2025 ECONOMIC OUTLOOK

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NATIONAL BANK
PRIVATE CLIENT SERVICES

The Webinar will start at Noon CST.

Damian Howard, CFA
Security National Bank

Senior Vice President, Director of Investment Services

Damian is a financial and wealth advisor with over 20 years of experience assisting individuals and institutions in investments and wealth management. He is active on the investment committees for Essential Pregnancy Service and the Archdiocese of Omaha. Damian earned a bachelor's degree in economics from Wabash College and an MBA in finance and international business from Indiana University Bloomington.

Clinton Rushing, CFA
Security National Bank

Vice President, Senior Investment Officer

Clinton plays a vital role in managing client portfolios, creating asset allocation models, and conducting equity research. With 20 years of experience in investments and financial institutions, he also teaches at Creighton University's Heider College of Business. Clinton holds an MBA from Northwestern University's Kellogg School of Management and a bachelor's in business administration from the University of Nebraska-Omaha. He is a board member and past president of the Chartered Financial Analyst (CFA) Society of Nebraska.

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The Investment Ramifications of AI

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"An attempt will be made to find how to make machines use language, form abstractions and concepts, solve kinds of problems now reserved for humans, and improve themselves. We think that a significant advance can be made in one or more of these problems if a carefully selected group of scientists work on it together for a summer."

McCarthy, J., Minsky, M. L., Rochester, N., & Shannon, C. E. (1955). A Proposal for the Dartmouth Summer Research Project on Artificial Intelligence.

The Dartmouth Summer Research Project on Artificial Intelligence

1956
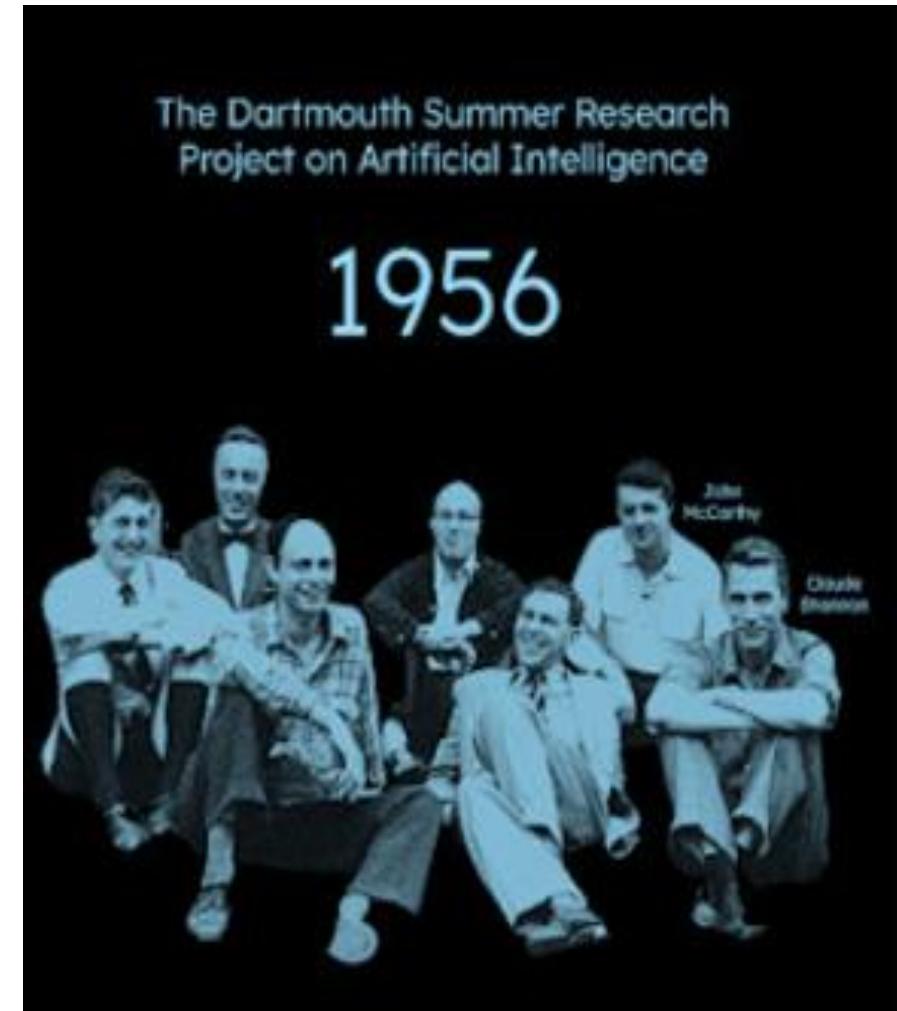
The Modern-Day Revolution
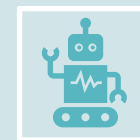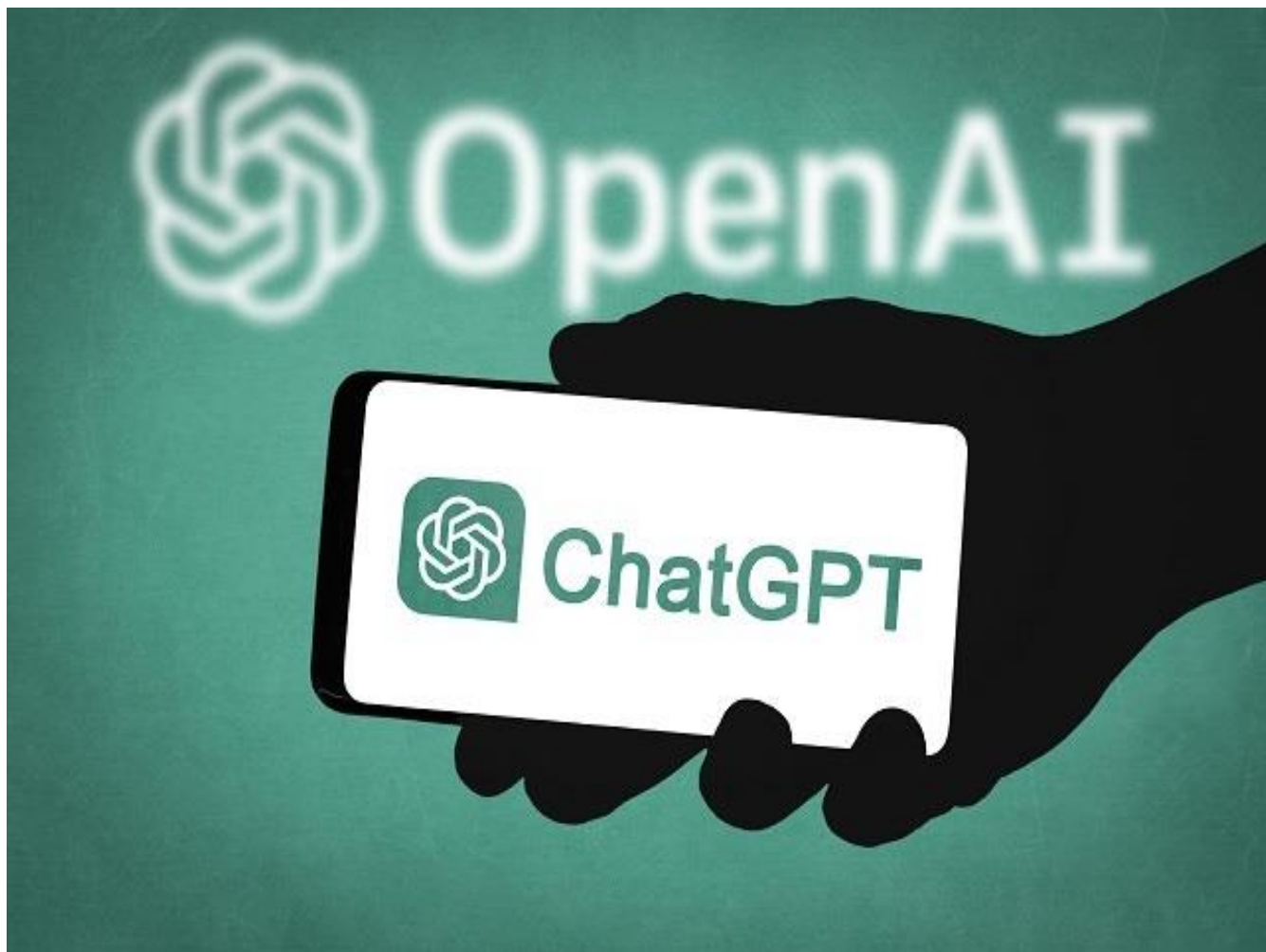
AI research began in the 1950s, but the recent surge in advancements and impact is largely attributed to the launch of ChatGPT.

OpenAI launched its initial version of ChatGPT to the world on November 30, 2022.
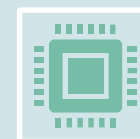
Since then, ChatGPT and other platforms have opened-up numerous use cases for AI in business, education, healthcare, and more.

Extraordinary Growth in ChatGPT Users

# of days to 1M and 100M users by technology

chart by **kyleIf** (Kyle Hailey)
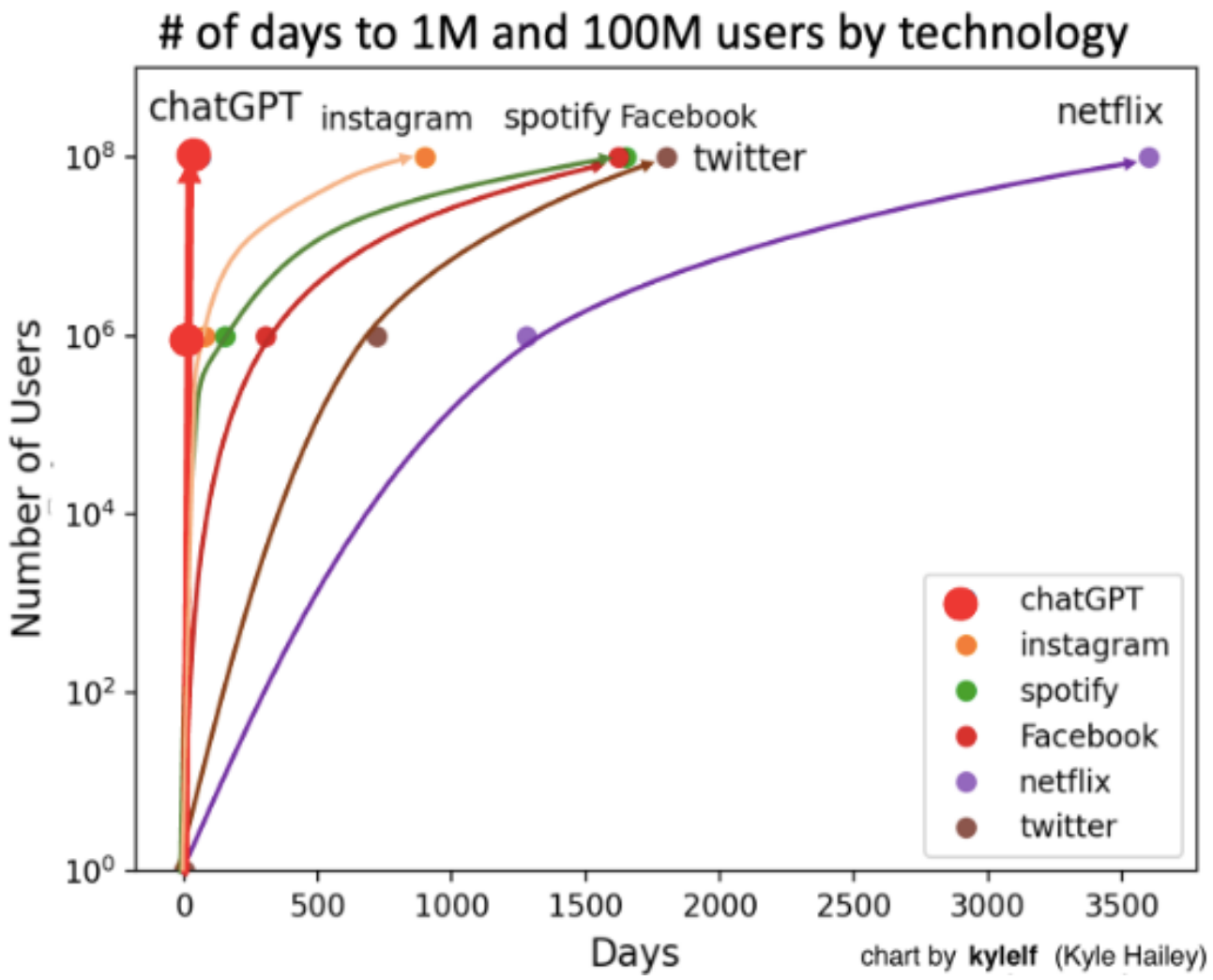
Consumer and business interest in AI is substantial as society evaluates its uses and potential impact.

ChatGPT reached 1 million and 100 million users much faster than other popular tech platforms such as Instagram, Facebook and Twitter

Popular AI platforms feature both subscription-based and free offerings.

The Enabling Technology

ChatGPT popularized AI, but NVIDIA played a crucial role in its development.

NVIDIA launched its first GPU in 1999 and the CUDA platform in 2006 for AI tasks.
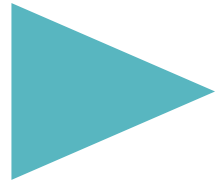
NVIDIA's revenue grew by 636% from calendar year 2022 to Fiscal Year 2025.

Since October 14, 2022, NVIDIA's stock has increased more than 1,000%.

Platform Technology

Cumulative Cost of Apollo Space Program v. 2025 Cloud Capex Spend

Source: Dreier (2022), Minneapolis Fed, Morgan Stanley Research
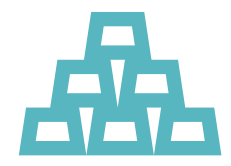
JFK's "Land a man on the moon before this decade is out"

Waterfall chart values by year: 1960: 1, 1961: 3, 1962: 9, 1963: 21, 1964: 32, 1965: 32, 1966: 32, 1967: 32, 1968: 27, 1969: 21, 1970: 16, 1971: 9, 1972: 6, 1973: 1, Total.

2025 stacked bar legend: Oracle, IBM, Apple, Baidu, Tencent, Alibaba, Meta Platforms, Microsoft, Amazon, Googe
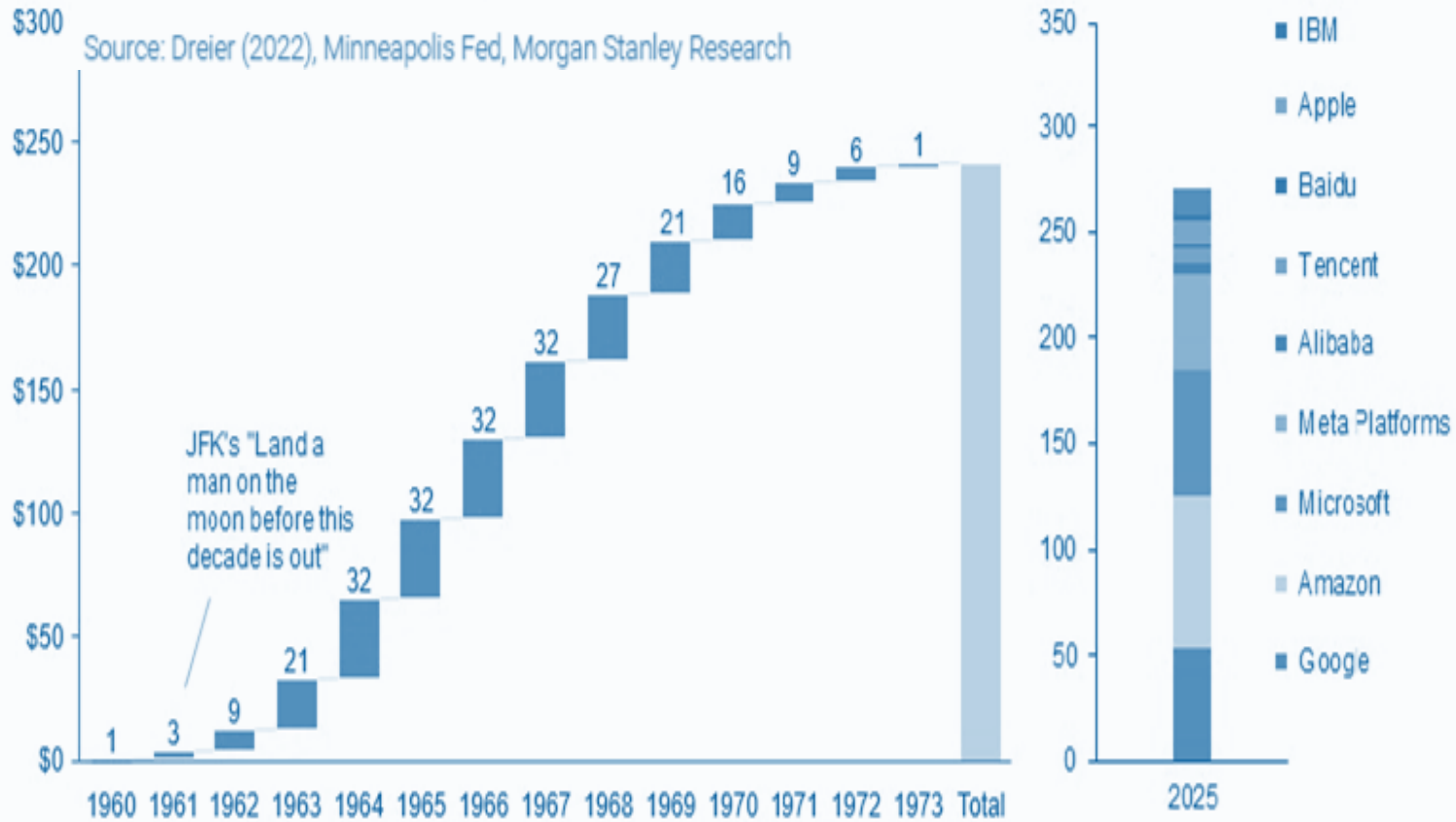
The rise of artificial intelligence increases the demand for computing power and storage.

A hyperscaler is a major cloud provider that enables businesses to scale data and applications.

Examples of hyperscalers include Amazon, Microsoft, and Google.

Cloud capex is projected to reach $275 billion this year, comparable to the Apollo Space Program's spending from 1960-1973.

Supporting Technologies

Cloud and data center infrastructure spending is projected to reach nearly $300 billion this year, making stocks like NVIDIA attractive.

NVIDIA represents about 50% of data center spending.

The other 50% goes to companies providing supporting technologies like electrical equipment, cooling, and power management (e.g., Eaton, nVent, Trane)

Electricity Solutions

After three decades of flat electricity demand, growth is set to accelerate to 2.4% during the coming years due to AI and data center growth.

With over 8,000 data centers globally and more in development, energy consumption looks set to grow for the foreseeable future.

US data center electricity consumption is expected to account for roughly 6% of total electricity demand by 2026, up from 4% in 2022.

While nuclear energy is a potential solution, we remain skeptical of a nuclear renaissance due to lengthy regulatory requirements from the NRC.

Global Electricity Consumption From Data Centers (TWh)

- 2022: 460
- 2026: 1000
- 117%
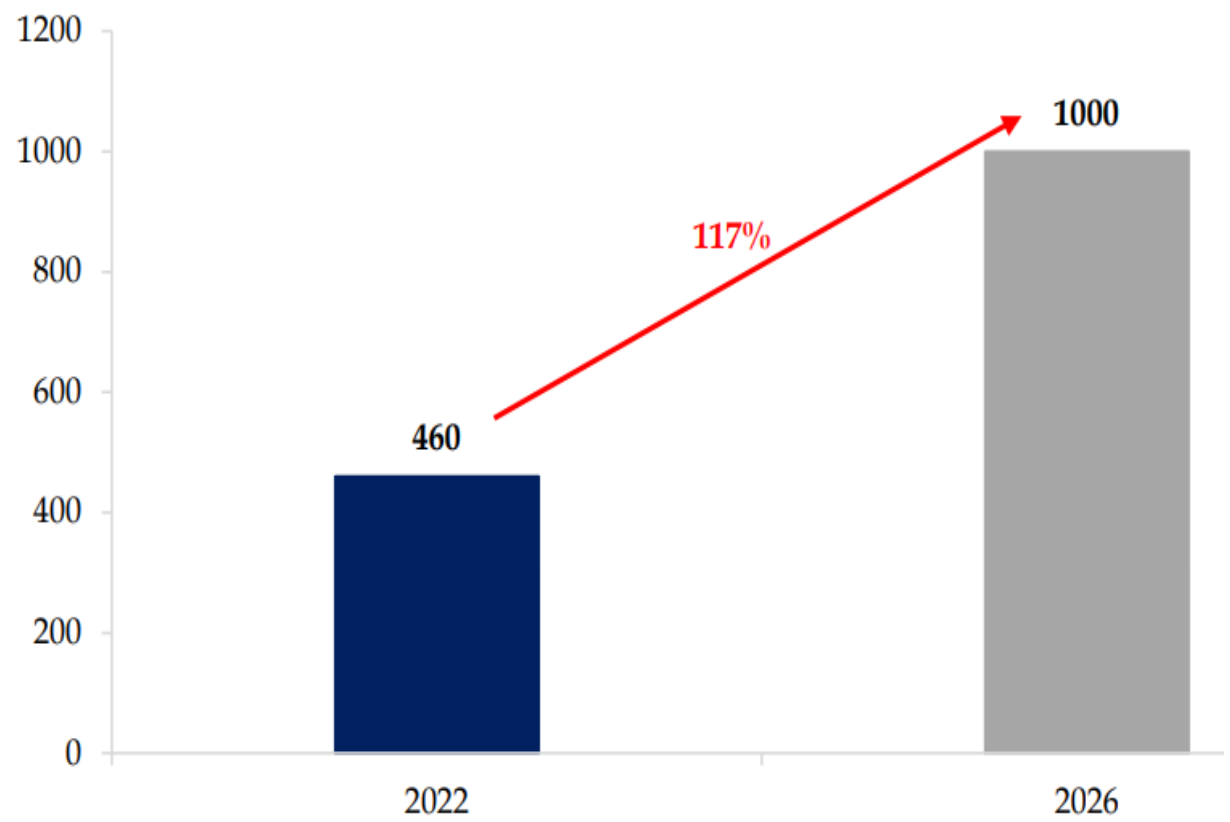
Source: IEA 2024 Annual Electricity Analysis & Forecast, TWh: Terawatt-hour

AI Enablers See Solid ROI

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■ Exceeded Expectations   ■ Met Expectations   ■ Missed Expectations

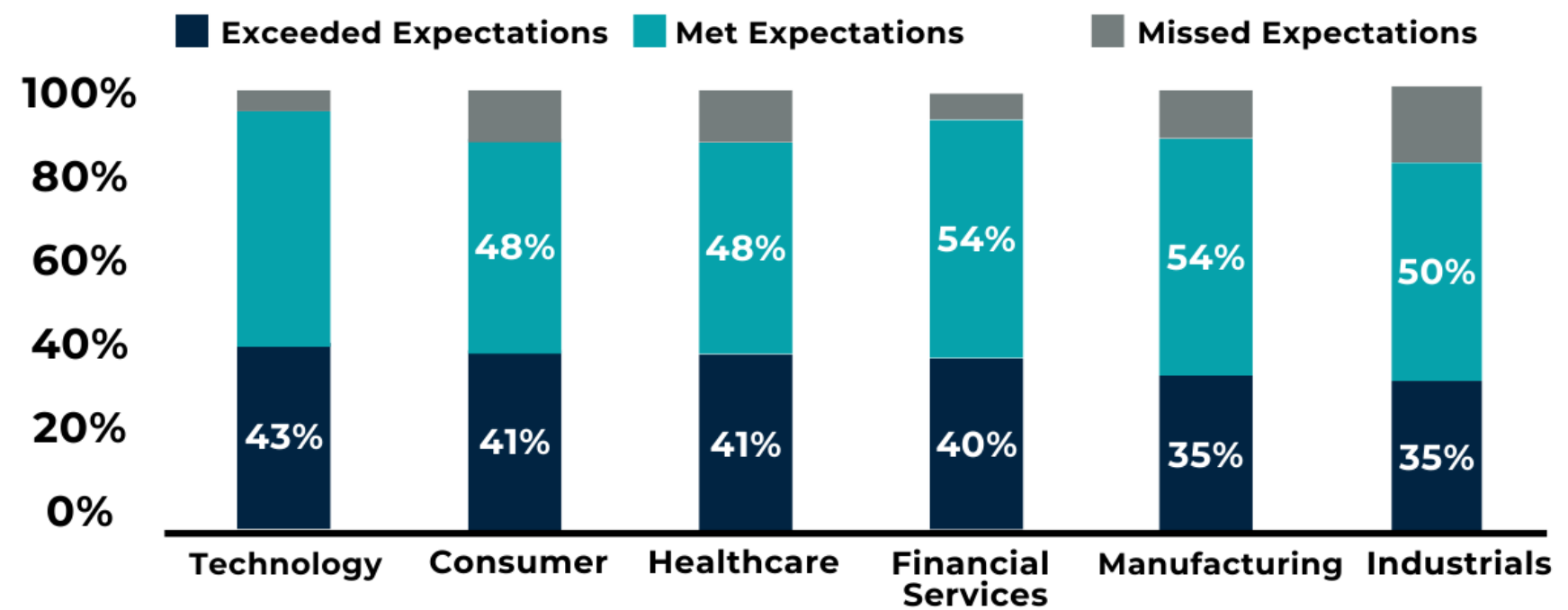|	Technology	Consumer	Healthcare	Financial Services	Manufacturing	Industrials
Met Expectations		48%	48%	54%	54%	50%
Exceeded Expectations	43%	41%	41%	40%	35%	35%

Source: AlphaWise, Morgan Stanley Research

AI is increasingly integrated into enterprise software.

Companies like Microsoft, Salesforce, and ServiceNow have introduced AI solutions to boost productivity and cut costs.

Recent surveys show 90% of AI projects have met or exceeded expectations in large firms.

Security and reputational risks are significant concerns regarding AI's broader use.

AI Adoption Examples

	Walmart Save money. Live better.	**L'ORÉAL** PARiS	**AXON**
Overview	Market Cap: $641bn / Industry: Food Retail	Market Cap: $231bn / Industry: Consumer Staples	Market Cap: $32bn / Industry: Telecom & Networking
Business model	Retailing a wide assortment from ~10,500 stores in 19 countries.	Manufactures and sells cosmetics and beauty products.	Sell law enforcement equipment (taser/bodycam/sensors) and the relevant software.
Challenge	Carries 140,000 SKUs per store. Product catalogue, which drives many business processes, is vast.	Navigating among offerings to find the products customers need can be complex.	Police officers are spending ~25% of their time writing incident reports.
Solution	GenAI powered catalogue update. Cleaner data helps associates find products quicker.	Skin Genius – AI powered skin diagnosis. Analyses customer skin and rank orders relevant products.	Draft one – Axon's LLM powered report writing tool which plugs into officer bodycams.
Impact	Updated an 850mn piece data catalogue, ~100x faster than if done manually.	At the counter conversion rates are ~10%. Using an AI diagnosis tool, this goes up to ~70-73%.	Axon has generated ~$100mn of pipeline from Draft One, fastest in company history.

Source: Company Data, AlphaSense, Morgan Stanley Research

DeepSeek

DeepSeek is a Chinese startup that has released several open-source AI models.

Launched a free, open-source large language model this week at a purported cost of just $6 million (likely an exaggeration).

DeepSeek advancements could cut inference costs by 95% compared to similar models. According to Jevon's Paradox, as AI becomes more efficient and accessible, demand is likely to increase significantly.
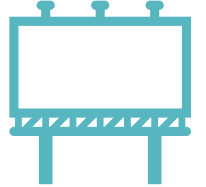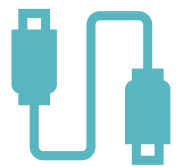
Although many questions remain regarding DeepSeek, this development serves as a good example of why discipline in asset allocation and asset concentration is a central tenant of wealth management.

Calls into question the massive AI spend, and electricity use assumptions in the West.

The Disruptive Nature of AI

Artificial intelligence is expected to bring about significant change to many industries, thereby pressuring certain legacy business models.

Google

- Gemini being rolled out across the firm's offerings
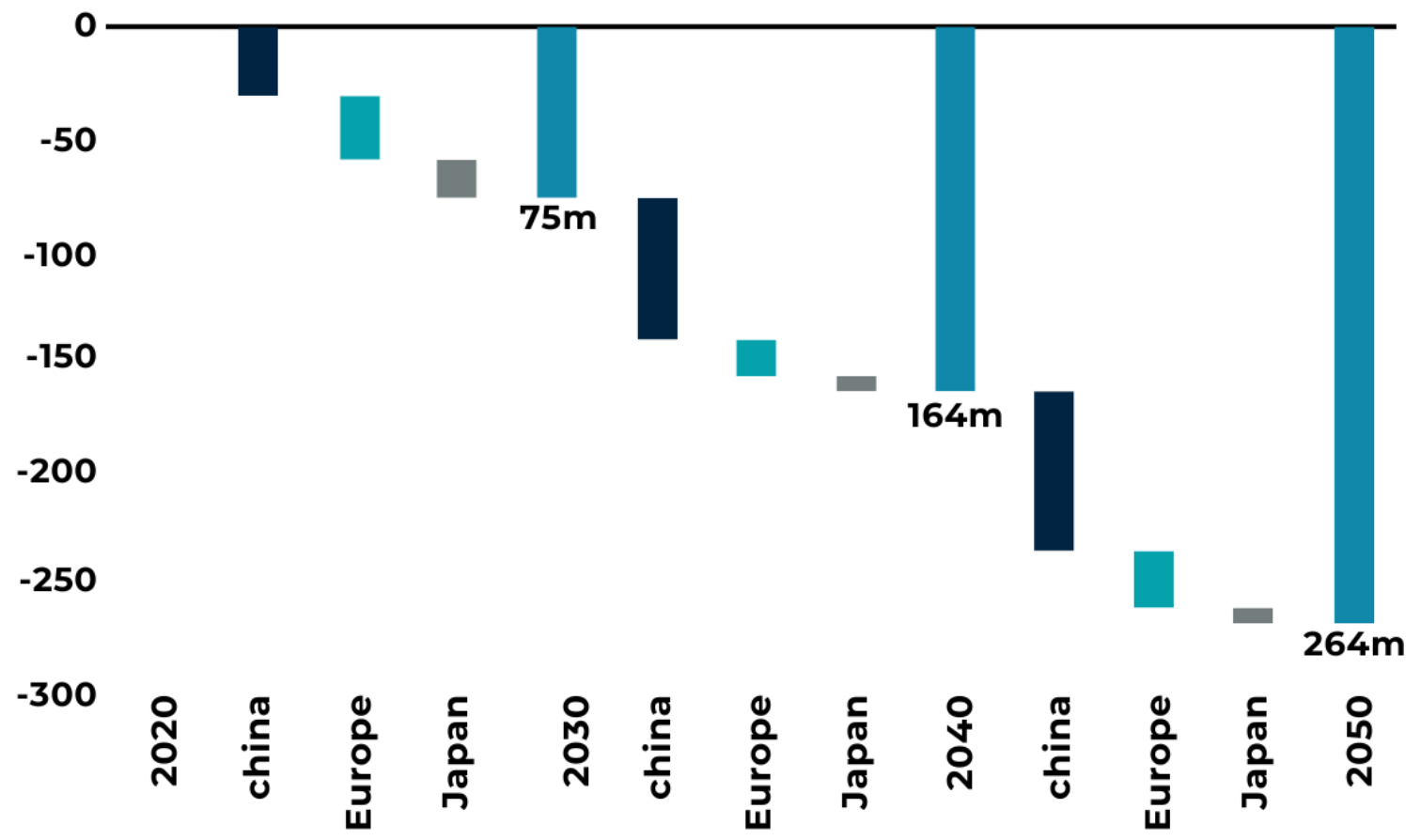- Faces innovator's dilemma regarding legacy search business

Adobe

- AI is enhancing the firm's high-end offerings
- But AI is pressuring the firm's individual consumer offerings within graphic design

Why Do We Care?

75 Million Fewer Workers by 2030

AI is needed to offset a significant decline in the working-age population in the coming decades.

China, Europe and Japan may lose 75 million workers (age 25-69) by 2030.

AI may supplement or replace jobs, which could help offset the demographic cliff set to impact developed economies.
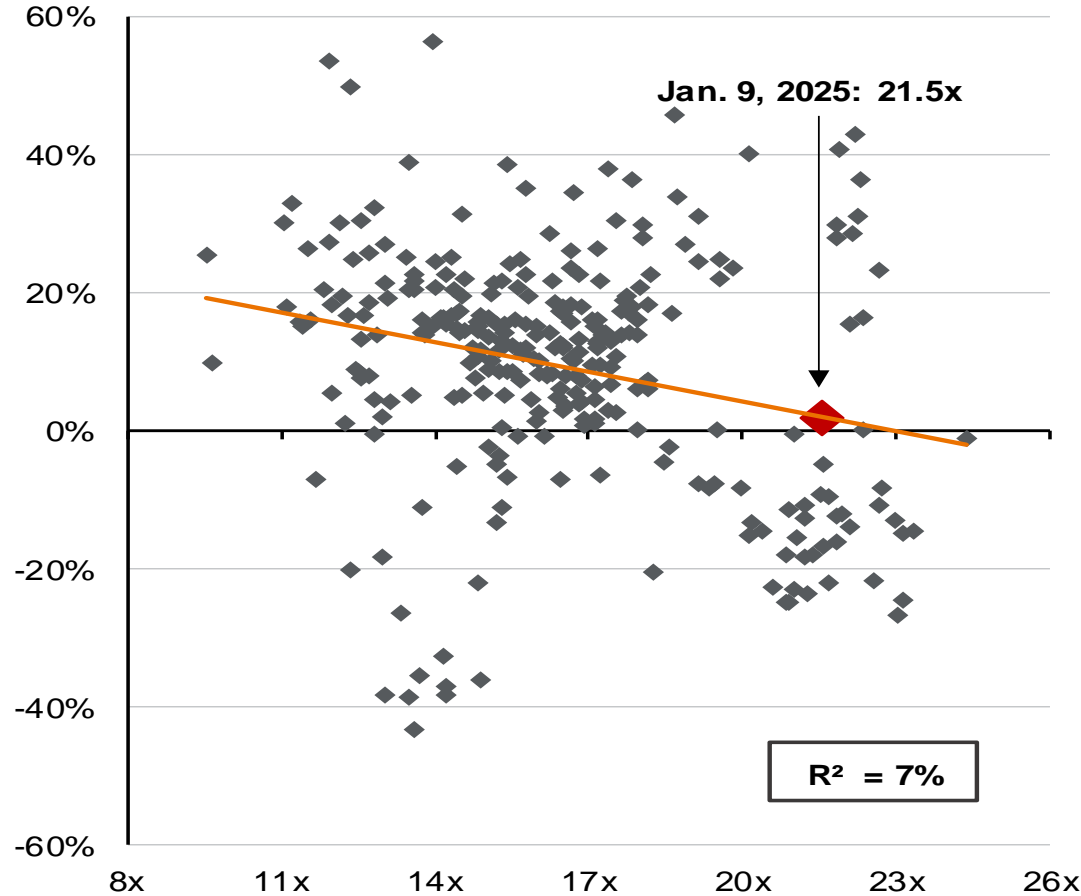
Source: UN, Morgan Stanley Research
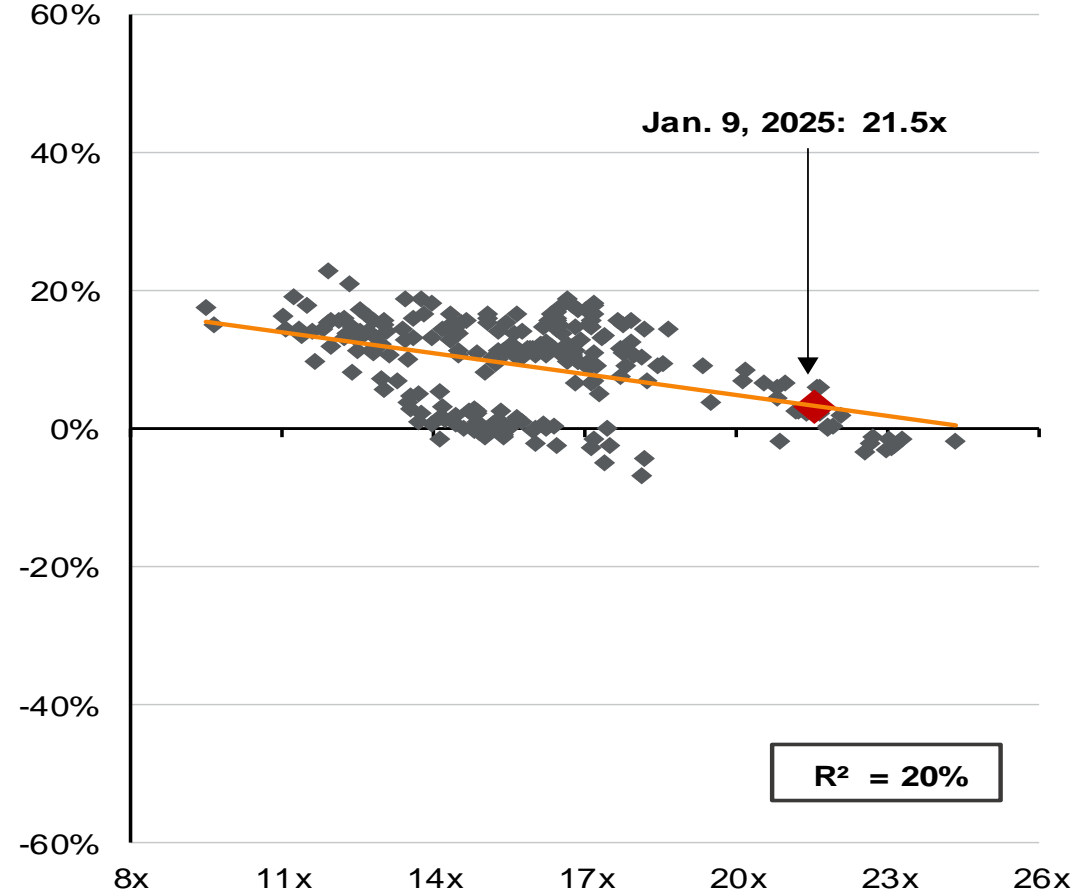
Is An AI Bubble Forming?

Expensive

Forward P/E and subsequent 1-yr. returns
S&P 500 Total Return Index

Jan. 9, 2025: 21.5x

R² = 7%

Forward P/E and subsequent 5-yr. annualized returns
S&P 500 Total Return Index

Jan. 9, 2025: 21.5x

R² = 20%

Source: FactSet, Refinitiv Datastream, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Returns are 12-month and 60-month annualized total returns, measured monthly, beginning 12/31/1999. R² represents the percent of total variation in total returns that can be explained by forward price-to-earnings ratios. Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since May 1999 and by FactSet since January 2022.
Guide to the Markets – U.S. Data are as of January 9, 2025.

Expensive

The top 10 stocks comprise 31% of the S&P 500. Significantly higher than historical. Most of them are heavily involved in AI.
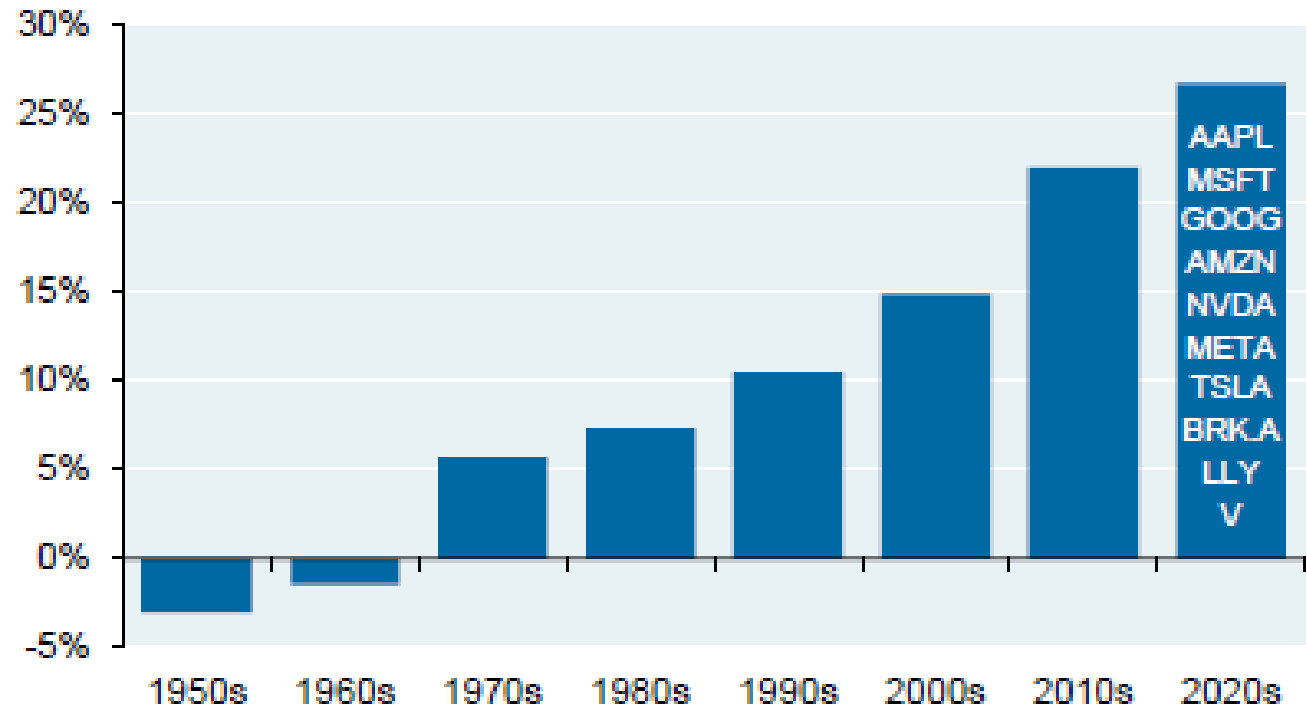
These firms have enormous scale, dominant market share, and massive technological advantages.

Mega-cap tech stocks have the highest profit margins in history and thus deserve to trade at premiums to historical valuation ranges.

Monday's trading showed that with high valuations comes higher volatility.

We remain cautious of direct lending funds. Suspect underwriting coupled with excess funding usually leads to bad outcomes.

Free cash flow margins by decade for the ten largest stocks, 1952-2024, Percent

Bar chart showing free cash flow margins by decade:
- 1950s: approximately -3%
- 1960s: approximately -1.5%
- 1970s: approximately 5.5%
- 1980s: approximately 7%
- 1990s: approximately 10.5%
- 2000s: approximately 15%
- 2010s: approximately 22%
- 2020s: approximately 26.5% (labeled: AAPL, MSFT, GOOG, AMZN, NVDA, META, TSLA, BRK.A, LLY, V)

Source: Empirical Research, September 2024

Long Term Focus

Long Term Returns					
	Five Years	Ten Years	Twenty Years	Thirty Years	Forty Years
Stocks	14.1%	12.8%	10.3%	11.0%	11.0%
Bonds	-0.3%	1.4%	3.0%	4.6%	5.9%

Unless your horizon is less than 5 years, stocks will likely outperform bonds. Both will be volatile.

Investment Grade Corporates yield 5.4%

S&P 500 forward P/E is 22 but average stocks has a 17 forward P/E.

Expect lower stock returns over next five years.

Maintain asset allocation. Timing the market does not work.

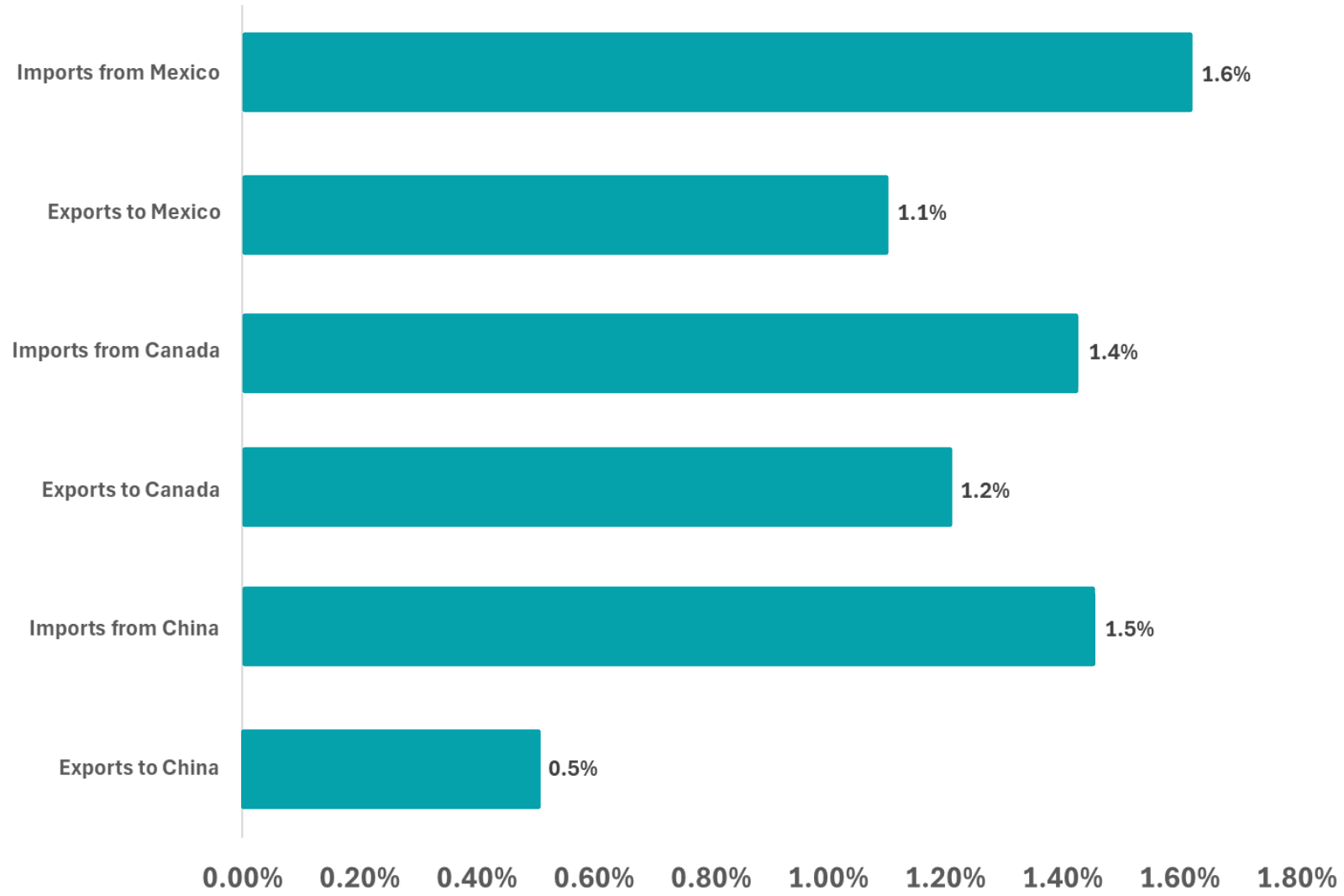# Economic Outlook

Economic Outlook - Tariffs

Select Exports and Imports as a Percent of Economy

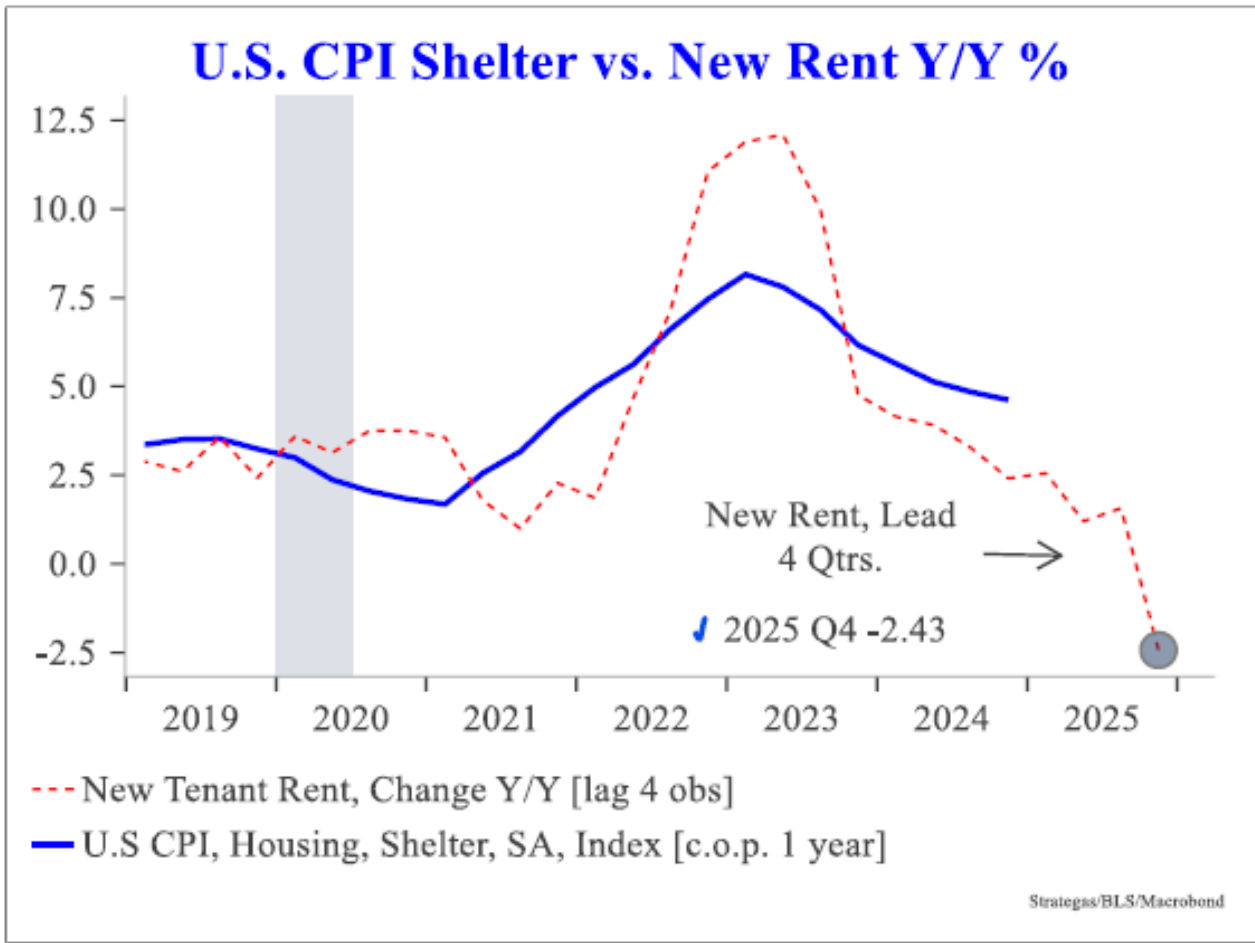|	
Imports from Mexico	1.6%
Exports to Mexico	1.1%
Imports from Canada	1.4%
Exports to Canada	1.2%
Imports from China	1.5%
Exports to China	0.5%

Exports = 10% of GDP, while imports = 13% of GDP.

China imports = 1.5%

Mexico = 1.4%

Mexico = 1.6%

U.S. is not as trade sensitive as rest of world.

Economic Outlook - Inflation

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U.S. CPI Shelter vs. New Rent Y/Y %

New Rent, Lead 4 Qtrs. →

↓ 2025 Q4 -2.43

- - - New Tenant Rent, Change Y/Y [lag 4 obs]
— U.S CPI, Housing, Shelter, SA, Index [c.o.p. 1 year]

Strategs/BLS/Macrobond

Shelter is 36% of CPI and has been very sticky, accounting for 57% of Y/Y inflation.

The government tracks new tenant rent with another survey it turned negative 4Q.

Rent is currently 4.6% Y/Y versus long-term average of 2.5%.

Slower rent growth will keep a lid on inflation in 2025 and 2026.

LA is 6% of rent index. Rent controls should limit impact.

Economic Outlook - Inflation

China joined the World Trade Organization (WTO) December 11, 2001.
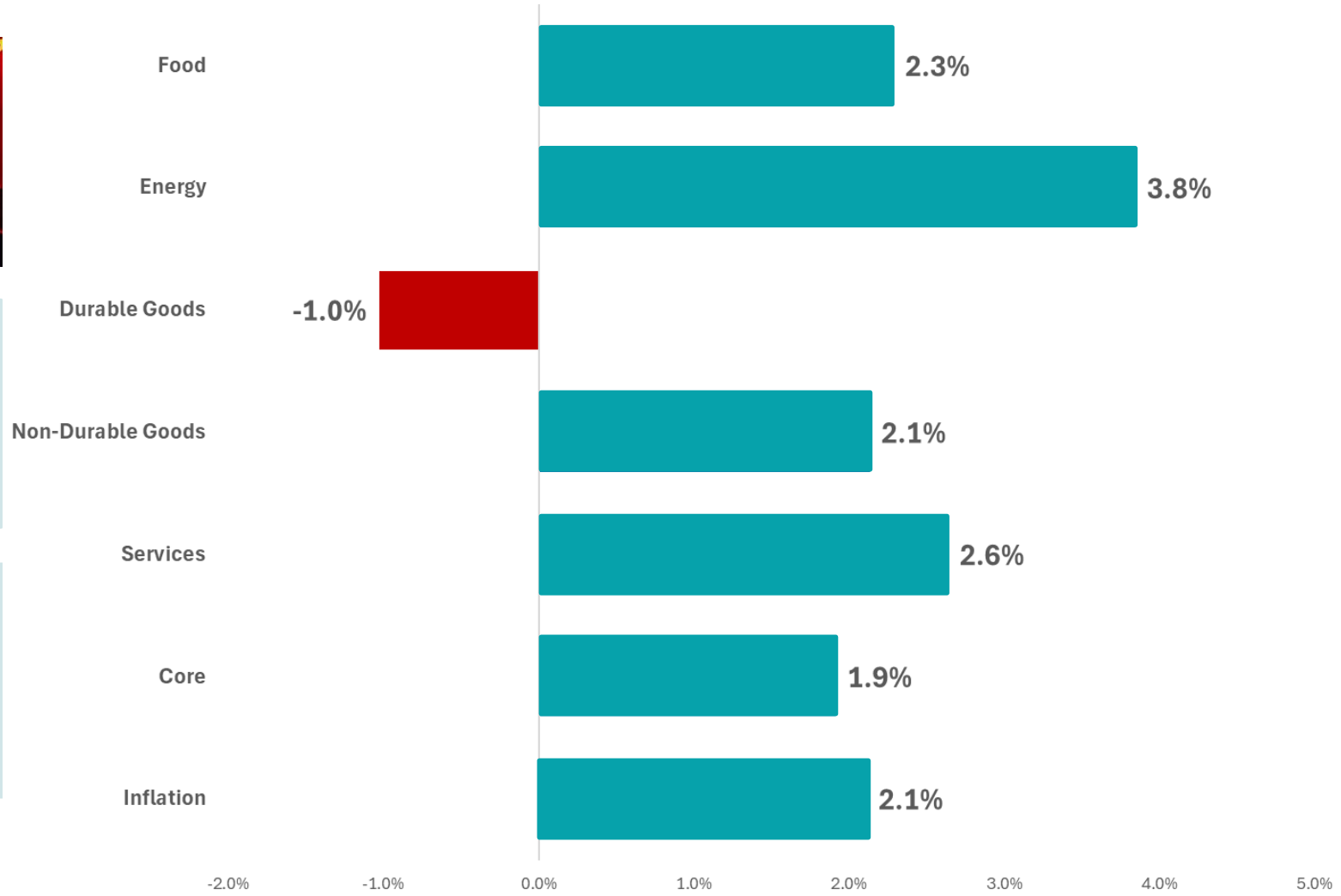
On March 22, 2018, President Trump applied tariffs on $50 billion of Chinese goods.

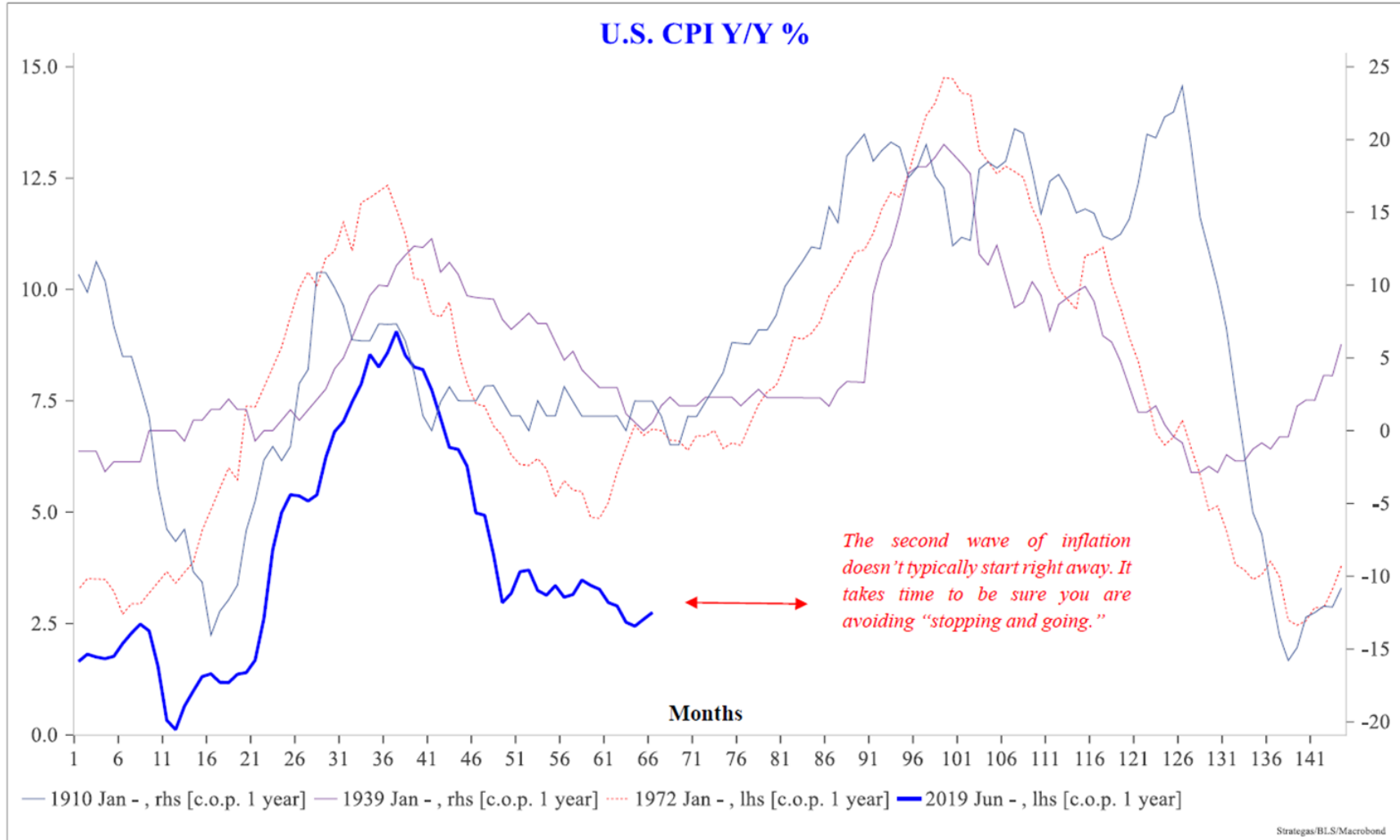The U.S. traded its durable goods manufacturing base for lower inflation. This paradigm is over.

Durable goods are only 10% of basket.

Long-run Inflation will likely be closer to 2.7% versus 2.1%.

Inflation from China WTO to Tariffs

Category	Value
Food	2.3%
Energy	3.8%
Durable Goods	-1.0%
Non-Durable Goods	2.1%
Services	2.6%
Core	1.9%
Inflation	2.1%

-2.0% -1.0% 0.0% 1.0% 2.0% 3.0% 4.0% 5.0%

Economic Outlook - Inflation

U.S. CPI Y/Y %

The second wave of inflation doesn't typically start right away. It takes time to be sure you are avoiding "stopping and going."

— 1910 Jan - , rhs [c.o.p. 1 year] — 1939 Jan - , rhs [c.o.p. 1 year] ····· 1972 Jan - , lhs [c.o.p. 1 year] — 2019 Jun - , lhs [c.o.p. 1 year]

Strategas/BLS/Macrobond

Inflation has tended to come in multiple waves historically, but with a pause in between. (We're in that spot now).
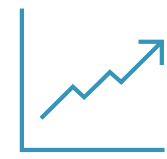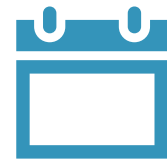
Inflation tends to come in waves.

History is not fate.

Model a second wave in 2027.

Economic Outlook - Inflation

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Trailing 12 Months %

- 2.3%
- 1.3%
- 7.2%
- 8.9%
- 6.4%
- 3.1%
- 2.9%
- 2.5%
- 2.6%
- 4.2%
- 4.8%
- 3.9%

This wave is optional.

Inflation should be benign for next couple of years.

The FRB's 2.0% target not sustainable long-term.

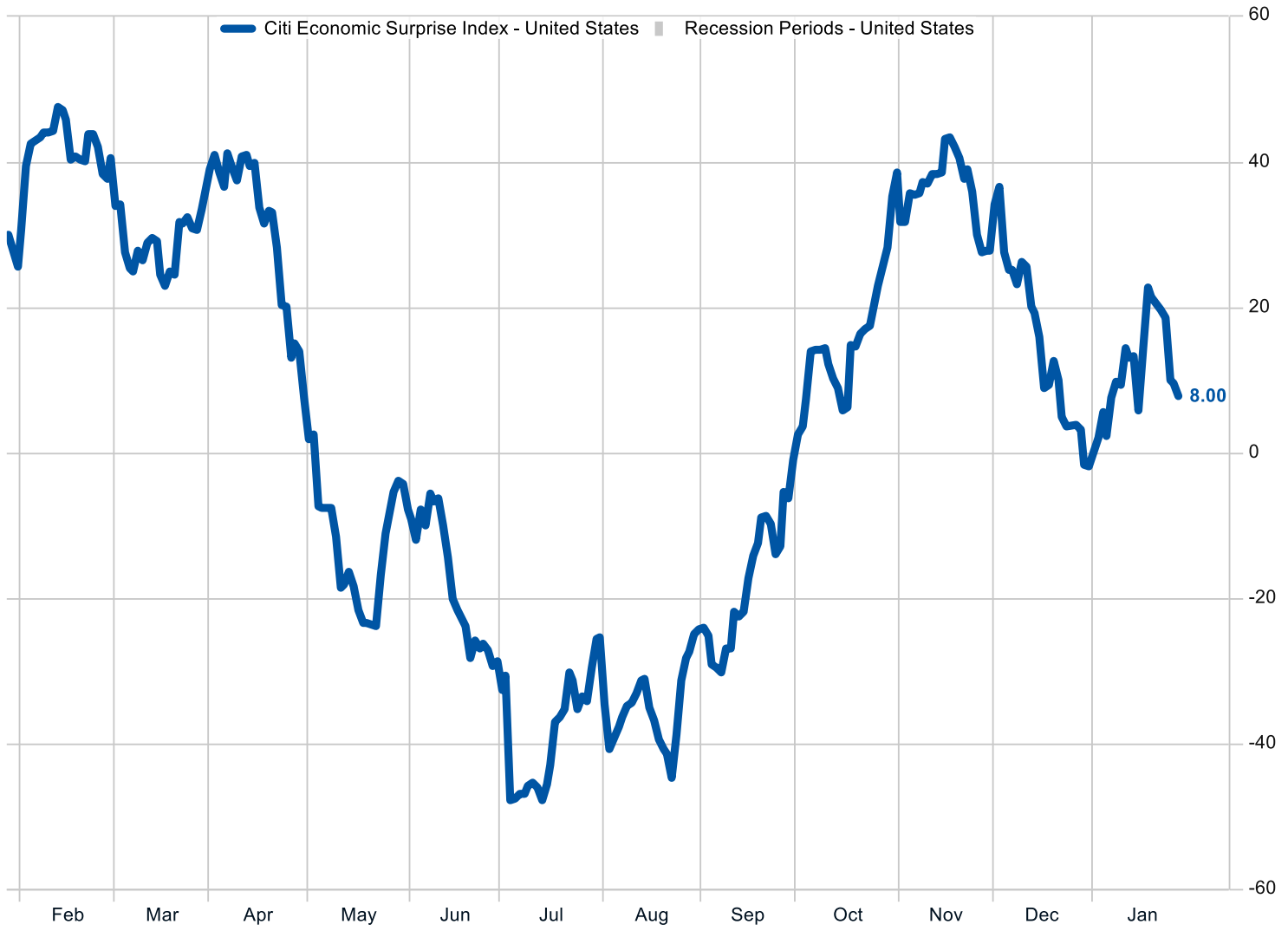Higher long-term inflation will lead to higher long-term interest rates.
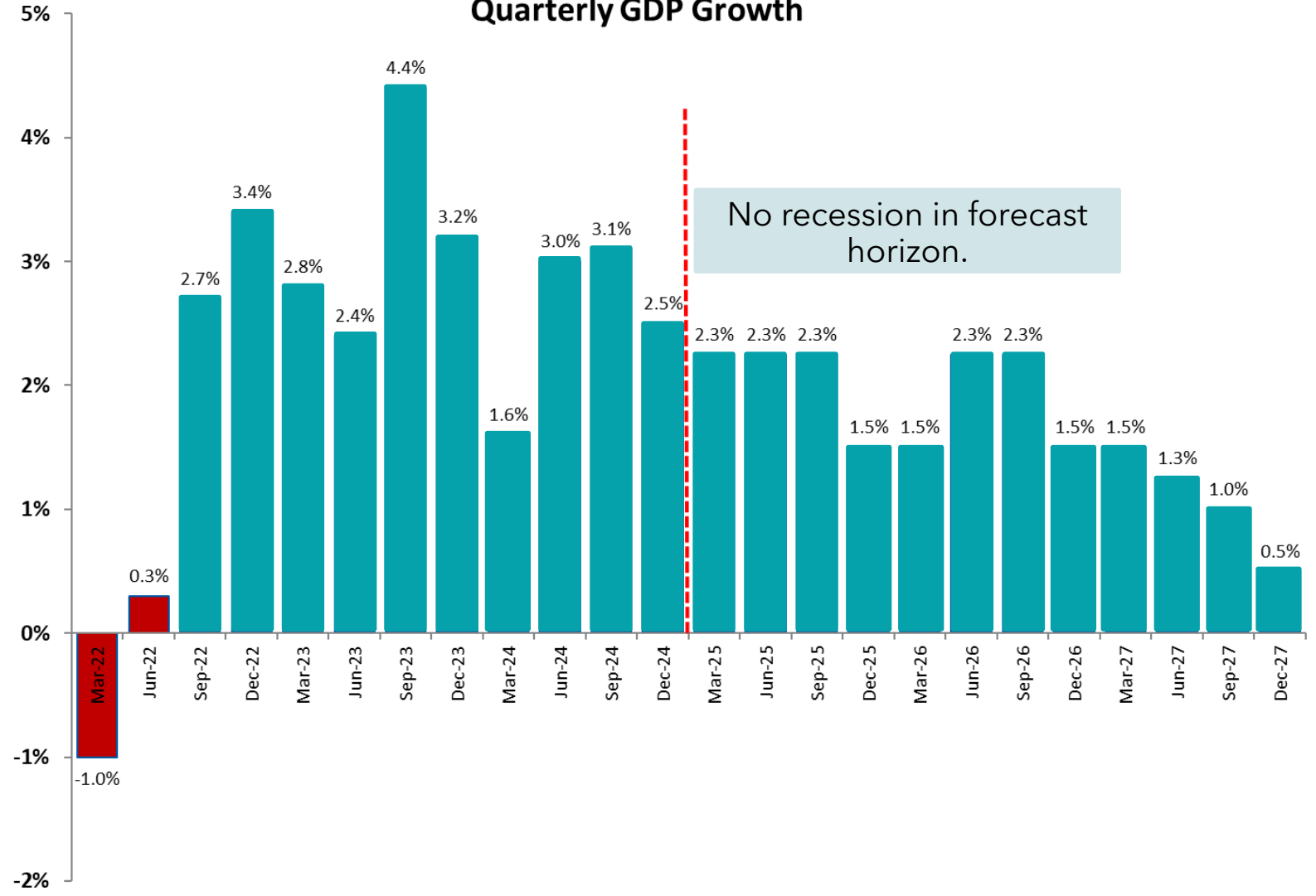
Economic Outlook

	2023	2024 Est	2025 Est	2026 Est	2027 Mod
GDP Growth	3.1 %	2.5 %	2.1 %	1.9 %	1.1 %
Change in Consumer Prices	3.3 %	2.9 %	2.5 %	2.6 %	4.2 %
Fed Funds Target Rate	5.50%	4.50%	4.00%	3.75%	5.00%
5-Year Treasury Yield	3.85%	4.38%	4.25%	4.25%	5.10%
10-Year Treasury Yield	3.84%	4.57%	4.75%	5.00%	5.25%
S&P 500 EPS	$217	$240	$263	$287	$304

| Growth remains modest (no recession).	Inflation reaccelerates during 2027.	High deficits result in higher rate.

Our Team's Process

Our Distinctive Approach to Investing

- Security National Bank's Investment Team adheres to a **Quality At A Reasonable Price (QUARP)** investment philosophy.

- Through this philosophy, we seek to own high quality firms that are trading at reasonable valuations.

- As a part of our research process, we evaluate Equities across several key metrics including:
  - **Balance Sheet Strength**
    - Net Debt/EBITDA <3.0x
  - **Return on Total Capital**
    - 10% or More Over 6 Years
  - **Consistent Cash Flow**
    - Cash From Operations Greater than 100% of Net Income

**Key Components of
Our Investment Approach**

Balance Sheet Safety & Liquidity

Return on Total Capital

Consistent Cash Flow Generation
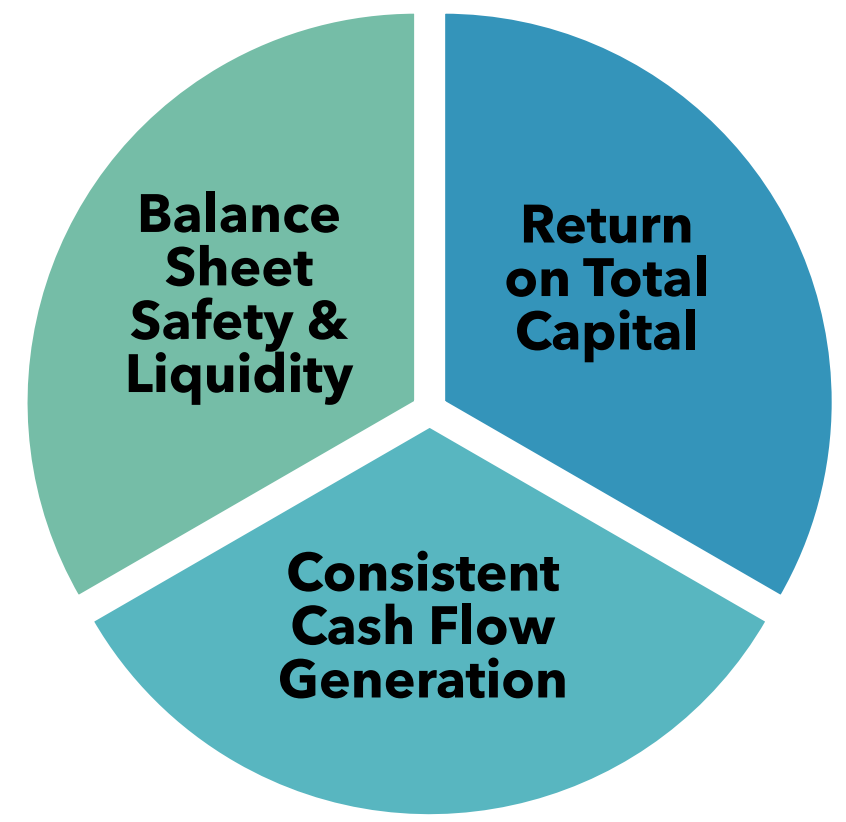
Questions?

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Reach out to our Wealth Management team to have a further discussion about today's presentation.