

Monthly Market Review

Fixed Income | November 2024

Information provided by MILAF+'s Program Administrator



"We don't guess, we don't speculate, and we don't assume" – Chair Powell

Economic Highlights

- ▶ Republicans gained control of the Presidency and Senate following the November 5 election (Note: The House of Representatives was unknown at the time of writing). Markets will continue to assess the implications of potential policies around taxes, tariffs, regulation, and immigration.
- ▶ Two days later at its penultimate meeting of 2024, the Federal Reserve (Fed) lowered the target range for the federal funds rate by 25 basis points to 4.50% - 4.75%.
- ▶ Fed Chair Jerome Powell reaffirmed the Fed's apolitical nature and stated, "in the near term the election will have no effects on our policy decisions." He added any economic impacts from future fiscal policies put into place "would be included in [the Fed's] models of the economy."
- ▶ While the market still expects another 25 basis point rate cut in December, Chair Powell noted the Fed will continue to be data-dependent. He added that the Fed believes monetary policy is still restrictive, and it will continue to move to a more neutral level.
- ▶ Inflation, as measured by the personal consumption expenditures index (PCE), fell to the lowest level since early 2021. Core PCE, which removes the volatile food and energy components, hit 2.7% on a year-over-year basis and continues its trajectory towards the Fed's 2% inflation target. The housing component of inflation remains elevated near 5% while goods prices continued their deflationary trend.
- ▶ The employment report showed that only 12,000 jobs were created during the month of October. That number was likely impacted by large-scale strikes and Hurricane Milton. Notably, the BLS report referenced a very low response rate to the survey. Additionally, 512,000 people reported they were unable to work due to weather. The unemployment rate held steady at 4.1% as employees affected by the weather were not included in the calculation.
- ▶ The advance estimate for Q3 gross domestic product (GDP) showed the economy grew at a 2.8% pace, in line with Q2 growth of 3%. Strong personal consumption continues to bolster economic growth. Notably, goods spending contributed more than services to GDP growth for the first time since the first quarter of 2021.

Bond Markets

- ▶ U.S. Treasury yields increased during October as markets reacted to strong economic data and expectations for a slower pace of rate cuts from the Fed. Overnight and short-term maturities (less than three months) declined slightly, while 2-, 5-, and 10-year yields rose by 53, 60, and 50 bps, respectively.
- ▶ Yields on benchmark 2-, 5-, and 10-year U.S. Treasuries ended the month at 4.17%, 4.16%, and 4.28%, respectively.

- ▶ The increase in yields pushed fixed income total returns negative for the month as the ICE BofA 2-, 5-, and 10-year U.S. Treasury indices returned -0.65%, -2.30%, and -3.58%, respectively.

Equity Markets

- ▶ Volatility peaked in the run-up to the election but quickly subsided as markets gained clarity on the outcome.
- ▶ The Dow Jones Industrial Average ended the month down 1.3% and the NASDAQ dropped by 0.5%. The S&P 500 Index fell 0.9% but reached a new all-time high post-election.
- ▶ International equities (as measured by MSCI ACWI ex-U.S. Net Index) sold off sharply for the month, declining 4.9%, while the U.S. Dollar Index rallied 3.2%.

PFMAM Strategy Recap

- ▶ Given that economic conditions remain supportive of a soft landing and the recent backup in yields, we will continue to maintain portfolio durations near 100% of benchmarks.
- ▶ Spreads on federal agencies and supranationals remain unchanged near multi-year highs and are not expected to change in the near term. We expect to maintain low allocations in favor of other sectors.
- ▶ Investment-grade (IG) corporate bonds posted positive excess returns relative to U.S. Treasuries as spreads continued to narrow and approach multi-year lows. Supportive corporate fundamentals, strong demand, and softer issuance levels have driven valuations to historically rich levels. With spreads at these narrow levels, we may look to trim allocations in the sector to make room for future opportunities.
- ▶ Asset-backed securities (ABS) generated positive excess returns as spreads continue to tighten. Although valuations are slightly more attractive than IG corporates, we will look to reduce allocations by attrition given that issuance is expected to remain quiet heading into the end of the year.
- ▶ Mortgage-backed securities (MBS) and agency-backed commercial MBS (CMBS) underperformed due to heightened bond volatility and uncertainty in the housing market. After outperforming notably in September, most mortgage-related sectors trailed Treasuries in October. Year-to-date excess returns remain firmly positive. We will seek to maintain allocations in the sector.
- ▶ Credit spreads on the short end of the curve were relatively unchanged, while pricing on U.S. Treasury Bills continued to improve. The money market yield curve in general remains inverted as the market continues to price in multiple Fed rate cuts. Money market funds and similar pools tend to lag the decline in cash yields during periods of Fed rate cutting.

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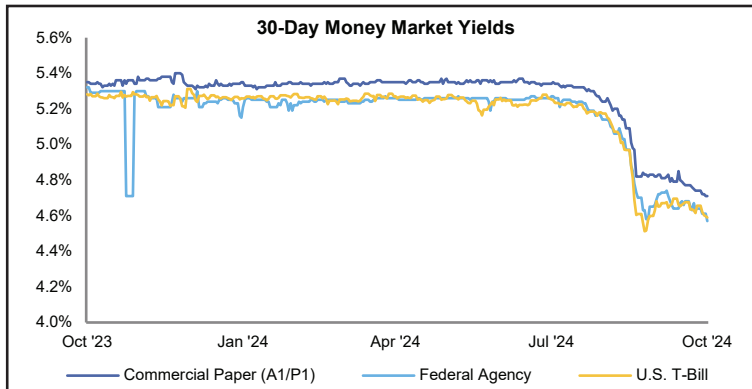
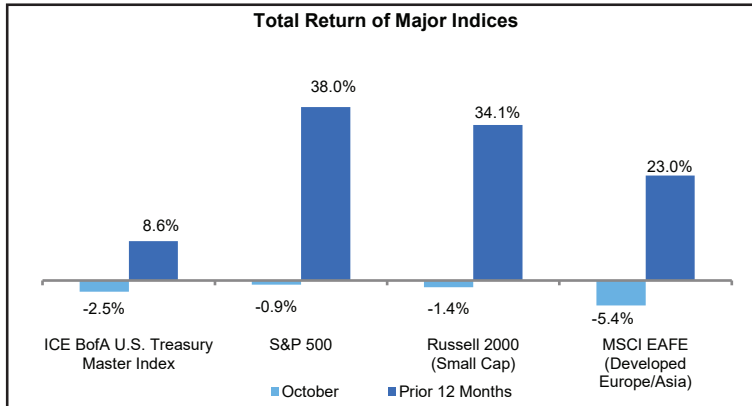
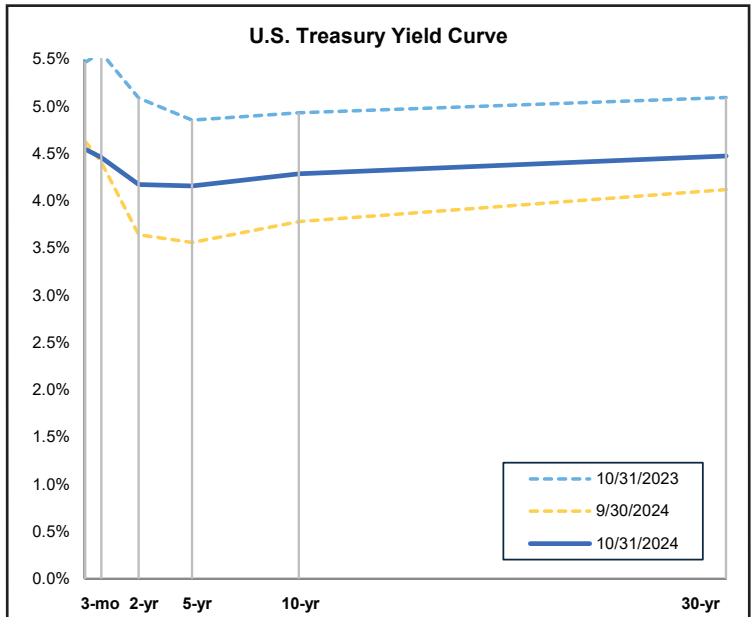
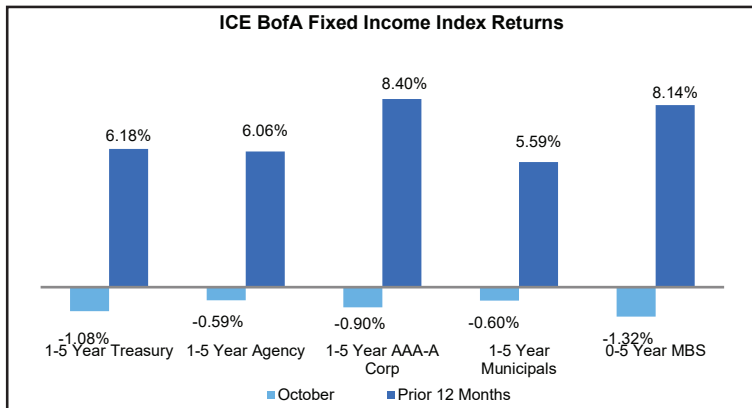
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| U.S. Treasury Yields | | | | |
|----------------------|--------------|--------------|--------------|----------------|
| Maturity | Oct 31, 2023 | Sep 30, 2024 | Oct 31, 2024 | Monthly Change |
| 3-Month | 5.47% | 4.63% | 4.55% | -0.08% |
| 6-Month | 5.57% | 4.41% | 4.46% | 0.05% |
| 2-Year | 5.09% | 3.64% | 4.17% | 0.53% |
| 5-Year | 4.86% | 3.56% | 4.16% | 0.60% |
| 10-Year | 4.93% | 3.78% | 4.29% | 0.51% |
| 30-Year | 5.10% | 4.12% | 4.48% | 0.36% |

| Yields by Sector and Maturity | | | | |
|-------------------------------|---------------|----------------|-----------------------------|----------------|
| Maturity | U.S. Treasury | Federal Agency | Corporates-AA-A Industrials | AAA Municipals |
| 3-Month | 4.55% | 4.56% | 4.79% | - |
| 6-Month | 4.46% | 4.46% | 4.83% | - |
| 2-Year | 4.17% | 4.18% | 4.46% | 2.69% |
| 5-Year | 4.16% | 4.17% | 4.67% | 2.71% |
| 10-Year | 4.29% | 4.35% | 4.99% | 2.96% |
| 30-Year | 4.48% | - | 5.42% | 3.87% |

| Spot Prices and Benchmark Rates | | | | |
|---------------------------------|--------------|--------------|--------------|----------------|
| Index | Oct 31, 2023 | Sep 30, 2024 | Oct 31, 2024 | Monthly Change |
| 1-Month LIBOR | 5.43% | 4.96% | 4.96% | 0.00% |
| 3-Month LIBOR | 5.64% | 4.85% | 4.85% | 0.00% |
| Effective Fed Funds Rate | 5.33% | 4.83% | 4.83% | 0.00% |
| Fed Funds Target Rate | 5.50% | 5.00% | 5.00% | 0.00% |
| Gold (\$/oz) | \$1,994 | \$2,636 | \$2,749 | \$113 |
| Crude Oil (\$/Barrel) | \$81.02 | \$68.17 | \$69.26 | \$1.09 |
| U.S. Dollars per Euro | \$1.06 | \$1.11 | \$1.09 | -\$0.02 |

| Economic Indicators | | | | |
|--------------------------------|--------------|--------|--------|-----------------|
| Indicator | Release Date | Period | Actual | Survey (Median) |
| Retail Sales Advance MoM | 17-Oct | Sep | 0.40% | 0.30% |
| Existing Home Sales MoM | 23-Oct | Sep | -1.00% | 0.50% |
| U. of Mich. Consumer Sentiment | 25-Oct | Oct F | 74.1 | 73 |
| GDP Annualized QoQ | 30-Oct | 3Q A | 2.80% | 2.90% |
| PCE YoY | 31-Oct | Sep | 2.10% | 2.10% |
| ISM Manufacturing | 1-Nov | Oct | 46.5 | 47.6 |
| Change in Nonfarm Payrolls | 1-Nov | Oct | 12K | 100K |



Source: Bloomberg. Data as of October 31, 2024, unless otherwise noted.

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