Miller Howard
INVESTMENTS

Evaluating Trajectories

QUARTERLY REPORT 3Q 2025

Major US equity indices hit new highs with the S&P 500 Index rising ~8% during the quarter. Corporate earnings also marched to an all-time high, painting a compelling picture that all is well in US markets. Despite this strength, the market has felt a bit like The Cat in the Hat holding up a cup, cake, three books, and a fish on a rake as he precariously balances on a ball.

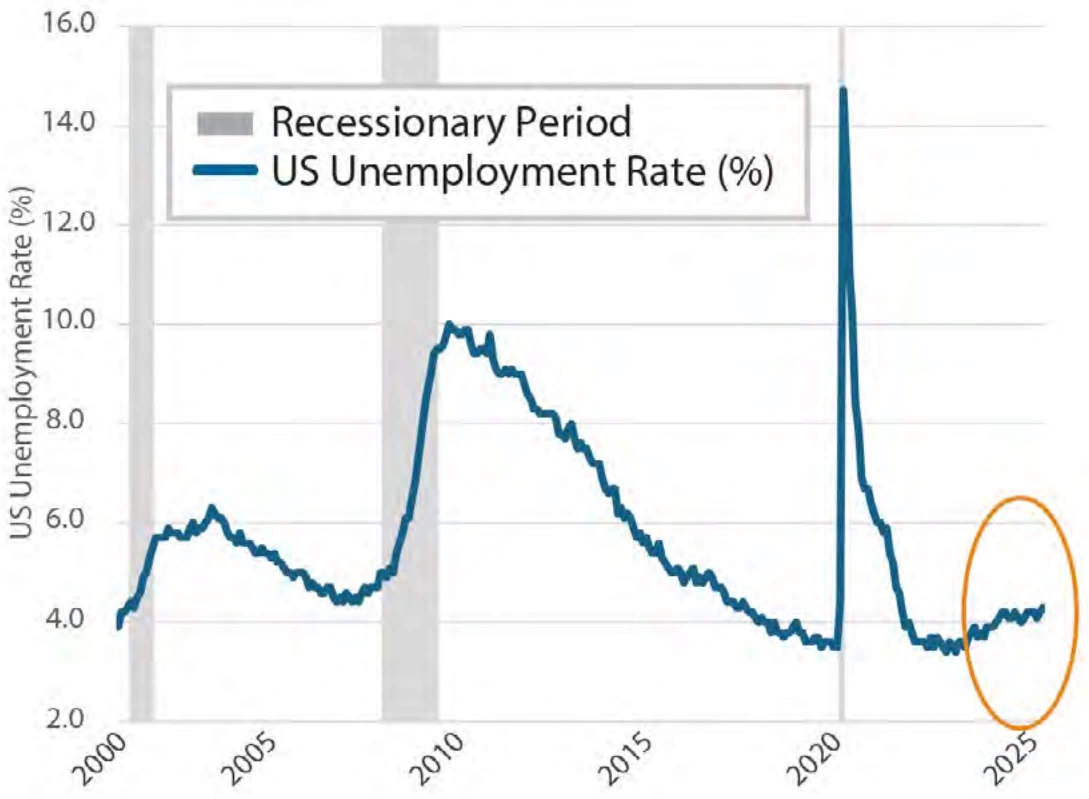
An ever-expanding list of factors to juggle has cast a tremendous amount of uncertainty on inflation and interest rate trajectories.

In late September, we gained more visibility into the path of interest rates when the Federal Reserve (Fed) cut its policy interest rate by 25 basis points to 4.00%-4.25%. The median projection among Federal Open Market Committee (FOMC) participants implies we will see two more cuts that bring the federal funds rate to 3.6% at year end. While the Fed dot plot suggests another cut in 2026, the dispersion of estimates indicates a wide range of potential outcomes.

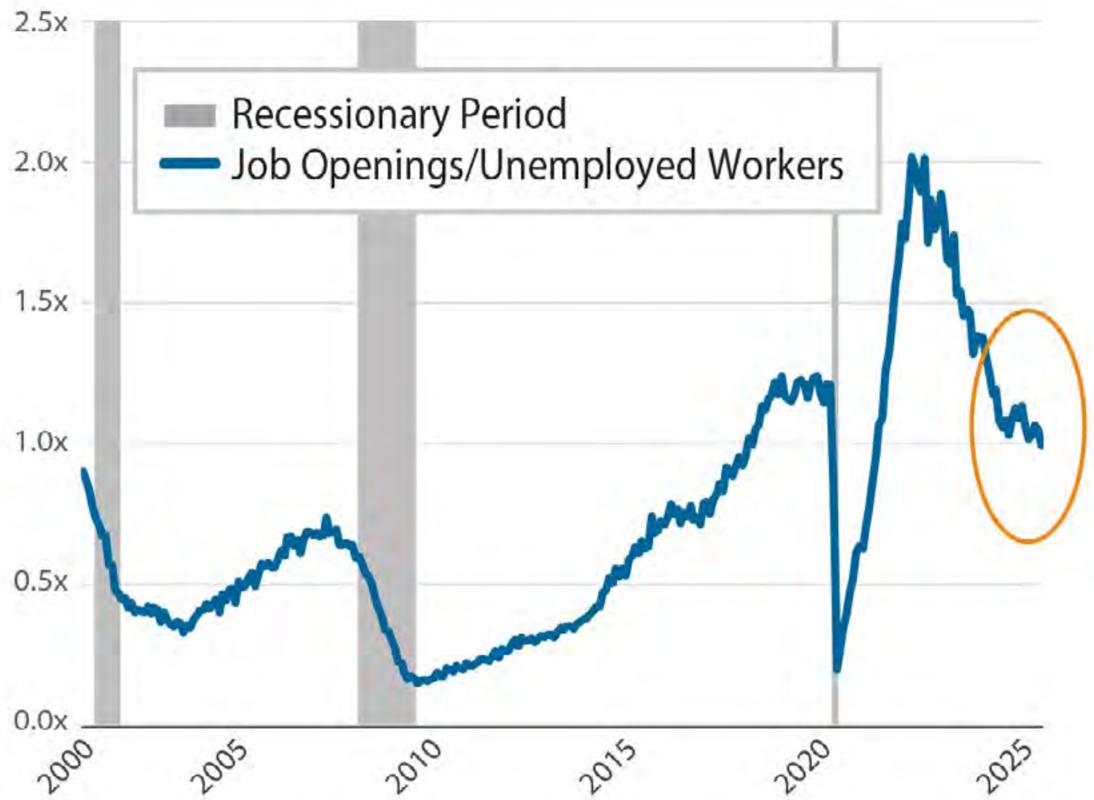
The latest cut was the first in nine months as the Fed prioritized further neutralizing its currently restrictive policy rate in the face of a weakening labor market. At the Fed's most recent meeting, Chairman Jerome Powell noted, "Downside risks to employment have risen." While unemployment remains low, it has edged up to 4.3% as slowing job gains run below the breakeven rate needed to keep unemployment constant. For the first time since April 2021, the ratio of new job openings for each unemployed person also fell below 1x in July.

US Employment Picture Has Deteriorated

Rising Unemployment Rate



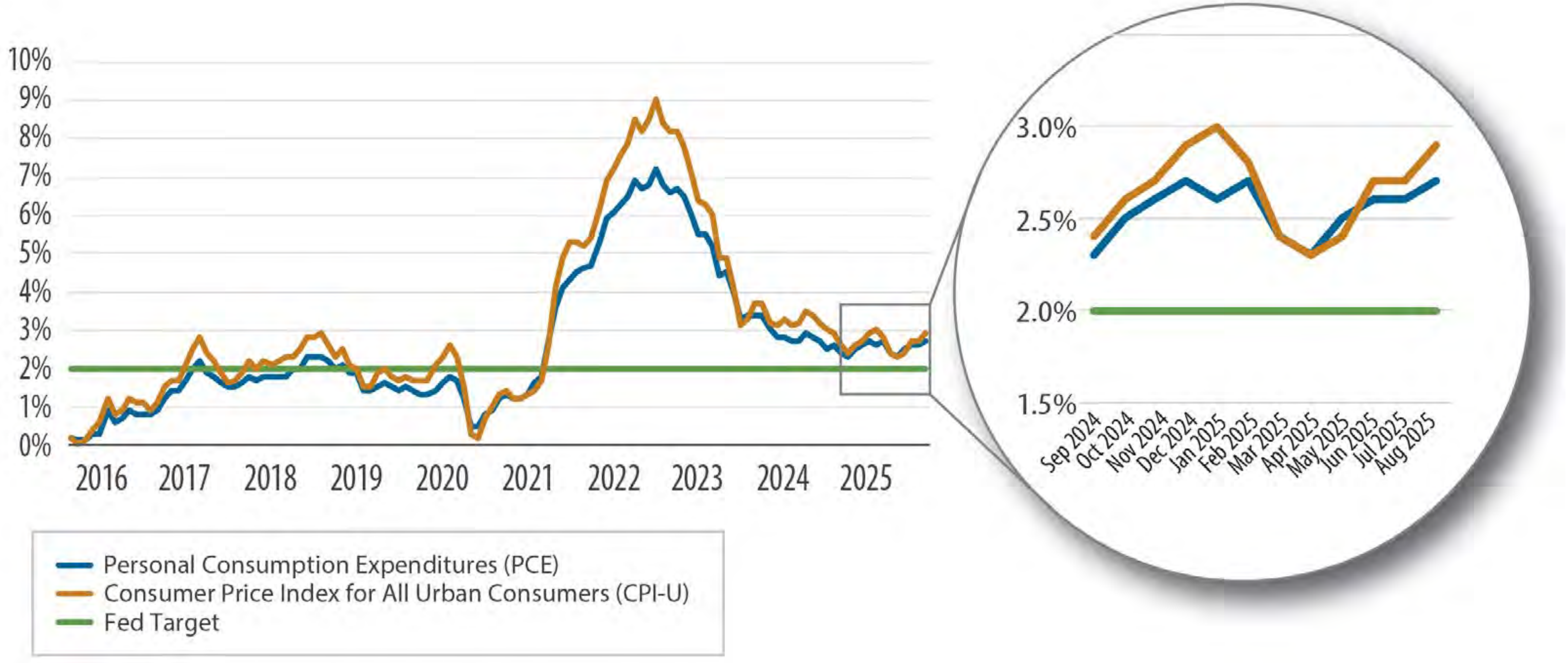
Falling Job Openings/Unemployed Workers



As of August 31, 2025. Sources: Bloomberg; Federal Reserve Economic Data, Federal Reserve Bank of St. Louis; Miller/Howard Research & Analysis. The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey. Job openings is measured using the US job openings by industry total (seasonally adjusted). This concept tracks the number of specific job openings in an economy. Unemployment measures the number of people who are without work (not in paid employment or self-employed), currently available for work and seeking work (taking specific steps to find work).

Alongside labor market weakness, inflation has remained sticky. Though it has eased from mid-2022 levels, it has remained above the Fed's 2% target for over four years (The Fed's target is based on the Personal Consumption Expenditures Index (PCE)). Since the end of the first quarter of 2025, inflation has edged higher, driven by goods inflation. For August (the latest avail- able data), the PCE and Consumer Price Index for All Urban Consumers (CPI-U) came in at 2.7% and 2.9%, respectively.

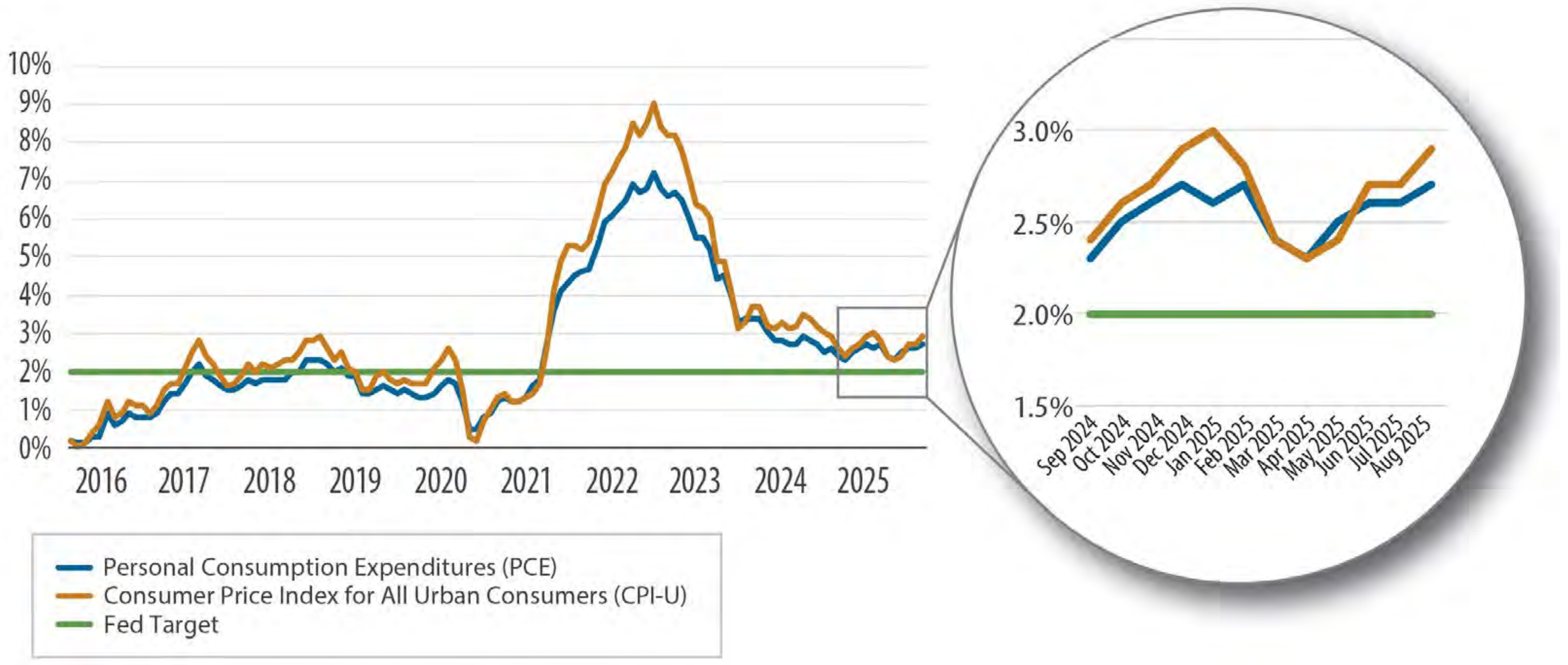
US Inflation Rates Have Picked Up Again—And Remain Above the Fed's Target



As of August 31, 2025.
Sources: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis; Miller/Howard Research & Analysis. The Fed's 2% inflation target is based on the Personal Consumption Expenditures Index (PCE). Personal Consumption Expenditures and Consumer Price Index are illustrated as the change from a year ago.

At face value, cutting interest rates with inflation still running above the Fed target seems concerning given their generally inverse relationship—even more so with inflation edging higher over the last 4 months. With that said, we are not without precedent as over a half a dozen easing cycles since the 1970s began with inflation at or above 3%.

US Inflation Rates Have Picked Up Again—And Remain Above the Fed's Target



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Sources: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis; Miller/Howard Research & Analysis. The Fed's 2% inflation target is based on the Personal Consumption Expenditures Index (PCE). Personal Consumption Expenditures and Consumer Price Index are illustrated as the change from a year ago.

What makes the current environment unique is the large number of factors casting uncertainty on the economic environment. With executive orders at historic levels, the markets have had to digest massive policy shifts including tariffs, immigration, and deregulation. While more limited in scope, legislation like the One Big Beautiful Bill Act also has material implications. Further complicating matters are questions around AI proliferation (and this relatively narrow segment driving growth), a historically concentrated equity market, Fed independence, and economic data integrity. Given this backdrop, it seems entirely unsurprising that FOMC participants' assessment of uncertainty around their economic projections lean heavily toward "Higher" (than the past 20 years), and their assessment of the risks to their inflation and unemployment projections are weighted to the upside and risks to GDP growth projections are weighted to the downside.

Multiple Paths Lead to the Same Place

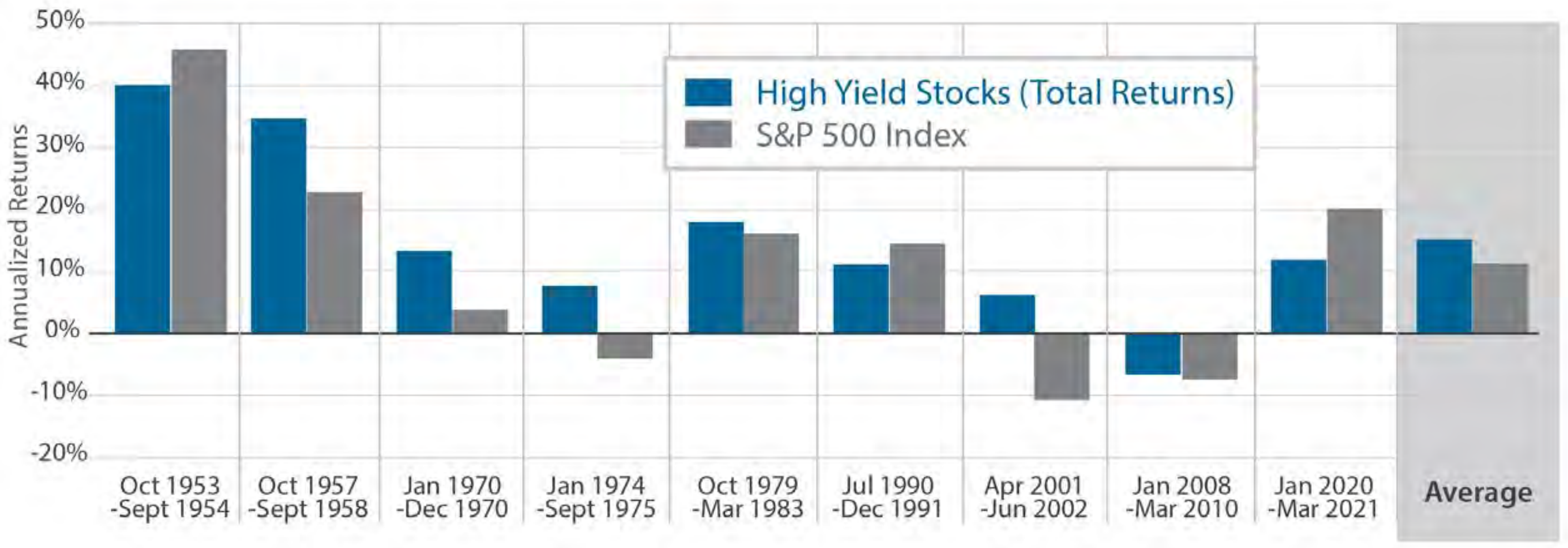
Given the outstanding risks, it is hard to have conviction in a specific course or outcome (at least not without a healthy dose of hubris). As we have discussed in the past, **we believe the key is to choose an investment strategy that can work in various environments.**

With this in mind, we believe it is more informative to explore multiple scenarios based on conceivable risks. To this end, we evaluated how high-yield dividend stocks performed in low-growth, high-inflation, stagflation, and steepening-yield-curve environments.

Low Growth

Real GDP has moderated, largely reflecting a slowdown in consumer spending. Given that roughly 70% of GDP is consumer demand, it seems reasonable to expect that the full consequences of tariffs, deteriorating labor markets, and lower immigration could create additional headwinds to growth for the US economy. We are already seeing signs of credit deterioration among lower-income consumers who are generally more sensitive to labor markets and tariffs. While the Fed's monetary support is helpful, consumers may not be as interest-rate sensitive as prior periods given interest rates were at historic lows five years ago.

High-Yield Dividend Stocks Have Outperformed in Low Real GDP Growth Environments

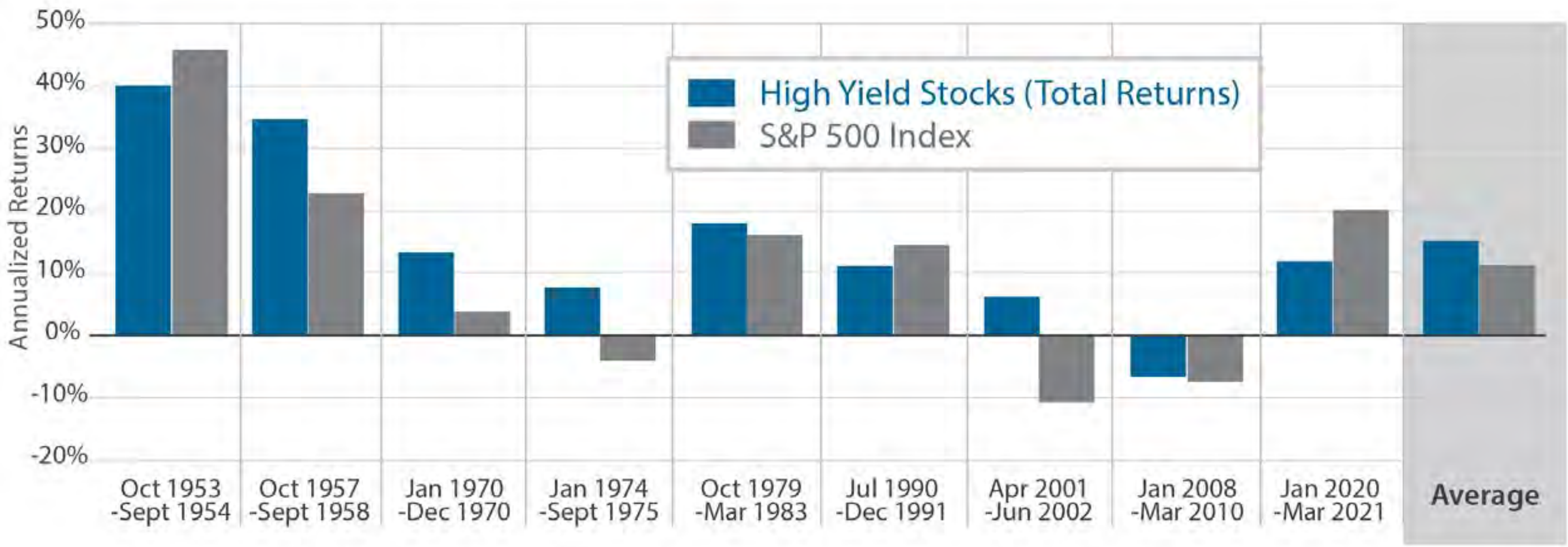


As of September 30, 2025. Sources: Morningstar Direct; Bloomberg; Fama/French; Federal Reserve Economic Data, Federal Reserve Bank of St. Louis; Miller/Howard Research & Analysis. Low real GDP growth environments are periods of four or more consecutive quarters with year-over-year real GDP growth below 2%. High-yield stocks reflects a basket of the total returns for deciles 7, 8, & 9 as provided by Fama/French (value-weighted). Total returns have been annualized for each defined period.

Low Growth

We identified nine periods over the last 75 years in which real GDP growth dropped below 2% for at least a year (real GDP growth was ~2% for the first half of 2025). In these periods, high-yield dividend stocks delivered strong absolute returns, averaging a ~15% annual growth rate. Returns during the 1950s bolstered the average returns, but even excluding these periods, total return averaged a ~9% annual growth rate. Total returns were positive in eight out of nine periods with the Global Financial Crisis as the lone exception. High-yield dividend stocks also exhibited strong relative performance, outperforming the broad market two-thirds of the time and by ~4% on an average annualized basis.

High-Yield Dividend Stocks Have Outperformed in Low Real GDP Growth Environments



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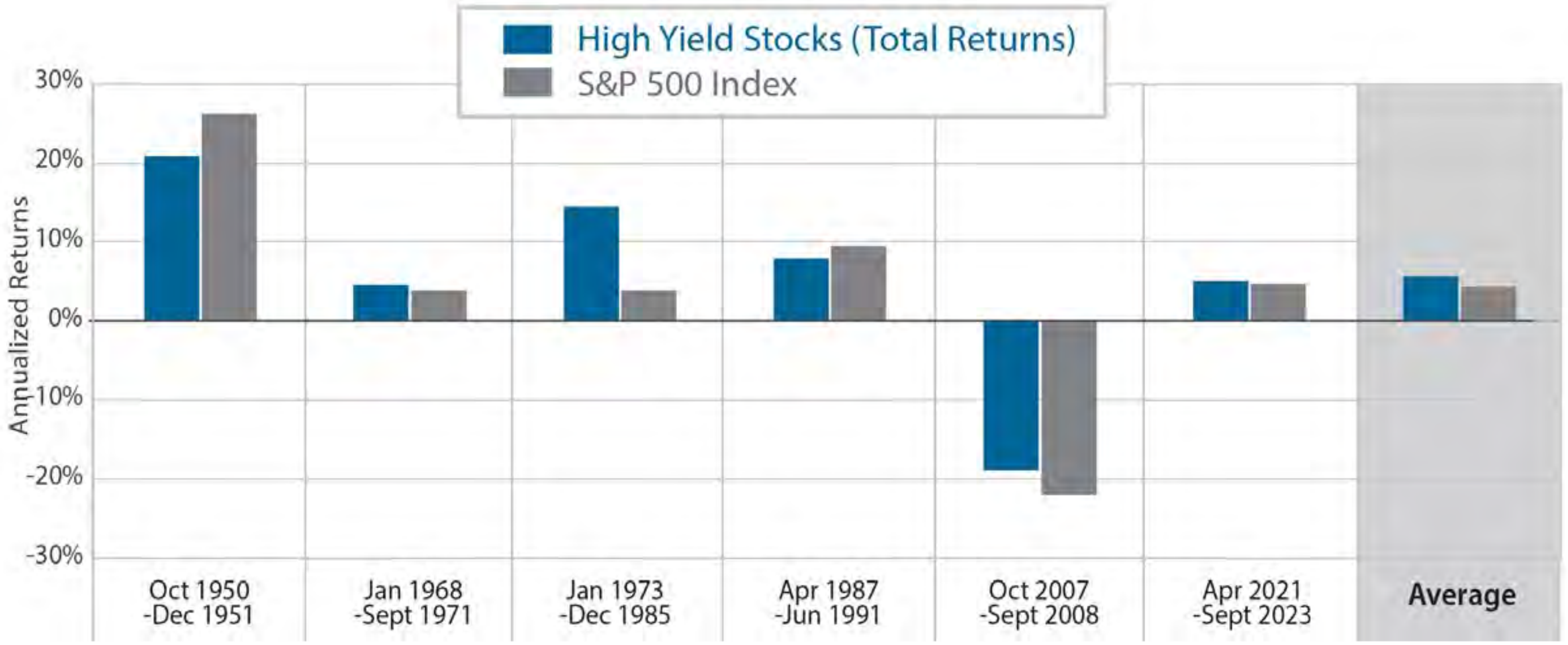
High Inflation

Inflation has been range-bound for the last two years. The median projection among FOMC participants lays out a sanguine trajectory back to its target with an inflation expectation of 2.6% in 2026, 2.1% in 2027, and 2.0% in 2028 and beyond. Public markets aren't quite as certain. While not extreme, the spread between the 5-year Treasury and 5-year Treasury Inflation-Protected Securities (TIPS) implies an annual inflation expectation of 2.4% over the next five years.

Inflation expectations are—for right or wrong—being heavily influenced by the potential impact from tariffs. While uncertainty remains around tariff negotiations and ultimate levels, it seems likely that the full impact of tariffs has not been felt, and that as time goes on, they are more likely to be passed on to consumers. Tariffs have also been fluid since they were first announced in April, giving us little reason to believe there couldn't be incremental announcements. Additionally, expansionary monetary policy is commonly viewed as inflationary, adding another upward bias.

High-Yield Dividend Stocks Have Outperformed in Inflationary Environments



As of September 30, 2025. Sources: Morningstar Direct; Bloomberg; Fama/French; Federal Reserve Economic Data, Federal Reserve Bank of St. Louis; Miller/Howard Research & Analysis. High inflationary environments are defined as periods where CPI-U was above 3.5% year-over-year (its average over the trailing 75 years) for at least one year. High-yield stocks reflects a basket of the total returns for deciles 7, 8, & 9 as provided by Fama/French (value-weighted). Total returns have been annualized for each defined period.

High Inflation

We identified six periods over the last 75 years in which the CPI-U was above 3.5% year-over- year—its average over that time—for at least one year. Inflation during these periods ranged from roughly 4.5% to 7.5% with the highest periods of inflation occurring from 1950-1951 and 1973-1985. Across the six periods of high inflation, high-yield dividend stocks delivered positive returns in five of them, again with the Global Financial Crisis being the lone exception. High-yield dividend stocks also exhibited strong relative performance, outperforming the broad market two-thirds of the time and by ~2% on an annualized basis.

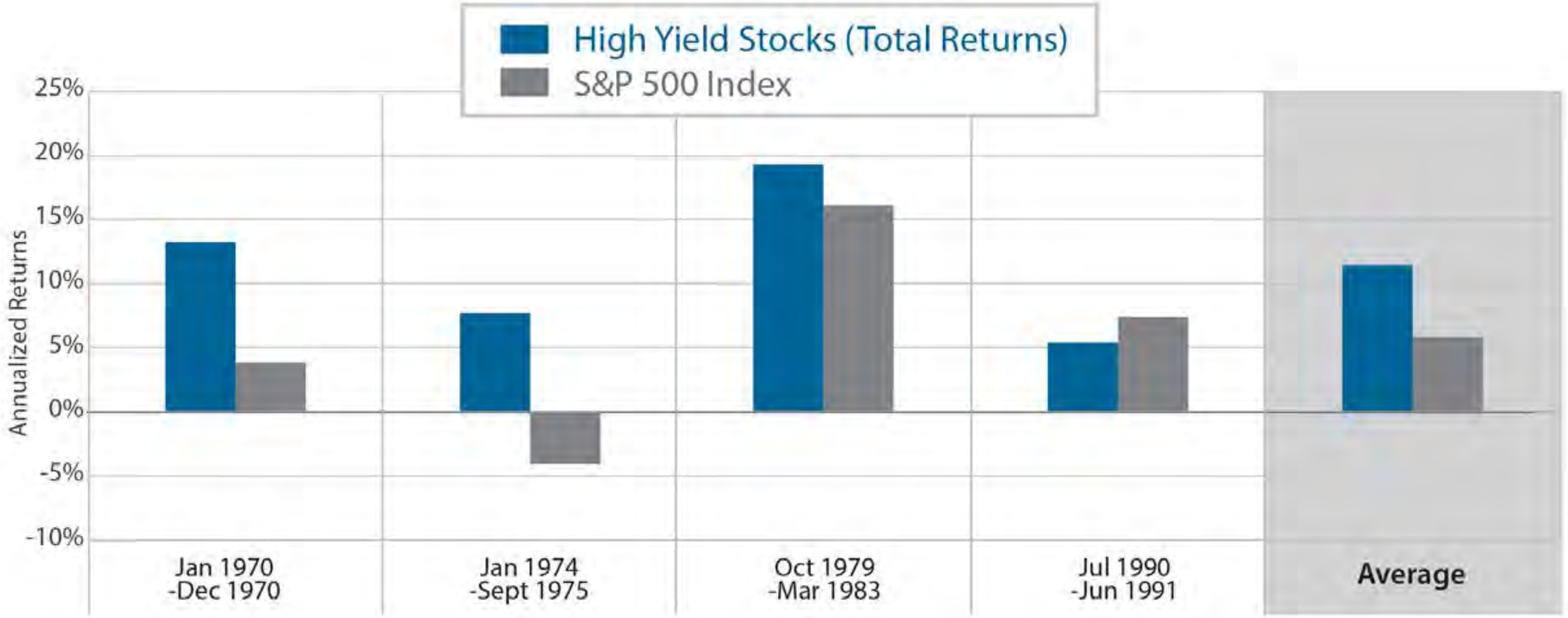
Stagflation

Stagflation—commonly defined as a combination of stagnant economic growth, high unemployment, and high inflation—was prominent in the early 1970s to early 1980s. In fact, a member of our sales team, offered to get his platform shoes out of the attic upon hearing we were going to address the topic. The condition has largely been avoided since the 1970s, although discussions of stagflation have increased this year as Jerome Powell has recognized the risks of higher unemployment and higher inflation. While stagflation is not our baseline assumption, we do acknowledge Powell's point when he said, "We may find ourselves in the challenging scenario in which our dual-mandate goals are in tension."
In this scenario, the risk becomes more palpable.

Stagflation

We identified four periods over the last 75 years in which real GDP dropped below 2% and inflation was above 3.5% (in other words, the combination of the prior two lower-growth and higher-inflation scenarios). For simplicity, unemployment was not used to identify the periods, but it accelerated through each of the periods ending at above-average levels. In these periods of stagflation, high-yield dividend stocks delivered positive returns in each period, averaging an ~11% annual growth rate. High-yield dividend stocks also exhibited strong relative performance, outperforming the broad market three-quarters of the time and by ~5.5% on an average annualized basis.

High-Yield Dividend Stocks Have Outperformed in Periods of Stagflation



As of September 30, 2025. Sources: Morningstar Direct; Bloomberg; Fama/French; Federal Reserve Economic Data, Federal Reserve Bank of St. Louis; Miller/Howard Research & Analysis. Stagflation is defined as periods with both low real GDP growth (real GDP growth dropped below 2% for at least a year) and high inflation (CPI-U was above 3.5% year-over-year for at least one year). High-yield stocks reflects a basket of the total returns for deciles 7, 8, & 9 as provided by Fama/French (value-weighted). Total returns have been annualized for each defined period.

Steepening Yield Curve

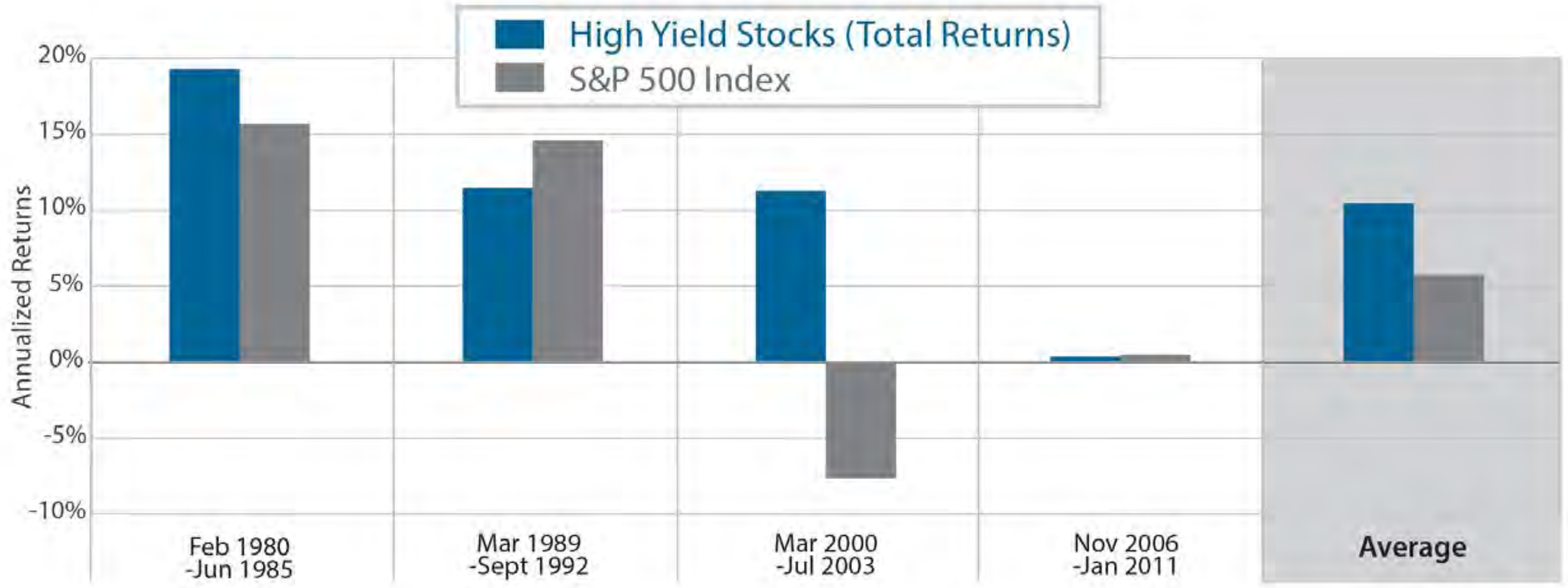
Unlike the disparate views around the potential market risks, investors appear to have coalesced around the idea of a steepening yield curve. This isn’t exactly going out on a limb considering the yield curve has been steepening since mid-2023, but there is strong evidence the trend will continue.

Fed projections suggest the front end of the yield curve is likely to continue to come down. At the same time, the indebtedness of the federal government and expectations for widening deficits could keep the long end of the curve elevated. Swap futures currently point to a continued steepening of ~25 basis points by year end 2026.

Steepening Yield Curve

We identified four periods over the last nearly 50 years in which the yield curve steepened. In this exercise, we defined yield curve steepening as the yield on the 10-year Treasury minus the yield on the 2-year Treasury increasing by 300 basis points (or more) from trough to peak. The periods were dissimilar in many ways and included times of high inflation, the savings and loan crisis, the dot-com bubble, and the Global Financial Crisis. Still, across all of these periods, the yield curve generally steepened over the course of a three-to-five-year period as the short end of the curve declined faster than the long end of the curve.

High-Yield Dividend Stocks Have Outperformed in Steepening Yield Curve Environments

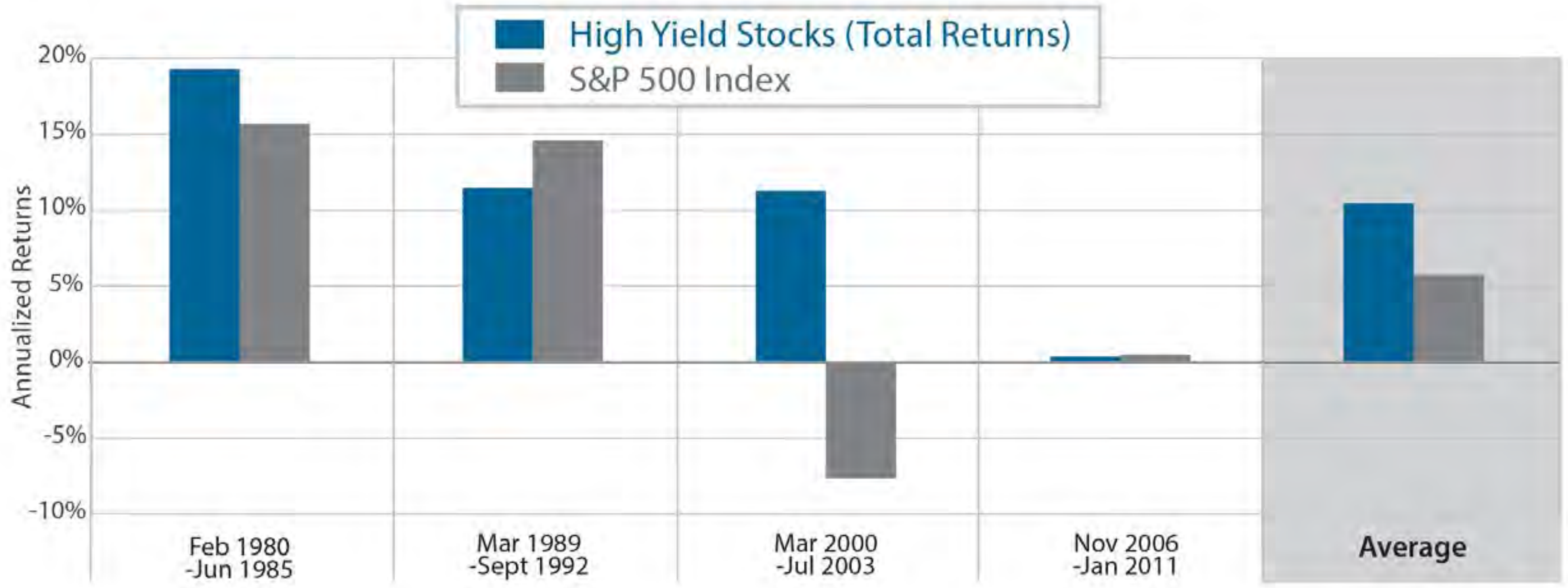


As of September 30, 2025. Sources: Morningstar Direct; Bloomberg; Fama/French; Federal Reserve Economic Data, Federal Reserve Bank of St. Louis; Miller/Howard Research & Analysis. Steepening yield curve environments are defined as the yield on the 10-year Treasury minus the yield on the 2-year Treasury increasing by 300 basis points (or more) from trough to peak. High-yield stocks reflects a basket of the total returns for deciles 7, 8, & 9 as provided by Fama/French (value-weighted). Total returns have been annualized for each defined period.

Steepening Yield Curve

During these periods, high-yield dividend stocks posted positive absolute returns. Total return was positive in all four periods, averaging over 10% on an annualized basis. High-yield dividend stocks also exhibited strong relative performance, with returns exceeding the broad market's return by nearly 5% on an annualized basis. Relative outperformance was most pronounced in the 2000-2003 period, which included the fallout from the dot-com bubble where tech stocks dramatically under- performed the rest of the market.

High-Yield Dividend Stocks Have Outperformed in Steepening Yield Curve Environments



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Miller/Howard continues to believe that investors are best off adopting investment strategies that can control risk and offer reliable returns, even through volatile times.

While the ultimate trajectory remains unclear, history suggests high-yield dividend stocks are well positioned to weather multiple potential market environments.

DISCLOSURE

Miller/Howard Investments Inc. is an independent, research-driven investment boutique with over three decades of experience managing portfolios for major institutions, mutual funds, and individuals in dividend-focused investment portfolios. The firm is 100% employee-owned through an Employee Stock Ownership Plan (ESOP).

We continue to evolve and develop portfolios that strive to provide investors with various levels of current income and dividend growth. Our objectives are to generate total returns in line with the broad equity market and provide a high and rising stream of income with the lower volatility that an investor might seek from bonds or other income alternatives. With a primary goal of reliable income and long-term returns, coupled with a belief that investors can play an important role in securing a sustainable future, our shareholder advocacy efforts include environmental, social, and governance (ESG) research and/or screening, direct engagement with companies, filing shareholder resolutions, proxy voting, coalition building, and public policy involvement.

The investment strategies described herein are those of Miller/Howard Investments. These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these Miller/Howard Investments materials are preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Advisor.

DEFINITIONS

High-Yield Stocks reflects a basket of the total returns for deciles 7, 8, & 9 as provided by Fama/French (value-weighted).

S&P 500 Index® widely regarded as the best single gauge of large-cap US equities and serves as the foundation for a wide range of investment products. The Index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

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Notification to Clients: Contact your Advisor with any material changes to your financial profile that would impact your appropriateness for investment.

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