

# Bond Market Review

April 15, 2024

## Summary

- More bad news for the Federal Reserve (Fed) in last week's Consumer Price Index (CPI) report which showed minimal progress year-to-date in their fight against inflation as prices increased 0.4% in March compared to analysts' expectations of 0.3%. Core services inflation once again proved sticky led by transportation and medical care costs, while core goods resumed its slow decline. With inflation advancing at a pace that is well above their target of 2.0%, the Fed is likely to remain on hold until later in the year before cutting interest rates.
- Treasury volatility increased sharply over the past month as uncertainty around the timing of the first rate cut and rising tensions in the Middle East are driving large yield changes. The ICE BofA MOVE Index rose approximately 26 basis points (bps) since the end of March reflecting greater uncertainty around the outlook.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	5.13	0.10	0.37
2 Year	4.90	0.28	0.65
5 Year	4.56	0.35	0.71
10 Year	4.52	0.32	0.64
30 Year	4.63	0.29	0.60

## Taxable

### Banks Underperform As Rates Rise

- Although most of the corporate sectors were wider last week due to increased geopolitical risks, banks underperformed thanks to renewed concerns about the impact of higher rates on their bond portfolios. Credit spreads for money center banks were 3-5 bps wider while regional banks were 5-10 bps wider. In addition, quarterly earnings season began for the sector with JPMorgan, Citigroup, and Wells Fargo all reporting on Friday. Although earnings do not generally impact bank spreads, it does usually result in new issuance which may add to the weakness.

### High Yield Slightly Wider On Geopolitical Concerns

- High yield corporates were 8 bps tighter through Thursday, generating positive excess returns, despite the increase in volatility. However, things took a turn for the worse on Friday when news of an imminent attack by Iran on Israel pushed spreads approximately 15 bps wider.

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	3.38	0.17	0.71	5.20	7.49	65.95	2.03	9.86
2 Year	3.16	0.17	0.64	4.87	-3.04	64.60	-0.19	5.30
5 Year	2.69	0.16	0.41	4.13	-42.61	58.92	-0.97	-0.30
10 Year	2.68	0.16	0.40	4.12	-40.31	59.20	-0.70	0.44
30 Year	3.90	0.17	0.48	6.01	137.68	84.33	-1.58	-0.53

## Tax-Free

### West Virginia Restricts Banks Over Fossil Fuel Industry Concerns

- West Virginia's Treasurer announced that he is restricting four financial services firms from providing state banking services given his office's belief that these firms boycott the fossil fuels industry. The determination was made based on an analysis of each firm's Environmental, Social, and Governance (ESG) policies and public statements. The firms added to the state's blacklist are Citigroup, TD Bank, Northern Trust, and HSBC Holdings.

### Upgrades Outpace Downgrades

- S&P upgrades outpaced downgrades 1.3 to 1 in March and 1.8 to 1 in 1Q24 marking the weakest upgrade to downgrade ratio since July 2021. Perhaps more telling is that 55 credits were placed on negative outlook vs. 16 to stable and 8 to positive.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.86	0.28	4.35	2.85	3.4	3.05	2.80
5 Year	2.37	0.49	4.05	2.69	3.3	2.86	2.97
10 Year	2.36	0.86	4.14	2.87	3.76	3.18	3.44
30 Year	2.51	1.92	4.62	3.35	4.3	3.81	3.80

Sectors <sup>1</sup>						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	89	-1	-10	148	87
▪ Financial	5	97	1	-15	175	93
▪ Industrial	8	85	0	-5	135	82
▪ Utility	8	95	-2	-10	143	93
High Yield	3	310	11	-13	489	292
Securitized	6	52	1	1	85	47
▪ Commercial Mortgage-Backed Securities	4	92	-4	-34	141	92
▪ Asset-Backed Securities	3	50	-5	-18	86	50
▪ Mortgage-Backed Securities	6	49	0	2	82	44

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	37,983.24	-1824.13	293.70
S&P 500	5,123.41	-130.94	353.58
Nasdaq	16,175.09	-204.37	1163.74

Volatility			
	Current	Δ MTD	Δ YTD
VIX	17.31	4.30	4.86
MOVE	112.82	26.44	-1.80

Commodities			
	Current	Δ MTD	Δ YTD
CRB	297.87	7.58	34.04
Gold	2374.10	135.70	302.30
Oil	85.66	2.49	14.01
Gas	280.29	8.23	69.66

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	106.04	1.55	4.71
Euro	1.06	-0.01	-0.04
Pound	1.25	-0.02	-0.02
Yen	153.23	1.88	12.34
Canadian Dollar	1.38	0.02	0.06
Franc	0.91	0.01	0.07

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	21.19	1.38	-4.88

Data is as of 04.12.2024. Source: Bloomberg L.P. Please refer to pages 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.



# Important Information

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### Technical Terms

**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.

