INVESTMENT STRATEGY STATEMENT | April 30, 2025

The Good, The Bad, and The Uncertain

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Performance Review & Outlook

Tariff Announcements Trigger Sharp Market Volatility

President Trump's announcement of new tariffs on April 2 sparked a dramatic market response, with the S&P 500 suffering one of its worst back-to-back losses in history.

Inflation Continued to Moderate Ahead of Tariffs

The CPI and PCE prices grew at their slowest pace since 2021 on the back of slower growth from shelter costs.

Market Rebounds on Tariff Pause and Easing Trade Tensions

The White House’s 90-day tariff pause on April 9, combined with early signs of easing trade tensions increased market sentiment through the rest of the month, leaving the S&P down only -0.8%.

Earnings Estimates and Valuations Adjusting Amid Uncertainty

The 2025 consensus EPS estimate for the S&P 500 has dropped -3.5% to $264, reflecting the challenges corporations face. However, the relatively modest decline has led to a decrease in the forward PE multiple from 22.5x on February 18th to 20.5x, making valuations more attractive despite potential further negative revisions if trade uncertainty continues.

10 Year Treasury Yields Remain Range Bound

Although we saw some volatility in rates after the tariffs were announced, the 10 Year yield finished the month right where it started.

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.

Equity Market Overview

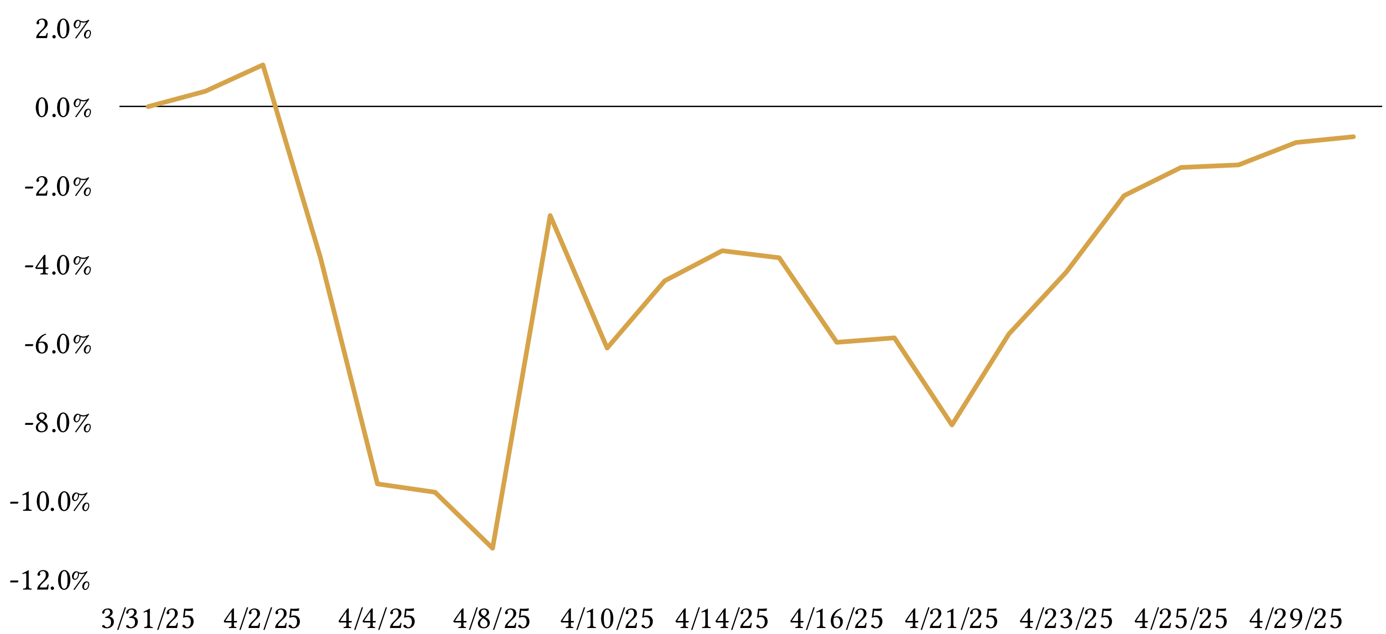
The S&P 500 experienced a month marked by sharp volatility, primarily triggered by geopolitical and economic developments in April. Early in the month, President Donald Trump announced sweeping new tariffs under what he termed "Liberation Day" on April 2. These included a 10% levy on all imports, along with steeper tariffs on countries such as China and the European Union. The market responded swiftly and negatively, with the S&P 500 suffering a historic two-day drop—falling 6.65% on April 3 and another 5.97% on April 4. These declines represented one of the worst back-to-back losses in the index's history and triggered widespread concerns about the global economy.

Market sentiment began to shift after the White House announced a temporary 90-day pause on certain tariffs on April 9th. This news sparked a powerful market rebound, with the S&P 500 surging 8.7%, marking its largest intraday point gain ever and closing at 5,456.90.

In the weeks that followed, signs of easing trade tensions helped stabilize markets. Reports emerged suggesting that behind-the-scenes negotiations between the U.S. and key trading partners were progressing, including tentative discussions on revising or delaying some of the more severe tariff measures and providing exemptions to certain products.

Statements from administration officials signaling a willingness to negotiate further reduced investor fears of an escalating trade war. These developments reassured markets, contributing to a gradual recovery in equities and improving risk sentiment through the end of the month.

S&P 500 Price Index (3/31/25 - 4/30/25)

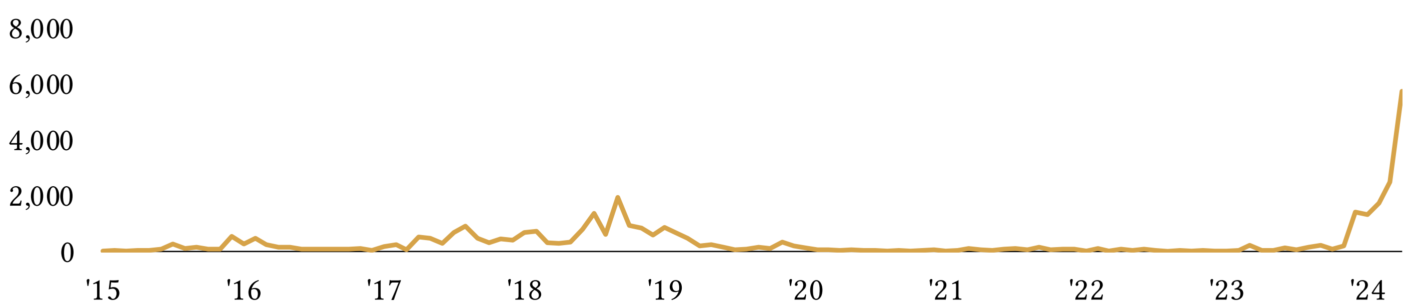


By April 30, the S&P 500 had closed at 5,569.06, down -0.8% for the month and -4.92% for the year.

> *According to Bloomberg, this was only the fifth time since 1928 that the index has had a monthly price range greater than 10% while closing with a monthly change of less than 1%, highlighting the seesaw trading action witnessed during the month.*

While the index ended April on a strong note with a seven-day winning streak—the longest since November 2020—concerns remain. Stock valuations are still seen as somewhat elevated (although they've improved since mid-February, more on that later), and signs of a possible economic slowdown continue to weigh on investor and consumer confidence. In our opinion, equity investors are currently willing to look past a temporary slowdown on the assumption that the current trade policy and the uncertainty that it has created are resolved relatively quickly. But as we've noted previously, the longer this persists, the greater the likelihood of a more pronounced slowdown in economic activity.

US Trade Policy Uncertainty Index



Source: EPUCTRAD Index

Coming back to valuations and earnings, the current 2025 consensus EPS estimate for the S&P 500 is $264, down -3.5% from the $273 expected at the start of the year. While this decline shouldn't surprise anyone given the massive uncertainty corporations currently face, the relatively small magnitude of the decline has led to the forward PE multiple falling from the peak on 2/18 at 22.5x to a more reasonable 20.5x today. While we acknowledge that there are likely to be more negative revisions in the near term, especially if trade uncertainty persists, stock valuations have become more attractive over the last 6 weeks.

S&P 500 Price Index

Fixed Income Market Overview

Bond markets in April experienced a slight uptick in volatility compared to previous months. The month began with the 10-year U.S. Treasury yield testing support at a low of 3.99%, before quickly rebounding to a monthly high of 4.49% within 10 days. Yields ultimately settled at 4.16% to close out the month.

> *While these movements may appear volatile over such a short period, they remain firmly within the short-term range that NBCS Asset Management has been forecasting.*

A 4.00%–4.50% range on the 10-year Treasury appears to be the likely trading band for the foreseeable future, at least until the market can fully digest the current wave of tariff-related uncertainty.

10 Year US Treasury Yield (%)

Overall, we view the bond market's adherence to our forecasted range as unsurprising—bonds, after all, are designed to be the "boring" part of the portfolio.

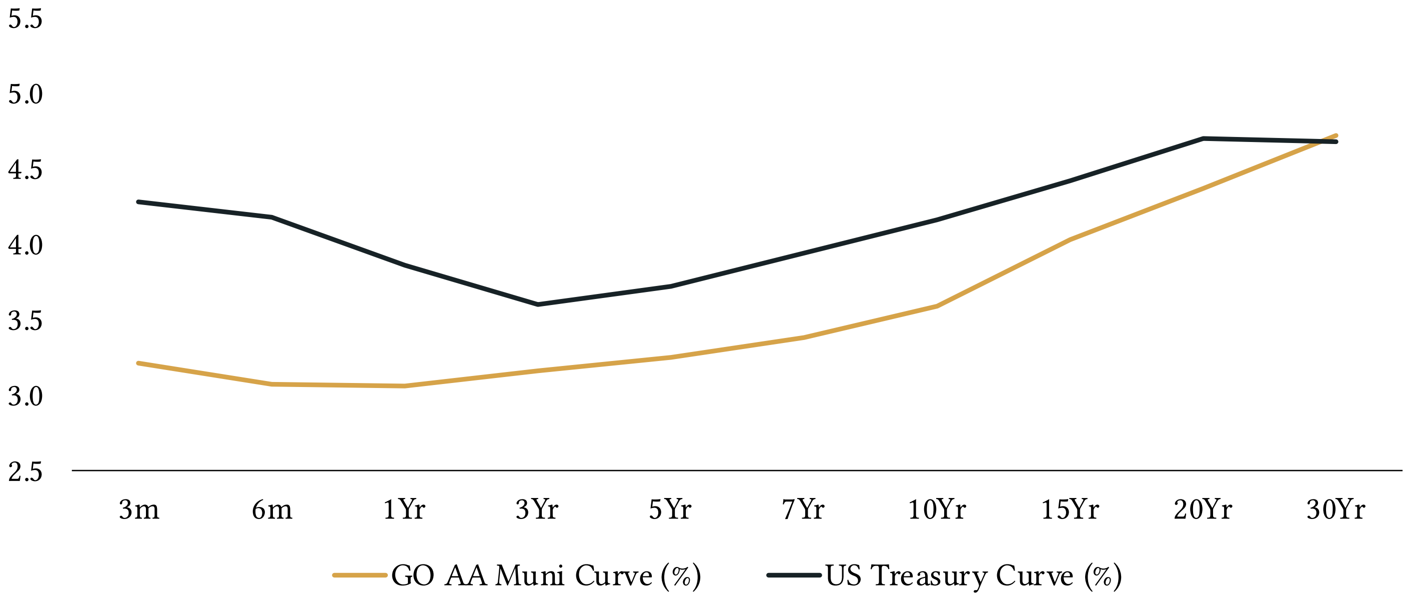
The market, much like the Federal Reserve, appears to be taking a measured and level-headed approach to tariffs and other administrative policy changes, echoing Chairman Powell's recent call for a "wait-and-see" stance on monetary policy. Rate cut expectations remained largely unchanged throughout the month, with futures markets still pricing in two to three cuts this year, while leaving room for more depending on how policy developments unfold.

> *One bright spot that has emerged this past month lies in municipal bonds.*

Muni yields have climbed to new highs, and in several areas of the curve—particularly from the intermediate range outward—we are now seeing tax-free municipal bonds yielding more than taxable US Government Bonds. This presents a compelling opportunity for investors, especially those in higher income brackets or living in high-tax states.

In some cases, taxable-equivalent yields on munis exceed 7% for top-bracket investors. If the Federal Reserve is indeed expected to cut rates later this year, now could be an opportune time to lock in these attractive yields in municipal bonds.

Yield Curve: AA Municipal Bonds vs. US Treasury



12-Month Percentage Change of Indices

Index (Local Currency)	Level	April	YTD	12 Month
S&P 500	5,569.06	-0.7%	-4.9%	12.1%
Dow Industrials (DJIA)	40,669.36	-3.1%	-3.9%	9.5%
Nasdaq	17,446.34	0.9%	-9.5%	12.2%
Russell 2000	1,964.119	-2.3%	-11.6%	0.9%
US 2yr Treasury	3.6027	-7.2%	-15.1%	-22.0%
US 10yr Treasury	4.1619	-1.0%	-8.9%	-0.9%
Gold (NY Spot $/oz)	3,288.71	5.3%	25.3%	47.5%
Silver (NY Spot $/oz)	32.6164	-4.3%	12.9%	30.7%
Copper ($/metric ton)	9118.2	-5.6%	5.4%	4.0%
Oil (WTI Spot/bbl)	58.21	-18.6%	-18.8%	-30.0%
Oil (Brent Spot/bbl)	63.12	-15.5%	-15.4%	-27.8%
Natural Gas ($/mmBtu)	3.326	-19.3%	-8.5%	88.7%

Data as of April 30, 2025
Source: FactSet/Bloomberg

Economic Overview

Key Economic Indicators

JOB MARKET

Employment Report
March job gains were solid once again, with 228k net jobs added versus a forecast for 140k. The unemployment rate ticked up slightly to 4.2% from 4.1% as the labor force participation rate increased. Notably, we are now at the second-longest employment gains streak at 51 months.

Initial Jobless Claims
Initial jobless claims averaged 220,000 in April, slightly lower than the average for March. 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. We've just started to see continuing claims move slightly higher but remain at a historically low level.

HOUSING MARKET

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

PERSONAL INCOME & SPENDING

Personal Income & Spending
March personal spending increased by 0.7%, better than expected and higher than both January and February. Spending has grown by 5.6% over the last 12 months. February personal income grew by 0.5% over the prior month and 4.3% over the last 12 months.

Economic Overview

Key Economic Indicators

CONSUMER SENTIMENT

University of Michigan Consumer Sentiment
The index fell to 52.2 in April, from 57 in March. This is the lowest reading since June 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
The first reading for real gross domestic product (GDP) came in at -0.3% for the first quarter of 2025. As we mentioned last month, these figures were 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, came in at 3.0%.

INFLATION

CPI
The Consumer Price Index for All Urban Consumers (CPI-U) fell by -0.1% on a seasonally adjusted basis in March. Over the past year, the overall index increased by 2.4%. The Core CPI, which strips out food and energy, was higher by 0.1% for the month and 2.8% over the past 12 months, the lowest reading since the spring of 2021. Shelter prices, long the biggest contributor to the rising cost of living, rose 4% over the past 12 months, also marking the smallest gain since 2021.

PCE
The PCE Price index recorded a year-over-year increase of 2.3% for March. The Federal Reserve's preferred measure of inflation, Core PCE Prices, increased 2.6% y/y in March. 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: The Good, The Bad, and The Uncertain

April's market action reflected a volatile but ultimately stabilizing response to a dramatic shift in U.S. trade policy. The initial shock of sweeping tariffs—followed by a partial retreat—reminded investors just how sensitive risk assets remain to policy surprises. While markets regained their footing by month-end, questions remain about the lasting impact of these measures.

The Good: Equities proved resilient in the face of historic short-term declines, ending the month with improved valuations and a strong technical recovery. Bond markets remained stable, and municipals now offer attractive after-tax yields rarely seen in recent years. There is a growing sense that cooler heads may prevail in tariff negotiations, especially given the market's reaction and the subsequent softening of tone from Washington.

The Bad: The damage from early April was significant, and investor confidence is still being rebuilt. Corporate earnings estimates are being revised lower, and it's unclear how much more negative guidance may follow if trade tensions linger. Elevated valuations—while improved—still require healthy earnings growth to justify current price levels.

The Uncertain: Whether April's disruption proves to be a short-term policy misstep or the start of a longer, more structural change in global trade remains to be seen. NBCS Asset management believes the current environment is similar to a hurricane spotted offshore—visible on the radar, but with an uncertain path and unclear intensity. It may veer off course and leave the economy largely unscathed, or it could make landfall and push the U.S. into a broader recession.

The market appears to be pricing in a resolution to tariff uncertainty; if one doesn't materialize, volatility could return quickly. In the meantime, we continue to favor balance—maintaining quality equity exposure while taking advantage of high yields in fixed income, especially municipal bonds for high tax rate investors. Patience and selectivity remain key in navigating what could be a summer shaped as much by fear of the uncertain as much as by fundamentals.

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Disclosures