NBC | SECURITIES

INVESTMENT STRATEGY STATEMENT | November 4, 2024

Earnings Season Starts Strong

by Darren Hinshaw, Pierre G. Allard & Christopher Fidler

Performance Review & Outlook

Fed Expected to Continue Policy Pivot
The Federal Reserve lowered its benchmark borrowing rate by 0.50% in September and is likely to lower by another 0.25% this week.

Cutting From a Position of Strength
We believe the Fed is acting from a position of strength, proactively cutting rates to prevent policy from being overly restrictive and causing undue harm to the economy.

Disinflation Trend Getting Close to the Conclusion
The September CPI reading showed consumer prices up only 2.4% y/y, the lowest reading since February 2021.

Equity Markets Took a Small Step Back in October
For the first month since April the S&P 500 posted a negative return in October. The index was down -0.9% for the month and has a total return of 21% for the year.

Earnings Season has Gotten off to a Strong Start
With 350 of the companies in the S&P 500 having reported earnings, 265 (75%) have beaten expectations. Earnings are the fundamental driver of equity returns over time.

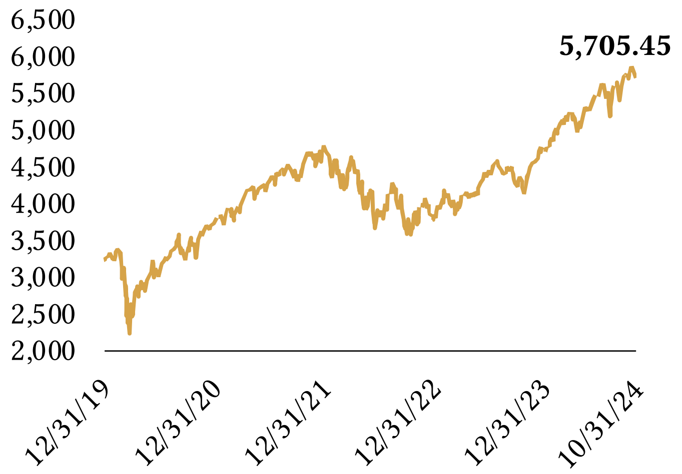
Data Over the Last Year Has Been Consistent with our View
With inflation falling and the economy continuing to grow, the key themes we have been discussing for more than a year have largely played out consistent with our view.

Equity Market Overview

The S&P 500 had its first negative return in the last 6 months in October, falling by just under 1%. Equity markets were having a solid month until the last two days, where the S&P and Nasdaq fell -2.2% and 3.3%, respectively.

The late month moves came after a few large cap technology companies announced earnings that, while meeting or beating sell side estimates, failed to impress investors.

S&P 500 Price Index (12/31/19 - 10/31/24)



We've fielded multiple questions from clients recently about the "market seeming high" and can it continue to move higher from these levels? While we won't try and tell you what is going to happen over the next week, month, or quarter, what we can focus on is why do equity markets grow over time?

We often talk about how things impact the economy and what impact that will ultimately have on earnings. Since we are in the middle of earnings season (at the time of this writing, roughly 40% of the market cap in the S&P 500 has reported Q3 earnings), we thought this would be a good opportunity to remind everyone why earnings are the fundamental driver of equity returns and growth over time.

From 12/31/2000 to 9/30/2024, operating earnings for the S&P 500 have grown at a 6.10% annualized rate according to the analysts at Standard & Poor's. Consider the economic events that have taken place over this time. We had the bursting of the tech bubble, the financial crisis, COVID and many others. Companies in the index earned $56 in 2000, compared to $227 for the trailing twelve months ending 9/30/2024. This is remarkable growth and is a testament to the resiliency and resolve of the US economy and its citizens.

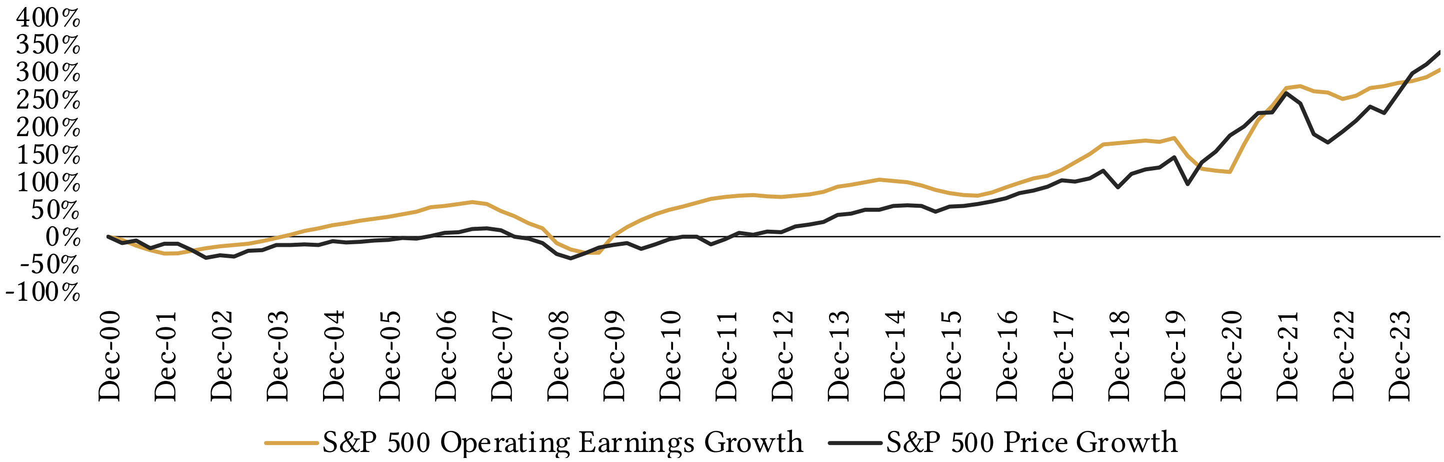
Can you guess how much the S&P 500 has returned annually, on a price basis, over this same period? 6.40%. Over a nearly 25-year period, the price return has almost exactly matched the growth in operating earnings. Some might think this is remarkable, but in reality, this is how markets should work. As an equity investor, you are purchasing a piece of the future earnings of that company. As earnings grow, the value of your investment should grow along with it. (For any math wonks out there, the reason that the two numbers are different by 0.30% is because the P/E multiple increased slightly from 2000 to 2024.)

12-Month Percentage Change of Indices

Index (Local Currency)	Level	October	YTD	12 Month
S&P 500	5,705.45	-0.9%	21.0%	38.0%
Dow Industrials (DJIA)	41,763.46	-1.3%	12.5%	28.9%
Nasdaq	18,095.15	-0.5%	21.2%	41.9%
Russell 2000	2,196.652	-1.4%	9.6%	34.1%
US 2yr Treasury	4.1702	14.5%	-1.9%	4.1%
US 10yr Treasury	4.2844	13.3%	10.4%	25.2%
Gold (NY Spot $/oz)	2,743.97	4.2%	33.0%	37.9%
Silver (NY Spot $/oz)	32.6625	4.8%	37.3%	30.4%
Copper ($/metric ton)	9,373.55	-3.3%	10.7%	9.3%
Oil (WTI Spot/bbl)	69.26	1.6%	-3.3%	-9.8%
Oil (Brent Spot/bbl)	73.16	1.9%	-5.0%	-8.0%
Natural Gas ($/mmBtu)	2.707	-7.4%	7.7%	12.3%

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

S&P 500 Price vs. Operating Earnings Growth



An added bonus of being an equity investor is the potential to share in the profits of the companies you are investing in. Many companies in the S&P 500 pay a dividend and when this is added to the price return, the index has averaged 8.4% in total return over this period. If you invested $100 on 12/31/2000, including the reinvestment of dividends, you would have $664 today.

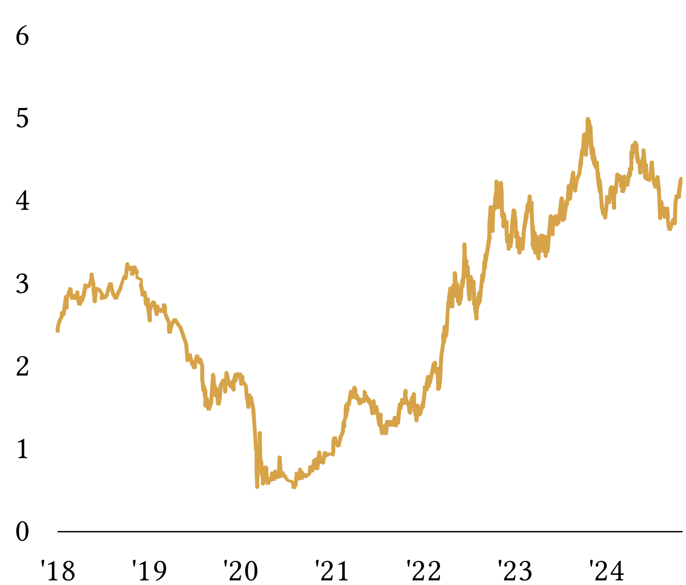
Fixed Income Market Overview

As October comes to a close, we closed the door on a quieter than normal (at least in recent months) news cycle across bond markets.

On the back side of the Federal Reserve's first cut in September, October provided markets an opportunity to begin to disseminate the Fed's 50 bps cut in September.

Post Fed cut, we saw rates decline as expected with the 10 US Government Treasury Note opening the month at 3.73%. Ahead of the Fed's decision, NBCS Asset Management made the call that we believed not only that the rate cut could correct the inverted yield curve, but also that there was a possibility that as the Fed began to cut, we could see intermediate and long-term yield rise. The 10yr US T-Note closed the month at 4.28%! 50 full basis points higher in only 31 days.

10 Year US Treasury Yields



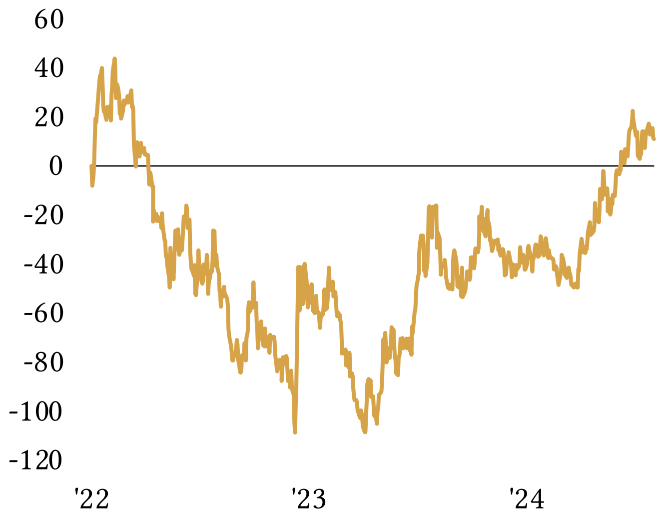
Some pundits have questioned the reasons for this rise in rates amid Fed cuts. But in reality, it's not that uncommon at all. The rise in rates in the intermediate term and beyond is easily justified by the data, both domestically and globally. Despite a slow jobs number to close the month, attributable to two hurricanes and labor strikes, job numbers continue to outperform. To close the month, we saw GDP continue to grow at 2.8% on the quarter. Year over year CPI continued to fall to 2.4% for October.

In the simplest of terms, the hike in intermediate term and beyond yields is not uncommon at all—it's the economy!

As we look forward to November and the next FOMC meeting on November 7th, NBCS Asset Management expects the Federal Reserve to continue with their cuts at the 25 basis point level.

As we mentioned in last month's ISS, by and large, the Fed has done a great job keeping this economy afloat. Sure, you can argue that maybe they were late to hike rates when inflation was at its peak. You could argue that possibly they kept rates too high for too long. But increasingly, it becomes harder to argue against an economic soft landing. NBCS Asset Management maintains that point, just as the Federal Reserve does, until the data tells us otherwise.

2 Yr/10 Yr Spread (bps)



Economic Overview

Key Economic Indicators

JOB MARKET

October Employment Report
Total nonfarm payroll employment showed little change in October, with an increase of 12,000 jobs, and the unemployment rate remained steady at 4.1%, according to the U.S. Bureau of Labor Statistics. This stagnation was influenced by two hurricanes and a strike at Boeing. Notably, we are currently tied for the third-longest employment streak at 46 months.

Job Openings to Unemployed Ratio
Job openings fell to 7.4mm in August, keeping the job openings to unemployed ratio at 1.1x which is in-line with the average in 2019 prior to the distortions from the pandemic. Labor supply and demand are currently in balance, no longer providing upward pressure on inflation.

HOUSING MARKET

House Prices & Mortgage Rates
The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index reported a 4.2% annual increase for August, down from a 4.8% gain in July. Meanwhile, mortgage rates surged in October, with the average rate for a 30-year fixed mortgage climbing to 6.88%, according to Bankrate's lender survey as of October 31, 2024.

RETAIL SALES & PERSONAL SAVINGS:

Retail Sales
Retail trade sales increased by 0.3% from August 2024 and were up 1.4% compared to the previous year, indicating strong economic growth in the third quarter.

Personal Savings Rate
The Bureau of Economic Analysis reported that the personal savings rate stood at 4.6% of disposable income in September.

Economic Overview

Key Economic Indicators

ECONOMIC GROWTH

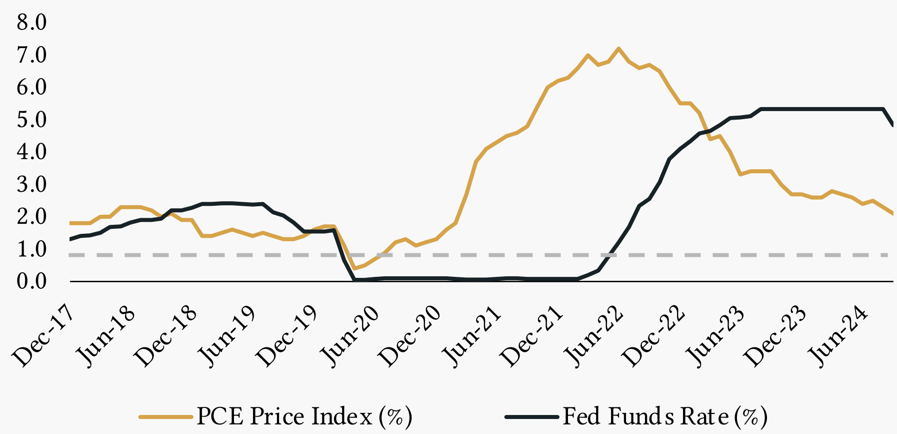
GDP Growth
Real gross domestic product (GDP) rose at an annual rate of 2.8% in the third quarter of 2024, as reported by the U.S. Bureau of Economic Analysis. This follows a 3.0% increase in the second quarter.

INFLATION

CPI
The Consumer Price Index for All Urban Consumers (CPI-U) rose by 0.2% on a seasonally adjusted basis, consistent with the increases seen in both August and July. Over the past year, the overall index increased by 2.4% before seasonal adjustments.

PCE
The Fed's preferred measure of inflation, the PCE index, recorded a year-over-year increase of 2.1%, down from 2.3% in September and significantly lower than its peak of 7.0% in June 2022.

Consumer Price Index for All Consumers



Authors

Darren Hinshaw
Director of Research

Pierre G. Allard
Chief Investment Officer

Chris Fidler
Director of Fixed Income Trading

Disclosures