

MACRO

The Federal Reserve (Fed) lowered the fed funds rate by 25 basis points (bps) at the December Federal Open Market Committee (FOMC) meeting.

With continued strength in the outlook for employment, growth and inflation, the Fed’s Summary of Economic Projections indicated participants expect just two, 25-bp cuts in 2025. As a result, the median expectation for the fed funds rate at the end of 2025 increased to 3.9%, from 3.4% in the September release.

U.S. Treasury (UST) yields steepened during December; the biggest change occurred in maturities greater than five years. As a result, the spread between the 3-month to 10-year portion of the curve dis-inverted for the first time since November 2022.

CREDIT

New-issue markets were relatively quiet ahead of year end, with pricing volume reaching \$41 billion in December. However, 2024 investment-grade issuance totaled a near-record \$1.496 trillion — trailing only 2020’s total issuance of approximately \$1.75 trillion.

New issuance is expected to be robust in January 2025, with estimates between \$175 and \$200 billion. Estimates for calendar year 2025 range between \$1.4 and \$1.9 trillion.

Credit spreads widened 3 bps during the month of December, finishing at 77 bps. During 2024, credit spreads narrowed 16 bps overall.

STRUCTURED

In December, mortgage-backed securities (MBS) reversed their November gains as the market adjusted interest rate expectations following the December FOMC meeting. Despite continued interest rate volatility, MBS achieved positive excess returns (37 bps) for a second consecutive year.

Asset-backed security (ABS) issuance totaled \$337 billion during 2024, dominated by issuance in the auto sector (\$181 billion). ABS generated 153 bps of positive excess return in 2024, exceeding 1–3-Year Credit.

CHART OF THE MONTH

3-month Change in Yields Following First Fed Funds Cut in Cycle, (%)



- The market’s response to initial Fed rate cuts has exhibited atypical behavior compared to that of recent cycles.
- In our view, this is largely attributable to the unique circumstances of the post-pandemic economy; highlighted by stubborn inflation dynamics.

As of 12/31/24. Source: Bloomberg L.P.

MARKET DATA

Yields	YTM %	MTD Change	QTD Change	YTD Change
3-Mo UST	4.32	-0.17	-0.31	-1.02
2-Yr UST	4.24	0.09	0.60	-0.01
5-Yr UST	4.38	0.33	0.82	0.54
10-Yr UST	4.57	0.40	0.79	0.69
30-Yr UST	4.78	0.42	0.66	0.75
Risk Premia	OAS (Bps)	MTD Change	QTD Change	YTD Change
Investment Grade Credit	77	3	-7	-16
Asset-Backed Securities	44	-1	-20	-24
High Yield	287	21	-8	-36

As of 12/31/2024. Source: Bloomberg L.P.

[BLOOMBERG SECTOR/INDEX PERFORMANCE (USD)]

	Duration (yrs.)	MTD Excess Return (%)	YTD Excess Return (%)	MTD Total Return (%)	YTD Total Return (%)
Sector					
Investment Grade Credit	6.61	-0.04	2.23	-1.89	2.03
Mortgage-Backed Securities	6.10	-0.17	0.37	-1.65	1.20
Asset-Backed Securities	2.62	0.06	1.53	-0.05	5.02
High Yield	3.07	-0.18	5.02	-0.43	8.19
Index					
1-3-Yr Government/Credit	1.77	-0.03	0.23	0.21	4.36
Intermediate Government/ Credit	3.66	-0.02	0.66	-0.62	3.00
U.S. Aggregate	6.02	-0.05	0.78	-1.64	1.25

As of 12/31/2024. Source: Bloomberg L.P.

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