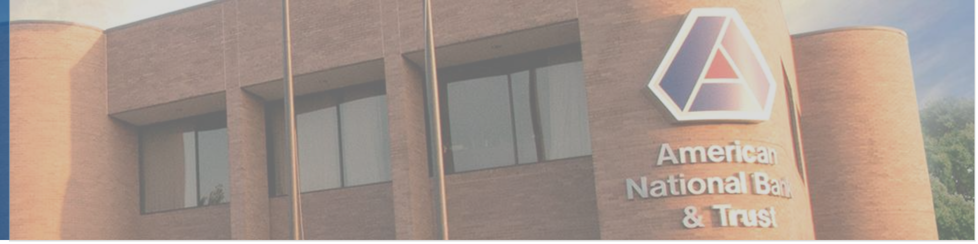
February Market Update

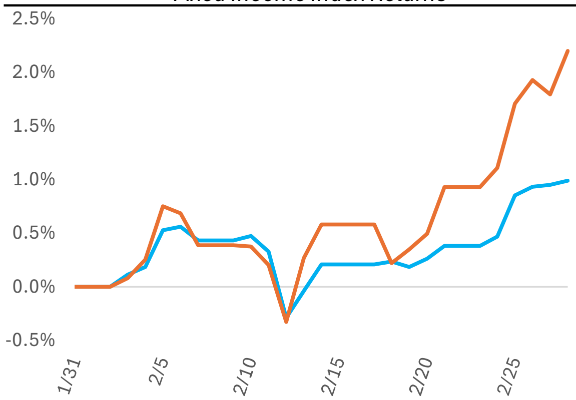
As of 2/28/2025 | amnat.com



Macro & Market View: Potential Profit-Taking

Interest rate policy uncertainty, domestic and international growth, the U.S. consumer, inflation, investor sentiment and presidential policy changes have all contributed in one way or another to recent positive returns in broad fixed income benchmarks as well as negative returns in broad equity benchmarks, shown below. Over the past month, equity markets have declined for the broad US stock indices, while stock and bond market correlations have been -76% and -69% for the aggregate corporate and municipal bond markets, respectively. Historically, February has generated a positive equity market return as measured by the S&P 500 of 0.26% on average; however, the market underperformed with a return of -1.30% for the month. Equity returns this year are positive at 1.44% for the S&P 500 index, while the US Aggregate bond index returned 2.74%.

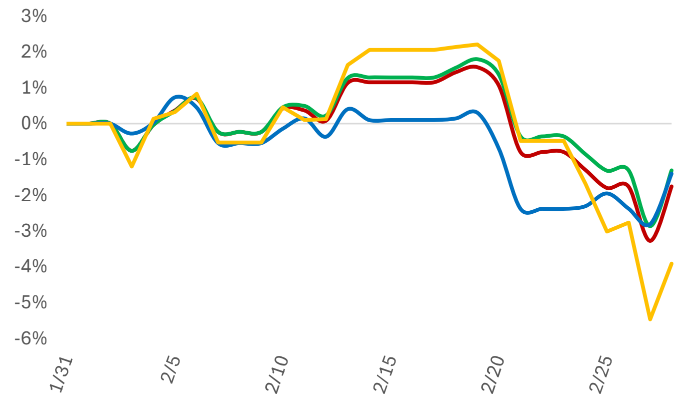
Fixed Income Index Returns



February Returns

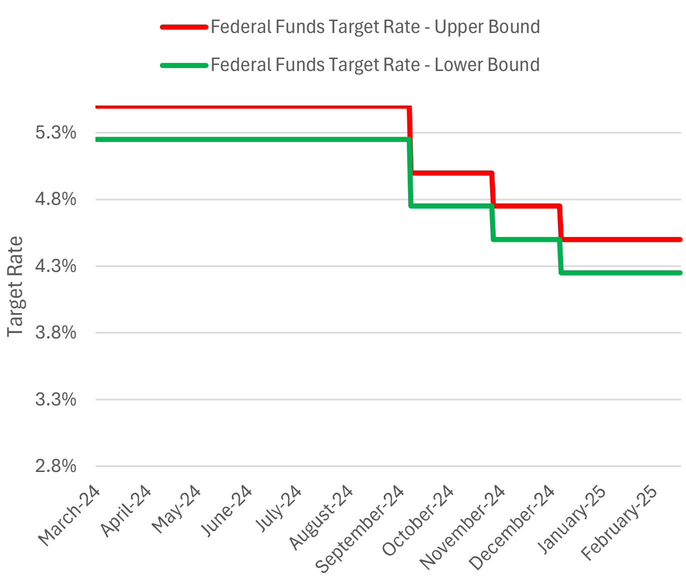
US Aggregate	2.20%
US Municipal	0.99%
Russell 1000	-1.75%
S&P 500	-1.30%
Dow Jones	-1.39%
Nasdaq	-3.91%

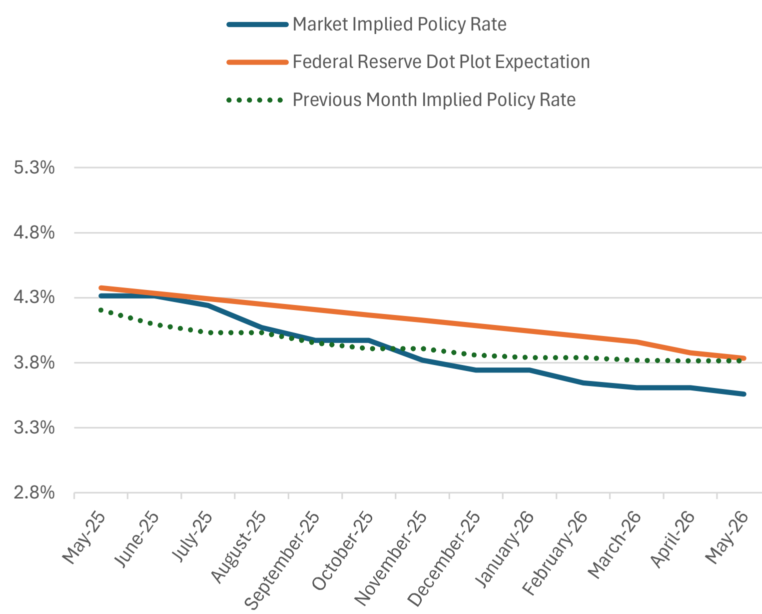
Equity Index Returns



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, although that is far from a certainty. An important note is that market participants expect rates to be lower than the Fed's reported 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 75bps or basis points (actual estimate of -0.8%) to 3.56% 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 Consumer Price Index ('CPI'), the Personal Consumption Expenditures ('PCE'), and expected unemployment.





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

Wichita Falls
2732 Midwestern Pkwy
Wichita Falls, TX 76308
(940) 397-2420

Fort Worth
1500 W 7th
Fort Worth, TX 76102
(817) 505-1534

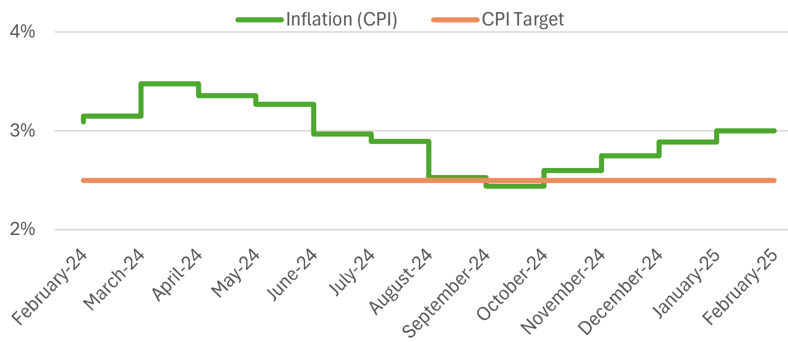
Flower Mound
1201 Cross Timbers Rd
Flower Mound, TX 75028
(469) 322-6202

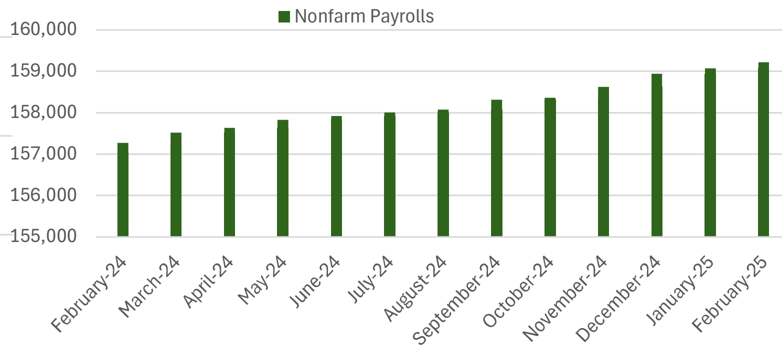
Houston
190 T C Jester Blvd., Suite 410
Houston, TX 77007
(713) 913-0972

Denton
120 S. Carroll Blvd
Denton, TX 76201
(469) 322-6202

McKinney
205 W. Louisiana St, Suite 103
McKinney, TX 75069
(214) 307-1664

Dallas
10000 N. Central Expressway, Suite 800
Dallas, TX 75231
(214) 534-1766





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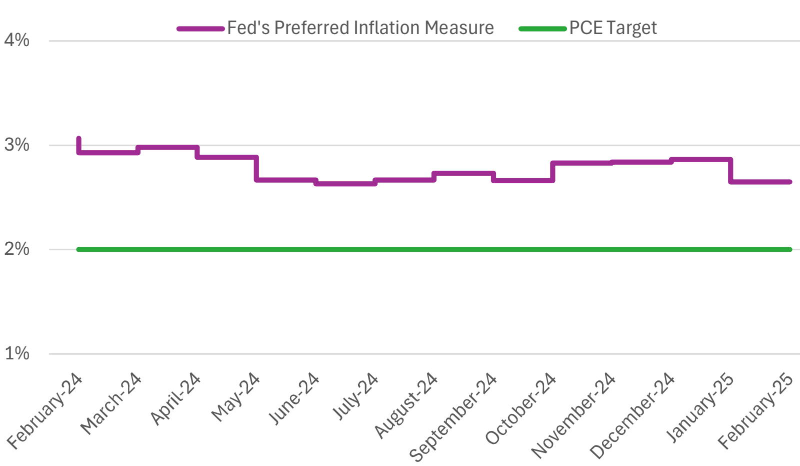
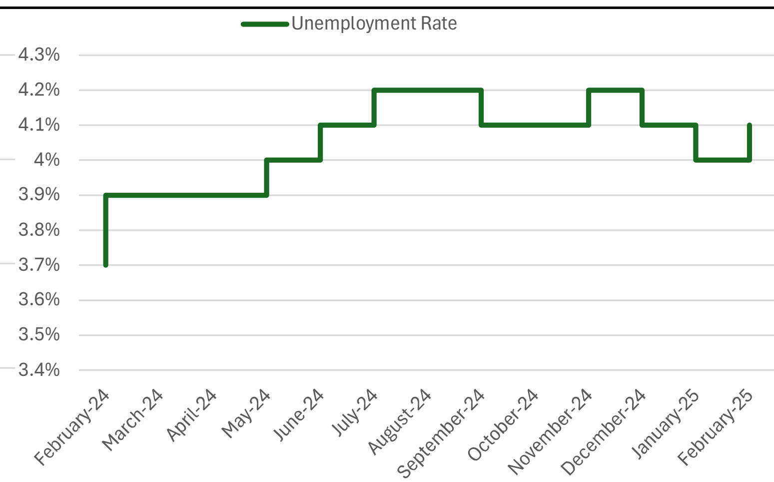
As shown in the US CPI Consumers year-over-year chart above, February saw downward trending inflation over the last year and, since December, an upward trend above the target at 2.88%. Additionally, nonfarm payrolls continue to trend upward, which influences, in part, whether or not the Federal Reserve 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 will end 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 discussed in previous updates, 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 and note the moves into positive territory last year before reaching the July 2024 lows as we have headed into 2025. 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.





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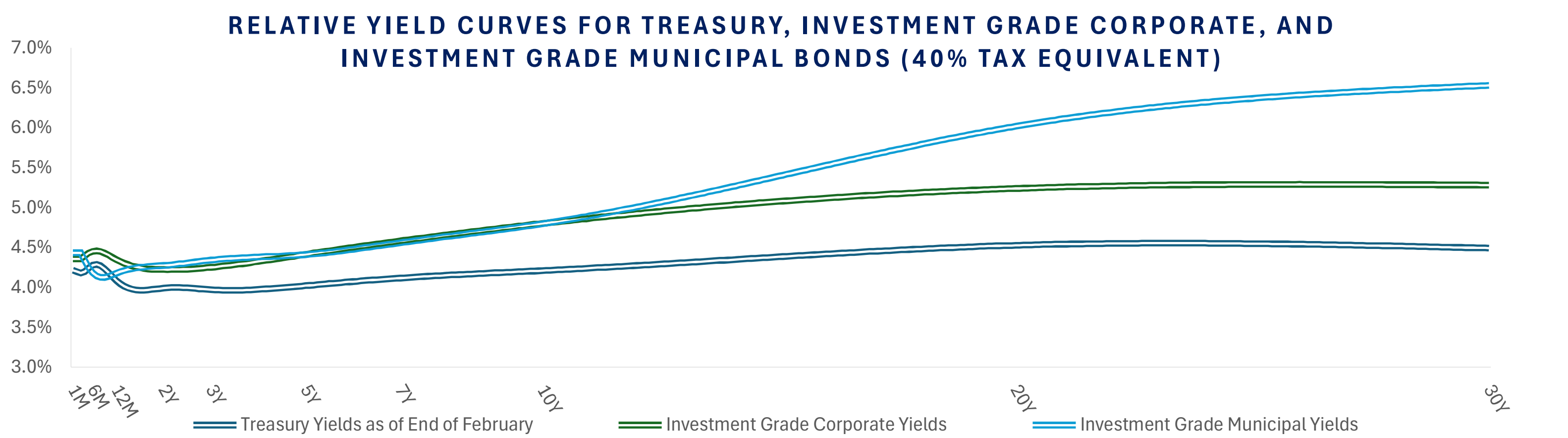
February's reported sales and earnings were broadly a positive surprise, with the Utilities and Communication Services sectors being the only negatives. Of the 671 companies that reported in the Russell 1000 index for February, 385 of the companies had positive sales surprise and 469 had positive earnings 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 0.59% and 9.42%, 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 February as interest rates in both the taxable and tax-free markets moved lower. The 10-year US Treasury started the month at 4.54% and finished at 4.21%. The Federal Open Market Committee (FOMC) did not meet during February and the next scheduled meeting is March 19th. Month over month, the entire US Treasury curve moved lower, led by the 10-year part of the curve moving down by 33 basis points. The entire tax-free municipal curve also moved lower month over month, with intermediate rates moving lower by 18 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.



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The equity market measured by the S&P 500 Index has experienced robust returns in recent years, driven by technology-backed mega-cap companies. For 2025, we look 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 periods have been characterized by tamed inflation and a stronger economic outlook. Looking ahead to the rest of 2025, we expect market volatility to continue throughout the year for equity markets particularly in 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 on trade and employment. We evaluate the investment landscape based on the shape of that policy 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.

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