NEAM VANTAGE POINT

Trade Winds

DECEMBER 2024

ECONOMIC & CAPITAL MARKET OVERVIEW

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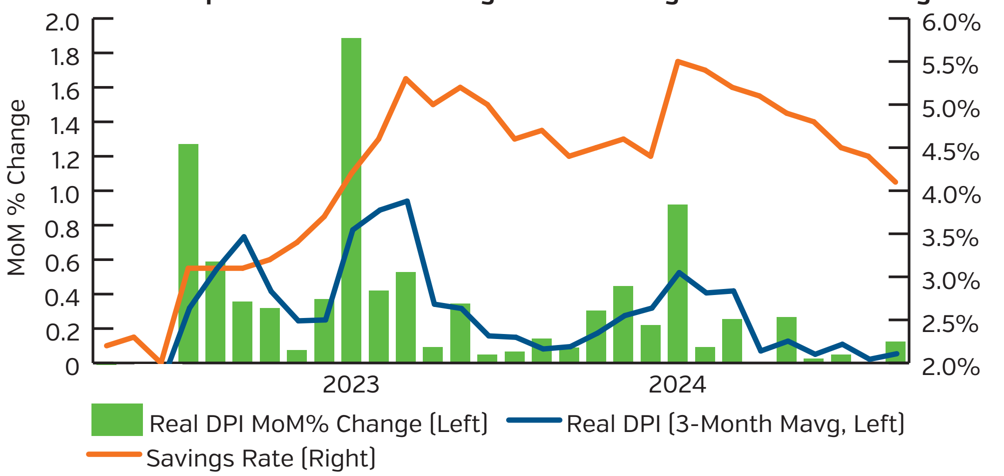
Monthly Economic Highlights

NOVEMBER OVERVIEW

The Fed's 25 basis point November rate cut, which took the benchmark range to 4.50%-4.75%, did not come as a surprise. The market had begun to embrace a slower pace of rate reductions of late, with stronger data on balance presenting itself since the last Fed meeting. In the post-meeting press conference, in which Powell took time to assert the Fed's independence post-election and stated the Fed would not "guess, speculate or assume" with respect to potential policies of the new administration, the Fed referred to easing labor market conditions and progress on the inflation front, and its intention to fine tune its policy to keep on target with its dual mandate. As it has mentioned in the past, the pace of future moves is not set, with the Committee aware that moving too fast, or too slow, could impact their progress to date, although recent stronger data has fostered more cautionary commentary from members of the Fed. To this point, in a speech at the Dallas Fed over the month, Powell commented that the economy's strength gives them the ability to "approach their decisions carefully," stating that they don't need to be "in a hurry to lower rates," and that the policy will be dependent on the evolution of incoming data. Indeed, minutes from the meeting shared that the Fed could "gradually" ease more if data came in "about as expected," with inflation moving consistently towards their goal while employment remains firm.

Exhibit 1. Real Disposable Income & Savings: MoM% Change in Real DPI & Savings Rate



Source: BEA, Haver, NEAM

Although the labor market appears to be moving into better balance, Fed officials are wary of further weakness. Job openings are down relative to the number of unemployed, quit rates have fallen, and unemployment, while higher than its recent trough, is still low by historical measures. Job additions have slowed and are more concentrated in the healthcare and

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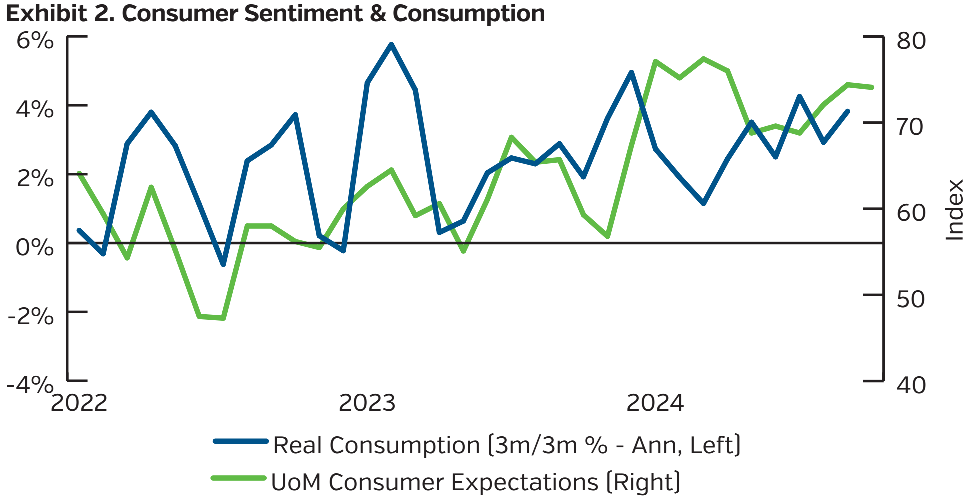
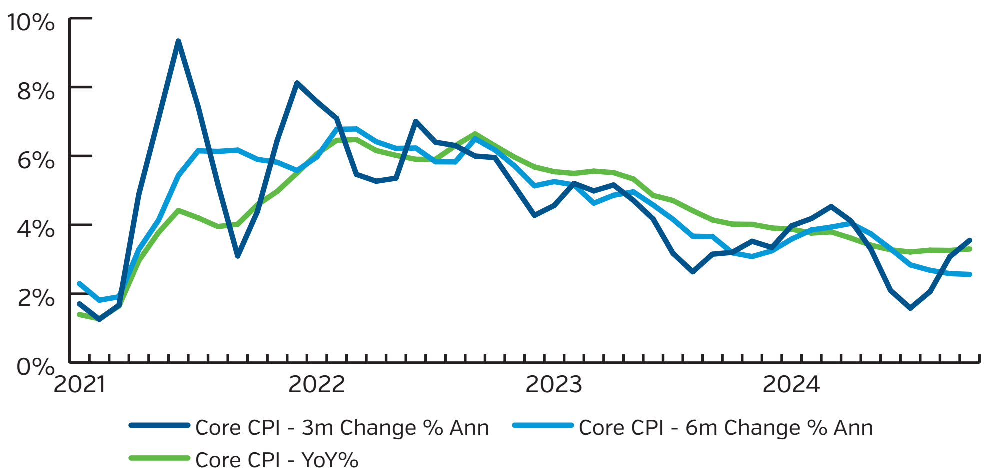
government areas. Despite this, consumption is holding up and sentiment is improving, with prospects for personal finances, as well as business expectations increasing, and although real disposable income growth is slowing, it's still positive, savings rates are decent and household balance sheets are improved.

Exhibit 2. Consumer Sentiment & Consumption



Source: BEA, UMICH, Haver, NEAM

Exhibit 3. Inflation



Source: BLS, Haver, NEAM

On the investment front, industrial production would have been flat were it not for the lingering effects of the Boeing strike and recent hurricanes. Overall, industrial production numbers fell 0.3%, with the Fed stating that 0.2% was due to the strike and the remaining attributable to the weather. Manufacturing fell 0.5%, while the indices for mining and utilities rose 0.5% and 0.7%, respectively. National PMI numbers continue to lag, although the New York Fed's Empire numbers jumped considerably as election uncertainty dissipated and respondents noted higher manufacturing activity and optimistic expectations for the near future. Similarly, the NFIB small business optimism increased slightly, with improving outlooks on the economy and sales contributing to overall improvement.

Although the level of inflation is well off its peaks and the direction has been southwards, it still has room to go. At the headline level, CPI came in at 0.2% for the month and 2.6% for the year, with food inflation outpacing energy inflation on both measures. Core CPI came in for the third consecutive month at 0.3%, which equated to a slightly higher 3.3% for the year, also consistent with last month. On the core goods side, prices were flat, as an uptick in used vehicle prices neutralized a retreat in apparel while new vehicle prices remained flat. In the core services arena, shelter once again led the day, ticking up on the back of higher owners' equivalent rent, transportation services, primarily in the form of airline fares, and higher health insurance prices, while motor vehicle insurance fell after many months of positive contribution. Longer-term measures show a disinflationary trend, with 6-month and annual inflation rates staying put although, notably, the 3-month annualized numbers increased.

CAPITAL MARKET IMPLICATIONS

The Fed reduced its benchmark rate by 25 basis points as expected during the month but noted that the economy's durability may impact the track of future rate moves going forward as they seek a neutral stance. Treasury yields ended lower despite being higher for most of the month, while equity markets gained.

Exhibit 4. U.S. Historical Yield Curves

	Dec 2020	Dec 2021	Dec 2022	Dec 2023	Nov 2024
Fed Funds Range	0.00-0.25%	0.00-0.25%	4.25-4.50%	5.25-5.50%	4.50-4.75%
2-Year	0.12%	0.73%	4.43%	4.25%	4.15%
5-Year	0.36%	1.26%	4.00%	3.85%	4.05%
10-Year	0.91%	1.51%	3.87%	3.88%	4.17%
30-Year	1.64%	1.90%	3.96%	4.03%	4.36%

Source: Bloomberg, NEAM

Capital Markets

FIXED INCOME RETURNS

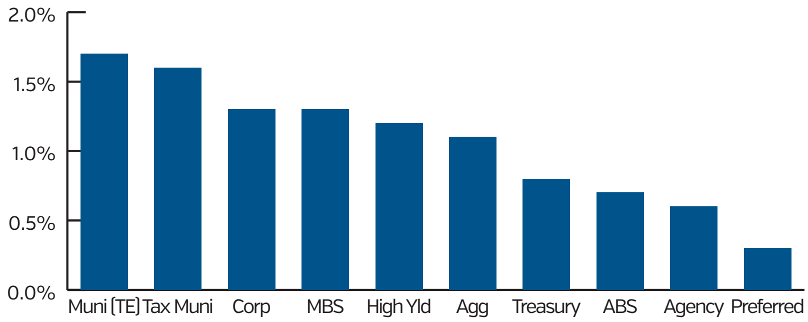
After reducing its benchmark rate by 25 basis points in November, the Fed signaled that its future path of rate movements toward neutral will be data dependent and gradual as economic data remains balanced. Treasury yields ended the month slightly lower, while credit spreads leaked wider to close out the month, albeit off historically tight levels post-election results.

Exhibit 5. Fixed Income Returns

	November	3-Month	YTD
Bloomberg Barclays U.S. Aggregate	1.06%	-0.13%	2.93%
Blended ICE/ BofAML Preferred Stock	0.31%	2.19%	11.09%
ICE BofA US Taxable Muni - Broad	1.59%	0.33%	4.35%
ICE BofA Municipals Master (TE)	1.69%	1.45%	4.97%
Bloomberg Barclays U.S. MBS (fixed rate)	1.33%	-0.37%	2.89%
Bloomberg Barclays U.S. ABS	0.70%	0.98%	5.07%
Bloomberg Barclays U.S. Agency	0.61%	0.38%	3.68%
Bloomberg Barclays U.S. Treasury	0.78%	-0.44%	2.15%
Bloomberg Barclays U.S. Corporates	1.34%	0.63%	4.14%
Bloomberg Barclays High Yield	1.15%	2.23%	8.66%

Source: Barclays, Bloomberg, NEAM

Exhibit 6. Domestic Fixed Income Sector: Month-to-Date Total Returns (11/30/24)



Source: Bloomberg, Barclays, ICE BofAML, NEAM

EQUITY TOTAL RETURNS

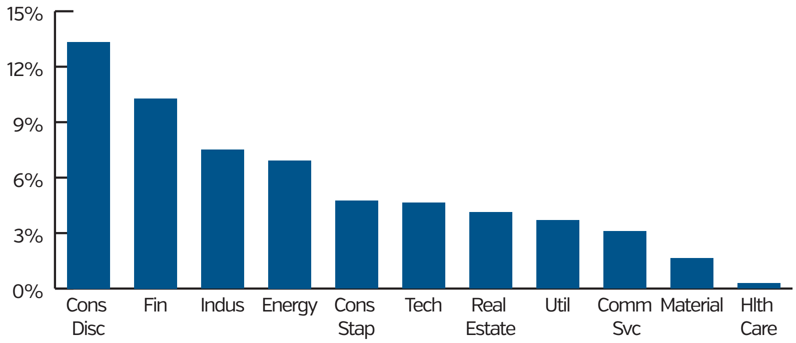
While the U.S. election and subsequent cabinet nominations had mixed impacts across companies, investors appeared to view the results as generally supportive for U.S. equities. With economic data remaining firm and the Fed forecasting further rate cuts at a measured pace, equities rallied strongly over the month. The Dow, S&P 500 and Nasdaq all rose, with the Dow and S&P 500 attaining record highs at month-end.

Exhibit 7. Equity Total Returns

	November	3-Month	YTD
S&P 500	5.87%	7.14%	28.06%
NASDAQ	6.30%	8.69%	28.88%

Source: Bloomberg, NEAM

Exhibit 8. Domestic Equity Returns: Month-to-Date Total Returns (11/30/24)



Source: Bloomberg, NEAM

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