NEAM VANTAGE POINT

Trade Winds

MARCH 2025

ECONOMIC & CAPITAL MARKET OVERVIEW

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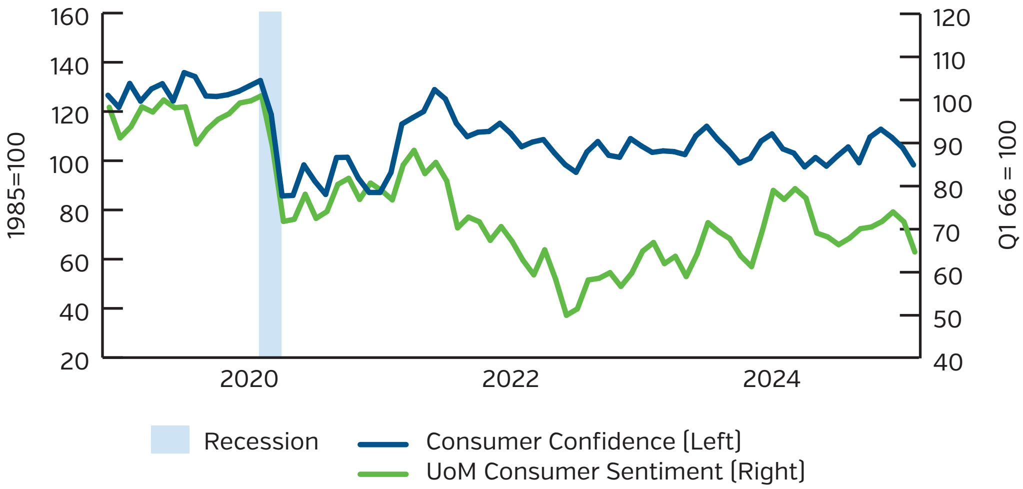
FEBRUARY OVERVIEW

The minutes from the most recent January FOMC meeting, in which rates were left on hold after having been reduced by 100 bps from their recent peak, confirmed that the Fed believes rates are "still restrictive," just less so than before. Although still focusing on both objectives, the focus has shifted to bringing inflation further down as the labor market holds up. Indeed, the minutes shared that participants believe the labor market to be "roughly in balance" and "unlikely to be a source of inflationary pressure in the near future." In contrast, the risks for inflation are "skewed to the upside," as the Fed tries to embrace the future impact of potential changes to "trade and immigration policy," along with "supply-chain disrupting geopolitical events" among other issues. While acknowledging that disinflation has slowed, the Committee shared that it will "take time to assess the evolving outlook for economic activity, the labor market and inflation," and act accordingly when it sees the progress, particularly on inflation, that it desires.

Exhibit 1. Consumer Sentiment Indicators



Source: Conference Board, University of Michigan, Haver, NEAM

Despite the lower nonfarm payrolls print of +143K for January, revisions to previous months' data pushed the three-month average up to +273K, the highest since early 2023, and supporting the notion that, while more balanced than before, the labor market continues to show resilience. For the month, healthcare drove the largest share of the gains, with help from the retail sector, while professional and business services and leisure and hospitality countered to the downside. JOLTS data showed a drop in job openings, while quits and hiring rates are generally lower and moving sideways, and in all cases well off their peaks. Gains

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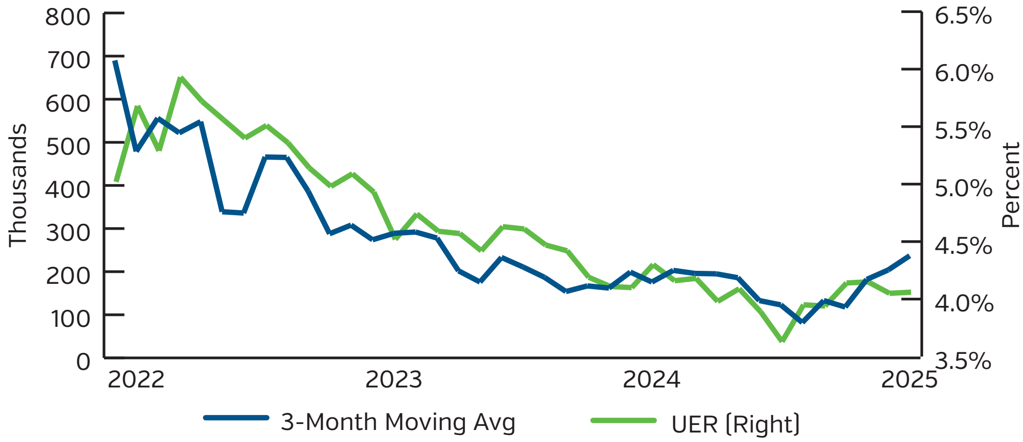
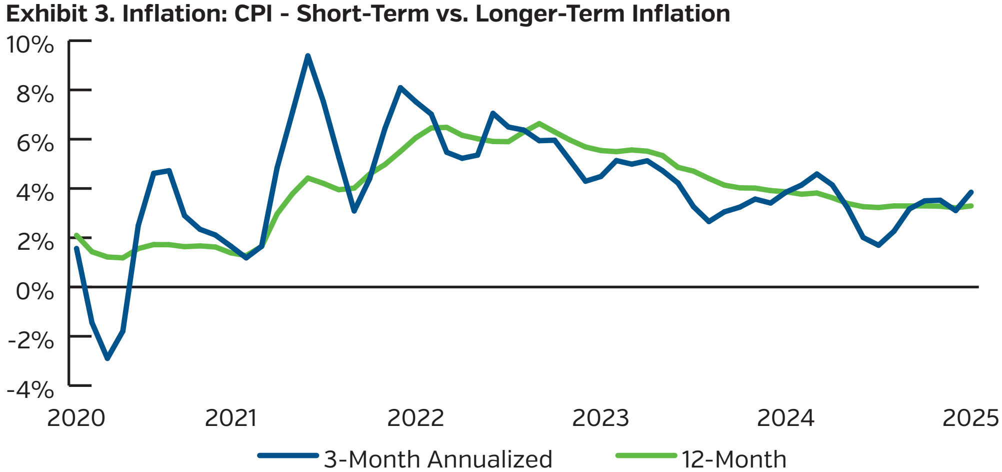
in household employment outweighed labor force growth, nudging the unemployment rate down a notch to 4.0%, while average hourly earnings bumped up +0.5% for the month, but stayed on pace with recent yearly increments, increasing +4.1% for the year. Consumer sentiment retraced lower according to the University of Michigan as those surveyed reacted to the potential impact of tariffs and year ahead inflation expectations jumped. Similarly, the Conference Board's measure also highlighted a more pessimistic tone regarding future conditions and year-ahead inflation expectations. Retail sales fell at the headline (-0.9%) and core (-0.4%) on the month.

Exhibit 2. Employment Indicators: Payroll Averages and UER



Source: BLS, Haver, NEAM

Exhibit 3. Inflation: CPI - Short-Term vs. Longer-Term Inflation



Source: BLS, Haver, NEAM

Industrial production gained over the month (+0.5%), led by a strong uptick in utilities (+7.2%) which masked a drop in mining (-1.2%) and manufacturing (-0.1%), the latter driven by a sharper decline in motor vehicles and parts production. National PMI numbers came in better in January, the third improvement in a row and reaching the strongest level since the fourth quarter of 2022, before retreating slightly in February. Regional manufacturing surveys were mixed and carried some commentary that pointed to reduced optimism for the future, echoed by an increase in the NFIB's uncertainty index. Despite this, small business optimism remains high while the outlook for capital expenditures from the Business Roundtable CEO Economic Survey, and the Conference Board's CEO Confidence Survey, continue to trend north.

On the inflation front, CPI exceeded market expectations in February. Headline inflation increased its pace for the third time in a row, coming in at +0.5% for the month (+3.0% year over year). While energy (+1.1%) added to the overall number, and an outsized 15% monthly increase in the price of eggs drove food inflation (+0.4%), core inflation ticked up at a +0.4% monthly pace too (+3.3%). Diving deeper into core inflation, core goods continued its comeback, jumping +0.3% on the month, led by contributions from used vehicles and prescription drugs, while apparel and household furnishings acted as a counter to the downside. Core services increased +0.4%, led notably by shelter, along with increases in motor vehicle insurance, and hospital and recreational services. With Powell stating in the post-FOMC press conference that the Fed will be looking for "real progress on inflation," in addition to signs of a softening labor market," before they "consider making adjustments," the numbers may give the Fed some room to hold at current levels for the time being.

CAPITAL MARKET IMPLICATIONS

Softer-than-anticipated economic data and still elevated inflation promoting a more vigilant Fed posture helped drag equities lower while Treasury yields fell.

Exhibit 4. U.S. Historical Yield Curves

	Dec 2020	Dec 2021	Dec 2022	Dec 2023	Feb 2025
Fed Funds Range	0.00-0.25%	0.00-0.25%	4.25-4.50%	5.25-5.50%	4.25-4.50%
2-Year	0.12%	0.73%	4.43%	4.25%	3.99%
5-Year	0.36%	1.26%	4.00%	3.85%	4.02%
10-Year	0.91%	1.51%	3.87%	3.88%	4.21%
30-Year	1.64%	1.90%	3.96%	4.03%	4.49%

Source: Bloomberg, NEAM

Capital Markets

FIXED INCOME RETURNS

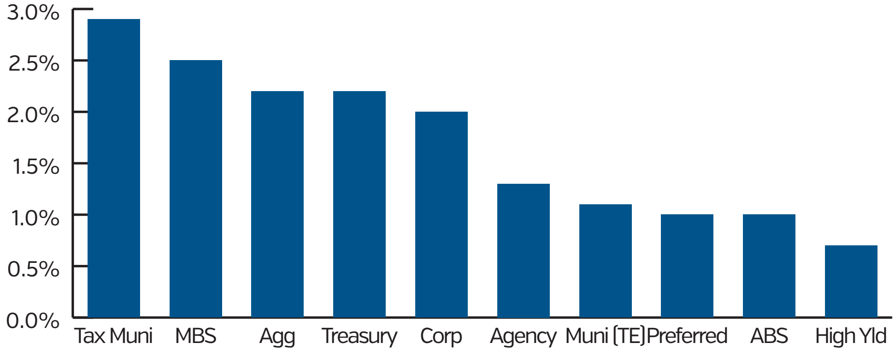
The Fed's minutes advocated for pausing on further rate moves as they examine inflation's trajectory, while labor market indicators concurrently point to a more balanced employment situation. Despite concerns of re-emerging inflation, Treasury yields fell with weaker economic data. Macro headlines, rate volatility, and heavy supply finally weighed on spreads, moving them wider on the month.

Exhibit 5. Fixed Income Returns

	February	3-Month	YTD
Bloomberg Barclays U.S. Aggregate	2.20%	1.06%	2.74%
Blended ICE/ BofAML Preferred Stock	1.04%	0.19%	1.93%
ICE BofA US Taxable Muni - Broad	2.92%	0.73%	3.50%
ICE BofA Municipals Master (TE)	1.09%	0.17%	1.39%
Bloomberg Barclays U.S. MBS (fixed rate)	2.55%	1.38%	3.07%
Bloomberg Barclays U.S. ABS	0.97%	1.25%	1.30%
Bloomberg Barclays U.S. Agency	1.27%	1.31%	1.82%
Bloomberg Barclays U.S. Treasury	2.16%	1.10%	2.68%
Bloomberg Barclays U.S. Corporates	2.04%	0.62%	2.60%
Bloomberg Barclays High Yield	0.67%	1.61%	2.05%

Source: Barclays, Bloomberg, NEAM

Exhibit 6. Domestic Fixed Income Sector: Month-to-Date Total Returns (2/28/25)



Source: Bloomberg, Barclays, ICE BofAML, NEAM

EQUITY TOTAL RETURNS

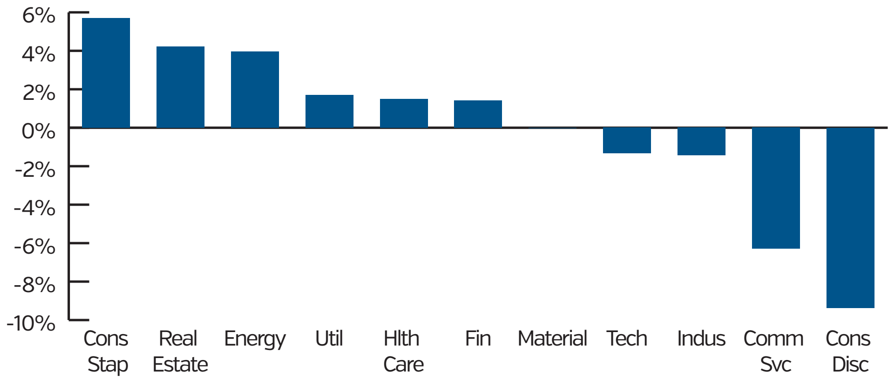
Concerns that U.S. inflation might remain elevated and that further Fed rate cuts might not be forthcoming, softer consumer sentiment data, and policy uncertainty all weighed on U.S. equities. However, while the S&P 500 declined in February, the index finished the month only 3% below the all-time high.

Exhibit 7. Equity Total Returns

	February	3-Month	YTD
S&P 500	-1.30%	-0.99%	1.44%
NASDAQ	-3.91%	-1.77%	-2.31%

Source: Bloomberg, NEAM

Exhibit 8. Domestic Equity Returns: Month-to-Date Total Returns (2/28/25)



Source: Bloomberg, NEAM

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