NBC | SECURITIES

INVESTMENT STRATEGY STATEMENT | MAY 4, 2024

Steady Economic Growth

by Darren Hinshaw, Pierre G. Allard & Christopher Fidler

A Strong Start and Outlook

Resilient Economic Growth
The GDP advanced at a slower-than-expected rate of 1.6% annualized in the first quarter, but final private sales were robust, rising at a 3.1% rate.

Fixed Income Market Volatility
The month of April continued to show a volatile fixed income rate market with the 10yr US Treasury Note moving from a low of 4.20% to a high of 4.70% to close the month.

Equity Markets Pulled Back in April
The equity markets took a breather in April following the extraordinary rally since the lows in October of last year.

Policy Rate Staying Higher?
The Federal Reserve continues to maintain its target inflation goal as of this month's FOMC meeting indicating that rates can and will stay higher for longer.

Robust Earnings Performance
For the full year, given the better than anticipated results thus far, operating earnings for the S&P 500 are now expected to grow 13.3% over 2023.

Outlook Largely Intact
Although the economic growth came in a little slower and inflation has been a little higher to start the year, our outlook on the key themes driving equity and fixed income markets remain intact.

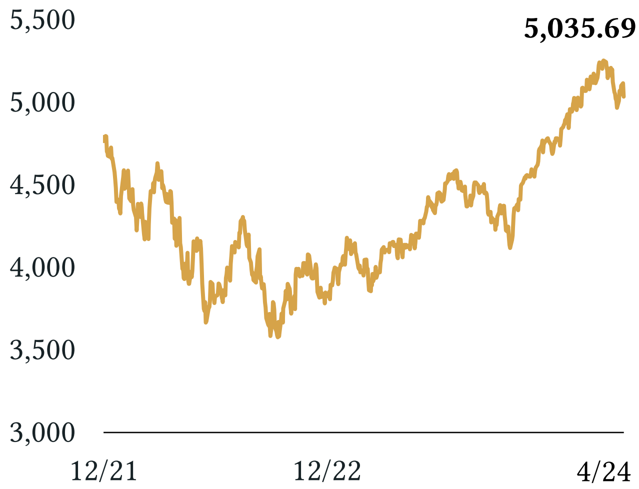
"Inflation has shown lack of further progress towards our 2% objective"

- Fed Chairman Powell

Equity Markets

The equity markets took a breather in April following the extraordinary rally since the lows in October of last year. Performance during the month was choppy as economic data and a repricing of the likelihood of the Federal Reserve cutting interest rates this year. The month began with three negative weeks in a row, with the index falling -5.5% to an intramonth low on April 19th. This drop was mostly attributed to the hotter inflation readings and hawkish speaking engagements from members of the Federal Reserve. The market rebounded in the final week of April on the back of strong earnings to close out the month down -4%. Losses were steepest in Real Estate and Information Technology, not surprising given the back-up in yields having the biggest impact on rate sensitive sectors. For the year, the S&P 500 remains higher by almost 6%.

S&P 500 Price Index (12/31/21 -4/30/24)



With 64% of companies having reported earnings for the first quarter of 2024, almost 80% have exceeded analysts' expectations.

For the full year, given the better than anticipated results thus far, operating earnings for the index are now expected to grow 13.3% over 2023. This continues to be a key theme guiding our positive outlook for equities.

12-Month Percentage Change of Indices

Index (Local Currency)	Level	April	YTD	12 Month
S&P 500	5,035.69	-4.10%	6.00%	22.60%
Dow Industrials (DJIA)	37,815.92	-4.90%	0.90%	13.30%
Nasdaq	15,657.82	-4.40%	4.50%	29.10%
Russell 2000	1,976.906	4.81%	4.81%	21.22%
US 2YR Treas	5.0351%	9.00%	18.50%	25.70%
US 10YR Treas	4.6798%	11.40%	20.60%	36.80%
Gold (NY Spot $/oz)	2,286.85	2.50%	10.80%	14.90%
Silver (NY Spot $/oz)	26.2942	5.30%	10.50%	4.90%
Copper ($/metric ton)	9,892.40	12.80%	16.90%	15.30%
Oil (WTI Spot/bbl)	81.93	-1.50%	14.30%	6.70%
Oil (Brent Spot/bbl)	87.86	0.40%	14.00%	10.50%
Natural Gas ($/mmBtu)	1.991	12.90%	-20.80%	-17.40%

Data as of April 30, 2024
Source: FactSet/Bloomberg

Fixed Income Markets

The month of April continued to show a volatile fixed income rate market with the 10yr US Treasury Note moving from a low of 4.20% to a high of 4.70% to close the month. Ahead of the FOMC Fed meeting, we saw yields rally on the backside of a weaker but still growing GDP number to close out the month. Much talk has been had over the past two years about the negative yield curve and the recessionary implications as we saw the spread between the 10yr US Treasury Note and the 2yr US Treasury note narrow to 29bps to close the month.

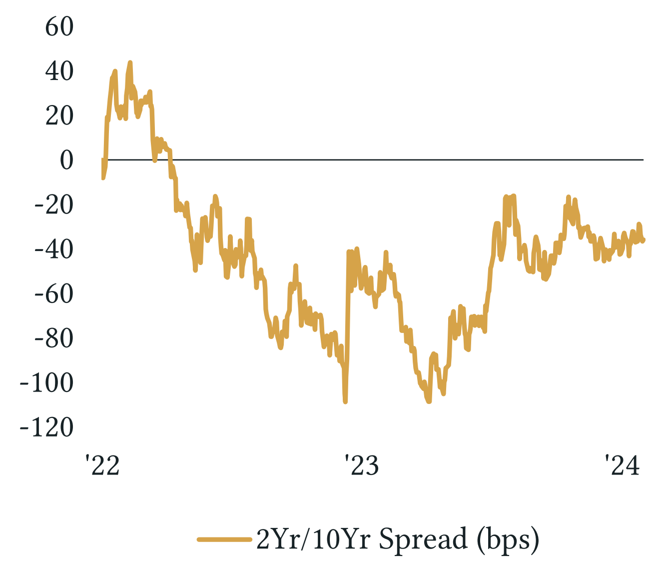
As Chairman Powell closed this months Fed meeting, he reiterated the statement that more rate hikes are not on the horizon. NBCS Asset Management maintains its position that rate hikes are likely done. As we started 2024 the market was forecasting 6 rate cuts, as we close out the month of April only one is on the horizon with the CME Fed Watch futures tool showing only a 45% chance of a rate cut at the September meeting.

A continuing growing economy, historically strong employment data, and growing wages have proved that the economy can handle the rapid rate hikes we have seen from the Fed.

4.70%
10yr US Treasury Note

29 bps
10yr vs. 2yr US Treasury Note Spread

More pessimistic economists have called for a recession in the face of these rapid rate hikes. But it's important to look at the current interest rate environment from a historical perspective.



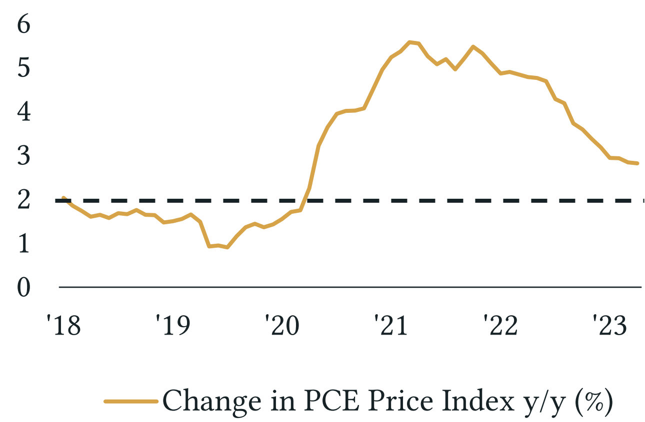
While the past 20 years have provided us with very low interest rates, it is important to remember that 0% is not normal.

The current rate market (higher than in the recent past, but still much lower than the historical highs we saw in the early 1980s), is a completely normal place to be. Current interest rate levels allow for a more normal functioning fixed income market.

Fixed income is now able to do what it has always intended to do—protect balanced portfolios against heavy downturns in equity markets.

This is a function that was not possible at 0% rates.

The Federal Reserve continues to maintain its target inflation goal as of this month's FOMC meeting with Fed Chairman Powell stating, "inflation has shown lack of further progress towards our 2% objective," indicating that rates can and will stay higher for longer. But importantly, the overall economy has shown that it can withstand higher rates. In fact, the economy continues to grow in the face of higher interest rates. The Fed continues to maintain its stance that future rate moves will be data driven, as they should be, and they continue to give very little indication of when rate cuts will begin.



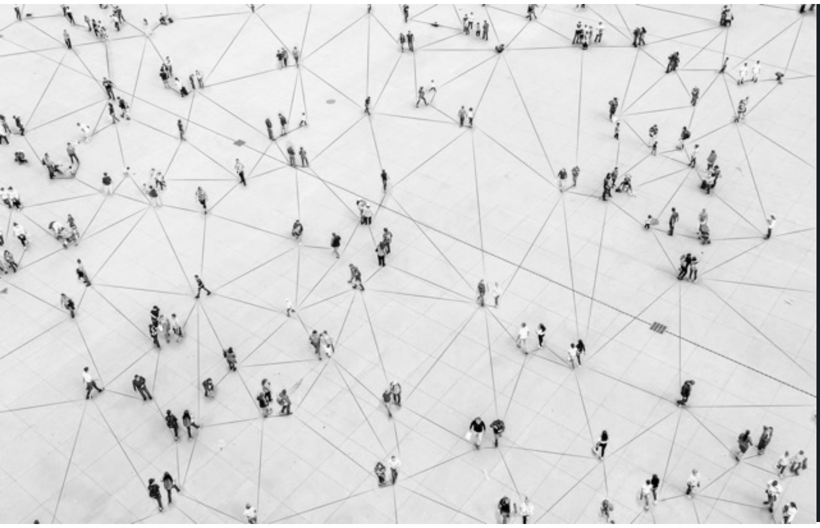
While it is true that we are currently seeing the highest Federal Funds rate in the past 23 years, from a historical perspective, the current rate market tells a story not of highs, but of normality. The market has proven that it is more than strong enough to handle the rate hikes, and even in the face of the longest inverted yield curve of all time, it continues to seem likely that even one rate cut could correct the yield curve inversion.

Instead of looking at rate hikes as a stress on the economy, we are now able to see that stress is not at all the product of this very complex equation. It very well could be the answer. The economy is free to function in a very normal manner, in a very normal, historically speaking, interest rate environment.

While uncertainty in the direction of the economy may very well be showing that rates will be higher for longer, NBCSAM still maintains its position that now is an excellent time to extend duration. A more normalized rate cycle is a good time to lock in higher rates for longer. While we may be able to state that we are seeing the highest fed funds rate in 23 years, that also means, we are seeing some of the highest interest rates on fixed income investments in 23 years. The current environment is a good time to lock these rates into a well-balanced portfolio utilizing an extended duration.

Economic Overview

Key Economic Indicators



JOB MARKET

Strong Job Gains
The labor market displayed strength with a significant addition of 303,000 jobs in March, reflecting ongoing economic resilience.

Stable Unemployment Rate
The unemployment rate remained stable at 3.8%, with labor participation slightly increasing, underlining the labor market's robustness.

MANUFACTURING AND SERVICES

Manufacturing Recovery
The manufacturing sector recorded its first expansion in 17 months, signaling an end to the prolonged slowdown.

Service Sector Expansion
The service sector continued its growth for the 15th consecutive month, with robust business activity and new orders, despite a cooldown in employment and prices paid.

CONSUMER SPENDING AND SENTIMENT

Retail Sales Surge
Retail sales, excluding autos, increased by 1.1% in March, the most significant month-over-month increase in 14 months, indicating strong consumer spending.

Mixed Consumer Sentiment
The University of Michigan's consumer sentiment index was lower than expected but remained at high levels not seen since July 2021, reflecting mixed but generally positive consumer confidence.

Economic Overview

Key Economic Indicators

REAL ESTATE & CONSTRUCTION

Residential Construction Growth
Residential construction modestly increased, supported by strengthened home sales in most districts, although nonresidential construction showed little change.

Flat Nonresidential Construction
Commercial real estate leasing experienced slight declines, mirroring the flat performance in nonresidential construction.

ECONOMIC GROWTH & INFLATION

GDP Growth
The GDP advanced at a slower-than-expected rate of 1.6% annualized in the first quarter, but final private sales were robust, rising at a 3.1% rate.

Inflation
Headline and core inflation measures came in slightly hotter than anticipated for both CPI and PCE.

Conclusion

Going into May, we continue to focus on the four big themes we've previously discussed for the remainder of 2024. While recent inflation data has been lumpy and higher than expected, we still believe the disinflation trend will continue throughout the year. The economy continues to grow, although likely at a slower pace than 2023. We believe this will lead to continued growth in operating earnings, the fundamental driver of equity markets. Lastly, we believe the rate hiking cycle for the Federal Reserve is likely over and the next change they make will be a cut, we just don't know when that will be. Until this narrative changes, we continue to have a positive outlook for common stocks and fixed income.

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