NBC | SECURITIES

INVESTMENT STRATEGY STATEMENT | March 31, 2025

Sentiment vs Data

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Performance Review & Outlook

Policy Uncertainty Weighing on Market Sentiment
The back and forth on various policy initiatives, namely tariffs, weighed on equity markets in March.

Technology Shares Have Begun to Re-rate
Technology has been the worst performing S&P 500 sector as questions over capital needs for artificial intelligence have led valuations to re-rate lower.

Currently a Disconnect Between Survey and Hard Economic Data
Survey and sentiment data have fallen dramatically over the last 6 weeks while gauges of the labor market and economic growth have remained resilient.

Haven't Yet Seen Any Notable Increase in Jobless Claims
Federal workforce reductions have yet to have much impact on the weekly data and we have not seen an increase in continuing claims.

Quiet Month for Rates
The 10-year US Treasury bounced between 4.15% and 4.36% during the month.

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

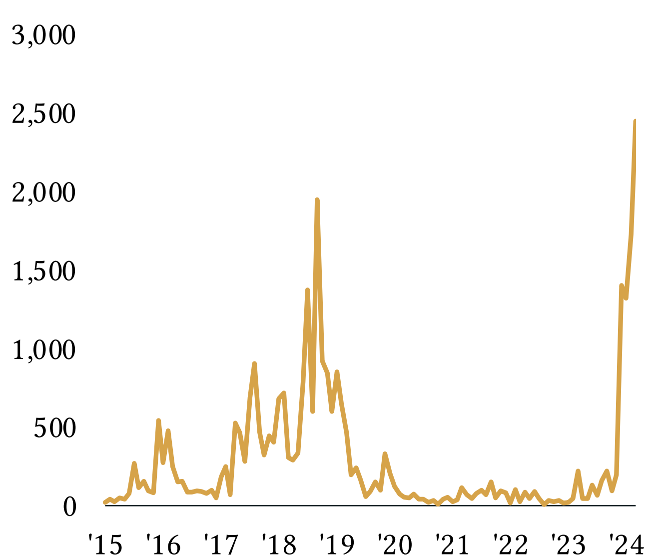
-5.6%	**S&P 500**
-6.8%	**Nasdaq**
-4.1%	**Dow Jones**

As of March 2025

US equity indices continued their decline in March, extending the downtrend that began in mid-February. Positive economic data was overshadowed by growing uncertainty and weaker survey data, which have been more prevalent recently. The S&P 500 ended the month down -5.6%, bringing its year-to-date loss to -4.3%. The Nasdaq was hit hardest, falling -6.8% in March and -10.3% for the year, while the Dow Jones Industrial Average proved to be the relative outperformer, dropping only -4.1% for the month and -0.9% the year.

As the chart below illustrates, trade policy uncertainty in the US has surged. This, combined with the messaging around various policy initiatives from the current administration, has contributed to declines in both consumer and business sentiment. While we continue to argue that the economy remains strong, with "hard" data supporting this view, we recognize that the longer that this uncertainty leads to lower consumer and business sentiment, the higher the likelihood that the “soft” data will begin to impact the “hard” data and the more economic growth will be negatively impacted. A key example is the personal spending data for January and February, which came in lower than expected. If purchasing decisions continue to be delayed, the potential negative impact on economic growth will grow. The silver lining is that personal income increased in both months, leading to a better savings rate, which could boost spending once consumer sentiment improves. However, for this to happen, clarity and certainty around trade and other policy initiatives are essential. Markets hate uncertainty and at the moment we have plenty of it.

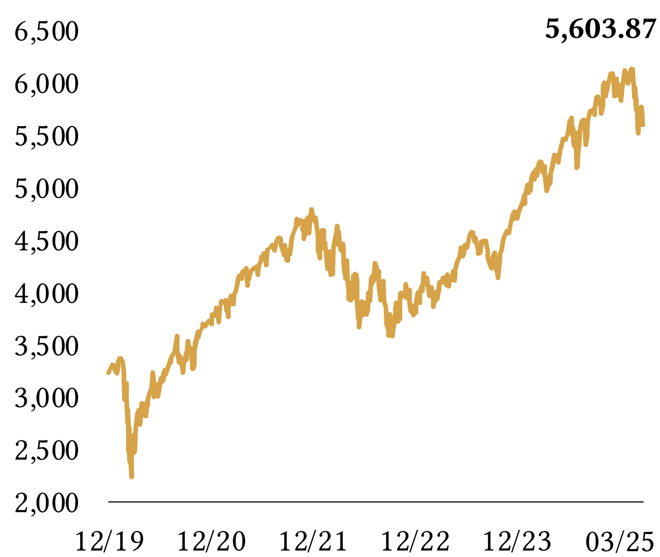
US Trade Policy Uncertainty Index



Source: EPUCTRAD Index

Additionally, large-cap technology companies are facing ongoing pressure and their valuations have re-rated, exacerbated by the fallout from Deepseek and growing concerns about capital spending levels and the returns expected from artificial intelligence investments. As a result, technology has been the worst-performing sector in the S&P 500 in 2025, down -12.7%. We believe the impact on the world and the global economy from artificial intelligence will be profound, but any questions on how much capital is needed in the space will lead to bumps in the road which until this year was a very stable path higher.

S&P 500 Price Index (12/31/19 - 3/31/25)



Fixed Income Market Overview

March was a relatively quiet month in the Fixed Income markets, with the 10-year US Treasury peaking at 4.36% and dipping to 4.15% throughout the month. Economic data remained mild and had minimal impact on the fixed income markets, which, as we've reported in previous ISS publications, is a positive sign. After all, bonds shouldn’t be exciting!

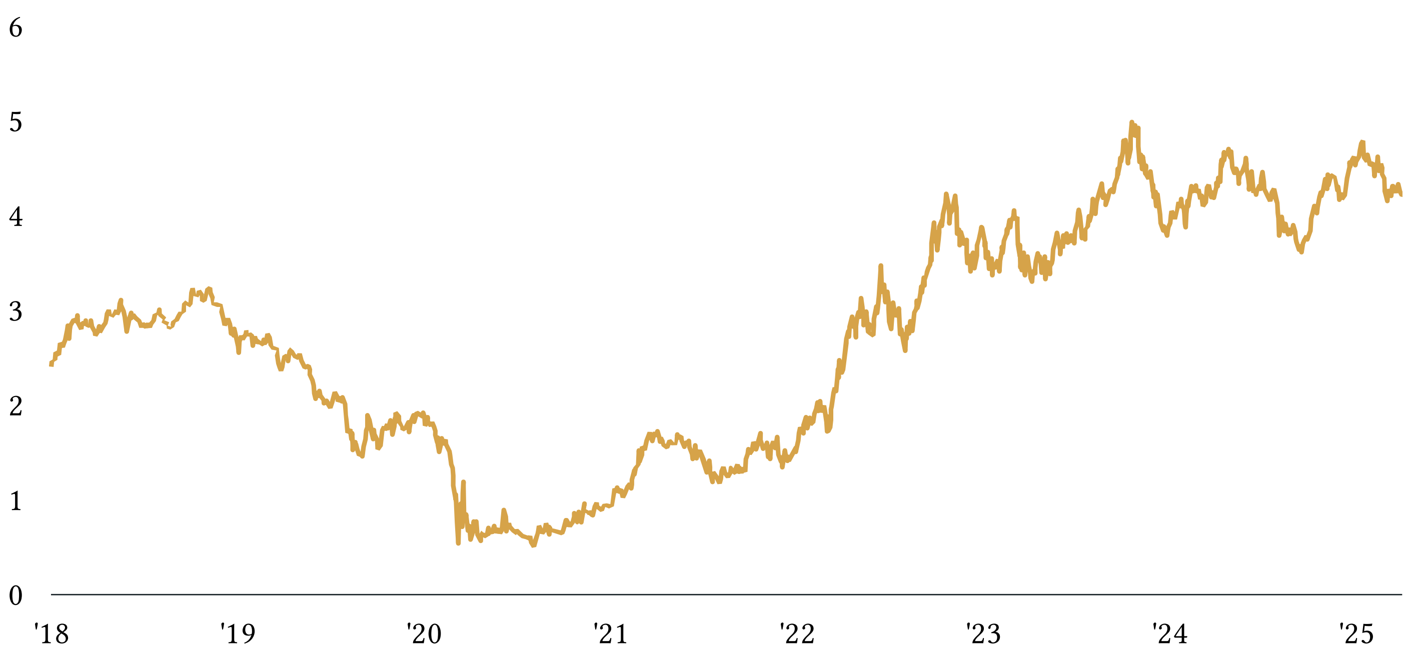
Perhaps the most notable news this month was the March FOMC meeting. The Federal Reserve left its target rate unchanged at 4.25%-4.50%. We've seen increased volatility across both equity and fixed income markets in response to administrative changes regarding tariffs and other factors. However, in his post-FOMC meeting press conference, Federal Reserve Chairman Jerome Powell maintained a measured and balanced approach to the direction of the markets.

At the December meeting, the Federal Reserve projected two rate cuts in 2025, and Chairman Powell reaffirmed that outlook in March, stating, "At the December meeting, the median was two cuts. So, you come in and see, broadly speaking, weaker growth but higher inflation. And they kind of balance [each other] out." He also noted that economists outside of the Fed have generally raised their estimates of a potential recession but emphasized that a severe downturn "still isn't likely."

Chairman Powell's steady approach to monetary policy was well-received across markets, providing a sense of stability in what has otherwise been a volatile start to the year. NBCS Asset Management views these market changes as a great opportunity to review your portfolio to ensure it maintains a balanced mix of both equity and fixed income exposure. While we agree with Chairman Powell that a severe downturn is unlikely in the near term, exposure to a core portfolio of fixed income investments serves as a hedge against potential downturns in equity markets.

We see the new, higher interest rate environment as an excellent opportunity for bond markets to function as intended, offering investors higher yields than we've seen in many years. We stress that, while we're not forecasting significant downside risk in the market, now is the ideal time for investors to review their portfolios to ensure a proper balance of both equity and fixed income investments.

10 Year US Treasury Yield (%)



12-Month Percentage Change of Indices

Index (Local Currency)	Level	March	YTD	12 Month
S&P 500	5,611.85	-5.6%	-4.3%	8.2%
Dow Industrials (DJIA)	42,001.76	-4.1%	-0.9%	7.4%
Nasdaq	17,299.29	-8.1%	-10.3%	6.4%
Russell 2000	2,011.913	-6.8%	-9.5%	-4.0%
US 2yr Treasury	3.8893	-2.5%	-8.3%	-15.8%
US 10yr Treasury	4.211	0.1%	-7.8%	0.3%
Gold (NY Spot $/oz)	3,123.47	9.3%	19.0%	40.1%
Silver (NY Spot $/oz)	34.058	9.3%	17.8%	36.4%
Copper ($/metric ton)	9,749.69	4.4%	12.7%	11.2%
Oil (WTI Spot/bbl)	71.36	2.3%	-0.5%	-14.2%
Oil (Brent Spot/bbl)	74.74	2.1%	0.1%	-14.6%
Natural Gas ($/mmBtu)	4.127	7.6%	13.6%	134.1%

Data as of March 31, 2025
Source: FactSet/Bloomberg

Economic Overview

Key Economic Indicators

JOB MARKET

Employment Report
February Job Gains were solid, beating the forecast, with 151k net jobs added. This was driven mainly by a pickup in hiring in goods-producing sectors. The government sector added only 11k net jobs, with a contraction of 10k jobs in the federal sector as job cuts and hiring freezes there took effect. Notably, we are now at the second-longest employment gains streak at 50 months.

Initial Jobless Claims
Initial Jobless Claims averaged 224,000 in March, exactly the same as we saw in February. We remain near historical lows on initial claims, indicating continued strength in the labor markets. 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. So far, we haven't seen any evidence of continuing claims moving higher.

HOUSING MARKET

House Prices
The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index reported a 4.1% annual increase for January, slightly higher than the 3.9% gain in December. Home price gains have moderated over the last year and are closer to their long-term average.

PERSONAL INCOME & SPENDING

Personal Income & Spending
February personal spending increased by 0.4%, slightly lower than expectations but higher than the downwardly revised -0.3% in January. Spending has grown by 5.3% over the last 12 months. February personal income grew by 0.8% over the prior month and 4.6% over the last 12 months. The reduced spending and higher personal income supported another increase in the personal savings rate, which moved to 4.6% from 3.3% at the end of 2024.

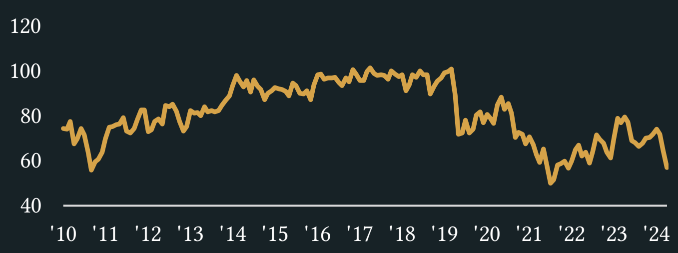
Economic Overview

Key Economic Indicators

CONSUMER SENTIMENT

University of Michigan Consumer Sentiment
The index fell to 57 in March, from 64.7 in February. This is the lowest reading since June of 2022. While consumer sentiment data has historically been more volatile than observable economic data, we are watching to see if a downbeat consumer leads to lower spending overall. It is also important to note that since the pandemic and the resulting inflationary spike, consumer sentiment overall has been relatively negative (see chart on the right).

U. Michigan Consumer Sentiment Index



ECONOMIC GROWTH

GDP Growth
Real gross domestic product (GDP) was revised higher to 2.4% for the fourth quarter of 2024, as reported by the U.S. Bureau of Economic Analysis. This follows an upwardly revised 3.1% increase in the third quarter.

Current Quarter GDP
We did want to note that it is likely Q1 2025 GDP growth is below trend and potentially negative. The figures will be materially impacted by the effects of companies' front-loading imports in January and February to avoid the impacts of tariffs and that impact will likely be reversed in subsequent quarters. Final sales to private domestic purchasers, which we view as the most important indicator of the health of the US economy, will likely be positive and closer to trend for the first quarter.

INFLATION

CPI
The Consumer Price Index for All Urban Consumers (CPI-U) rose by 0.2% on a seasonally adjusted basis in February. Over the past year, the overall index increased by 2.8%. The Core CPI, which strips out food and energy, was also higher by 0.2% for the month and 3.1% over the past 12 months.

PCE
The PCE Price index recorded a year-over-year increase of 2.5% for February. The Federal Reserve's preferred measure of inflation, Core PCE Prices, increased 2.8% y/y in January. We believe the recent inflation data is consistent with a path towards 2%, although it is taking longer than originally expected and is further complicated by the potential impacts of looming tariffs.

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 they align 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. The longer that this uncertainty leads to lower consumer and business sentiment, the higher the likelihood that the “soft” data will begin to impact the “hard” data and the more economic growth will be negatively impacted.

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Disclosures