NBC | SECURITIES

INVESTMENT STRATEGY STATEMENT | September 30, 2025

Momentum and Crosscurrents

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Performance Review & Outlook

U.S. equities extended their rally in September, led by technology and communication services, as the Federal Reserve's mid-month rate cut provided renewed support for valuations.

Economic data sent mixed signals: payroll growth slowed to just 22,000 in August with unemployment at 4.3%, while consumer spending remained resilient and GDP for Q2 was revised sharply higher to 3.8%

Inflation pressures remained elevated but manageable, with Core PCE holding at 2.9%; the divergence between labor market weakness and resilient consumption keeps Fed policy finely balanced.

The S&P 500 trades at 22.8x forward earnings, though equal-weighted valuations are more moderate at 17.9x, underscoring both the narrow concentration in mega-caps and opportunities across broader market sectors.

The Fed's first rate cut of 2025 drove initial Treasury yield declines, but rates rebounded into month-end; the 10-year finished at 4.15%, with policymakers signaling a cautious, data-driven approach to further easing.

The U.S. government shut down at 12:01 a.m. EDT on October 1, 2025, after Congress failed to pass appropriations for fiscal year 2026, marking the 21st shutdown in modern history. Approximately 900,000 federal employees were furloughed, with essential services continuing while many agencies faced disruptions.

Equity Market Overview

September delivered another strong month for U.S. equities, with the S&P 500 and Nasdaq extending their rallies despite the historical tendency for September weakness.

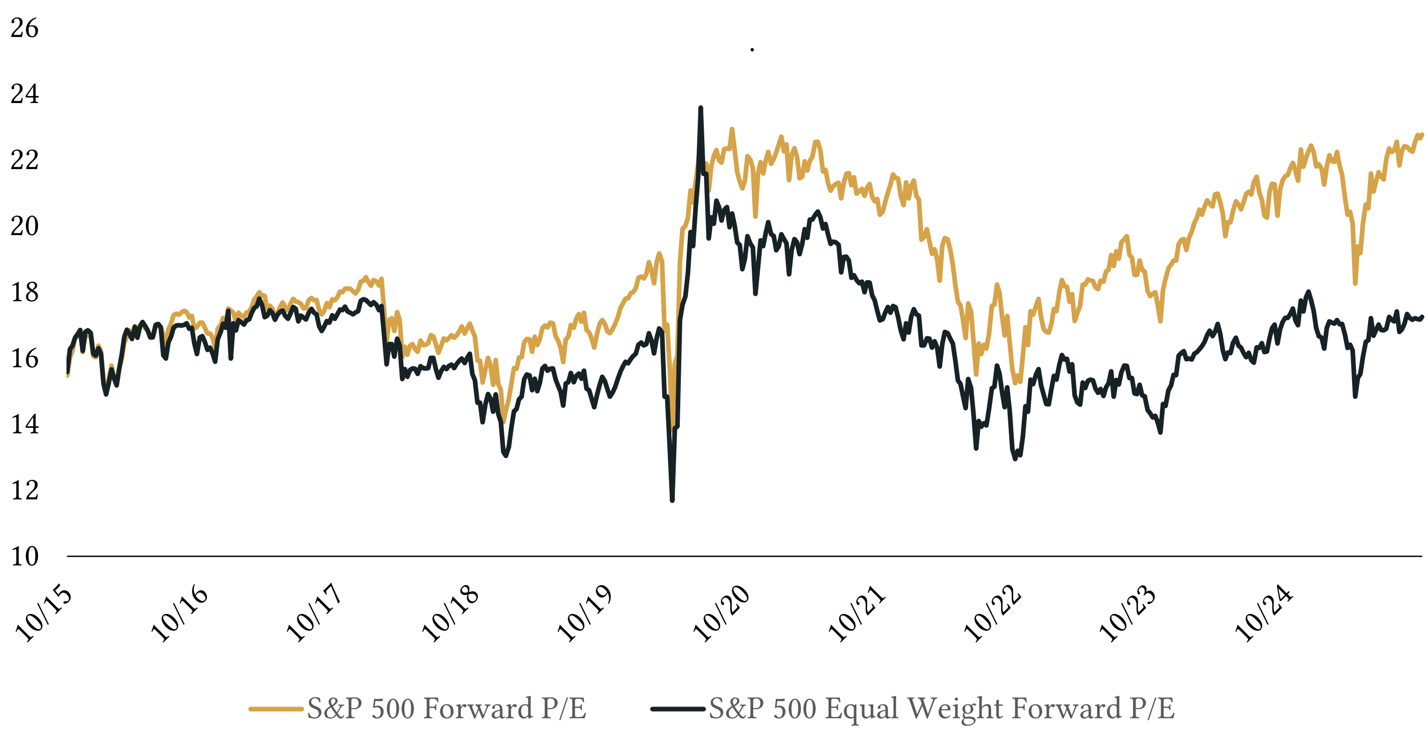
The primary catalyst came mid-month when the Federal Reserve cut rates, providing fresh fuel to valuations—particularly in the technology and communication services sectors, where momentum has shown little sign of slowing. Optimism around further Fed easing into year-end supported investor risk appetite, with futures markets still pricing in roughly 42bps of additional cuts, though expectations have moderated slightly from earlier highs. The S&P 500 briefly tested the 6700 level before fading, with that resistance aligning with headlines around a potential government shutdown.

Economic data remained uneven. August payrolls came in well below expectations at just 22,000, while the unemployment rate ticked higher to 4.3%, signaling continued softening in the labor market. In contrast, personal income and spending data painted a more resilient picture of consumer activity, helping offset some of the employment weakness. Inflation data was largely in line with expectations, with Core PCE at 2.9%, while second-quarter GDP was revised sharply higher to 3.8%, highlighting the underlying strength of the U.S. consumer.

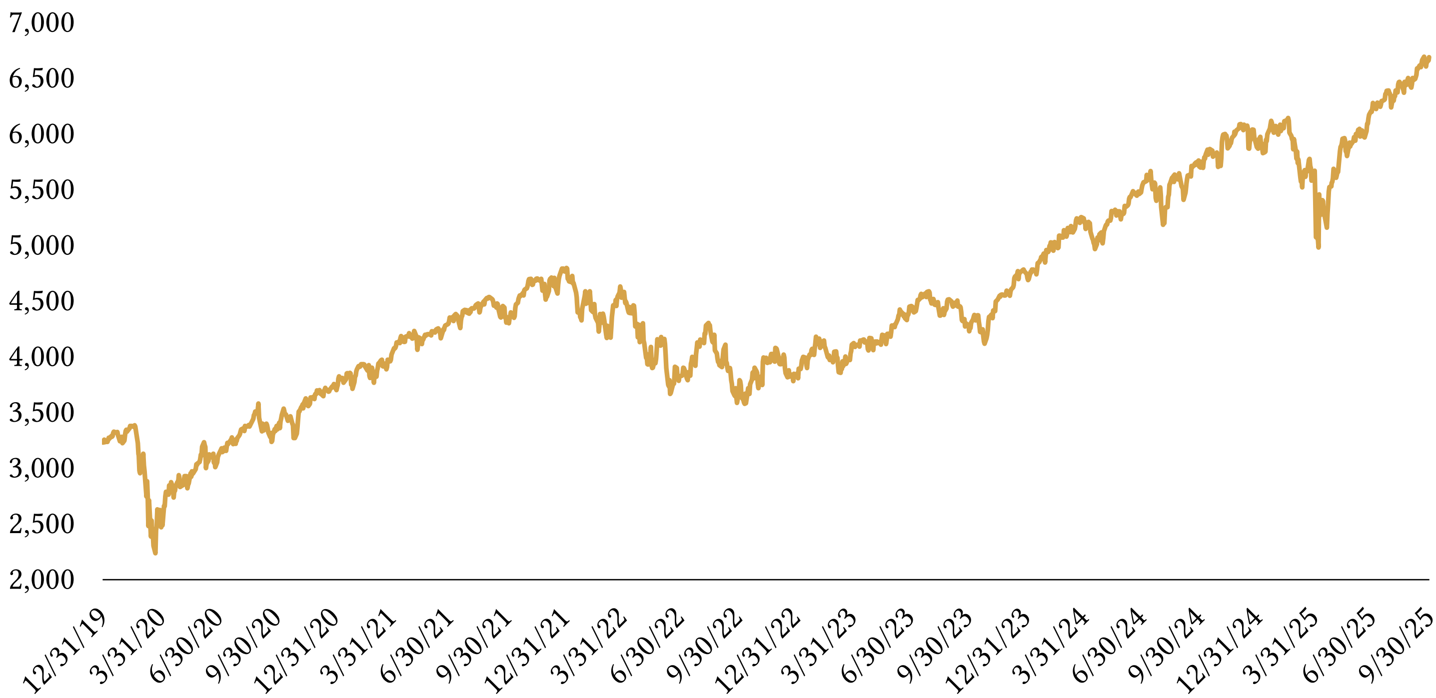
The divergence between moderating employment, resilient consumption, and still-elevated inflation leaves the Fed balancing its dual mandate. For markets, though, the overriding takeaway was the September rate cut and the expectation of further easing—drivers that helped power indexes to fresh highs and underscored the extent to which monetary policy remains one of the dominant forces in sustaining equity momentum.

S&P 500 valuations remain at the high end of historical ranges, with the index currently trading at 22.8x forward earnings. However, this headline number masks a stark divergence beneath the surface. The concentration of the “Magnificent Seven,” which trade at significantly higher multiples, has pushed overall index valuations higher. In contrast, the equal-weighted S&P 500—which removes the outsized impact of these mega-cap names—trades at a more modest 17.9x forward earnings, a level much closer to historical norms. This gap highlights both the valuation premium embedded in a narrow segment of the market and the relative attractiveness of broader U.S. equities once the mega-cap effect is stripped away. We believe that balancing exposure to growth with other, relatively cheaper sectors is a prudent strategy at this stage, and for investors whose portfolios have become overly concentrated in growth, this may be an opportune time to rebalance.

S&P 500 Valuations



S&P 500 Price Index



On October 1, 2025, the U.S. government entered its 21st shutdown since the modern budget process began. The immediate impacts include the furlough of roughly 900,000 federal employees and the continuation of another 700,000 without pay. Essential functions such as Medicare, Medicaid, TSA, and Amtrak remain operational, but many federal agencies—including the CDC, NIH, and WIC program—face partial or complete suspensions.

> *While the direct market impact has so far been modest, protracted shutdowns historically create uncertainty that can weigh on business sentiment, delay federal economic reporting, and disrupt consumer and corporate confidence if prolonged.*

While there will certainly be an abundance of headlines, we are reminded that during the prior shutdown, which lasted 35 days between December 2018 and January 2019, the S&P 500 actually returned over 10%, showing that shutdowns do not necessarily translate into negative equity returns—but they do heighten uncertainty that can add volatility to markets.

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

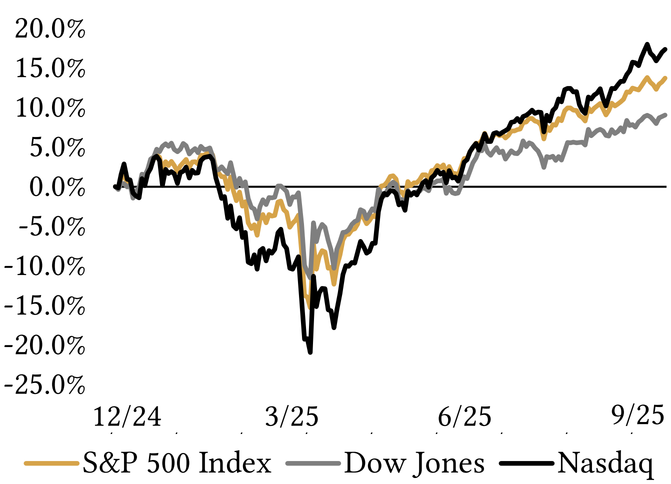
+3.5%	S&P 500
+1.9%	Dow Jones Industrial Avg.
+5.6%	Nasdaq Composite

Outperforming Sectors

+7.2%	Technology
+5.5%	Communication Services
+4.0%	Utilities

Underperforming Sectors

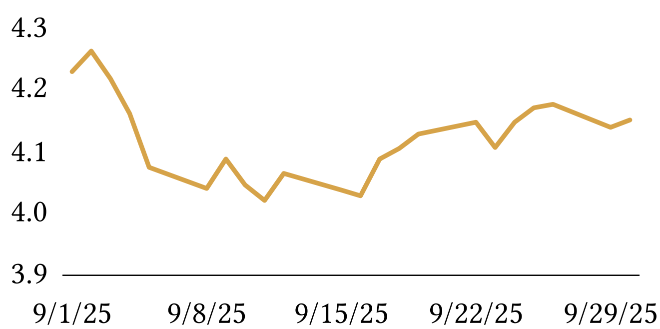
-2.3%	Utilities
-1.8%	Consumer Staples
-0.5%	Energy



Fixed Income Market Overview

U.S. fixed income markets were active throughout September, highlighted by the Federal Reserve's widely expected first rate cut of 2025, alongside ongoing inflationary pressures and mounting labor market concerns that continue to complicate the Fed's next moves. Interest rates for the month generally tracked the expectations we at NBCS Asset Management have outlined in prior publications. The U.S. 10-year Treasury began the month at its high of 4.26% before falling to a low of 4.02% ahead of the Fed's decision. However, as anticipated, a lower Fed Funds rate did not translate into lower yields across the curve. The 10-year quickly rebounded to 4.15% by month-end, with the bulk of the move higher occurring in the days immediately following the FOMC meeting. The 2-, 10-, and 30-year Treasuries all finished September at higher yield levels than before the Fed's policy announcement.

10 Year Monthly U.S. Treasury Yield (%)

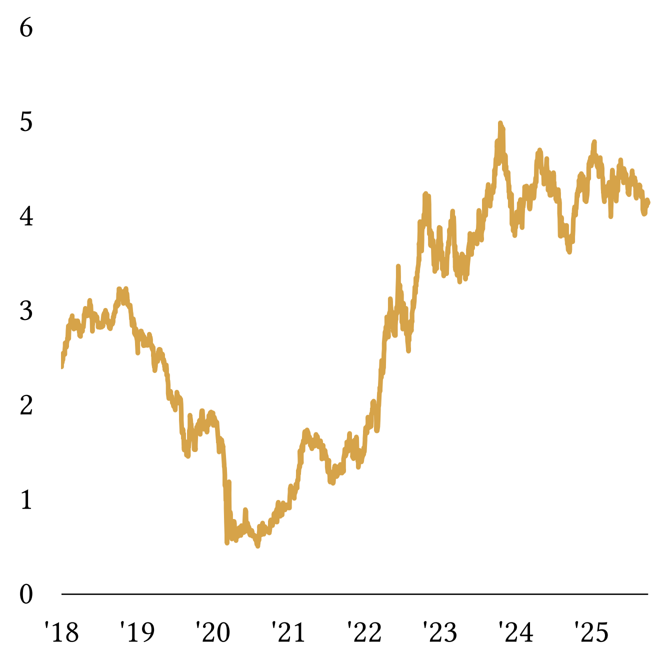


Much attention following the meeting centered on the Federal Reserve's "dot plot," which suggested that many policymakers foresee additional cuts later in 2025.

Yet in his post-meeting press conference, Chair Jerome Powell emphasized the Fed's data-driven approach, calling the current environment "an unusual situation." He noted that inflationary pressures and a softening labor market are pulling policy in opposite directions, making the path forward less straightforward. The following week, in remarks at an Economic Outlook Luncheon in Rhode Island, Powell reinforced the Fed's cautious stance, warning that cutting rates "too aggressively" could risk leaving the inflation fight unfinished and require a policy reversal, while keeping rates too high for too long could cause the labor market to weaken unnecessarily. While some policymakers have argued for faster easing to support employment and lower borrowing costs, Powell's comments showed little urgency to accelerate cuts.

As we move into the final quarter of 2025, the Fed's next steps remain highly uncertain. Looking back over the past five years, one theme has been consistent: this Federal Reserve has avoided hasty shifts in monetary policy. While some market observers are calling for rate cuts at both of the two remaining FOMC meetings this year, we believe the Fed may opt for a more measured approach. By initiating its first cut in September, the Fed has created breathing room to observe how competing forces—persistent inflation versus a softening labor market—develop as the year draws to a close.

10 Year U.S. Treasury Yield (%)



12-Month Percentage Change of Indices

Index (Local Currency)	Level	September	YTD	12 Month
S&P 500	6,688.46	3.6%	14.8%	17.6%
Dow Industrials (DJIA)	46,397.89	2.0%	10.5%	11.5%
Nasdaq	22,660.01	5.7%	18.0%	25.5%
Russell 2000	2,436.484	3.1%	10.4%	10.7%
U.S. 2yr Treasury	3.6083	-0.2%	-14.9%	-25.9%
U.S. 10yr Treasury	4.1503	-1.8%	-9.2%	-7.7%
Gold (NY Spot $/oz)	3,858.96	11.9%	47.0%	65.8%
Silver (NY Spot $/oz)	46.6459	17.4%	61.4%	53.4%
Copper ($/metric ton)	9,560.24	-2.7%	10.5%	-3.6%
Oil (WTI Spot/bbl)	62.37	-2.6%	-13.0%	-19.0%
Oil (Brent Spot/bbl)	67.02	-1.6%	-10.2%	-17.9%
Natural Gas ($/mmBtu)	3.303	10.2%	-9.1%	27.7%

Data as September 30, 2025. Source: FactSet/Bloomberg

Economic Overview

Key Economic Indicators

JOB MARKET

Employment Report
In August, the U.S. economy added 22,000 jobs, significantly lower than expectations (~75,000). That puts the 3-month average gain in payrolls below 30,000. The unemployment rate ticked higher to 4.3%, the highest since October 2021 but still low in a historical context. The labor force participation rate moved slightly higher to 62.3%. It is likely, given the US government shutdown, that the next employment report will be delayed.

Initial Jobless Claims
For the week ending September 19, initial jobless claims fell by 14,000, to a seasonally adjusted 218,000. Continuing claims fell to 1.926mm.

HOUSING MARKET

House Prices
The S&P Cotality Case-Shiller U.S. National Home Price NSA Index reported a 1.7% annual gain in July. It has also reported 5 consecutive monthly declines, suggesting a continuing cooling in home price appreciation, bringing it closer to long-term averages.

PERSONAL INCOME & SPENDING

Personal Income & Spending
In August, personal income increased by 0.4%, while personal consumption expenditures (PCE) increased by 0.6%. The personal savings rate was 4.6%.

Economic Overview

Key Economic Indicators

ECONOMIC GROWTH

GDP Growth

Real GDP growth was revised higher to a 3.8% annual rate in the second quarter of 2025, reversing the 0.6% contraction recorded in the first quarter. The rebound was fueled primarily by strong consumer spending and a reduction in imports, which count as a subtraction in GDP calculations. However, declines in business investment and exports provided some offset, highlighting that not all components of the economy are contributing equally to growth. The Atlanta Fed GDPNow forecast for Q3 is currently at 3.9% but of course is subject to change based on incoming data over the next month.

INFLATION

Consumer Price Index (CPI)

The latest CPI for August came in at 0.4% month-over-month, pushing the year-over-year figure to 2.9%, up from 2.7% in July. Core CPI (excluding food and energy) is steady around 3.1%.

Personal Consumption Expenditures (PCE) Price Index

Headline PCE inflation registered a 0.3% monthly gain, translating into a 2.7% increase over the past year. Core PCE, the Federal Reserve's preferred measure that excludes volatile food and energy components, rose 0.2% for the month and 2.9% year-over-year

Conclusion: The Good, The Bad, and The Uncertain

The Good

Equities continue to demonstrate resilience, supported by the Federal Reserve's September rate cut and an upward revision to second-quarter GDP. Consumer spending remains healthy, and the equal-weighted S&P 500 suggests valuations across broader sectors are closer to long-term norms, presenting opportunities outside of concentrated mega-cap growth.

The Bad

Labor market momentum has slowed materially, with payroll growth well below expectations and unemployment ticking higher. Inflation, while moderating, remains above the Fed's 2% target, keeping pressure on policymakers. Fixed income markets also remain challenged, with yields across the curve finishing September higher than pre-cut levels, underscoring persistent investor concerns about sticky inflation.

The Uncertain

The onset of a federal government shutdown adds a new layer of uncertainty. While essential services remain operational, furloughs and suspended programs could impact consumer confidence and delay critical economic data releases if the shutdown persists. Combined with a Fed that is carefully balancing the risks of easing too quickly or too slowly, markets are likely to remain highly sensitive to both economic releases and policy developments through year-end.

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