ACADEMY ASSET MANAGEMENT

Market Update

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November 2024

In Q2 2024, U.S. GDP growth slowed to a 2.9% annualized rate, reflecting moderate deceleration but still demonstrating robust economic activity. Consumer spending, in particular, has remained resilient, providing stability amid shifting economic conditions.

Inflation has generally been on a downward trend yet remains above the Federal Reserve's 2% target. Year-over-year CPI decreased to 2.4%, a significant decline from its 2022 peak of 8.3%, although core CPI rose slightly to 3.3%. Meanwhile, the Fed's preferred inflation gauge, core Personal Consumption Expenditures (PCE), sits at 2.7%. We remain concerned that the last mile of inflation to reach the Fed's 2% target may be tougher to achieve without an economic slowdown.

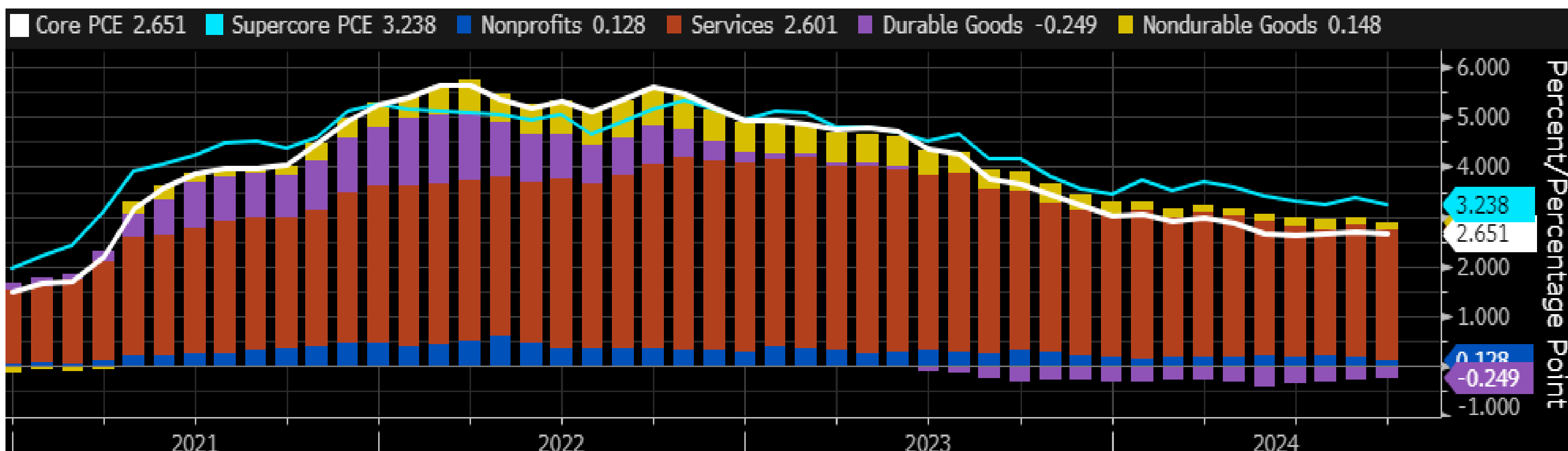
Recent labor market data has reflected signs of cooling. The October jobs report, released on November 1, indicated a deceleration in hiring, with only 12,000 new jobs added, down significantly from previous months. The slowdown is partially attributed to disruptions from aerospace industry strikes and hurricane-related impacts. However, it's important to note that payroll figures are highly volatile, and focus should be on the trend and not one monthly data point. The unemployment rate held steady at 4.1%, providing some reassurance of labor market stability.

Market focus remains on the pace and extent of anticipated rate cuts. At the upcoming FOMC meeting on November 7, expectations lean towards a 25 basis point (bp) reduction. Given the persistent economic strength and lingering inflation challenges, there's a case for the Fed to pause at the November meeting. However, after an initial bold 50 bp cut in October, pausing might risk appearing as a policy mistake. Therefore, we are aligned with market consensus for a 25 bp cut. We will be closely watching the Fed's statement and Chair Powell's press conference for any signals regarding potential adjustments to the rate cut trajectory currently priced into the market

Treasury yields have risen significantly in recent weeks, reflecting both diminished expectations for aggressive Fed easing and the anticipated impact of a Republican sweep, which would give the party control over fiscal policy, likely adding to deficits and increasing Treasury supply. Without delving into election forecasting, it's worth noting that a split government could temper these pressures in the near term by imposing fiscal checks and potentially leading to a rally in Treasuries. Regardless, as the election results may be unknown for several days, we anticipate heightened market volatility until results are known.

As 2024 approaches its close, the U.S. economy is balancing between growth moderation and inflation control, with the upcoming FOMC meeting and the election as pivotal events influencing market and economic direction.

Contributions to US Core Personal Consumer Expenditure (PCE)



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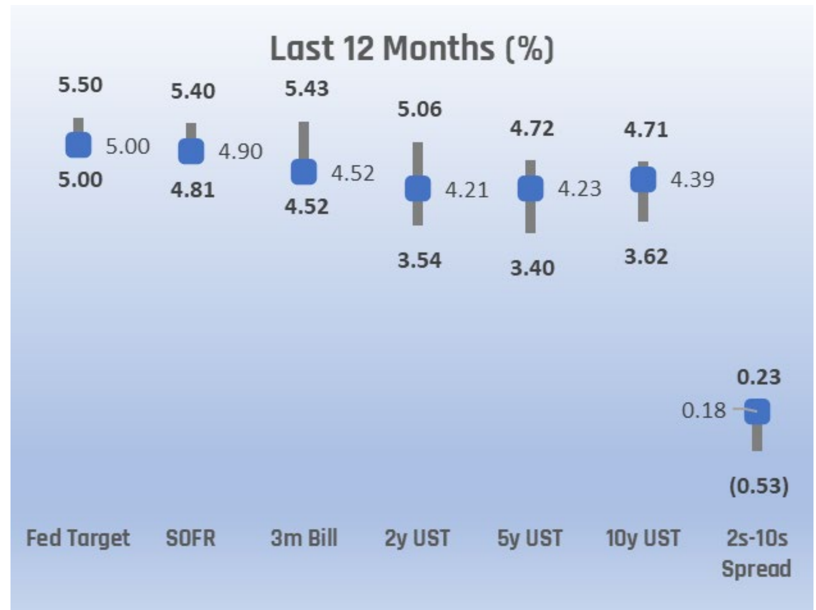
Product Views

Rates: The 10-year Treasury yield rose to 4.38%, while the 2s10s yield curve spread has steepened to 18 basis points, as Fed rate cuts were priced out of the market. As mentioned last month we felt the amount of rate cuts priced in was aggressive, which is now less than five 25 basis point cuts, which is now close to fair value.

We believe now is a moderately attractive opportunity to add duration. We favor the short and belly of the curve. Some risk still remains if concerns around significant debt issuance and term premiums increase.

Credit: U.S. high-yield spreads have reached their tightest levels since December 2021, adding to the recent euphoria in credit markets. Investment-grade (IG) spreads also tightened by 6 basis points during the month, hitting a decade low of 81 basis points. We continue to believe there is limited potential for further spread tightening in IG credit, given current valuations.

Securitized: We view agency mortgage-backed securities (MBS) as an attractive, reasonably priced, and liquid alternative to corporate credit, especially for investors willing to accept some short-term volatility. In our assessment, agency MBS offers high-quality exposure for a diversified bond allocation, and we currently favor it over investment-grade corporate bonds.



12 month high

Current

12 month low