



INVESTMENT STRATEGY STATEMENT | August 31, 2025

Markets Rally. Data Mixed.

by Darren Hinshaw, Pierre G. Allard & Christopher Fidler

Performance Review & Outlook

Equities extended their rally in August, with the S&P 500 hitting multiple record closes. Market's tone was generally calm, and investor optimism was fueled by solid earnings and expectations for Fed rate cuts.

Market breadth improved as small caps and economically sensitive sectors outperformed big tech.

Corporate earnings remained strong, with over 80% of S&P 500 companies beating Q2 estimates and earnings growth reaching 10.4% year-over-year.

Seasonal caution: Looking ahead, September and October have historically been the most volatile months for equities.

Treasury Yields were rangebound: the 10-year began the month at 4.21% and ended at 4.23% contending with the opposing forces of some tariff-driven inflation vs. a weakening labor market.

Jerome Powell's remarks at Jackson Hole were seen as more dovish than expected. The market is now pricing in a roughly 85% chance of a 25bps rate cut at the September FOMC meeting.

Equity Market Overview

August brought a sense of calm to financial markets even as the underlying economic and market data remained mixed. Equity indexes notched fresh highs, volatility gauges like the VIX drifted toward yearly lows, and Treasury yields eased, providing support to valuations. At the same time, economic signals were uneven—corporate earnings generally surprised to the upside, but employment and consumer data suggested some moderation in growth, and trade policy uncertainty lingered. This divergence between softening fundamentals and resilient

market performance underscored investor confidence in an eventual Fed rate cut, while also highlighting the risk that markets may be pricing in more stability than the broader economy can sustain. Additionally, September and October have historically been the most volatile months for equities.

Investors should be prepared for heightened market swings and the potential for short-term pullbacks as seasonal pressures combine with macroeconomic uncertainty.

We saw an extension of the U.S. equity rally last month, with the S&P 500 hitting multiple record closes, buoyed by strong earnings, dovish Fed signals, and broadening participation beyond mega-caps. Investor optimism was fueled by expectations of interest rate cuts, while the dominance of AI-related mega-caps continued to pose concentration and volatility risks. We did see a notable shift, though, in market dynamics: economically sensitive sectors—materials, consumer discretionary, financials, and small-caps—outperformed big tech, with the Russell 2000 surging over 7.3%, its best month since November.

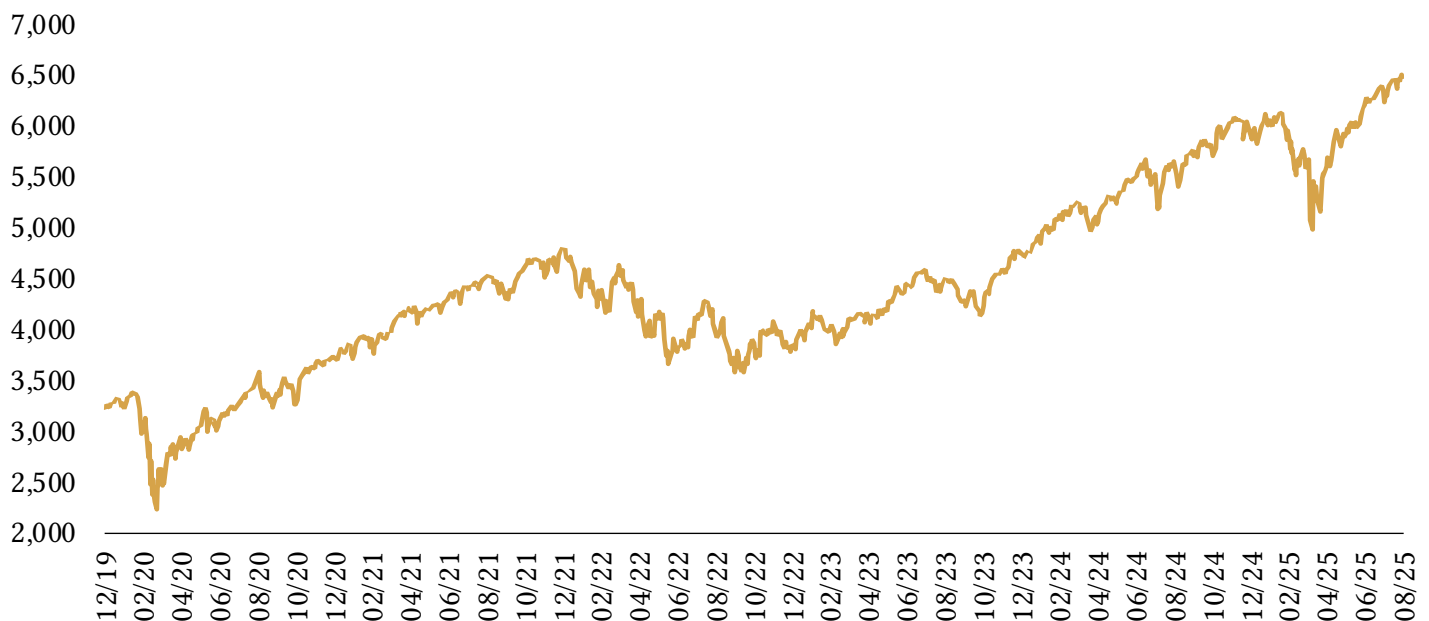
Corporate earnings provided a strong underpinning for August's market rally, with over 80% of S&P 500 companies beating expectations in Q2—above the historical average of roughly 70%. Earnings growth for the second quarter came in at 10.4% year-over-year, and consensus projections call for full-year 2025 growth of 10.7% versus 2024. Despite this

strength, valuations remain elevated, with the S&P 500 trading at more than 22x forward earnings, placing it at the higher end of its historical range.

To justify these multiples and sustain the current rally, markets will likely need both continued earnings momentum and the support of lower Treasury yields.

Looking ahead, historically September has been a challenging month for equities, with the S&P 500 falling 56% of the time and posting an average decline of 1.17%, according to Bank of America data dating back to 1927. Moreover, volatility typically ramps up in September and October, with the CBOE Volatility Index (VIX) averaging around 20 during this period, based on Bloomberg Intelligence data since the 1990s.

S&P 500 Price Index



Sector and Index Performance

August equity performance reflected a slight shift from prior months, with small caps and economically sensitive sectors outperforming:

Top Index Movers

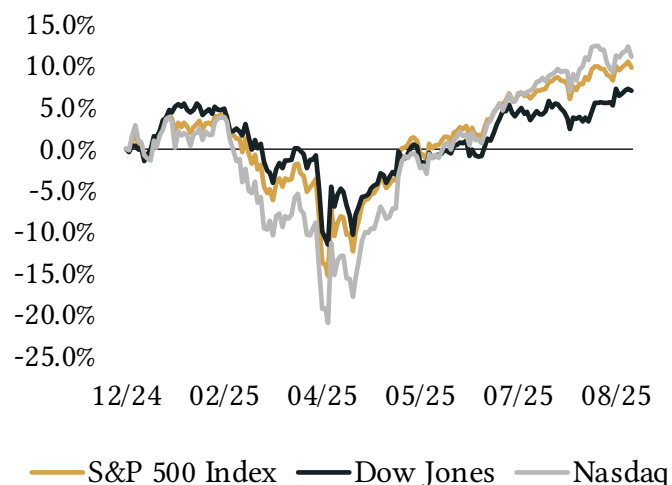
+2.0%	S&P 500
+3.4%	Dow Jones Industrial Avg.
+1.7%	Nasdaq Composite

Outperforming Sectors

+5.6%	Materials
+5.0%	Health Care
+4.0%	Consumer Discretionary

Underperforming Sectors

-2.0%	Utilities
-0.2%	Industrials



Fixed Income Market Overview

Fixed income markets in August continued to wrestle with opposing forces: upward rate pressure from persistent inflation linked to new tariff policies, and downward rate pressure from growing concerns about the labor market. This tension culminated at month-end with Federal Reserve Chairman Jerome Powell's widely anticipated, final speech at the Jackson Hole Economic Symposium on August 22.

Despite ongoing headlines, the interest rate market has remained largely patient, waiting for the Federal Reserve's actual policy decisions to unfold.

The 10-year U.S. Treasury began the month at 4.21% and ended almost unchanged at 4.23%. Rates did climb as high as 4.33% mid-month, but volatility was minimal and well within our expectation that the 4.50% resistance level would hold.

The most significant development came from Chairman Powell’s speech at Jackson Hole. The Federal Reserve unveiled a major update to its monetary policy framework, revising the Statement on Longer-Run Goals and Monetary Policy Strategy. This marked a departure from the 2020 “makeup” strategy, which allowed inflation to run moderately above the 2% target to offset previous undershoots. The new framework returns to a more flexible approach to inflation targeting, reflecting today’s changed economic environment. Powell acknowledged that the recent period of high inflation was neither intentional nor moderate, effectively rendering the old strategy obsolete. He also noted that the neutral interest rate may now be higher than in the past, underscoring a structural shift in the economy.

Looking ahead to September, attention turns to the upcoming Federal Reserve meeting and the possibility of a rate cut. As of this writing, Fed funds futures are pricing in an 85% probability of a cut. However, while futures are a useful gauge, they are far from perfect predictors. The Fed continues to balance the impact of tariff-related

inflationary pressures with what Powell described as a “challenging situation” in the labor market. His remarks at Jackson Hole were received as more dovish than expected, but a cut is by no means guaranteed.

Our view remains that a rate cut is likely—if not this month, then soon. The more interesting question is how longer-term rates will respond. Given Powell’s acknowledgment that the neutral rate may be higher than previously assumed, it is possible that intermediate and long-term yields could rise even as the Fed lowers short-term rates. We will be watching closely to see how this dynamic unfolds as the year progresses.

10 Year U.S. Treasury Yield (%)



12-Month Percentage Change of Indices

Index (Local Currency)	Level	August	YTD	12 Month
S&P 500	6,460.26	2.0%	10.8%	15.9%
Dow Industrials (DJIA)	45,544.88	3.4%	8.3%	11.4%
Nasdaq	21,455.55	1.7%	11.6%	22.0%
Russell 2000	2,366.418	7.0%	6.7%	7.8%
U.S. 2yr Treasury	3.6167	-2.8%	-14.7%	-25.8%
U.S. 10yr Treasury	4.2284	0.0%	-7.5%	-6.0%
Gold (NY Spot \$/oz)	3,447.95	4.4%	31.4%	48.2%
Silver (NY Spot \$/oz)	39.7189	10.0%	37.4%	30.6%
Copper (\$/metric ton)	9,560.24	-4.9%	10.5%	-3.6%
Oil (WTI Spot/bbl)	64.01	-1.7%	-10.8%	-16.9%
Oil (Brent Spot/bbl)	68.12	0.8%	-8.7%	-16.5%
Natural Gas (\$/mmBtu)	2.997	-13.3%	-17.5%	15.8%

Data as of August 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 August 23, initial jobless claims fell by 5,000, to a seasonally adjusted 229,000, slightly below estimates. Continuing claims also increased, rising to 1.972 million in early August, the highest level since November 2021

HOUSING MARKET

House Prices

The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index reported a 2.3% annual gain in May, down from 2.7% in April. This deceleration suggests a continuing cooling in home price appreciation, bringing it closer to long-term averages.



PERSONAL INCOME & SPENDING

Personal Income & Spending

In July, personal income increased by 0.4%, while personal consumption expenditures (PCE) also increased by 0.5%. The personal savings rate was 4.4%.

Economic Overview

Key Economic Indicators



CONSUMER SENTIMENT

University of Michigan Consumer Sentiment

The index decreased to 58.2 in August following readings of 61.7 in July. The drop was mainly due to growing inflation concerns and worse buying conditions for durable goods. Expectations on overall business conditions and the outlook on the US labor market also deteriorated.

ECONOMIC GROWTH

GDP Growth

Real gross domestic product (GDP) increased at an annual rate of 3.3 percent in the second quarter of 2025 (April, May, and June), according to the second estimate released by the U.S. Bureau of Economic Analysis. In the first quarter, real GDP decreased 0.5 percent. The increase in real GDP in the second quarter primarily reflected a decrease in imports, which are a subtraction in the calculation of GDP, and an increase in consumer spending. These movements were partly offset by decreases in investment and exports. Averaging the first and second quarter growth rates implies the economy grew at an annualized rate of 1.4% in the first half, consistent with a moderate slowing in economic activity.

INFLATION

Consumer Price Index (CPI)

In July, the headline CPI rose 0.2% month-over-month, easing slightly from June's 0.3% increase. The year-over-year inflation rate held steady at 2.7%. Core CPI, which excludes food and energy, increased 0.3% for the month, while the annual rate climbed to 3.1%, marking the largest 12-month gain since January. Notably, this spike was driven predominantly by rising service sector prices—such as medical care, airfares, and rent—rather than tariff-affected goods. Despite these pressures, the data were largely seen as supportive of a potential Fed rate cut in September, with markets broadly expecting easing amid further labor market softness.

Personal Consumption Expenditures (PCE) Price Index

The PCE price index rose by 2.6% year-over-year in June. The personal consumption expenditures price index showed that core inflation ran at a 2.9% seasonally adjusted annual rate in July, meeting estimates but higher than June.

Conclusion: The Good, The Bad, and The Uncertain

The Good

Markets continued their upward trend in August with minimal volatility, and investor sentiment was buoyed by dovish commentary from the Federal Reserve and strong corporate earnings. The S&P 500 hit multiple record closes, while small caps and cyclical sectors outperformed, signaling broadening participation beyond mega-cap tech. Bond markets remained stable, and Powell's speech at Jackson Hole was received as a measured and flexible response to current conditions—supportive of the Fed's credibility and the market's hopes for a policy pivot later this year.

The Bad

Despite market calm, the economic data continued to send mixed signals. Employment metrics softened further, inflation remained sticky in certain tariff-sensitive goods, and valuations across equities stayed elevated. The economic growth narrative remains unconvincing in places, with strength concentrated in specific sectors while others—particularly consumer staples and utilities—lagged. These conflicting inputs are making it more difficult to confidently interpret where the economy is headed, and the absence of a definitive trend could be masking deeper vulnerabilities beneath the surface.

The Uncertain

The biggest challenge in August was a persistent lack of clear direction in the data. The labor market appears to be losing steam, but inflation has not fully returned to the Fed's 2% target. Trade policy remains unpredictable, and Powell's remarks suggest the neutral rate may be higher than previously assumed, adding further complexity to interest rate expectations. As we transition into the fall and the historically more volatile months of September and October, we hope the end of summer brings more clarity across key economic indicators. Like Chairman Powell, we will continue to focus on what the data tells us, rather than what we hope or expect to see. For now, patience and discipline remain essential.

Authors



Darren Hinshaw
Director of Research



Pierre G. Allard
Chief Investment Officer



Chris Fidler
Director of Fixed Income Trading

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