

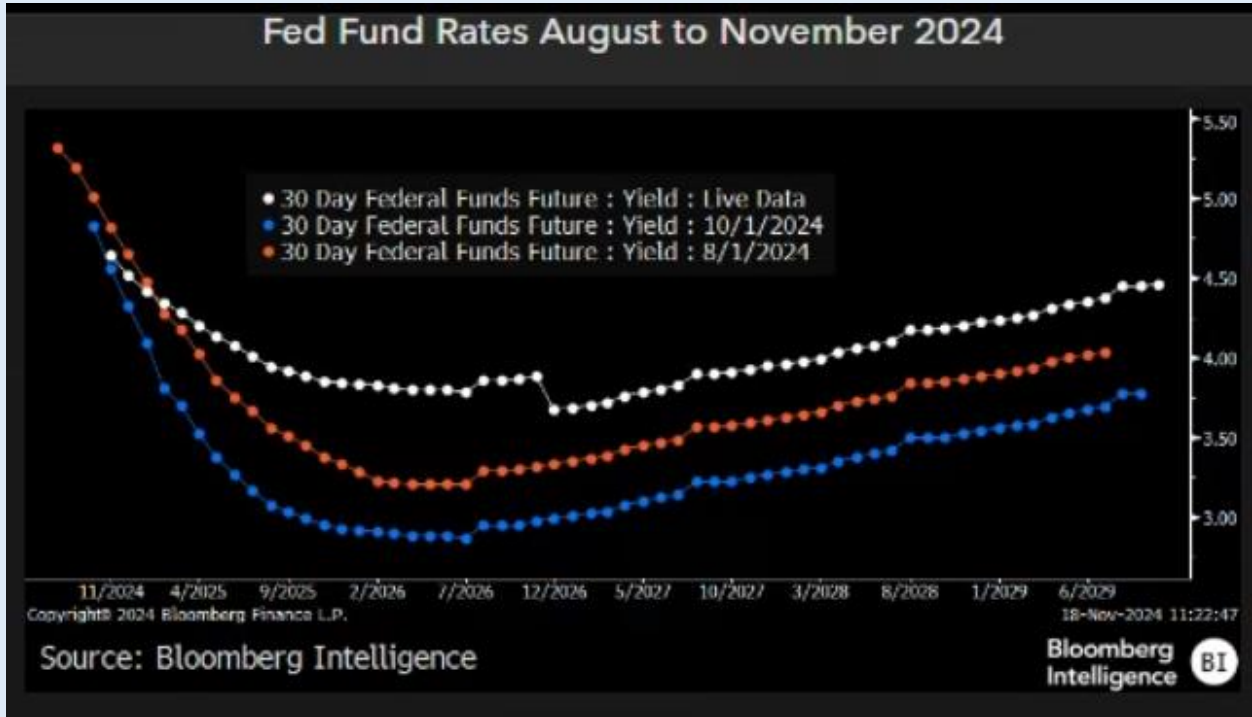
Source: Bloomberg, LLP | Weekly Jobless Claims Since 2023

CHART 3 & 3A: UNCERTAINTY GROWS REGARDING THE PATH FORWARD FOR INTEREST RATES

I included the two Bloomberg charts below to illustrate the tremendous uncertainty that surrounds the path forward for interest rates. A couple of months ago, market participants were anticipating a series of sustained Fed rate cuts through 2025, and lower rates in general. That is no longer the case – the projected path for rate cuts remains in flux, and the shape of the yield curve may change dramatically next year. Should the Fed slow-down interest rate cuts significantly, or pause cuts for a prolonged period (say several meetings), rates are likely to move higher.

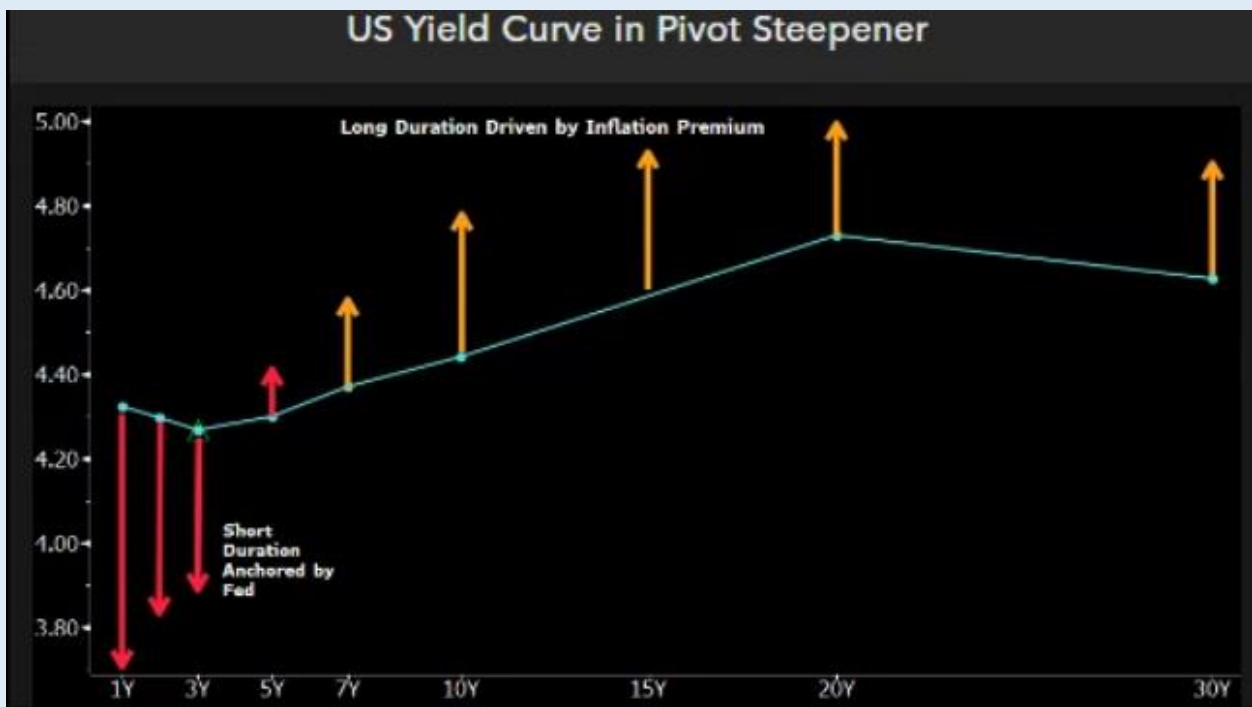
Chart 3 shows the change in Fed Funds futures trading since August. You can see that rate cut expectations have been dramatically lowered since August. The anticipated rise in inflation under the Republican administration could lead the Fed to revise its rate path. The Fed fund rate is currently expected to reach ~3.8% by the end of 2025, ~100 bps lower from today’s level. Chart 3A illustrates what is known as a yield curve “pivot-steepener” – it occurs when the short-end of the curve remains anchored to FOMC rate cuts and moves lower, but the long-end reacts to inflation fears and moves higher. The effect is a steeper curve, higher swap rates and more expensive cap premiums. If the Fed continues to find reasons to cut rates, “duration risk” is likely to increase based on the inflation implications after the Republican election sweep. Bottom line, there are many possible outcomes for interest rates next year – prepare for volatility.

CHART 3: Fed Fund Rate Expectations Continue To Shift – Traders Anticipate Fewer Rate Cuts



Source: Bloomberg, LLP | FOMC EXPECTATIONS – FED FUND FUTURES

CHART 3A: Shape Of The Yield Curve Could Change Dramatically During 2025...“Pivot Steepener” Is One Possible Outcome



Source: Bloomberg, LLP | “PIVOT STEEPENER” PROJECTION – BLOOMBERG INTEL

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