

Equities

In a second consecutive challenging week, U.S. equities dropped -1.99% following a hawkish turn by the FOMC mid-week. Rate-sensitive sectors took the brunt of the pain, led by real estate and consumer durables. The Russell 2000 plunged following the Fed's Wednesday announcement, at one point erasing all post-election gains before rebounding Friday. In Europe, the STOXX 600 and the DAX fell -2.74% and -2.55% respectively as a stronger dollar echoed through financial markets.

Fixed income

Interest rates were jolted higher on Wednesday following the FOMC meeting and press conference. The Fed adjusted its dot plot to include just two rate cuts in 2025, down from four in September, and cited in their economic forecast less concern about the labor market and more uncertainty around inflation. Chair Powell emphasized caution in his presser. The 10-year yield rose above 4.50% for the first time since late May, while the 2-year yield finished the week roughly unchanged. The Blomberg Agg fell -0.69% and credit markets declined with stocks.

Commodities

Prices fell across the commodity complex as the U.S. dollar strengthened following a hawkish FOMC meeting. Crude prices remain sensitive to external factors given the poor setup for fundamentals heading into 2025. Gold and bitcoin each sold off, demonstrating the breadth of the damage caused by the Fed meeting. Weakness in China continues to hit copper prices, which now sit at their lowest in over four months.

Economic overview

It was a busy week for economic data even as the FOMC garnered the lion's share of attention. Q3 GDP growth was revised to 3.1% from 2.8%, with consumption stronger than previously thought. Retail sales rose 0.7% m/m (cons. 0.6%), with autos driving much of the growth. Housing data were mixed, as construction starts remain sluggish but existing home sales surprised to the upside. Core PCE (the Fed's preferred inflation gauge) rose just 0.1% m/m (cons. 0.2%), tempering the increase in rates following the FOMC meeting. Something to watch in 2025: base effects early in the year will be helpful, which will make year-over-year inflation appear to be dropping even if the monthly increased are elevated.

Equities (price index)		MTD	QTD	YTD	2023
S&P 500	5,930.85	-1.68%	2.92%	24.34%	24.23%
DJIA	42,840.26	-4.61%	1.21%	13.67%	13.70%
NASDAQ	19,572.60	1.84%	7.61%	30.39%	43.42%
Russell 2000	2,242.37	-7.90%	0.56%	10.62%	15.09%
MSCI World	3,723.22	-2.28%	0.01%	17.48%	21.77%
MSCI Europe	1,989.43	-3.14%	-10.61%	-1.53%	16.68%
MSCI EAFE	2,235.78	-3.45%	-9.43%	-0.02%	15.03%
MSCI Asia	179.22	-2.29%	-8.11%	5.80%	8.76%
MSCI EM	1,072.25	-0.59%	-8.42%	4.74%	7.04%
VIX	18.36	4.85	1.63	5.91	-9.22

Fixed income (total return index)		MTD	QTD	YTD	2023
Barclays U.S. Agg	2,189.39	-1.62%	-3.05%	1.27%	5.53%
Inv. grade bonds	3,291.74	-1.87%	-2.97%	2.19%	8.52%
High yield bonds	2,677.98	-0.62%	-0.02%	7.99%	13.45%
Leveraged Loans	4,052.63	0.33%	2.03%	8.70%	13.32%

Alternatives (total return index)		MTD	QTD	YTD	2023
FTSE NAREIT	24,907.80	-8.71%	-8.86%	4.11%	11.36%
REIT Index					
GS Commodity Index	539.07	0.63%	1.16%	0.64%	-12.20%
Alerian MLP Index	2,310.60	-8.62%	3.31%	22.49%	26.56%

Commodities		MTD	QTD	YTD	2023
WTI Crude	\$69.46	2.15%	1.89%	-3.06%	-10.73%
Brent Crude	\$72.94	0.00%	1.63%	-5.32%	-10.32%
Natural Gas	\$3.75	11.45%	28.22%	49.09%	-43.82%
Gold	\$2,629	-1.07%	-0.28%	26.88%	13.45%

Currency

Dollar Index (DXY)	107.62	1.78%	6.79%	6.21%	-2.11%
USDCNY	7.30	0.67%	3.94%	2.75%	2.92%
Bitcoin	96,557	-0.29%	51.38%	127.15%	157.01%

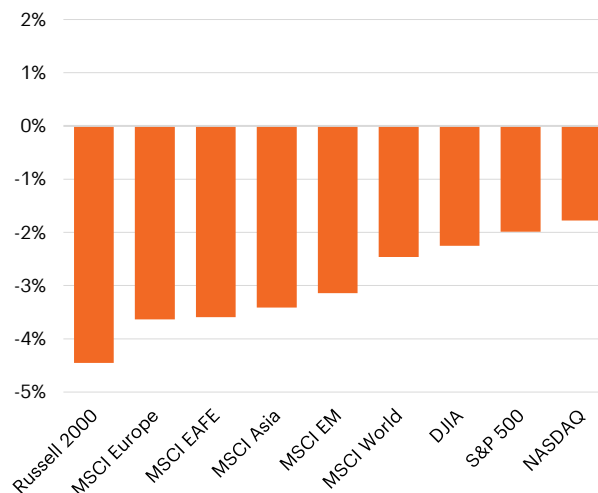
Spreads

Inv. grade bonds	79 bps	1 bps	-10 bps	-20 bps	-31 bps
High yield bonds	285 bps	19 bps	-10 bps	-38 bps	-146 bps
Leveraged loans	399 bps	-1 bps	-24 bps	-60 bps	-101 bps
Emerging markets	218 bps	-4 bps	-29 bps	-79 bps	-42 bps

Interest rates

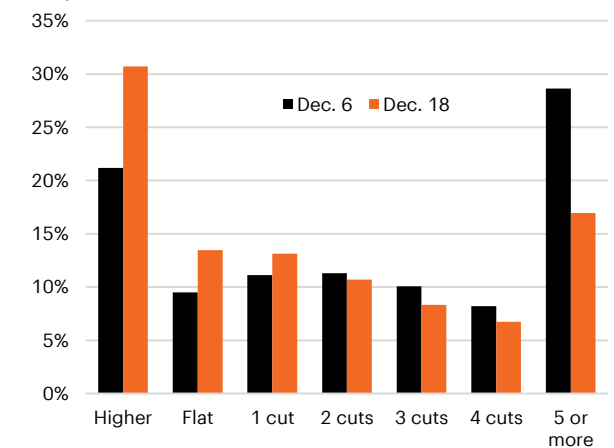
Fed Funds Target	4.375%	5.375%	5.375%	5.375%	4.38%
SOFR	4.30%	-29 bps	-66 bps	-108 bps	108 bps
2-year Treasury	4.31%	16 bps	67 bps	6 bps	-18 bps
10-year Treasury	4.52%	35 bps	74 bps	64 bps	0 bps
30-year Treasury	4.72%	36 bps	60 bps	69 bps	7 bps
Barclays U.S. Agg	4.90%	26 bps	67 bps	37 bps	-15 bps
Inv. grade bonds	5.32%	27 bps	60 bps	26 bps	-36 bps
High yield bonds	7.50%	36 bps	51 bps	-9 bps	-137 bps

Last week's equity returns



Probability distribution for FF rate at YE 2025

Compared to current level of 4.375%



Source: Federal Reserve Bank of Atlanta, as of December 18, 2024.

Equities

S&P 500: Leading single benchmark of large-cap U.S. equities, representing approximately 500 of the largest U.S. companies. **Dow Jones Industrial Average:** Price-weighted measure of 30 U.S. blue-chip companies. **NASDAQ:** Stock market index of stocks listed on the NASDAQ. Index is heavily weighted toward technology companies. **Russell 2000:** Index measuring performance of approximately 2,000 small-cap U.S. equities. **MSCI World Index:** Broad global equity benchmark including both developed and emerging markets. **MSCI Europe Index:** Equity benchmark that measures the performance of large and mid-cap equities across 15 developed countries in Europe. **MSCI EAFE Index:** Equity benchmark that represents the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East. **MSCI Asia Index:** Equity benchmark that captures large and mid-cap representation across developed market countries and emerging market countries in Asia. **MSCI Emerging Markets Index:** Equity benchmark representing 24 developing or emerging market countries, representing 10% of world market cap. For more info on these MSCI indices, visit MSCI.com. **CBOE Volatility Index (VIX):** Key measure of market expectations of near-term volatility conveyed by S&P 500 stock option price.

Credit

Bloomberg Barclays U.S. Aggregate Bond Index: Broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. **Bloomberg Barclays U.S. Corporate Index:** Measures the USD-denominated, investment-grade, fixed-rate bond market. **Bloomberg Barclays U.S. Corporate High Yield Index:** Measures the USD-denominated, high yield, fixed-rate bond market. **S&P/LSTA U.S. Leveraged Loan Index:** Market value-weighted index designed to measure the performance of the U.S. leveraged loan market.

Alternatives

FTSE NAREIT All Equity REITs Index: Free-float adjusted market cap-weighted index that includes all tax-qualified REITs listed in the NYSE, AMEX, and NASDAQ. **S&P GSCI:** First major investable commodity index. It is one of the most widely recognized benchmarks that is broad-based and production-weighted to represent the global commodity market beta. **Alerian MLP Index:** Leading gauge of energy MLPs, representing about 85% of total industry market cap. **HFRX Global Hedge Fund Index:** Index designed to be representative of the overall composition of the hedge fund universe, comprised of all eligible hedge fund strategies.

Commodities

Generic 1st Crude Oil (WTI Crude): Front-month West Texas Intermediate Crude Oil futures. **Generic 1st Brent Crude Oil (Brent Crude):** Front-month Brent Crude futures. **Generic 1st Natural Gas:** Front-month natural gas futures. **Generic 1st Gold, 100 oz:** Front-month gold (100 oz) futures.

Currency

Dollar Spot Index: Indicates the general international value of the USD by averaging the exchange rates between the USD and major world currencies. **USDCNY:** price of 1 USD in CNY (the Chinese renminbi, or yuan). **Bitcoin:** price of 1 Bitcoin in USD.

Spreads

Bloomberg Barclays U.S. Corporate Index: Measures the USD-denominated, investment grade, fixed-rate, taxable bond market. **Bloomberg Barclays U.S. Corporate High Yield Index:** Measures the USD-denominated, high yield, fixed-rate bond market. **Bloomberg S&P/LSTA U.S. Leveraged Loan Index:** Market value-weighted index designed to measure the performance of the U.S. leveraged loan market. **Barclays EM USD Aggregate Index:** Flagship hard currency emerging market debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign and corporate EM issuers.

Interest rates

Fed funds target: Target rate for the federal funds policy rate, set by the Federal Reserve each meeting. This rate is an “overnight rate,” i.e., it is the rate charged by depository institutions (banks) to each other for overnight loans. **SOFR:** Secured Overnight Financing Rate (SOFR) measures the cost of borrowing cash overnight collateralized by Treasuries. **ICE 3-Month London Interbank Offered Rate (LIBOR):** Average interest rate at which leading banks borrow funds of a sizable amount from other banks in the London market. LIBOR is the most widely used “benchmark” or reference rate for short-term interest rates. **Treasury rates:** Market yields for U.S. Treasury securities with maturities of 2, 10 and 30 years. **Bloomberg Barclays U.S. Aggregate Bond Index:** Broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. **Bloomberg Barclays U.S. Corporate Index:** Measures the USD-denominated, investment grade, fixed-rate, taxable bond market. **Bloomberg Barclays U.S. Corporate High Yield Index:** Measures the USD-denominated, high yield, fixed-rate bond market.

Sources: Bureau of Labor Statistics (BLS), Department of Labor, Bureau of Economic Analysis (BEA), International Monetary Fund (IMF), OECD, Federal Reserve, Institute for Supply Management (ISM), Mortgage Bankers Association (MBA), U.S. Census Bureau, Standard & Poor's, Bank of America Merrill Lynch, Bloomberg, Macrobond.

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