

Bond Market Review

December 9, 2024

Summary

- The Federal Reserve is expected to cut the Fed Funds rate by 25 basis points next week after the recent data on the labor market showed continued cooling. However, we expect a slower pace of rate cuts and a higher neutral rate as inflation progress has stalled and Trump's proposed fiscal policies could put upward pressure on prices.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	4.39	-0.10	-0.94
6 Month	4.35	-0.09	-0.90
1 Year	4.18	-0.10	-0.58
2 Year	4.10	-0.05	-0.15
5 Year	4.04	-0.01	0.19
10 Year	4.15	-0.02	0.27
30 Year	4.34	-0.02	0.31

Taxable

Corporates Stable Heading Into Year-End

- Investment grade corporates continued their recent holding pattern where spreads moved mostly sideways as we head into the end of the year. Dealer inventories increased due to a rise in selling activity, but positive retail inflows helped to offset this. Sector level performance also reflects stability with outperformers and underperformers both showing minimal dispersion.

Uneventful Week in High Yield

- The high yield corporate market was also uneventful as spreads were 3 basis points tighter with lower quality segments lagging slightly. Valuations remain at tight levels as option-adjusted spreads are just 6 basis points above the post-1997 low. With the recent rally in Treasuries, yields have declined slightly but remain attractive at slightly above 7% in our view.

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	2.71	-0.05	0.04	4.17	-0.74	64.89	0.36	8.79
2 Year	2.54	-0.05	0.02	3.90	-20.08	61.82	-0.41	2.53
5 Year	2.56	-0.05	0.28	3.93	-10.48	63.31	-1.11	4.09
10 Year	2.78	-0.05	0.50	4.28	12.71	66.99	-0.97	8.23
30 Year	3.47	-0.06	0.05	5.34	100.26	80.03	-0.87	-4.83

Tax-Free

Strong Week for Municipals

- It was a strong week in our view for tax-exempt munis as investors rushed to reinvest recent maturity proceeds and make final adjustments to portfolios before liquidity potentially decreases in the final weeks of the year. Month-to-date the ICE BofA 1-10 Year Index has produced a 0.26% total return with an excess return of 17 basis points. Duration has been the primary driver of returns as yields declined across the curve.

San Francisco Projects Budget Deficit

- San Francisco is projecting an \$876M budget shortfall over the next two fiscal years. As a result, Mayor London Breed is instituting a 15% across-the-board spending reduction in all city departments. The city continues to struggle with a sluggish recovery of its hotel and business tax base with expenditures that continue to outpace revenues.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.00	0.58	4.26	2.18	2.4	2.25	2.01
5 Year	1.97	0.72	4.13	2.51	2.6	2.39	2.26
10 Year	2.11	1.05	4.28	2.88	3.19	2.76	2.91
30 Year	2.32	2.27	4.81	3.39	3.8	3.38	3.56

Sectors ¹							
	Duration	Spread	Δ MTD	Δ YTD	52-Week High	52-Week Low	
Investment Grade Corporate	7	78	0	-21	111	74	
▪ Financial	5	78	-1	-34	122	74	
▪ Industrial	8	77	1	-13	107	73	
▪ Utility	9	81	0	-24	116	78	
High Yield	3	263	-3	-60	381	253	
Securitized	6	42	-1	-9	60	41	
▪ Commercial Mortgage-Backed Securities	4	83	-1	-43	133	83	
▪ Asset-Backed Securities	3	45	0	-23	73	45	
▪ Mortgage-Backed Securities	6	39	-2	-8	56	37	

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	44,642.52	-268.13	6952.98
S&P 500	6,090.27	57.89	1320.44
Nasdaq	19,859.77	641.60	4848.42

Volatility			
	Current	Δ MTD	Δ YTD
VIX	12.77	-0.74	0.32
MOVE	83.20	-12.02	-31.42

Commodities			
	Current	Δ MTD	Δ YTD
CRB	286.34	-0.60	22.51
Gold	2659.60	-21.40	587.80
Oil	67.20	-0.80	-4.45
Gas	190.62	0.74	-20.01

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	106.06	0.32	4.73
Euro	1.06	0.00	-0.04
Pound	1.27	0.00	0.00
Yen	150.00	0.23	9.11
Canadian Dollar	1.42	0.02	0.10
Franc	0.88	0.00	0.04

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

Data is as of 12.06.2024. 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). 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. 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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