below their original sale price. While anticipated interest rate reductions by the Federal Reserve may provide some support, current market softness is amplifying deflationary pressures that warrant decisive attention from policymakers.

### Portfolio Review

- **Performance Summary:**
  - **Q4 return: 1.30% net of fees**
  - **Year-to-date return: 14.90% net of fees**
- **Top quarterly Contributors:**
  - American Express Company +11.67%, Intel Corp. +9.99%, Citigroup +15.64%
- **Detractors:**
  - Oracle (30.58%), Microsoft Corporation (6.45%), Home Depot, Inc. (14.52%)



- **Sector Impact:**
  - Positive: Financials, Materials & Utilities
  - Negative: Communication Services, Technology & Consumer Discretionary
- **Strategy Notes:**
  - Despite heightened volatility in the fourth quarter, our disciplined risk management and strategic position sizing enabled us to achieve another positive quarter, with net returns exceeding 15% for our investors during 2025. In January, we will rebalance the portfolio and rewrite call contracts to further strengthen our positioning. We are very pleased with the results achieved in 2025 and remain optimistic for the future.

### **Looking Forward**

We maintain a constructive perspective on both the economy and financial markets. While we anticipate a continued decline in the key interest rate, we expect this reduction to occur at a measured pace, given that prevailing market rates remain meaningfully below the key rate. Importantly, we are optimistic that our portfolio holdings will outperform earnings expectations, underscoring the strong fundamentals within our investment strategy.

The broader economy has already demonstrated clear signs of renewed vigor, and we are confident that this positive trajectory will continue, with the potential to achieve 5% GDP growth in the first half of 2026. We also recognize that market volatility is likely to remain elevated, presenting both risks and opportunities as we move forward. While recent moderation in inflation has been encouraging, we remain vigilant and will continue to closely monitor inflationary pressures to support ongoing economic stability.

Strategic priorities for the next quarter/year:

- Maintain disciplined portfolio concentration
- Continue rigorous fundamental research
- Proactively manage risk and capitalize on market dislocations
- Focus on long-term value creation

Thank you for your continued trust and confidence in us throughout this year. We sincerely appreciate the opportunity to support your financial goals and are committed to delivering lasting value through thoughtful strategy and proactive risk management. Your questions and concerns are important to us, and please rest assured that we are always available to listen and assist you in any way we can.



Regards,

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