INVESTMENT STRATEGY STATEMENT | December 3, 2024

# Rising Probability of Soft Landing

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# Performance Review & Outlook

**Fed Continues Policy Pivot**
The Federal Reserve lowered its benchmark borrowing rate by 0.25% in November, and futures are pricing in a 70% probability that the Fed will cut another 0.25% in December.

**Equity Markets Rallied After the Election**
The S&P 500 was up by almost 6% and reached an all-time high following the results of the election. Small caps performed even better, with the Russell 2000 gaining over 10% for the month.

**Traders Debating How Much Fed Will Cut Next Year**
Futures markets have lowered the number of cuts they are expecting next year, leading to an incredibly flat yield curve.

**U.S. Energy Production is at the Largest Surplus to Consumption in History**
Thanks to innovation, the U.S. has become the largest energy and oil producer in the world.

**We Could See Increased Rate Volatility**
As the market absorbs the results of the election and the policy implications, we could see an elevated level of interest rate volatility.

**The Probability of a Soft Landing has Moved Higher**
With inflation falling and the economy continuing to grow, we believe the likelihood of an economic soft landing has increased.

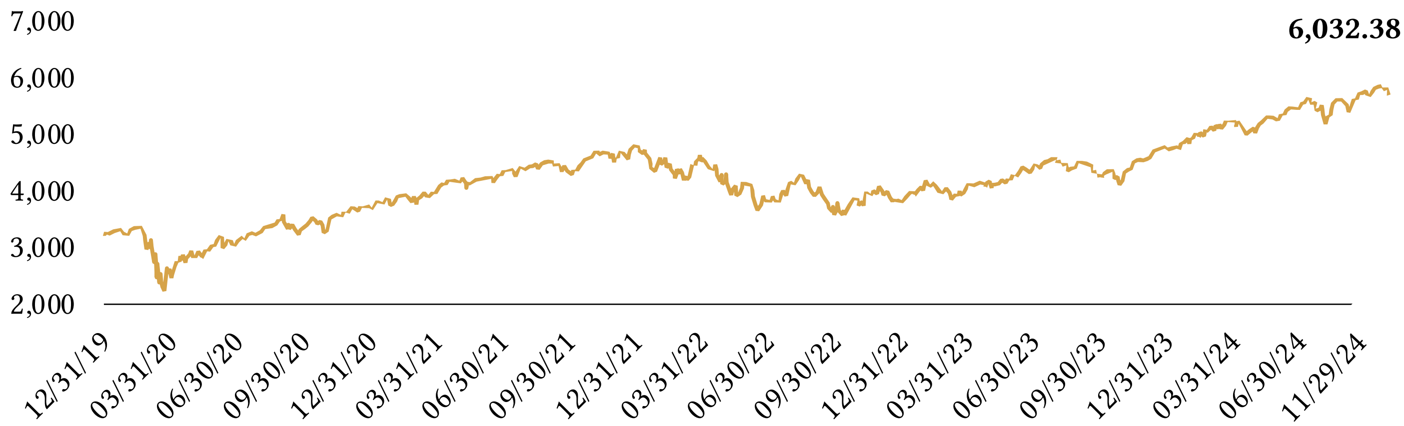
# Equity Market Overview

| | |
|---|---|
| +26% | **S&P 500 YoY** |
| +6% | **S&P 500 MoM** |
| +11% | **Russell 2000 MoM** |

As of November 2024

Following a slightly negative month for stocks in October, equity markets rallied strongly in November following the results of the U.S. Presidential election. The S&P 500 closed the month at an all-time high of 6,032, posting a gain of almost 6% for the month. Small cap stocks fared even better, with the Russell 2000 Index up 11% for the month and now only trailing their large cap peers by 5% for the year. As of November's close, the S&P 500 price index is higher by 26% in 2024.

**S&P 500 Price Index (12/31/19 - 11/29/24)**




One of the most underreported developments in recent years is the significant increase in energy production within the United States.

A combination of growth in both petroleum and renewable energy has enabled the U.S. to consistently produce more energy than it consumes. According to the U.S. Energy Information Administration (EIA), since 2019, U.S. total energy production has exceeded total annual consumption. In 2023, Energy production in the U.S. increased by 4% to a record 103 quadrillion British thermal units (quads), while energy consumption fell by 1% to 94 quads. As a result, the U.S. produced 9 quads more than it consumed, marking the largest surplus since the country began tracking energy data in 1949.

**12-Month Percentage Change of Indices**

| Index (Local Currency) | Level | November | YTD | 12 Month |
|---|---|---|---|---|
| **S&P 500** | 6,032.38 | 5.9% | 28.1% | 33.9% |
| **Dow Industrials (DJIA)** | 44,910.65 | 7.7% | 21.2% | 27.2% |
| **Nasdaq** | 19,218.17 | 6.3% | 28.9% | 36.1% |
| **Russell 2000** | 2,434.77 | 11.0% | 21.6% | 36.4% |
| **US 2yr Treasury** | 4.1509 | -0.5% | -2.3% | 3.6% |
| **US 10yr Treasury** | 4.1685 | -2.7% | 7.5% | 21.8% |
| **Gold (NY Spot $/oz)** | 2,652.45 | -3.3% | 28.6% | 33.3% |
| **Silver (NY Spot $/oz)** | 30.5792 | -6.4% | 28.5% | 22.1% |
| **Copper ($/metric ton)** | 8,884.35 | -5.2% | 5.0% | 3.6% |
| **Oil (WTI Spot/bbl)** | 68.49 | -1.1% | -4.4% | -10.8% |
| **Oil (Brent Spot/bbl)** | 73.07 | -0.1% | -5.2% | -8.1% |
| **Natural Gas ($/mmBtu)** | 3.335 | 23.2% | 32.7% | 38.4% |

Data as of November 30, 2024
Source: FactSet/Bloomberg

When focusing on oil production, the growth is equally remarkable. As of November 8, 2024, the U.S. was producing 13.4 million barrels of oil per day, a dramatic increase from just 4.8 million barrels per day in November 2005. This growth, driven by the innovation and efforts of U.S. companies, has solidified the U.S.'s position as the world's top oil producer. In comparison, Saudi Arabia, the second-largest producer, reported production of 8.9 million barrels per day in September 2024. Beyond oil, the total energy production in the U.S. is equally significant, as it underscores the country's growing energy independence and its role as a major energy producer globally.

**Energy Production**

| Country | Mil Barrels of Oil Equivalent per day* | Share of World Total |
|---|---|---|
| **United States** | 21.91 | 22% |
| **Saudi Arabia** | 11.13 | 11% |
| **Russia** | 10.75 | 11% |
| **Canada** | 5.76 | 6% |
| **China** | 5.26 | 5% |
| **Iraq** | 4.42 | 4% |
| **Brazil** | 4.28 | 4% |
| **United Arab Emirates** | 4.16 | 4% |
| **Iran** | 3.99 | 4% |
| **Kuwait** | 2.91 | 3% |

*Barrels of Oil Equivalent include oil, natural gas liquids and natural gas

# Fixed Income Market Overview

As November ends, we reflect on a bond market that was less volatile than the previous month yet faced with much more economic news to digest.

The 10-year U.S. Treasury note reached its peak this month at 4.45% and closed the month at 4.18%, a range of only 27bps. This is in stark contrast to October’s volatility, where we were not digesting the U.S. Presidential election results combined with a second Fed rate cut just two days later. The market reacted as expected to these two major events, with yields rallying on the news of a new incoming president, followed by a slight sell-off post-Fed cut.

Bond markets will continue to absorb the changes in political parties and cabinet positions as we close out the year, and we expect yield movements as this unfolds.

*However, we maintain our stance that the likely scenario is for the intermediate and longer end of the yield curve to remain moderately higher, while the shorter end of the curve continues to fall as the Fed shifts policy into 2025.*

## 10 Year U.S. Treasury Yields


Perhaps the most interesting aspect of the current yield curve is how flat it is. Looking across all maturities, from 30 days to 30 years, the greatest spread is only about 40bps.

Fed Chairman Powell stated in this month's post-Fed meeting press conference, "The economy is not sending any signals that we need to be in a hurry to lower rates. The strength that we are currently seeing in the economy gives us the ability to approach our decisions carefully."

We still believe that another rate cut is likely in December. Fed futures are showing roughly a 70% chance of a cut next month. However, many traders now expect fewer rate cuts in 2025 than initially forecasted. This could help explain why the yield curve remains so flat across all maturities.

As the Fed has stated, and we've echoed in previous publications, economic data will ultimately determine the direction of interest rates. U.S. rates, especially in the short term, are still trying to determine exactly how far the Fed will go next year. For now, with the election behind us and a clearer political direction moving forward, we can all take some time to enjoy the holiday season.

## U.S. Government Bond Rates

**Treasury Bills**

| Maturity | Rate |
|---|---|
| 1 Month | 4.61% |
| 3 Month | 4.48% |
| 6 Month | 4.44% |
| 1 Year | 4.29% |

**Treasury Notes**

| Maturity | Rate |
|---|---|
| 2 Year | 4.17% |
| 5 Year | 4.07% |
| 10 Year | 4.18% |
| 30 Year | 4.37% |

# Economic Overview

## Key Economic Indicators

### JOB MARKET

**October Employment Report**
Total nonfarm payroll employment showed little change in October, with an increase of 12,000 jobs, and the unemployment rate remained steady at 4.1%, according to the U.S. Bureau of Labor Statistics. This stagnation was influenced by two hurricanes and a strike at Boeing. Notably, we are currently tied for the third-longest employment streak at 46 months.

**Initial Jobless Claims**
Initial Jobless Claims averaged 217,000 in November, significantly lower than the hurricane- and strike-impacted 237,000 average recorded in October. We remain near historical lows on initial claims, indicating continued strength in the labor markets.

### HOUSING MARKET

**House Prices**
The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index reported a 3.9% annual increase for September, down from a 4.2% gain in August. After accelerating during the first quarter, year-over-year home price gains have moderated recently and are closer to their long-term average.

### RETAIL SALES & PERSONAL SAVINGS:

**Personal Income & Spending**
October personal income grew by 0.6% month-over-month and 5.3% year-over-year. October personal spending grew by 0.4% month-over-month and 5.4% year-over-year.

# Economic Overview

## Key Economic Indicators

### INFLATION

**CPI**

The Consumer Price Index for All Urban Consumers (CPI-U) rose by 0.2% on a seasonally adjusted basis, consistent with the increases seen in the prior 3 months. Over the past year, the overall index increased by 2.6%, slightly higher than the 2.4% in September due to base effects.

**PCE**

The PCE Price index recorded a year-over-year increase of 2.3% for October. The Federal Reserve's preferred measure of inflation, Core PCE Prices, increased 2.8% year-over-year in October. While this is still above the 2% target, it is well below the highs seen in 2022 and we believe is consistent with a path towards 2%.

# Conclusion

With inflation falling and the economy continuing to grow, we believe the likelihood of an economic soft landing has increased. With backward-looking measures of inflation inching closer to the Fed's 2% target and expected breakeven inflation rates over the next couple years currently below 2%, the disinflation narrative appears to be drawing to its conclusion. This has allowed the Federal Reserve to begin shifting monetary policy to support a normalizing economy and should continue to do so.

As the economy continues to grow, this should support earnings growth going forward. The analysts at Standard & Poor's currently forecast the 2025 S&P 500 operating earnings will grow 16% in 2025, supporting current market valuations and growth moving forward.

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# Disclosures