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INVESTMENT STRATEGY STATEMENT | July 31, 2025

Progress and Caution

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Performance Review & Outlook

The July employment report, released August 1, showed payrolls increasing by just 73,000—well below expectations—while prior months were revised down by a combined 258,000, signaling a cooling labor market that could weigh on consumer spending and reinforce the case for late-year Fed rate cuts.

Market behavior in July reflected a clear risk-on tone, with the S&P High Beta ETF (SPHB) gaining 5.4% while the S&P Low Volatility ETF (SPLV) declined 0.3%, signaling investor preference for higher-volatility, growth-oriented exposures.

Economic growth rebounded, with Q2 GDP rising 3.0%, though the first-half average of 1.25% points to only moderate underlying momentum.

The Federal Reserve held rates steady for a fifth consecutive meeting in July, with Chair Powell emphasizing data dependence and resisting political pressure, even as internal dissent and weakening labor market data raised the likelihood of a potential rate cut later this year.

Interest rates held steady in July, with the 10-year Treasury yield retreating from the 4.50% resistance level to end at 4.37%, as bond markets echoed the Fed's data-dependent "wait and see" stance, even amid rising political pressure and growing signs of labor market softening.

Equities extended their rally in July, with the S&P 500 rising 2.2% and the Nasdaq gaining approximately 3.7%, as strong earnings, favorable economic data, and progress on trade helped sustain momentum.

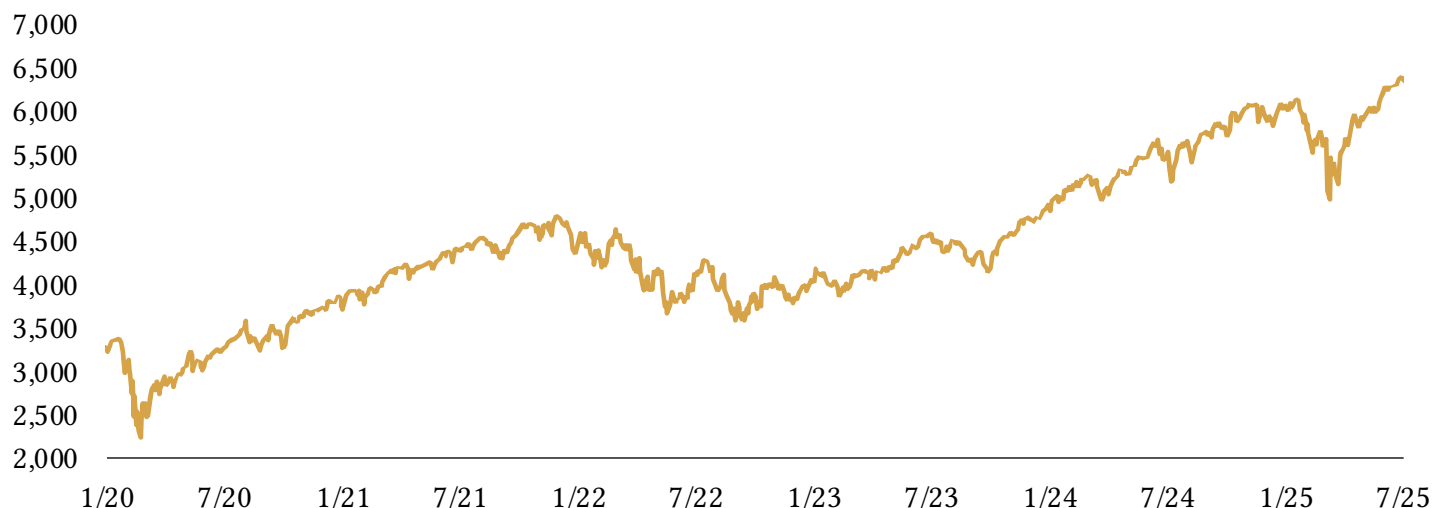
Equity Market Overview

July extended the rally in U.S. equities, supported by solid corporate earnings, favorable economic readings, and meaningful progress on trade policy. The S&P 500 posted multiple record closes—including a six-session winning streak toward month-end. Interestingly, the month never saw a daily move exceeding $\pm 1\%$

throughout July, the first time since October 2024.

The index gained 2.2% for the month, while the Nasdaq Composite was higher by 3.7%, buoyed by strength in the Magnificent Seven and broader tech leadership.

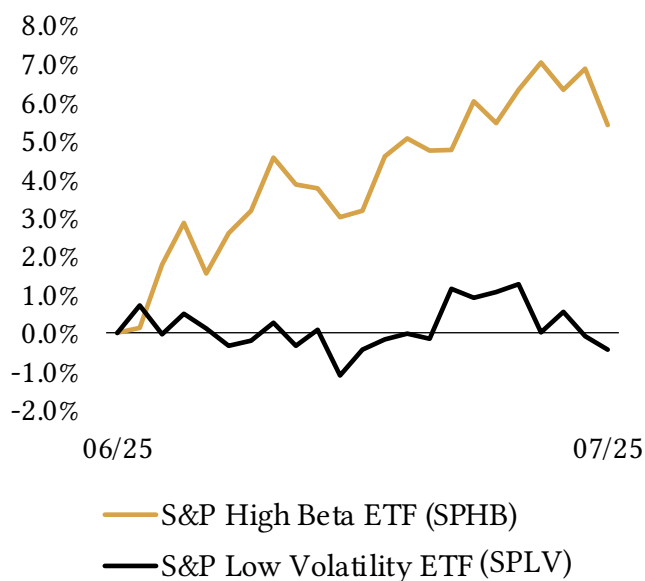
S&P 500 Price Index



Market behavior in July reflected a clear "risk-on" tone and exhibited some signs of a blow-off top, as investors rotated into higher-beta, more economically sensitive stocks amid strong earnings and largely brushed off any less-than-ideal data or headlines. The S&P High Beta ETF (SPHB) advanced 5.4% for the month, outpacing the broader S&P 500 and highlighting increased investor appetite for risk. In contrast, the S&P Low Volatility ETF (SPLV) declined -0.3%, underscoring a retreat from defensive positioning.

Investor optimism rose as President Trump signed trade agreements with Japan, the EU, and other partners, fueling hopes for more deals to come, though markets were increasingly cautious around President Trump's escalating tariff announcements in the final days of the month.

While it does seem we have more clarity on trade policy, we believe tariffs are here to stay and they may end up being at a level slightly higher than what was estimated in June.



Both the EU and Japan agreements carried a blanket tariff rate of 15%, which could set the bar for agreements moving forward.

Resilient earnings kicked off Q2 strongly: over 80% of reporting S&P 500 companies beat expectations, with earnings growth projected above 9% year-over-year.

At the sector level, Information Technology again led, contributing to the Nasdaq's outperformance and solidifying tech's dominance among monthly winners.

The July employment data, released 8/1, showed nonfarm payrolls grew by only 73k, significantly lower than the 105k that was expected. Additionally, the Bureau of Labor Statistics revised the May and June figures down by a combined 258k jobs, igniting some concerns that the labor market is moderating faster than expected.

Sector and Index Performance

July's performance reflected a clear risk-on attitude, as growth stocks rallied sharply while defensive sectors lagged meaningfully:

TOP INDEX MOVERS

+3.7% Nasdaq

+2.2% S&P 500

+0.1% Dow Jones

OUTPERFORMING SECTORS

+5.2% Tech

+4.9% Utilities

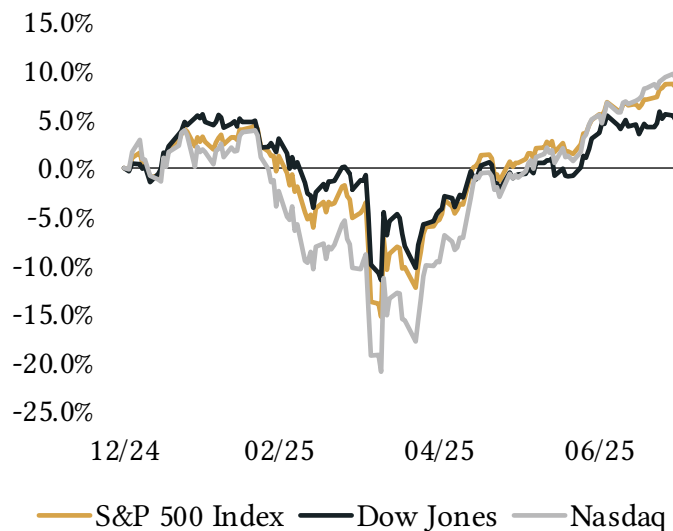
+3.0% Industrials

UNDERPERFORMING SECTORS

-3.4% Health Care

-2.5% Consumer Staples

-0.5% Materials



In our view, while July's rally was supported by earnings strength and trade progress, the jobs report highlights a cooling labor market that could well pressure consumer spending and corporate hiring. With Fed policy now clearly data-dependent and rate cuts increasingly priced in for late 2025, attention will center on upcoming trade development, the labor markets and increased clarity on consumer prices. Volatility is likely to persist until clarity emerges in those areas.

Fixed Income Market Overview

Fixed Income markets remained largely uneventful for the month of July. Once again, the 10-year US Treasury bond tested the 4.50% resistance level, and once again, it rebounded from that high, settling down to end the month at 4.37%. This aligns with NBCS Asset Management's rate forecast, as US bond markets continue to mirror the Federal Reserve's "wait and see" approach to monetary policy.

We continue to reiterate our opinion that a quiet bond market signifies a properly functioning market, which is an overall positive for a healthy economy.

The Federal Reserve news cycle in July was not as uneventful as the interest rate market. President Trump made a notable visit to the Federal Reserve this month to meet with Chairman Jerome Powell, marking the first presidential visit to the Fed in nearly two decades. Despite continuing pressure from the President to lower rates, Fed Chair Powell remained steadfast in his approach, emphasizing that economic data, not the executive branch, would dictate interest rate direction.

The July FOMC meeting concluded the month with a much-anticipated decision to leave the target rate unchanged at 4.25-4.50%, marking the fifth consecutive decision to hold rates steady.

As we look toward the second half of 2025, the Fed is finding itself in an increasingly difficult position. Pressure from the White House and two Fed members dissenting to cut rates at the July meeting are now being met with real changes in the jobs market. In his post-FOMC press conference, Fed Chair Powell reiterated the Fed's commitment to achieving maximum employment and returning inflation to its 2% objective. Powell's remarks were perceived as hawkish by many analysts, as he did not signal an imminent rate cut despite market expectations and growing dissent within the FOMC. He acknowledged that higher tariffs have begun to affect prices but suggested that their overall impact on economic activity and inflation remains to be seen. Powell stated that the FOMC is "a bit looking through goods inflation by not raising rates," implying that holding rates steady is a pragmatic approach to managing tariff-related inflation without raising rates further. This stance was immediately followed by a payroll report two days later that came in roughly 40,000 jobs below estimates. Many analysts now believe a rate cut could be coming in September, pointing out that the inflationary effects of tariff policy should work their way through the system by that time. If the labor market continues to decline, there could be a strong case for a rate cut. Conversely, if inflationary pressures do re-emerge, it remains likely that the Fed will hold rates steady for a sixth consecutive time.

10 Year U.S. Treasury Yield (%)



12-Month Percentage Change of Indices

Index (Local Currency)	Level	July	YTD	12 Month
S&P 500	6,339.39	2.2%	8.6%	16.3%
Dow Industrials (DJIA)	44,130.98	0.2%	4.7%	9.9%
Nasdaq	21,122.45	3.7%	9.8%	20.9%
Russell 2000	2,211.65	1.7%	-0.1%	-0.6%
U.S. 2yr Treasury	3.96	6.4%	-6.7%	-18.8%
U.S. 10yr Treasury	4.37	3.5%	-4.3%	-2.8%
Gold (NY Spot \$/oz)	3,289.93	-0.4%	25.4%	41.4%
Silver (NY Spot \$/oz)	36.71	1.7%	27.0%	20.7%
Copper (\$/metric ton)	10,050.69	0.0%	16.2%	1.4%
Oil (WTI Spot/bbl)	69.26	6.4%	-3.4%	-10.0%
Oil (Brent Spot/bbl)	72.53	7.3%	-2.8%	-11.1%
Natural Gas (\$/mmBtu)	3.11	-10.1%	-14.5%	20.1%

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

Economic Overview

Key Economic Indicators



JOB MARKET

Employment Report

In July, the U.S. economy added 73,000 jobs, significantly lower than expectations (~105,000). Additionally, May and June were revised down by a combined 258,000 jobs. That puts the 3-month average gain in payrolls at 35,000. The unemployment rate came in at 4.2% and has remained in a range of 4.0-4.2% since May 2024. The labor force participation rate was 62.2%, a decline of 0.5% over the last year.

Initial Jobless Claims

For the week ending July 26, initial jobless claims were 218,000 — 1,000 higher than the prior week. The four-week moving average came in at 221,000. Continuing claims continued to hover around 1.95mm, slightly higher than this time last year but still relatively low historically.

HOUSING MARKET

House Prices

The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index reported a 2.7% annual gain in April, down from 3.4% in March and 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 June, personal income increased by 0.3%, while personal consumption expenditures (PCE) also increased by 0.3%. The personal savings rate was 4.5%, slightly higher than a year ago.

Economic Overview

Key Economic Indicators



CONSUMER SENTIMENT

University of Michigan Consumer Sentiment

The index increased to 61.7 in July following readings of 60.7 in June and 52.2 in May. The climb was once again driven by lower inflation expectations and an increase in the current conditions component, often impacted by market sentiment.

ECONOMIC GROWTH

GDP Growth

The first estimate for Q2 2025 indicates that real GDP expanded by 3.0%. The increase was largely due to a reversal of the prior quarter's increase in imports, with the net exports component adding 5%, offset by lower corporate investments of -3%. Our favorite measure of the economy, real final sales to private domestic purchasers (the sum of consumer spending and gross private fixed investments) grew by 1.2% in the second quarter, compared with 1.9% in the first quarter.

Averaging the first and second quarter growth rates implies the economy grew at an annualized rate of 1.25% in the first half, consistent with a moderate slowing in economic activity.

INFLATION

Consumer Price Index (CPI)

In June, the CPI increased by 0.3% month-over-month, with a year-over-year rise of 2.7%. Core CPI, excluding food and energy, also rose by 0.3% for the month and 2.9% over the past 12 months. While these figures are higher than May, so far, we've largely seen disinflation in services offsetting higher prices in tariff-impacted goods.

Personal Consumption Expenditures (PCE) Price Index

The PCE price index rose by 2.6% year-over-year in June. Core PCE, the Federal Reserve's preferred inflation measure, increased by 2.8% over the same period, staying in the range of 2.6-2.9% we've seen over the last 9 months.

Conclusion: The Good, The Bad, and The Uncertain

The Good

Markets extended their gains in July, with the S&P 500 and Nasdaq posting solid returns and multiple record closes. Strong corporate earnings—particularly in the tech sector—combined with progress on trade agreements with key partners helped drive investor optimism. Risk appetite clearly improved, with high-beta stocks outperforming defensives and volatility remaining subdued throughout the month. Inflation metrics stayed within recent ranges, and consumer sentiment rose to its highest level in over a year, driven by lower inflation expectations and favorable market conditions. GDP growth rebounded to 3.0% in Q2, supported by a positive contribution from net exports. Fixed income markets remained calm, with the 10-year Treasury yield once again testing but failing to break above the 4.50% resistance level, ending the month at 4.37%. This stability aligns with NBCS Asset Management's forecast and reflects a healthy, functioning bond market. The Fed held rates steady for the fifth consecutive meeting and continued to project a data-dependent stance, which markets interpreted as broadly supportive of near-term stability.

The Bad

Labor market data disappointed, raising concerns about underlying economic momentum. July's payroll report came in well below expectations, and prior months were

revised sharply lower, bringing the 3-month average job gain down to just 35,000. This raises red flags for future consumer spending and hiring trends. Defensive sectors underperformed, and headline inflation ticked higher, with Core CPI and Core PCE still hovering just below 3%. While progress on trade was notable, tariff levels in recent agreements were higher than anticipated, potentially pressuring input costs going forward. Additionally, when averaging the first two quarters of GDP, the economy grew at a modest 1.25% annualized pace—solidly positive, but reflective of weaker underlying demand. Much of the strength in Q2 was driven by a reversal of front-loaded imports in Q1, rather than broad-based acceleration.

The Uncertain

While July brought signs of stabilization and optimism, important questions remain unresolved. The trajectory of the labor market—especially in light of slowing payroll growth—will be critical in shaping future Fed policy. Markets appear increasingly confident that rate cuts are on the table for late 2025, but any sustained inflation pressures or geopolitical shocks could delay that path. Meanwhile, trade policy has become more consistent but remains politically fluid. As the campaign season intensifies, the potential for headline-driven market disruptions will likely increase. We remain watchful, particularly as volatility could return abruptly if current trends shift.

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