NEAM VANTAGE POINT

Trade Winds

FEBRUARY 2025

ECONOMIC & CAPITAL MARKET OVERVIEW

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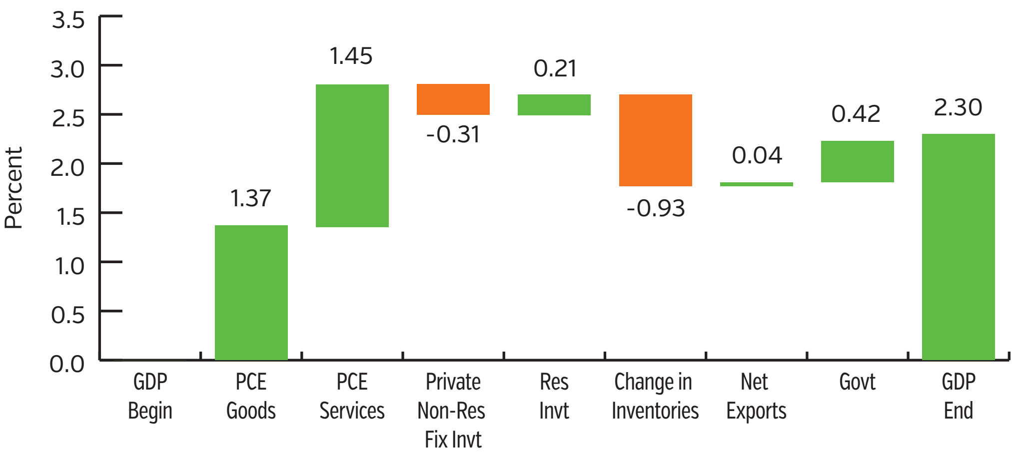
Monthly Economic Highlights

JANUARY OVERVIEW

With three consecutive rate reductions in the rearview mirror, the Fed held its benchmark rate steady at its most recent meeting. Believing that the economy is holding up, it sees no need to "be in a hurry to adjust" its current stance, biding its time instead to watch developments on the labor and inflation front. Indeed, minutes from the December FOMC meeting showed that participants believed that the risks of achieving their dual mandate were "roughly in balance," albeit with more upside risks to inflation. The decision to lower the rate by 25 bps at the December meeting appeared therefore to be a tougher decision for participants, and the recent pause is consistent with the earlier prognosis that the pace of future moves will slow as they near their neutral policy stance after the 100 bps of reduction to date. Growth remains on track, consumer spending is proving resilient, and the labor market is more balanced, while inflation needs to be watched as its pace of improvement slows. The inclination appears to be to let the line out gradually from here out, appreciating that it may be easier to lower rates if the labor market were to deteriorate more sharply than to have inflation step up again.

Exhibit 1. GDP Breakdown



Source: BEA, Haver, NEAM

Despite continued signs of easing, the most recent jobs report highlighted that the labor market has shown a revival in the past few months. December payrolls increased by +256K. This was above expectations and kept the three-month average at +170K despite a downwardly revised post from the month before. Of note, goods jobs declined by +8K, held down by another drop in manufacturing while service jobs led the charge, with decent gains in the retail, leisure, and healthcare, while government jobs stayed on track with previous months. With gains in household employment outpacing the growth of the labor force over the month, the unemployment rate fell back to 4.1%. Consumption signals remain healthy, with Q4

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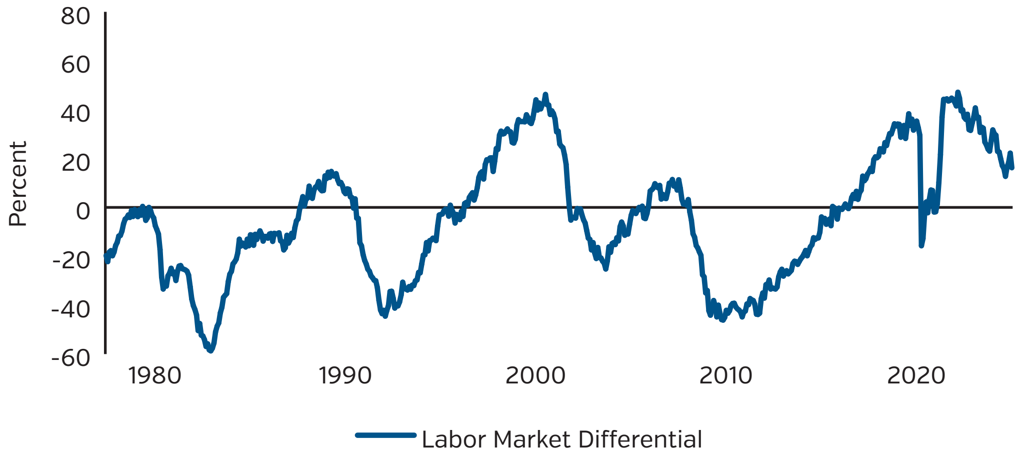
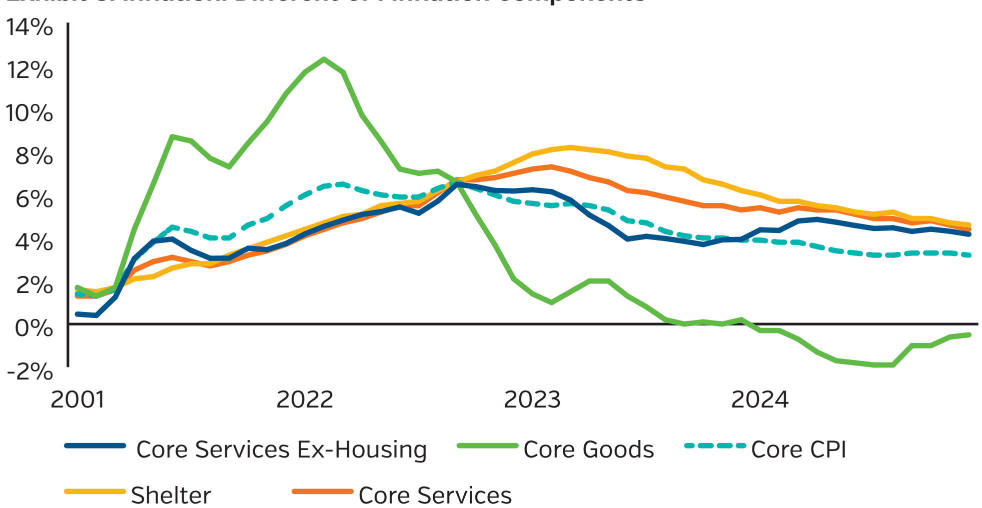
GDP consumption rising 4.2% annualized, while control group retail sales climbed +0.7% for the month. Wage gains continue, albeit at a slightly slower pace as the market becomes more balanced, and real disposable incomes continue to grow. Sentiment remains rangebound, but the University of Michigan's consumer sentiment survey did highlight some divergences between consumers' views of their current situation as opposed to the future. With regards to the former, those surveyed noted improvement in personal finances, but had longer-term concerns with higher inflation, while the Conference Board survey showed less optimism about the labor market.

Exhibit 2. Labor Market Differential (Jobs Plentiful - Jobs Hard to Get)



Source: Conference Board, Haver, NEAM

Exhibit 3. Inflation: Different CPI Inflation Components



Source: BLS, Haver, NEAM

As the drop in the manufacturing payrolls number suggested, the sector still faces its challenges, although some optimism is emerging. To be sure, although it remains below levels seen last year, the manufacturing element of the industrial production figure rebounded, in part due to the end of the Boeing strike, ultimately helping to prop the headline figure by +0.9% for the month. Recent national PMI survey data from December supported this, as numbers, while still in recessionary territory, pushed upward. Similarly, regional PMIs were mixed but showed improvement and rosier outlooks. CEO surveys are upbeat. Business sector optimism is up with the Fed's Beige Book commenting that more of those surveyed are positive for 2025 while bank lending standards continued to ease from a recent peak of tightness in Q3 of 2023.

While acknowledging that progress on the inflation front has been made, Fed minutes from the December meeting also highlighted that committee members felt improvement on the inflation front had slowed. Encouragingly, however, the subsequent release of CPI data came in a touch softer than recent months, in contrast to the previous months' trend. Indeed, the number would increase at the headline level to +0.4% for the month (+2.9% YoY), largely given an uptick in energy prices (gasoline), however, core CPI increases slid back to +0.2% (+3.2% YoY). Driving the deceleration, core goods price increases slowed on the back of smaller price increases in apparel, and more muted new and used vehicles' price increases relative to the month before. In core services, more tepid price increases were made possible by a drop in hotel prices, despite a bump in other shelter components, along with slight braking in medical and health insurance prices, which offset upticks in other areas such as transportation and hospital services. The change would not be enough however to steer the Fed from its decision to hold at the January meeting.

CAPITAL MARKET IMPLICATIONS

The Fed held its benchmark rate steady in January, advocating for more data before it would resume its quest for a neutral policy stance. Yields remained relatively level, with stronger-than-expected data on the labor and consumption front muted by benign inflation prints. With expectations for a slower pace of normalization from the Fed, and balanced economic data, yields remained rangebound while equities gained.

Exhibit 4. U.S. Historical Yield Curves

	Dec 2020	Dec 2021	Dec 2022	Dec 2023	Jan 2025
Fed Funds Range	0.00-0.25%	0.00-0.25%	4.25-4.50%	5.25-5.50%	4.25-4.50%
2-Year	0.12%	0.73%	4.43%	4.25%	4.20%
5-Year	0.36%	1.26%	4.00%	3.85%	4.33%
10-Year	0.91%	1.51%	3.87%	3.88%	4.54%
30-Year	1.64%	1.90%	3.96%	4.03%	4.79%

Source: Bloomberg, NEAM

Capital Markets

FIXED INCOME RETURNS

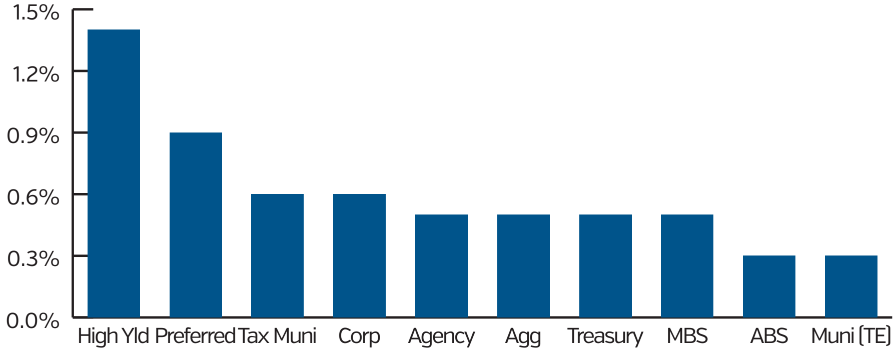
The Fed held steady in January, advocating that the strength of the economy allowed it to take some more time before re-engaging. Treasury yields remained relatively level, as did credit spreads, as healthy demand kept pace with increased supply.

Exhibit 5. Fixed Income Returns

	January	3-Month	YTD
Bloomberg Barclays U.S. Aggregate	0.53%	-0.07%	0.53%
Blended ICE/ BofAML Preferred Stock	0.88%	-0.53%	0.88%
ICE BofA US Taxable Muni - Broad	0.56%	-0.57%	0.56%
ICE BofA Municipals Master (TE)	0.29%	0.76%	0.29%
Bloomberg Barclays U.S. MBS (fixed rate)	0.51%	0.17%	0.51%
Bloomberg Barclays U.S. ABS	0.32%	0.98%	0.32%
Bloomberg Barclays U.S. Agency	0.55%	0.65%	0.55%
Bloomberg Barclays U.S. Treasury	0.52%	-0.26%	0.52%
Bloomberg Barclays U.S. Corporates	0.55%	-0.07%	0.55%
Bloomberg Barclays High Yield	1.37%	2.10%	1.37%

Source: Barclays, Bloomberg, NEAM

Exhibit 6. Domestic Fixed Income Sector: Month-to-Date Total Returns (1/31/25)



Source: Bloomberg, Barclays, ICE BofAML, NEAM

EQUITY TOTAL RETURNS

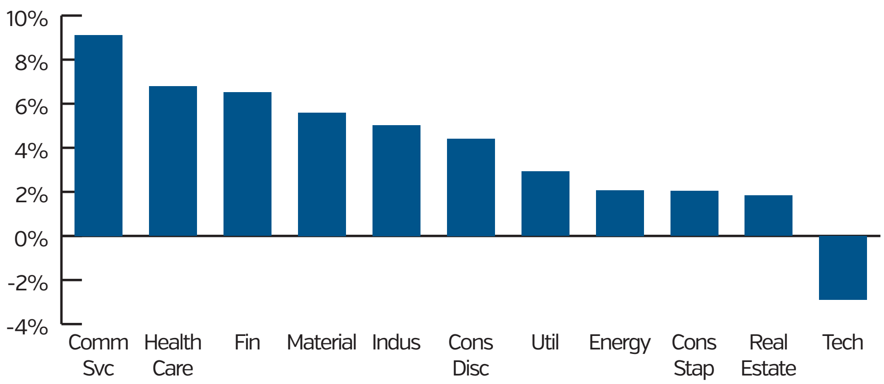
With the Fed remaining in place and continuing to promote a more gradual pace of policy normalization, healthy labor and consumption data, more benign data on the inflation front, and positive earnings releases, equities gained, with the Dow, S&P 500 and Nasdaq all rising for the month.

Exhibit 7. Equity Total Returns

	January	3-Month	YTD
S&P 500	2.78%	6.21%	2.78%
NASDAQ	1.66%	8.67%	1.66%

Source: Bloomberg, NEAM

Exhibit 8. Domestic Equity Returns: Month-to-Date Total Returns (1/31/25)



Source: Bloomberg, NEAM