

Bond Market Review

October 21, 2024

Summary

- Economic data once again surprised to the upside as retail sales exceeded analysts' expectations by a wide margin last week. Despite restrictive monetary policy and election uncertainty, consumer spending remains resilient and calls for an economic slowdown are being pushed into 2025. Over the next two weeks, bond market action will likely be focused on the election with emphasis on how potentially higher deficits, trade and immigration policies impact growth and inflation.

| Treasury Yields | | | |
|-----------------|----------------|-------|-------|
| Term | Treasury Yield | Δ MTD | Δ YTD |
| 3 Month | 4.63 | 0.01 | -0.70 |
| 6 Month | 4.44 | 0.04 | -0.81 |
| 1 Year | 4.18 | 0.18 | -0.58 |
| 2 Year | 3.95 | 0.31 | -0.30 |
| 5 Year | 3.88 | 0.32 | 0.03 |
| 10 Year | 4.08 | 0.30 | 0.20 |
| 30 Year | 4.39 | 0.27 | 0.36 |

Taxable

Corporate Spreads Reach Multi-Year Lows

- We continue to break barriers in the Investment Grade Corporate market as spreads tightened to 79 basis points (bps) which is the tightest level since 2005. Issuer fundamentals, market technicals and foreign buying all remain supportive and helping to drive the market tighter. Our outlook for the sector remains constructive near-term, however, valuations are very tight thus we believe the upside potential is more limited in our view.

Lower Quality Drives High Yield

- The high yield market ground tighter last week with spreads ending Thursday 10 bps tighter at 289 bps and matching the year-to-date low. The positive tone was helped by reassuring economic data that reaffirmed resilience in the economy, including a slightly higher than expected Consumer Price Index (CPI) report and stronger September retail sales. The five-year Treasury yield was slightly lower amid some steepening in the curve, leaving all-in yields for the high yield sector lower on the week. Returns continue to favor lower-rated segments of the market as the year-to-date total return for CCC-rated bonds is more than 16%.

Municipal Yields

| Term | Municipal Yield | Δ MTD | Δ YTD | Tax-Equivalent Yield | Tax-Equivalent Spread (bps) | Muni/Treasury Ratio (%) | Δ MTD | Δ YTD |
|---------|-----------------|-------|-------|----------------------|-----------------------------|-------------------------|-------|-------|
| 1 Year | 2.75 | 0.24 | 0.08 | 4.23 | 4.92 | 65.76 | 2.92 | 9.67 |
| 2 Year | 2.50 | 0.11 | -0.02 | 3.84 | -10.83 | 63.22 | -2.34 | 3.92 |
| 5 Year | 2.48 | 0.10 | 0.20 | 3.81 | -7.04 | 63.82 | -2.81 | 4.60 |
| 10 Year | 2.74 | 0.11 | 0.46 | 4.21 | 12.49 | 66.99 | -2.57 | 8.23 |
| 30 Year | 3.65 | 0.10 | 0.23 | 5.61 | 121.68 | 83.01 | -3.18 | -1.86 |

Tax-Free

Munis Stable Despite Volatility

- The municipal market outperformed Treasuries with the AAA-rated curve unchanged out to 10-years and 2-3 bps lower yields on the long-end. The outperformance comes despite a surge in new issuance as issuers seek to lock-in funding ahead of any post-election volatility. Buyers remain comfortable committing to the asset class due to its high credit quality, as a hedge against the potential for higher tax rates, and attractive yield levels in our opinion.

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| International Yields | | | | | | | |
|----------------------|---------|-------|------|--------|-------|-------|--------|
| | Germany | Japan | U.K. | France | Italy | Spain | Greece |
| 2 Year | 2.11 | 0.44 | 4.00 | 2.30 | 2.5 | 2.36 | 2.02 |
| 5 Year | 2.02 | 0.58 | 3.91 | 2.46 | 2.7 | 2.41 | 2.38 |
| 10 Year | 2.18 | 0.96 | 4.06 | 2.90 | 3.36 | 2.87 | 3.03 |
| 30 Year | 2.50 | 2.18 | 4.59 | 3.52 | 4.0 | 3.63 | 3.88 |

| Sectors ¹ | | | | | | | |
|---|----------|--------|-------|-------|--------------|-------------|--|
| | Duration | Spread | Δ MTD | Δ YTD | 52-Week High | 52-Week Low | |
| Investment Grade Corporate | 7 | 81 | -8 | -18 | 130 | 79 | |
| ▪ Financial | 5 | 83 | -7 | -29 | 153 | 81 | |
| ▪ Industrial | 8 | 80 | -7 | -10 | 117 | 78 | |
| ▪ Utility | 9 | 84 | -8 | -21 | 130 | 82 | |
| High Yield | 3 | 286 | -9 | -37 | 438 | 284 | |
| Securitized | 6 | 46 | 0 | -5 | 85 | 41 | |
| ▪ Commercial Mortgage-Backed Securities | 4 | 92 | -1 | -34 | 141 | 92 | |
| ▪ Asset-Backed Securities | 3 | 59 | -5 | -9 | 85 | 50 | |
| ▪ Mortgage-Backed Securities | 6 | 43 | 1 | -4 | 82 | 37 | |

| Equity | | | |
|-----------|-----------|--------|---------|
| | Current | Δ MTD | Δ YTD |
| Dow Jones | 43,275.91 | 945.76 | 5586.37 |
| S&P 500 | 5,864.67 | 102.19 | 1094.84 |
| Nasdaq | 18,489.55 | 300.38 | 3478.20 |

| Volatility | | | |
|------------|---------|-------|-------|
| | Current | Δ MTD | Δ YTD |
| VIX | 18.03 | 1.30 | 5.58 |
| MOVE | 123.13 | 28.52 | 8.51 |

| Commodities | | | |
|-------------|---------|-------|--------|
| | Current | Δ MTD | Δ YTD |
| CRB | 279.55 | -5.39 | 15.72 |
| Gold | 2730.00 | 70.60 | 658.20 |
| Oil | 69.22 | 1.05 | -2.43 |
| Gas | 200.20 | 6.69 | -10.43 |

| Currency | | | |
|-----------------|---------|-------|-------|
| | Current | Δ MTD | Δ YTD |
| U.S. Dollar | 103.49 | 2.71 | 2.16 |
| Euro | 1.09 | -0.03 | -0.01 |
| Pound | 1.31 | -0.03 | 0.04 |
| Yen | 149.53 | 5.90 | 8.64 |
| Canadian Dollar | 1.38 | 0.03 | 0.06 |
| Franc | 0.86 | 0.02 | 0.02 |

| Central Bank Rates | | | |
|--------------------|---------|-------|-------|
| | Current | Δ MTD | Δ YTD |
| United States | 5.00 | 0.00 | -0.50 |
| Europe | 3.40 | -0.25 | -1.10 |
| United Kingdom | 5.00 | 0.00 | -0.25 |
| Japan | 0.25 | 0.00 | 0.15 |
| Canada | 4.25 | 0.00 | -0.75 |

Data is as of 10.18.2024. Source: Bloomberg L.P. Please refer to page 3 for important definitions and disclosures.

¹Sectors 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.



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Technical Terms: **Duration:** a tool used in assessing the price volatility of a fixed-income security. **Gross Domestic Product (GDP)** A comprehensive measure of U.S. economic activity. GDP measures the value of the final goods and services produced in the United States (without double counting the intermediate goods and services used up to produce them). **Municipal/Treasury Ratio:** a comparison of the current yield of municipal bonds to U.S. Treasuries. **Non-farm payroll** refers to the number of jobs in the private sector and government agencies. It excludes farm workers, private household employees, proprietors, non-profit employees, and actively serving military. **Option-Adjusted Spread (OAS)** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is then adjusted to consider an embedded option. Typically, an analyst uses Treasury yields for the risk-free rate. The spread is added to the fixed-income security price to make the risk-free bond price the same as the bond. **Personal consumption expenditures (PCE)** is the primary measure of consumer spending on goods and services in the U.S. economy. **Tax-Equivalent Spread** is the spread needed on a taxable bond to produce the same yield as a municipal bond. **Tax-Equivalent Yield:** the return that is required on a taxable investment to make it equal to the return on a tax-exempt investment. **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 **Commodity Research Bureau Index (CRB)** comprises a basket of 19 commodities, with 39% allocated to energy contracts, 41% to agriculture, 7% to precious metals, and 13% to industrial metals. The CRB is designed to isolate and reveal the directional movement of prices in overall commodity trades. 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 depositary 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 1-10Y 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 CBOE Volatility Index**, or VIX, is a real-time market index representing the market's expectations for volatility over the coming 30 days. **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. **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.



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