



# Economic Outlook

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- Labor market conditions
- Inflation trends

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## Macro Economic Scenarios

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- Recessionary Cuts
- Higher for Longer
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# Current Economic Landscape

# FOMC Meeting — October 29th

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## Policy Action

- *25 basis point rate cut* to target range of 3.75%-4.00%.
- Fed funds Effective Rate: 3.87%.
- Feds current focus is “balance of risks.”

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## Economic Landscape

- Moderate expansion with softening job gains and a slight uptick in unemployment.
- Inflation declining but remains elevated.
- *Limited data due to government shutdown creating additional uncertainty.*

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## Powell Quotes

- A further reduction in the policy rate at the December meeting is not a foregone conclusion... far from it.”
- “We’re going to collect every scrap of data we can find, evaluate it, and think carefully about it.”
- *“There were strongly differing views today.”*

# Labor Market Analysis

The labor market exhibits classic soft-landing characteristics: gradual loosening without sharp deterioration.

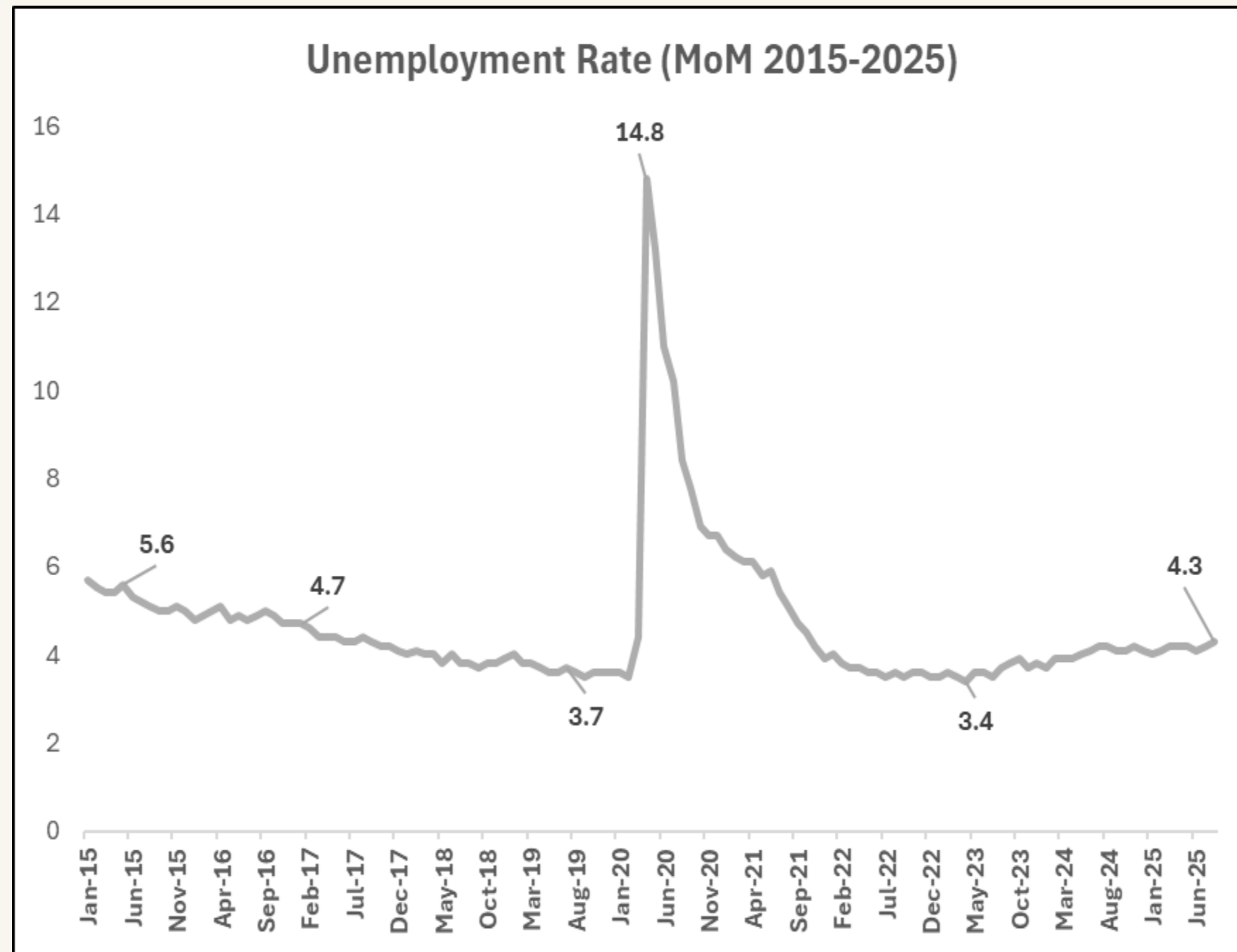
## Current Conditions

- Unemployment Rate: 4.3% (August)
- Month-over-month change: +0.1%
- Employers cut over 153,000 jobs (October)
  - Biggest jump in month of October since 2003 & doubled September numbers
  - Coming from Cost Cutting and AI development

## What This Means

- The labor market is slowly weakening, causing higher unemployment.
- Hiring demand is fading and announced layoffs have surged; labor market is loosening, not tumbling.

# Unemployment Rate (Last decade)



# Inflation Analysis

Core Inflation is above Federal Reserve's Target of 2%, currently sitting at 2.8%. Ticks higher in inflation create less probability for aggressive rate cuts.

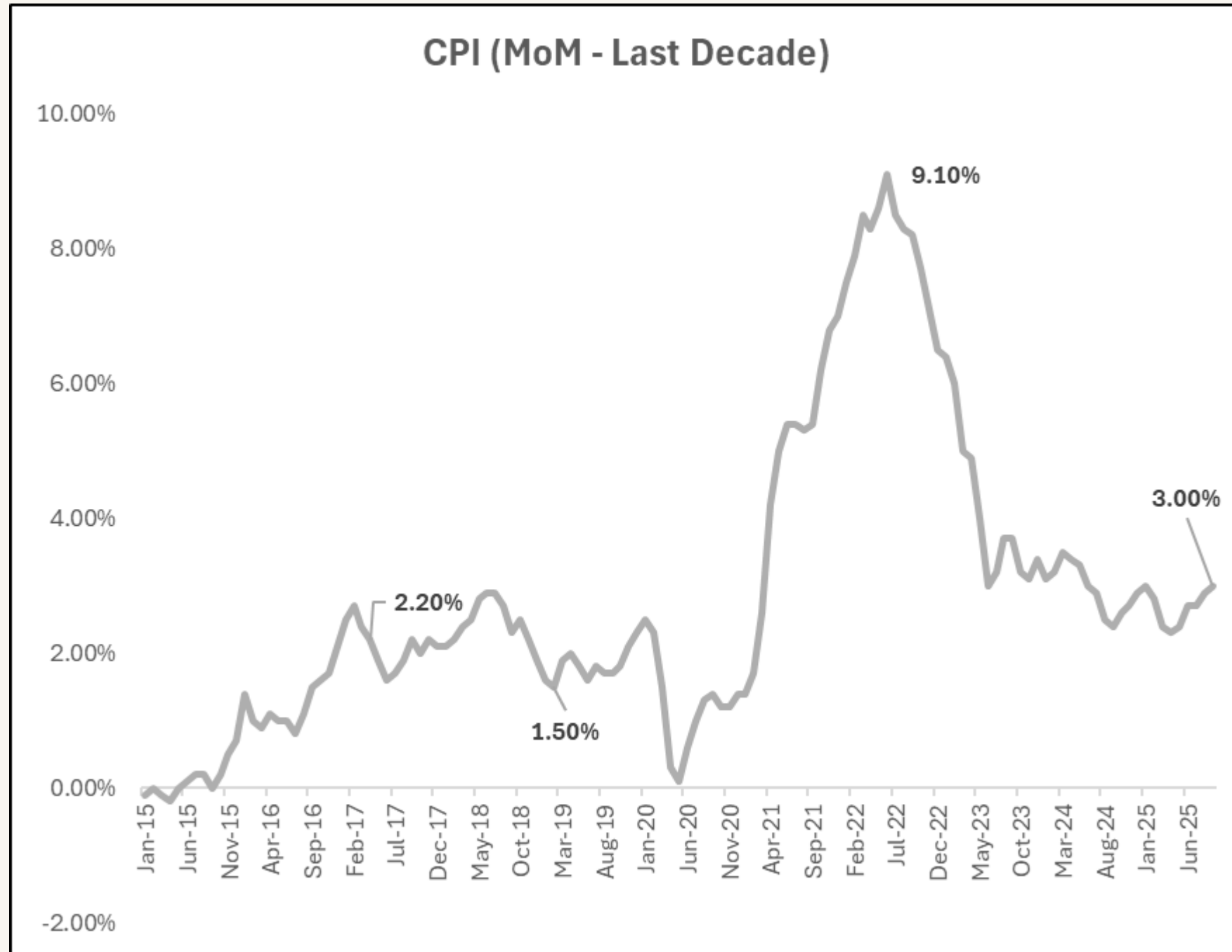
## Current Inflation Data

- PCE Inflation: 2.8% YoY, +.3% rise in September
- CPI Inflation: 3% YoY, .3% rise in September

## What This Means

- Inflation is above Fed's Target making it less attractive for rate cuts
- Inflation is slowing but not slow enough for target of 2%
- **Big Picture: Inflation cooled from last year, but is still rising**

# Inflation Rate (CPI-Last decade)





# Macro-Economic Scenarios

# Scenario 1: Soft Landing (Base Case)

In a soft-landing scenario, inflation slows towards target (2%). Job growth continues at sustainable levels, and unemployment rises modestly. The Fed responds with incremental rate reductions that support economic activity without inflation fears. *This remains the consensus base case.*

## Inflation Path

**Core PCE:**2.2%-2.6%. Gradual cooling as economic slack emerges.

## Labor Market

**Unemployment:** 4.2%-4.6%. Slow drift higher with steady, but moderating, job growth.

## Fed Response

**Fed Funds Rate:**3.25%-4.00%. Series of 25bps cuts supporting economic growth while anchoring inflation expectations.

## Duration Positioning Strategy

**Duration Guardrails:** 4.7-5.0 years | **Rationale:** Extend duration modestly to capture price appreciation from rate cuts while maintaining near -neutral positioning relative to history. This captures the "sweet spot" of fed easing without taking excessive duration risk if the narrative shifts.

# Scenario 2: Recessionary Cuts

A recessionary scenario emerges if the economic weakens faster than expected. Demand drops, unemployment rises sharply, and inflation falls quickly as excess capacity builds. The Fed responds aggressively with rapid rate cuts.

## Inflation Path

**Core PCE:**~2.0%

Falls to target as demand weakens materially and slack builds rapidly.

## Labor Market

**Unemployment:** 5.0%-6.0%

Sharp increases with hiring freezes and deteriorating labor demand.

## Fed Response

**Fed Funds Rate:**2.5%-3.0%

Aggressive rate cuts supporting employment objectives.

## Duration Positioning Strategy

**Duration Guardrails:** 5.2-6.0 years | **Rationale:** Significantly extend duration to capture the substantial price gains from a cutting cycle. Longer -dated bonds perform best when recession fears spike and safehaven flows accelerate.

# Scenario 3: Higher for Longer / Rate Hikes

In this scenario, inflation stays higher for longer while the economy remains strong. The Fed stays sidelined and waits for more data to help create decision with a possibility of hiking rates.

## Inflation Path

**Core PCE:**3.0%-3.5%. Inflation remains well above target; disinflationary momentum stalls or reverses.

## Labor Market

**Unemployment:** 3.7%-4.3%. Labor market remains strong with steady hiring and wage pressure.

## Fed Response

**Fed Funds Rate:**4.5%-5.5%. No cuts; potential for additional hikes if inflation re-accelerates.

## Duration Positioning Strategy

**Duration Guardrails:** 4.0-4.7 years | **Rationale:** Reduce duration risk given higher-for-longer rate environment. Shorter duration protects against further price depreciation if rates remain elevated or rise further.

# Scenario 4: No Rate Cuts "Uncertainty"

The Fed holds rates steady while inflation slowly eases but stays above 2% target, hovering around. The labor market remains stable at current levels. The Fed waits for more data before making a decision. This is the cautious "uncertain" play.

## Inflation Path

**Core PCE:** 2.5%-2.9%. Cools from current levels but remains above Fed target; progress stalls.

## Labor Market

**Unemployment:** 4.1%-4.5%. Steady conditions; no significant deterioration or improvement.

## Fed Response

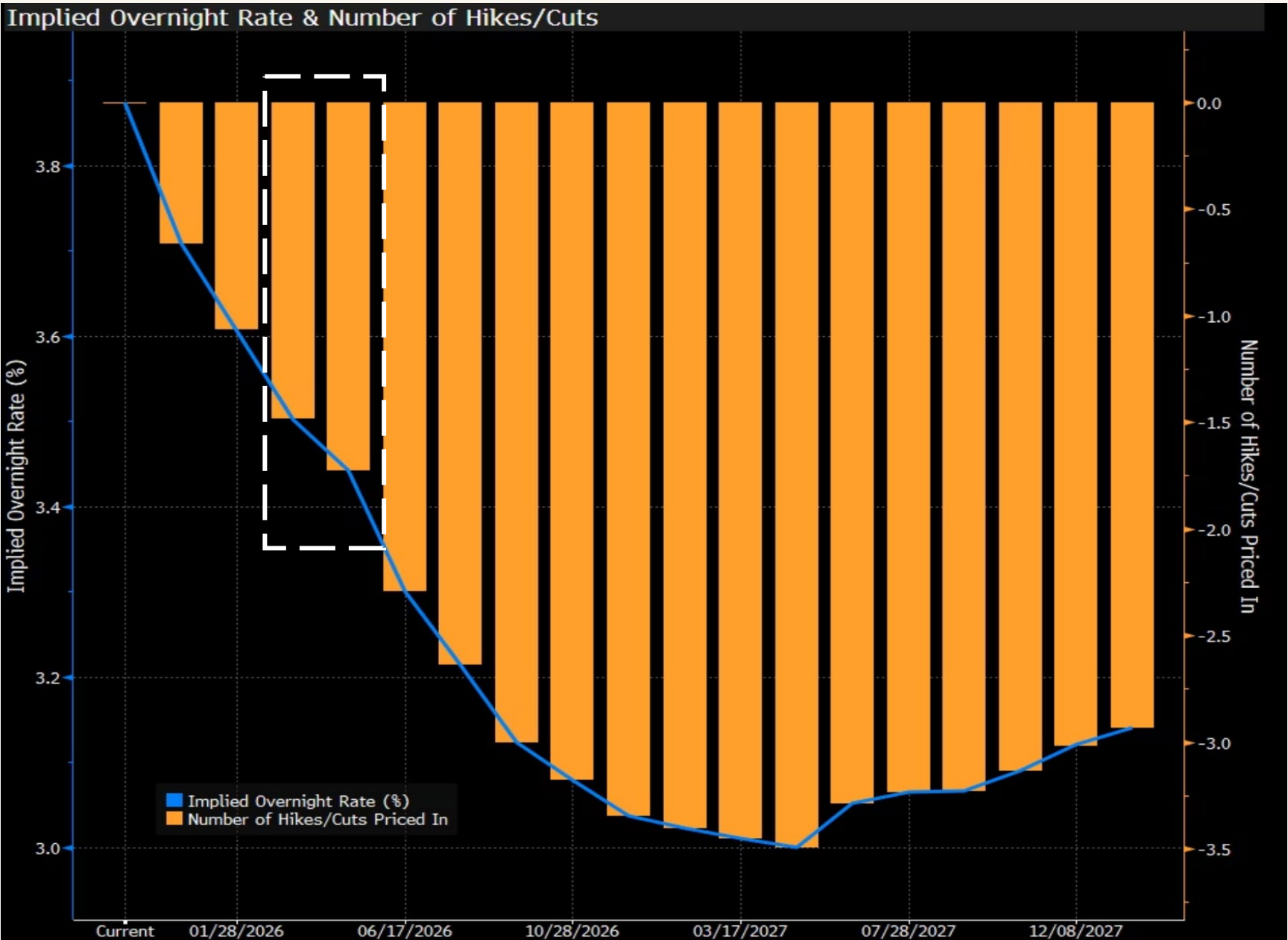
**Fed Funds Rate:** 3.75%-4.00%. Rates unchanged; Fed maintains "wait and see" posture pending additional data.

## Duration Positioning Strategy

**Duration Guardrails:** 4.4-4.8 years | **Rationale:** Maintain benchmark -neutral positioning. Neither material cuts nor hikes materialize, supporting a duration stance close to index levels and market consensus.

# WIRP Analysis

# Market Pricing: WIRP Analysis



April 2026

- Implied Fed Funds Rate: 3.5%
- Priced in Cuts/Hikes: -1.5

# Discussion and Vote

<p><u>Soft Landing</u></p> <p>Inflation gradually slows, unemployment continues to rise, and Fed Responds with passive rate cuts.</p> <ul style="list-style-type: none"><li>• Duration Guardrails: 4.7-5.2 years</li></ul>	<p><u>Recessionary Cuts</u></p> <p>Inflation sharply slows and labor market weakens. Fed Responds with aggressive cuts.</p> <ul style="list-style-type: none"><li>• Duration Guardrails: 5.2-6.0 years</li></ul>	<p><u>Higher for Longer</u></p> <p>Inflation rises sharply and unemployment remains under control. The Fed responds with sitting on hands or raises rates.</p> <ul style="list-style-type: none"><li>• Duration Guardrails: 4.0-4.5 years</li></ul>	<p><u>No Rate Cuts</u></p> <p>Inflation stays above target and labor market remains at current levels. Fed waits for more data to make decision. “Uncertainty.”</p> <ul style="list-style-type: none"><li>• Duration Guardrails: 4.4-4.8 years</li></ul>
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