



December 2024

Assessing Policy Impacts on Several Dimensions

The Macro Picture: Fed Rate Path and Post-Election Policy

The US economy added a strong 227,000 jobs in November following a revised 36,000 in October, a sizable rebound from October's strike and hurricane impacted numbers. This reinforces the importance of looking at jobs data on a multi-month basis. Over the past three months, the average hiring rate is 162,000—lower than last year but generally moving sideways.

As the dust of the US election begins to settle, the focus is now on the state of the economy, the Fed's final rate decision of 2024, and the potential implications of policies from a Trump presidency in 2025. Post-election, the market has removed more than three 25 basis point cuts from its 2025 expectations, as predictions for higher inflation take hold. Based on October's Consumer Price Index release, core prices rose by 0.3%, in line with expectations and unlikely to have a profound impact on the Fed's December decision. Personal consumption and consumer confidence both saw their biggest jump of 2024, underscoring the positive economic outlook. The Fed's November messaging reiterated the primary focus on data as the main driver of rate decisions, not speculation on the impacts of new policy. Most policymakers support a December rate cut of 25 basis points, but will be watching inflation and payroll numbers as we head into 2025. If data begins to surprise to the upside, the Fed could skip cuts in certain meetings.

November's investment-grade credit supply of \$87 billion topped forecasts but ended the five-month streak of above-average supply. Index spreads traded in a tight 5 basis-point band, ending the month at 77 basis points. Supply was front-loaded ahead of Thanksgiving week, where spreads traded mainly sideways. Supply in December is expected to be about \$50 billion, mainly frontloaded in the first two weeks. With expected muted supply and given the recent backup in rates, we could see spreads remain in their multi-decade low territory.

Looking Ahead: Influences on Fed Decisions

As Trump's term in office begins, we expect policy implications will have more of an impact on the Fed's decision, along with data and the developing economic picture. Until then, we don't expect the Fed to deviate from its focus on economic data or goal of bringing the policy rate back to neutral—especially given comments in its recent press conference. While the market has repriced its 2025 rate cuts downward by more than three cuts, we think it's more probable that two cuts are taken off the table.

Where Do We See Value?

Beta outperformed across US and emerging market credit in November. Investment-grade (IG) index spreads tightened from 82 basis points at the start of the month to 77 basis points by mid-month and remained rangebound through Thanksgiving. Curves were relatively flat over the month. In the securitized space, agency MBS spreads are on top of non-agency MBS, and we prefer agencies. Credit curves flattened in collateralized loan obligations (CLOs) and we continue to prefer the top of the capital structure in higher quality. With the potential for continued rate volatility, we maintain our stance on being close to home in duration positioning by keeping assets close to liability profiles. We maintain our defensive positioning as we head into an uncertain period for growth and inflation, and we're still positioned in higher-quality spaces across credit and securitized assets.

Insurance Strategy Top Picks:

- Within IG credit, we prefer higher quality because the credit curve between A and BBB is flatter than average.
- Residential real estate:
 - Agency MBS look wide to US corporates and are trading flat to non-agency RMBS, putting that relationship at historic highs; we maintain our preference for agency MBS over non-agency.
- Higher-rated CLOs offer relative value versus IG corporates for spread-based portfolios.
- While CMBS spread have compressed, high-quality conduit CMBS tranches still offer attractive value.



Public Fixed Income Universe

Asset Class	Rating/Tranche	Spread						Yield			
		Current	MoM Δ	Z-Score*	Average*	Max	Min	Current	MoM Δ	Z-Score	Average*
US Credit	AA	54	8	-0.53	66	206	30	4.79	0.05	1.37	3.24
	A	79	2	-0.77	102	258	56	5.04	-0.01	1.15	3.60
	BBB	109	-2	-1.05	151	378	92	5.34	-0.05	1.03	4.09
	BB	166	-3	-1.15	249	718	149	5.78	-0.05	0.74	4.87
	B	247	-11	-1.44	393	981	232	6.59	-0.13	0.23	6.31
EM Corps	AA	62	9	-0.68	78	160	42	4.87	0.06	1.12	3.55
	A	70	-4	-1.50	112	230	62	4.95	-0.07	1.10	3.70
	BBB	131	9	-1.15	193	467	110	5.56	0.06	0.91	4.51
EM Sovs	AA	36	12	-0.67	59	245	5	4.61	0.09	1.42	3.17
	A	62	5	-0.37	75	247	-2	4.87	0.02	1.46	3.33
	BBB	116	2	-0.31	127	301	75	5.41	-0.01	1.27	3.85
Taxable Munis	AAA	67	-3	-0.72	87	171	20	4.92	-0.06	1.16	3.47
	AA	84	-1	-0.42	93	195	49	5.09	-0.04	1.34	3.53
	A	112	-4	-0.51	125	216	78	5.37	-0.07	1.34	3.85
Agency RMBS	MBS LCF	129	-5	0.63	108	190	65	5.54	-0.08	1.41	3.66
CMBS	AAA LCF	83	-7	-0.55	101	267	59	5.08	-0.10	1.17	3.58
	AS	114	-6	-0.48	138	332	76	5.39	-0.09	1.02	3.95
	AA	144	-6	-0.37	171	528	92	5.69	-0.09	0.92	4.29
	SASB AAA	145	0	-0.26	161	275	66	6.13	-0.17	0.56	4.58
	SASB AA	185	5	-0.41	220	360	92	6.53	-0.12	0.45	5.18
CLO	AAA	128	-5	-0.39	142	440	96	5.78	-0.12	0.99	3.80
	AA	160	-5	-0.72	194	500	135	6.10	-0.12	0.86	4.32
	A	175	-5	-1.16	249	635	170	6.25	-0.12	0.65	4.87
Non-Agency RMBS	CRT IG SSN'D LCF	140	5	-0.41	168	350	70	6.08	-0.12	0.65	4.35
	AAA	155	0	0.44	138	306	66	5.73	0.00	1.30	3.89
BMK ABS	AAA	40	12	-0.45	57	312	16	4.62	0.17	1.00	2.83
	AA	70	10	-0.40	90	512	36	4.92	0.16	0.96	3.17
	A	85	-5	-0.56	120	612	58	5.02	-0.01	0.90	3.42
Non-BMK ABS	AAA	80	30	-0.59	110	250	50	4.97	0.34	0.54	3.88
	AA	130	50	-0.20	143	300	65	5.47	0.54	0.58	4.21
	A	175	50	-0.28	201	817	95	5.92	0.54	0.94	4.24

*Z-Scores and averages are based on 5-year averages. SASB: single asset, single borrower. LCF: last cash flow.
 Source: Bloomberg Index Service Limited, JPMorgan Securities, Wells Fargo Securities, AB
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