

# Bond Market Review

November 18, 2024

## Summary

### Near-Term Positive But Longer-Term Uncertain

- The near-term macro outlook remains positive as election-related concerns clear and the economy appears to continue to grow above trend. However, in our view the longer-term outlook is uncertain as the Federal Reserve (Fed) is likely to pause rate cuts sooner than anticipated and the magnitude of Trump's primary policies is unknown. In addition, the progress on inflation appears to have stalled above the Fed's 2% target prior to a potentially inflationary fiscal agenda being implemented.

## Taxable

### Spreads Soften After Election Rally

- Spreads softened up after the post-election rally for a number of reasons. First, valuations compressed to levels not seen in 25 years which must be something of an impediment as investors determine which way we go from here we believe. Second, supply increased significantly, with about \$50B in new bonds issued last week. Third, the increase in yields dampened flows pretty significantly prompting heavier investor selling and less buying than we've seen in quite some time. Finally, in our view it felt like Trump's cabinet picks raised concerns that he will aggressively pursue his agenda which could pressure yields higher.

### High Yield Spreads Reach Multi-Year Lows

- High yield spreads dipped to the lowest level since 1997 last week, ending Thursday at 260 basis points (bps). Spreads were 13 bps tighter on the week with yields unchanged at 7.22% thanks to the increase in Treasury yields. Excess return for the holiday-shortened week was 0.42% with total return only slightly positive and no real themes across quality buckets. In this latest phase of the rally, high yield has outperformed investment grade as it benefits from shorter duration and easing in financial conditions, improving the outlook for credit quality.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	4.49	-0.05	-0.84
6 Month	4.46	0.00	-0.79
1 Year	4.32	0.05	-0.44
2 Year	4.30	0.13	0.05
5 Year	4.31	0.15	0.46
10 Year	4.44	0.16	0.56
30 Year	4.62	0.14	0.59

## 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	2.84	-0.04	0.17	4.37	4.86	65.73	-1.71	9.64
2 Year	2.65	-0.04	0.13	4.08	-22.64	61.58	-2.88	2.29
5 Year	2.70	-0.04	0.42	4.15	-15.45	62.67	-3.13	3.45
10 Year	2.98	-0.06	0.70	4.58	14.21	67.08	-3.85	8.32
30 Year	3.74	-0.13	0.32	5.76	113.99	81.05	-5.41	-3.82

## Tax-Free

### Munis Rally Despite Higher Treasury Yields

- Tax-exempt municipal market outperformed last week as yields rallied last week despite stronger economic data and higher Treasury yields which pushed muni-to-treasury ratios lower to 62% in 5-years and 67% in 10-years. The outlook for lower supply for the remainder of the year and continued mutual fund inflows was the primary driver of the outperformance.

### NY Metropolitan Transit Authority Could Implement Congestion Pricing

- New York Governor Kathy Hochul announced the MTA could implement its congestion pricing plan in January, albeit with toll prices on passenger vehicles set at \$9, down from \$15.<sup>1</sup> The plan has proven to be unpopular with many New Yorkers leading the Governor to place the plan on hold "indefinitely" several months ago only to announce a reversal in course just nine days after the election.

<sup>1</sup><https://www.governor.ny.gov/news>

Fed = Federal Reserve; FOMC = Federal Open Market Committee; bps = basis points. Data is as of 11.15.2024. Sources: Bloomberg L.P.; ICE BofA. Please refer to page 3 for important definitions and disclosures.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.12	0.56	4.40	2.34	2.6	2.39	2.12
5 Year	2.18	0.71	4.33	2.62	2.9	2.66	2.56
10 Year	2.36	1.08	4.47	3.09	3.55	3.06	3.19
30 Year	2.57	2.31	4.92	3.58	4.1	3.69	3.88

Sectors <sup>1</sup>							
	Duration	Spread	Δ MTD	Δ YTD	52-Week High	52-Week Low	
Investment Grade Corporate	7	78	-6	-21	113	74	
▪ Financial	5	78	-7	-34	131	74	
▪ Industrial	8	77	-5	-13	107	73	
▪ Utility	8	82	-5	-23	119	78	
High Yield	3	266	-16	-57	386	253	
Securitized	6	46	-5	-5	67	41	
▪ Commercial Mortgage-Backed Securities	4	87	-4	-39	138	87	
▪ Asset-Backed Securities	3	48	-7	-20	83	48	
▪ Mortgage-Backed Securities	6	43	-6	-4	63	37	

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	43,444.99	1681.53	5755.45
S&P 500	5,870.62	165.17	1100.79
Nasdaq	18,680.12	584.97	3668.77

Volatility			
	Current	Δ MTD	Δ YTD
VIX	16.14	-7.02	3.69
MOVE	102.47	-32.71	-12.15

Commodities			
	Current	Δ MTD	Δ YTD
CRB	279.72	-0.14	15.89
Gold	2570.10	-179.20	498.30
Oil	67.02	-2.24	-4.63
Gas	194.93	-2.45	-15.70

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	106.69	2.71	5.36
Euro	1.05	-0.03	-0.05
Pound	1.26	-0.03	-0.01
Yen	154.30	2.27	13.41
Canadian Dollar	1.41	0.02	0.09
Franc	0.89	0.02	0.05

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	4.75	-0.25	-0.75
Europe	3.40	0.00	-1.10
United Kingdom	4.75	-0.25	-0.50
Japan	0.25	0.00	0.15
Canada	3.75	0.00	-1.25

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<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). 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. **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 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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