First Look Webcast:
Investment Strategies in a Volatile Market

July 30, 2025

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1

Rotation, and the Risk of Complacency

Markets delivered strength, not certainty — Strong YTD gains masked narrowing leadership, rising concentration, and a market still wary of what comes next.

• The Fed's pause was not a pivot — Inflation has cooled, but not convincingly-yet. Policymakers remain data-dependent, and rate-cut hopes face a high bar.

• Consumers are spending—carefully — Travel and services remain strong, but credit stress is creeping in. Retail sales are slowing, and the savings buffer is nearly gone.

• Two economies, one divergence — Service sectors grind forward while manufacturing contracts under the weight of global tariffs and weak demand.

• Opportunity is hiding in plain sight — AI enablers, small caps, and select international markets may lead the next leg—if liquidity on the sidelines return.

2

An Administration Past

A Reminder of an Administration Past

In 2018, during President Trump's first term, a wave of new tariffs on China triggered a sharp trade war—roiling markets and headlines much like what we're seeing today.

The S&P 500 fell over 4% that year on fears of a global slowdown and inflationary fallout. But as trade negotiations gained traction and partial agreements were struck, markets rebounded strongly, delivering a gain of over 31% in 2019.

Since then, the landscape has evolved meaningfully. The emergence of AI, ongoing wars in Ukraine and the Middle East, and the post-pandemic inflation shock continue to carry profound economic consequences.

- Near-term volatility has returned—but it is creating the backdrop for renewed tariff-driven market boosts should agreements be reached.
- Unlike 2018, markets today are operating under a new playbook: one shaped by supply chain rewiring, AI infrastructure demand, and heightened geopolitical risk.
- Investors would do well to study how quickly sentiment can pivot when headline risk is absorbed, and policy direction becomes clearer.

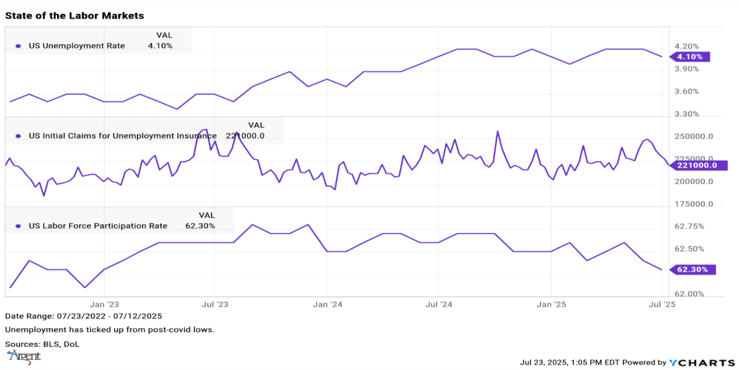
Labor Market Conundrum-Steady but Nervous

The jobs picture remains stable, but under the surface, structural shifts are playing out.

- Unemployment is 4.1%. Labor force participation is 62.3% (down from 63.3% pre-COVID), signaling lingering workforce drag.
- Wage growth has slowed to 3.7%, above pre-pandemic norms, but cooling.
- The composition of job gains has shifted:
  - 2021–2022: dominated by leisure, hospitality, transport
  - 2025: now led by healthcare, professional services, and government (20% of new payrolls vs. 12% pre-COVID)
- Private hiring has softened, but healthcare and construction remain firm.
- Construction gains are supported by infrastructure spending, energy transition, and reshoring efforts.

Bottom line: the labor market isn't cracking, it's rebalancing. Structural shifts in sector leadership and participation are shaping the next phase of job growth.

State of the Labor Markets



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5

The Resilient but Stretched Consumer

Consumer Resilience – Signs of Strain Emerging

Consumers remain the backbone of the economy in 2025, but pressures are building.

- Retail sales are up 2.3% YTD through June—still positive but clearly slowing.
- Since February 2020, total retail sales are up 24%—yet spending has shifted:
  - Less on goods and big-box retail
  - More on services, experiences *and* housing
- Credit stress is rising:
  - Household debt: $17.7 trillion (record high)
  - Credit card balances: up 14% year-over-year
  - Delinquencies are rising—still manageable, but trending higher
- Sentiment remains resilient—Michigan survey rose in July on inflation and job stability optimism.

Bottom line: The consumer hasn't cracked, but they are adjusting, spending more cautiously, and increasingly on borrowed momentum.

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6

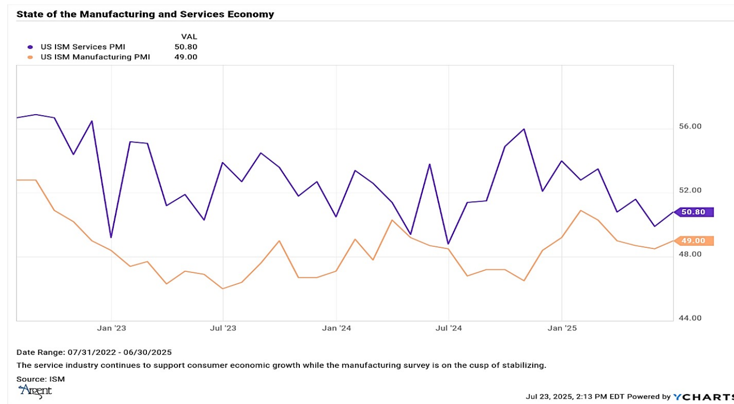
Two Economies, One Headline

Two Economies, One Headline: Services Grind On, Manufacturing Stalls

- The U.S. economy continues to split, services holding firm, manufacturing lagging
- ISM Services Index: Rebounded to 50.8 in June versus ISM Manufacturing Index: Fell to 48.5—fourth straight contraction
- Consumer-facing sectors (travel, healthcare, logistics) are stable / Industrial side: new orders down, hiring flat, backlogs shrinking
- Capital spending expected to slow—over 40% of CFOs cite caution, especially in manufacturing
- Tariff uncertainty adds pressure; many firms plan to pass on full cost increases
- Winners: Aerospace, semis, energy infrastructure / Losers: Textiles, chemicals, appliances—facing soft demand and inventory overhang
- Supply chains stable but flashing warning signs—freight, rail, and port data softening
- **Bottom line:** Services are supporting the economy; manufacturing remains fragile and sensitive to policy shocks-the upside though is a renewed resurgence in transitioning to Manufacturing in the U.S and localizing supply chains where possible.

7

State of the Manufacturing and Services Economy



8

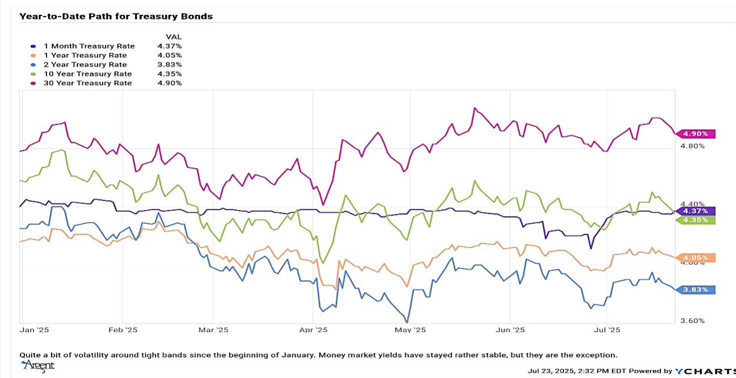
Market Internals

Market Internals: Cracks, Rotation, and Sideline Cash

- Treasury yields have been volatile but range-bound:
  - 10-year yield ~4.35% (down from 4.57% YTD)
  - 2-year yield ~3.83% (down from 4.25%)
- High-yield credit spreads remain stable:
  - Current range: 250–300 basis points over Treasuries
  - No signs of credit stress; default rates below long-term averages
- Investment-grade debt issuance is steady
- Bond market tone: Cautious but orderly—not distressed
- Cash positioning remains a key story:
  - Money market fund balances exceed $6 trillion
  - Some T-bill rotation, but much is strategic cash waiting for clarity
- Institutional allocators are hesitant, and retail equity flows remain modest despite solid equity performance YTD

Bottom line: Beneath equity strength, market internals point to risk awareness, a patient stance on reinvestment, and a continued divergence between sentiment and positioning.

Path for Treasury Bonds



Quite a bit of volatility around tight bands since the beginning of January. Money market yields have stayed rather stable, but they are the exception.

Domestic Equity Outlook – H2 2025

Market Context

- Equity gains YTD have been solid—but supported by narrow leadership and stretched valuations
- S&P 500 trades at just over 22x forward earnings, above historical norms
- Tech and communication services carry margins; other sectors lag on profitability
- Market concentration remains high; earnings breadth hasn't fully developed

Opportunities

- AI infrastructure is a secular—not cyclical—theme; first-wave names have run, but second/third-tier enablers (logistics, automation, enterprise software) are still underowned
- Small caps may offer contrarian value; the Russell 2000 trades at a deep relative discount to large caps
- Improving credit conditions and potential Fed rate cuts could favor capital-intensive, rate-sensitive sectors

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11

Domestic Equity Outlook – H2 2025 Cont'd.

Risks and Headwinds

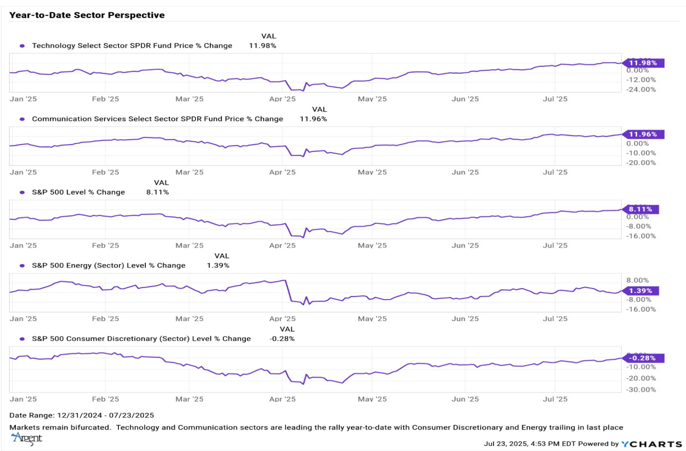
- U.S. debt service costs are crowding out discretionary policy space
- Treasury issuance remains historically high, pressuring yields and liquidity
- Interest rate volatility still matters—particularly for banks, real estate, and levered balance sheets
- The Fed's "wait-for-disinflation" stance may keep credit tight and cash on the sidelines longer than expected
- Tariff overhang re-emerging: renewed tensions with China, plus EU-U.S. alignment on subsidy scrutiny

Investment Implication

- Stock picking beats index chasing in this environment—selectivity matters
- Resilience ≠ strength—it means flexibility, readiness, and patience
- Market leadership needs to broaden; the path forward may favor under owned and underappreciated names

12

Sector Perspective



13

Global Equity Outlook – Rotation and Reform Themes

Macro Themes

- Investors are widening the aperture: searching for valuation support, reform momentum, and diversification
- Capital rotation abroad is growing—but selectively

Regional Highlights

- Japan: Corporate governance reform, improved shareholder returns, and more consistent policy posture drawing inflows
- India: Structural growth story continues; domestic demand and policy reforms offer multi-year support
- Latin America: Commodity leverage and export relationships driving interest, particularly Brazil and Mexico
- Europe: Mixed signals—broad macro weakness persists, but certain sectors (luxury goods, industrial automation) are showing relative strength

Risks to Watch

- Global tariff policy still a wildcard; U.S.–China–EU trade realignments could destabilize supply chains
- Political transitions in key economies may increase headline risk
- Currency volatility and energy pricing could challenge imported growth themes

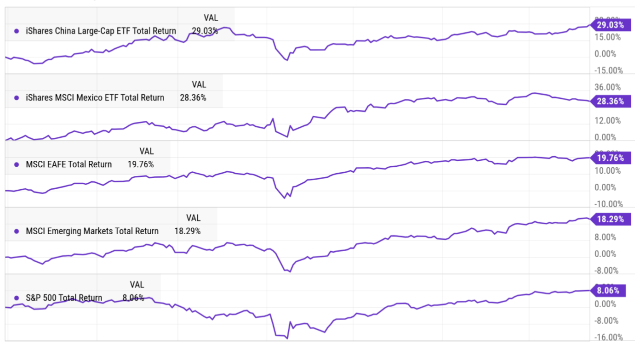
Investment Implication

- Global equity allocation requires targeted exposure, not blanket positioning
- Areas of innovation and efficiency (automation, energy transition, AI infrastructure) may outperform broad indices
- The international setup favors valuation-aware entry, particularly where reforms or capital inflows are accelerating

14

Global Equity Outlook Cont'd.

Global Markets Outperform U.S. Markets



Date Range: 12/31/2024 - 07/22/2025

Although the foreign markets have selectively taken the performance lead over the U.S, valuations are still reasonable providing opportunistic portfolio additions.

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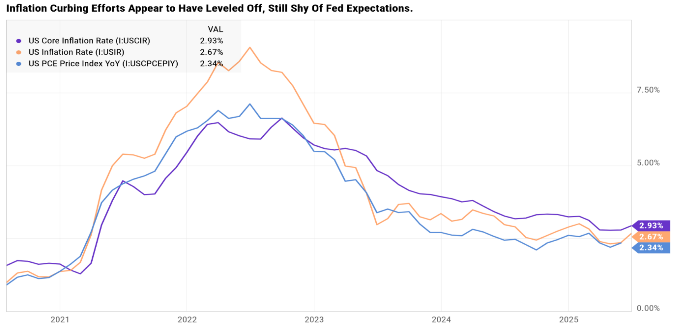
Inflation, Rates, and the Fed's Slow Descent

Inflation, Rates, and the Fed's Slow Descent

- Headline CPI has dropped from its June 2022 peak of 9.1% to 2.7% year-over-year as of June 2025. Core CPI is now 2.9%, down from 6.6% in 2022; Core PCE sits at 2.3%
- Disinflation has been driven by falling goods prices (energy, used vehicles, apparel), while service inflation, especially shelter, healthcare, insurance—remains elevated. Housing services account for over 35% of CPI.
- Household cost pressures are uneven: gas prices are down 10–12% YoY, grocery inflation has stopped rising but remains above pre-pandemic levels, auto insurance costs have surged 8–30% in some states, restaurant prices are rising, and airfares, after peaking, are firming amid travel demand.
- The Fed raised its policy rate to 5.25%–5.50% in July 2023 then gradually reduced it to 4.25%–4.50% by December 2024, where it has remained since.
- Market expectations suggest roughly a 60–70% chance of a rate cut in September 2025, with a potential second cut by year-end. As of mid-July, September cut odds are ~60–71%.
- Fed officials remain cautious. Governor Christopher Waller said, "There is no rush to cut rates. We need sustained improvement in inflation, especially core services." It's echoed by San Francisco Fed President Mary Daly.

Inflation Curbing Efforts

Inflation Curbing Efforts Appear to Have Leveled Off, Still Shy Of Fed Expectations.



Date Range: 07/31/2020 - 06/30/2025

Best efforts from the Fed have failed to bring rates to the 2% level expected by the Fed.

Sources: BLS, BEA

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17

Summary

Closing Thought: Selectively Positioned, Cautiously Optimistic

Markets have rewarded resilience so far in 2025—but resilience doesn't always signal strength. It often reflects flexibility, adaptability, and the willingness to pivot. As we move through the second half, the most successful investors may not be those who called macro outcomes perfectly, but those who adjusted with discipline.

Opportunities remain—in innovation, in valuation dislocations, and in global rotation. But they coexist with familiar risks: crowded trades, credit dependence, political volatility, and economic fatigue.

A renewed global trade war and shifting political alliances could slow growth, lift inflation, and revive recession concerns. At the same time, markets may respond quickly and favorably to any meaningful progress in trade negotiations. Time is running short—unless deadlines are extended again.

Many companies are delaying long-term planning and expansion efforts due to policy uncertainty. Any changes in tariff structure—regardless of sector—will have ripple effects. The risk of recession may re-enter the narrative if trade frictions persist or escalate.

The 12-month rolling federal deficit peaked at $2.15 trillion in February 2024, driven by rising outlays and slowing revenue growth. As of June 2025, it has eased to $1.9 trillion. For FY 2025, the Congressional Budget Office projects a full-year deficit of $1.865 trillion, or roughly 6.2% of GDP—still well above the historical average of 3.8%.

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18

Summary

While rising tariffs sound like a headwind for multinationals, many large companies are already well-positioned. They've navigated this before. Supply chains continue to regionalize, with firms moving operations closer to end markets—a trend increasingly visible in U.S.-based production.

Meanwhile, AI remains one of the most investable structural shifts in the global economy. The initial phase was chip-driven, but the next wave will broaden: benefiting software, hardware, power infrastructure, cybersecurity, and ultimately, the consumer.

Over the coming months, one or more rate cuts remain likely—despite the public tension between Fed Chair Powell and President Trump. Inflation appears largely under control barring new shocks, and several geopolitical risks have begun to recede.

Flexibility and selective exposure—not blind conviction—may define success in the second half of 2025.

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Tom joined Argent Trust in 2021 and brings to the company over 40 years of experience in the investment management and energy industries. He has graduate degrees in both Economics and Business and today serves as the Chief Investment Strategist working with the team of Argent's experienced portfolio management team. Tom has been active in the professional community, serving as past president of the San Antonio Society of CFA Institute and the San Antonio Business & Economic Society. He currently serves as the 2025 Chair of Vibrant Works Board of Directors (formerly S.A. Light House for the Blind) and currently serves as Chair of the St. Mary's Jurica Endowment Trust. Tom holds the Chartered Financial Analyst® designation and is a licensed CPA® and CFP®.

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