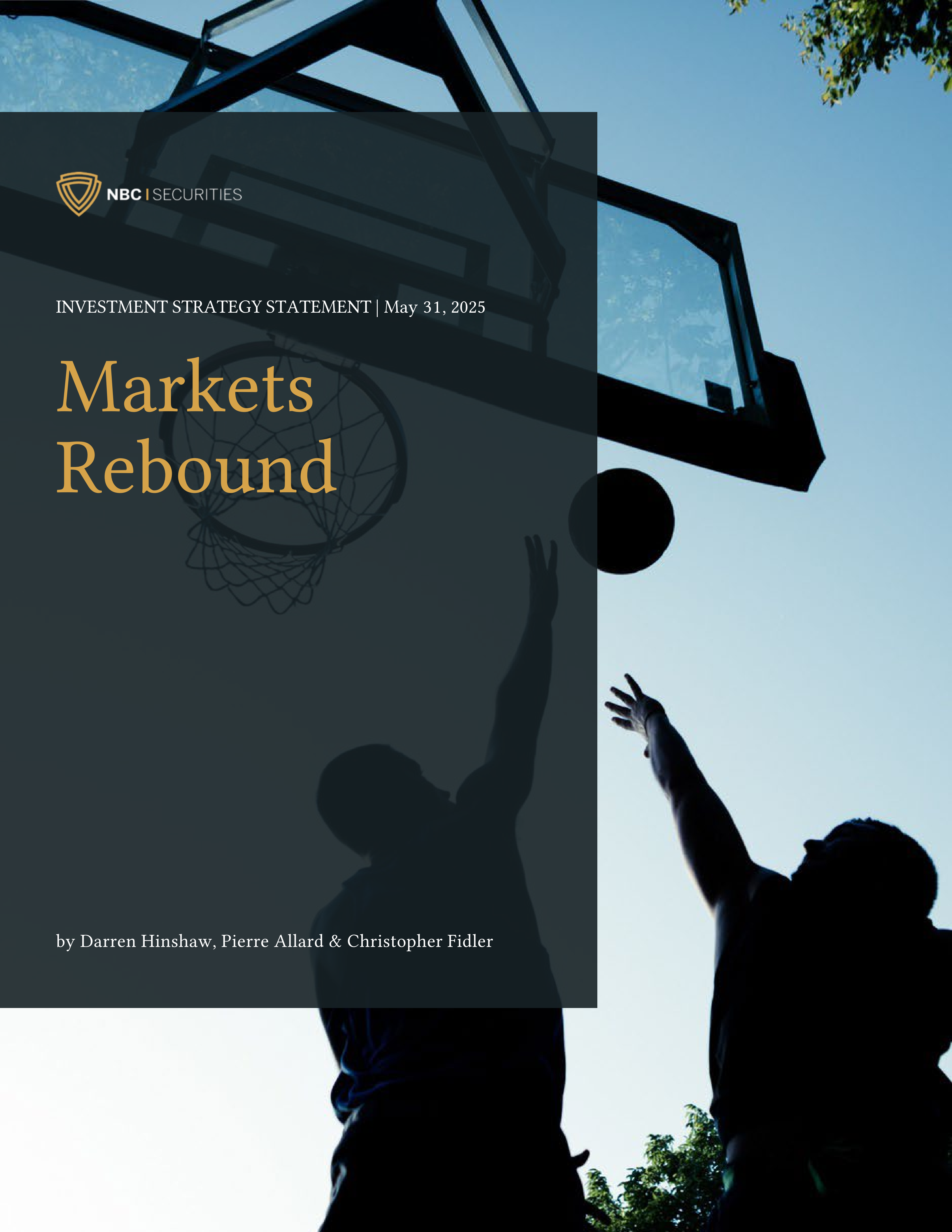


NBC | SECURITIES

INVESTMENT STRATEGY STATEMENT | May 31, 2025

Markets Rebound

by Darren Hinshaw, Pierre Allard & Christopher Fidler

Performance Review & Outlook

Equities rebounded strongly in May, with the S&P 500 up 6.2% and the Nasdaq gaining 9.6%, led by tech sector strength and better-than-expected earnings.

The Fed held rates steady, emphasizing patience and data dependence, while reaffirming its independence in a high-profile meeting between Powell and President Trump.

Tariff tensions eased modestly as the White House paused new measures and courts challenged the administration's legal authority—reducing, but not eliminating, policy uncertainty.

Economic data remains mixed, with job growth holding firm but GDP showing a mild contraction and early signs of softness in jobless claims.

U.S. credit was downgraded by Moody's, following earlier moves by S&P and Fitch; however, markets absorbed the news with limited disruption.

Inflation metrics continue to cool, with Core CPI and Core PCE readings suggesting progress toward the Federal Reserve's 2% target.

Equity Market Overview

May marked a dramatic rebound in U.S. equities, reversing much of April's decline. The S&P 500 gained 6.2% for the month, while the Nasdaq Composite surged 9.6%, its best monthly return since November 2022. Performance was powered by strong earnings reports—particularly from major technology names—and an apparent de-escalation of tariff tensions that had rattled markets earlier in the spring.

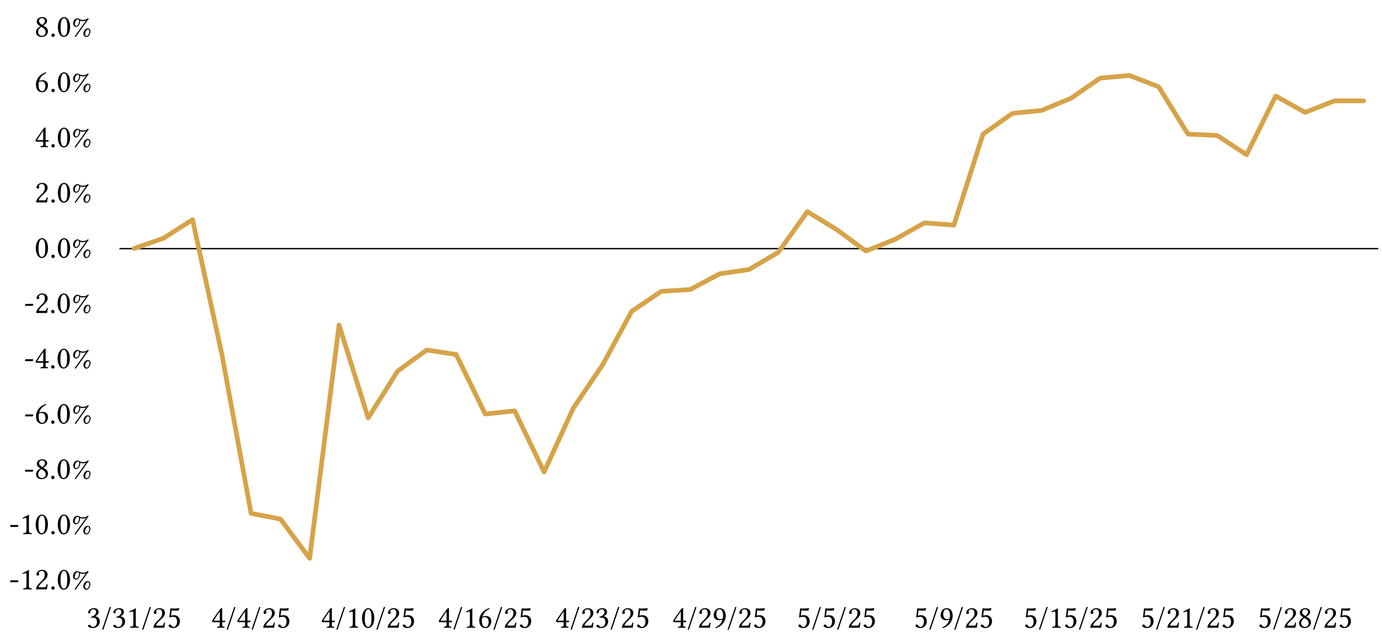
Tariff Volatility and Legal Developments

The sharp declines in early April were sparked by President Donald Trump's announcement of sweeping new import tariffs on April 2, part of his so-called "Liberation Day" initiative. Markets reacted with alarm, and the S&P 500 fell over 12% in two days—one of the steepest back-to-back losses in its history.

However, sentiment shifted rapidly:

- On April 9, the administration announced a 90-day pause on certain tariffs.
- On May 12, Trump announced a temporary, 90 – day pause on tariffs with China.
- On May 28th, a federal court blocked the tariffs, ruling they exceeded the scope of the International Emergency Economic Powers Act.
- The next day, a federal appeals court issued a temporary stay of that ruling, allowing the tariffs to remain in effect pending further litigation.

S&P 500 Price Index (3/31/25 - 5/31/25)



These legal twists contributed to heightened volatility, but the perception of softening enforcement and behind-the-scenes negotiations helped calm markets. NBCS Asset Management also believe that the extreme range of outcomes on the tariffs has narrowed considerably. Still lots of uncertainty, but much less than Liberation day.

Sector and Index Performance

In addition to improving trade sentiment, corporate earnings played a key role in May's rally:

- Information Technology, the leading sector within the S&P 500, posted an 11% gain for the month, buoyed by better-than-expected results from mega-cap tech firms.
- The Nasdaq Composite, which is heavily weighted toward tech, outperformed broader indices, climbing 9.6%.
- The S&P 500 closed May at 5,911.69, up 6.2% for the month and bringing its year-to-date return slightly into positive territory.

Valuations and Earnings

The 2025 consensus EPS estimate for the S&P 500 stands at $264, a modest decline from $273 at the start of the year. Despite the downward revisions, the forward P/E multiple has compressed from a peak of 22.5x in February to a more reasonable 20.5x, making equity valuations more attractive on a relative basis.

Investor Sentiment and Outlook

While equity markets have recovered significantly, several concerns linger:

- Tariff policy remains in legal limbo, and further uncertainty could pressure margins, especially for multinational firms.
- Economic data remains mixed, with slowing GDP growth offset by resilient consumer spending and signs of moderating inflation.
- Investors appear increasingly willing to look past near-term volatility, betting that policy uncertainty will be resolved in time and that the economic expansion remains intact.

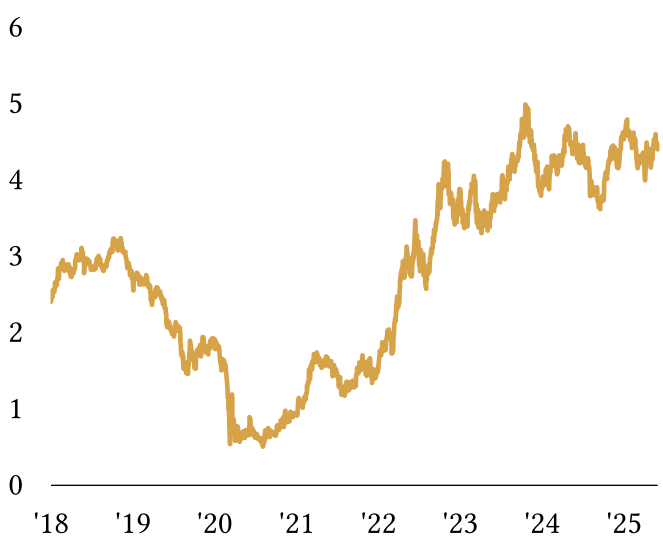
In our view, equity markets are benefiting from a strong earnings backdrop and improving inflation data, but we remain cautious given the unresolved policy risks. Volatility is likely to persist until clarity emerges on trade policy and its economic implications.

S&P 500 Price Index

Fixed Income Market Overview

Perhaps the biggest news across US bond markets for the month of May was the decision by rating agency Moody's on May 16th to downgrade the US Government's credit rating from Aaa to Aa1. Moody's represents the final major rating agency to strip America of its top-tier rating status, following previous downgrades by S&P (2011) and Fitch (2023). The decision by Moody's, combined with mounting fiscal concerns, weak Treasury auctions, and continued Federal Reserve caution regarding inflation and economic growth, increased volatility across Treasury markets. The 10-year US Government Bond yield started the month at a low of 4.22% and climbed to a high of 4.60% on May 22nd following the passage of the new Budget Bill by the US House of Representatives.

10 Year US Treasury Yield (%)



The Federal Reserve held their regular FOMC meeting on May 7th, maintaining the Federal Funds Rate at the range of 4.25% to 4.50%. In his press conference, Fed Chair Jerome Powell continued to emphasize the Committee's "wait and see" approach amid an uncertain macroeconomic environment, noting that economic data continued to show resilience while concerns over tariff-led increases in unemployment and inflation remained elevated. Powell characterized the US economy as being "in a solid position" despite heightened uncertainty, and noted that "the unemployment rate remains low, and the labor market is at or near maximum employment." In a significant development later in the month, Chairman Powell met with President Donald Trump on May 29th for their first meeting since the president began his second term. Following the meeting, Powell reaffirmed the Fed's commitment to independent monetary policy based on objective, non-political analysis to support maximum employment and stable prices.

NBCS Asset Management's bond market outlook continues to echo the patience shown by the Fed, both regarding interest rate outlook (the 10-year US Government Bond quickly pulled back down below 4.50% to end the month, returning to our forecasted range) and in response to the credit rating downgrade by Moody's. The market, although slightly more volatile, largely brushed off the downgrade news. The fact is that the U.S. is still considered to have the top-tier sovereign debt instruments in the world, and markets have already processed similar downgrades twice dating back to 2011. We view the downgrade, while notable and certainly a sign of caution, to have little to no effect on the ability of the U.S. Government to service its debt obligations. We continue to believe that with a heightened yield environment providing attractive entry points, now is an opportune time to invest in fixed income, especially amid uncertainty in equity markets and economic policy.

12-Month Percentage Change of Indices

Index (Local Currency)	Level	May	YTD	12 Month
S&P 500	5,911.69	6.3%	1.1%	13.5%
Dow Industrials (DJIA)	42,270.07	4.2%	0.1%	11.2%
Nasdaq	19,113.77	9.6%	-0.7%	15.0%
Russell 2000	2,066.287	5.3%	-6.9%	1.2%
US 2yr Treasury	3.8975	8.2%	-8.1%	-20.0%
US 10yr Treasury	4.4004	5.7%	-3.7%	-2.2%
Gold (NY Spot $/oz)	3,289.25	0.0%	25.3%	41.3%
Silver (NY Spot $/oz)	32.9832	1.1%	14.1%	8.5%
Copper ($/metric ton)	9,548.08	4.7%	10.3%	-3.7%
Oil (WTI Spot/bbl)	60.79	4.4%	-15.2%	-21.0%
Oil (Brent Spot/bbl)	63.9	1.2%	-14.4%	-21.7%
Natural Gas ($/mmBtu)	3.447	3.6%	-5.1%	33.2%

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

Economic Overview

Key Economic Indicators

JOB MARKET

Employment Report
In April, the U.S. economy added 177,000 jobs, surpassing expectations of 138,000. The unemployment rate remained steady at 4.2%, with the labor force participation rate edging up to 62.6%. This marks the 52nd consecutive month of job gains, the second-longest streak on record.

Initial Jobless Claims
For the week ending May 24, initial jobless claims rose to 240,000, up from 226,000 the previous week. The four-week moving average stood at 230,750, indicating a slight uptick but remaining near historical lows.

HOUSING MARKET

House Prices
The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index reported a 3.4% annual gain in March, down from 4.0% in February. This deceleration suggests a cooling in home price appreciation, bringing it closer to long-term averages.

PERSONAL INCOME & SPENDING

Personal Income & Spending
In March, personal income increased by 0.5%, while personal consumption expenditures (PCE) rose by 0.7%. Over the past 12 months, spending has grown by 5.6%, and income has increased by 4.3%.

Economic Overview

Key Economic Indicators

CONSUMER SENTIMENT

University of Michigan Consumer Sentiment
The index remained unchanged at 52.2 in May, following a decline from 57 in March. This stability ends a four-month streak of declines, though sentiment remains near record lows, reflecting ongoing consumer concerns.

ECONOMIC GROWTH

GDP Growth
The second estimate for Q1 2025 indicates that real GDP contracted by 0.2%, a slight improvement from the initial -0.3% estimate. The decline was primarily due to a surge in imports ahead of anticipated tariffs, which widened the trade deficit and offset gains in business investment.

INFLATION

CPI
In April, the CPI increased by 0.3% month-over-month, with a year-over-year rise of 2.3%. Core CPI, excluding food and energy, rose by 0.3% for the month and 2.8% over the past 12 months, indicating a continued moderation in inflation pressures.

PCE
The PCE price index rose by 2.1% year-over-year in April, down from 2.3% in March. Core PCE, the Federal Reserve's preferred inflation measure, increased by 2.5% over the same period, marking the lowest level in over four years.

Conclusion: The Good, The Bad, and The Uncertain

May delivered a sharp rebound across financial markets, demonstrating the underlying resilience of both equities and bonds despite continued policy and macroeconomic uncertainty. While the month began with lingering concerns over trade and credit, investor sentiment improved significantly as earnings surprised to the upside and legal challenges softened the immediate impact of the "Liberation Day" tariffs. Still, the landscape remains fluid, with meaningful risks that could reshape the path forward.

The Good

Markets rebounded with conviction. The S&P 500 gained 6.2% and the Nasdaq jumped 9.6%, propelled by strong corporate earnings, particularly in technology. Valuations moderated to more reasonable levels, and inflation data showed continued progress toward the Fed's 2% target. In fixed income, bond yields offered attractive entry points, and the market took Moody's U.S. credit downgrade in stride, signaling ongoing confidence in Treasury markets. The Fed's steady hand and reaffirmed independence following Powell's meeting with President Trump also provided reassurance to investors.

Sentiment around trade policy improved meaningfully during the month. On April 9, the administration announced a 90-day pause on certain tariffs, followed by a targeted pause with China on May 12. Then, on May 28, a federal court blocked the tariffs, only for a federal appeals court to issue a stay the very next day. These events contributed to volatility, but also signaled that the range of tariff outcomes may be narrowing. NBCS Asset Management believes that while uncertainty remains, it is considerably reduced from the extremes seen on "Liberation Day."

The Bad

Despite the rebound, April's selloff left its mark. Corporate earnings estimates for 2025 continue to drift lower, and geopolitical overhangs persist. While the market has adjusted to headline risk, the durability of this recovery remains dependent on policy clarity. The downgrade of the U.S. credit rating, while largely priced in, reflects growing fiscal imbalances that could become harder to ignore. Meanwhile, the rise in initial jobless claims—though still historically low—may be an early warning signal of softness in the labor market.

The Uncertain

The fate of U.S. trade policy remains in legal and political limbo. A federal court's ruling to block the tariffs was quickly countered by an appeals court stay, and further litigation is likely. The result is a foggy policy environment that could shift materially depending on court decisions or political calculations. NBCS Asset Management views this moment like watching a hurricane offshore—its presence is undeniable, but its impact is still uncertain. Whether it passes with minimal damage or makes a direct hit on global trade flows and business confidence will shape the second half of the year.

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