Monthly Market Review

Fixed Income | January 2025

Information provided by IPDLAF+'s Program Administrator PFM Asset Management, a division of U.S. Bancorp Asset Management, Inc.

IPDLAF+ CLASS

"Driving on a foggy night." – Chair Jerome Powell

Economic Highlights

► At the final Federal Open Market Committee (FOMC) meeting of 2024, the Federal Reserve (Fed) lowered the target range for the federal funds rate by 25 basis points (bps) to a new range of 4.25% to 4.50%. In his post-meeting press conference, Fed Chair Jerome Powell said it was a "closer call" than in previous meetings and noted the Fed is now "in a new phase" of the easing cycle. The market now expects the Fed to pause rate cuts for several months.

► The FOMC's updated Summary of Economic Projections (SEP) showed a higher median expectation for inflation in calendar years 2025 and 2026, in line with recent upticks in various inflation metrics. Projections for gross domestic product (GDP) were also revised higher while the unemployment rate projection was lowered. Chair Powell noted that some FOMC members began to consider the implications of the new administration's proposed policies when formulating their individual projections.

► The Fed's updated median "dot" projection showed only 50 bps of rate cuts in 2025, down from previous projections which called for a full percentage point of rate cuts this year. The projections show a federal funds rate target range of 3.75-4.00% by the end of 2025.

► The Consumer Price Index (CPI) and Personal Consumption Expenditures Index (PCE) both increased marginally on a year-over-year (YoY) basis and remain above the Fed's 2% target.

► Nonfarm payrolls for December grew 256,000, beating consensus expectations by nearly 100,000. The unemployment rate ticked down slightly from 4.2% to 4.1%, while wage growth fell slightly to a still robust 3.9% YoY.

► The final estimate for Q3 GDP of 3.1% underscores the strength of the domestic economy. Expectations for Q4 GDP remain strong, with the Atlanta Fed GDPNow forecast at 2.7%.

Bond Markets

► The U.S. Treasury yield curve twisted and steepened throughout December as short-term yields declined while longer-term yields drifted higher. Policy uncertainty combined with the "higher for longer" rate sentiment sent yields 2 years and longer higher while the December Fed rate cut sent shorter term yields lower.

► Yields on 3-month, 2-year, and 10-year U.S. Treasuries ended the month at 4.31%, 4.24%, and 4.57%, reflecting changes of -17, +9, and +40 bps, respectively. The 10-year Treasury is now outyielding the 3-month security for the first time in over two years.

► Fixed income total returns were a mixed bag as shorter duration indices outperformed longer ones. The ICE BofA 3-month, 2-year, and 10-year U.S. Treasury indices returned +0.40%, +0.19%, and -2.69%, respectively.

Equity Markets

► Equity markets sold off from all-time highs on the "higher for longer" sentiment. The Dow Jones Industrial Average ended the month down 5.1% and the S&P 500 Index ended 2.4% lower, while the NASDAQ eked out a 0.6% gain. For calendar year 2024, the S&P 500 returned 25%, driven in large part by the 67% return on the "Magnificent Seven" stocks.

► International equities (as measured by MSCI ACWI ex-U.S. Net Index) sold off for the month declining 1.9%, while the U.S. Dollar Index rally continued and was up 2.6%.

PFMAM Strategy Recap

► We will continue to maintain portfolio durations near 100% of benchmarks given the ongoing backup in rates and significant policy uncertainty as we head into 2025.

► Spreads on federal agencies and supranationals remain unchanged near multi-year tights and are not expected to change in the near term. We expect to maintain low allocations in favor of other sectors.

► Investment-grade (IG) corporate bonds continue to see spreads at historically narrow levels with little room to tighten further. Our view is that the combination of heightened market volatility, fiscal policy uncertainty, and increased Q1 issuance may create opportunities to increase allocations at more attractive levels in the future. However, we expect technical strength and favorable credit fundamentals to limit downside risk. As a result, we will look to tactically reduce allocations in the sector to make room for future opportunities, with a focus on industry and credit quality-specific selectivity.

► Spreads on asset-backed securities (ABS) are tighter than historical averages while underlying technicals remain strong. ABS spreads tightened substantially through year-end, and as a result the sector was a top performer in December. We believe the sector's performance in 2025 will depend on the performance of the consumer in light of monetary policy and credit considerations. We plan to maintain allocations in the sector via the reinvestment of cash flows in new issuance.

► Mortgage-backed securities (MBS) and agency-backed commercial MBS (CMBS) spreads were little changed over the month after narrowing in November. As a result, excess returns were relatively flat for the month. We expect prepayments to remain subdued over the near term while volatility is expected to pick up in the new year. We will seek to maintain allocations.

► Credit spreads on the short end of the curve inched slightly wider into year-end, while U.S. Treasury Bill yields drifted lower in response to the Fed's rate cut. Meanwhile, yields (and spreads) in the back end of the money market yield curve climbed as markets priced in a slower pace of rate cuts in 2025.

U.S. Treasury Yields

Maturity	Dec 31, 2023	Nov 30, 2024	Dec 31, 2024	Monthly Change
3-Month	5.34%	4.49%	4.32%	-0.17%
6-Month	5.26%	4.45%	4.27%	-0.18%
2-Year	4.25%	4.15%	4.24%	0.09%
5-Year	3.85%	4.05%	4.38%	0.33%
10-Year	3.88%	4.17%	4.57%	0.40%
30-Year	4.03%	4.36%	4.78%	0.42%

Yields by Sector and Maturity

Maturity	U.S. Treasury	Federal Agency	Corporates- AA-A Industrials	AAA Municipals
3-Month	4.32%	4.33%	4.67%	-
6-Month	4.27%	4.27%	4.75%	-
2-Year	4.24%	4.25%	4.53%	2.89%
5-Year	4.38%	4.39%	4.87%	2.90%
10-Year	4.57%	4.63%	5.23%	3.12%
30-Year	4.78%	-	5.69%	3.26%

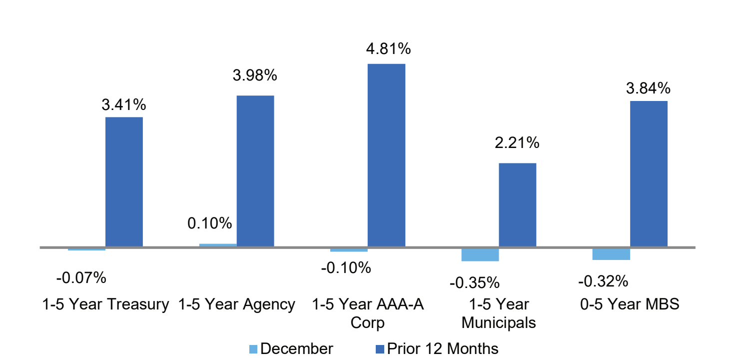
Spot Prices and Benchmark Rates

Index	Dec 31, 2023	Nov 30, 2024	Dec 31, 2024	Monthly Change
1-Month LIBOR	5.35%	4.53%	4.33%	-0.20%
3-Month LIBOR	5.33%	4.47%	4.31%	-0.16%
Effective Fed Funds Rate	5.33%	4.58%	4.33%	-0.25%
Fed Funds Target Rate	5.50%	4.75%	4.50%	-0.25%
Gold ($/oz)	$2,072	$2,657	$2,641	-$16
Crude Oil ($/Barrel)	$71.65	$68.00	$71.72	$3.72
U.S. Dollars per Euro	$1.10	$1.06	$1.04	-$0.02

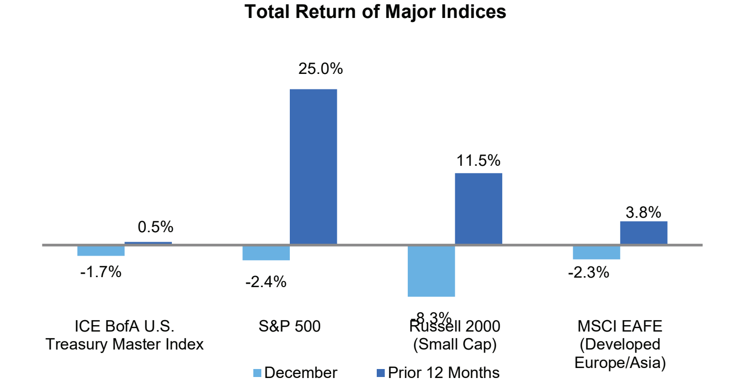
Economic Indicators

Indicator	Release Date	Period	Actual	Survey (Median)
Retail Sales Advance MoM	17-Dec	Nov	0.70%	0.60%
FOMC Rate Decision	18-Dec	Dec	4.50%	4.50%
Existing Home Sales MoM	19-Dec	Nov	4.80%	3.20%
GDP Annualized QoQ	19-Dec	3Q T	3.10%	2.80%
U. of Mich. Consumer Sentiment	20-Dec	Dec F	73.3	71.9
PCE YoY	20-Dec	Nov	2.80%	2.90%
ISM Manufacturing	3-Jan	Dec	49.3	48.2

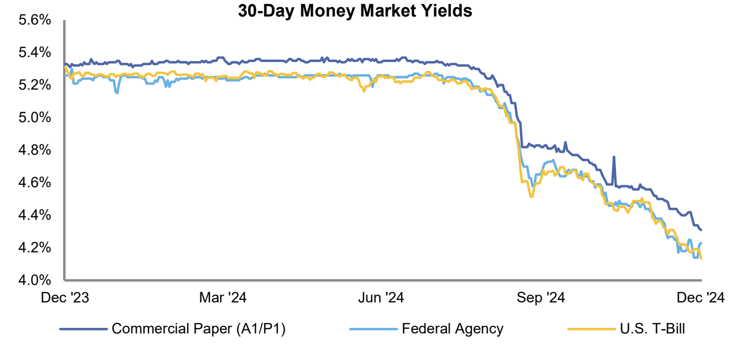
ICE BofA Fixed Income Index Returns



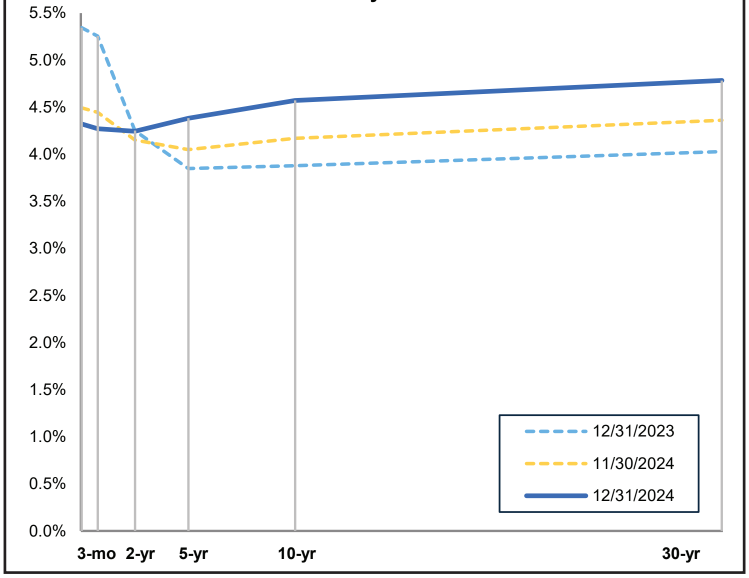
Total Return of Major Indices



30-Day Money Market Yields



U.S. Treasury Yield Curve



Source: Bloomberg. Data as of December 31, 2024, unless otherwise noted.

Indices shown are not available for investment. The index data reference herein is the property of the index provider and/or its licensors. The index provider assumes no liability in connections with its use and does not sponsor, endorse or recommend the products or services contained herein. Index returns do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause investment performance to be lower than the performance shown.

The views expressed within this material constitute the perspective and judgment of U.S. Bancorp Asset Management, Inc. at the time of distribution and are subject to change. Any forecast, projection, or prediction of the market, the economy, economic trends, and equity or fixed-income markets are based upon current opinion as of the date of issue and are also subject to change. Opinions and data presented are not necessarily indicative of future events or expected performance. Information contained herein is based on data obtained from recognized statistical services, issuer reports or communications, or other sources, believed to be reliable. No representation is made as to its accuracy or completeness.

NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE