NEAM VANTAGE POINT

Trade Winds

NOVEMBER 2024

ECONOMIC & CAPITAL MARKET OVERVIEW

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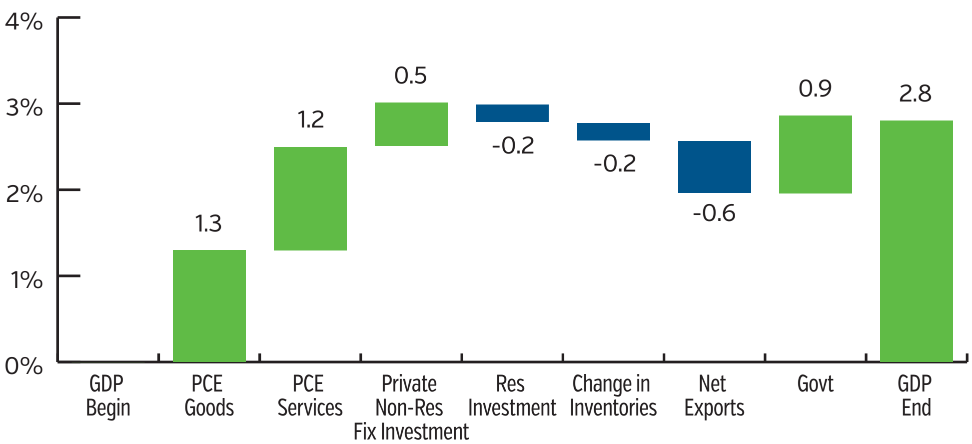
Monthly Economic Highlights

OCTOBER OVERVIEW

The Fed lowered its benchmark rate by 50 basis points in September, citing a more balanced labor market and declining rate of inflation as grounds to support its decision. Minutes from the meeting however showed that the decision to move by the above-mentioned amount was not entirely without hesitation, with some participants open to more gradual moves. Comments highlighted that the path may be more gradual going forward, particularly given a higher-than-expected payrolls number and inflation print in September, notwithstanding the noisy October print. While the consensus remains that the direction of further rate moves is lower, the pace of such moves remains in question. Indeed, the minutes also showed that participants remain concerned over the prospect of lower growth and further deterioration in the labor market, as evidenced by lower hiring and quits rates. While they will, as always, consider the incoming data in aggregate, various Fed policymakers have suggested that subsequent moves to normalize policy this year could be of smaller magnitude than their first reduction.

Exhibit 1. Q3 GDP Breakdown



Source: BEA, Haver, NEAM

On the labor front, the impact of the hurricanes and the Boeing strike clouded the October payroll numbers, which came in at just +12K. The low print followed on the heels however of a downwardly revised, but still above-trend September print of +223K. The unemployment rate remained at 4.1%, with decreases in employment offset by a reduction in the labor force. Wage gains broke their falling trend, reporting +0.4% and 4.0% for the month and year, respectively, while the employment cost index numbers pointed to waning wage pressure. JOLTS data

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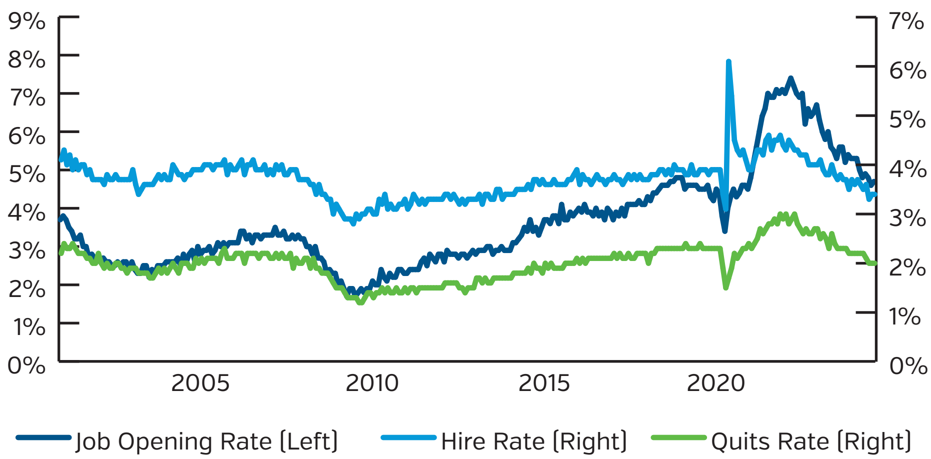
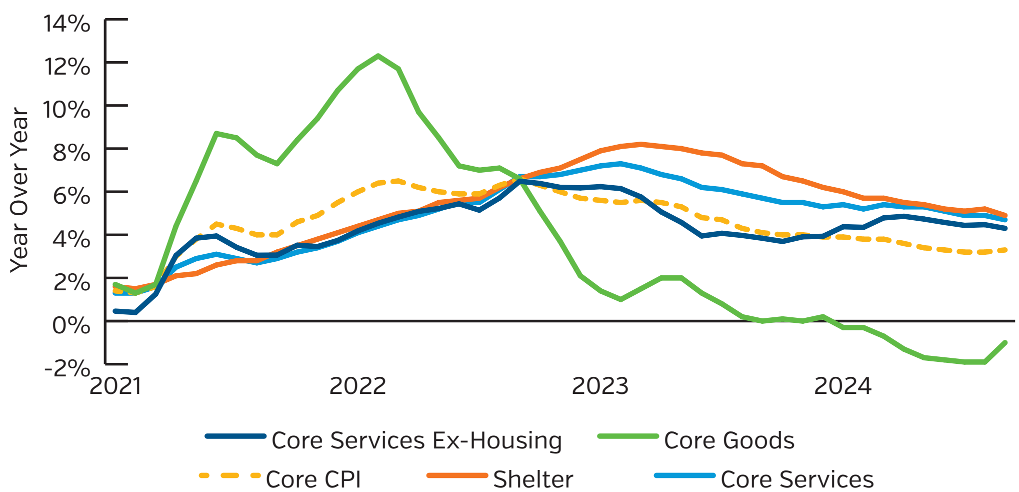
also showed signs of further labor market rebalancing with job openings falling to a level not seen since early 2021, bringing the ratio of unemployed workers to job openings closer to parity, while both hiring and quits rates fell overall. Confidence improved over the month, and while some ways off its trough, has some climbing to do to return to pre-pandemic levels. Anecdotes from the Beige book pointed to a more discerning and price-conscious consumer, accompanied by a modest decline in personal savings rates.

Exhibit 2. Job Opening, Hiring & Quits Rates



Source: : BLS, Haver, NEAM

Exhibit 3. Inflation: Different CPI Inflation Components



Source: BLS, Haver, NEAM

The month of October brought the advance reading on Q3 GDP, which came in strong at 2.8%, just slightly below Q2 GDP of 3%. Overall, economic durability was once propelled higher by robust personal goods and services consumption, which rose at an annualized rate of 3.7%. Fixed investment and government consumption both also made positive contributions while net exports and private inventories were negative. Retail sales confirmed a similarly resilient story for the consumer, rising by 0.4% on a MOM basis while prices at the pump continue to fall.

On the investment front, PMI numbers reveal a manufacturing sector that continues to search for its footing, with national numbers remaining in contractionary territory and regional surveys mixed but skewed to the downside. Manufacturing also weighed on overall industrial production figures, which at the headline level came out weaker for the month (-0.3%) and year (-0.6%). The Boeing strike contributed to the drop, although the Fed's Beige Book shared that manufacturing activity dropped in most of its districts. Inflation continues its bumpy path downward. Headline CPI rose by +0.2% for the month, the same as the month before, and reported at 2.4% for the year. Food prices ticked up a decent amount while lower gasoline prices pulled the energy segment down. At the core level, prices increased +0.3% for the month, or 3.3% versus the year-ago comparable period. While shelter continues to drive core service inflation, it was encouragingly lower this month than the last two months and recent averages. Also adding some weight to the core service area were the transportation sub-components of motor vehicle insurance, which has been a larger contributor for some time, and airline fares, in addition to medical care services, all of which came in higher than recent averages too.

CAPITAL MARKET IMPLICATIONS

Despite the noisy October employment report, the combination of better-than-expected labor data in September, lower but still above-target inflation, and Fed minutes that hinted at a more gradual pace of policy normalization worked to temper expectations for the pace of future Fed rate movements. Treasury yields rose across the curve while equity markets fell.

Exhibit 4. U.S. Historical Yield Curves

	Dec 2020	Dec 2021	Dec 2022	Dec 2023	Oct 2024
Fed Funds Range	0.00-0.25%	0.00-0.25%	4.25-4.50%	5.25-5.50%	4.75-5.00%
2-Year	0.12%	0.73%	4.43%	4.25%	4.17%
5-Year	0.36%	1.26%	4.00%	3.85%	4.16%
10-Year	0.91%	1.51%	3.87%	3.88%	4.28%
30-Year	1.64%	1.90%	3.96%	4.03%	4.48%

Source: Bloomberg, NEAM

Capital Markets

FIXED INCOME RETURNS

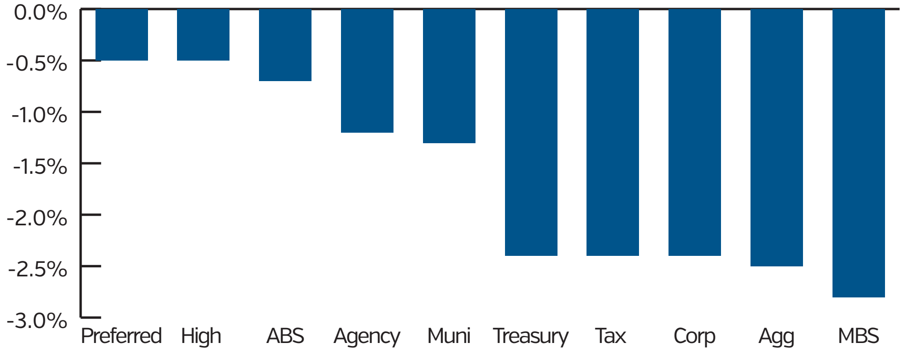
Stronger-than-expected economic data readings during the month of October led market participants to dial back their assumptions for the pace of future Fed rate moves. With the notion that the Fed will move in a more measured way going forward, Treasury yields rose significantly during the month which, when combined with lower supply, contributed to tighter credit spreads.

Exhibit 5. Fixed Income Returns

	October	3-Month	YTD
Bloomberg Barclays U.S. Aggregate	-2.48%	0.25%	1.86%
Blended ICE/ BofAML Preferred Stock	-0.50%	4.52%	10.72%
ICE BofA US Taxable Muni - Broad	-2.42%	0.20%	2.72%
ICE BofA Municipals Master (TE)	-1.33%	0.61%	1.85%
Bloomberg Barclays U.S. MBS (fixed rate)	-2.83%	-0.09%	1.54%
Bloomberg Barclays U.S. ABS	-0.70%	1.25%	4.33%
Bloomberg Barclays U.S. Agency	-1.17%	0.70%	3.05%
Bloomberg Barclays U.S. Treasury	-2.38%	0.06%	1.36%
Bloomberg Barclays U.S. Corporates	-2.43%	0.86%	2.77%
Bloomberg Barclays High Yield	-0.54%	2.72%	7.42%

Source: Barclays, Bloomberg, NEAM

Exhibit 6. Domestic Fixed Income Sector: Month-to-Date Total Returns (10/31/24)



*Source: Bloomberg, Barclays, ICE BofAML, NEAM - *Taxable Equivalent*

EQUITY TOTAL RETURNS

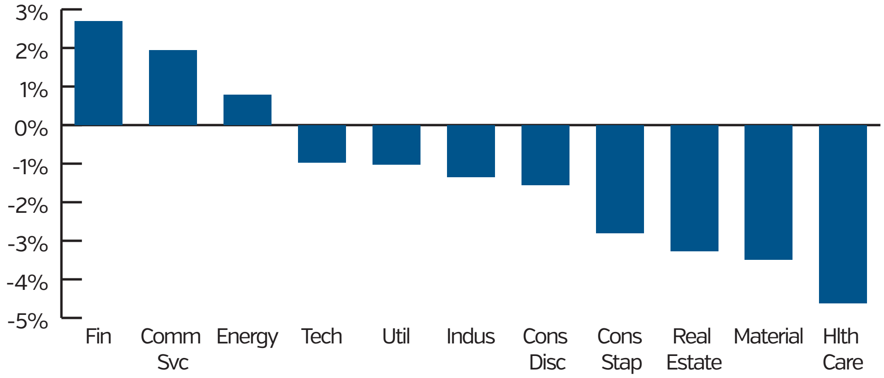
Strong payroll data and an above-trend inflation print dented previously more aggressive assumptions for future Fed rate decisions. As economic data continued to hold up, and inflation remained above target, the direction of Treasury yields broke rank with the path of previous months and rose, while equity markets ended relatively flat to lower.

Exhibit 7. Equity Total Returns

	November	3-Month	YTD
S&P 500	-0.92%	3.66%	20.96%
NASDAQ	-0.49%	3.00%	21.24%

Source: Bloomberg, NEAM

Exhibit 8. Domestic Equity Returns: Month-to-Date Total Returns (10/31/24)



Source: Bloomberg, NEAM

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