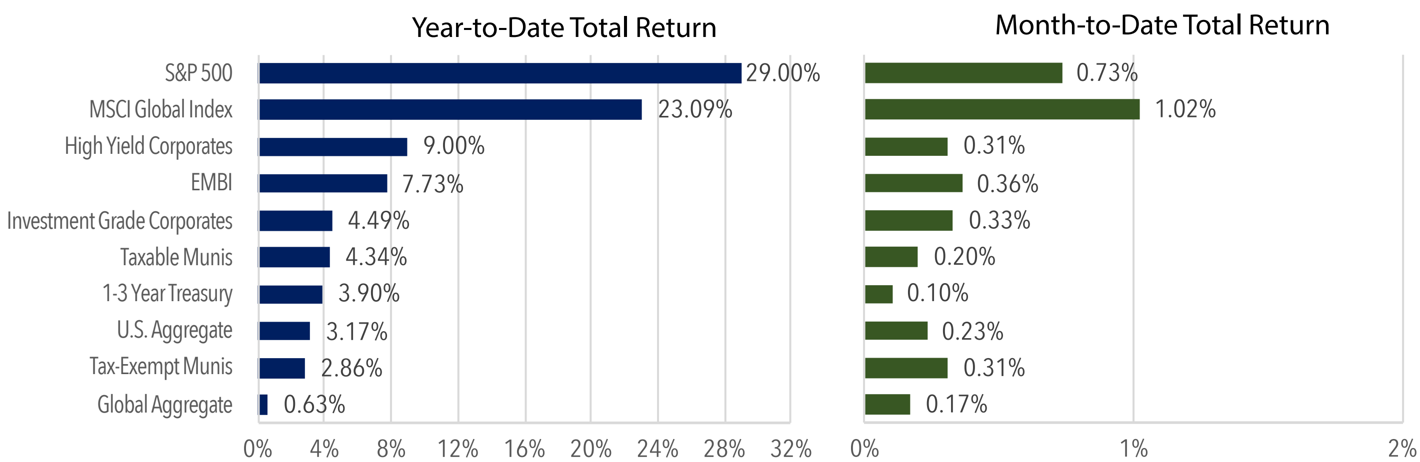
Week Ending: **December 6, 2024**

Cut Or Skip?

Economic Overview:

To cut or skip is the question policymakers face in two weeks' time. What might prompt the Fed to skip a cut at the December FOMC meeting? Inflation, measured by core PCE, looks marginally stickier than in the summer. While all three components (goods, housing, and non-housing services) of core PCE have shown considerable progress, as flagged by Fed Governor Chris Waller in his speech this week, "there has been an increase in non-market core services excluding housing." Non-market core services include several financial and insurance services for which the BEA uses imputed prices rather than actual transactions. Waller does "not take much signal from the elevated inflation for other non-market services." In fact, core market-based PCE inflation, which excludes food and energy components, has remained consistent with the Fed's 2% target since April 2024. If market-based measures provide a better guide to inflation trends, as Waller advised in his speech, investors should "expect rate cuts to continue over the next year until we approach a more neutral setting of the policy rate." Waller's words, not ours.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: High yield bonds and their fixed-rate coupons are outperforming broadly syndicated loans (floating rate) this month in part thanks to lower interest rates. Given the strong macroeconomic backdrop and relatively low default expectations for both asset classes, we expect rate moves to continue to drive performance differentiation between the two.

Corporates: Heading into the final month of 2024, high-grade fund flows remain solid, with $3.9 billion on the week. Aggregate funds saw the most inflows, while corporate dedicated funds saw inflows of $679mm, mainly driven by long-end demand. Corporate spreads trade in a tight range, currently at +78 or 21 basis points tighter on the year. This week saw $22 billion in investment-grade inflows, pushing year-to-date totals to $1.492 trillion with realistically one more week of issuance this year.

Municipals: Munis posted positive returns in November. The Bloomberg Municipal Index recorded a 1% return for the month, while the high yield muni index posted a 0.9% return, and the taxable muni index generated a 1.5% return. Year to date, the investment grade index has increased 2.3%, the high yield index is up 7.5%, and the taxable muni index has gained 1.7%.

Equities: The U.S. equity market posted gains for the week on better-than-expected corporate earnings and positive management commentary, which support growth prospects for the coming year. Sector leadership was bifurcated, with consumer discretionary, communications, and technology up by more than +3%, while energy, utilities, and real estate were down by more than -2%.

Securitized Products: Over the past several months, mortgage rate volatility and hurricanes have led to a whipsaw in agency mortgage prepayment speeds. Prepayment speeds rose 20-30% in October as mortgage rates reached two-year lows but declined 30% in November as rates returned to 7%. Mortgage payment forbearance in hurricane-impacted areas also contributed to slower prepayments. Borrowers' responsiveness to mortgage rate fluctuations increases the value proposition of mortgage pools with specified loan attributes.