NBC | SECURITIES

INVESTMENT STRATEGY STATEMENT | JUNE 3, 2024

Disinflation Trend Continues

by Darren Hinshaw, Pierre G. Allard & Christopher Fidler

Performance Review & Outlook

Disinflation Trend Continues
Headline and core inflation measures came in as expected for both the CPI and PCE Price Index.

Fixed Income Market Volatility
The month of May continued the pattern we saw in April with a more volatile interest rate market.

Equity Markets Advanced in May
The S&P 500 was higher by 4.8% in May and is higher by 9% so far this year.

Data Driven Fed Leads to Data Driven Markets
Markets are reacting to each data point, trying to interpret how it will impact the Fed's decision-making process.

Robust Earnings Performance
For the full year, given the better than anticipated results thus far, operating earnings for the S&P 500 are still expected to grow 13%.

Outlook Largely Intact
Although data has been mixed so far in 2024, our outlook on the key themes driving equity and fixed income markets remain intact.

Equity Market Overview

In May, the S&P 500 exhibited a strong start, surging by 5.6% to reach a record high of 5,321 by May 21st. However, the index struggled to stay above the 5,300 mark, ultimately slipping by -0.8% for the remainder of the month, but still closing with a respectable overall gain of 4.8%.

S&P 500 – May 2024

+10%	+7%	-2.8%
IT	Utilities	Energy

Among sectors, Information Technology saw the most significant gains, climbing by 10%, followed by Utilities with a solid return of 7%. Conversely, Energy was the sole sector to experience a decline, dropping by -2.8% due to decreased oil and natural gas prices. Looking at the broader picture, the index has seen a year-to-date increase of 11%, with Communication Services, Technology, and Utilities leading the charge, all boasting returns surpassing 13%. The gain in Utilities is interesting, as investors are looking for the "next AI" trade, boosting the stock prices of power generation and distribution companies.

12-Month Percentage Change of Indices

Index (Local Currency)	Level	May	YTD	12 Month
SPX Index	5,277.51	5.0%	11.3%	28.2%
INDU Index	38,686.32	2.6%	3.5%	20.0%
CCMP Index	16,735.02	7.0%	11.8%	30.4%
RTY Index	2,070.126	5.0%	2.7%	20.1%
USGG2YR Index	4.8727	5.5%	14.7%	21.6%
USGG10YR Index	4.4985	7.1%	16.0%	31.5%
XAU Curncy	2,327.33	4.4%	12.8%	17.0%
XAG Curncy	30.4083	21.8%	27.8%	21.4%
LMCADY Comdty	9,913.38	13.1%	17.1%	15.6%
CL1 COMB Comdty	76.99	-7.4%	7.5%	0.3%
CO1 COMB Comdty	81.62	-6.7%	5.9%	2.6%
NG1 COMB Comdty	2.587	46.7%	2.9%	7.3%

Data as of May 31, 2024
Source: FactSet/Bloomberg

S&P 500 Price Index (12/31/19 -5/31/24)

This year has witnessed a significant contrast among major indices, highlighted by the Dow Jones Industrial Average and the S&P 500 Equal Weighted Index showing only modest gains of 2% and 4%, respectively. In stark contrast, both the S&P 500 and the technology-focused Nasdaq have surged by more than 9%—propelled largely by the remarkable ascent of AI-related stocks. These technological advancements have displayed extraordinary resilience and persistent upward momentum, contributing substantially to the impressive performance of these indices.

With earnings season wrapped up, earnings were higher by 5% over the first quarter of last year and are still expected to grow by 13% for the full year.

Fixed Income Market Overview

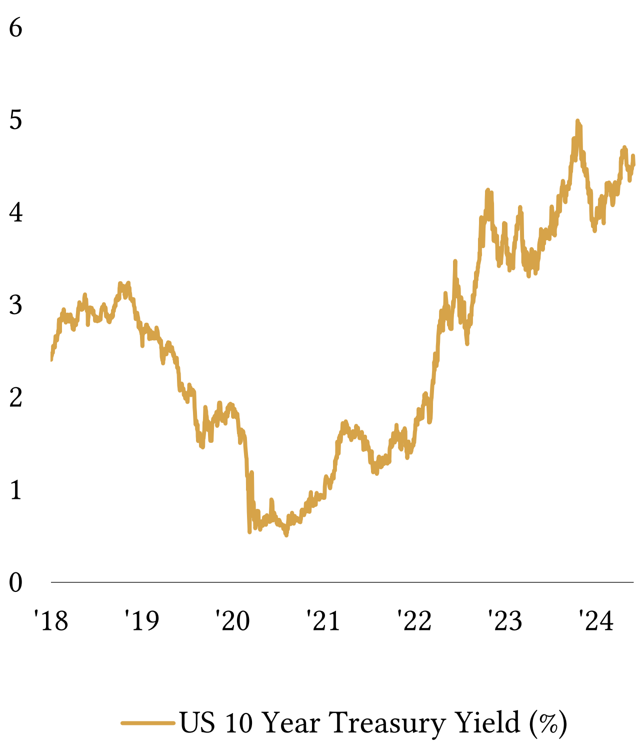
The month of May continued the pattern we saw in April with a more volatile interest rate market. As bond markets disseminated CPI, Jobless Claims, Unemployment, and the FOMC meeting, interest rates seemingly moved to the exact tune of the economic data that was presented. After 3 months to start the year of hotter than expected CPI numbers, bond yields fell on the prospect of a 3.4% CPI number that met expectations. When we saw a Jobless Claims number early in the month slightly higher than expected, rates moved higher. Late in the month we saw a Jobless Claims number better than expected, once again showing strength in the jobs market, sending rates back up.

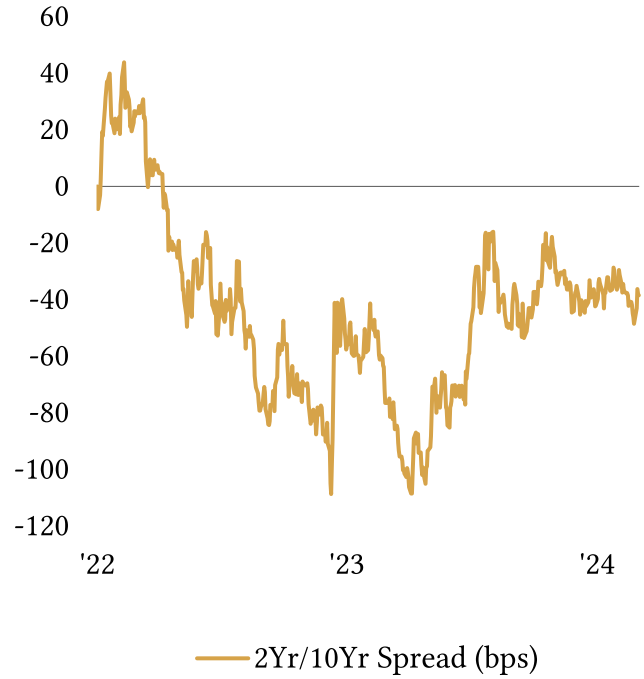
For months now, Federal Reserve Chairman Powell has continued to take what he calls a "data driven" approach to monetary policy, and now the bond market appears to be taking a data driven approach as well.

Interest rates are now moving to the tune of the economic data presented to them, which is certainly normal by itself, but rates are interestingly now moving right in tune with how the market thinks the Fed will react to the data being presented. Job market strong? Rates are going up. Better than normal CPI? Down rates go. The overall trend in rates from April to May has been downward.

The 10yr US Government bond fell from a 6-month high on April 25th of 4.70% to close out May around 4.50%. As of May 31st, the 10-2 yield curve has been inverted for a record 695 days, certainly not a recessionary indicator as it has been for many years in the past.

May saw the inversion continue to hover around -.35bps, where it has remained since steepening into the teens back in January. As we have mentioned, it seems the curve is just waiting for one cut from the Fed to hopefully correct itself and send short-term rates lower.





NBCS Asset Management maintains our stance that the Fed is done raising rates. This week's release of the minutes from the May 1st Federal Reserve Board meeting supported that stance. While the minutes did note that "various" officials "mentioned a willingness" to raise rates if inflation reaccelerated, Chairman Powell said in a press conference just after the meeting that it was "unlikely" that the Fed would resume raising its key rate. Furthermore, since the May 1st meeting, key members of the Fed's Board of Governors have largely dismissed the prospect of further rate hikes this year.

What we do continue to see, as NBCSAM began to mention weeks ago, is the prospect of higher rates for longer. The Fed is certainly signaling that by noting that not only did inflation reduction stall in the first 3 months of the year but also that confidence was lower based on the data given. However, Chairman Powell did say that he still expected inflation to "further cool" this year, keeping the door open for a possible rate cut.

Economic Overview

Key Economic Indicators

JOB MARKET

Job Gains
The headline jobs number was an increase of 175,000 jobs. Through April, the US has had positive job growth for 40 consecutive months—the fifth longest streak in history.

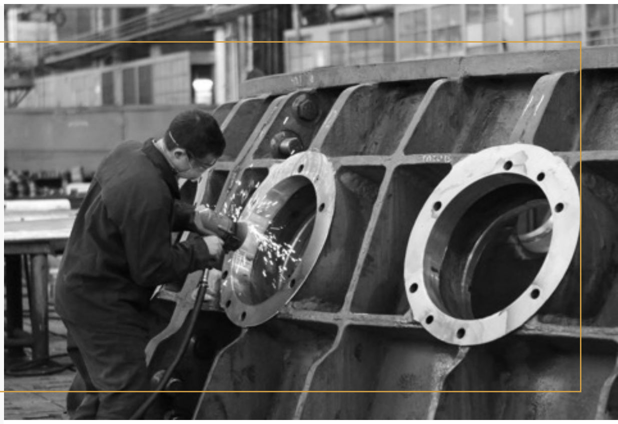
Unemployment Rate
The unemployment rate increased to 3.9% in April compared to 3.8% in March.

Fed Beige Book Insights
Employment rose at a slight pace. More labor is available, though acute shortages remain in certain sectors. Wage growth continued to slow, with some regions reporting a return to lower pre-pandemic norms.

MANUFACTURING AND SERVICES

Manufacturing Back in Contraction
One month removed posting its first expansion in 17 months, the manufacturing sector posted a reading just below 50 in April.

Service Sector Contraction
The service sector experienced its first reading under 50 in 16 months, signaling modest contraction.



ECONOMIC GROWTH

GDP Growth
Real GDP increased at an annual rate of 1.3% in Q1 2024, revised down from an earlier estimate of 1.6%. This growth primarily reflects increases in consumer spending, residential fixed investment, nonresidential fixed investment, and state and local government spending, offset by a decrease in private inventory investment. Imports also increased.

Fed Beige Book Insights
10 of the Fed's 12 regional banks reported slight or modest growth. Businesses, previously "cautiously optimistic," have grown "somewhat more pessimistic" about the economy.

Economic Overview

Key Economic Indicators

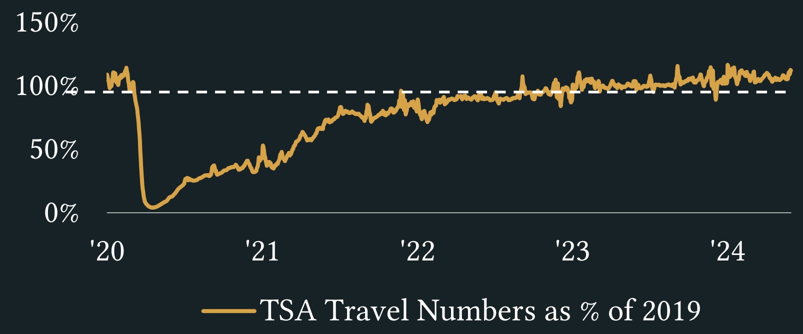
CONSUMER SPENDING, SENTIMENT & TRAVEL

Retail Sales
Retail sales were flat m/m as higher prices limited consumers' willingness to spend more.

Personal Income & Spending
Personal income came in as expected, rising 0.3% m/m. Retail spending came in lighter than anticipated, rising only 0.2% m/m.

Consumer Confidence Index
The Consumer Confidence Index increased to 110.5, reflecting positive sentiment among consumers regarding the economic outlook.

Airline Travel
TSA reported airline travel at about 12% above 2019 levels, reaching a new record high, confirming NBCS Asset Management's theme of a return to normalcy.



INFLATION

Inflation
Headline and core inflation measures came in as expected for both the CPI and PCE. The CPI was higher by 3.4% y/y, while PCE prices were higher by 2.7% y/y.

Fed Beige Book Insights
Inflation rose again, but consumer resistance led some businesses to reconsider price increases with more companies offering discounts.

Conclusion

May 2024 was marked by mixed but overall positive economic performance, with significant contributions from consumer spending, corporate earnings, and a resilient job market. While recent inflation data has been lumpy, April data resumed the trend of disinflation seen since the middle of 2022. 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 as the bar for any further tightening is set very high, 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.

Authors

Darren Hinshaw
Director of Research

Pierre G. Allard
Chief Investment Officer

Chris Fidler
Director of Fixed Income Trading

Disclosures