

# Bond Market Review

October 28, 2024

## Summary

- Treasury yields continued to climb last week with the 10-year yield reaching 4.25%, 63 basis points (bps) higher than the September low, as stronger economic data and election-related fiscal policy concerns pressured yields higher. Several key economic indicators are scheduled for release this week, including Q3 Gross Domestic Product (GDP), September Core Personal Consumption Expenditures (PCE), and October Non-Farm Payrolls report. Any weakness will likely be attributed to the recent hurricanes as well as worker strikes at Boeing.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	4.63	0.02	-0.70
6 Month	4.52	0.11	-0.73
1 Year	4.30	0.29	-0.47
2 Year	4.10	0.46	-0.15
5 Year	4.06	0.50	0.21
10 Year	4.24	0.46	0.36
30 Year	4.50	0.38	0.47

## Taxable

### Spreads Widen on Valuation Concerns

- Investment grade corporate spreads widened 3 bps as investors pushed back against compressed valuations despite a relatively light new issue calendar. Aside from general valuation fatigue, it appears the recent move higher in inflation expectations, ensuing increase in Treasury yields, and modest sell-off in equities weighed on sentiment as well in our opinion. Inflows into the sector slowed, offsetting some of the positive impact of lower supply.

### High Yield Slightly Weaker

- The high yield corporate market softened slightly with spreads ending Thursday 4 bps wider to 293 bps, just wide of the year-to-date low of 289 bps. We believe the slightly weaker performance is likely attributed to expectations that the Federal Reserve (Fed) will take a more conservative approach to rate cuts and a heavier supply week. The 5-year Treasury yield was 10 bps wider on the week, pushing all-in yields 0.13% higher to 7.22%. The ICE BofA High Yield Master II Index posted total return of -0.36%, with excess return of -0.08%.

## 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	2.85	0.34	0.18	4.39	9.27	66.40	3.56	10.31
2 Year	2.66	0.27	0.14	4.09	-1.54	64.76	-0.80	5.46
5 Year	2.70	0.33	0.42	4.15	8.61	66.38	-0.25	7.16
10 Year	3.01	0.38	0.73	4.63	38.63	70.92	1.36	12.16
30 Year	3.85	0.30	0.43	5.92	142.51	85.59	-0.60	0.72

## Tax-Free

### Volatility Hits the Muni Market

- It was a difficult week for the municipal market as yields increased sharply early in the week before rallying back somewhat to close the week. Heavy new issue supply and compressed valuations helped drive yields 18-20 bps higher and muni-to-Treasury ratios back to 70% in 10-years.

### West Coast Ports Busy Ahead of Election

- West coast ports are booming in part from the short-term impact of the east coast longshoremen's strike, but also from a rush by businesses to import goods before expected likely higher tariffs on a potential Trump win. The Port of Los Angeles recorded its largest September ever, handling 955,000 container units. Should Trump win the election, we believe this trend could very likely stay in place through the inauguration.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.12	0.46	4.17	2.35	2.6	2.41	2.06
5 Year	2.12	0.61	4.10	2.57	2.9	2.53	2.49
10 Year	2.29	0.98	4.23	3.05	3.51	3.00	3.18
30 Year	2.60	2.23	4.74	3.65	4.2	3.74	3.99

Sectors <sup>1</sup>							
	Duration	Spread	Δ MTD	Δ YTD	52-Week High	52-Week Low	
Investment Grade Corporate	7	82	-7	-17	130	79	
▪ Financial	5	84	-6	-28	152	81	
▪ Industrial	8	81	-6	-9	117	78	
▪ Utility	8	85	-7	-20	130	82	
High Yield	3	285	-10	-38	438	283	
Securitized	6	50	4	-1	81	41	
▪ Commercial Mortgage-Backed Securities	4	91	-2	-35	141	91	
▪ Asset-Backed Securities	3	58	-6	-10	85	50	
▪ Mortgage-Backed Securities	6	48	6	1	77	37	

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	42,114.40	-215.75	4424.86
S&P 500	5,808.12	45.64	1038.29
Nasdaq	18,518.61	329.44	3507.26

Volatility			
	Current	Δ MTD	Δ YTD
VIX	20.33	3.60	7.88
MOVE	128.40	33.79	13.78

Commodities			
	Current	Δ MTD	Δ YTD
CRB	284.68	-0.26	20.85
Gold	2754.60	95.20	682.80
Oil	71.78	3.61	0.13
Gas	207.85	14.34	-2.78

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	104.26	3.48	2.93
Euro	1.08	-0.03	-0.02
Pound	1.30	-0.04	0.03
Yen	152.31	8.68	11.42
Canadian Dollar	1.39	0.04	0.07
Franc	0.87	0.02	0.03

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	3.75	-0.50	-1.25

Data is as of 10.25.2024. Source: Bloomberg L.P. Please refer to page 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

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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. **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 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 1-10Y 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 ICE BofA High Yield Master II Index** tracks the performance of U.S. Dollar-denominated below investment-grade corporate debt publicly issued in the U.S. domestic market. **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.