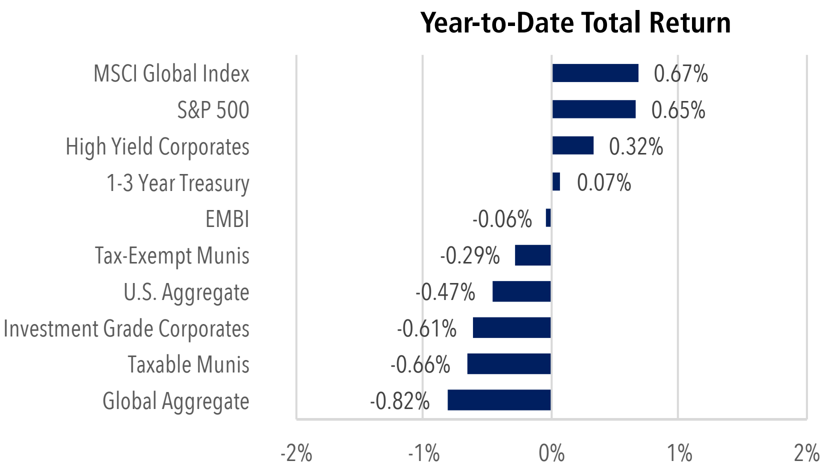
Week Ending: **January 10, 2025**

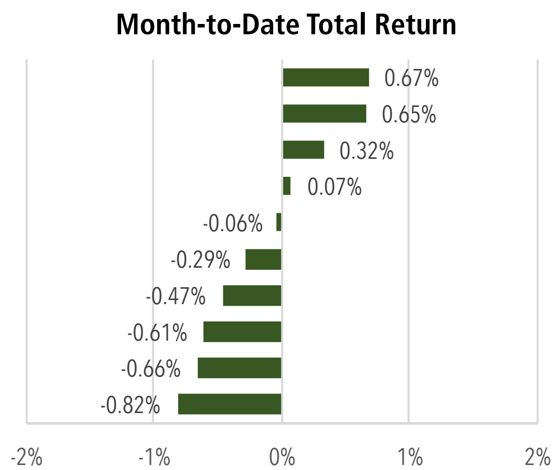
Stick The Landing

Economic Overview:

This week, Treasury yields continued to climb as the freshly released December FOMC minutes suggested policymakers will lower the fed funds rate gradually in 2025. Consequently, the bond market priced in fewer than two cuts in 2025. But is there a case for more cuts in 2025? Yes, according to the minutes, "if labor market conditions deteriorated, or inflation returned to 2 percent more quickly than anticipated." Specifically, policymakers noted some downside risks to the labor market, as the "recent pace of payroll growth had been below the rate that would keep the unemployment rate constant." Granted, the December jobs report showed that job growth remained strong, and the unemployment rate has hovered near 4.1% for seven consecutive months. Historically, it's extremely rare to see such stability in the unemployment rate. Beneath the surface of the jobs data, it has become harder to find a job, suggesting that the unemployment rate may inch higher. If the trend continues and inflation moderates, the Fed could still cut more than markets expect as the central bank aims to stick the (soft) landing, not slow the economy.

Total Returns by Asset Class





Source: Bloomberg

Highlights of the Week:

High Yield: Starting yields proved to be an effective predictor of total returns in 2024. High yield bonds, which yielded 7.7% at the end of 2023, returned 8.1%, while loans, which yielded 9.0% at the end of 2023, returned 9.1%. Using yields as a valuation metric, high yield bonds, and loans remain attractively valued today, offering 7.4% and 8.8% yields, respectively.

Municipals: Following four weeks of outflows, muni flows turned positive again last week. According to LSEG Lipper, net inflows totaled \$842 million, with mutual funds contributing \$607 million, while the remainder came from ETFs.

Equities: The U.S. equity market ended lower for the week as interest rates moved higher due to resilient economic data. Sector leadership was mixed, with real estate, technology, and consumer discretionary leading markets lower, while energy, health care, and materials were the only positive-performing sectors.

Securitized Products: In 2024, the new issue volume of asset-backed securities (ABS) surpassed \$300 billion, with all subsectors except credit card ABS achieving year-over-year growth. Commercial ABS experienced significant expansion, fueled by the ongoing development of whole business securitization following a quieter issuance year in 2023. The growing prominence of digital infrastructure ABS, particularly in the data center and fiber sectors, added further to the expansion.