3Q 2024 Note

Chapter 1 – It's hard to believe it was just four and a half years ago that we were experiencing the Federal Reserve (Fed) significantly cutting interest rates twice within the same month to battle the looming effects of the onslaught of the worldwide shutdown caused by the emergence of COVID. Those moves effectively brought the federal funds rate to near 0%. Then, we're all familiar with the next chapter, starting in March of 2022 where over the course of the next two years the Fed rapidly raised rates to 5.25%, creating an inverted Treasury yield curve where short-term yields remained higher than their longer duration counterparts for much longer than historically experienced. That brings us to the new chapter that appears to have begun this past quarter where just a few weeks ago the Fed lowered rates for the first time in over 2 ½ years.

So, are we out of the overhang of inverted yield curves and a mismatch of short-term yields versus longer term ones? Not quite, but it is a step in the right direction. The inverted yield curve began to correct in August (for those keeping track, that inversion was the longest inversion of the Treasury yield curve on record). The beginning of the Fed policy easing does set the stage for potentially a strong year for fixed income performance, and we should continue to see an environment where active fixed income managers, like Galliard, can make a discernable difference in the overall return profile of your portfolios. There's still some ground to cover before we see the inverted curve fade in the rearview mirror, and let's not forget it's a presidential election year that could throw a few curveballs into the markets in the next few months, but it appears we are moving in the right direction. Portfolios are positioned to take advantage of opportunities in the marketplace and our team is hard at work continuing to unearth more relative values as the dynamic evolves.

The State of Stable Value

Hopefully many of you were able to read our recently published State of Stable Value, where our Head of Stable Value Contract Management, Nick Gage, detailed what the changes in the interest rate environment could mean for stable value participants. (In case you missed the piece, you can find it at our newly re-designed website www.Galliard.com near the bottom of the opening page - look for the dark green box).

Stable value portfolios continued to perform consistently during the past quarter, including through a couple of roller coaster market events (notably, the CrowdStrike outage in July and the early August equity market correction). In general, crediting rates continued to work their way upward, as strong underlying market value performance works through the crediting rate mechanics. Regardless of the rate environment, our team continues to manage the stable value portfolios with an eye on consistency and stability in possible turbulent markets.

The last quarter of 2024 has the potential to be a strong one for fixed income. We are grateful to be able to take advantage of the ever-changing markets, for your portfolios. We look forward to talking with many of you over the coming months and please let us know if we can be of any assistance.

Ajay Mirza and Mike Norman

Senior Managing Principals