OBSERVATIONS

- Markets were choppy last week, but ultimately traded lower with the S&P 500 losing -0.6%, and small caps (Russell 2000 Index) losing -2.6%, while the yield on the 10-year Treasury increased by +25 basis-points (bps) to 4.40%.[1]
- The CPI inflation index came in as expected in November, but it showed that inflation accelerated marginally last month—climbing to 2.7% year-over-year (YoY) up from October's 2.6% YoY figure. Core-CPI, which removes volatile food and energy prices, was unchanged at 3.3% YoY in November from October.[1]
- Headline producer prices increased more than expected in November—increasing +0.3% month-over-month (MoM) and October's PPI MoM increase was revised higher—and reached 3.0% YoY. Core-PPI, which removes food and energy, was also above expectations and showed that core-PPI increased to 3.4% YoY in November—unchanged from October's figure.[1]
- Initial unemployment claims increased last week to 242k new claims, which was a +17k increase from the week before. This is a particularly noisy time for unemployment claims due to the variability of the timing for the Thanksgiving holiday and averaging claims over the past four weeks, there is almost no difference between this year and the corresponding four weeks of 2023.[1]
- Average hourly earnings increased by only 1.3% YoY and unit labor costs—the average cost a business pays its workers to produce a single unit of output—fell to +0.8% in Q3 from an initial estimate of +1.1% which suggests that worker productivity is outpacing wage growth.[1]

EXPECTATIONS

- China's Politburo signaled a willingness to embrace a "moderately loose" monetary policy in 2025 with a "more proactive" fiscal policy. Policy specifics and implementation remain unclear though comes at a time of persistent economic weakness and as the country prepares for additional trade measures with the incoming US administration.[1]
- The Central Bank of Canada cut rates by -50 bps for the second straight time, lowering its main policy rate to 3.25% amid weaker-than-expected growth and a softening labor market. The bank indicated it was likely to be more gradual with any further policy changes but that it was attuned to the economic sluggishness impacting the Canadian economy.[1]
- Similarly, the European Central Bank (ECB) cut its main policy rate last week by -25 bps to 3.0% and warned that growth in the coming quarters might be weaker than previously forecasted and opened the door to additional cuts in 2025.[2]
- The Fed is meeting next week, and markets have largely priced in a -25 bps rate cut—Fed Fund Futures imply over a 95% chance—but the Fed will also provide updated guidance on how many rate cuts to expect next year. Markets currently have priced in about two additional rate cuts in 2025, but the Fed could temper expectations if it remains worried that inflation is poised to remain stickier than anticipated.[1]

ONE MORE THOUGHT: What bond markets are saying about the economy.[1]

With many US equity indexes at or near all-time highs, other corners of the capital markets are similarly positioned in terms of reflecting a generally positive bias towards the economy. In bond markets, credit spreads continue to

[1] *Bloomberg LP 12/13/2024*
[2] *https://www.ft.com/content/655cc50d-e23c-46bb-b19d-aaa48d22bc25*

push towards multi decade lows, reflective of healthy corporate profits and balance sheets. Investment grade credit spreads (Bloomberg Investment Grade Index) recently registered 78 basis points (bps) and are within chipping distance of the all-time low of 51 bps. Similarly, the riskier cohort of corporate credit, high yield (Bloomberg High Yield Index), is also observing low credit spreads that have now pushed lower to 263 bps which is in the top (tightest) 3% of all daily observations when looking back at the history of high yield spreads. Corporate credit markets share the same bullish sentiment as equity markets given the backdrop—which includes 2024 that will have seen nominal GDP grow by nearly 5.5%, while earnings for the S&P 500 are expected to have grown by nearly 10.0%. Additionally, US treasury markets have calmed down from the immediate volatility that followed election results. The 10-Year US Treasury yield rose to nearly 4.5% in the immediate days following the election but has since backed down to 4.40% (as of 12/13). Much of today's market stance seems to reflect the positive real growth in the economy coupled with modest inflation (Chart of the Week) along with expectations that these conditions may persist for the near term. Volatility has also been on the decline with the VIX index (aka the Fear Index for stocks) having drifted to a 5-month low of 13.81 (as of 12/13/2024)—well below the long-term average of 19.5. This time last year, prognosticators were calling for a recession and instead the economy grew in both real and nominal terms. While we head into 2025 on good economic footing, we are likely to be more balanced in our outlook as the number of "low probability – high impact" economic events have increased. We will have more on this in our 2025 outlook in the coming weeks.

CHART OF THE WEEK

A good year....	**Q1**	**Q2**	**Q3**	**Q4 (QTD/Est.)**	**CY2024**
Real GDP	1.6%	3.0%	2.8%	≈2.5%	CY2024 (Est.) ≈**2.5%**
Unemployment (Ave)	3.8%	4.0%	4.2%	≈4.1%	CY2024 (Ave.) ≈**4.0%**
Inflation YoY (Ave)	3.3%	3.2%	2.6%	≈2.6%	CY2024 (Ave.) ≈**3.0%**
Retail Spending YoY (Ave)	+2.0%	+2.4%	+2.3%	≈+2.5%	CY2024 (Ave.) ≈**2.3%**
S&P 500 Index	+10.6%	+4.3%	+5.9%	+5.3%	CY2024 ≈**+28.5%**
Bloomberg Agg. Bond Index	-0.8%	+0.1%	+5.2%	-2.3%	CY2024 ≈**+3.3%**

Source: Clearstead, Federal Reserve of St. Louis-FRED, Bloomberg LP, as of 12/13/2024

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