

EQUITY STRATEGY FOCUS

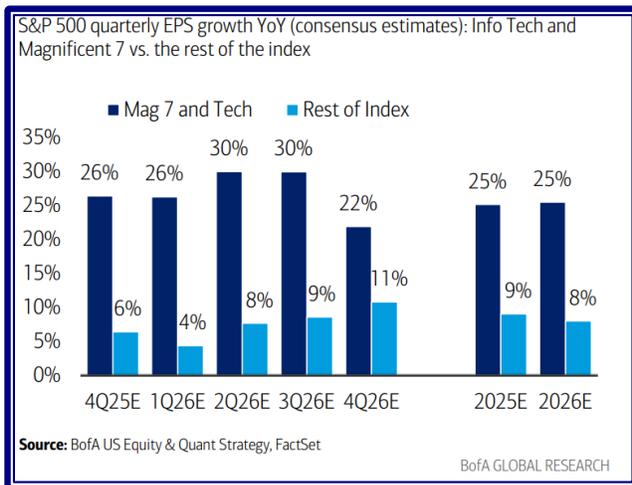
FEBRUARY, 2025

IN VIEW:

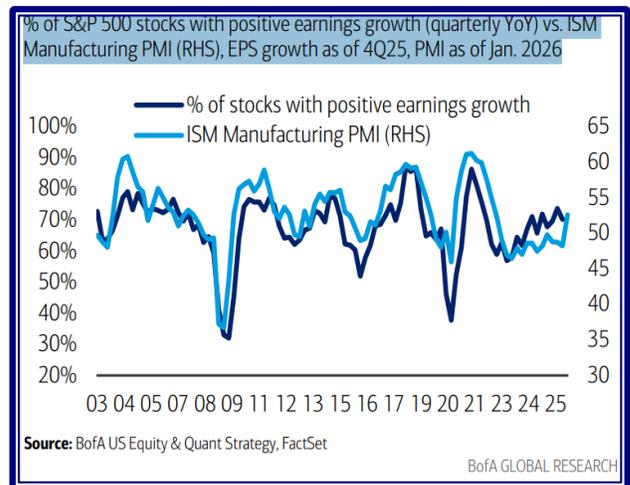
Earnings growth is on track to deliver 12% year-over-year gains, with over 80% of companies reporting thus far. Top line growth (excluding financial and energy companies) was the strongest since 2022. However, net margins (excluding financial and energy companies) registering 43 basis points so far are heavily skewed by technology and Mag 7 stocks. Further excluding these two industries, net margins were down -35 basis points year-over-year. Corporate sentiment is healthy; however capex growth is expected to decelerate to some degree based upon year-end quarterly conference calls.

The December Job Openings and Labor Turnover report suggests firms held back on expanding headcount last year, while not cutting staff by any meaningful degree. This could reflect continued uncertainty. However, a study out of the Royal Bank of Canada suggests this environment, often referred to as “no-hire, no-fire”, could instead indicate that accelerating retirements over the past 18 months are simply offsetting new hires.

Earnings Growth Ex: Technology and Mag 7 Stocks are Expected to Accelerate but Still Lag



ISM Manufacturing PMI: Inflection is a Positive for Earnings Breadth



Despite remaining in expansionary territory, the ISM Manufacturing PMI has been in a decline over the past year so its latest uptick came as a surprise. And while one uptick does not confirm a trend, it does create an inflection point with the percentage of stocks posting positive earnings growth. Should this develop further, market breadth should continue to expand into other areas beyond the Mag 7 stocks. Net margins are strongest in Technology, but growth is accelerating beyond this sector in 2026. According to Bank of America Global Research, a weaker U.S. dollar should provide a tailwind to top line sales, and the rate of earnings and revenue beats is generally higher in periods of dollar weakness.

Q4 preliminary estimates for GDP came in at 1.4%, below Bloomberg consensus expectations of 2.8%. Positive contribution to growth in Q4 came from consumer spending and investment. This was partly offset by decreases in government spending and exports. Relative to the prior quarter, the deceleration in real GDP reflected a downturn in government spending and exports. A deceleration in consumer spending was partially offset by an increase in investment. The Commerce department estimated that the shutdown may have subtracted approximately 1% from GDP growth.

CLOSE-UP: Performance and Equity Sector Overview

The market continued to broaden into 2026, with the Russell 1000 Value and the S&P 500 equal weighted index leading the S&P 500 index by 629 and 610 basis points respectively, year-to-date through the end of February. The economic landscape moving forward includes stickier inflation, volatile trade policies, and mildly restrictive Fed policy rates. This backdrop supports broader market participation in favor of value-style stocks with sound fundamentals.

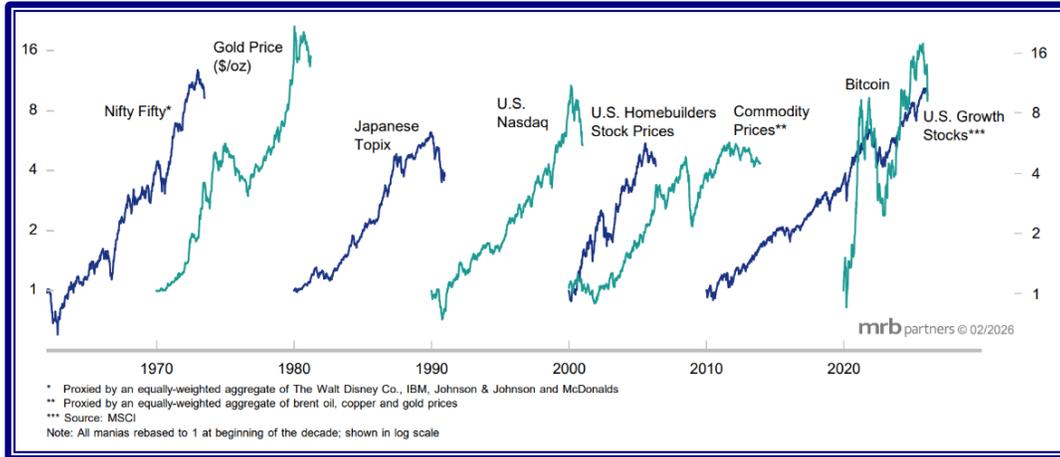
Russell 1000 Value Index and Equally Weighted S&P 500 Index Are Out-Performing

Security	Currency	Price Change	Total Return
1) SPX Index	USD	.11%	.28%
2) RLV Index	USD	6.28%	6.57%
3) RSP US Equity	USD	6.39%	6.39%
4) BM7T Index	USD	-7.05%	-7.05%
5)			
6)			

Groups	Period	Total Return	Currency
Negative Total Return	YTD	12/31/25 - 02/27/26	LCL
Groups (11)			
S&P 500 ECO SECTORS IDX		0.27%	
1) S&P 500 ENERGY INDEX		24.36%	
2) S&P 500 MATERIALS INDEX		17.13%	
3) S&P 500 CONS STAPLES IDX		15.95%	
4) S&P 500 INDUSTRIALS IDX		13.15%	
5) S&P 500 UTILITIES INDEX		11.38%	
6) S&P 500 REAL ESTATE IDX		9.75%	
7) S&P 500 HEALTH CARE IDX		2.97%	
8) S&P 500 COMM SVC		-0.92%	
9) S&P 500 CONS DISCRET IDX		-4.48%	
10) S&P 500 INFO TECH INDEX		-5.23%	
11) S&P 500 FINANCIALS INDEX		-6.83%	

The Mag 7 stocks slid over 5% so far this year, as investors began to appreciate broader earnings growth outside the crowded trades of AI and crypto currencies. U.S. growth stocks, fueled by AI capex spend and excess liquidity have skyrocketed in the last five years to levels surpassing some of the prior manias since the 2nd World War. Similar to past manias, valuations are often sidelined temporarily. Leadership eventually changes hands, as investors return to more traditional approaches to investing based upon fundamentals. Where exactly we are in this transition remains to be seen, but the market broadening over the last few months suggests this could be a pivotal moment. The Wall Street Journal recently reported on waning investor appetite for speculative AI investments. This comes as investors focus more on the potential, or lack thereof, for AI monetization.

Manias of the Post WWII Era



Source: MRB Partners Macro Research Board

As the market broadens this year, the AIM equity composite is outperforming the S&P 500 index by approximately 810 basis points net of fees (as of close of day February 27th). Relative results were primarily due to stock selection, namely, Applied Materials, Northrop Grumman, Lowe's, Honeywell, Intel, Johnson and Johnson to name a few. Sector weightings relative to the S&P 500 index - with over-weights in Energy and Industrials and an underweight in Technology - were also additive.

SECTOR SNAPSHOT:

Energy

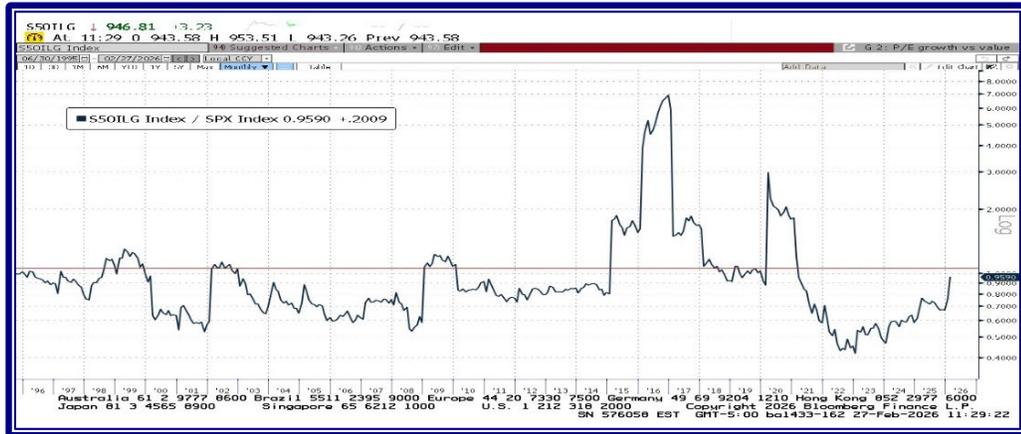
We remain positive on our Energy representation, both based on our constructive view of global demand as well the relatively tight oil markets. This perspective should provide a floor for oil prices in the coming months and drive upgrades in the forward earnings estimates for oil & gas producers. This is despite Saudi Aramco's announcement late February to increase its oil production and exports as part of a contingency plan in case any U.S. strike on Iran disrupts supplies from the Middle East, according to Reuters. More than 20 million barrels of crude, condensate and fuels pass through the Strait of Hormuz daily, including volumes from Saudi Arabia, the UAE and Kuwait, as well as gas from Qatar. Intervention by the Saudis in oil markets for decades, providing more oil during disruptions or cutting output when the market is oversupplied, has been relatively successful. In our opinion, this does not fully alter the bullish case for oil representation in equity portfolios.

While OPEC+'s spare capacity (and the desire of its member countries to avoid stranding assets) could potentially limit further significant upside for prices, the Energy sector should still serve as a hedge against the risk of escalating geopolitical tensions and sticky inflation. After lagging the broad equity market last year - following our sector reduction in September of 2024 by ~30% - U.S. energy stocks have enjoyed strong outperformance in recent months as oil prices have risen in response to improving global manufacturing PMIs and ongoing geopolitical unrest. As a result, Energy is the second-best performing sector year-to-date.

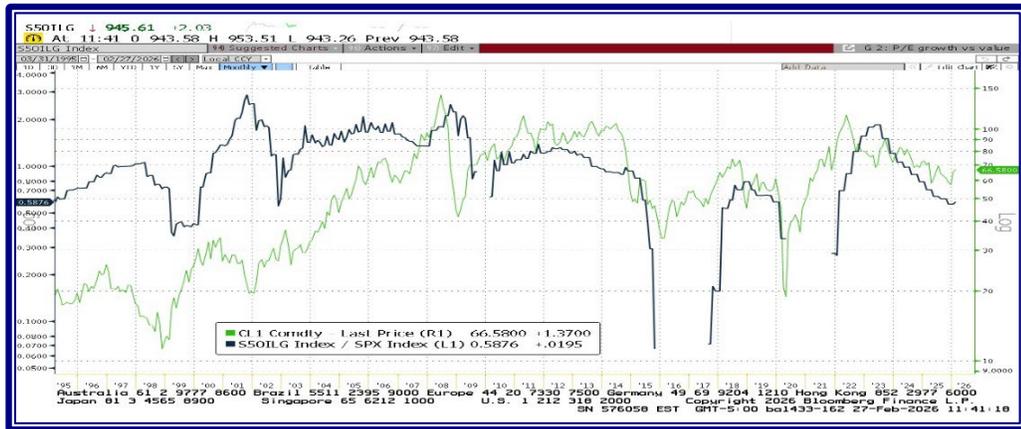
Better-than-expected global economic growth should keep oil demand more resilient than consensus expectations, thus supporting higher oil prices. Signs of improving global trade and manufacturing have recently led to our expectation of upward revisions to oil demand forecasts, validating our optimism about demand conditions.

The valuations of oil & gas producers are discounting a significant erosion of their relative profitability, which is unlikely to materialize if oil prices remain firm. The following charts illustrate the case that Energy representation still warrants an overweight position in portfolios. It is important to emphasize that because bond yields have been rising of late, we expect further upside pressure on yields as markets unwind rate cut expectations for 2026. Rising bond yields may cool speculation in the equity market and rekindle interest in more reasonably valued sectors such as Energy.

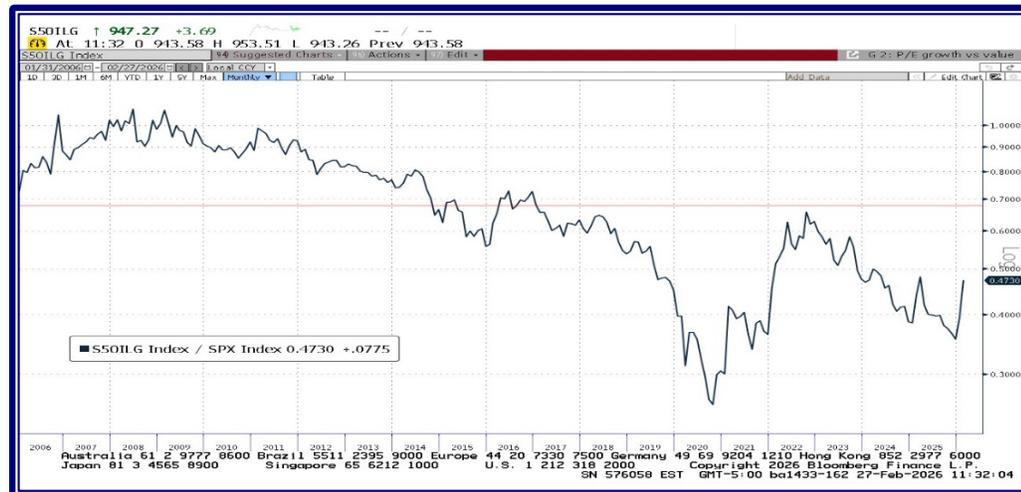
Oil & Gas Forward PE Ratios



Oil & Gas Return on Equity vs. WTI Prices



Oil & Gas Return Price/Book



Financials

Bank forward earnings remain in an uptrend - and market capitalization as a percentage of the overall market is still very low with respect to historic trends. The banking industry's Tier 1 risk-based capital ratios are at historic highs post the Global Financial Crisis, suggesting that the banks have lots of excess capital to deploy. All this suggests that the price/book ratios have the potential to rerate, given that forward ROE are breaking to the upside of an 8-year trend that averaged ~10%. The forward 12-month P/E ratios are still quite low, although bouncing off their lows of 2023 still have significant upside potential. Net interest income and net interest margins have resumed their upside trend with lots of room to improve. Year-over-year bank loans are also improving, and commercial and industrial loans seem to be showing some life as well. Fee income has strengthened while cost efficiencies have improved. In addition, asset quality such as noncurrent loans and charge-offs are not yet concerning and delinquencies have yet to spike. Non-current credit card debt appears to be rolling over and real estate loans by non-farm non-residential properties appear stable. Lastly, reserve coverage ratios have big cushions and are significantly below previous late cycle periods with credit loss provisions remaining stable.

Financial stocks traded down over -6% year-to-date, with diversified financials, insurance and banks falling -7.4%, -1.6% and -6.5% respectively (as of February 27th midday). At Bank of America's Financial conference in February, managerial updates were more positive as compared to this time last year. This is due to expectations for a supportive regulatory environment and stimulus stemming from OBBBA. Deregulation of the banking industry should help ease capital requirements and allow for more share buy backs and higher dividends. A steeper yield curve could also provide support for net interest incomes. AI has several potential influences over banking in that while it can improve productivity and efficiencies, competitive pressures will likely heat up. A panelist at the conference also discussed liquidity as it relates to real-time market movement along with tokenization*. These could materially impact bank deposits. For tokenization to work successfully, banks need systems that work together across the industry for seamless operability.

Regions Financial (RF) is a full-service regional bank that also includes wealth management and mortgage services. Although the company missed Q4 earnings and lowered FY26 guidance below consensus, the stock traded up over 8% ytd (as of end of February). and was a bright spot in the weak performing sector. The earnings miss was due mostly to taxes, however pre-provision net revenues were below consensus as well. Following the earnings announcement, both JP Morgan and UBS raised their price target for RF acknowledging the bank's long-term stability and growth potential. With a dividend of 3.6% and a multiple of 10.5x earnings on a forward basis, this stock continues to offer a value opportunity.

Technology

Back in the third quarter of last year, we trimmed our position in Oracle (ORCL) following a 1-day surge of 35%. As a primary AI provider, ORCL's cloud infrastructure is set to continue experiencing rising demand as evidenced by the surge in its remaining performance obligations. Since that time, the software and services industry as a whole has traded down over 20% year-to-date and nearly 27% since its October peak. The relative price to earnings multiple of software against the S&P 500 has fallen below its historical average of 1.3x. In fact, at a 23.5x forward multiple, the software industry now trades at lower forward multiple than Consumer Discretionary, Industrial, and Consumer Staple sectors. A shadow has been cast over the software industry on concerns over relative competitiveness against its AI rivals. In December, Oracle met revenue estimates but exceeded capex by 50%. This comes as Oracle attempts to build out its cloud infrastructure in order to support an AI backlog. The stock reaction in concert with the industry weakness illustrates investor concern over the monetization of ever-expanding AI capex. We view this buildout environment as a transitory necessity in order to meet the current trajectory of AI demand.

*Tokenization is the conversion process of turning traditional financial assets (i.e.: shares in a money market fund) into digital tokens. The tokens are recorded on a blockchain.

The AI cycle and its heavy reliance upon semiconductor equipment is continuing. Morgan Stanley analyst Shane Brett recently raised his forecast for DRAM and NAND memory chips for 2026 and 2027. He believes focus will shift from chip designers to companies that build the manufacturing tools used to produce these chips. Applied Materials, (AMAT) currently trades at a discount to its peers in memory and logic production. This leaves the potential for further upside from current levels. Risks remain regarding the longevity of AI capex and is something we are watching closely.

Keysight technologies (KEYS) shares jumped 23% on February 24th, after management guided above 20% growth in revenues and earnings for 2026. This comes as AI demand sees strong order growth plus improvements in its wireless and auto segments. Keysight, an indirect and underappreciated AI beneficiary, expects tailwinds from its AI infrastructure, high speed ethernet and fiber optic data solutions. Furthermore, secular shifts such as workloads and complexity of datacenters and semiconductors, growing demand for design and simulation software and defense spending initiatives are all areas that support continued growth at KEYS.

Industrials

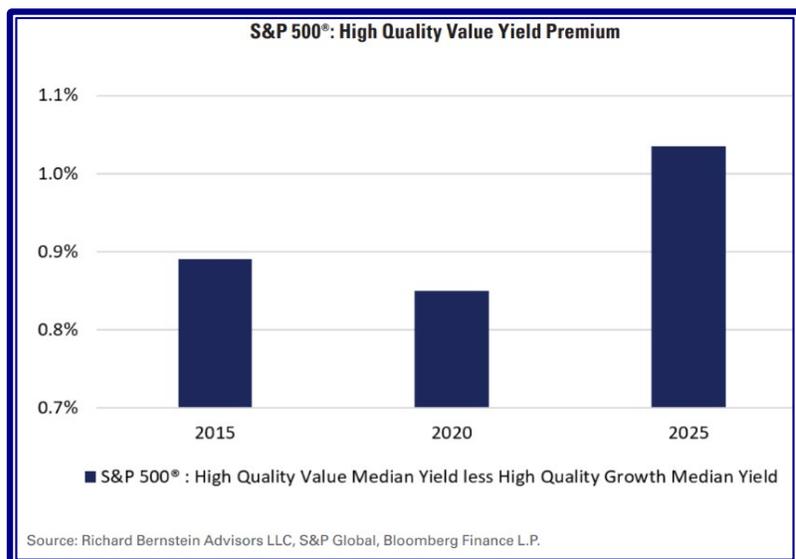
This industry sector is a mixed bag, since elevated valuations on an equally weighted basis warrant selective positioning within the sector. The forward p/e ratio and price/sales are at all-time highs. The overall earnings in the sector are encumbered by ongoing losses at Boeing, skewing the sector valuation multiples. The transports will likely be a primary beneficiary of a manufacturing recovery supported by non-petroleum imports which should rebound in 2026. Capital Goods orders appear to be finally rebounding with the core capital goods book-to-bill ratio bouncing off a 10-year low. Capex plans are starting to show some signs of life. The group that is most interesting to us is the transportation stocks that have the potential to rerate as freight demand improves. We are watching total rail freight traffic to show some signs of improvement from historically low levels. Order backlogs are significant in the aerospace and defense sectors. However, we are cautious now on the electric equipment stocks that show signs of being fully priced based on forward earnings - and machinery stocks also in aggregate appear to be stretched.

IN SUMMARY:

The market's lackluster response to Nvidia's (NVDA) Q4 surge in revenue beating analyst expectations tells us that investors are looking for assurances that this rate of growth is sustainable.

The company argues that increased computing power is already paying off monetarily for its customers and therefore AI spending levels should remain elevated. But concern is starting to grow around the industry's level of purchase obligations, potential supply constraints, and overall demand.

Our portfolios have avoided market speculation and instead have been positioned for a broadening marketplace. This shift is supported by strong fundamentals that until now have largely been ignored.



Historically, there has always been some degree of trade-off between owning growth and value stocks. Investors in high growth companies accept low or no dividends in favor of reinvested profits into growth opportunities. Whereas investors in slower growth companies prefer profits to be paid out in dividends as reinvestment opportunities may not be as prominent. Therefore, value stocks generally carry higher yield premiums. Now however, growth stocks may be so extended that investors can get attractive yield without sacrificing as much quality as usual. In summary, the current premium of growth stocks is larger than justified by the underlying fundamentals.

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Any performance reference represents a hypothetical composite compiled from actual equity, fixed income or balanced client portfolios and includes cash. These three composites reflect aggregated returns that address differing objectives. As such, the performance of each composite does not reflect the actual total portfolio returns earned by our clients. The investment performance records are compiled from a capital weighted average of the equity, bond and cash components of a broadly representative group of discretionary accounts that meet certain minimum size thresholds.

No gross performance returns that are referenced that are calculated after brokerage commissions but before investment counsel fees are presented without the comparable net performance figures after both commissions, investment counseling fees and other custodial charges. The net counseling fees are the actual average counseling fee calculated across all the portfolios included in the composite. All performance figures are presented on a time-weighted total return basis and assume all income is reinvested. The investment advisory fees are disclosed in Part II-A of the Investment Form ADV. Some clients may benefit from available discounting in the management fee schedule associated with the overall size of the portfolio. Management fees will reduce overall returns to the client.

The composites were created in 2001 and the inception dates start on August 17th, 2001. The composites include only discretionary fee-paying accounts managed in the strategies, and additional information associated with the composites are available such as: dispersion in individual portfolio results as well as the % of the firms AUM in the strategy. All performance calculations are presented within the GIPS® guidelines of the CFA Institute. The CFA institute does not endorse or promote this organization nor does it warrant the accuracy of the content herein.

Investing entails inherent risks and results may be altered by material market or economic conditions. Investment returns and principal values may fluctuate, and losses are possible. Past results are not a guarantee of future comparable results or trends. Our process benchmark is the S&P 500 Index with dividend reinvestment, and our performance benchmark is the Russell 1000 Value Index with dividends reinvestment.