

Bond Market Review

October 6, 2025

Summary

- The government shutdown is entering its second week which in our view, makes the possibility of a quick resolution not sound likely. The pressure on lawmakers will likely increase when federal employees fail to receive paychecks around the middle of the month but for now it is largely considered a political story. If the shutdown is resolved relatively quickly, we believe the economic impact will be minimal, however, if it drags on and permanent layoffs occur, the impact will be more significant in our opinion. In the meantime, market participants may be likely to pay more attention to alternative economic data sources as government data releases continue to be delayed.

Taxable

Technical Drives Corporates

- The government shutdown commenced on Tuesday and it was met largely with indifference in the investment grade corporate market. Technicals remain supportive and became more supportive last week as supply declined and retail inflows picked up again. Otherwise, broader themes were limited outside of slightly wider spreads for some consumer finance names.

High Yield Spreads Slightly Wider

- Similar to investment grade, the shutdown had no discernable impact on high yield as spreads widened five bps and is trading just 22 bps wider than the February lows. Excess returns were mildly negative but total returns remain positive thanks to lower Treasury yields. The weaker Job Offer and Labor Turnover Survey report was a mild negative for the market, but overall resilience continues to be a primary theme in our view.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	3.95	0.02	-0.36
6 Month	3.82	-0.01	-0.44
1 Year	3.63	0.02	-0.51
2 Year	3.58	-0.03	-0.67
5 Year	3.71	-0.03	-0.67
10 Year	4.12	-0.03	-0.45
30 Year	4.71	-0.02	-0.07

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	2.31	0.01	-0.66	3.55	-8.01	63.57	-0.09	-8.07
2 Year	2.27	0.01	-0.55	3.50	-7.90	63.56	0.76	-2.92
5 Year	2.30	-0.01	-0.60	3.54	-17.18	61.99	0.22	-4.23
10 Year	2.90	-0.02	-0.23	4.46	34.23	70.40	0.00	1.94
30 Year	4.27	-0.03	0.39	6.56	185.01	90.53	-0.26	9.50

Tax-Free

Munis Lag Treasuries as Flattening Continues

- The two-30-year AAA-rated municipal curve flattened another nine bps last week as two-year yields increased four bps while 30-year yields declined by five bps. The pressure on short-term bonds occurred despite a rally in Treasuries which leaves relative value ratios closer to three-month averages. Heavy new issue supply is the likely driver of the weakness in our opinion, as investors sell short-term bonds to fund purchases of longer new issues.

Supply Set to Outpace 2024's Total

- With municipal year-to-date issuance at \$426B through September and \$58B in visible supply for October in front of us, the Muni market looks well positioned to eclipse last year's \$510B issuance record even if supply falls below last year's levels in November and December.

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International Yields								
	Canada	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.45	2.02	0.91	3.97	2.25	2.2	2.09	2.03
5 Year	2.73	2.30	1.20	4.12	2.81	2.7	2.49	2.63
10 Year	3.19	2.70	1.69	4.69	3.51	3.51	3.23	3.36
30 Year	3.67	3.27	3.31	5.50	4.33	4.4	4.06	4.24

Sectors ¹							
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low	
Investment Grade Corporate	6.96	73	-1	-7	119	72	
▪ Financial	5.43	73	-1	-9	122	73	
▪ Industrial	7.60	71	-1	-7	116	70	
▪ Utility	8.19	81	0	-1	119	78	
High Yield	2.86	268	1	-19	453	253	
Securitized	5.63	31	-2	-14	52	28	
▪ Commercial Mortgage-Backed Securities	3.88	75	0	-5	101	75	
▪ Asset-Backed Securities	2.78	50	1	6	75	42	
▪ Mortgage-Backed Securities	5.78	28	-3	-15	49	25	

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	46,758.28	360.39	4214.06
S&P 500	6,715.79	27.33	834.16
Nasdaq	22,780.51	120.50	3469.72

Volatility			
	Current	Δ MTD	Δ YTD
VIX	16.65	0.37	-0.70
MOVE	69.53	-8.40	-29.27

Commodities			
	Current	Δ MTD	Δ YTD
CRB	299.36	-1.24	2.64
Gold	3908.90	35.70	1267.90
Oil	60.88	-1.49	-10.84
Gas	186.05	-6.18	-14.87

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	97.72	-0.05	-10.76
Euro	1.17	0.00	0.14
Pound	1.35	0.00	0.10
Yen	147.47	-0.43	-9.77
Canadian Dollar	1.40	0.00	-0.04
Franc	0.80	0.00	-0.11

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	4.25	0.00	-0.25
Europe	2.15	0.00	-1.00
United Kingdom	4.00	0.00	-0.75
Japan	0.50	0.00	0.25
Canada	2.50	0.00	-0.75

Data is as of 10.06.2025. 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). The **federal funds rate** is the interest rate at which depository institutions (mainly banks) lend reserve balances to other depository institutions overnight on an uncollateralized basis. In simpler terms, it's the rate banks charge each other for short-term loans to meet their reserve requirements. **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 take into account 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 **Job Openings and Labor Turnover Survey (JOLTS)** program provides information on labor demand and turnover, and covers all private nonfarm establishments.

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. **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 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 Bloomberg U.S. Agg Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. **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 Volatility Index (VIX)** is the annualized implied volatility of a hypothetical S&P 500 stock option with 30 days to expiration. **The Producer Price Index (PPI)** is a series of indexes from the U.S. Bureau of Labor Statistics (BLS) that measures the average change over time in the selling prices received by domestic producers for their output. The **Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. **The ICE BofA 1-10 Year Index** is a performance benchmark for a broad segment of the U.S. fixed-income market, encompassing U.S. government, corporate, and agency debt securities with remaining maturities between one and ten years. **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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