

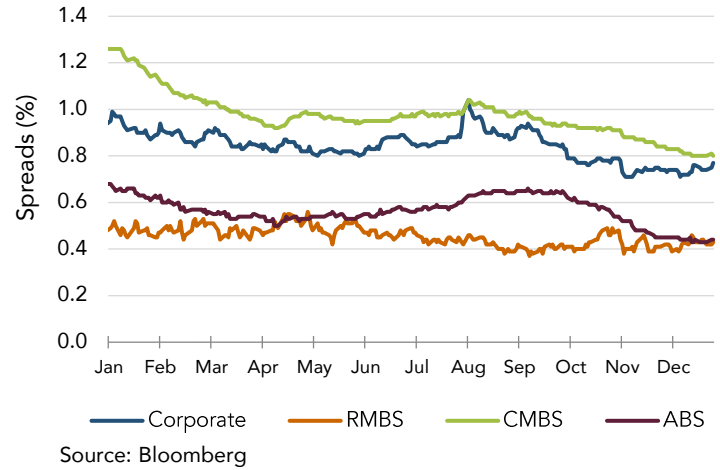


MARKET COMMENTARY

- On December 18th, the Federal Reserve (Fed) cut interest rates by 25 basis points (bps), ending the year at a target range of 4.25% - 4.50%. Notably, the latest projections revealed that Fed officials expect higher Core PCE and fewer rate cuts in 2025. US Treasury (UST) yields 1-year and shorter declined, while those 2-years and longer increased. The 2-year, 10-year and 30-year UST yields increased by 9, 40 and 42 bps for the month, respectively.
- Corporate credit underperformed like-duration USTs by 2 bps during December. Utilities and industrials modestly outperformed, while financials underperformed. Spreads leaked wider amid increased M&A/corporate actions activity and concerning headlines regarding several issuers. Market participants hesitated to “buy the dip”, especially given reduced liquidity due to the typical holiday slowdown.
- Among securitized sectors, CMBS was the star performer in December, outperforming USTs by 16 bps. Agency and Non-Agency CMBS outperformed by 3 and 29 bps, respectively. Following a historically poor 2023 for excess returns, CMBS spreads rebounded throughout 2024 amid a mix of mean reversion, improving liquidity from growing issuance, strong economic data and optimism for 2025.
- ABS outperformed USTs by 6 bps. Spreads tightened modestly, largely due to light new issue supply of approximately \$5 billion. Demand for the sector remained strong throughout the year despite tightening spreads. In line with prior years, autos accounted for slightly more than half the \$338 billion of 2024 new issuance.
- Agency RMBS underperformed USTs by 17 bps, with relative performance turning on a dime following the Fed meeting, which sparked an increase in both the level and volatility of interest rates, hurting performance.

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SPREADS TO TREASURIES



US TREASURY YIELD CHANGES

	YTM	Change From Previous Month
3 Month	4.31%	-0.17%
1 Year	4.14%	-0.14%
2 Year	4.24%	+0.09%
3 Year	4.27%	+0.18%
5 Year	4.38%	+0.33%
10 Year	4.57%	+0.40%
30 Year	4.78%	+0.42%

Source: Bloomberg

BLOOMBERG SECTOR PERFORMANCE

	Total Return	Excess Return*	YTM
Corporates	-1.94%	-0.02%	5.33%
Financials	-1.32%	-0.07%	5.28%
Industrials	-2.20%	0.01%	5.35%
Utilities	-2.52%	0.03%	5.44%
RMBS	-1.65%	-0.17%	5.27%
CMBS	-0.55%	0.16%	5.20%
ABS	-0.05%	0.06%	4.72%
Agencies	-0.55%	-0.11%	4.59%

*Monthly performance of Bloomberg US Aggregate Index sectors vs. duration-matched Treasuries