NEAM VANTAGE POINT

Trade Winds

APRIL 2025

ECONOMIC & CAPITAL MARKET OVERVIEW

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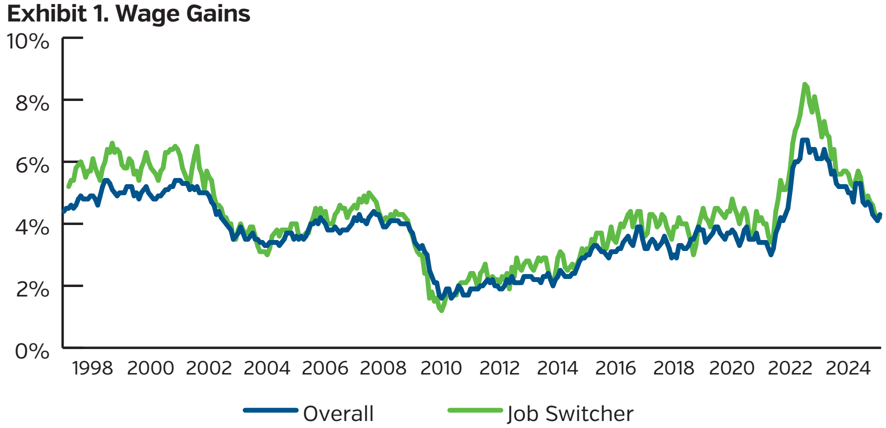
Monthly Economic Highlights

MARCH OVERVIEW

Against the backdrop of "unusually elevated" uncertainty, the Fed held its benchmark rate steady at its most recent meeting, stating that the economy remains "strong overall" while they continue to work towards achieving their dual goals. Aware that offsetting upward pressures on inflation, and downward pressures on growth are increasing, the committee opted to hold steady. The Summary of Economic Projections released with the meeting still calls for two interest rate cuts this year, albeit with fewer participants holding that view relative to before. Median economic estimates called for higher inflation this year and next, unemployment to nudge up, and growth to decline. In short, new policy proposals and actions, including the more pronounced effect of the tariffs outlined on "Liberation Day," have increased uncertainty and reduced confidence. Appreciating it will take some time to separate the "signal from the noise," and see if reduced confidence ultimately translates into lower growth, and tariffs into higher sustained as opposed to transitory inflation, the committee, believing they are "well positioned to wait for greater clarity," decided to rely on the current health of the economy, stay the course and monitor the evolution of incoming "hard" data for weakness, a position Powell reiterated in a recent post Liberation Day speech in Virginia.

Exhibit 1. Wage Gains



Source: FRBATL, Haver, NEAM

Consumer sentiment remains under pressure. The University of Michigan's Consumer Sentiment Index fell to its lowest level in more than two years, and the Conference Board's measure to the lowest in roughly four, as consumers become more anxious about the economy, employment, their finances, and inflation. With Powell commenting that we sit in a "low firing, low hiring situation," payrolls came in above expectations at +228K for the month of March, although when combined with revisions to the previous two months' numbers, the three-month average fell to +152K. Smaller gains in household employment relative to those experienced in the labor force also led the unemployment rate to inch up to 4.2%, still low

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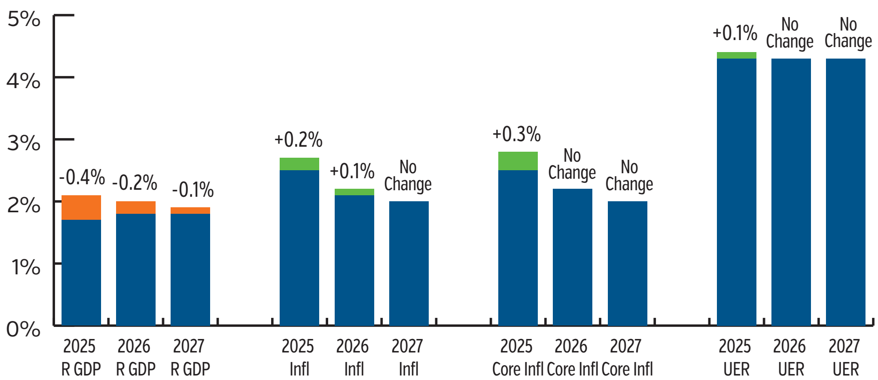
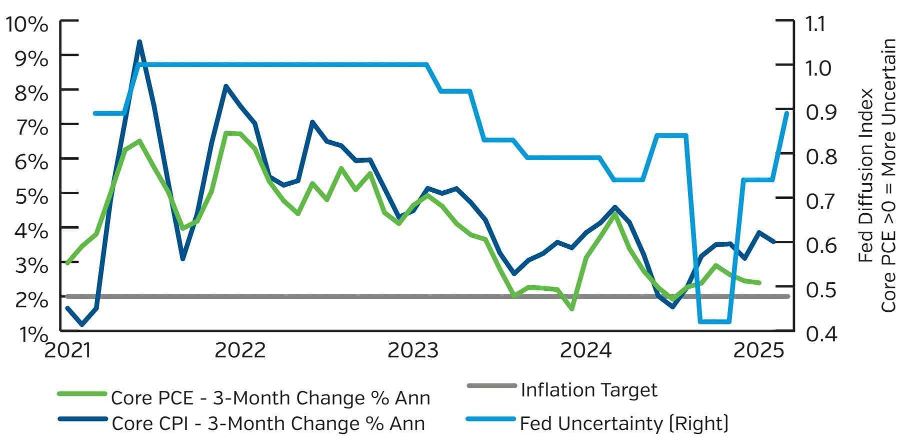
by historical standards, while broader measures of unemployment also rose, as evidenced by the U-6 rate climbing to the highest level since late 2021 at 7.9%. Wage growth no longer favors those who switch jobs, with the Atlanta Fed data showing that the gap between those who left their jobs for another has nearly closed, while overall increases in average hourly earnings came in slightly below a +0.3% pace for the month, leaving the yearly jump at +3.8%. Although higher in January, February's JOLTS data fell back and leaves the data moving sideways for the time being, in line with pre-pandemic levels and down from recent peaks but signaling that the market continues to be stable.

Exhibit 2. Fed Projections: FOMC Economic Projections and Change



Source: FRB, Haver, NEAM

Exhibit 3. Inflation and Fed Uncertainty



Source: BEA, BLS, FRB, Haver, NEAM

Industrial production rebounded strongly over the month, gaining +0.7%. Increases in manufacturing (+0.9%) and mining (+2.8%) drove the jump despite a 2.5% drop in utilities. Manufacturing benefitted, in large part due to a sizeable rebound in motor vehicle and parts production. National and regional PMI surveys still highlight challenges in the sector however, with uncertainty around pricing and the impact of tariffs front of mind. NFIB small business optimism continues to tack, with the overall index for optimism down for the second month in a row. Like the consumer side, uncertainty is concurrently increasing, weighing on outlooks as firms begin to question improvements in the economy along with their corresponding plans to hire, expand, and invest while simultaneously acknowledging pricing pressures.

In terms of prices, headline CPI slowed in February, coming in at +0.2% for the month and 2.8% for the year. A slowdown in both food and energy price increases (led by lower gasoline prices), along with tamer core prices contributed to the deceleration. At the core level, prices grew +0.2% over the month, which equated to a +3.1% year-over-year figure. Core goods prices were driven by smaller increases in apparel and used vehicles, along with gains in household furnishings, while new vehicle prices declined. On the services side, the pace of shelter increases pulled back a notch with dampened lodging rate increases, but remained a large contributor, while decreases in transportation, from drops in airline fares and slower motor vehicle insurance prices increases, helped tame overall core service price gains despite an acceleration in medical care. Excluding housing, core services gains also slowed. Overall, while both monthly and annual rates of the CPI declined at the headline and core levels, inflation remains above the Fed's desired target. Furthermore, the Fed's preferred measure of inflation, the core PCE index, exceeded expectations, and with potential increases from tariff policies not yet factored in, the Fed is opting to remain in a position of wait-and-see.

CAPITAL MARKET IMPLICATIONS

With survey data weakening, labor market and growth estimates softening, inflation persisting and uncertainty rising, the Fed held steady, opting to wait to see how the economic climate plays out before adjusting its posture. The Treasury curve steepened, as front-end Treasury yields fell and longer-dated yields increased, while equity markets fell. The subsequent release of sweeping tariffs early in the month of April however, led to greater turbulence in the market, sending both Treasury yields and equities lower still.

Exhibit 4. U.S. Historical Yield Curves

	Dec 2021	Dec 2022	Dec 2023	Dec 2024	Mar 2025
Fed Funds Range	0.00-0.25%	4.25-4.50%	5.25-5.50%	4.25-4.50%	4.25-4.50%
2-Year	0.73%	4.43%	4.25%	4.24%	3.88%
5-Year	1.26%	4.00%	3.85%	4.38%	3.95%
10-Year	1.51%	3.87%	3.88%	4.57%	4.21%
30-Year	1.90%	3.96%	4.03%	4.78%	4.57%

Source: Bloomberg, NEAM

Capital Markets

FIXED INCOME RETURNS

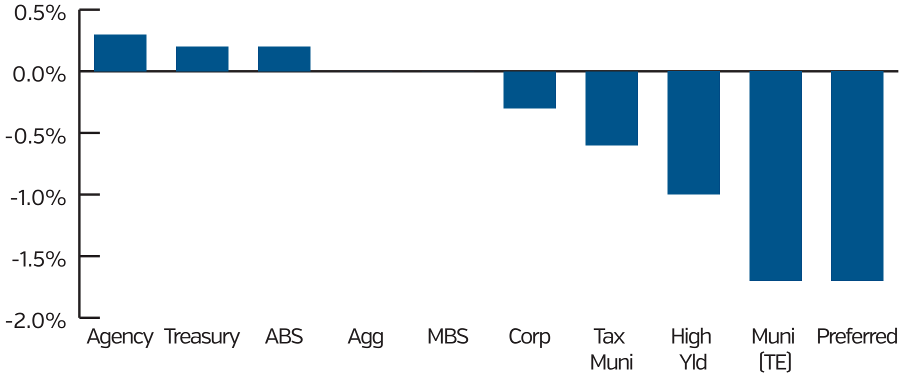
The Fed held its benchmark rate steady over the month while signaling it wishes to parse weaker sentiment-based from harder economic data before making its next move. The Treasury curve steepened as front-end yields tightened and longer-dated yields rose, while credit spreads pushed wider on the back of policy-driven uncertainty.

Exhibit 5. Fixed Income Returns

	March	3-Month	YTD
Bloomberg Barclays U.S. Aggregate	0.04%	2.78%	2.78%
Blended ICE/ BofAML Preferred Stock	-1.72%	0.18%	0.18%
ICE BofA US Taxable Muni - Broad	-0.58%	2.90%	2.90%
ICE BofA Municipals Master (TE)	-1.68%	-0.31%	-0.31%
Bloomberg Barclays U.S. MBS (fixed rate)	-0.02%	3.06%	3.06%
Bloomberg Barclays U.S. ABS	0.23%	1.53%	1.53%
Bloomberg Barclays U.S. Agency	0.28%	2.11%	2.11%
Bloomberg Barclays U.S. Treasury	0.23%	2.92%	2.92%
Bloomberg Barclays U.S. Corporates	-0.29%	2.31%	2.31%
Bloomberg Barclays High Yield	-1.02%	1.00%	1.00%

Source: Barclays, Bloomberg, NEAM

Exhibit 6. Domestic Fixed Income Sector: Month-to-Date Total Returns (3/31/25)



Source: Bloomberg, Barclays, ICE BofAML, NEAM

EQUITY TOTAL RETURNS

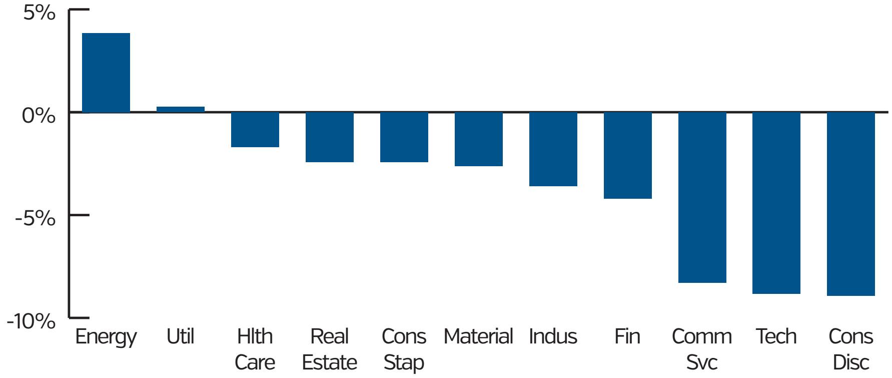
Some weaker economic data, uncertainty over trade policy, and concerns about the sustainability of AI investment trends appeared to be among the factors that weighed on U.S. equity markets in March. The S&P 500, Dow and Nasdaq all ended the month lower.

Exhibit 7. Equity Total Returns

	March	3-Month	YTD
S&P 500	-5.63%	-4.28%	-4.28%
NASDAQ	-8.14%	-10.26%	-10.26%

Source: Bloomberg, NEAM

Exhibit 8. Domestic Equity Returns: Month-to-Date Total Returns (3/31/25)



Source: Bloomberg, NEAM

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