NBC | SECURITIES

INVESTMENT STRATEGY STATEMENT | October 31, 2025

Holding Steady Through Shifting Currents

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Performance Review & Outlook

U.S. equities were higher once again in October. The S&P 500 rose by 2.3% for the month and is now 17.5% higher so far in 2025.

Crosscurrents Driving Policy: The U.S. economy faces opposing forces: a gradually softening labor market and renewed inflationary pressures from recently enacted tariffs. These dynamics are likely to keep the Fed cautious as it balances growth and price stability.

Economic data delays: We went through the entire month of October without government data (other than CPI). While this is manageable for now, it will become more problematic the longer it persists.

As expected, the Federal Reserve cut rates at their October meeting, but rates across the curve moved higher following more hawkish remarks from Jerome Powell about the path for future rate cuts.

Q3 Earnings season is off to a good start. Full year operating earnings for the S&P 500 are expected to grow by over 10% this year and 17% next year, according to Standard and Poor's.

The U.S. 10 Year closed the month at 4.10%. After briefly falling below the 4% mark during the month, the yield on the 10 year is back within the 4.00%-4.50% we view as fair value.

Equity Market Overview

Despite a volatile policy backdrop, the U.S. economy continues to show resilience. Thus far, the reintroduction of tariffs has proven less disruptive to corporations and has applied less upward pressure to inflation than markets initially feared. At the same time, interest rates have declined, and short-term yields are expected to continue falling in the year ahead—helping to ease financial conditions and support both corporate and consumer balance sheets.

Corporate fundamentals remain a bright spot.

> *Earnings have exceeded expectations this year, with aggregate S&P 500 profits projected to rise more than 10% in 2025 and 17% in 2026.*

Companies continue to optimize SG&A costs and improve efficiency, enabling margin expansion even as hiring slows. This dynamic—stronger profits with fewer jobs—has contributed to a notable rise in productivity, a key driver of sustained economic growth.

Certain aspects of the policy environment have also been supportive. The recent tax bill, combined with continued regulatory rollbacks, has bolstered corporate confidence and encouraged new investment and expansion plans. Nowhere is this more evident than in the surge of AI-related capital expenditures.

> *The "Magnificent Seven" are projected to invest over $350 billion in AI infrastructure and data centers this year, growing to $450 billion in 2026.*

These investments are reshaping corporate balance sheets and real economy dynamics—contributing roughly 0.6 percentage points to the first half's 1.6% GDP growth. Remarkably, investment in software and information processing equipment contributed as much to Q2 GDP growth as consumer spending did, highlighting a subtle shift in the drivers of U.S. economic momentum.

That said, several offsets temper the otherwise constructive outlook. Valuations remain stretched, with the S&P 500 trading around 23 times forward earnings—near levels last seen during the late-1990s tech bubble. Stripping out the mega-cap names, however, the equal-weighted S&P trades at a more reasonable 17.7x, roughly in line with its 10-year average. Meanwhile, lower-income households are struggling to keep pace with rising costs, and the federal deficit—while slightly smaller as a share of GDP—continues to expand the total debt load and interest burden. We'll likely see some short-term economic impact from the U.S. government shutdown, and while the lack of official data is manageable for now, it will become increasingly problematic the longer it persists. Finally, the rapid pace of AI investment introduces its own risks; overinvestment or disappointing returns could prompt a reassessment of valuations and weigh on future growth.

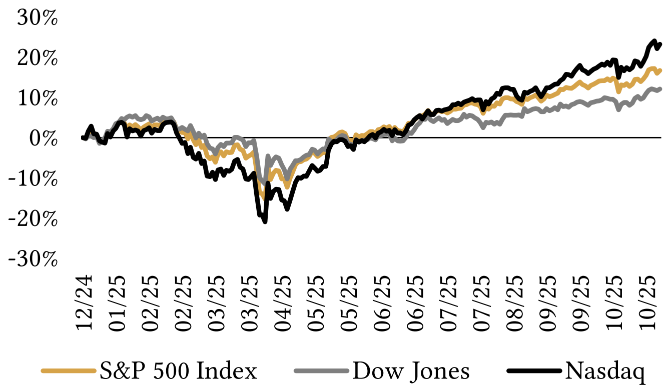
Overall, while macro and earnings trends remain supportive, the balance between optimism and prudence is tightening. Investors may benefit from emphasizing quality, disciplined valuation frameworks, and diversification as the market digests both the tailwinds of innovation and the growing structural challenges ahead.

S&P 500 Price Index

Sector and Index Performance

The S&P 500 extended its winning streak in October, posting gains for the sixth consecutive month. Sector performance was mixed, with technology and health care stocks driving the index higher, while materials and financials lagged behind.

Index Returns YTD



Top Index Movers

+2.3%	S&P 500
+2.6%	Dow Jones Industrial Avg.
+4.7%	Nasdaq Composite

Outperforming Sectors

+6.2%	Technology
+3.5%	Health Care
+2.4%	Consumer Discretionary

Underperforming Sectors

-5.1%	Materials
-3.0%	Financials
-2.6%	Consumer Staples

Fixed Income Market Overview

Fixed income markets in October saw a notable cooling in yields, with the 10-year U.S. Treasury falling below what had been a strong support level at 4.00% and holding there for much of the month, briefly bottoming out near 3.90% intraday. While a move just below support doesn't always constitute a confirmed break, it was significant how long the 10-year yield remained under the 4.00% threshold.

> *This marked the first time in over a year that the 10-year yield had fallen below that level, largely driven by growing expectations that the Federal Reserve would cut the federal funds rate not only in October but again in December.*

In fact, Fed Funds futures had been pricing in another cut for months—showing as high as an 86% probability just before this month's FOMC meeting.

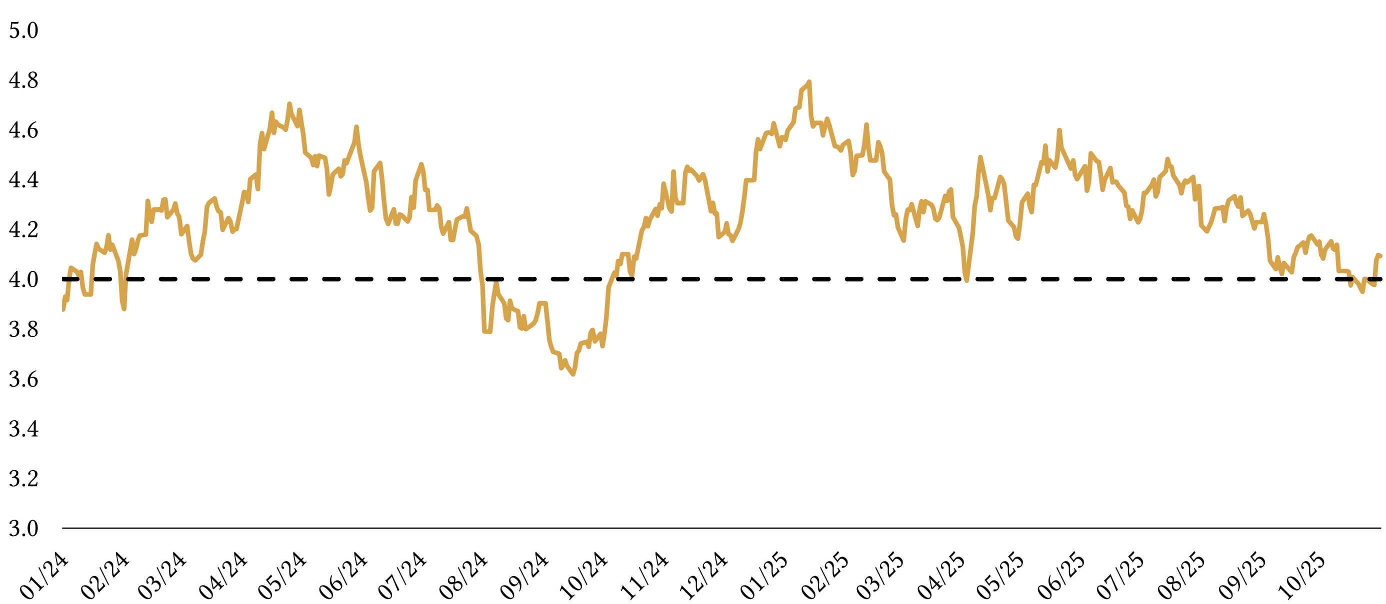
However, as we've often highlighted in previous ISS publications, Fed Funds futures are rarely reliable predictors of the Fed's actual moves. At its October 29th meeting, the Federal Reserve did lower its target rate by 25 basis points, to a range of 3.75%–4.00%, as widely expected. Yet Chair Jerome Powell quickly tempered expectations for another near-term cut. In his post-meeting press conference, Powell stated, "In the committee's discussions at this meeting, there were strongly differing views about how to proceed in December." He also emphasized that, "A further reduction in the policy rate at the December meeting is not a foregone conclusion. Far from it." Furthermore, the Fed also announced that it would be ending its balance sheet runoff effective December 1st.

These comments struck a more hawkish tone than markets anticipated and sent Treasury yields sharply higher. The 10-year note jumped to 4.11% intraday, erasing the month's earlier decline, and closed October near 4.09%—right back within the 4.00%–4.50% range that NBCS Asset Management has been forecasting.

Looking ahead, the outlook for rates into year-end and 2026 remains uncertain. While Chair Powell's tone was mixed, it's important to remember that he's speaking against the backdrop of a government shutdown, which has limited the flow of key economic data—particularly labor market figures. At the same time, the economy has yet to fully reflect the inflationary impact of recently implemented tariffs. These cross-currents—slowing labor conditions versus renewed inflationary pressures—will likely continue to shape the Fed's path forward.

Our view is that the Fed's target rate could decline modestly in 2026 as the administration potentially looks to appoint a new Chair. However, given the conflicting forces of a softening labor market and tariff-driven inflation, we believe the best-case scenario may simply be a continued normalization of the yield curve, with shorter-term rates drifting moderately lower while intermediate- and long-term yields remain near current levels.

10 Year U.S. Treasury Yield (%)



12-Month Percentage Change of Indices

Index (Local Currency)	Level	October	YTD	12 Month
S&P 500	6,840.2	2.3%	17.5%	21.4%
Dow Industrials (DJIA)	47,562.87	2.6%	13.3%	15.8%
Nasdaq	23,724.96	4.7%	23.5%	32.0%
Russell 2000	2,479.381	1.8%	12.4%	14.4%
U.S. 2yr Treasury	3.5942	-0.4%	-15.3%	-26.2%
U.S. 10yr Treasury	4.0891	-1.5%	-10.5%	-9.1%
Gold (NY Spot $/oz)	3,998.16	3.6%	52.3%	71.8%
Silver (NY Spot $/oz)	48.5517	4.1%	68.0%	59.7%
Copper ($/metric ton)	9,560.24	-6.5%	10.5%	-3.6%
Oil (WTI Spot/bbl)	60.89	-2.4%	-15.1%	-20.9%
Oil (Brent Spot/bbl)	65.07	-2.9%	-12.8%	-20.3%
Natural Gas ($/mmBtu)	4.087	23.7%	12.5%	58.0%

Data as of October 31, 2025. Source: FactSet/Bloomberg

Economic Overview

Key Economic Indicators

JOB MARKET

Employment Report
The non-farm payrolls report was not released due to the U.S. government shutdown.

Initial Jobless Claims
Although the BLS isn't publishing the official weekly jobless claims report, the unofficial state data points to claims remaining consistent with trends prior to the U.S. government shutdown.

Economic Overview

Key Economic Indicators

HOUSING MARKET

House Prices
The S&P Cotality Case-Shiller U.S. National Home Price NSA Index reported a 1.5% annual gain in August. This represents a significant cooling from the 4.1% increase in January of this year and the 6%+ gains last spring.

PERSONAL INCOME & SPENDING

Personal Income & Spending
The PCE report was not released due to the US government shutdown.

ECONOMIC GROWTH

GDP Growth
The first read on Q3 GDP was not reported due to the U.S. Government shutdown. The Atlanta Fed GDPNow figure ended the month at 3.9%, and the consensus among economists tracked by Bloomberg currently stands at 3.0%. Both figures are well above trend growth for the U.S. economy.

INFLATION

Consumer Price Index (CPI)
The CPI report, while delayed, was released on 10/24 as that data was deemed essential for determining the cost-of-living adjustment for social security benefits and principal adjustments on inflation linked bonds. The report came in slightly softer than expected for both the headline and core measures – up 0.3% and 0.2% on the month, respectively. Year-over-year, both headline and core increased by 3.0%.

Personal Consumption Expenditures (PCE) Price Index
The PCE price index was not released due to U.S. government shutdown.

Conclusion: The Good, The Bad, and The Uncertain

The Good

Corporate fundamentals remain strong. Earnings have exceeded expectations this year, with S&P 500 profits projected to rise over 10% in 2025 and 17% in 2026. Companies are effectively managing SG&A expenses and leveraging technology to improve efficiency, allowing for margin expansion even amid slower hiring. These gains have fueled a meaningful increase in productivity, which supports both long-term growth potential and corporate resilience. The normalization of the yield curve and improved income opportunities in fixed income also give investors more balanced return prospects than in prior years.

The Bad

Tariff-related cost pressures and slowing job growth present challenges for both consumers and corporate margins. The temporary government shutdown has delayed critical economic data releases, making it more difficult for the Fed to calibrate policy effectively. Markets remain sensitive to any negative surprises on inflation, growth, or earnings momentum.

The Uncertain

The interplay between a cooling labor market and potential inflationary pressures will continue to shape the Fed's path into 2026. While modest rate cuts appear likely, the pace and scope of easing will depend on how quickly inflation stabilizes relative to growth. The resulting policy trajectory—and its impact on equity valuations and bond yields—remains highly uncertain.

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Disclosures