



Quarterly Investment Report



**For the period ended December 31, 2024
(Unaudited)**

Prepared by: Barbara A. Parker, County Auditor

Downtown County Annex

320 S. Campbell St., Ste 140

(915) 273-3262

Table of contents

Transmittal Letter.....	1
Total Cash and Investment at Market Value	
Total Cash and Investments Distribution at Market Value	2
All Portfolios Summary by Month.....	3
All Portfolios Investment Income by Month	4
All Portfolios Distribution by Main Fund	5
Cash and Investment Balances by Fund	
General Fund Cash and Investment at Market Value	6
General Fund Investment Income by Month	7
Special Revenue Cash and Investment at Market Value	8
Special Revenue Investment Income by Month	9
Special Revenue Grants Cash and Investment at Market Value	10
Special Revenue Grants Investment Income by Month	11
Agency Fund Cash and Investment at Market Value	12
Agency Fund Investment Income by Month.....	13
Enterprise Fund Cash and Investment at Market Value	14
Enterprise Fund Investment Income by Month.....	15
Adult Probation Cash and Investment at Market Value	16
Adult Probation Fund Investment Income by Month	17
Internal Service Cash and Investment at Market Value	18
Internal Service Investment Income by Month.....	19
Debt Service Cash and Investment at Market Value	20
Debt Service Investment Income by Month	21
Capital Projects Cash and Investment at Market Value	22
Capital Projects Investment Income by Month.....	23
Hilltop Securities Economic Commentary	
Economic Summary	24-29



EL PASO COUNTY | TEXAS
Quarterly Investment Report
09/30/2024 - 12/31/2024



Prepared by:

Barbara A. Parker, County Auditor

320 S. Campbell, Suite 140

El Paso, Texas 79901-2407 (915) 273-3262

A report of the investment transactions for the first quarter ended December 31, 2024, is herewith submitted. All investments have been made in compliance with the County's investment policy and pursuant to Texas Government Code, Title 10, §2256.023. TexPool and TexPool Prime, investment pools authorized under the Texas Government Code, Title 10, §2256.016 and managed by Federated Investors, Incorporated, have affirmed adherence to the County's investment policy and provisions of the Texas Government Code, Title 10, §2256.023(8) (a) and (b).

Issuer	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Frost Bank	1,000.00	1,000.00	1,000.00	0.00	0.00	1
TexPool	6,150,030.82	6,150,030.82	6,150,030.82	1.35	4.56	1
TexPool Prime	314,475,035.84	314,475,035.84	314,475,035.84	69.00	4.70	1
Vantage Checking	16,316,106.04	16,316,106.04	16,316,106.04	3.58	2.69	1
Vantage Consolidated	118,834,381.98	118,834,381.98	118,834,381.98	26.07	2.83	1
Total / Average	455,776,554.68	455,776,554.68	455,776,554.68	100.00	4.14	1

/s/ Roxanne Davila

Roxanne Davila, Audit Accountant

Treasury

/s/ Jacobo Fuentes

Jacobo Fuentes, Audit Accountant Senior

Treasury

/s/ Raymond Gomez

Raymond Gomez, Audit Manager

Treasury

/s/ Donna Teague

Donna Teague, Director of Financial Operations

/s/ Michael Lamas

Michael Lamas, First Assistant

/s/ Barbara Parker

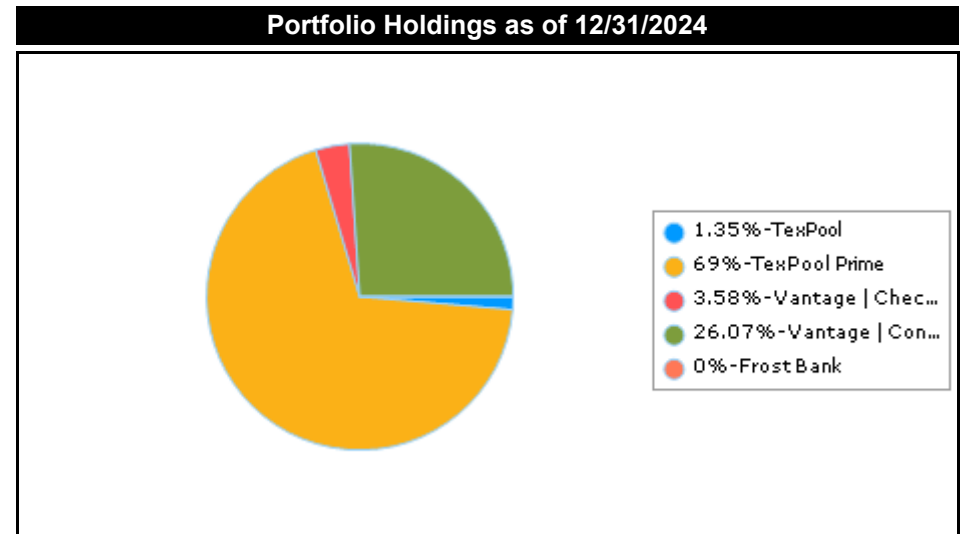
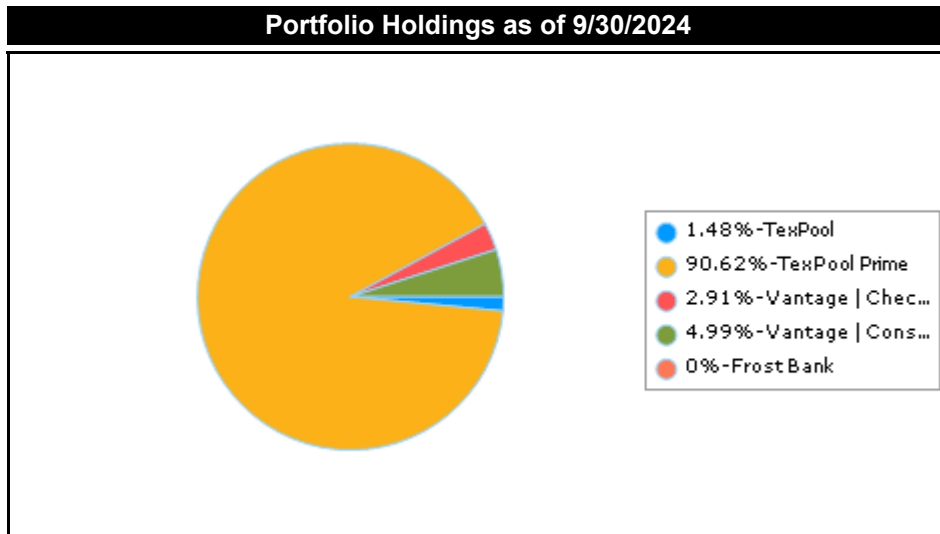
Barbara A. Parker, County Auditor



El Paso County TX Distribution by Issuer - Market Value All Portfolios

Begin Date: 9/30/2024, End Date: 12/31/2024

Issuer Allocation				
Issuer	Market Value 9/30/2024	% of Portfolio 9/30/2024	Market Value 12/31/2024	% of Portfolio 12/31/2024
TexPool	6,077,214.65	1.48	6,150,030.82	1.35
TexPool Prime	372,019,211.23	90.62	314,475,035.84	69.00
Vantage Checking	11,944,739.00	2.91	16,316,106.04	3.58
Vantage Consolidated	20,483,542.56	4.99	118,834,381.98	26.07
Frost Bank	0.00	0.00	1,000.00	0.00
Total / Average	410,524,707.44	100.00	455,776,554.68	100.00



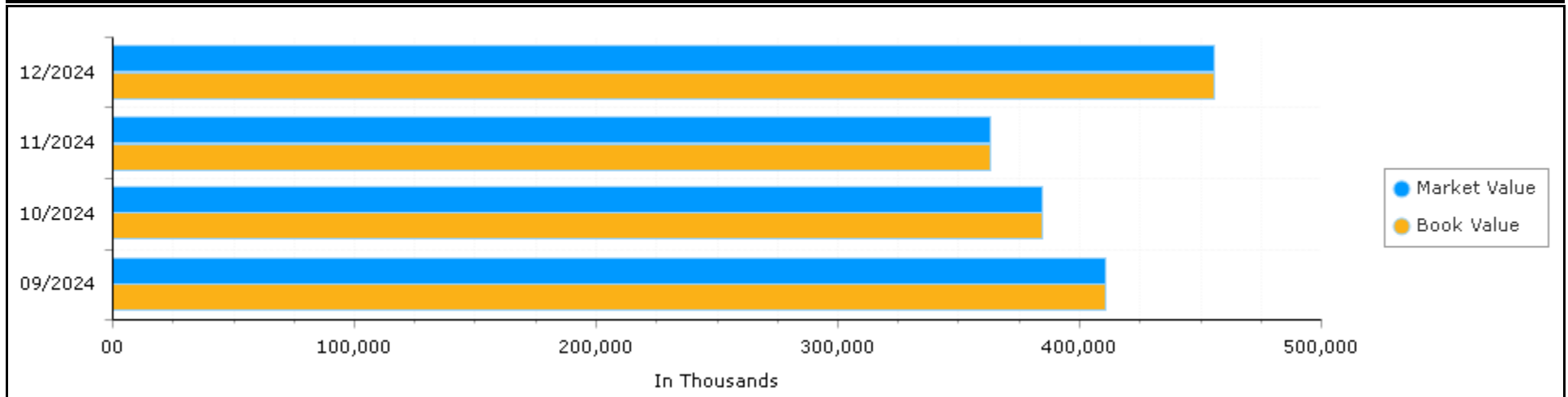


El Paso County TX Portfolio Summary by Month All Portfolios

Begin Date: 9/30/2024, End Date: 12/31/2024

Month	Market Value	Book Value	Unrealized Gain/Loss	YTM @ Cost	YTM @ Market	Duration	Days To Maturity
9/30/2024	410,524,707.44	410,524,707.44	0.00	5.16	5.16	0.00	1
10/31/2024	380,878,582.67	380,878,582.67	0.00	4.85	4.85	0.00	1
11/30/2024	354,790,171.53	354,790,171.53	0.00	4.61	4.61	0.00	1
12/31/2024	455,776,554.68	455,776,554.68	0.00	4.14	4.14	0.00	1
Total / Average	403,386,546.91	403,386,546.91	0.00	4.67	4.67	0.00	1

Market Value / Book Value Comparison

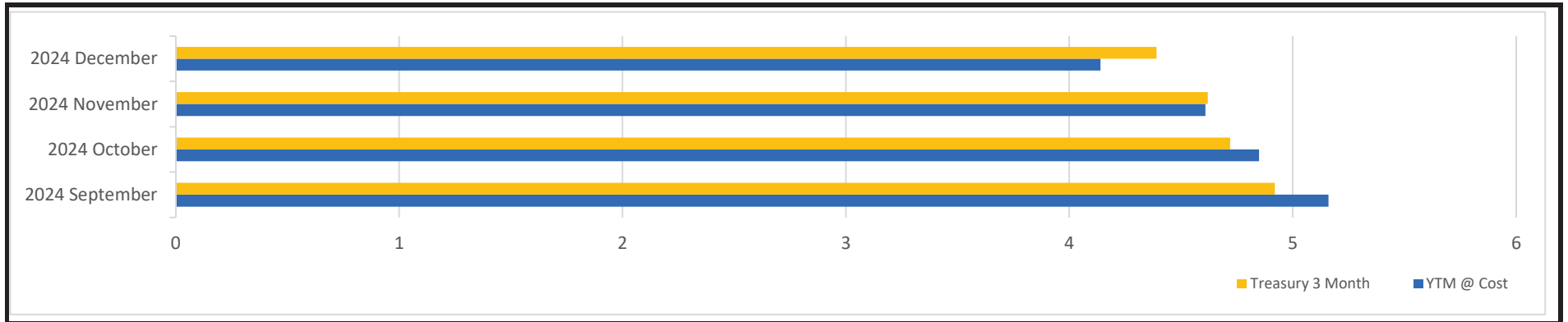




El Paso County TX
Investment Income - Book Value by Month
Report Group | All Portfolios

Begin Date: 09/30/2024, End Date: 012/31/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
9/30/2024	432,277,971.72	1,883,566.66	0.00	1,883,566.66	410,524,707.44	5.16	4.92
10/31/2024	410,524,707.44	1,664,706.04	0.00	1,664,706.04	380,878,582.67	4.85	4.72
11/30/2024	380,878,582.67	1,453,694.46	0.00	1,453,694.46	354,790,171.53	4.61	4.62
12/31/2024	354,790,171.53	1,434,364.16	0.00	1,434,364.16	455,776,554.68	4.14	4.39
Total/Average	394,617,858.34	6,436,331.32	0.00	6,436,331.32	400,492,504.08	5.39	4.66



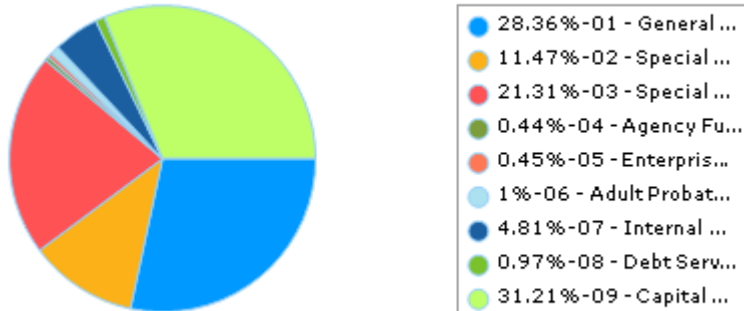


El Paso County TX **Distribution by Main Fund - Market Value** **All Portfolios**

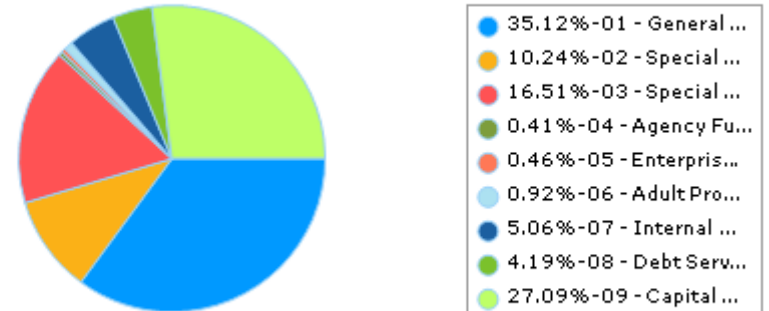
Begin Date: 9/30/2024, End Date: 12/31/2024

Main Fund Allocation				
Main Fund	Market Value 9/30/2024	% of Portfolio 9/30/2024	Market Value 12/31/2024	% of Portfolio 12/31/2024
01 - General Fund	116,408,109.61	28.36	160,059,905.12	35.12
02 - Special Revenue	47,070,071.92	11.47	46,694,196.18	10.24
03 - Special Revenue Grants	87,492,254.79	21.31	75,234,565.60	16.51
04 - Agency Fund	1,802,360.34	0.44	1,854,560.25	0.41
05 - Enterprise Funds	1,835,676.71	0.45	2,079,397.82	0.46
06 - Adult Probation	4,107,581.79	1.00	4,212,696.37	0.92
07 - Internal Service	19,726,393.96	4.81	23,065,778.90	5.06
08 - Debt Service	3,961,656.73	0.97	19,096,020.98	4.19
09 - Capital Projects	128,120,601.59	31.21	123,479,433.46	27.09
Total / Average	410,524,707.44	100.00	455,776,554.68	100.00

Portfolio Holdings as of 9/30/2024



Portfolio Holdings as of 12/31/2024





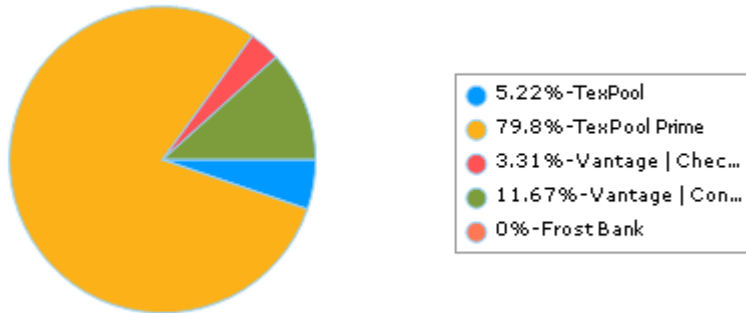
El Paso County TX **Distribution by Issuer - Market Value** **Report Group | General Fund**

Begin Date: 9/30/2024, End Date: 12/31/2024

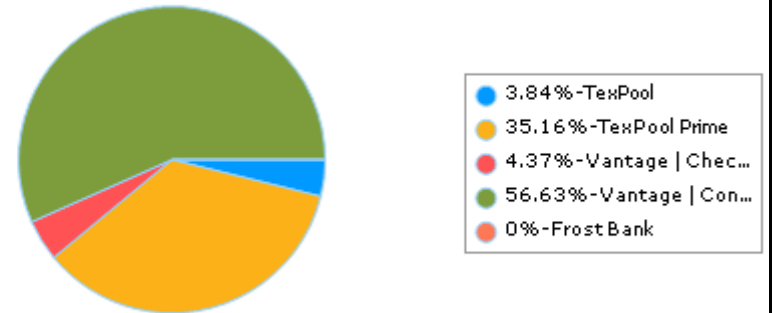
Issuer Allocation

Issuer	Market Value 9/30/2024	% of Portfolio 9/30/2024	Market Value 12/31/2024	% of Portfolio 12/31/2024
TexPool	6,077,214.65	5.22	6,150,030.82	3.84
TexPool Prime	92,887,884.52	79.80	56,271,603.84	35.16
Vantage Checking	3,852,860.83	3.31	6,999,403.89	4.37
Vantage Consolidated	13,590,149.61	11.67	90,637,866.57	56.63
Frost Bank	0.00	0.00	1,000.00	0.00
Total / Average	116,408,109.61	100.00	160,059,905.12	100.00

Portfolio Holdings as of 9/30/2024



Portfolio Holdings as of 12/31/2024

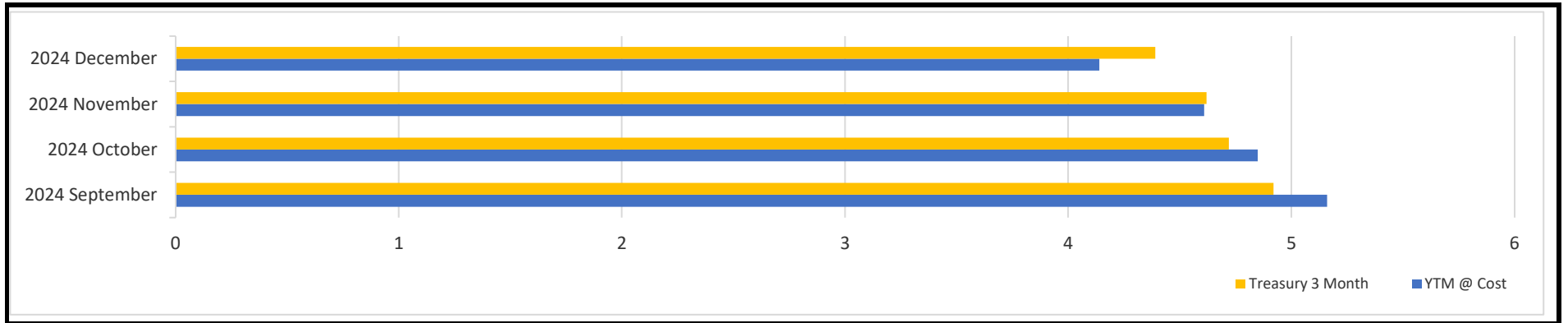




El Paso County TX Investment Income - Book Value by Month Report Group | General Fund

Begin Date: 09/30/2024, End Date: 012/31/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
9/30/2024	125,855,195.45	929,298.20	0.00	929,298.20	116,408,109.61	5.16	4.92
10/31/2024	116,408,109.61	758,775.53	0.00	758,775.53	95,015,026.63	4.85	4.72
11/30/2024	95,015,026.63	634,922.66	0.00	634,922.66	76,868,849.24	4.61	4.62
12/31/2024	76,868,849.24	630,788.33	0.00	630,788.33	160,059,905.12	4.14	4.39
Total/Average	103,536,795.23	2,953,784.72	0.00	2,953,784.72	112,087,972.65	5.39	4.66





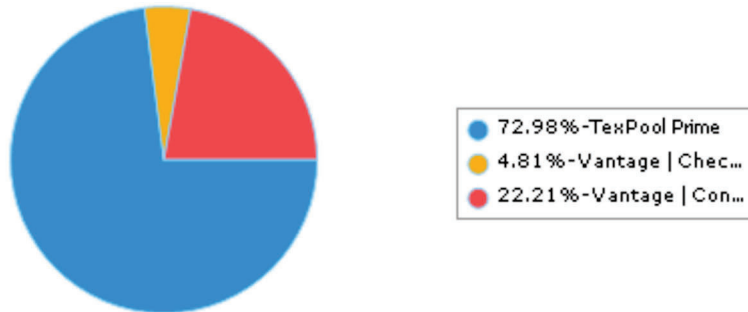
El Paso County TX Distribution by Issuer - Market Value Report Group | Special Revenue

Begin Date: 9/30/2024, End Date: 12/31/2024

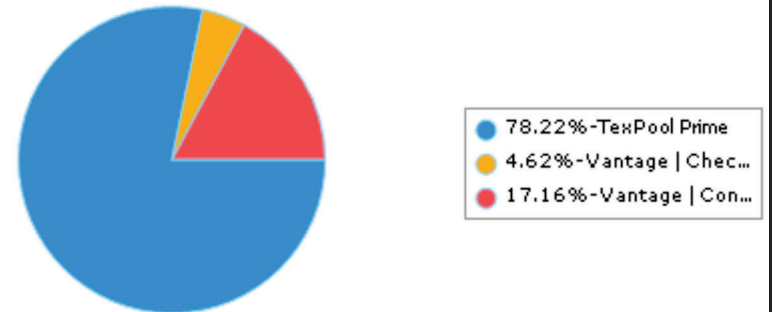
Issuer Allocation

Issuer	Market Value 9/30/2024	% of Portfolio 9/30/2024	Market Value 12/31/2024	% of Portfolio 12/31/2024
TexPool Prime	34,349,660.52	72.98	36,525,067.48	78.22
Vantage Checking	2,266,321.51	4.81	2,157,200.95	4.62
Vantage Consolidated	10,454,089.89	22.21	8,011,927.75	17.16
Total / Average	47,070,071.92	100.00	46,694,196.18	100.00

Portfolio Holdings as of 9/30/2024



Portfolio Holdings as of 12/31/2024

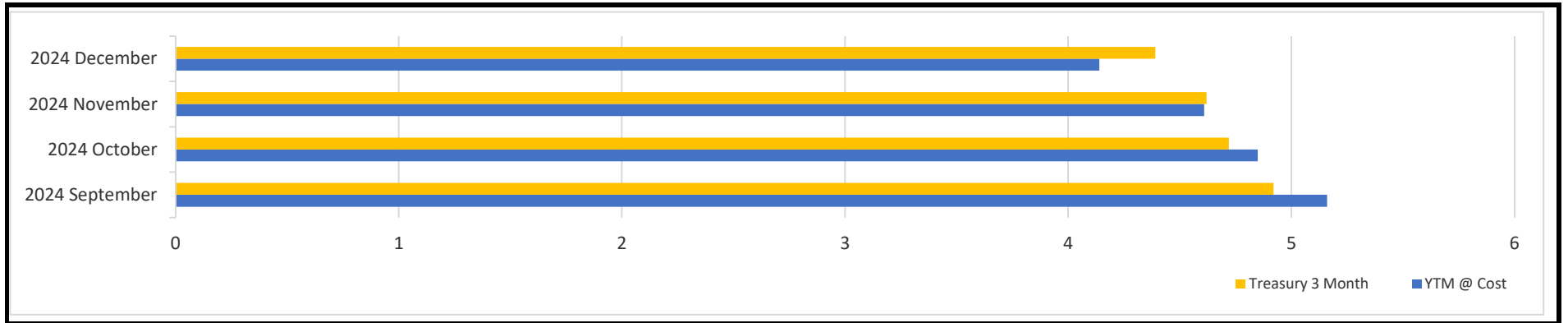




El Paso County TX Investment Income - Book Value by Month Report Group | Special Revenue

Begin Date: 09/30/2024, End Date: 012/31/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
9/30/2024	46,703,649.40	211,485.98	0.00	211,485.98	47,070,071.92	5.16	4.92
10/31/2024	47,070,071.92	204,072.62	0.00	204,072.62	47,731,062.31	4.85	4.72
11/30/2024	47,731,062.31	165,006.79	0.00	165,006.79	47,506,838.01	4.61	4.62
12/31/2024	47,506,838.01	153,854.21	0.00	153,854.21	46,694,196.18	4.14	4.39
Total/Average	47,252,905.41	734,419.60	0.00	734,419.60	47,250,542.11	5.39	4.66





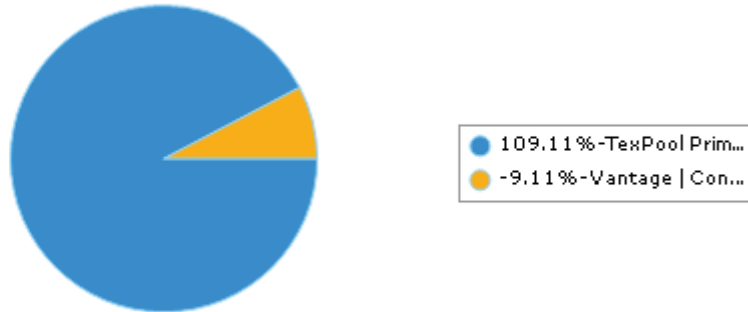
El Paso County TX Distribution by Issuer - Market Value Report Group | Special Revenue Grants

Begin Date: 9/30/2024, End Date: 12/31/2024

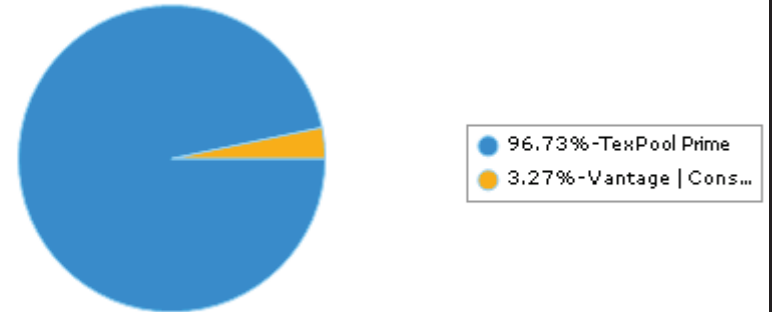
Issuer Allocation

Issuer	Market Value 9/30/2024	% of Portfolio 9/30/2024	Market Value 12/31/2024	% of Portfolio 12/31/2024
TexPool Prime	95,428,824.82	109.07	72,824,640.72	96.80
Vantage Consolidated	-7,936,570.03	-9.07	2,409,924.88	3.20
Total / Average	87,492,254.79	100.00	75,234,565.60	100.00

Portfolio Holdings as of 9/30/2024



Portfolio Holdings as of 12/31/2024

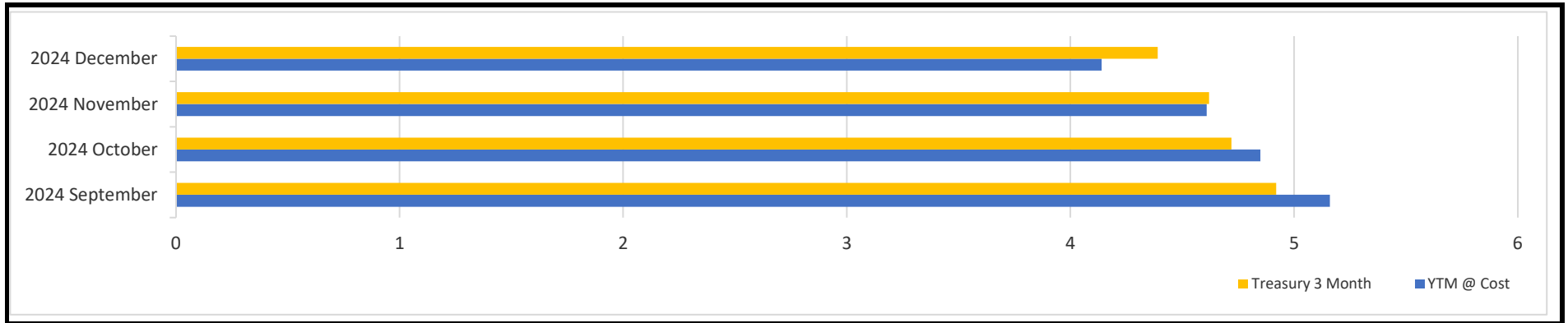




El Paso County TX Investment Income - Book Value by Month Report Group | Special Revenue Grants

Begin Date: 09/30/2024, End Date: 012/31/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
9/30/2024	105,174,192.35	53,114.44	0.00	53,114.44	87,492,254.79	5.16	4.92
10/31/2024	87,492,254.79	47,598.05	0.00	47,598.05	84,574,139.67	4.85	4.72
11/30/2024	84,574,139.67	41,931.58	0.00	41,931.58	80,136,795.39	4.61	4.62
12/31/2024	80,136,795.39	31,320.53	0.00	31,320.53	75,234,565.60	4.14	4.39
Total/Average	89,344,345.55	173,964.60	0.00	173,964.60	81,859,438.86	5.39	4.66





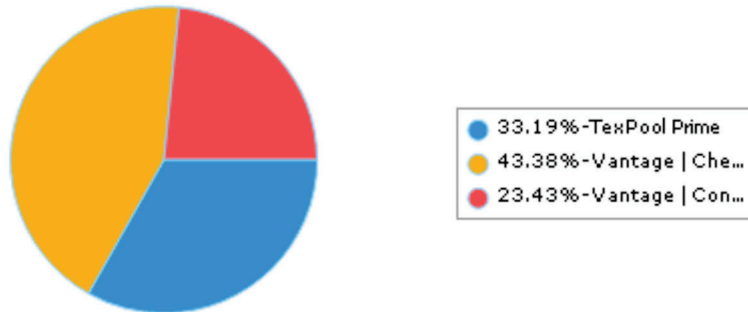
El Paso County TX Distribution by Issuer - Market Value Report Group | Agency Fund

Begin Date: 9/30/2024, End Date: 12/31/2024

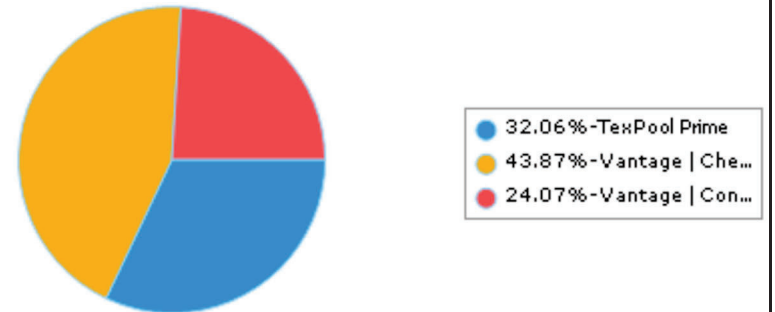
Issuer Allocation

Issuer	Market Value 9/30/2024	% of Portfolio 9/30/2024	Market Value 12/31/2024	% of Portfolio 12/31/2024
TexPool Prime	598,212.73	33.19	594,565.63	32.06
Vantage Checking	781,811.95	43.38	813,675.77	43.87
Vantage Consolidated	422,335.66	23.43	446,318.85	24.07
Total / Average	1,802,360.34	100.00	1,854,560.25	100.00

Portfolio Holdings as of 9/30/2024



Portfolio Holdings as of 12/31/2024

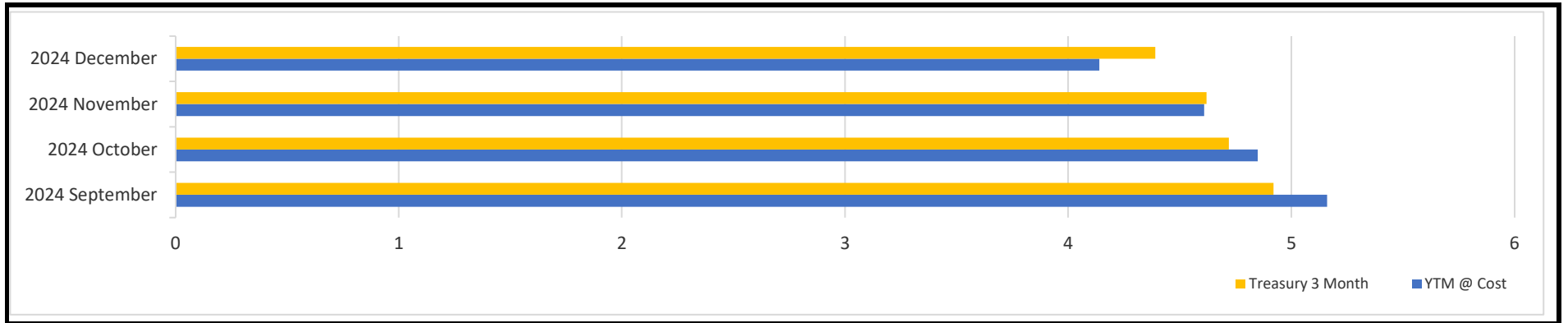




El Paso County TX Investment Income - Book Value by Month Report Group | Agency Fund

Begin Date: 09/30/2024, End Date: 012/31/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
9/30/2024	1,729,815.06	6,956.92	0.00	6,956.92	1,802,360.34	5.16	4.92
10/31/2024	1,802,360.34	6,757.78	0.00	6,757.78	1,808,294.52	4.85	4.72
11/30/2024	1,808,294.52	6,286.14	0.00	6,286.14	1,860,456.45	4.61	4.62
12/31/2024	1,860,456.45	5,933.80	0.00	5,933.80	1,854,560.25	4.14	4.39
Total/Average	1,800,231.59	25,934.64	0.00	25,934.64	1,831,417.89	5.39	4.66





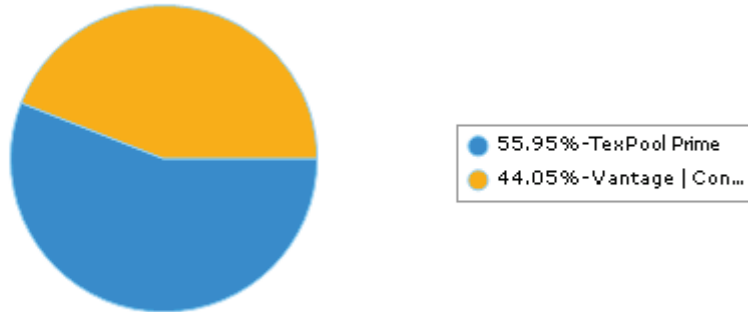
El Paso County TX
Distribution by Issuer - Market Value
Report Group | Enterprise Fund

Begin Date: 9/30/2024, End Date: 12/31/2024

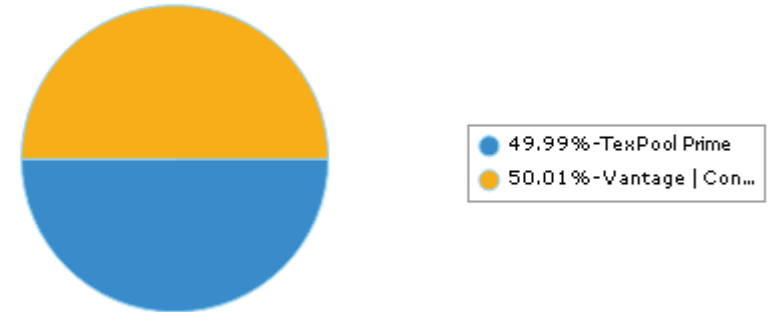
Issuer Allocation

Issuer	Market Value 9/30/2024	% of Portfolio 9/30/2024	Market Value 12/31/2024	% of Portfolio 12/31/2024
TexPool Prime	1,027,010.33	55.95	1,039,589.10	49.99
Vantage Consolidated	808,666.38	44.05	1,039,808.72	50.01
Total / Average	1,835,676.71	100.00	2,079,397.82	100.00

Portfolio Holdings as of 9/30/2024



Portfolio Holdings as of 12/31/2024

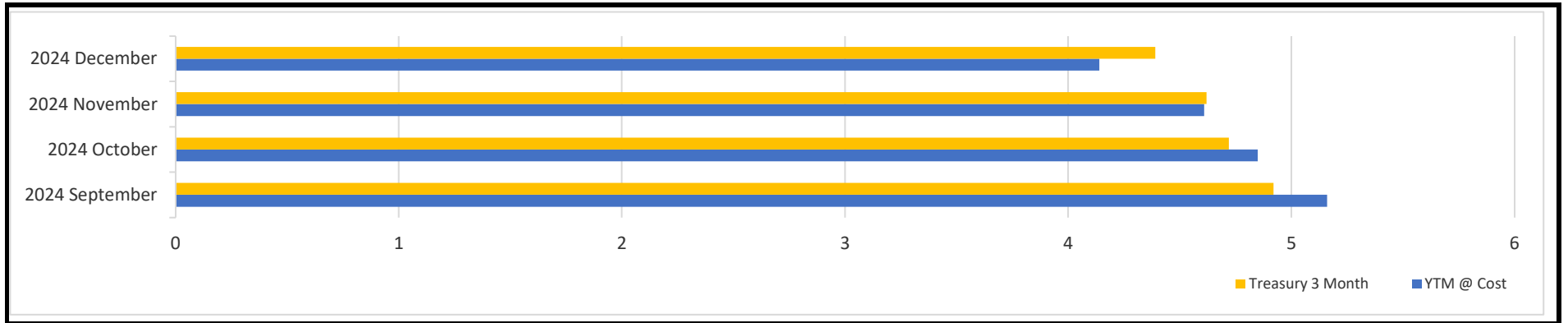




El Paso County TX Investment Income - Book Value by Month Report Group | Enterprise Fund

Begin Date: 09/30/2024, End Date: 012/31/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
9/30/2024	1,734,240.21	7,997.37	0.00	7,997.37	1,835,676.71	5.16	4.92
10/31/2024	1,835,676.71	7,492.61	0.00	7,492.61	2,138,700.98	4.85	4.72
11/30/2024	2,138,700.98	6,971.42	0.00	6,971.42	2,205,935.38	4.61	4.62
12/31/2024	2,205,935.38	4,929.43	0.00	4,929.43	2,079,397.82	4.14	4.39
Total/Average	1,978,638.32	27,390.83	0.00	27,390.83	2,064,927.72	5.39	4.66





El Paso County TX
Distribution by Issuer - Market Value
Report Group | Adult Supervision

Begin Date: 9/30/2024, End Date: 12/31/2024

Issuer Allocation

Issuer	Market Value 9/30/2024	% of Portfolio 9/30/2024	Market Value 12/31/2024	% of Portfolio 12/31/2024
Vantage Checking	4,107,581.79	100.00	4,212,696.37	100.00
Total / Average	4,107,581.79	100.00	4,212,696.37	100.00

Portfolio Holdings as of 9/30/2024



100%-Vantage | Check...

Portfolio Holdings as of 12/31/2024



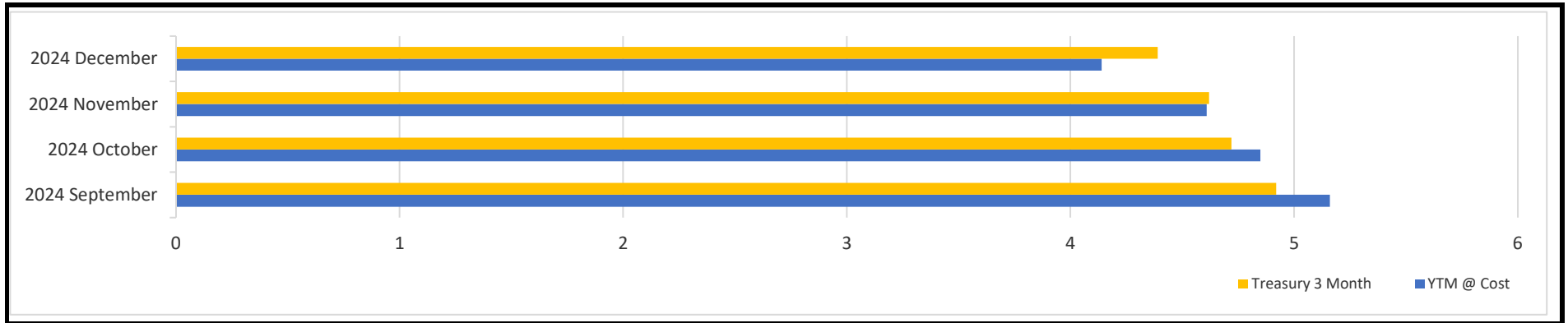
100%-Vantage | Check...



El Paso County TX Investment Income - Book Value by Month Report Group | Adult Supervision

Begin Date: 09/30/2024, End Date: 012/31/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
9/30/2024	2,379,734.26	24,432.96	0.00	24,432.96	4,107,581.79	5.16	4.92
10/31/2024	4,107,581.79	10,239.61	0.00	10,239.61	3,430,802.56	4.85	4.72
11/30/2024	3,430,802.56	7,291.28	0.00	7,291.28	2,361,939.19	4.61	4.62
12/31/2024	2,361,939.19	10,117.07	0.00	10,117.07	4,212,696.37	4.14	4.39
Total/Average	3,070,014.45	52,080.92	0.00	52,080.92	3,528,254.98	5.39	4.66



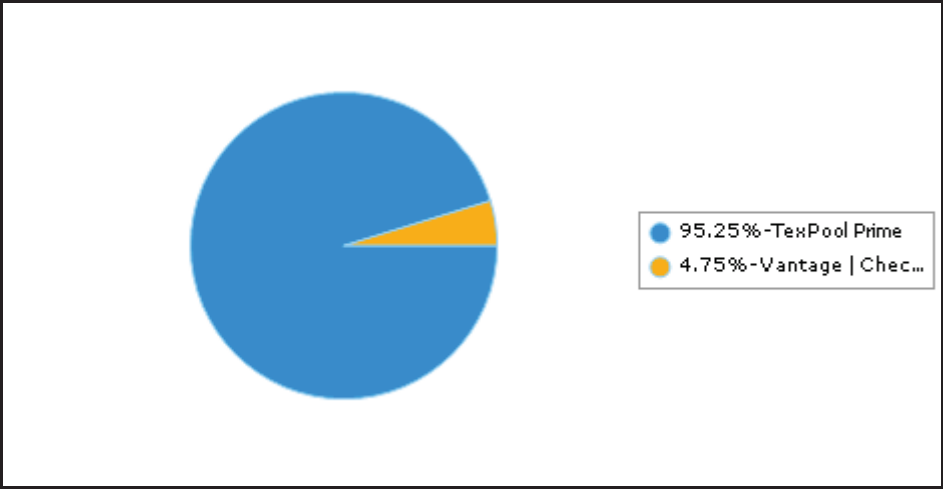


El Paso County TX
Distribution by Issuer - Market Value
Report Group | Internal Service

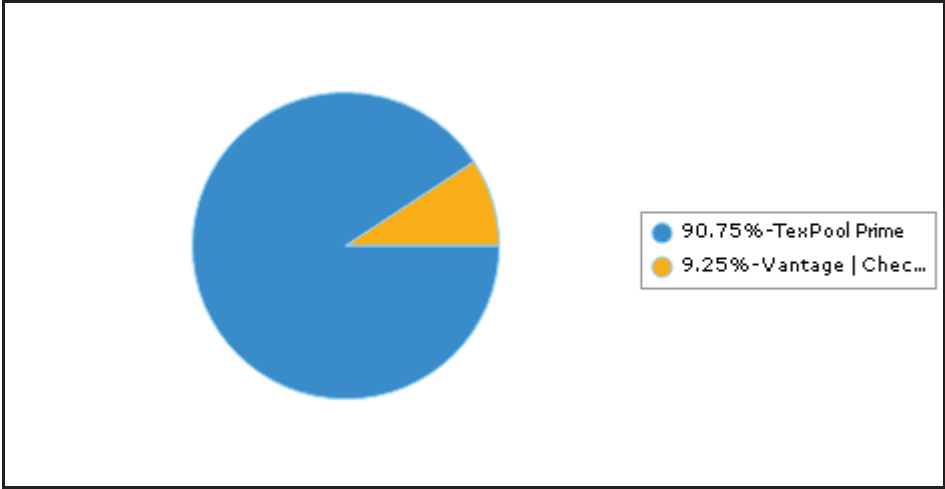
Begin Date: 9/30/2024, End Date: 12/31/2024

Issuer Allocation				
Issuer	Market Value 9/30/2024	% of Portfolio 9/30/2024	Market Value 12/31/2024	% of Portfolio 12/31/2024
TexPool Prime	18,790,231.04	95.25	20,932,649.84	90.75
Vantage Checking	936,162.92	4.75	2,133,129.06	9.25
Total / Average	19,726,393.96	100.00	23,065,778.90	100.00

Portfolio Holdings as of 9/30/2024



Portfolio Holdings as of 12/31/2024

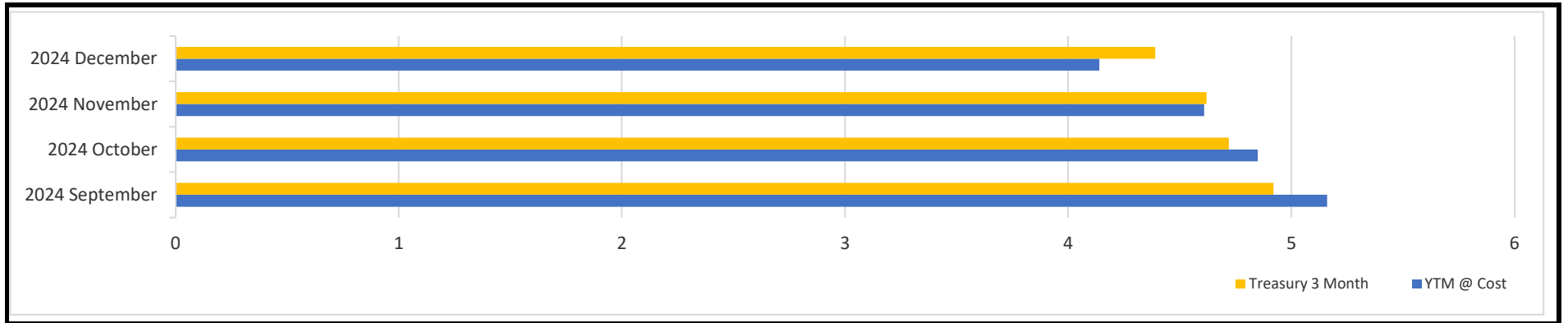




El Paso County TX Investment Income - Book Value by Month Report Group | Internal Service

Begin Date: 09/30/2024, End Date: 012/31/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
9/30/2024	18,487,732.34	82,117.63	0.00	82,117.63	19,726,393.96	5.16	4.92
10/31/2024	19,726,393.96	84,153.23	0.00	84,153.23	19,683,247.72	4.85	4.72
11/30/2024	19,683,247.72	82,161.28	0.00	82,161.28	22,365,940.48	4.61	4.62
12/31/2024	22,365,940.48	85,642.50	0.00	85,642.50	23,065,778.90	4.14	4.39
Total/Average	20,065,828.63	334,074.64	0.00	334,074.64	21,210,340.27	5.39	4.66

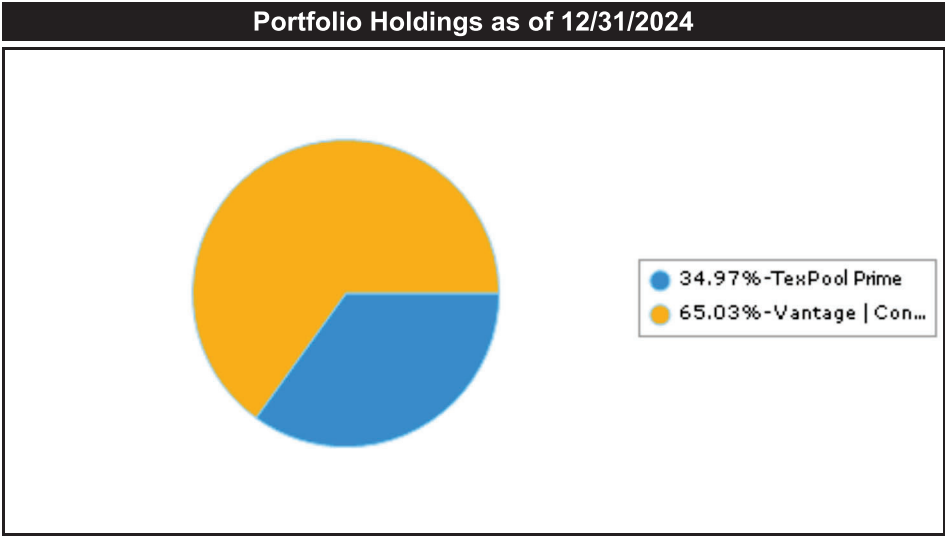
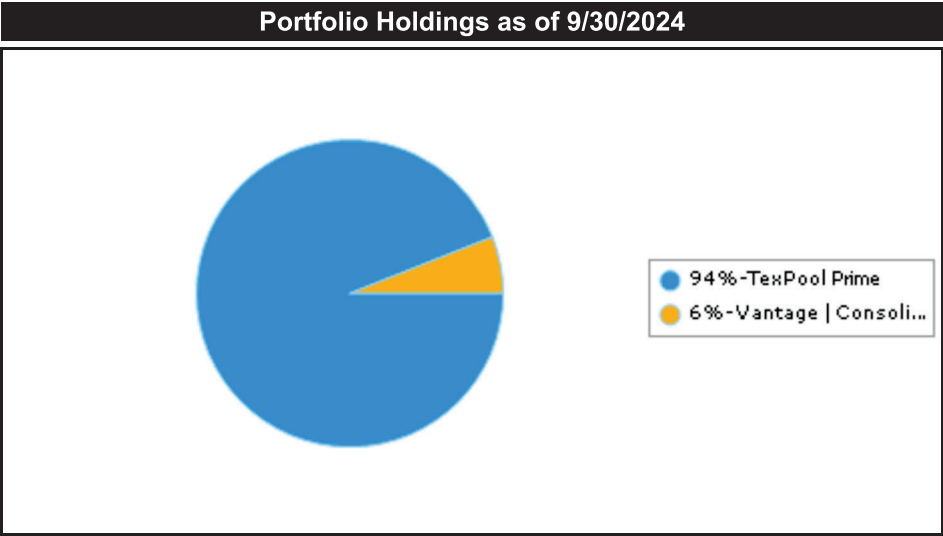




El Paso County TX
Distribution by Issuer - Market Value
Report Group | Debt Service

Begin Date: 9/30/2024, End Date: 12/31/2024

Issuer Allocation				
Issuer	Market Value 9/30/2024	% of Portfolio 9/30/2024	Market Value 12/31/2024	% of Portfolio 12/31/2024
TexPool Prime	3,723,867.53	94.00	6,678,139.94	34.97
Vantage Consolidated	237,789.20	6.00	12,417,881.04	65.03
Total / Average	3,961,656.73	100.00	19,096,020.98	100.00

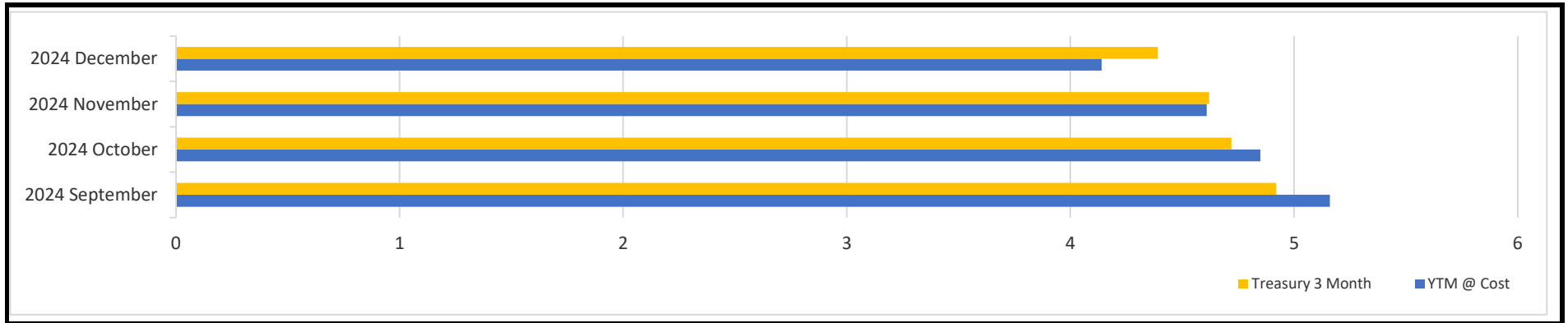




El Paso County TX Investment Income - Book Value by Month Report Group | Debt Service

Begin Date: 09/30/2024, End Date: 012/31/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
9/30/2024	4,080,172.60	16,918.11	0.00	16,918.11	3,961,656.73	5.16	4.92
10/31/2024	3,961,656.73	7,636.90	0.00	7,636.90	2,204,420.02	4.85	4.72
11/30/2024	2,204,420.02	11,830.62	0.00	11,830.62	4,129,894.88	4.61	4.62
12/31/2024	4,129,894.88	30,383.75	0.00	30,383.75	19,096,020.98	4.14	4.39
Total/Average	3,594,036.06	66,769.38	0.00	66,769.38	16,261,725.40	5.39	4.66

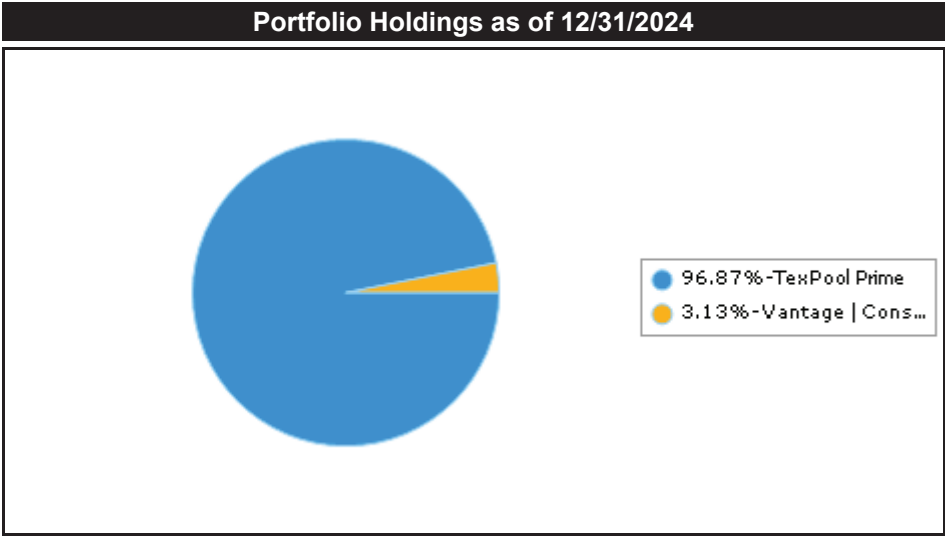
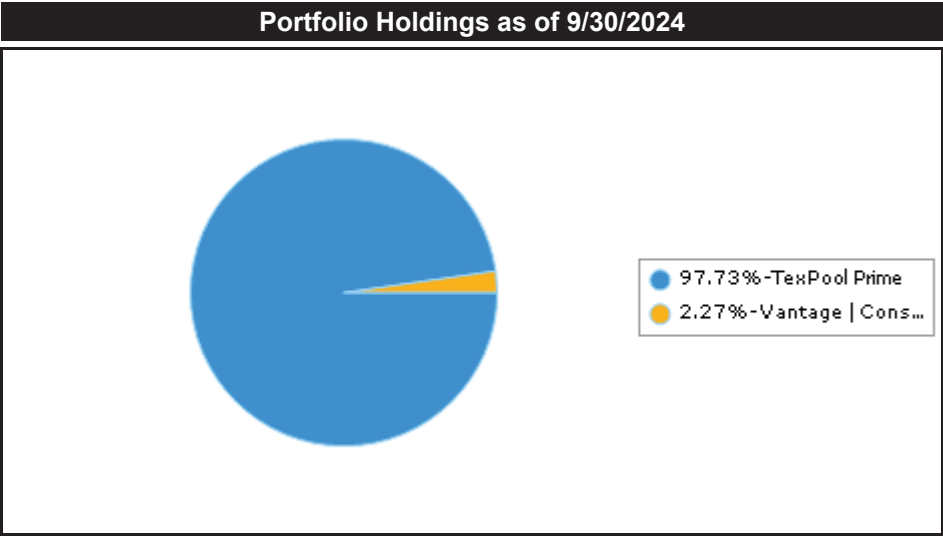




El Paso County TX
Distribution by Issuer - Market Value
Report Group | Capital Projects

Begin Date: 9/30/2024, End Date: 12/31/2024

Issuer Allocation				
Issuer	Market Value 9/30/2024	% of Portfolio 9/30/2024	Market Value 12/31/2024	% of Portfolio 12/31/2024
TexPool Prime	125,213,519.74	97.73	119,608,779.29	96.87
Vantage Consolidated	2,907,081.85	2.27	3,870,654.17	3.13
Total / Average	128,120,601.59	100.00	123,479,433.46	100.00

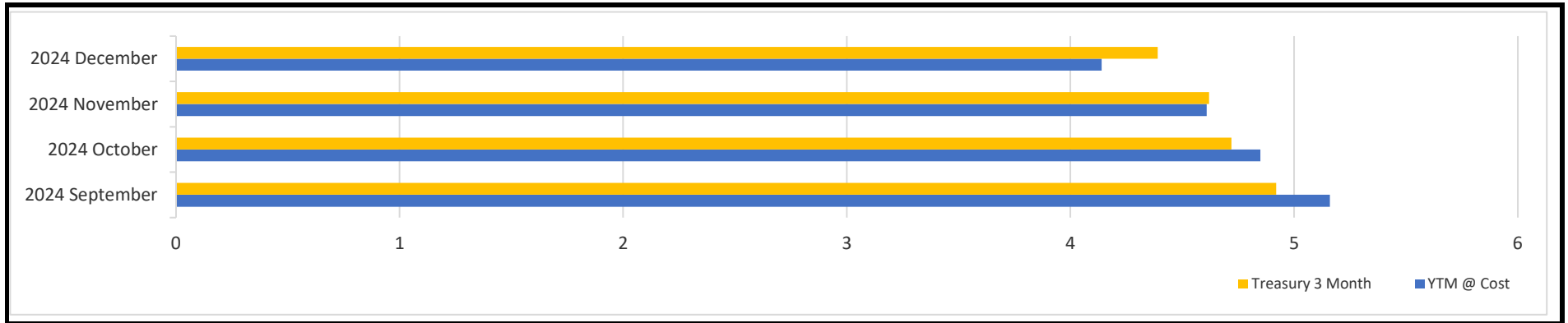




El Paso County TX Investment Income - Book Value by Month Report Group | Capital Projects

Begin Date: 09/30/2024, End Date: 012/31/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
9/30/2024	126,133,240.05	551,245.05	0.00	551,245.05	128,120,601.59	5.16	4.92
10/31/2024	128,120,601.59	537,979.71	0.00	537,979.71	127,723,690.82	4.85	4.72
11/30/2024	127,723,690.82	497,292.69	0.00	497,292.69	125,498,891.28	4.61	4.62
12/31/2024	125,498,891.28	481,394.54	0.00	481,394.54	123,479,433.46	4.14	4.39
Total/Average	126,869,105.94	2,067,911.99	0.00	2,067,911.99	126,205,654.29	5.39	4.66



Economic Summary – Q4 2024

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.

Scott McIntyre, CFA

HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP

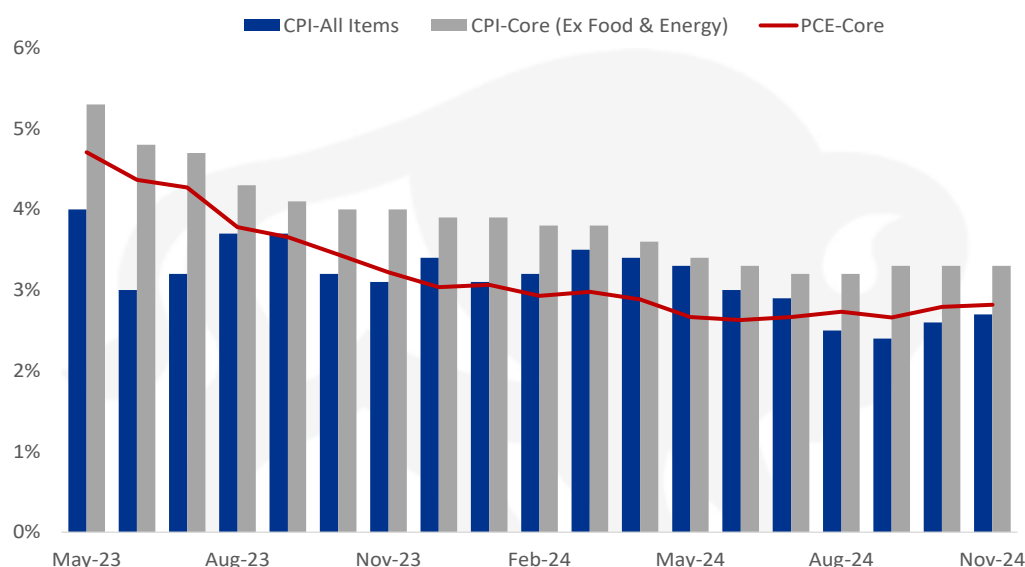
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

Inflation

The U.S. economy is on track to grow at the fastest annual rate of any advanced country for the second consecutive year. This persistent strength has been an underreported factor in keeping inflation above the Fed's target and will ultimately delay efforts to bring the overnight target to neutral.

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.

Inflation Indicators (year-over-year percent change)



Source: Bureau of Labor Statistics, Bureau of Economic Analysis

This persistent strength has been an underreported factor in keeping inflation above the Fed's target and will ultimately delay efforts to bring the overnight target to neutral.

The overall consumer price index (CPI) was up +0.3% in November, the highest monthly increase since April, boosting the annual rate up from +2.6% to +2.7%. Core CPI also rose +0.3% in November while the annual pace held frustratingly steady at +3.3% for a third straight month. There were trend-bucking price increases in new and used vehicles, groceries and gasoline, all combining to halt a string of deflation in the goods sector. However, there was a bright spot on the service side as shelter costs, the most stubborn of the inflationary components, logged the smallest annual gain in nearly four years.

Many U.S. cities are seeing significant incentives to rent for the first time in years.

The Fed's preferred inflation measure turned out to be more favorable than CPI. The personal consumption expenditures (PCE) index edged just +0.1% higher in November after two months of +0.2% gains. On a year-over-year basis, headline PCE came in slightly below forecast at +2.4%. More importantly, core PCE rose just +0.1% in November, the coolest since May, and +2.8% year-over-year (slightly below forecast.) This was an encouraging report, but the price trend established over the next several months will determine Fed policy going forward.

Tariffs could push prices higher in 2025, but if shelter costs continue to fall (as CPI had indicated), core inflation should eventually recede. There is quite a bit of evidence that the inventory of new homes has moved sharply higher in recent months, while the increased number of apartments on the market is creating advantages for renters. Many U.S. cities are seeing significant incentives to rent for the first time in years.

The incoming administration will encourage oil production, but producers have little incentive to increase drilling further as added supply would effectively lower profits.

Gasoline prices are down roughly \$2 from the peak in 2022, with the national average for regular unleaded reaching \$3.02 in late December. Crude oil production is at a record high and with tepid global growth expected, it's reasonable to expect pump prices to remain low. The incoming administration will encourage oil production, but producers have little incentive to increase drilling further as added supply would effectively lower profits.

New car prices are trending lower for the same reason, production has exceeded sales and dealer lots are filling up. Yearend discounting isn't nearly what it was before the pandemic, but it's back. Auto sales reached a 42-month high in November and were responsible for a majority of the rise in November retail sales. Used car prices are also trending lower as new car buyers trade-in their existing vehicles. Auto deflation, along with competitive rents, should exert downward pressure on overall consumer prices.

Housing conditions are expected to improve, but the bar is mighty low. 2023 was the worst year for home sales in 28 years and 2024 is on track to be even worse as there's been little apparent benefit (so far) from Fed rate cuts. In fact, the average 30-year fixed rate mortgage has actually increased by 75 bps since mid-September.

2023 was the worst year for home sales in 28 years and 2024 is on track to be even worse as there's been little apparent benefit (so far) from Fed rate cuts.

Roughly 60% of 50 million outstanding mortgages have rates below 4%, according to the Consumer Financial Protection Bureau. As a result, existing homes, which typically account for roughly 85% of all sales, continue to be restrained by the record low mortgage rates gifted during the pandemic.

The new home space is a different story. According to the National Association of Realtors, the U.S. is short by as many as 5 to 7 million homes. If builders had ample

capacity and resources, this might be a dream scenario. Unfortunately, the market for skilled workers is still historically tight, and construction is still an extremely labor intensive business. *The threat of mass deportation won't help.*

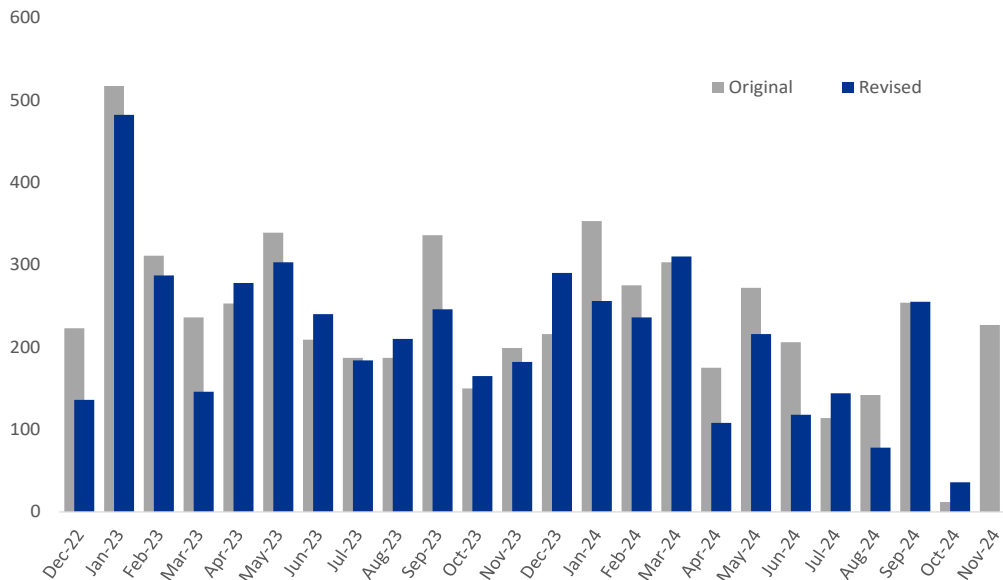
Employment

U.S. businesses added +227k jobs to company payrolls in November after a weak, storm-tinted October. The above forecast gain, along with upward revisions boosted the three-month average from +123k to +173k. In the separate household survey, the total number of employed workers in the U.S. fell by -355k to 161.1 million in November, while the civilian labor force declined by -193k. This combined to push the unemployment rate up from 4.1% to 4.2%, *still less than a percentage point above the five-decade low from early 2022.*

From the perspective of FOMC members, moderate softening of labor conditions should be acceptable as long as it eases wage pressure.

Looking forward, there's little short of economic collapse that would cause a significant rise in unemployment. Weekly jobless claims fell to a nine-month low during the last week of December, emphasizing the reluctance of employers to lay off workers when finding qualified replacements remains a challenge.

Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

From the perspective of FOMC members, moderate softening of labor conditions should be acceptable as long as it eases wage pressure. The Atlanta Fed reported in December that the annual pace of wage growth is now *the slowest in three years*, pointing to lower costs in the labor-intensive service sector.

The Cleveland Fed's NowCast Inflation measure indicates December prices could edge slightly higher before seeing relief in 2025. Until then, bond rates will remain elevated, generating budget-strangling interest costs.

The Cleveland Fed's Inflation NowCast measure indicates December prices could edge slightly higher before seeing relief in 2025. Until then, bond rates will remain elevated, generating budget-strangling interest costs.

Within ten years, the Congressional Budget Office (CBO) forecasts the national debt

will exceed \$50 trillion with annual interest payments nearly doubling to \$1.7 trillion (Peterson Institute). By comparison, annual non-defense discretionary spending currently totals around \$930 billion.

The incoming administration has created a Department of Government Efficiency (DOGE) led by Elon Musk and Vivek Ramaswamy. Musk and Ramaswamy have set a seemingly impossible goal of reducing annual spending by \$2 trillion. Assuming mandatory spending programs are untouched (with the exception of reducing perceived waste), achieved efficiencies would come from the discretionary side of spending, where even complete elimination of all federal agencies would barely cut the \$1.8 trillion 2024 fiscal year deficit in half.

Substantial cuts to federal spending would (in theory) slow economic growth, which would (in theory) curtail consumer demand which *should* lower inflation.

The more important takeaway from the December meeting was the updated dot plot which reflected just 50 basis points of expected reductions for both 2025 and 2026.

The Fed

Two days after the November election, the FOMC cut the overnight rate by a quarter point to a range of 4.50% to 4.75%. In the post-meeting press conference, reporters peppered the Fed Chairman with questions related to the Trump Administration's expected agenda and the committee's likely reaction. In response, Powell said election results would have no (immediate) impact on monetary policy, while admitting the incoming administration's implemented actions would likely affect the economy over time, and by extension *future* policy.

Powell did not reply to other election-related questions or a question regarding the Fed's continued independence under the new administration. When asked if he'd resign if asked to leave before his term expired in 2026, Powell was clear in saying "no," adding that a sitting president cannot legally remove a Fed Chairman.

Addressing a question about the recent rise in bond yields, Powell noted that the upward moves were less about rising inflation expectations and more about stronger economic growth. On the rapid increase in the national debt, Powell said it was both "unsustainable" and a "threat to the economy."

As other countries ease monetary policy, U.S. bonds will look more and more attractive to foreign investors, which could put downward pressure on Treasury yields going forward.

Six weeks later, the committee ignored the rebound in November payrolls and the uptick in CPI, cutting the overnight target range by another quarter point to a range of 4.25% to 4.50%. However, the more important takeaway from the December meeting was the updated dot plot which reflected just 50 basis points of expected reductions for both 2025 and 2026. Powell acknowledged that "a great deal of progress" had been made on inflation, but the decision had been a close call. He went on to say that although next year's policy moves would depend on continued labor market strength and the path of inflation, the committee expects further cuts.

Global central banks are on a similar (albeit faster) track. The Bank of Canada cut another 50 bps in December, bringing total reductions to 175 bps in response to soft growth, high unemployment, and an acceptable inflation rate. The European Central Bank also lowered its overnight target rate by 25 bps in December, the fourth cut since June,

pointing to a worsening growth outlook and slowing inflation. As other countries ease monetary policy, U.S. bonds will look more and more attractive to foreign investors, which could put downward pressure on Treasury yields going forward.

The Markets

Trump’s embracing of crypto currency, promises of tax cuts and reduced regulation sparked a post-election equity market rally that sputtered into yearend after Powell signaled a more cautious approach. Despite the late fade, it was still another positive quarter in a year that saw 57 record highs for the S&P 500. Investments in exchange-traded funds (ETFs) increased by over \$1 trillion in 2024, shattering the previous high, while a record \$6.75 trillion in money market funds hints at capacity for further market gains.

The new year brings an unusually high degree of uncertainty, although most economic forecasts seem to be clustered within a cautiously narrow range, highlighting the challenges (and failures) of post-pandemic predicting.

Treasury yields rose during the quarter as inflation warmed, reducing the timing and magnitude of expected rate cuts.

Q4 Interest Rates

		Fed Funds	3 mo. T-bill	12 mo. T-bill	2 yr. T-note	5 yr. T-note	10 yr. T-note
Last	9/30/2024	4.75-5.00%	4.62%	4.00%	3.64%	3.56%	3.78%
High			4.65%	4.40%	4.37%	4.46%	4.63%
Low			4.27%	3.96%	3.60%	3.51%	3.73%
End	12/31/2024	4.25-4.50%	4.31%	4.14%	4.24%	4.38%	4.57%

Source: Federal Reserve, U.S. Department of the Treasury

Fiscal and monetary policy are likely to clash in 2025.

Economic and Interest Rate Outlook

The new year brings an unusually high degree of uncertainty, although most economic forecasts seem to be clustered within a cautiously narrow range, highlighting the challenges (and failures) of post-pandemic predicting.

It’s very unlikely that worse case scenarios play out, but the threat alone should prompt voluntary departures and encourage fewer to enter the United States.

Fed officials have emphasized that the FOMC expects to maintain its easing bias in 2025. A pause at the January meeting is widely-expected, but whether the committee is able to resume its rate cutting campaign in March will depend on several evolving factors.

Reestablishing (and sustaining) the downward path of consumer prices is first priority. Fed officials would like to see a period of moderate GDP growth, while the incoming president would obviously prefer the economy accelerates further. *Fiscal and monetary policy are likely to clash in 2025.*

Tariff and mass deportation concerns are valid. The incoming president has promised tariff action on day one of his administration. Any major tariffs paid by U.S. companies would be quickly passed to consumers in the form of higher prices.

The deportation process would be infinitely more difficult to administer and would take an estimated decade to complete. It's very unlikely that worse case scenarios play out, but the threat alone should prompt voluntary departures and encourage fewer to enter the United States. The unintended consequences will be felt primarily in construction, agriculture and hospitality. According to the American Immigration Council, the construction industry employs the most undocumented immigrants, with roughly 13.7% of its workforce, while agriculture ranks second with around 12.7%.

Labor uncertainty signals more caution in future spending. Low income workers are already under considerable stress. With any pandemic savings long depleted, borrowing has been heavy, and the debt burden has begun to take a toll. Credit card charge-offs of seriously delinquent balances doubled during the first nine months of 2024 (BankRegData), while auto payments delinquent 90 days or more, have increased by 17.4% over the past year (New York Fed). According to Mark Zandi of Moody's Analytics, "High-income households are fine, but the bottom third of US consumers are tapped out." *Not a good recipe for economic growth or political resolve.*

Despite the bifurcation, the overall U.S. economy has been surprisingly resilient; it's global growth that's floundering.

Despite the bifurcation, the overall U.S. economy has been surprisingly resilient; it's global growth that's floundering. Germany, the largest economy in Europe, is expected to contract for the second straight year, while growth in France and Italy, the EU's second and third largest economies, is slowing. GDP growth in the UK was zero in the third quarter, while New Zealand has already slipped into recession.

China, historically a global growth engine, continues to sputter, with 2024 GDP expected below 5% for the first time since 1990 (pandemic years excluded). The Chinese government's capacity to stimulate growth is restricted by excessive debt. *Weakness in the global economy will limit growth in the U.S.*

Short rates reflect the Fed's prevailing monetary policy, but long rates reflect inflation expectations, future economic growth and rising awareness of a massive national debt. The fact that yields on longer maturities have risen sharply signals investors are demanding higher risk premiums.

The fact that yields on longer maturities have risen sharply signals investors are demanding higher risk premiums.

Bond yields *should* move lower in 2025, but the line won't be straight. Extreme uncertainty makes for a murky outlook with a wide range of possible outcomes.

The paper/commentary was prepared by Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.

Hilltop Securities Asset Management is an SEC-registered investment advisor. Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS and HSAM are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP.