

## Current Market Environment

With the election behind us, and the second to last Fed meeting of the year transpiring as expected (25bps cut), we continue to believe the market is setup to remain at premium levels for the foreseeable future. There are a number of data points that inform this opinion:

- October CPI numbers were in line with expectations across the board with headline YoY numbers at 2.6%. We are still not at pre-pandemic levels below 2.0% but at levels where we believe the Fed is not concerned...for now.
- Recent Initial Jobless Claims for 11/16 came in better than expected at 213k. Aside from a couple of prints in late September/early October, we have been in a downtrend in claims since the end of July. That's not too far off the near-term, pre-pandemic lows of 203k in March 2019. This March 2019 low is second only to the all-time lows in March of 1969 which came at the end of one of the longest economic expansions in U.S. history until the 1990s.
- Earnings in the U.S. continue to beat expectations with greater than 6% aggregate positive surprise vs. estimates according to Bloomberg for the 3<sup>rd</sup> quarter.
- As the U.S. prepares for a new presidential administration, the early cabinet nominations, in addition to the expected policy changes, all lead to an environment that is supportive of the market due to positive U.S. corporate policies and likely lighter regulation.
- Finally, despite mentioning ad nauseum, we would be remiss to not note the new record high of ICI Money Market fund assets hit on 11/13 only to trade off slightly last week to 6.6tn. Overnight deposit rates are down about 100bps to ~4.6% since the Fed started cutting in September. Those assets are going to want to replace their lost yield as front-end rates continue to decline which should provide a positive technical for risk assets.

All that said, there is an increasing number of conflicting market characteristics that could challenge the environment noted above.

## An Increase in Tangible Concerns

As we have mentioned in previous market updates, we still believe the market can maintain these premium levels for some time. What's interesting now, is that the number of tangible concerns has increased from just a couple of items, such as the election and global unrest, to multiple items of concern and that's before we even start speculating about the unknown.

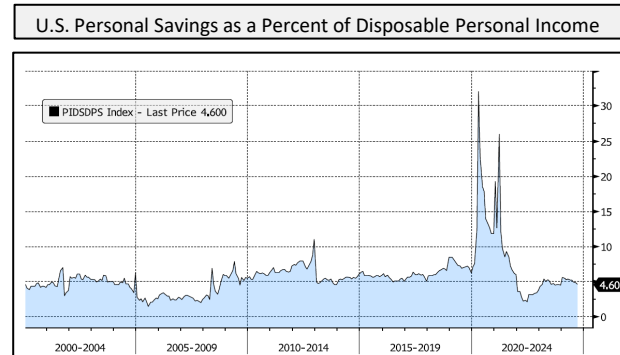
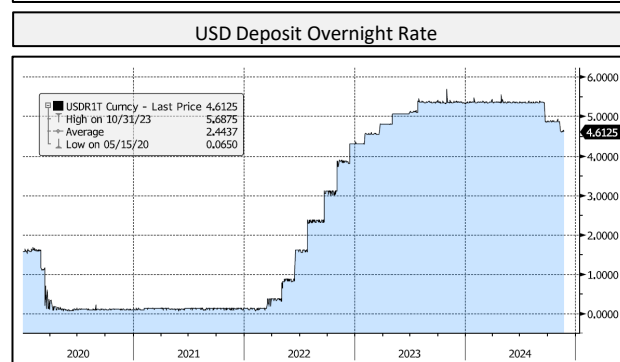
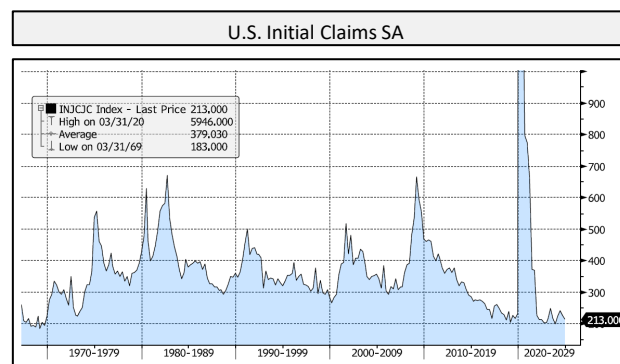
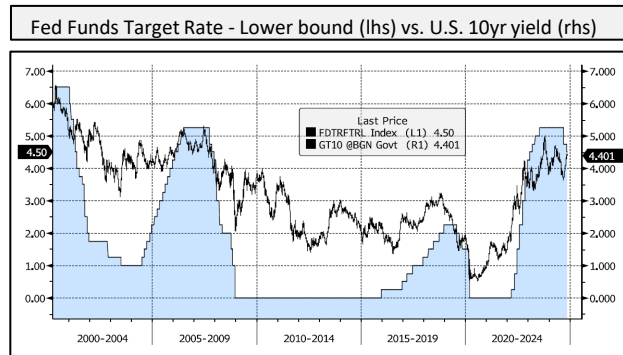
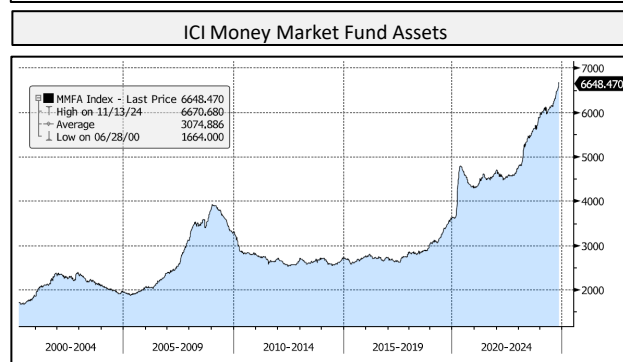
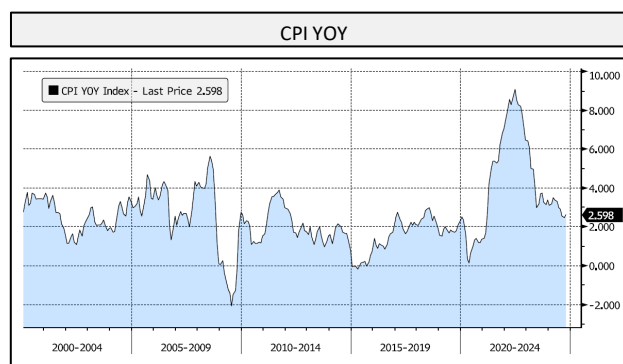
Below we highlight this growing list of concerns:

- Although global unrest is not a new risk, the risk that the two major, multinational conflicts escalate is increasing. In the Russia vs. Ukraine conflict, the use of Western missiles (both U.S. and U.K.) against Russia by Ukraine is heightening the saber rattling. Specifically, Russia warned against an attack on a new U.S. base in Poland. If we turn our attention slightly west, Israel continues to attack targets in Gaza and Lebanon. Consequently, the perception of the conflict continues to turn more negative with the International Criminal Court filing a war crimes arrest warrant for the Israeli Prime Minister – Benjamin Netanyahu.
- As much as we noted the Trump administration as being a positive for the markets, this driving force naturally becomes a bigger downside risk should any policy change not lead to the expected impact. In other words, a policy misstep, such as tariffs on Chinese imports which would be inflationary, could be destabilizing.
- Typically, in Fed easing environments, the path of 10yr U.S. Treasury yields is lower. This time around, 10yr Treasury yields have actually gone higher. Since the Fed started cutting rates in September, 10yr yields started rising off of a near-term low of 3.62% and are now 78bps higher at 4.40%. We can point to multiple reasons to rationalize this current environment such as global unrest and expected future fiscal spending from the new administration, which would lead to more treasury issuance. What may be more concerning, though, is that the market may be implying that the Fed cut too soon, and inflation is not at bay. Interestingly, inflation would also be the result of fiscal spending as well as tariff implementation.
- The above concern raises an additional concern around the path of Fed funds. The market seemed to expect a steady state of cuts at subsequent meetings the remainder of this year and into 2025. That consistent path may now be in jeopardy which could remove the support for risk assets.
- As we have also mentioned in previous updates, the Fed has moved its focus from inflation to the health of the consumer. Some non-labor related economic data such as credit card delinquencies are at all-time highs according to the Federal Reserve. In addition, personal savings as a percent of disposable income is at 4.6% which is near all-time lows of 2% from 6/2022. So not only is inflation, potentially, a risk the Fed may need to refocus on, but consumer health needs continued focus as well.

While none of these items poses an immediate threat to the strength of the market, we believe it is telling that we now need to speculate less about the unknown risks as multiple tangible risks have become evident and real. In addition, the interrelatedness across these risks still supports a binary market for the time being where things will continue to be good until they are not. That said, the more obvious risks become, typically the less impactful they become to a market assuming it's efficient.

*(Data noted above as of 11/22/24 per Bloomberg)*

## Visual Context



(Data and charts as of 11/22/24 per Bloomberg)

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