

# Bond Market Review

December 8, 2025

## Summary

Treasury yields continued to move higher last week as markets anticipate hawkish forward guidance from Federal Reserve (Fed) Chairman Powell at the upcoming Federal Open Market Committee (FOMC) and the potential risk of a new, more dovish Fed Chairman to be announced by President Trump early next year. Economic data releases over the past several weeks show little change to the narrative of continued growth, elevated inflation, and a softer labor market.

| Treasury Yields |                |       |       |
|-----------------|----------------|-------|-------|
| Term            | Treasury Yield | Δ MTD | Δ YTD |
| 3 Month         | 3.69           | -0.11 | -0.62 |
| 6 Month         | 3.68           | -0.08 | -0.59 |
| 1 Year          | 3.59           | 0.00  | -0.55 |
| 2 Year          | 3.56           | 0.07  | -0.68 |
| 5 Year          | 3.71           | 0.11  | -0.67 |
| 10 Year         | 4.14           | 0.13  | -0.43 |
| 30 Year         | 4.79           | 0.13  | 0.01  |

## Taxable

### Credit Spreads Grind Tighter

- With a supportive equity backdrop, higher rates, and the markets pricing in a rate cut next week, our view is that investment grade is locked into grind mode as the holidays approach. The primary calendar surprised to the upside again, but with solid inflows to help absorb the supply it added little pressure to spreads in our view. As supply tailed off and buyers went shopping in dealer inventories, recent underperformers found support and recouped some of the weakness.

### High Yield Tightened on Rate Cut Hopes

- Risk assets improved last week as a soft ADP Employment report reinforced the probability of a rate cut this week, with futures now pricing in a 99% probability of a 25 bps cut in Fed funds. The ICE BofA U.S. High Yield Master II Index spread tightened by 12 bps from last Thursday's close with the option-adjusted spread now sitting at 288 bps, in the 6th 10-year percentile. Low-quality risk outperformed as investors picked up recent laggards, leaving CCC-rated bonds 36 bps tighter over the last five sessions, while the BB-rated index spread was 3 bps tighter. Excess return for the week was +0.45% with total return at +0.29%.

| 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           | 2.52            | 0.00  | -0.45 | 3.88                 | 28.59                       | 70.18                   | -0.02 | -1.46 |
| 2 Year           | 2.47            | 0.00  | -0.35 | 3.80                 | 24.12                       | 69.40                   | -1.37 | 2.92  |
| 5 Year           | 2.41            | 0.00  | -0.49 | 3.71                 | -0.21                       | 64.96                   | -1.98 | -1.26 |
| 10 Year          | 2.75            | 0.01  | -0.38 | 4.23                 | 9.26                        | 66.46                   | -1.87 | -2.01 |
| 30 Year          | 4.16            | 0.04  | 0.28  | 6.39                 | 160.05                      | 86.71                   | -1.49 | 5.68  |

## Tax-Free

### Muni Curve Steepens

- Municipal bond yields were mixed last week as front-end yields declined while 5 years and longer yields increased. The AAA-rated tax-exempt yield curve continues to steepen maintaining the trend that started in early November. The 1–5-year curve slope closed at 5 bps of inversion which is 13 bps steeper from the most inverted level this year of 18 bps. Muni-to-Treasury ratios are slightly richer at 65% in 5-years, 67% in 10-years, and 88% in 30-years, after Munis outperformed Treasuries across the curve.

### Muni Supply Expected to Increase

- More broker dealers have posted their municipal issuance expectations for 2026 and if correct, supply could increase from the lofty levels in 2025. JPMorgan is looking for issuance to rise north of \$600B, while BofA is calling for an outsized \$640B of supply for the year. Barclays downgraded their issuance projections but is still projecting a robust \$520-\$530B in supply.

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| International Yields |        |         |       |      |        |       |       |        |
|----------------------|--------|---------|-------|------|--------|-------|-------|--------|
|                      | Canada | Germany | Japan | U.K. | France | Italy | Spain | Greece |
| 2 Year               | 2.64   | 2.10    | 1.07  | 3.78 | 2.32   | 2.2   | 2.12  | 1.91   |
| 5 Year               | 3.01   | 2.40    | 1.46  | 3.93 | 2.83   | 2.8   | 2.61  | 2.62   |
| 10 Year              | 3.42   | 2.80    | 1.98  | 4.48 | 3.52   | 3.49  | 3.26  | 3.40   |
| 30 Year              | 3.85   | 3.43    | 3.40  | 5.19 | 4.41   | 4.4   | 4.10  | 4.24   |

| Sectors <sup>1</sup>                    |          |        |       |       |               |             |  |
|-----------------------------------------|----------|--------|-------|-------|---------------|-------------|--|
|                                         | Duration | Spread | Δ MTD | Δ YTD | 52- Week High | 52-Week Low |  |
| Investment Grade Corporate              | 6.90     | 77     | -3    | -3    | 119           | 72          |  |
| ▪ Financial                             | 5.37     | 77     | -3    | -5    | 122           | 73          |  |
| ▪ Industrial                            | 7.54     | 76     | -3    | -2    | 116           | 70          |  |
| ▪ Utility                               | 8.04     | 85     | -3    | 3     | 119           | 78          |  |
| High Yield                              | 2.81     | 264    | -5    | -23   | 453           | 256         |  |
| Securitized                             | 5.59     | 27     | -5    | -18   | 52            | 27          |  |
| ▪ Commercial Mortgage-Backed Securities | 3.89     | 76     | 0     | -4    | 101           | 75          |  |
| ▪ Asset-Backed Securities               | 2.86     | 54     | -1    | 10    | 75            | 42          |  |
| ▪ Mortgage-Backed Securities            | 5.74     | 24     | -5    | -19   | 49            | 24          |  |

| Equity    |           |        |          |
|-----------|-----------|--------|----------|
|           | Current   | Δ MTD  | Δ YTD    |
| Dow Jones | 47,954.99 | 238.57 | 5,410.77 |
| S&P 500   | 6,870.40  | 21.31  | 988.77   |
| Nasdaq    | 23,578.13 | 212.44 | 4,267.34 |

| Volatility |         |       |        |
|------------|---------|-------|--------|
|            | Current | Δ MTD | Δ YTD  |
| VIX        | 15.41   | -0.94 | -1.94  |
| MOVE       | 67.28   | -1.67 | -31.52 |

| Commodities |         |        |         |
|-------------|---------|--------|---------|
|             | Current | Δ MTD  | Δ YTD   |
| CRB         | 305.97  | 4.48   | 9.25    |
| Gold        | 4243.00 | -11.90 | 1602.00 |
| Oil         | 60.08   | 1.53   | -11.64  |
| Gas         | 183.41  | 1.26   | -17.51  |

| Currency        |         |       |       |
|-----------------|---------|-------|-------|
|                 | Current | Δ MTD | Δ YTD |
| U.S. Dollar     | 98.99   | -0.47 | -9.49 |
| Euro            | 1.16    | 0.00  | 0.13  |
| Pound           | 1.33    | 0.01  | 0.08  |
| Yen             | 155.33  | -0.85 | -1.91 |
| Canadian Dollar | 1.38    | -0.02 | -0.06 |
| Franc           | 0.80    | 0.00  | -0.10 |

| Central Bank Rates |         |       |       |
|--------------------|---------|-------|-------|
|                    | Current | Δ MTD | Δ YTD |
| United States      | 4.00    | 0.00  | -0.50 |
| Europe             | 2.15    | 0.00  | -1.00 |
| United Kingdom     | 4.00    | 0.00  | -0.75 |
| Japan              | 0.50    | 0.00  | 0.25  |
| Canada             | 2.25    | 0.00  | -1.00 |

Data is as of 12.05.2025. 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.



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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 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 U.S. High Yield Master II Index (H0A0)** tracks the performance of U.S. dollar-denominated, below investment-grade corporate debt (junk bonds) publicly issued in the U.S., requiring criteria like fixed coupons, minimum issuance, and specific maturity at issuance, serving as a broad benchmark for the high-yield market by measuring total returns of these riskier bonds. **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 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. **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.