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Trade Winds

OCTOBER 2024

ECONOMIC & CAPITAL MARKET OVERVIEW

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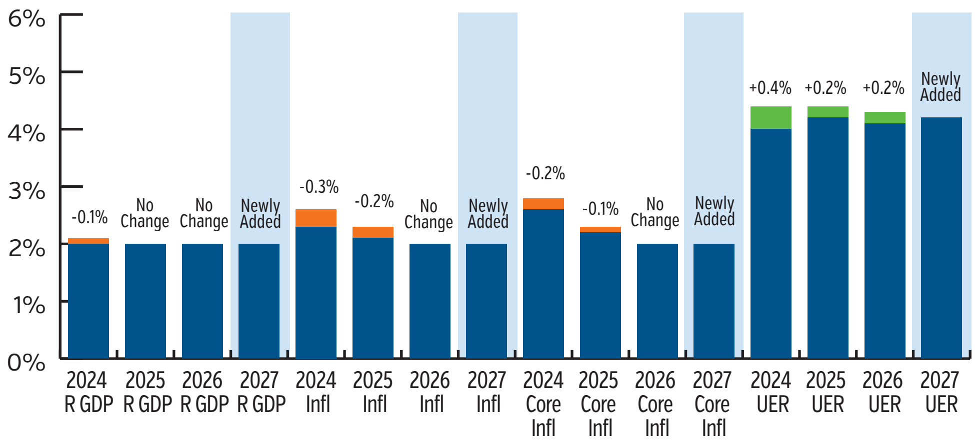
Monthly Economic Highlights

SEPTEMBER OVERVIEW

The much-awaited, anticipated, and debated Fed decision took place over the month. After years of tightening the reigns, the Fed reduced its benchmark rate by 50 basis points as it began to "recalibrate" its policy positioning. With stubbornly high inflation subsiding and the labor market softening, the Fed leaned on the more aggressive side of the market's expectations to preserve labor market resilience while continuing to bring inflation down to its target range. Categorizing the economy as "strong," Powell promoted that improvements in inflation, and a more balanced labor market relative to its previously overheated state, allowed the committee to "reduce the degree of policy restraint." The Fed's median economic projections still look for another 50 bps of cuts by year-end, but any possible movement will be tempered or accelerated depending on how the economic data evolves. Indeed, Powell highlighted that future movements would probably be more measured and that the Committee is not "in a rush to get this done," and noting that moving too fast, or too slow, could risk improvements on the inflation front, or weakness in the labor market, respectively. The Fed's projections expect GDP to remain on trend at 2%, further "cooling" of the labor market with higher unemployment projections and continued progress, but not attainment, of their inflation goals which they do not see hitting target until 2026.

Exhibit 1. Fed Economic Projections



Source: FRB, Haver, NEAM

The unemployment rate currently sits at 4.2%. The Fed's latest projections call for unemployment to rise to 4.4% by year-end and remain there through 2025. In his press conference release, noting that the market was coming off a period of "overheating", Powell highlighted that job gains at the time of the statement had averaged +116K over the last three months through August, which he described as a "notable step down from the pace earlier

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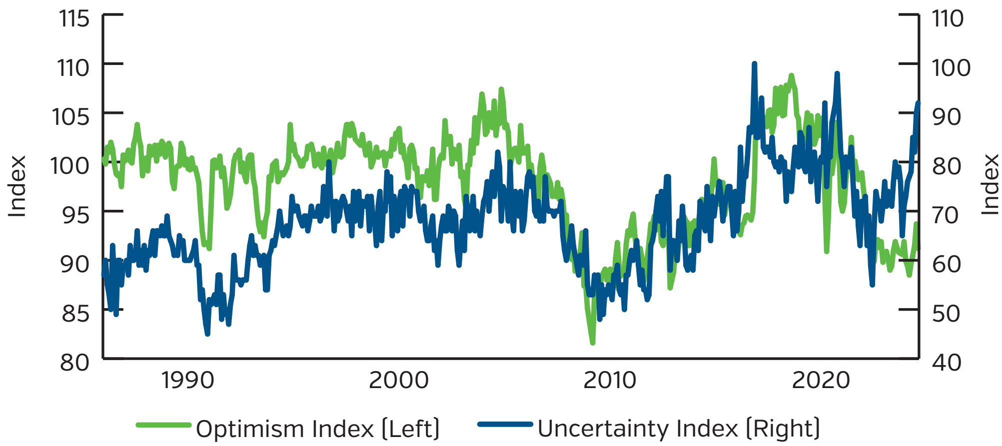
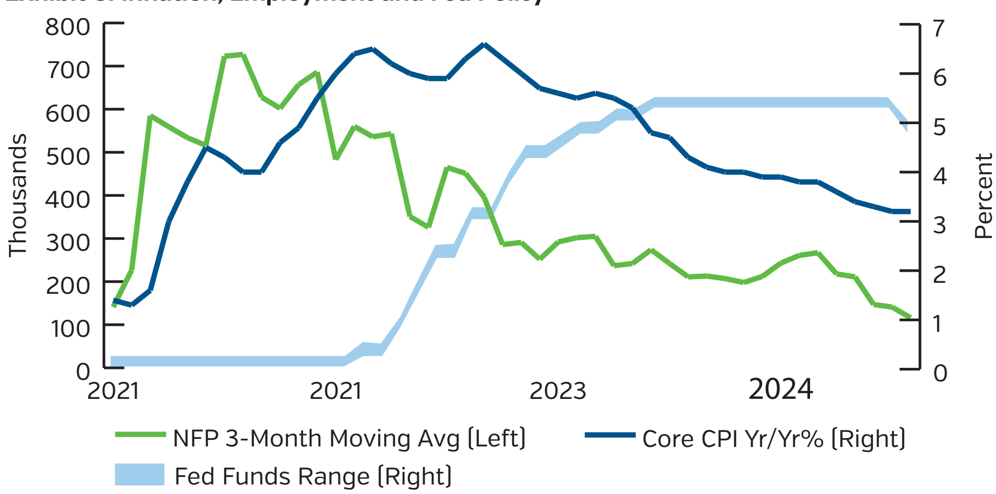
in the year." Wage gains have taken note and directionally trended southwards too, with the most recent year-on-year figures coming in at +3.8%, down from a peak of 5.9% roughly two and half years ago. The softening in the labor market, combined with easing inflationary pressures, gave the Fed room to move as it seeks to keep its dual mandate in check. Indeed, despite consumer indicators showing that real personal consumption is holding up, and upwardly revised personal income and savings rate data, confidence measures were mixed. Their ultimate levels remain below pre-pandemic levels, with the prospects for the state of the labor market, inflation, upcoming election, and economy overall continuing to weigh on the public's mind.

Exhibit 2. Small Business Surveys: NFIB Surveys



Source: : NFIB, Haver, NEAM

Exhibit 3. Inflation, Employment and Fed Policy



Source: BLS, FRB, Haver, NEAM

On the investment front, industrial production came in stronger than expected, growing +0.8% for the month. Behind the gain were contributions from a motor vehicle-led rebound in manufacturing, which had suffered last month, in addition to mining (+0.8%) while utilities remained level with the previous months' figures. Meanwhile, the NFIB small business optimism index fell, and the uncertainty index rose, as small business owners grew more uncertain about the economic outlook and their earnings trends deteriorated on balance.

On the inflation front, headline CPI came in at +0.2% for the month, or 2.5% relative to the comparable period a year ago. On a core basis, the monthly pace of price increases ticked up, to +0.3%, keeping the annual gain on par with last month at 3.2%. Underneath the covers, energy prices fell (-0.8%), led by declines in gasoline, electricity, and natural gas while food cost gains slowed, coming in at +0.1%. At the core level, core goods' prices fell for the third straight month (-0.2%), led by drops in used vehicles, medicinal drugs, and household furnishings despite gains in apparel. On the core services side, which again carried the most weight and contribution to inflation this period, prices rose +0.4%, higher than the previous three months' pace. Contributing to the rise was an uptick in shelter, which came in at +0.5%, fueled by increases in owners' equivalent rent and a pop in lodging away from home. Away from shelter, a reversal in airline fares, a smaller gain in motor vehicle insurance, and education added to the tally. On a shorter-term basis, three-month and six-month annualized figures, while higher, are tracking closer to the Fed's target, and sit below yearly comparable figures.

CAPITAL MARKET IMPLICATIONS

In response to a tempered labor outlook, and moderating inflation, the Fed reduced its benchmark rate over the month for the first time since the onset of the pandemic. Equities rallied on the news, while Treasury yields fell across the curve.

Exhibit 4. U.S. Historical Yield Curves

	Dec 2020	Dec 2021	Dec 2022	Dec 2023	Sept 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%	3.64%
5-Year	0.36%	1.26%	4.00%	3.85%	3.56%
10-Year	0.91%	1.51%	3.87%	3.88%	3.78%
30-Year	1.64%	1.90%	3.96%	4.03%	4.12%

Source: Bloomberg, NEAM

Capital Markets

FIXED INCOME RETURNS

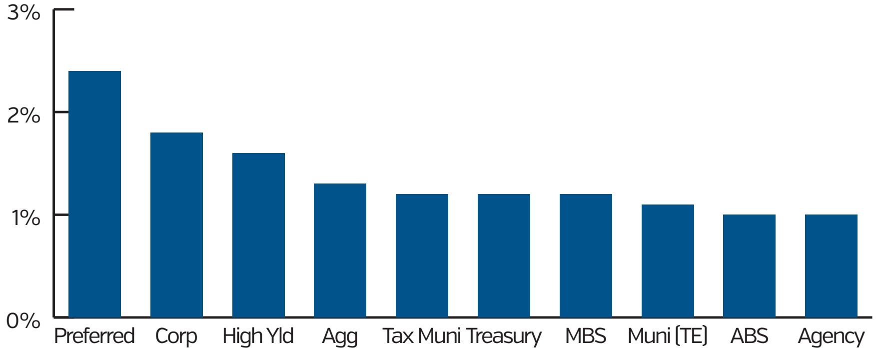
Against the backdrop of moderating inflation and a softening labor market, the Fed began to ease its interest rate policy over the month, reducing its benchmark rate by 50 basis points. Treasury yields fell across the curve again, while credit spreads, despite widening in the first part of the month, ended slightly tighter.

Exhibit 5. Fixed Income Returns

	September	3-Month	YTD
Bloomberg Barclays U.S. Aggregate	1.34%	5.20%	4.45%
Blended ICE/ BofAML Preferred Stock	2.38%	5.66%	11.28%
ICE BofA US Taxable Muni - Broad	1.21%	5.21%	5.26%
ICE BofA Municipals Master (TE)	1.11%	2.90%	3.22%
Bloomberg Barclays U.S. MBS (fixed rate)	1.19%	5.53%	4.50%
Bloomberg Barclays U.S. ABS	0.98%	3.35%	5.07%
Bloomberg Barclays U.S. Agency	0.95%	3.40%	4.27%
Bloomberg Barclays U.S. Treasury	1.20%	4.74%	3.84%
Bloomberg Barclays U.S. Corporates	1.77%	5.84%	5.32%
Bloomberg Barclays High Yield	1.62%	5.28%	8.00%

Source: Barclays, Bloomberg, NEAM

Exhibit 6. Domestic Fixed Income Sector: Month-to-Date Total Returns (9/30/24)



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

EQUITY TOTAL RETURNS

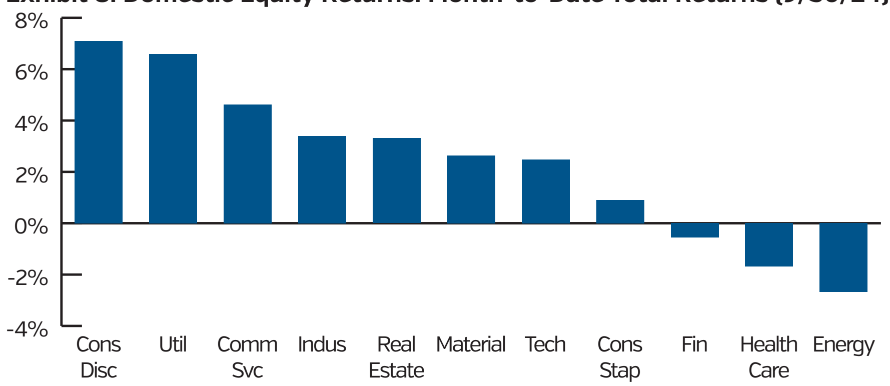
A 50-basis point move by the Fed in the latter half of the month, marketed as a "recalibration" of policy considering waning inflation and a quieting labor market, helped fuel equity gains. Treasury yields fell and domestic equity markets rose, with the Dow, S&P 500, and Nasdaq all ending the month higher.

Exhibit 7. Equity Total Returns

	September	3-Month	YTD
S&P 500	2.14%	5.89%	22.08%
NASDAQ	2.76%	2.76%	21.84%

Source: Bloomberg, NEAM

Exhibit 8. Domestic Equity Returns: Month-to-Date Total Returns (9/30/24)



Source: Bloomberg, NEAM

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