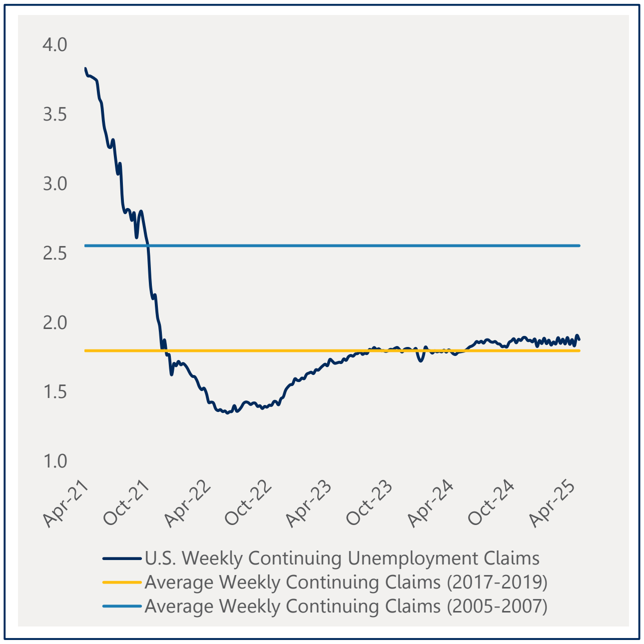
May 2025

Market Review

Signs of Potential Weakness in Labor Market Data
Continuing Jobless Claims, April 2021 Through April 2025



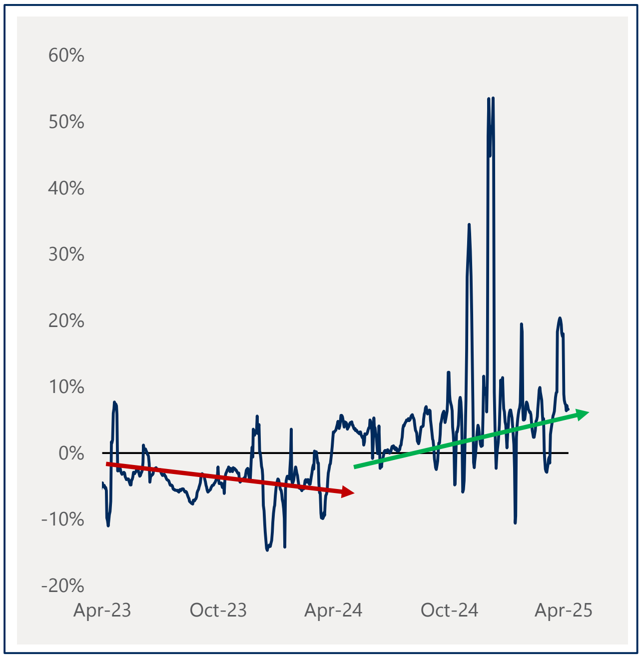
Source: Bloomberg. Past Performance does not guarantee future results.

Continuing claims for unemployment insurance in the U.S. climbed to 1.91 million for the week ended April 18, the highest level in 3.5 years. The gradual rise in continuing claims suggests building weakness in the labor market, yet the 1.91 million reading is only slightly higher than the average weekly continuing claims of 1.8 million in the three years prior to Covid (2017-2019). Furthermore, continuing claims are still well below the average of 2.55 million the three years leading up to the Great Financial Crisis in 2008-2009.

While the current levels of continuing claims are not necessarily concerning relative to recent historical comparisons, they could be artificially suppressed as recently laid off workers could still be receiving severance pay. Meanwhile, others have likely turned to the gig economy, driving for Uber or DoorDash, instead of claiming unemployment.

Although the preponderance of labor market data does not point to an imminent recession, measurements of hiring and firing tend to be lagging economic indicators. As such, continuing jobless claims could spike higher as laid off workers lose their severance packages or when layoffs at the federal level gather additional steam.

Restaurant Activity Suggests Consumer Resilience
OpenTable Seated Diners, Year-over-year



Source: Bloomberg. Past Performance does not guarantee future results.

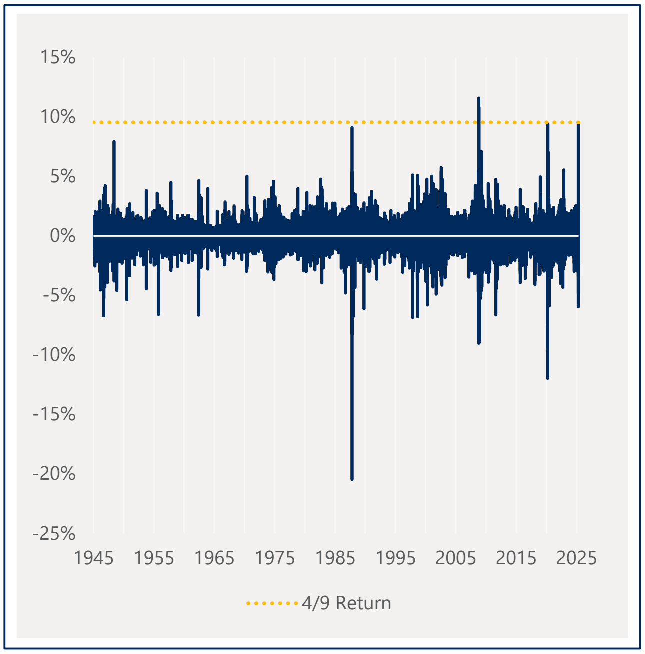
Recent trends in OpenTable reservations point to resilient spending by U.S. consumers on dining out despite growing concerns about inflation and the job market. The 10-day moving average of the daily year-over-year change in OpenTable seated diners has only been negative in 13 of the 127 days thus far in 2025 through May 7.

Given dining out is a discretionary expense, changes in demand for restaurant reservations may be an indicator of changes in consumer sentiment, the labor market, and consumer sensitivity to inflation. In the time period ranging from April 2023 to April 2024, there was a downtrend in seated diners, followed by an uptrend from last summer through early May 2025, indicating consumers felt good enough to splurge on dining out over the past year.

OpenTable users tend to skew toward the higher end of the middle-income and high-income cohorts, so this data better captures spending at higher-end restaurants compared to drive thru or non-reservation restaurants. Based on this trend it appears discretionary spending in the US has yet to rollover among higher income groups, despite consumer surveys indicating historically-low confidence.

Equity

Stocks Rebound After Tariff Pause
S&P 500 Daily Return

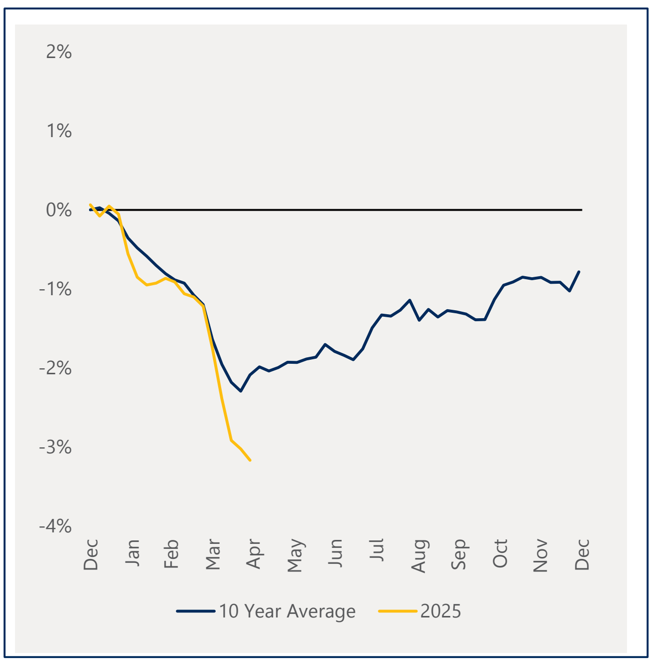


Source: Bloomberg. Past Performance does not guarantee future results.

U.S. equities declined for a third straight month in April. The month started with a sharp market sell-off following President Trump's "Liberation Day" tariff announcement on April 2. The S&P 500's 10.53% two-day decline after the announcement was the index's worst two-day performance since the pandemic drawdown in March 2020 and the fifth worst over the last 80 years. Stock indexes recovered most of their monthly losses after Trump announced a 90-day tariff pause on April 9 to allow time for negotiations with other countries. The S&P 500's 9.52% rebound on April 9 was the index's third largest one-day performance over the last 80 years behind two days in October 2008. The index ended the volatile month with a modest 0.68% decline and is down 4.92% for the year.

The Magnificent Seven and growth stocks returned to market leadership in April after trailing the first three months of the year. In addition to easing trade tensions, an encouraging start to first quarter earnings reporting season helped to improve investor sentiment. However, the Magnificent Seven stocks remain down 18.46% from their December 24 peak, compared to the S&P 500 index's decline of 7.40%.

Limited Tariff Impact on Earnings Expectations
S&P 500 Annual Earnings Estimate Revision

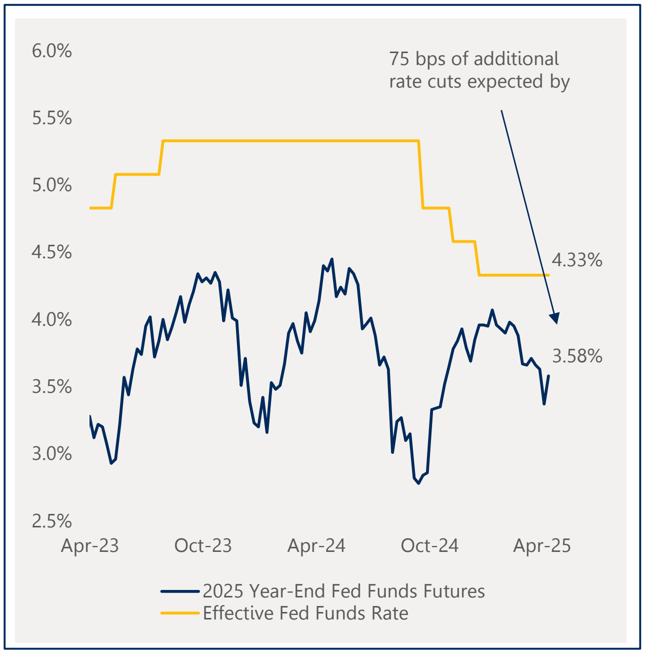


Source: Bloomberg. Past Performance does not guarantee future results.

The busiest stretch of first quarter earnings reporting season is over with results reported from over 350 companies in the S&P 500 that represent around 75% of the index's market capitalization. Earnings are on pace for 12.49% growth, nearly double analysts' forecast for 6.59% growth. Health care, communications, technology, and utilities were the strongest sectors with double digit earnings growth. Meanwhile, the energy, materials, and consumer staples sectors are on track for profit declines.

President Trump's tariffs have had a limited impact on earnings expectations so far despite ongoing uncertainty. The lack of clarity on Trump's final tariff policy and potential trade deals has led to cautious earnings revisions rather than drastic cuts. Analysts' S&P 500 earnings estimate for 2025 is down 3.02% since the start of the year. This year's downward revision is moderately larger than the -2.09% 10-year average annual earnings estimate revision during the first four months of the year. Company executives and analysts are likely to maintain a tempered outlook until clearer trade policies emerge.

75 bps of Additional Fed Cuts Expected This Year
Fed Policy Rate and 2025 Year-End Expectations



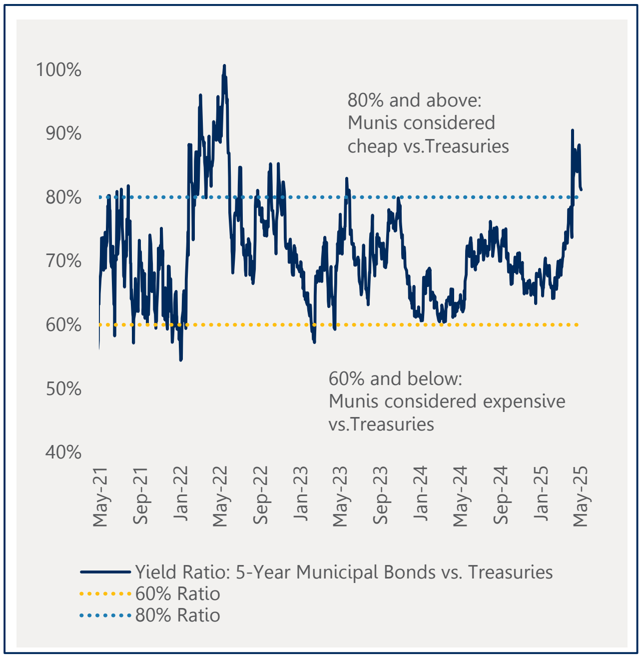
Source: Bloomberg. Past Performance does not guarantee future results.

As expected, the Federal Open Market Committee (FOMC) decided on May 7 to hold its policy rate in a range of 4.25%-4.5%, where it has been since the most recent rate cut on December 18. In his post-meeting press conference, Fed Chair Powell said the U.S. economy is "doing fine" and that he and his fellow policymakers will continue to take a "wait and see approach" with regards to further rate cuts in coming months.

As of May 8, fed fund futures pricing indicated Fed policymakers would cut their benchmark rate 75 basis points (bps) to around 3.5% by the end of 2025. Another 50 bps of policy easing is expected in 2026, which would take the fed funds rate to near 3% over the next 20 months.

The pace of rate cuts in coming months will likely depend on the trajectory of labor market data and the extent to which inflationary pressures arise from tariffs. Further bouts of financial market pressure (like we saw in early April) could also accelerate the Fed's timeline for policy adjustments.

Attractive Relative Value in Muni Yields
5-Year Municipal-to-Treasury Yield Ratio



Source: Bloomberg. Past Performance does not guarantee future results.

The yield-to-worst (YTW) on the Bloomberg Tax-Exempt 5-year Municipal Bond Index as of May 5 was 3.20%, compared to 3.94% for 5-year U.S. Treasury notes, resulting in a Muni-to-Treasury yield ratio of about 81%. Municipal bond yields are typically viewed as cheap when this ratio approaches 80% and expensive when it nears 60%. As seen in the accompanying chart, this ratio has averaged 70% over the last four years, with a range of 54% to 101%.

Most municipal bonds are tax exempt at the federal level. Thus, the tax-equivalent yield on the 5-year Municipal Bond Index (assuming a 35% federal tax bracket) as of May was about 4.9%, or nearly 100 basis points above the 5-year Treasury yield.

Municipal bond prices came under sudden pressure in late March and early April amid an estimated $1.2 billion of retail-driven outflows from funds. The selling was driven by concerns about potential changes in tax policy that could revoke the tax-exempt status of interest earned from holding municipal bonds. These fears are likely overstated given a potential revocation of the tax-exempt benefit would probably only apply to new issues.

Disclosure

IMPORTANT DISCLOSURE INFORMATION

This report was prepared by Mainstreet Investment Advisors, LLC ("Mainstreet"). MainStreet Investment Advisors, LLC is an investment adviser registered with the SEC. Registration as an investment adviser does not imply any level of skill or training. The material is prepared and distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. The information presented has been obtained with care from sources believed to be reliable, but is not guaranteed. Opinions herein are not statements of facts and may include "forward-looking statements" which may or may not be accurate over the long term. Report includes candid statements and observations regarding investment strategies, asset allocation, individual securities, and economic and market conditions. Statements, opinions, or forecasts not guaranteed and are as of the date of this publication. Do not place undue reliance on forward-looking statements. Client accounts may not reflect the opinions expressed herein. Investing involves risk, and may result in loss. This information is subject to change at any time, based on market and other conditions. Past performance is not indicative of future results, which may vary. Indexes are unmanaged and are not available for direct investment.