Solid ISM Services Steady Jittery Market

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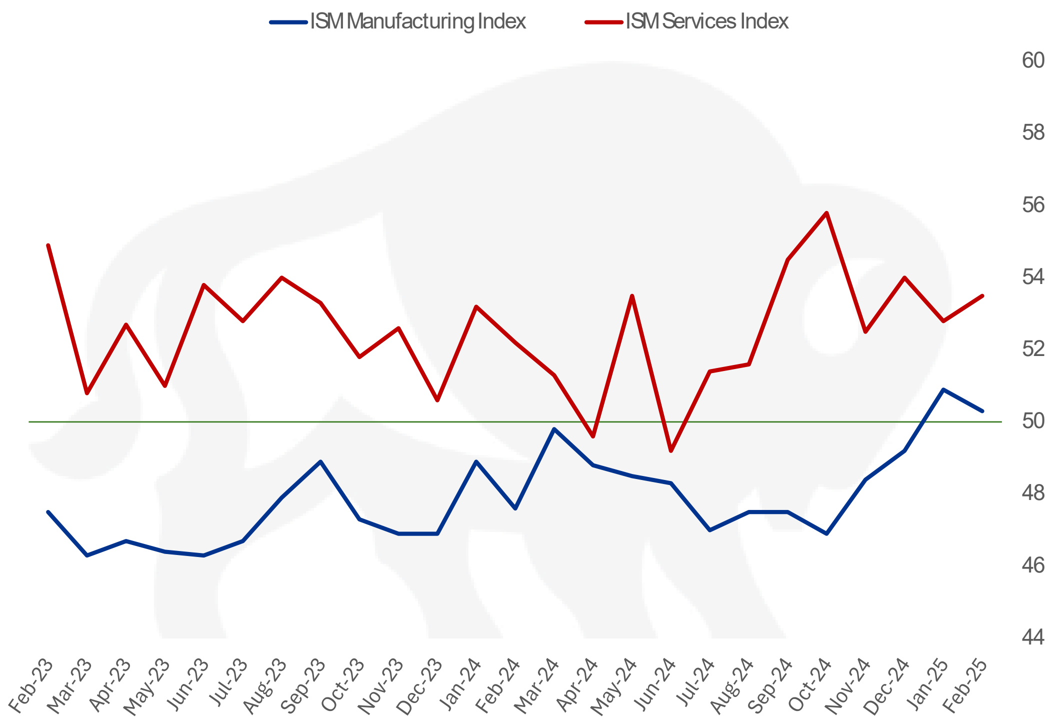
The February survey from Institute for Supply Management (ISM) indicated purchasing managers in the service sector remain cautiously optimistic with 14 of 17 industries reporting growth. This morning's mostly upbeat release served to counterbalance a flurry of recent pessimism surrounding tariff concerns.

The 53.5 composite services index signaled expansion (above 50) for the 54th time in 57 months of post-recession recovery, exceeding the median forecast (52.5) but below the post-recession average (56). Although the current business activity index slipped a tenth to 54.5, it was the 57th consecutive month of expansion.

ISM Purchasing Managers Index



ISM Purchasing Managers Index

The prices paid index (an obvious inflation measure) rose from 60.4 to 62.6. According to ISM sources, the February reading marked the first time in almost two years that the price index was above 60 over three consecutive months.

The forward-looking new orders index climbed 0.9 to 52.2 while the employment index increased by 1.6 to 53.9, the highest since December 2021. The prices paid index (an obvious inflation measure) rose from 60.4 to 62.6. According to ISM sources, the February reading marked the first time in almost two years that the price index was above 60 over three consecutive months.

A majority of purchasing manager comments focused on the uncertainty fostered by looming tariffs:

- "Tariff actions have created chaos in information and pricing measures, forecasting and forward buys, which may artificially inflate purchases to be followed by a drop off."

Please see disclosure starting on page 3.

- "There is great uncertainty about future business activity due to the risk of tariffs and other potential government actions."
- "Implementation of tariffs will have a significant cost impact to our projects. The majority of the capital equipment we purchase is not manufactured in the U.S., or components that make the equipment come from overseas manufacturers. We are also seeing U.S. prices rise in anticipation, which is a similar reaction of the U.S. suppliers when the previous tariffs were introduced."

The ISM *manufacturing survey results* for February were released on Monday. Although the composite factory index held just above 50 (signaling mild expansion for the second straight month), many sub-indexes indicated concern among factory managers.

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The current production index slipped from 52.5 to 50.7, mirrored the headline with a second month of mild factory expansion. However, the forward-looking new orders index dropped from 55.1 to 48.6, indicating contraction after three months of expansion, while the employment index fell from 50.3 to 47.6, also into contraction territory.

The prices paid index jumped from 54.9 to 62.4 as an increased number of factory managers reported higher prices. According to a statement posted by ISM, the acceleration in prices was due to tariffs, causing new order placement backlogs, supplier delivery stoppages and manufacturing inventory impacts.

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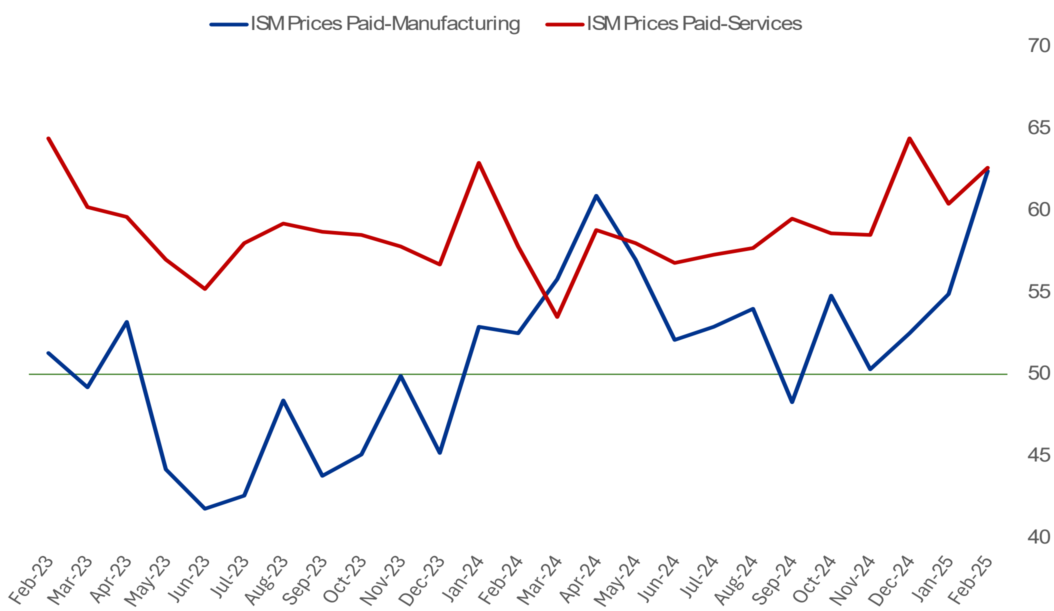
ISM Purchasing Managers Prices Paid Index



Source: Institute for Supply Management

Ten manufacturing industries indicated expansion while five registered contraction. Similar to the service survey, tariff concerns dominated factory manager's comments:

- "The tariff environment has created uncertainty and volatility among our customers and increased our exposure to retaliatory measures from these countries."
- "Customers are pausing on new orders as a result of uncertainty regarding tariffs. There is no clear direction from the administration on how they will be implemented, so it's harder to project how they will affect business."

- “The incoming tariffs are causing our products to increase in price. Sweeping price increases are incoming from suppliers. Most are noting increases in labor costs. Vendors are indicating open capacity. Inflationary pressures are a concern. Our company is working diligently to see how the new tariffs will affect our business.”
- The uncertainty about tariffs keeps us cautious on spending, despite the strong sales right now.”

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Market Indications as of 10:24 A.M. Central Time

DOW	Down -40 to 42,481 (HIGH: 45,014)
NASDAQ	Down -81 to 18,204 (HIGH: 20,174)
S&P 500	Down -12 to 5,766 (HIGH: 6,144)
1-Yr T-bill	current yield 4.03%; opening yield 4.04%
2-Yr T-note	current yield 3.94%; opening yield 3.97%
3-Yr T-note	current yield 3.94%; opening yield 3.97%
5-Yr T-note	current yield 4.01%; opening yield 4.03%
10-Yr T-note	current yield 4.23%; opening yield 4.24%
30-Yr T-bond	current yield 4.54%; opening yield 4.53%