



MARCH 2025

We try not to clutter your inbox with commentary on every tick of the market, but amidst recent volatility, we thought it would be useful to provide an update on how we're positioned, how we're different, and how that has translated into returns.

A few notable events have occurred this year around the artificial intelligence theme and the popular stocks related to it. While these have little to do with our core portfolio, they are noteworthy in that they are intertwined with the broader market.

- DeepSeek Developments (January 24-27): A Chinese technology start-up unveiled an AI model with performance comparable to leading US models. The important twist is that it was purportedly developed at a fraction of the cost and without the use of the most cutting-edge semiconductors, calling into doubt whether the hundreds of billions in capital investments planned by the largest technology firms are necessary. The Magnificent Seven, stocks which have led the market rally and are representative of technology sector trends, fell 4%. Nvidia, the leading designer of these semiconductors, was most heavily impacted with shares down 20%.
- Microsoft Data Centers (February 20-25): Rumors of Microsoft cancelling data center leases were followed by an interview where CEO Satya Nadella compared the current technology spending to the railroad boom of the 1800s, implying that the bust is forthcoming. There is an argument that these comments could be Microsoft-specific or an attempt to discourage competition, but a leading voice speculating on overbuilding is significant. Magnificent Seven stocks fell 6%, and the S&P fell 3%.
- Nvidia Earnings (February 27): In an absolute sense, Nvidia's most recent quarterly update was incredible with revenue +78%, earnings +82%, and future results guided higher. But relative to lofty expectations, they fell short. The Magnificent Seven stocks fell 3% in a single day with Nvidia down 9%. We think this reaction is a function of current extremes in investor positioning and market sentiment. If these results don't warrant price gains, what should we expect when growth slows?

We think the portfolio's performance around these events is illustrative. Across these three instances, the collective declines were -6% for the S&P 500 and -13% for the Magnificent Seven. The Broyhill equity portfolio gained 2% over the same time periods and has continued to protect capital in March, holding onto gains through last week, while losses for major equity benchmarks accelerated.

Our intention is not to use market volatility as an excuse to minimize the developments at many of the companies leading the market today. Rather, we want to highlight the investment opportunities that originate when investor attention narrows so intensely on a singular narrative.

This divergence creates fertile ground for disciplined investors willing to look where others aren't. While the S&P remains heavily concentrated in technology and related industries, we continue to find tremendous value

outside of today's megacap darlings, with about half the portfolio invested in health care and consumer staples, and the balance across a unique blend of special situations.

Importantly, this positioning isn't a defensive crouch against market declines (although that is certainly an added benefit). It's simply a reflection of an approach that has served us well over the years – the disciplined hunt for mispriced assets with compelling upside potential and minimal downside risk.

Fast-growing companies reshaping industries through technological innovation generate lots of headlines. We just prefer to focus on investments grounded in fundamental value that have repeatedly proven to be a more reliable path to generating sustainable, long-term returns.

Regardless of what may unfold in the period ahead, we remain excited about the businesses we own, confident in our current positioning, and eager to deliver compelling returns for years to come.

We are grateful for your continued trust and partnership. We come into the office each day striving to earn it, and we realize just how fortunate we are to have such a wonderful group of like-minded, long-term investors who place their confidence in us. You enrich our network, strengthen our competitive advantage, and just make our work all the more enjoyable.

As always, please feel free to reach out anytime with questions. We enjoy hearing from you.

Sincerely,

The logo for Broyhill Asset Management features the name "Broyhill" in a large, elegant, cursive script. Below it, the words "ASSET MANAGEMENT" are written in a smaller, clean, sans-serif, all-caps font.

ABOUT BROYHILL

Broyhill Asset Management is a boutique investment firm, initially established as a family office in 1980 and guided by a disciplined value orientation. Founded in the foothills of North Carolina's Blue Ridge Mountains, we operate outside of the fray and invest with a rational, objective, long-term perspective.

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