

FIRST Forward™ Investment Insights

Written by Ted Thome, CFA
Equity Research Analyst

August Commentary

The GLP-1 Revolution and the Reshaping of the Investment Landscape

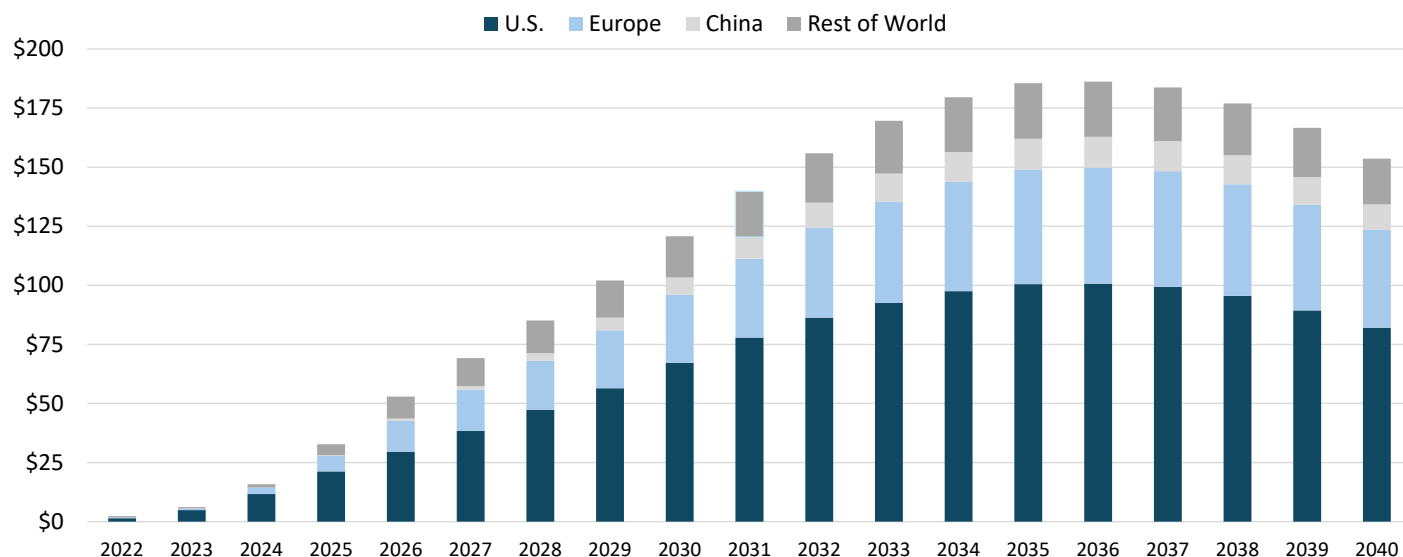
GLP-1 therapies have quickly become one of the most significant developments in modern healthcare and investment markets. What began as a class of medicines primarily used to treat type 2 diabetes has evolved into a major therapeutic category for obesity and metabolic diseases, with broad implications for pharmaceutical companies, healthcare systems, consumer behavior, and the broader economy. For investors, the opportunity is not limited to the companies that developed the leading drugs; it also extends to the distributors, insurers, food companies, and medical device manufacturers that are adapting to this new treatment paradigm.

At the center of this theme is a scientific breakthrough with practical everyday relevance. GLP-1, or glucagon-like peptide-1, is a hormone the body naturally releases after a meal. It helps regulate blood sugar, slows digestion, and sends signals to the brain that create a feeling of fullness. GLP-1 receptor agonists are designed to enhance that signaling, helping patients consume less food, improve glycemic control, and in many cases achieve meaningful weight loss. Newer therapies are expanding on this foundation by targeting additional metabolic pathways, which may improve efficacy, convenience, and durability over time.

The clinical rationale for these therapies continues to broaden. In addition to diabetes and chronic weight management, GLP-1-based medicines have demonstrated benefits in areas such as cardiovascular risk reduction, kidney disease, and obstructive sleep apnea. Clinical studies are also evaluating their potential role in heart failure, fatty liver disease, osteoarthritis, hypertension, polyendocrine metabolic ovarian syndrome, substance-use disorders, Alzheimer's disease, and obesity-linked cancer risk reduction. While not all these opportunities will ultimately translate into approved indications, the pipeline underscores why the category is increasingly viewed as a long-term healthcare theme rather than a short-term product cycle.

The size of the opportunity is substantial. GLP-1 therapies are still in the early stages of adoption, but demand is already meaningful and continues to exceed supply in many markets. Market estimates vary, though many forecasts suggest the obesity drug market alone could exceed \$100 billion by the end of the decade. Patient adoption is expected to rise as supply expands, oral formulations improve convenience, and growing clinical evidence strengthens the case for insurance coverage. This growth is being driven by a large treatment gap: obesity and related metabolic conditions affect a significant portion of the population, yet only a small fraction of eligible patients have historically received prescription treatment.

We Expect Obesity Drug Sales Strength to Continue



Units: Billion USD.

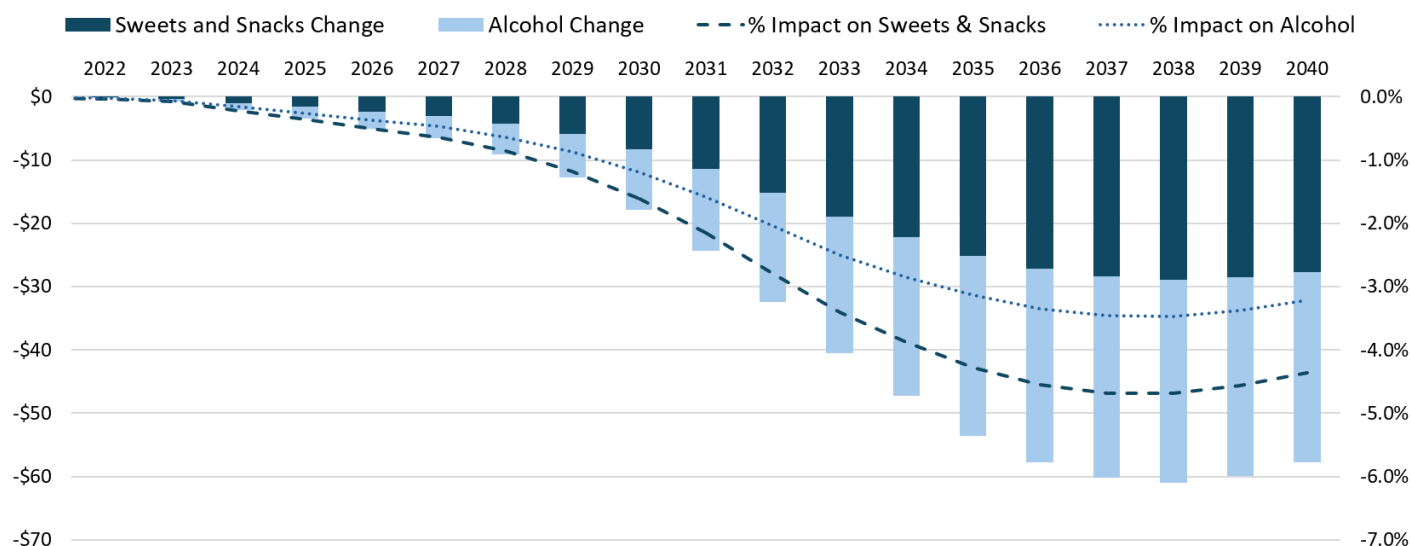
Source: Bloomberg estimates, First American Bank.

From an investment perspective, the most visible beneficiaries remain the leading branded drug manufacturers. Eli Lilly has emerged as a high-conviction direct beneficiary, supported by the rapid growth of Mounjaro and Zepbound, strong clinical efficacy, expanding market access, and a deep pipeline of next-generation therapies. Novo Nordisk remains a major incumbent and category pioneer through Ozempic, Wegovy, and oral semaglutide, although it faces intensifying competition. Other pharmaceutical companies are also attempting to differentiate through new mechanisms, longer dosing intervals, oral formulations, and combination therapies.

The broader investment opportunity extends well beyond the drug developers themselves. Contract development and manufacturing organizations are central to the theme because peptide manufacturing is complex and specialized manufacturing capacity remains constrained. Drug delivery and packaging suppliers may benefit as injectable GLP-1 products scale, while distributors such as Cardinal Health, Cencora, and McKesson may see higher specialty drug volumes. Pharmacy benefit managers and digital health platforms are also part of the evolving ecosystem, particularly as the market shifts from early cash-pay and compounded channels toward broader coverage and more structured weight-management programs.

GLP-1 adoption is also beginning to influence consumer behavior. Patients using these medicines often report reduced calorie intake and shifting preferences toward protein, produce, hydration, and nutritional supplements, while cutting back on snacks, sweets, and alcohol. This creates potential pressure for certain consumer companies, but it is unlikely to affect all companies equally. Businesses that respond by offering higher-protein, nutrient-dense, portion-controlled products may be better positioned than those that view GLP-1 adoption only as a threat. In this sense, the category is likely to create both disruption and opportunity within consumer staples and wellness-oriented markets.

Obesity Drugs Impact the Sales of Sweets, Snacks, and Alcohol



Units: Billion USD on left-hand side; annual percent change right-hand side.

Note: U.S. and European markets.

Source: Bloomberg estimates, First American Bank.

The implications for medical device companies and insurers are more nuanced. Bariatric surgery volumes may face long-term pressure if pharmacological treatment becomes more effective, more accessible, and more widely adopted. At the same time, weight loss may improve patient eligibility for other medical procedures, creating offsetting benefits for select device companies. Insurers must balance the near-term cost burden of covering a large and growing patient population against the potential long-term savings associated with fewer complications from diabetes, cardiovascular disease, kidney disease, sleep apnea, and joint degeneration.

Overall, GLP-1 therapies represent more than a pharmaceutical growth story. They are reshaping how patients manage weight and metabolic disease, how healthcare systems allocate resources, and how companies across multiple sectors position themselves for changing demand. For investors, this theme is best viewed through a diversified and disciplined lens. The most attractive opportunities may include a combination of leading drug innovators, supply chain partners, adaptive consumer companies, and select healthcare businesses that benefit from shifting patient-care pathways. As with any fast-growing investment theme, valuation awareness and ongoing monitoring of competitive, regulatory, and reimbursement developments remain essential.

Monthly Markets Review

U.S. equities finished August higher despite a choppy path, as strong corporate earnings, renewed enthusiasm for artificial intelligence, and resilient economic data outweighed pressure from rising Treasury yields and geopolitical risk. The S&P 500 gained 2.72% for the month, while the Nasdaq led the major indexes with a 3.99% advance, supported by a rebound in technology and AI-linked shares. The Dow Jones Industrial Average rose 1.47%, and small caps, as measured by the Russell 2000 Index, gained 1.51%. August started strong as late-July earnings from hyperscalers (Microsoft, Amazon, and Alphabet) reinforced confidence in AI-related capital spending and helped semiconductor stocks rebound after a roughly 25% pullback from mid-June to late July. Second-quarter corporate earnings continued to post records with 88% of companies that had reported beating estimates, and 2Q S&P 500 EPS growth tracking near 31% (excluding one-time gains), the fastest growth rate outside post-recession recoveries. Profit margins also reached record highs, at 16.9%, the highest level since FactSet began tracking the metric in 2009. A weaker-than-expected jobs report and in-

line inflation data subsided fears of a more aggressive Federal Reserve policy and helped the S&P 500 hit a new record high mid-month.

The main headwind to equities came from the bond market, as long-term Treasury yields climbed back to multi-year highs. With the 10-year yield above 4.70% and the 30-year yield reaching 5.31%, a level last seen before the financial crisis, Treasury Secretary Scott Bessent announced a surprise September buyback program for longer-dated Treasuries. The Treasury plans to at least double purchases of longer-dated nominal Treasuries, increasing the maximum per operation from \$2 billion to at least \$4 billion. Although the increase is relatively modest, the announcement provided some brief relief to borrowing costs with both the 10-year and the 30-year Treasury yields edging lower. Still, the move does little to address the structural pressures behind higher rates, including wider fiscal deficits, firmer inflation expectations, heavy AI-related issuance, and rising global yields. A hawkish tone from Fed Chair Kevin Warsh at Jackson Hole reinforced the market's view that policy could become more restrictive if inflation does not move toward the 2% target quickly enough.

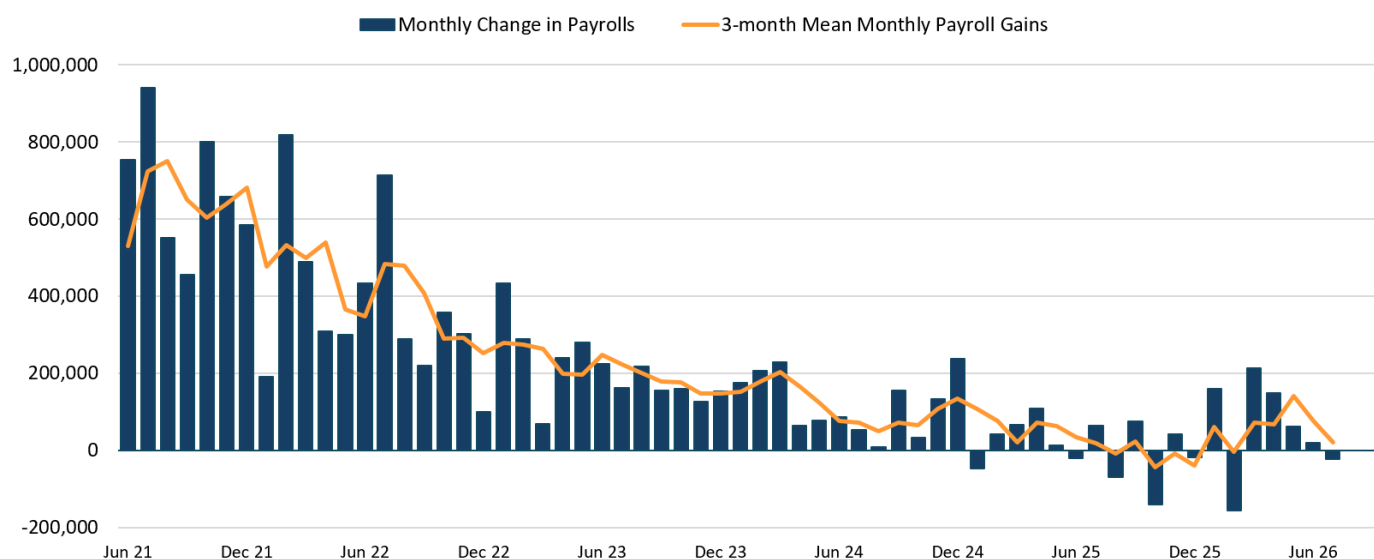
Technology and growth stocks regained momentum as Nvidia's earnings and guidance reinforced confidence in AI infrastructure demand, while software shares recovered as results eased concerns about AI-related disruption. Growth led for the period, with the S&P 500 Growth Index rising 3.27% versus 2.08% for the S&P 500 Value. Sector-wise, Energy led with a 7.02% monthly gain, extending its 2026 advance to 44.2% as higher oil prices and renewed Middle East concerns supported the group, while Technology rose 6.25%, Materials 5.97%, Healthcare 4.89%, and Financials 1.34%. In contrast, five of the 11 sectors declined, led by Utilities (which declined 4.77%) as higher yields and narrower risk appetite weighed on defensive and rate-sensitive areas.

International equities were broadly higher in August, led by emerging markets and Asia. The MSCI Emerging Markets Index gained 3.39%, supported by dollar weakness, strength in technology exports, and broader AI enthusiasm. The developed international markets MSCI EAFE Index rose 2.01%, with Japanese and German equities outperforming.

Treasury yields rallied through the middle of August, supported by a sharp early-month decline in oil prices as hopes for a ceasefire with Iran improved, along with CPI and PPI readings that were lower than the prior two months and generally in line with expectations. The rally faded in the second half of the month as rates moved higher amid hawkish commentary from the Federal Open Market Committee following its July meeting. Despite significant intra-month volatility, 2-, 3-, and 5-year Treasury yields each finished 5 basis points (bp) higher at 4.34%, 4.40%, and 4.50%, respectively. The 10-year Treasury ended the month at 4.75%, up 1 bp, while the 30-year Treasury declined 3 bp to 5.24% after briefly reaching 5.30%, its highest level since 2007. Fed funds futures now point to the next rate hike occurring in September rather than December, with investors focused on the upcoming employment and CPI reports ahead of the September 16 FOMC meeting.

Fixed income returns for August were modest overall, as the late-month rise in rates limited performance at the short end of the yield curve, while a slight decline in long-term rates supported longer-dated taxable bonds. Short- to intermediate-term taxable indices returned between 0.17% and 0.24%, while the Bloomberg U.S. Aggregate Bond Index gained 0.39%. In the municipal market, short- to intermediate-term bonds outperformed taxable counterparts, returning between 0.45% and 0.50%. However, longer-dated municipals lagged as yield spreads to Treasuries widened during the month, leaving 10-year municipals with a modest 0.17% return and the longer-duration Bloomberg Municipal Index down 0.23%.

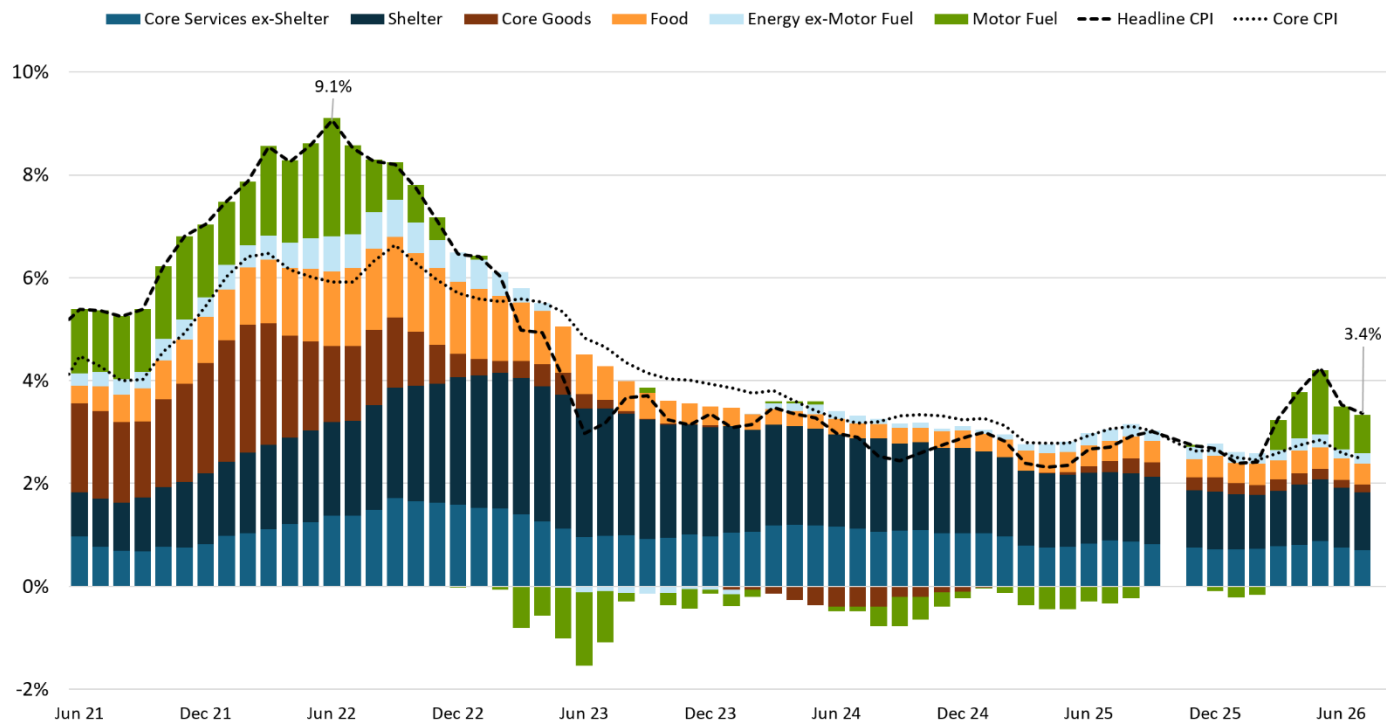
Recent Non-Farm Payrolls Still Appear Sluggish



Source: Bloomberg, First American Bank.

The July labor market report was weaker than expected, with U.S. employers cutting 23,000 jobs instead of adding the 80,000 economists had projected. Revisions to May and June also lowered the three-month average job gain from 77,000 to just 20,000. Most of the weakness came from government employment, which fell by 50,000 jobs, while private payrolls rose only 30,000, below the recent three-month average of roughly 40,000. Some of the softness also reflected the end of World Cup-related hiring, as leisure and hospitality lost 40,000 jobs and retail shed 20,000. Wage growth continued to cool, with average hourly earnings rising just 0.05% in July and the three-month annualized pace slowing to 2.3%. The unemployment rate offered one bright spot, falling from 4.2% to 4.1%, its lowest level since early last year. Overall, the July jobs report was disappointing, but steady weekly jobless claims suggest the labor market may be slowing rather than weakening sharply, possibly following a seasonal pattern similar to last summer.

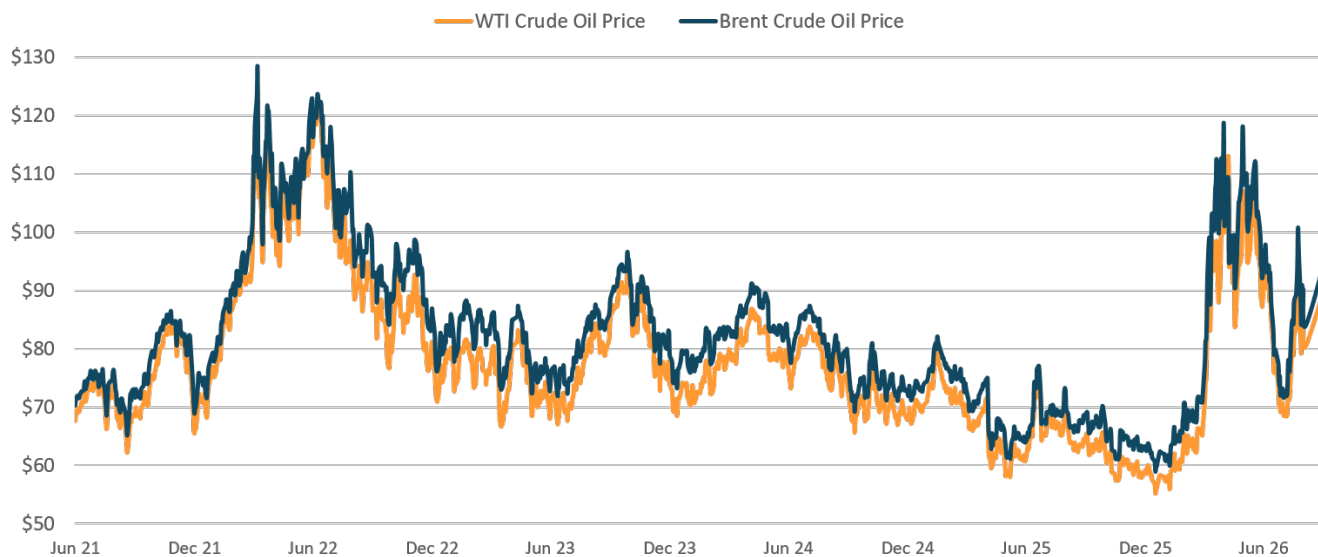
Motor Fuel Has Increased Inflation Following U.S. Action in Iran



Source: Bloomberg, First American Bank.

The inflation reports show that price pressures are improving, but not yet enough for the Federal Reserve to feel fully comfortable. CPI was broadly benign, with headline inflation rising just 0.1% and core CPI up 0.2% month over month, while annual inflation eased modestly. Core inflation also fell to its lowest level since March and ran at a 1.69% annualized pace over the past three months. Some earlier cost pressures appear to have eased, tariff pass-through effects seem to have peaked, and shelter inflation remains firm but continues to gradually move back toward its pre-pandemic trend. Although core goods posted their first increase since January, much of that gain appears tied to Apple's price hikes. PPI offered a mixed but still generally disinflationary signal, with headline producer prices flat and upstream cost pressures showing signs of easing, even as the PPI components that feed into PCE were firmer than expected. That distinction is important because PCE is the Fed's preferred inflation gauge, and July core PCE remained sticky, running at roughly a 3% annualized three-month pace after revisions, still well above the Fed's 2% target. In short, CPI and parts of PPI suggest inflation is cooling, but PCE indicates the Fed has not yet seen enough sustained disinflation to declare victory.

Oil Prices Rocket Back Upward with Escalated Action in Iran



Source: Bloomberg (Generic First Futures), First American Bank.

Higher oil prices are not the only factor driving rising fuel costs. Global refinery disruptions remain significant, with three primary sources of lost refining capacity. In the Middle East, refineries have sustained damage from the conflict involving Iran. In Russia, refining facilities have been affected by Ukrainian drone strikes. In China, refinery utilization has been compromised by lower crude oil supplies from the Persian Gulf, compounded by deliberate government policy decisions.

Current estimates suggest that between 8 million and 11 million barrels per day of global refining capacity remains offline. Diesel markets have been particularly affected, as Russia historically exported 1.0 million to 1.3 million barrels per day of diesel and gasoil, volumes that have effectively fallen to near zero. U.S. refiners have attempted to offset some of this shortfall and are currently operating at an exceptional 98% utilization rate, well above the long-term historical average of approximately 90%.

Market Outlook

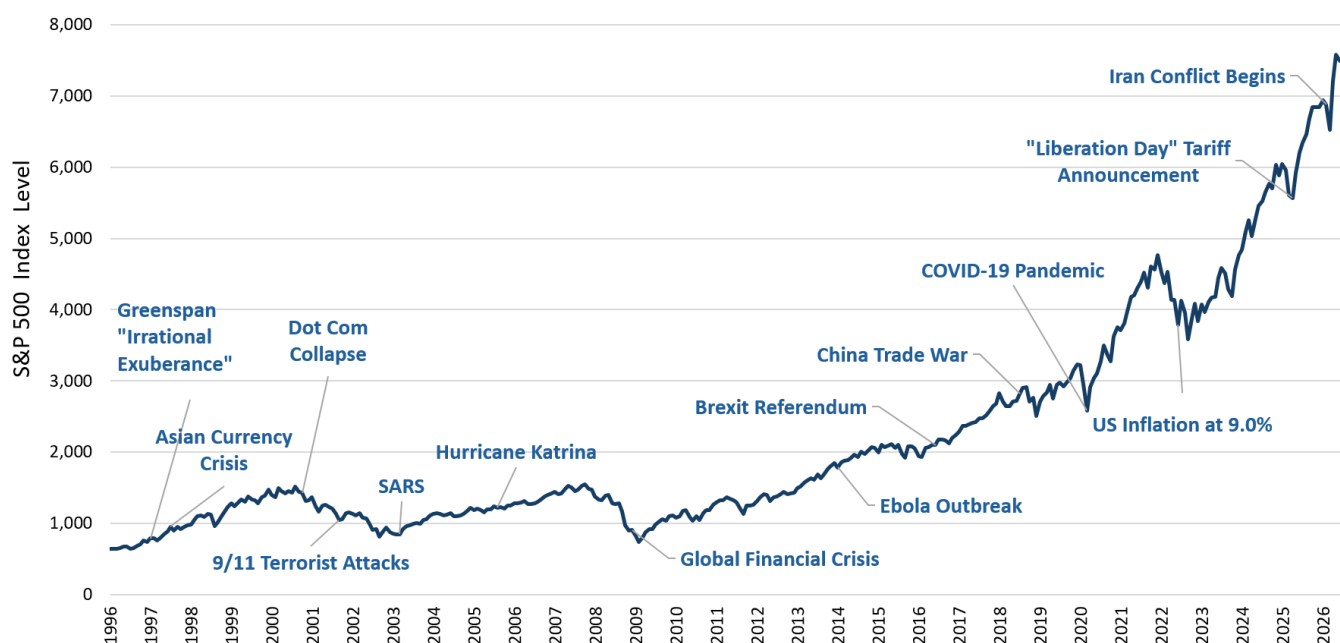
Most U.S. equity indexes have been consolidating after reaching new highs in mid-August, which is not unusual given that September has historically been the weakest month of the year. This seasonal softness may be amplified by midterm election patterns, as stocks have often been choppy with slightly negative returns heading into Election Day before strengthening afterward. While we expect a similar pattern to occur, we acknowledge that the S&P 500 has already returned 13.12% year to date, and the recent increase in energy prices, higher inflation, and rising yields, remain meaningful risks. Federal Reserve Chairman Warsh noted in his speech at Jackson Hole that recent inflation data showed some cooling, but underlying trends have not meaningfully improved. Odds of a rate hike in September after Chairman Warsh's speech rose above 60%. There's a saying that equity bull markets don't die of old age; the Fed kills them.

The steady rise in longer-dated yields may be the biggest risk, particularly given persistent inflation and strained fiscal conditions across many developed economies. The move has pushed 30-year Treasury yields to their highest level since 2007, U.K. 30-year Gilt yields to their highest since 1998, and Japanese Government Bond 10-year yields to their highest since 1996, levels many current market participants have never experienced. The persistent rise in long-end yields has drawn Treasury Secretary Scott Bessent's attention,

including a surprise intervention in long-dated Treasuries. While that action does not address the underlying drivers, it suggests a more activist policy stance aimed at supporting nominal growth.

Equity markets have remained notably resilient despite rising global yields, supported by steady economic growth and exceptionally strong earnings, a trend we expect to continue. Still, higher discount rates may already be weighing on returns by compressing valuation multiples. Although the S&P 500 is up 13.12% year to date, its forward P/E multiple has contracted 12% to 19.4x. Looking ahead, S&P 500 earnings are expected to grow 27% year over year in the third quarter, 25% in the fourth quarter, and 15% in calendar 2027, figures we believe should help move stocks higher. While rate hikes and elevated yields remain risks, continued disinflation and a related decline in yields would provide a meaningful catalyst, in our view. We continue to maintain our overweight stance in equities.

Stay Invested: Despite a Wall of Worry, the U.S. Stock Market Advances Upward over the Long Run



Source: Bloomberg, First American Bank.

MAJOR MARKET INDICES

Index	Total Return (*annualized)						
	1M	3M	YTD	1Y	3Y*	5Y*	10Y*
S&P 500 Index	2.72%	1.41%	13.12%	21.17%	21.00%	12.76%	15.35%
S&P 500 Equal Weight	2.06%	5.28%	15.57%	19.32%	15.57%	8.98%	12.19%
Nasdaq 100	4.24%	-3.32%	17.14%	27.60%	24.75%	14.45%	21.02%
Dow Jones Industrial Average	1.47%	4.46%	11.79%	19.24%	17.27%	10.55%	13.52%
S&P 400 Midcap	0.15%	1.33%	14.71%	17.62%	14.09%	8.04%	10.84%
Russell 2000 Smallcap	1.01%	2.08%	20.19%	27.39%	17.48%	6.85%	10.54%
MSCI EAFE International Developed	2.01%	5.12%	14.33%	22.36%	18.96%	10.06%	10.22%
MSCI Emerging Markets	3.39%	-2.28%	24.34%	38.77%	23.79%	8.67%	9.73%
MSCI All Country Ex-U.S. Index	2.59%	2.60%	17.45%	27.77%	20.90%	10.02%	10.27%
Bloomberg Barclays U.S. Aggregate Bond	0.39%	-0.61%	-0.31%	1.89%	4.08%	-0.29%	1.40%
Bloomberg Barclays U.S. Treasury Bond	0.31%	-0.45%	-0.53%	1.22%	3.19%	-0.81%	0.79%
Bloomberg Barclays Municipal Bond	-0.23%	-1.18%	0.20%	4.12%	3.39%	0.54%	1.91%
Bloomberg U.S. Corporate High Yield Bond	0.97%	1.05%	2.69%	4.88%	8.51%	4.13%	5.39%
Bloomberg U.S. Corporate Bond	0.43%	-1.00%	-0.40%	1.94%	5.00%	-0.12%	2.30%

S&P 500 SECTORS

Sector	Total Return (* annualized)						
	1M	3M	YTD	1Y	3Y*	5Y*	10Y*
S&P 500 Index	2.72%	1.41%	13.12%	21.17%	21.00%	12.76%	15.35%
Communication Services	-1.23%	-6.90%	0.14%	13.90%	26.24%	10.41%	12.12%
Consumer Discretionary	-0.04%	-1.38%	0.00%	4.90%	13.40%	6.33%	12.74%
Consumer Staples	-0.68%	3.24%	9.55%	7.76%	9.62%	7.24%	8.19%
Energy	7.02%	12.32%	44.20%	45.44%	16.49%	26.09%	10.74%
Financials	1.34%	12.58%	6.17%	9.23%	20.69%	10.37%	13.32%
Health Care	4.89%	15.88%	11.14%	26.25%	10.49%	6.54%	10.86%
Industrials	-2.56%	1.83%	13.56%	17.85%	19.05%	12.56%	13.22%
Information Technology	6.25%	-3.16%	22.88%	34.96%	31.43%	21.00%	25.69%
Materials	5.97%	4.82%	16.69%	16.20%	10.42%	6.35%	10.28%
Real Estate	-1.87%	3.24%	12.20%	11.43%	10.30%	2.18%	6.63%
Utilities	-4.77%	-1.36%	0.27%	3.35%	13.73%	7.50%	9.03%

COMMODITIES

Commodity	Total Return (* annualized)						
	1M	3M	YTD	1Y	3Y*	5Y*	10Y*
Bloomberg Commodity Total Return Index	7.39%	4.38%	32.06%	41.54%	15.11%	12.21%	8.11%
Bloomberg Industrial Metals Total Return Subindex	2.29%	-3.68%	13.02%	30.54%	13.04%	6.00%	9.04%
Gold Total Return Subindex	9.45%	-1.10%	1.88%	23.64%	30.41%	18.33%	11.67%
Silver Total Return Subindex	14.96%	-11.85%	-6.07%	59.49%	37.90%	21.44%	12.02%
Copper Total Return Subindex	2.24%	0.50%	15.31%	40.99%	19.89%	8.98%	11.87%
Bloomberg Energy Total Return Subindex	5.55%	4.29%	69.14%	55.08%	9.41%	10.73%	4.37%
WTI Crude Oil Total Return Subindex	2.68%	-0.76%	83.08%	65.94%	20.23%	21.36%	9.14%
Brent Crude Total Return Subindex	7.31%	0.19%	83.31%	66.14%	19.85%	23.99%	15.92%
RBOB Unleaded Gasoline Total Return Subindex	6.97%	13.51%	93.96%	76.83%	20.26%	28.94%	17.36%
Natural Gas Total Return Subindex	1.08%	-12.75%	-20.62%	-28.20%	-32.06%	-32.03%	-24.43%
Bloomberg Agriculture Total Return Subindex	12.77%	15.07%	25.19%	22.85%	3.92%	6.61%	4.66%

Notes on Commodities Indices

1. Bloomberg Commodity Index Total Return weighs up to 25 components across energy, grains, metals, softs, and livestock.
2. Bloomberg Industrial Metals Index components are fully collateralized long-dated futures contracts on aluminum, copper, nickel, and zinc.
3. Bloomberg Energy Index components are fully collateralized futures contracts on crude oil, heating oil, unleaded gasoline, and natural gas.
4. Bloomberg Agriculture Index components: Coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar, and wheat.

Source: Bloomberg.