

# Bond Market Review

January 22, 2024

## Summary

- The positive momentum continued for investment grade corporates as a busy primary calendar failed to meet the market's appetite for bonds. Almost all the mid-major banks brought new issues and reported earnings with most reports being strong enough keep spreads stable to slightly tighter. The recent rally for corporates is even more impressive in the context of other markets as Treasury yields increased, agency mortgage-backed securities produced negative excess returns, and high yield spreads widened.
- It was a challenging week for tax-exempt municipals as rising Treasury yields, increased supply, and compressed valuations drove AAA-rated yields higher across the curve. Despite the weakness, demand still exists for short-term bonds, long-term bonds and lower quality credits as investors focus on segments that offer the highest yields. Year-to-date performance for the ICE BofA 1-10 Year Municipal Securities Index is -0.56% with BBB-rated bonds outperforming AAA-rated bonds by 17 basis points.

### Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	4.84	0.08	0.08
2 Year	4.38	0.13	0.13
5 Year	4.05	0.20	0.20
10 Year	4.12	0.24	0.24
30 Year	4.33	0.30	0.30

## Taxable

### Spreads Could Stay Tight

- While the recent outperformance leaves the corporate sector vulnerable to short-term weakness, credit spreads could remain tight relative to historical levels as economic growth remains positive, inflation continues to fall, and higher yields may attract inflows to the sector. In addition, the duration of the index has declined as yields increased, dollar prices remain below par, and credit ratings have improved.

### High Yield Spreads Slightly Wider

- It was a relatively quiet week in the high yield market although spreads ended the week 3 basis points wider at 355 basis points largely due to a 22 basis point increase in the 5-year Treasury yield. There was minimal dispersion in returns across the credit quality spectrum and the difference between BB and BBB-rated bonds increased by 1 basis point to 101.

### Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Tax-Equivalent Spread (bps)	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	2.97	0.30	0.30	4.57	-26.63	61.42	5.33	5.33
2 Year	2.83	0.31	0.31	4.35	-3.83	64.43	5.14	5.14
5 Year	2.48	0.20	0.20	3.82	-23.07	61.30	2.08	2.08
10 Year	2.52	0.24	0.24	3.87	-25.34	61.01	2.24	2.24
30 Year	3.63	0.21	0.21	5.59	125.92	83.91	-0.95	-0.95

## Tax-Free

### S&P Issues Stable Outlook for State and Local Governments

- S&P recently released their outlook for the state and local government sector for 2024 stating the sector remains stable for the foreseeable future despite a modestly rising tide of headwinds such as slower economic growth, elevated, though declining inflation levels, and softening revenues. S&P's lead analyst called the sector "resilient, but fiscal 2025 budget discussions will likely center on managing increasing costs, waning federal support, and changes in tax policy potentially further straining revenues."

### New York City Releases Preliminary Budget

- New York City's Eric Adams released a preliminary \$109.4B budget proposal for fiscal year 2025. The budget does not include the use of rainy-day reserves as tax revenues have been more robust than expected although the city continues to struggle with housing costs for migrants. The city also benefitted from a city-wide hiring freeze implemented to combat the projected budget gap that existed in the middle of calendar 2023.

# Bond Market Review

January 22, 2024

International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.74	0.03	4.32	3.29	3.2	2.92	3.05
5 Year	2.28	0.25	3.85	2.61	3.3	2.90	2.85
10 Year	2.34	0.66	3.93	2.83	3.88	3.25	3.37
30 Year	2.49	1.78	4.57	3.32	4.5	3.87	3.74

Sectors <sup>1</sup>						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	95	-4	-4	163	95
▪ Financial	5	109	-3	-3	188	109
▪ Industrial	8	86	-4	-4	151	86
▪ Utility	9	100	-5	-5	154	100
High Yield	3	338	15	15	516	312
Securitized	6	51	0	0	85	41
▪ Commercial Mortgage-Backed Securities	4	119	-7	-7	143	100
▪ Asset-Backed Securities	3	63	-5	-5	86	51
▪ Mortgage-Backed Securities	6	47	0	0	82	36

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	37,863.80	174.26	174.26
S&P 500	4,839.81	69.98	69.98
Nasdaq	15,310.97	299.62	299.62

Volatility			
	Current	Δ MTD	Δ YTD
VIX	13.30	0.85	0.85
MOVE	104.97	-9.65	-9.65

Commodities			
	Current	Δ MTD	Δ YTD
CRB	265.38	1.55	1.55
Gold	2048.60	-23.20	-23.20
Oil	73.41	1.76	1.76
Gas	216.28	5.65	5.65

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	103.29	1.96	1.96
Euro	1.09	-0.01	-0.01
Pound	1.27	0.00	0.00
Yen	148.12	7.23	7.23
Canadian Dollar	1.34	0.02	0.02
Franc	0.87	0.03	0.03

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	5.50	0.00	0.00
Europe	4.50	0.00	0.00
United Kingdom	5.25	0.00	0.00
Japan	0.10	0.00	0.00
Canada	5.00	0.00	0.00
TED Spread	24.17	-1.90	-1.90

Data is as of 01.19.2024. Source: Bloomberg L.P. Please refer to pages 3 for important definitions and disclosures.

<sup>1</sup>Sectors are represented by the following indices: Investment Grade Corporate = Bloomberg U.S. Corporate Bond; Financial = Bloomberg U.S. Aggregate Investment Grade Finance; Industrial = Bloomberg U.S. Aggregate Investment Grade Industrial; Utility = Bloomberg U.S. Investment Grade Utility; High Yield = Bloomberg U.S. Corporate High Yield; Securitized = Bloomberg U.S. Securitized; Commercial Mortgage-Backed Securities = Bloomberg U.S. Aggregate CMBS; Asset-Backed Securities = Bloomberg U.S. Aggregate ABS; Mortgage-Backed Securities = Bloomberg U.S. Aggregate MBS.



# Important Information

## Disclosures, Technical Terms & Indices

**Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Economic charts are provided for illustrative purposes only. The information provided herein is subject to market conditions and is therefore expected to fluctuate.**

The opinions contained in this presentation reflect those of Sterling Capital Management LLC, and not those of Truist Financial Corporation or its executives. The stated opinions are for general information only and are educational in nature. These opinions are not meant to be predictions or an offer of individual or personalized investment advice. They are not intended as an offer or solicitation with respect to the purchase or sale of any security. This information and these opinions are subject to change without notice. All opinions and information herein have been obtained or derived from sources believed to be reliable. Sterling Capital Management LLC does not assume liability for any loss which may result from the reliance by any person upon such information or opinions.

Investment advisory services are available through Sterling Capital Management LLC, an investment adviser registered with the U.S. Securities & Exchange Commission and an independently-operated subsidiary of Truist Financial Corporation. Sterling Capital Management LLC manages customized investment portfolios, provides asset allocation analysis and offers other investment-related services to affluent individuals and businesses. Securities and other investments held in investment management or investment advisory accounts at Sterling Capital Management LLC are not deposits or other obligations of Truist Financial Corporation, Truist Bank or any affiliate, are not guaranteed by Truist Bank or any other bank, are not insured by the FDIC or any other federal government agency, and are subject to investment risk, including possible loss of principal invested.

Sterling Capital does not provide tax or legal advice. You should consult with your individual tax or legal professional before taking any action that may have tax or legal implications.

Specific securities identified and described do not represent all of the securities purchased, sold or recommended to clients. There are no assurances that securities identified will be profitable investments. The securities described are neither a recommendation nor a solicitation. Security information is being obtained from resources the firm believes to be accurate, but no warrant is made as to the accuracy or completeness of the information.

Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied upon for, accounting, legal or tax advice. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

### Technical Terms

**Debt Ceiling X-Date:** When the government might actually default if the limit on federal borrowing is not lifted. The x-date could be reached as early as June 2023, depending on how much money the IRS collects in April from people filing their taxes.

**Duration:** a tool used in assessing the price volatility of a fixed-income security

**Mid-Major Banks:** The largest of all the mid-sized banks, with assets between \$50 billion and \$250 billion.

**Municipal/Treasury Ratio:** a comparison of the current yield of municipal bonds to U.S. Treasuries

**Non-farm payroll** measures the number of workers in the U.S. except those in farming, private households, proprietors, non-profit employees, and active military.

**Rich Valuation** refers to a security that is priced above expected levels without a logical explanation. The term is applicable to the valuation of any asset, but it is most used with reference to stock valuations.

**Tax-Equivalent Yield:** the return that is required on a taxable investment to make it equal to the return on a tax-exempt investment

**TED Spread:** the difference between the three-month Treasury bill and the three-month LIBOR based in U.S. dollars

**Urban Institute** is a Washington, D.C.-based think tank that conducts economic and social policy research to "open minds, shape decisions, and offer solutions". **Yield:** income-only return on investment expressed as an annual percentage

**Yield Spread:** the difference between the quoted rates of return between two different investment vehicles; also called the credit spread

**Yield-To-Worst:** Is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting. It is a type of yield that is referenced when a bond has provisions that would allow the issuer to close it out before it matures.

**The volatility of an index varies greatly. All indices are unmanaged, and investments cannot be made directly in an index.**

**The Consumer Price Index (CPI)** is a measure of the average change overtime in the prices paid by urban consumers for a market basket of consumer goods and services.

**Dow Jones Industrial Average (DJIA)** an index that tracks 30 large, publicly-owned blue-chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

**The ICE BofA MOVE Index** is a well-recognized measure of U.S. interest rate volatility that tracks the movement in U.S. Treasury yield volatility implied by current prices of one-month over-the-counter options on 2-year, 5-year, 10-year and 30-year Treasuries.

**The Nasdaq Composite Index** the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depository receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.

**The ICE BofA 1-10 Year Municipal Securities Index** is a subset of the ICE BofA U.S. Municipal Securities Index including all securities with a remaining term to final maturity less than 10 years.

**The S&P 500® Index** is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

**The SIFMA Municipal Swap Index** is a 7-day high-grade market index comprised of tax-exempt VRDOs reset rates that are reported to the Municipal Securities Rule Making Board's (MSRB's) SHORT reporting system.

**The CBOE Volatility Index**, or VIX, is a real-time market index representing the market's expectations for volatility over the coming 30 days.

**Bloomberg L.P. Information:** "Bloomberg®" and the Bloomberg indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Sterling Capital Management LLC and its affiliates. Bloomberg is not affiliated with Sterling Capital Management LLC or its affiliates, and Bloomberg does not approve, endorse, review, or recommend the product(s) presented herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the product(s) presented herein.

**The Bloomberg U.S. Corporate Index** covers performance for United States corporate bonds. This index serves as an important benchmark for portfolios that include exposure to investment grade corporate bonds.

**The Bloomberg 1-3 Year U.S. Aggregate Bond Index** is the 1-3 year component of the U.S. Aggregate Index. The Bloomberg U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass through securities, and asset-backed securities.

