Economic Summary – Q4 2024

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At the start of the fourth quarter, less than two weeks after Fed officials began their easing campaign with a surprisingly bold half point cut, the bond market was pricing in 175 basis points of additional reductions for the upcoming year. The expectation was that labor conditions would continue to soften while inflation moved lower, allowing the Fed to gradually normalize interest rate policy.

As it turned out, neither scenario materialized. The outcome was a counter-intuitive *increase* in longer bond yields as investors recalibrated a higher path of future inflation and the Fed's likely response.

The November election brought a degree of certainty to the equity markets, but the bond market selloff accelerated further as investors grappled with proposed policies likely to further stoke inflationary pressure. Since high consumer prices were a determining factor in the election of Donald Trump, it's questionable how many of those promises will ultimately be kept if the result would be even higher prices.

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