

Bond Market Review

March 18, 2024

Summary

- The Federal Reserve (Fed) will meet this Wednesday to announce any changes to the Federal Funds rate and they will update their Summary of Economic Projections. No changes are expected for the target rate, but market participants will closely monitor the dot plot to see if the elevated inflation data in January and February impacted rate cut forecasts.
- The municipal market meaningfully outperformed Treasuries during last week's sell-off pushing relative valuations to even tighter levels. Demand continues to keep up with the increase in supply as higher yield levels seem to be the driving force rather than valuations.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	5.06	0.06	0.30
2 Year	4.73	0.11	0.48
5 Year	4.33	0.08	0.48
10 Year	4.31	0.06	0.43
30 Year	4.43	0.05	0.40

Taxable

Strong Corporate Performance Continues

- The solid performance for investment grade corporates continued last week despite elevated new issuance and weak earnings reports for a few widely owned issuers. Option-adjusted spreads were 2 basis points (bps) tighter on the week pushing overall spread levels down to 93 bps. The remarkable run for the sector, which began at tight valuations, occurred despite January's record-setting pace of issuance.

High Yield Outperforms Investment Grade

- High yield spreads tightened last week with an assist from positive economic data and equities pushing to new highs. The index option-adjusted spread ended Thursday at 345 bps, 13 bps tighter on the week and now just 6 bps wider year-to-date. Having underperformed investment grade for much of the month so far, high yield outperformed last week resulting in 4 bps of compression in the spread between BB-rated and BBB-rated bonds.

Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Tax-Equivalent Spread (bps)	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	2.96	0.00	0.29	4.56	-49.77	58.60	-0.80	2.51
2 Year	2.81	-0.01	0.29	4.32	-40.45	59.44	-1.57	0.14
5 Year	2.45	-0.02	0.17	3.76	-56.42	56.52	-1.67	-2.70
10 Year	2.45	-0.08	0.17	3.77	-53.55	56.92	-2.63	-1.85
30 Year	3.65	-0.05	0.23	5.62	118.96	82.46	-2.06	-2.41

Tax-Free

Inflation Trends By Region

- Diving into the CPI data, we get a sense as to what regions of the country continue to deal with inflation stress. The southeast continues to experience the bulk of the nation's inflation stress posting a 3.9% print year-over-year as inflation hotspots such as Tampa and Miami continue to be outliers. The mountain states stretching from Arizona to Montana experienced the sharpest inflation slowdown realizing an annual rate of 2.5%, down from 3%. Notably, Phoenix, which had the highest local inflation in the nation clocking in at a whopping 13% in August 2022, now has one of the lowest rates for a major metro area at 2.2%.

Florida Approves 2025 Budget

- Florida became the first state to approve a FY25 budget for the coming year. Lawmakers adjourned last Friday having passed a \$116.5B budget for the coming year which takes spending up by 0.8% y/y. The budget includes tax relief of \$1.5B including \$450M in toll savings. The state will continue to prioritize debt paydown with \$500M that will be appropriated for refunding and/or defeasance initiatives.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.95	0.19	4.33	2.91	3.5	3.12	2.82
5 Year	2.47	0.38	4.02	2.73	3.3	2.93	2.97
10 Year	2.44	0.77	4.10	2.88	3.70	3.24	3.43
30 Year	2.58	1.82	4.53	3.32	4.3	3.76	3.75

Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	89	-7	-10	157	89
▪ Financial	5	96	-7	-16	184	95
▪ Industrial	8	85	-6	-5	143	84
▪ Utility	9	97	-5	-8	149	96
High Yield	3	302	-10	-21	516	302
Securitized	6	51	-3	0	85	48
▪ Commercial Mortgage-Backed Securities	4	99	-3	-27	143	99
▪ Asset-Backed Securities	3	53	-2	-15	86	53
▪ Mortgage-Backed Securities	6	48	-3	1	82	44

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	38,714.77	-281.62	1025.23
S&P 500	5,117.09	20.82	347.26
Nasdaq	15,973.17	-118.75	961.82

Volatility			
	Current	Δ MTD	Δ YTD
VIX	14.41	1.01	1.96
MOVE	97.82	-11.28	-16.80

Commodities			
	Current	Δ MTD	Δ YTD
CRB	284.62	9.55	20.79
Gold	2161.50	106.80	89.70
Oil	81.04	2.78	9.39
Gas	272.08	13.98	61.45

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	103.43	-0.72	2.10
Euro	1.09	0.01	-0.01
Pound	1.27	0.01	0.00
Yen	149.04	-0.94	8.15
Canadian Dollar	1.35	0.00	0.03
Franc	0.88	0.00	0.04

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	5.50	0.00	0.00
Europe	4.50	0.00	0.00
United Kingdom	5.25	0.00	0.00
Japan	0.10	0.00	0.00
Canada	5.00	0.00	0.00
TED Spread	21.65	-0.66	-4.42

Data is as of 03.15.2024. Source: Bloomberg L.P. Please refer to pages 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

Defeasance: a provision in a contract that voids a bond or loan on a balance sheet when the borrower sets aside cash or bonds sufficient enough to service the debt.

Duration: a tool used in assessing the price volatility of a fixed-income security

Municipal/Treasury Ratio: a comparison of the current yield of municipal bonds to U.S. Treasuries

Non-farm payroll measures the number of workers in the U.S. except those in farming, private households, proprietors, non-profit employees, and active 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.

Rich Valuation refers to a security that is priced above expected levels without a logical explanation. The term is applicable to the valuation of any asset, but it is most used with reference to stock valuations.

Tax-Equivalent Yield: the return that is required on a taxable investment to make it equal to the return on a tax-exempt investment

TED Spread: the difference between the three-month Treasury bill and the three-month LIBOR based in U.S. dollars

Yield: income-only return on investment expressed as an annual percentage

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 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 depositary 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 1-10 Year 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.

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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.

