NEAM VANTAGE POINT

Trade Winds

JANUARY 2025

ECONOMIC & CAPITAL MARKET OVERVIEW

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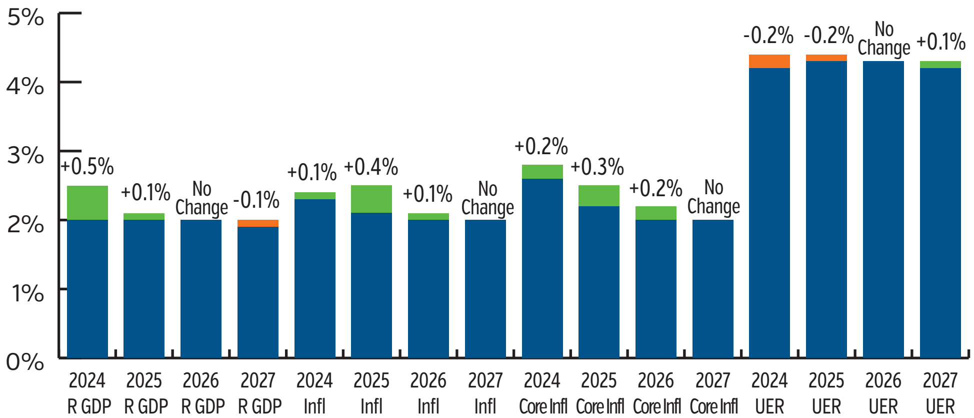
Monthly Economic Highlights

DECEMBER OVERVIEW

The Fed cut its benchmark rate by 25 basis points as expected, bringing its benchmark range to 4.25%-4.50%. The decision was not unanimous, with the Cleveland Fed's president voting to stay put at the previous level, and Powell commenting that it was a "closer call." Commenting again that "labor market conditions have generally eased," and despite being closer to their goal, inflation remains "somewhat elevated," the committee will, as has been the case, remain "cautious," and rely on incoming data to determine the degree and timing of future "adjustments" to its range. Indeed, the summary of economic projections showed a more hawkish tilt, with the median fed funds rate now 50 basis points higher for the next two years than the September estimates, implying two fewer cuts in each of the next two years, while the terminal rate also rose. Inflation estimates appear to show the biggest change, moving higher through 2026, while unemployment figures remained relatively stable if not slightly lower, and growth estimates showed only marginal shifts with time. Altogether, as Powell stated, the committee now finds itself "at or near a point at which it will be appropriate to slow the pace of further adjustments" to maintain their dual mandate.

Exhibit 1. Fed Projections: FOMC Economic Projections and Change



Source: FRB, Haver, NEAM

Fed officials are wary of further weakness in the job market but note that downside risks are diminishing. Recent figures offered some comfort but show that the market is more balanced than before and "looser" than before the pandemic. Nonfarm payrolls rebounded over the month, coming in at +227K, while previous months' payrolls were revised upwards bringing the three-month average up to +173K. The lion's share of new jobs continues to come from the government and healthcare industry. Meanwhile, the unemployment rate increased to 4.2%, with a drop in the household employment figures outpacing the decline in the labor force.

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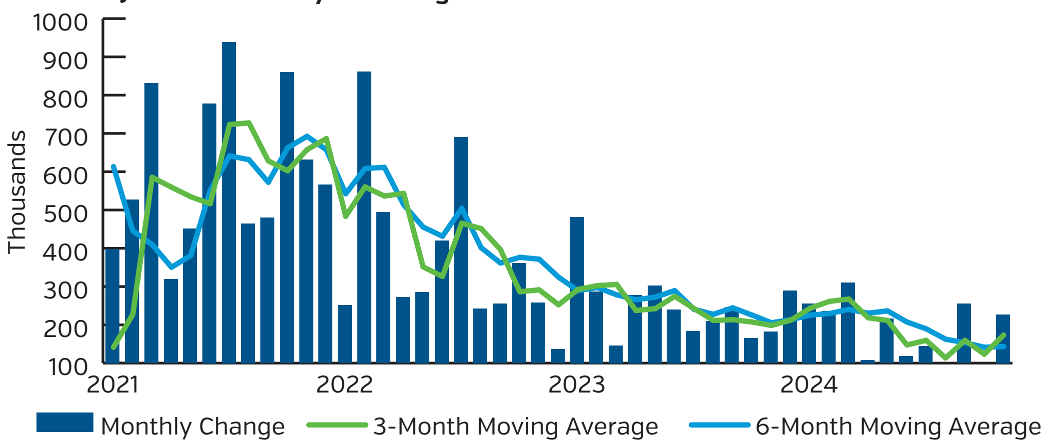
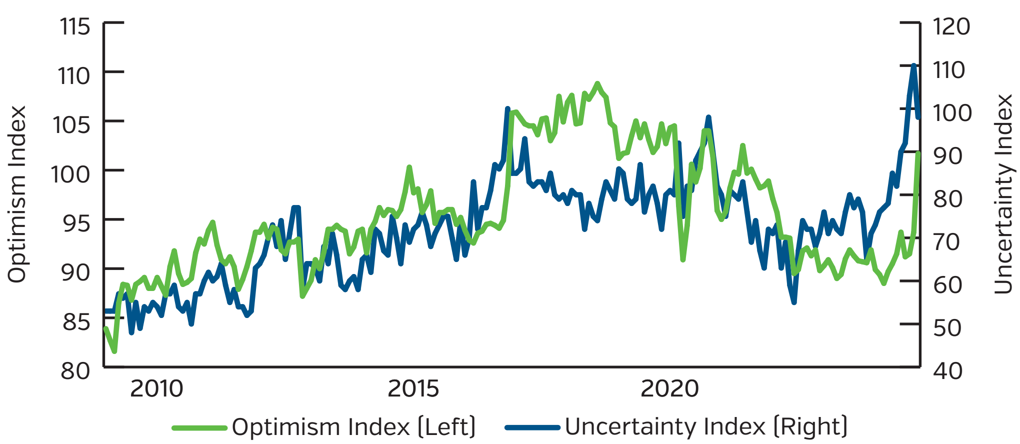
Across other survey data, hiring rates and employee turnover are both lower, with fewer firms reporting that they were increasing their personnel counts but also that they were not laying off as many people either. Wage growth for the year remained on par with last month, with average hourly earnings increasing (+0.4%) and +4.0%, for the month and year, respectively, while recently released productivity estimates showed unit labor costs falling and Powell suggesting that further weakness in the labor market is not necessary to ultimately bring inflation to their goal. Consumption is holding up, and consumer sentiment remains on the rise, with confidence numbers up, although the number of those seeking employment over an extended period is growing, highlighting the difficulty for many in landing more permanent jobs in the market despite the headline resiliency seen in the data.

Exhibit 2. Job Additions: Payroll Averages



Source: BLS, Haver, NEAM

Exhibit 3. Small Business Surveys (NFIB Surveys)



Source: NFIB, Haver, NEAM

Although economic data in the business investment area have been more challenged of late, the Fed's Beige Book highlighted optimism for increased demand on the part of businesses going forward, despite the direction of manufacturing data in the districts being mixed. National manufacturing PMI numbers also improved slightly but remain challenged, and a muted rise in the manufacturing sector post-strike and weather disruptions was unfortunately not enough to keep industrial production from falling over the month, as drops in mining (-0.9%) and utilities (-1.3%) weighed to the downside. Despite this, optimism appears to be improving amongst small business owners, while uncertainty fades, with the NFIB small business optimism index jumping, and subcomponents relating to improved expectations for the economy, increasing sales, expansion plans, and capital expenditure contributing the most to the overall increase.

The pace of disinflation has slowed if not stalled but softer undercurrents in the services side over the month provide some comfort. Headline CPI increased to +0.3% for the month (2.7% for the year), on the back of increases in food and energy prices, while monthly core prices also increased +0.3% (3.3% annualized), level with the pace of the previous three months. In contrast to last month, core goods added to the mix this period, coming in at +0.3%, with help from apparel, new vehicles, household furnishings and, to a lesser extent than before, used vehicles. On the core services side, the pace of price increases stayed constant at +0.3% for the month. Shelter remains a top contributor but did so to a smaller degree this month. Away from the slowdown in the level of shelter gains, core services found support from water and medical care services. More recent measures of inflation have ticked up, which will give the Fed something to think about as they address their rate policy path next year.

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. Longer dated Treasury yields rose, while domestic equity markets returns were mixed.

Exhibit 4. U.S. Historical Yield Curves

	Dec 2020	Dec 2021	Dec 2022	Dec 2023	Dec 2024
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%	4.33%
5-Year	0.36%	1.26%	4.00%	3.85%	4.44%
10-Year	0.91%	1.51%	3.87%	3.88%	4.58%
30-Year	1.64%	1.90%	3.96%	4.03%	4.76%

Source: Bloomberg, NEAM

Capital Markets

FIXED INCOME RETURNS

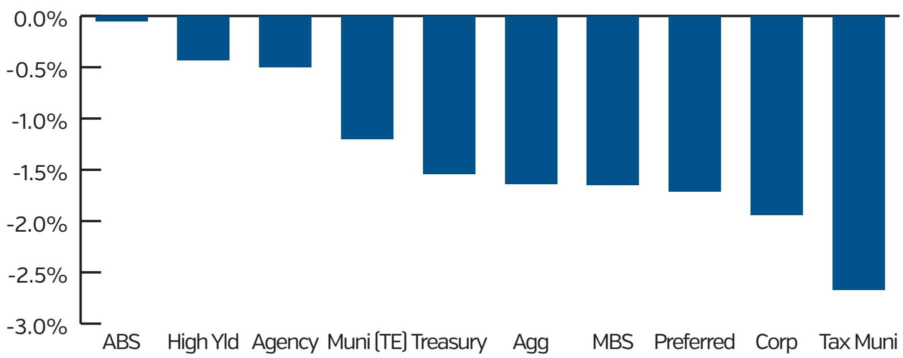
The Fed reduced its benchmark rate by 25 basis points again in December, but accompanying statements and economic projections showed they plan to slow the pace of future rate adjustments. Treasury yields rose, while credit spreads remained relatively unchanged despite trending tighter towards the front end of the month.

Exhibit 5. Fixed Income Returns

	December	3-Month	YTD
Bloomberg Barclays U.S. Aggregate	-1.64%	-3.06%	1.25%
Blended ICE/ BofAML Preferred Stock	-1.71%	-1.89%	9.18%
ICE BofA US Taxable Muni - Broad	-2.67%	-3.51%	1.56%
ICE BofA Municipals Master (TE)	-1.20%	-0.87%	2.32%
Bloomberg Barclays U.S. MBS (fixed rate)	-1.65%	-3.16%	1.20%
Bloomberg Barclays U.S. ABS	-0.05%	-0.05%	5.02%
Bloomberg Barclays U.S. Agency	-0.50%	-1.06%	3.16%
Bloomberg Barclays U.S. Treasury	-1.54%	-3.14%	0.58%
Bloomberg Barclays U.S. Corporates	-1.94%	-3.04%	2.13%
Bloomberg Barclays High Yield	-0.43%	0.17%	8.19%

Source: Barclays, Bloomberg, NEAM

Exhibit 6. Domestic Fixed Income Sector: Month-to-Date Total Returns (12/31/24)



Source: Bloomberg, Barclays, ICE BofAML, NEAM

EQUITY TOTAL RETURNS

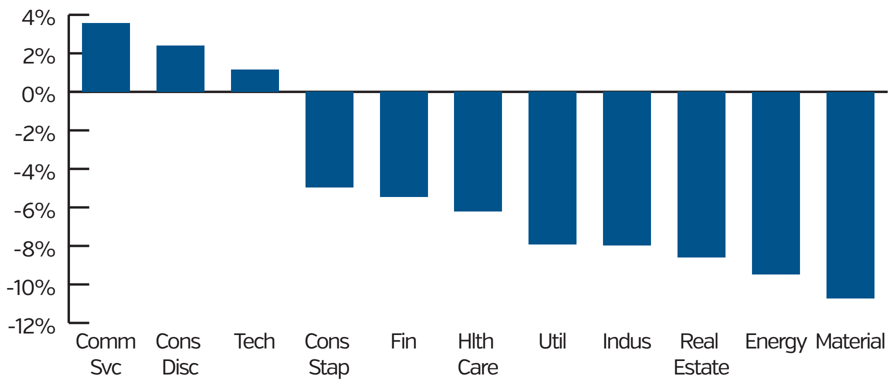
With updated median Fed projections further cementing the narrative that the Fed will move at a more gradual pace going forward, economic data remaining firm, and rates rising, equity returns were mixed. The Dow and S&P fell, while Nasdaq rose slightly, for the month.

Exhibit 7. Equity Total Returns

	December	3-Month	YTD
S&P 500	-2.39%	2.39%	25.00%
NASDAQ	0.56%	6.36%	29.60%

Source: Bloomberg, NEAM

Exhibit 8. Domestic Equity Returns: Month-to-Date Total Returns (12/31/24)



Source: Bloomberg, NEAM

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