SEPTEMBER 2025 EDITION

SECURITY NATIONAL BANK
Economic & Market Insights

The equity market rally continued during August as stocks closed near all-time highs. The S&P 500 Index gained more than 2% for the month.

Economic reports were generally better than expected during August, which helped to propel stock prices higher.

Your Investment Services Team

Damian Howard, CFA
SVP, Director of Investment Services
dhoward@snbomaha.com
402-221-0178

Clinton Rushing, CFA
VP, Senior Investment Officer
crushing@snbomaha.com
402-221-0188

Lauren Mozur
Investment Officer
lmozur@snbtexas.com
469-619-4888

This Report Includes

SECURITY NATIONAL BANK
PRIVATE CLIENT SERVICES

Big Spenders: Mag 7 Fuels Capex Growth

The seven largest firms in the S&P 500 Index, known as the Mag 7, now account for 31% of total capital expenditures for the S&P 500. In 2019, this same figure stood at just 19%. Based on recent commentary from Mag 7 companies, spending looks to remain strong heading into 2026 as the AI buildout continues.

Seven Years to Own It: Auto Loans Go Long as Costs Surge

With the average price of a new car approaching $50,000, car buyers are being forced to take out long-term loans in order to keep monthly payments in check. During the second quarter, nearly 22% of all new vehicle financing featured seven-year loans. Six-year loans are the most common term, accounting for 36% of loans (Edmunds).

U.S. Services Sector Growth Accelerates on New Order Strength

Activity at U.S. service providers surged last month, marking the fastest expansion in six months. The ISM Services Index jumped to a reading of 52 last month, beating most forecasts, while new orders soared to 56—the sharpest acceleration in nearly a year.

Social Security Act Marks 90th Anniversary

President Trump signed a proclamation in the Oval Office last month honoring the 90th anniversary of the Social Security Act, which President Franklin Roosevelt signed into law on August 14, 1935. Today, the program serves 72 million Americans, distributing $1.6 trillion annually.

Steady Ahead: Inflation, Growth, and Rates Find Balance

Current Forecast					
	2023	**2024**	**2025 Est**	**2026 Est**	**2027 Est**
GDP Growth	3.2%	2.5%	1.8%	1.9%	2.1%
Change from the previous report				*+0.2%*	*+0.4%*
Change in Consumer Prices	3.3%	2.9%	2.6%	2.8%	2.8%
Change from the previous report			*+0.1%*	*-0.1%*	
Fed Funds Target Rate	5.50%	4.50%	4.00%	3.75%	3.75%
Change from the previous report					
5-Year Treasury Yield	3.85%	4.38%	4.25%	3.85%	3.95%
Change from the previous report					
10-Year Treasury Yield	3.84%	4.57%	4.50%	4.60%	4.70%
Change from the previous report					
S&P 500 EPS	$217	$240	$267	$286	$305
Change from the previous report			*+$4*	*+$3*	*+$4*

Source: Factset

The Security National Bank Investment Services team made modest changes to its economic forecast this month. We increased our forecast of consumer price changes to 2.6% for 2025, from 2.5% previously, and also increased our forecast for 2025 S&P 500 earnings to $267. We also modestly increased our estimate for 2026 S&P 500 earnings to $286 per share given our outlook for continued gains in corporate profits.

Core economic growth appears to have bottomed out in June. Lower shelter and energy costs are offsetting some of the tariffs' inflationary impact. We expect two interest rate cuts this year, followed by one additional cut next year.

We expect the 10-year Treasury to finish 2025 at 4.5%, our fair value estimate. Inflation, economic growth, and interest rates are expected to remain near neutral levels next year. Fiscal deficits will increase pressure on long-term interest rates.

Last Month's Rates and Total Returns				
August 31, 2025	Value	One Month	Year to Date	1 Year
Fed Funds Target (Upper)	4.50%	----	----	-100 bp
3-Month Treasury Yield	4.14%	-20 bp	-18 bp	-95 bp
2-Year Treasury Yield	3.61%	-33 bp	-63 bp	-31 bp
5-Year Treasury Yield	3.69%	-26 bp	-69 bp	-2 bp
10-Year Treasury Yield	4.22%	-13 bp	-35 bp	31 bp
Mortgage News 30-Year	6.50%	-25 bp	-57 bp	10 bp
S&P SuperComposite 1500	1,449	2.21%	10.30%	15.06%
S&P 500 Index	6,460	2.03%	10.79%	15.88%
S&P 500 Equal Weight Index	7,625	2.69%	8.69%	9.16%
S&P Midcap 400	3,254	3.39%	5.28%	6.86%
S&P SmallCap 600	1,438	7.06%	3.23%	3.51%
S&P 500 Growth	4,629	0.83%	13.52%	23.95%
S&P 500 Value	2,006	3.44%	7.78%	6.08%
World ex-US, USD	373	3.47%	21.64%	15.42%
Wilshire Liquid Alts	201	1.38%	4.35%	3.44%
BB U.S. Aggregate	93	1.20%	4.99%	3.14%
Crude Oil – WTI Near Term	64	-7.58%	-10.75%	-12.97%
Gold – Near Term	3,474	5.48%	32.12%	39.29%
U.S. Dollar Index	98	-2.20%	-9.88%	-3.86%

Source: Factset

Market Rotation in Motion: Small-Caps and Value Shine in August

The stock market rally continued during August with the S&P 1500 and 500 closing the latest month near all-time highs. Interest rates drifted lower following the release of the July labor market report. The S&P 1500 logged a gain of 2.2% during August, while the S&P 500 Index gained a respectable 2.0% for the month. Market rotation was evident in August as the stock market broadened out.

Indeed, small-cap stocks posted very strong returns during August with the S&P SmallCap 600 Index gaining just over 7% for the latest month. Meanwhile, Mid-Cap stocks also joined in the favorable momentum, advancing by more than 3% for the latest month. Market rotation also favored value stocks this past month, with value outperforming growth stocks by 2.6%. However, over the past year, growth stocks have outperformed value stocks by 17.9%.

Equity markets moved higher in the wake of the Federal Reserve's Jackson Hole Symposium in late August. Fed Chair Powell suggested that the time has come to potentially adjust interest rate policy given a recent change in economic risks. Small-cap stocks posted broad and sharp gains following this news as elevated interest rates have weighed on small-cap returns the past several years.

In evaluating performance trends at the individual sector level, Health Care stocks represented the strongest group during August, posting a gain of nearly 5.5% for the month. Meanwhile, the Materials sector also posted solid gains during August, advancing by slightly more than 5%.

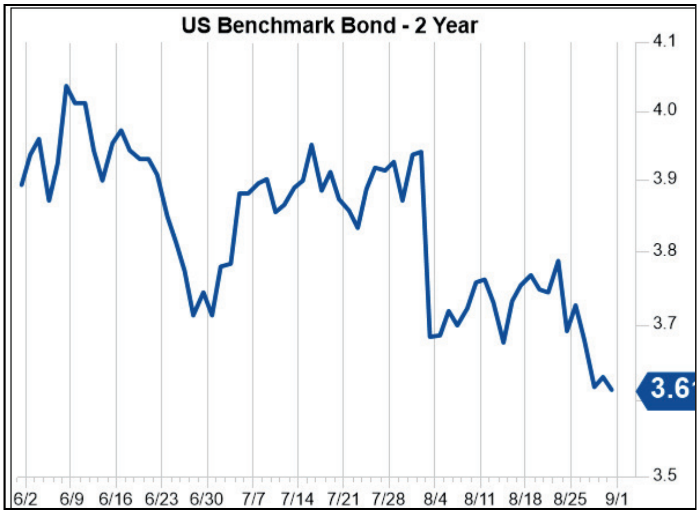
Meanwhile, in terms of the laggards for the latest month, the Utilities sector marked the worst performing sector, with a decline of 1.6% during August. Despite the decline seen during August, utility stocks have posted strong returns thus far during 2025 due to enthusiasm over future power demand related to the buildout of AI data centers and related infrastructure.

In looking at the performance of the mega-cap stocks, shares of NVIDIA declined by 2.1% during August, while Microsoft declined by 4.9%. However, strong gains were witnessed for Apple (+12%) and Alphabet (+10.9%).

Lower Rates Drive Fixed Income Gains During August

The 2-year Treasury has been a good gauge of investors' views on monetary policy. The 2-year Treasury yield declined by 26 basis points during August as investors priced in one additional interest rate cut following the Fed's Jackson Hole Symposium in late August. The 2-Year Treasury tends to lead the FFR by four to six months. The consensus incorporates three and a half FFR cuts over the next six months.

Interest rates declined across the board last month, resulting in investment gains across the yield curve with 7–10-year maturities gaining 1.6% and ultra-short-term Treasuries gaining 0.4%. The 20+ year Treasury ETF broke even during August though, indicating continued unease with federal fiscal policy. Treasury Inflation Protected Securities (TIPS) gained 1.6% in August, while high yield bonds returned 1.1% on tighter spreads.



Source: Factset

Foreign Stocks Shine as Dollar Slips: What Investors Need to Know

International stocks outperformed their U.S. counterparts during the month of August. International stocks returned 2.1% in local currencies and 3.5% when translated into U.S. dollars.

The U.S. dollar declined by 2.2% during the month of August, thereby partially reversing gains seen during July. The sell-the-dollar trade is probably the most crowded globally. The dollar is in a long-term downward trend, but may occasionally have a countertrend rally as weak hands are shaken out of their position. The dollar index may touch 90 within the next several years.

A lower dollar will help the Trump Administration's trade agenda, but will put upward pressure on inflation. It also makes foreign investment returns more attractive and usually puts upward pressure on gold prices. Indeed, gold prices have been drifting higher during the past several weeks due in part to the weakness in the U.S. Dollar.

From Wall Street to Main Street: The Fed's Stake In Stocks

Compared to other nations, U.S. households have a very high ownership of stocks. According to Gallup, 62% of individuals report owning stocks.

As expected, stock ownership rises with income. 84% of individuals earning $100,000 or more own stocks.

Only 5% to 10% of Chinese and 33% of European households own stocks. With such high ownership of stocks, the FRB is more likely to defend the stock market versus bonds.

Widespread equity ownership incents the FRB to rescue the stock market when prices fall by 20% or more. This is the "Fed-Put". Since the beginning of 2024, the price of gold has risen by 68%, enhancing its long-term returns and serving as a haven from policy mistakes.

Despite concerns about the reserve status of the dollar, the dollar index has remained stable over the past two generations. For all its issues, the U.S. dollar remains the 'cleanest dirty shirt'. Other currencies have debased in line with the dollar.

Consensus Builds: Rate Relief Likely in September

The recent string of weaker than expected Jobs Reports have altered investors' monetary policy expectations. For instance, a September rate cut is now the overwhelming consensus expectation. In fact, there is a 95% chance the FOMC will cut rates at its next meeting based on recent market expectations.

We are retaining our call for a September rate cut. Cooling service sector inflation is likely to offset much of the tariff-related goods sector inflation that is working its way through the economy. The service sector is three times the size of the goods sector of the U.S. economy.

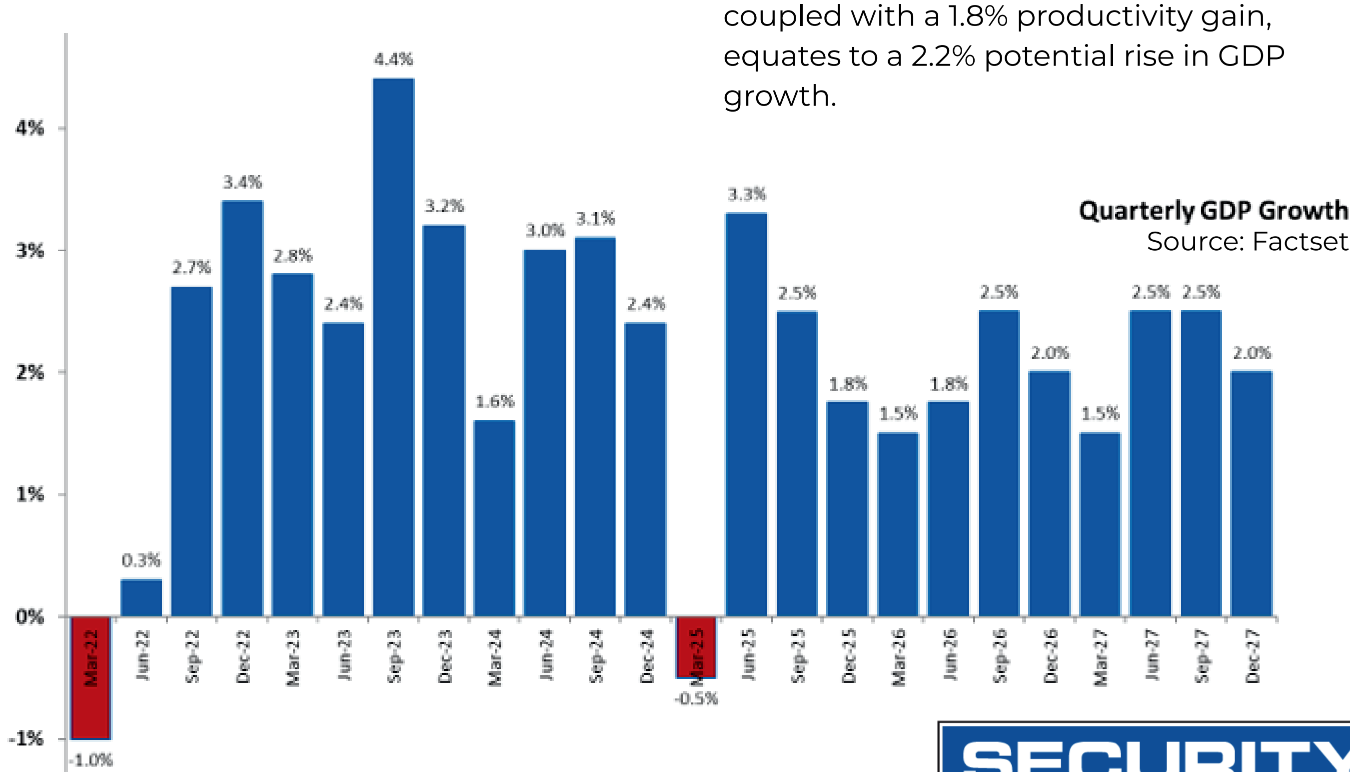
Meeting Date	Futures Market 08/01/25	SNB Forecast
September 17	4.25%	4.25%
October 29	4.25%	4.25%
December 10	4.00%	4.00%
January 28	3.75%	4.00%
March 18	3.75%	3.75%
April 29	3.50%	3.75%
June 17	3.50%	3.75%

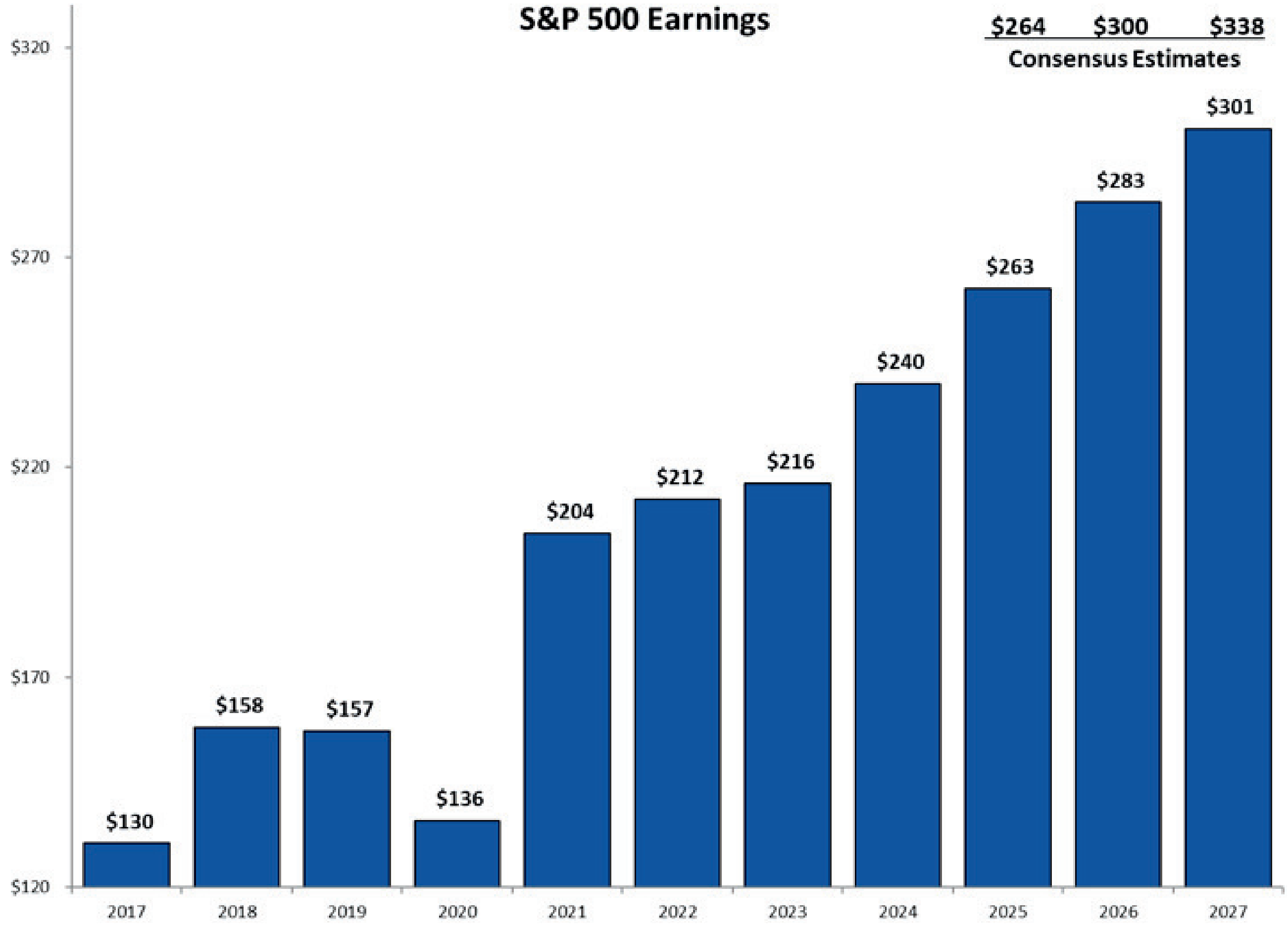
Productivity Recharge Lifts Long-Term Economic Growth Outlook

2Q25 real GDP was recently revised up by 0.3% to +3.3%. The composition of the revision was strong, as consumption and business fixed investment growth were revised up, while housing, government spending, and inventories were revised down. Within business fixed investment, growth in intellectual property products was revised up, reflecting upward revisions to software investment and strong R&D spending. We expect IP and equipment investment to continue supporting economic growth. Core GDP contributed 1.7% to real growth, in line with the 1.6% rate seen in 1Q.

Lower interest rates will likely reduce the drag on economic growth that housing imposes. During the second quarter of this year, housing subtracted 0.2% from growth. Real gross domestic income (GDI), an alternative measure of economic activity based on different data sources than GDP, rose a robust 4.8% Y/Y versus 2.1% for GDP.

We have revised our longer-term growth rate up by 0.4% to account for higher productivity. Productivity has risen from 1.5% to 1.8%. The higher productivity has been offset by slower workforce growth. It now appears that monthly workforce growth will slow from 125,000 to 50,000 due to a reduction in undocumented immigration, resulting in a 0.4% annual growth in the labor force. A 0.4% growth in the labor force, coupled with a 1.8% productivity gain, equates to a 2.2% potential rise in GDP growth.





Source: Factset

Second Quarter Earnings Shine

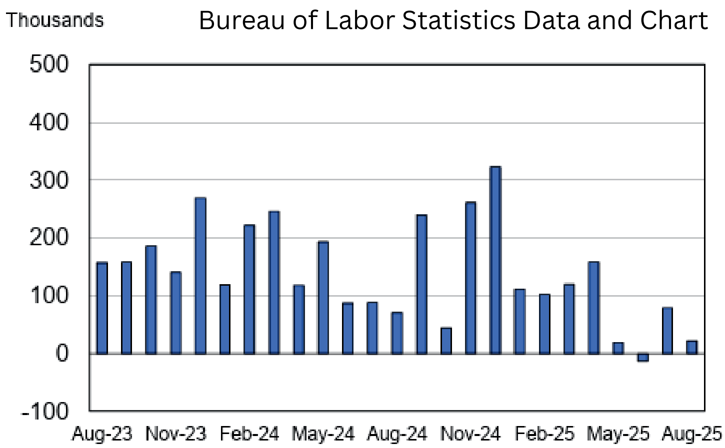
The second quarter 2025 earnings reporting season is largely in the rearview mirror at this point. The key takeaway from the second quarter earnings season is that results were better than expected. As of August 31st, 98% of S&P 500 companies have reported results. EPS grew 12% Y/Y, up substantially from the 5% expectation that was forecast on June 30th.

The consensus 2025 earnings estimate rose 2% during the conference call season, reflecting the rosier outlook. Our 2025 estimate mirrors the consensus. Our forecast incorporates a respectable 8% growth rate from 2024 to 2027. This is slightly more conservative than the consensus and below the average of 10% since 2010.

Jobs Report Jitters: Weak Hiring and Sector Declines Raise Red Flags

The U.S. labor market continued to decelerate during the month of August based on the latest data from the Bureau of Labor Statistics. Employers added just 22,000 new jobs to their payrolls last month, which marked a much lower figure versus the 75,000 job gain that was expected. While July's initial estimate of employment was revised from 73,000 to 79,000, June's initial estimate of a 14,000 gain in employment was revised to a loss of 13,000 jobs. This marked the first monthly employment decline since 2020.

Meanwhile, the unemployment rate ticked higher, ending the month at 4.3%, which is the highest level since October of 2021. Employment gains were concentrated within the health care, social assistance and leisure and hospitality sectors of the economy. Offsetting these gains were outright declines in employment within construction, manufacturing, wholesale trade, professional and business services, and government.



Retail Resilience: Consumers Keep Spending Despite Headwinds

The latest report on retail sales pointed to the fact that consumer spending continues to hold up relatively well despite lingering uncertainties regarding inflation, tariffs and the labor market. Retail sales advanced by 0.5% during July (vs 0.6% est.) and advanced by 3.9% on a y/y basis. 9 out of 13 sectors saw gains last month, including the biggest gain in motor vehicle sales witnessed since March. Meanwhile, consumers clearly responded to major promotional events like Amazon Prime Day and Walmart's "Deals" week, as e-commerce sales increased by more than 10.5% compared to the same period of 2024. Broad based spending strength, suggests consumers still have fuel in the spending tank.

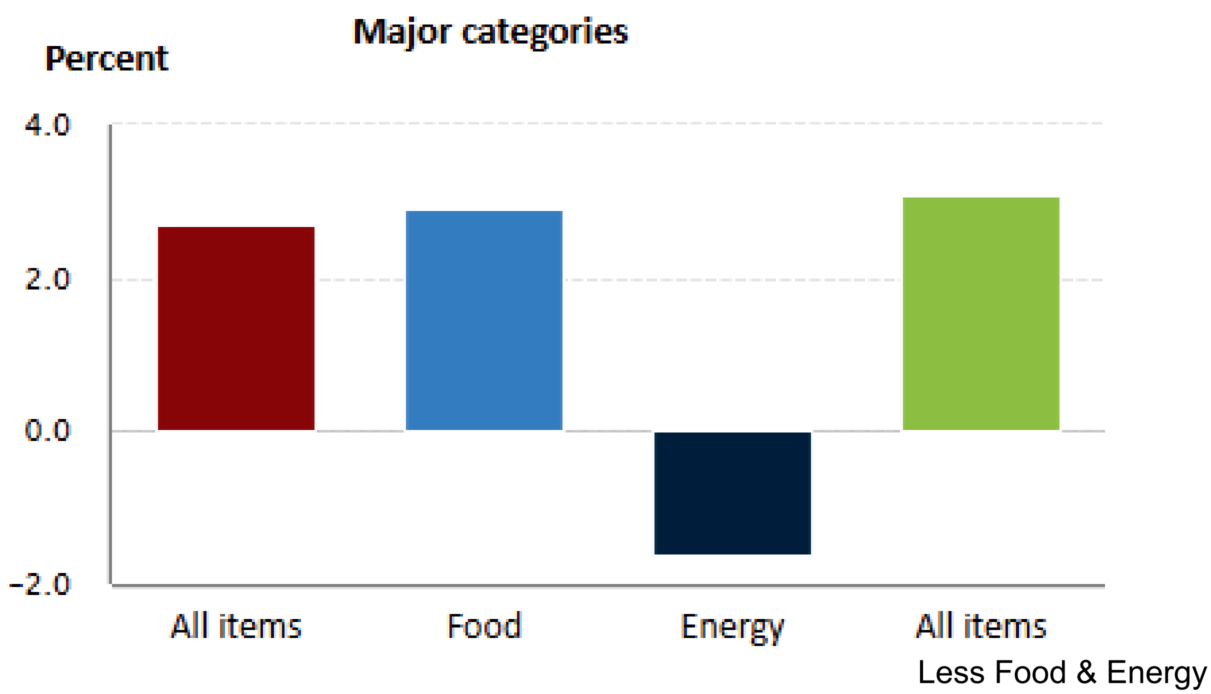
Core CPI Climbs 3.1% as Services Drive Inflation Trends

Underlying inflation increased by 0.2% during July, thereby matching the 0.2% increase that was widely expected as goods inflation remains tame despite the impact of tariffs. On a YoY basis, Core CPI accelerated to 3.1% in July, up from the 2.9% pace seen during June, and also marked the strongest pace of inflation seen since the first part of 2025.

One of the main drivers behind the acceleration in Core CPI this past month though was an increase seen in several services categories. More notable price increases were seen in categories such as airline fares and medical care during July.

While investors continue to be on the look-out for inflationary tariff impacts, several tariff-exposed categories such as toys, sporting goods and apparel actually saw slower levels of price inflation in July than in June.

12-month percentage change, Consumer Price Index, selected categories, July 2025, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.

Sentiment Slips: Americans Grow Wary of Big-Ticket Buys

Consumer confidence declined during the month of August as concerns about the economic outlook, inflation and tariffs weighed on sentiment during the latest month. The University of Michigan Consumer Sentiment Index fell to 58.2 from 61.7 a month earlier, thereby marking the lowest level seen in three months.

Buying conditions for major purchases such as durable goods and vehicles worsened this month as consumers balked at elevated prices. In addition, consumers expect prices to rise at an annual rate of 4.8% over the coming year, up from the 4.5% rate telegraphed during the prior month.

Turning the Key: Home Sales Rise as Rates Ease and Price Gains Cool

Existing home sales in the U.S. increased by 2% during July, rising to an annualized sales pace of just over 4 million units. This marked a better than expected reading versus the 3.92 million sales pace that most economists expected.

Sales trends were aided by two key factors this past month, including a slight decline in mortgage interest rates, as well as a moderation in home price growth. Home prices increased by just 0.2% during July, relative to the same period of 2024, thereby marking the smallest increase seen in two years. Meanwhile, additional inventory continued to come to the market last month as the number of existing homes for sale increased to 1.55 million, thereby marking the highest inventory level since May 2020. First time home buyers comprised 28% of sales last month, down from 30% in June as affordability challenges remain.

New Home Sales Top Estimates on Price Cuts, Buyer Incentives

Sales of new homes decreased by 0.6% during July, falling to an annualized pace of 652,000 units this past month. This marked a better than expected reading versus the 650,000 sales pace that was forecast by most economists. Sales results for the month of June were revised higher to an annualized sales pace of 656,000 units versus the 627,000 annualized sales pace that was first reported. Homebuilders continued to be aggressive with incentives during July, with 66% of builders offering discounts (a post-pandemic high, according to Bloomberg). The median price of a new home declined by 6% in July versus the same period of 2024.

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Clinton Rushing, CFA
VP Senior Investment Officer
crushing@snbomaha.com
402-221-0188

Damian Howard, CFA
SVP, Director of Investment Services
dhoward@snbomaha.com
402-221-0178

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PRIVATE CLIENT SERVICES

Meet Your Authors

Prepared by Damian Howard and Clinton Rushing

This report reflects the author's current opinion and is subject to change without further notice. There can be no assurance that any of the projections cited will occur.

Abbreviations and Other Terms Used
This report will utilize the following acronyms: FRB for the Federal Reserve Bank, FOMC for the Federal Open Market Committee, and BLS for the Bureau of Labor Statistics. The FOMC is part of the Federal Reserve Board (FRB), which meets eight times a year to set monetary policy. The primary tool for monetary policy is the Federal Funds Rate (FFR). FFR is the rate set by the FOMC and is the rate at which banks borrow and lend their excess reserves to each other overnight. It forms a floor for short-term interest rates.

We will use the following abbreviations for various governmental agencies.
BEA = U.S. Bureau of Economic Analysis
BLS = U.S. Bureau of Labor Statistics

We will use the terms nominal and real. Nominal values are measured in terms of money or things that are counted in the real world. Retail sales, personal income, expenditures, and corporate earnings are usually reported in nominal dollars. Real values are adjusted for inflation (nominal minus inflation). Real values enable comparisons that are not distorted by inflation. GDP numbers are usually reported as real growth.

Other abbreviations are commonly used.

QTD = Quarter-to-date	TMA = Trailing Three-Month Annualized
YTD = Year-to-Date	Y/Y = Year Over Year
M/M = Month Over Month	MBPD = Million Barrels per Day

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WEALTH AND INVESTMENT SERVICES

Inspired Professionals Working for You

Jay Nova, CFA

VP, Nebraska Director of Wealth Management

402-502-9475 jnova@snbomaha.com

I enjoy establishing meaningful connections and the opportunity to positively impact clients' financial lives. I find great fulfillment in doing well for our clients.

Blake Plath

AVP, Nebraska Wealth Advisor

402-221-0162 bplath@snbomaha.com

I simplify wealth management into clear solutions, helping clients streamline finances for a better life by transforming complexities into actionable strategies.

JJ Ponce

SVP, Texas Director of Trust & Wealth Management Services

469-479-8945 jjponce@snbtexas.com

With over a decade of experience in trust and wealth management, my work centers on strategic oversight, client relationship management, and delivering customized financial solutions that support long-term success.

Lisa Smith - Shryack, FLMI

VP, Iowa Director of Trust & Wealth Management Services

515-393-2662 lshryack@snbiowa.com

With over 40 years of experience in investment advisory and wealth management, my expertise includes trusts, estates, conservatorships, farm administration, and financial planning—focused on delivering personalized strategies that support long-term financial success.

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