



NBC | SECURITIES

INVESTMENT STRATEGY STATEMENT | February 28, 2025

Navigating Policy Uncertainty

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Performance Review & Outlook

Policy Uncertainty Weighing on Market Sentiment

The potential for tariffs and federal workforce reductions weighed on consumer sentiment in February.

Fixed Income Market Rally

The 10-year U.S. Government Bond opened the month at 4.55%, peaked at 4.62%, and closed at 4.20%, its lowest level since December of last year.

Watch for a Modest Increase in Jobless Claims

Federal workforce reductions may slightly raise jobless claims in coming weeks. Focus on the private sector's ability to absorb those losses—an important test of economic strength.

Softer Economic Data Provided Another Headwind for Markets

Weaker retail sales and personal spending numbers suggest that the U.S. economy started 2025 on a softer footing.

Equity Market Concentration Downside on Display 2.0

Once again, we saw the downside of market concentration. The “Magnificent 7” stocks dragged U.S. equity markets lower in February.

Remain Cautiously Optimistic for 2025

While we continue to believe the economy is in a good place and maintain a positive outlook, we believe it's a good time to revisit your overall allocation to make sure it aligns with your long-term goals.

Equity Market Overview

-1.3%

S&P 500

-8.7%

“Magnificent 7” Stocks

+3.3%

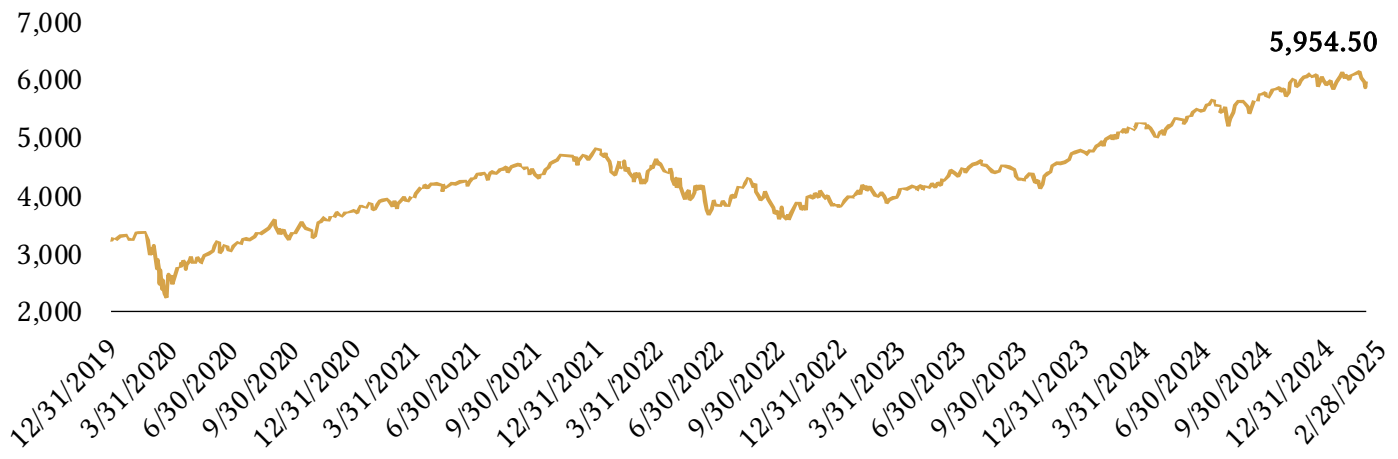
YTD Top Performer:
Dow Jones

As of February 2025

U.S. equity indices mostly declined in February, despite a rebound on the final day of trading. Investors faced weaker economic data and a drop in consumer confidence, likely due to concerns about the new administration's trade policies and recent reductions in the federal workforce.

The S&P 500 ended the month down 1.3%, falling as much as 4.7% from its high on February 19 to its low on February 27, before recovering on Friday.

S&P 500 Price Index (12/31/19 - 2/28/25)



Large-cap growth stocks were hit hardest, with the "Magnificent 7" leading the decline, posting an 8.7% drop for the month. Meanwhile, defensive sectors saw relative strength, with consumer staples rising 5.6%. For the year, the S&P 500 is up 1.4%, while the tech-heavy Nasdaq has slipped 2.3%. The Russell 2000 Small Cap Index is down 2.9%, and the Dow Jones Industrial Average has been the top performer, up 3.3%.

While we remain confident that the U.S. economy is on solid footing and expect corporate earnings to continue growing nicely in 2025, we recognize that policy uncertainty is weighing on the market.

Recent declines in consumer spending and sentiment suggest that the economy and financial markets are not immune to shifting headlines. Investors should view this as an opportunity to reassess their equity allocations to ensure they align with their long-term objectives.

Fixed Income Market Overview

As we closed out the month of February, we saw rates fall across fixed income markets consistently throughout the month. The 10-year U.S. Government Bond opened the month at 4.55%, peaked at 4.62%, and closed at 4.20%, its lowest level since December of last year. A mixed bag of economic data spurred a flight to safety, as investors bought bonds on signs that the economy may be slowing—the key word being “may.” Earlier this month, following a stronger-than-expected CPI report for January, Federal Reserve Chairman Powell indicated that the Fed will not rush to further lower interest rates. He emphasized the Fed's continued commitment to a level-headed approach to monetary policy, especially as headlines and uncertainty have increased amidst policy changes in the new administration.

This reinforces our previous statements in ISS publications: although we saw rates fall slightly this month, NBCS Asset Management continues to believe that rates will remain in their current range for some time.

While some economic indicators this month came in weaker than expected, there were also several positive signs. Global manufacturing and personal income numbers were solid, and GDP, while slowing from the previous quarter, still showed the economy expanding at a rate of 2.3%. Core PCE, widely considered the "Fed's preferred inflation metric," rose 2.6% year-over-year—the lowest level in seven months. In today's news cycle, headlines often dominate, but it's important to take a step back and look at the bigger picture when investing.

While we continue to believe the economy is in a good place and maintain a positive outlook, the old saying holds true: "Procrastination is the thief of time and later becomes too late." When the time comes—and it always does—be sure you are taking the appropriate steps now to ensure you have a well-built core portfolio of financial investments, including a strong fixed income allocation.

10 Year U.S. Treasury Yields



NBCS Asset Management believes that now is a great time to review your portfolio to ensure that you have a "core" set of investments that can provide not only positive returns during bull markets but also protection during bear markets. Exposure to fixed income is an effective way to achieve this balance.



Economic Overview

Key Economic Indicators



JOB MARKET

Employment Report

Total nonfarm payroll employment came in lower than economists expected in January, but when accounting for the revision of December figures, January payrolls were ahead of expectations. The U.S. economy added 143,000 jobs and December payrolls were revised higher by 51,000. The unemployment rate fell to 4.0%, according to the U.S. Bureau of Labor Statistics. Notably, we are now at the second-longest employment gains streak at 49 months.

Initial Jobless Claims

Initial Jobless Claims averaged 224,000 in February, a slight increase from the levels in January. We remain near historical lows on initial claims, indicating continued strength in the labor market. However, we do expect to see a modest increase in jobless claims over the coming months as the Federal employee layoffs start to show up in the data, but it will be important to monitor continuing claims to see how much is being absorbed by the private sector. If we start to see continuing claims creeping higher for a prolonged period, we would expect to see a slowdown in consumption which could move GDP growth closer to or below 2% for 2025.

RETAIL SALES & PERSONAL SAVINGS:

Personal Income & Spending

January personal spending declined by 0.2%, the first m/m decline since March 2023 and confirms the softer retail sales figure earlier in the month. Spending has grown by 5.6% over the last 12 months. January personal income grew by a robust 0.9% over the prior month and 4.6% over the last 12 months. The reduced spending and higher personal income supported a welcome increase in the personal savings rate, which moved to 4.6% from 3.8% in the prior month.

Some policy uncertainty has started to show up in the data, with weaker-than-expected spending and retail sales figures and recent declines in sentiment surveys implying the U.S. consumer has begun 2025 cautiously.



Economic Overview

Key Economic Indicators



INFLATION

CPI

The Consumer Price Index for All Urban Consumers (CPI-U) rose by 0.5% on a seasonally adjusted basis in January. Over the past year, the overall index increased by 3.0%. The Core CPI, which strips out food and energy, was higher by 0.4% for the month and 3.3% over the past 12 months.

PCE

The PCE Price Index recorded a year-over-year increase of 2.5% for January. The Federal Reserve's preferred measure of inflation, Core PCE Prices, increased 2.6% y/y in January. Both figures were slightly lower than in December. We believe the recent inflation data is consistent with a path towards 2%, although it is taking longer than originally expected.

HOUSING MARKET

The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index reported a 3.9% annual increase for December, slightly higher than the 3.8% gain in November. Home price gains have moderated over the last year and are closer to their long-term average.

Conclusion

While we remain confident that the U.S. economy is on solid ground and that corporate earnings will continue to grow steadily in 2025, we acknowledge that policy uncertainty is weighing on the market. Recent declines in consumer spending and sentiment demonstrate that both the economy and financial markets are susceptible to shifting headlines. This presents an opportunity for investors to reassess their overall allocations and ensure their alignment with long-term goals. The current policy uncertainty is creating a temporary disruption, as declining consumer sentiment

has led to more cautious spending to start the year. We view this as a short-term issue, or an "air pocket," but will closely monitor incoming data to ensure there are no signs of a more significant economic slowdown. On the other hand, should the economy show signs of slowing, the Federal Reserve has the tools to provide monetary accommodation and support continued growth.

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