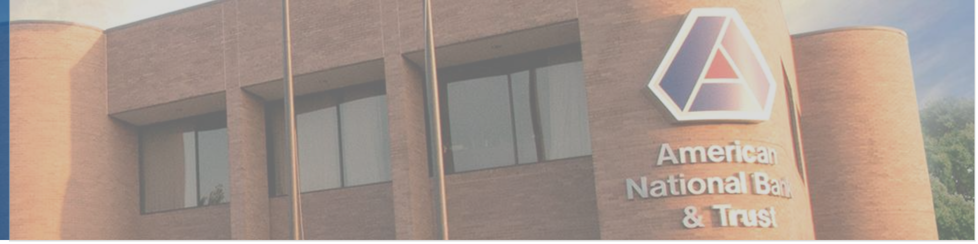
January Market Update

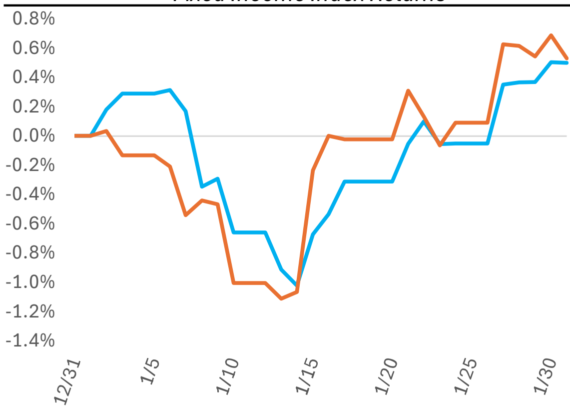
As of 1/31/2025 | amnat.com



Macro & Market View: Optimistic Fresh Start

Interest rate policy uncertainty, domestic and international growth, the U.S. consumer, inflation and investor sentiment have contributed to recent positive returns in broad fixed income benchmarks as well as positive returns in broad equity benchmarks shown below. For the month, equity markets have risen for the broad US stock indices, while stock and bond market correlations have been 77% and 58% for the aggregate corporate and municipal bond markets, respectively. Historically, January has generated a positive equity market return as measured by the S&P 500 of 1.23% on average; however, the market had an above average return of 2.78% for the month. Equity returns so far this year are positive at 2.78% for the S&P 500 index, while the US Aggregate bond index returned 0.53%.

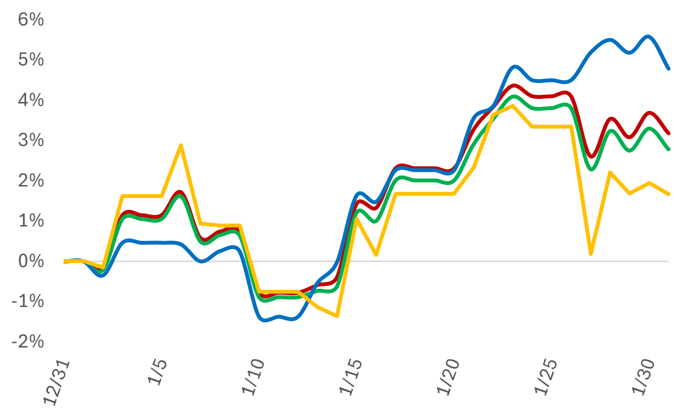
Fixed Income Index Returns



January Returns

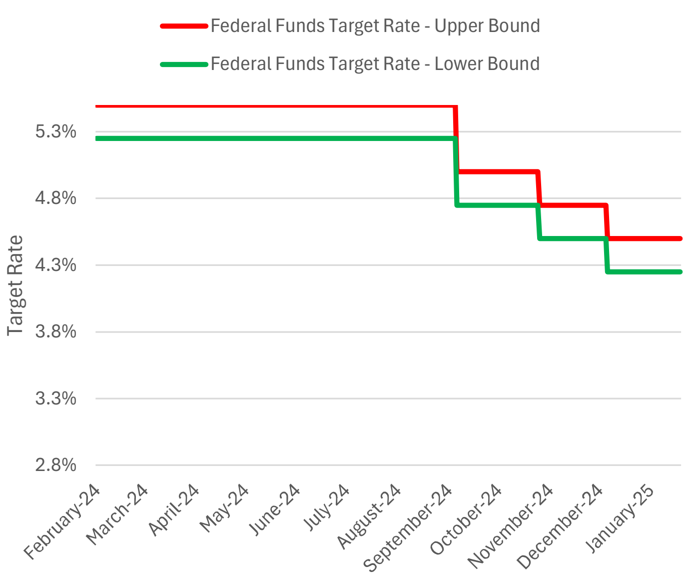
Index	Return
US Aggregate	0.53%
US Municipal	0.50%
Russell 1000	3.18%
S&P 500	2.78%
Dow Jones	4.78%
Nasdaq	1.66%

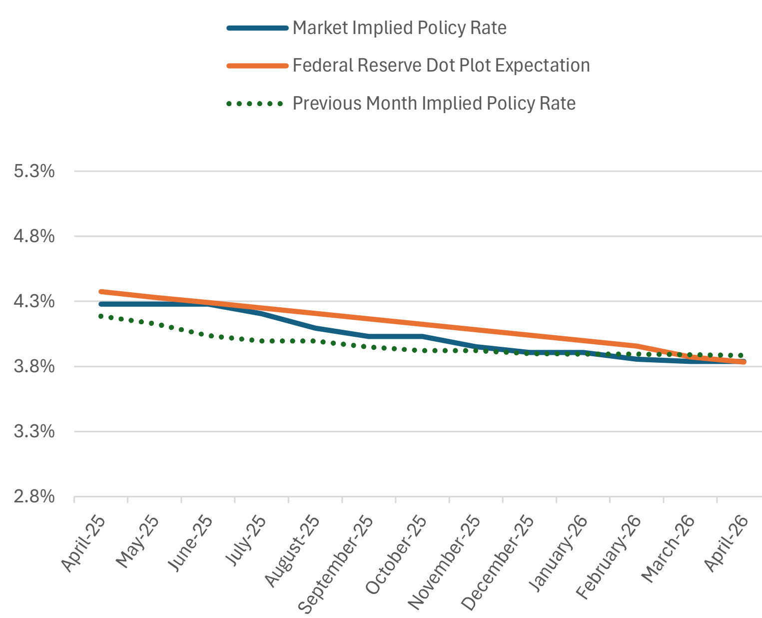
Equity Index Returns



Source: Bloomberg LP, Calculations by ANB&T - Trust & Wealth Management

Market participants are forecasting the Fed policy rate to be lowered over the next twelve months. An important note is that market participants anticipate rates to be higher than the Fed's expectation for this year. The next Federal Reserve meeting to discuss monetary policy is scheduled for March 19th. The overall expectation is for the policy rate to be lowered by around 44bps or basis points (actual estimate of -0.4%) to 3.84% in the next twelve months. The change in market participants' view of what the Federal Reserve should do can be understood in the context of the inflation data measured by CPI (Consumer Price Index), the PCE (Personal Consumption Expenditures), and expected unemployment.





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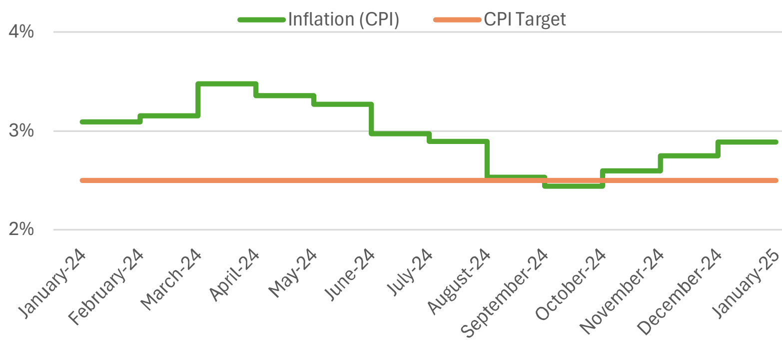

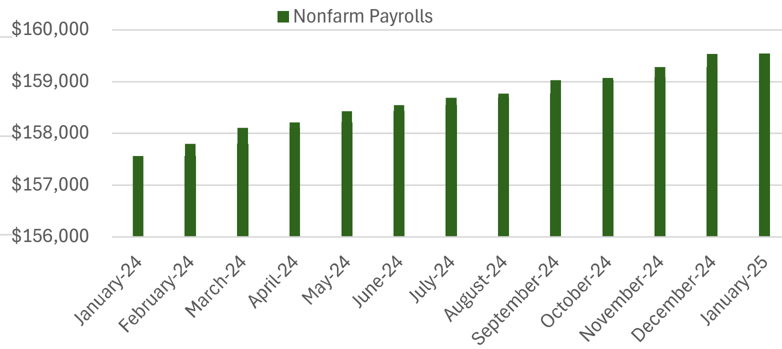

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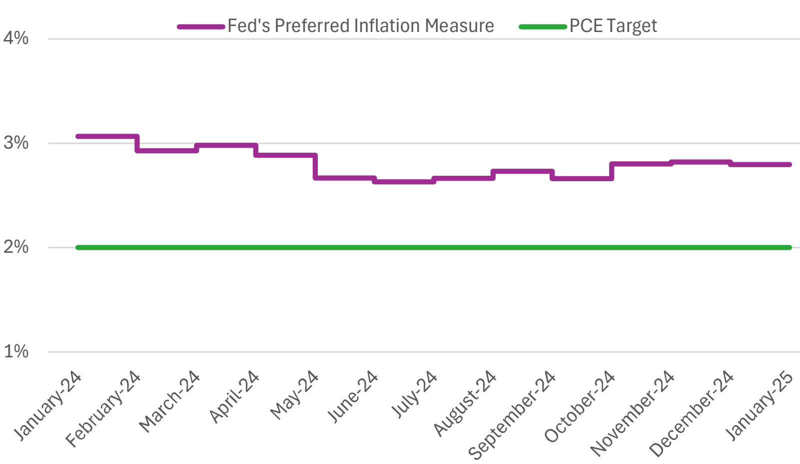
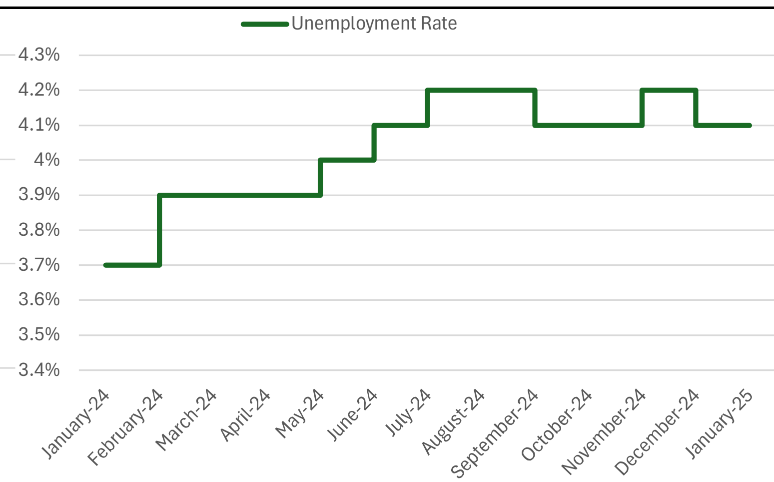
As shown in the US CPI Consumers year-over-year chart above, January saw downward trending inflation over the last year and, since November, an upward trend above the target at 2.75%. Additionally, nonfarm payrolls continue to trend upward, which influences, in part, whether or not the Federal Reserve will continue lowering interest rates in regard to overall employment. However, as the data shows, the downward inflation improvements toward the Fed target of 2.5% gives market participants hope that the period of climbing interest rates are ending in the next twelve months. Historically, the inversion, and more importantly, the reversion of the treasury yield curve signalled the economy was near a recession, but as noted in previous updates this year, broad consumption has continued to bolster the economy. Historical indicators have seemingly lost their predictive character in this economic cycle.

The chart below on the right shows the unemployment rate sitting at 4.1%, an increase from 3.7% one year ago. We also include the year-over-year change in the PCE (Personal Consumption Expenditure) in positive territory over the last year, but bottoming from the low in July 2024. The Federal Reserve closely monitors inflation measured by the PCE and the CPI as part of their dual mandate of maximum employment and price stability. The positive progress on inflation has been welcomed as it reflects moderation in price increases, but comparing the levels to their target suggests that the current downtrend in inflation may stay above the Fed's target level as economic data adjustments are released.



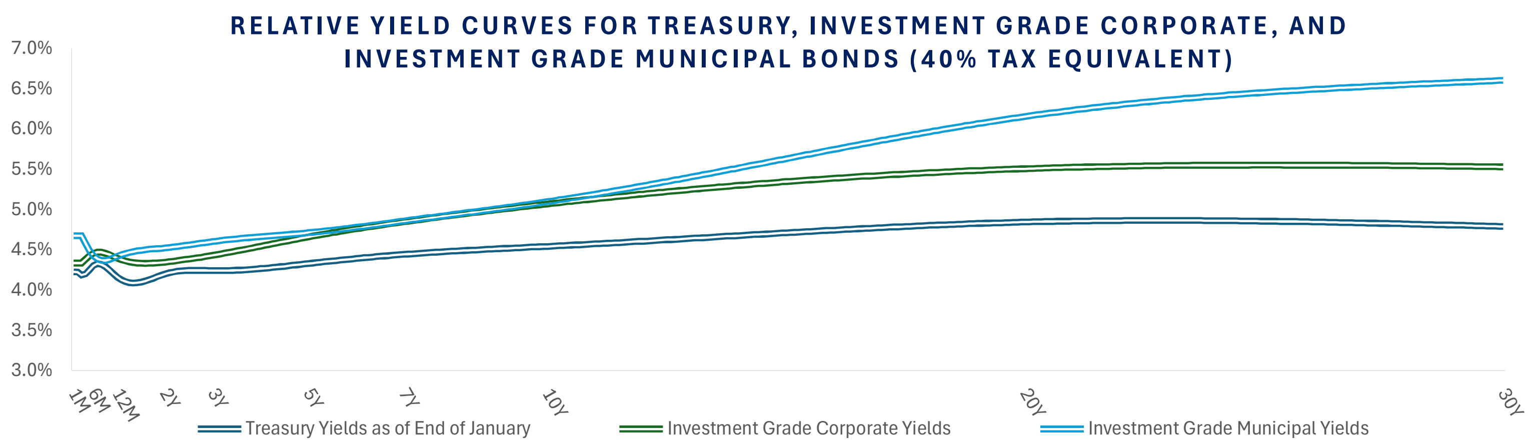


Source: Bloomberg LP, Calculations by ANB&T - Trust & Wealth Management

Across the sectors, company reporting has shown a positive surprise across the spectrum to sales and earnings for January with the exceptions of negative surprise in the Utilities and Materials sectors. Of the 247 companies that reported in the Russell 1000 index for January, 142 of the companies had positive sales surprise and 189 had positive earnings surprise; we consider this positive surprise to be a tailwind for equity valuations for the next quarter. For the month, the overall sales and earnings surprise is positive at 1.35% and 6.03%, respectively, with companies being more resilient than consensus analyst estimates.

Our investment process blends active fixed income with dynamic long-only equity strategies. Our Legacy portfolio blends long-term growth and value on a discretionary basis, while our Dividend portfolio seeks lower volatility and higher current income. We also have Momentum and Quality strategies that are data-driven, factor tilt portfolios. The Momentum portfolio benefits from positive momentum while remaining well-diversified. The Quality portfolio blends low volatility with momentum to produce a portfolio of high quality equity income and positive momentum. For investment themes with more international exposure, our Benjamin Builder solutions complement the other equity strategies and offer an efficient method to invest broadly across geography, style, and sector using an institutional, active process.

Total returns in the fixed income markets were positive for January as interest rates in both the taxable and tax-free markets ticked lower. The 10-year US Treasury started the month at 4.57% and finished at 4.54%. The FOMC held short-term interest rates steady at their January 29th meeting, keeping the Fed Funds target range at 4.25%-4.50%. Month over month, the US Treasury curve remained relatively unchanged, with the 5-year part of the curve moving the most, lower by only 5 basis points. The tax-free municipal curve steepened month over month, with shorter-term rates moving lower by 20-25 basis points. Although we remain in a rate-cutting cycle, the latest pause at the January FOMC meeting keeps our focus on incoming economic data to gauge the rate trajectory for the remainder of 2025.



Source: Bloomberg LP, Calculations by ANB&T - Trust & Wealth Management

The equity market measured by the S&P 500 Index has experienced significant returns in recent years, driven by technology-backed mega-cap companies. For 2025, we come back to reasonable average market returns. Historically, equity markets are favorable when the Federal Reserve is able to lower interest rates at a slower pace because those regimes have been characterized by tamed inflation and a strong economic outlook. Monetary policy is dictated by inflation, the underlying economy, and the consumer. Looking ahead to 2025, we expect market volatility to continue throughout the year for equity markets focusing on the second half of year. For fixed income markets, we expect the data-informed Federal Reserve to adjust their outlook on the economy as new data is available. While the U.S. economy is projected to grow at a healthy pace, concerns linger about the potential impact of the new administration's policies. We evaluate the investment landscape based on how policy is and adjust our expectations as markets and their expectations change. As the perception is that interest rates will continue to decline, corporate and municipal bonds can provide a real rate of total return that includes current income and price appreciation. While technology innovation continues to strengthen, most industries will see productivity enhancements across their business due to enterprise adoption of tailored AI services. These factors lead us to blend value and growth investments across sectors and seek relative value bonds that complement your financial goals and risk appetite. Thank you for your continued trust in allowing us to manage your financial assets.