

Bond Market Review

April 22, 2024

Summary

- Ongoing geopolitical tensions, Federal Reserve (Fed) members indicating rate cuts are getting pushed further into the future, and rising Treasury yields conspired to keep corporate spreads moving marginally wider last week. Fed Chairman Powell said it's likely going to take "longer than expected" to gain the confidence needed to lower rates in his last comments before the quiet period ahead of the May 1st Fed meeting. This largely echoed other recent speakers who largely acknowledged that inflation isn't heading to 2% any time soon.
- Tax-related selling pressure plus Treasury market weakness resulted in higher municipal yields although relative valuation metrics remained below historical averages. Lipper reported the largest weekly outflow for mutual funds in the past 24 weeks totaling \$1.5 billion with the majority coming from money market funds. Muni-to-Treasury ratios closed the week at 60% in 5-years and 59% in 10-years compared to 1-year averages of 64% and 65% respectively.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	5.16	0.13	0.40
2 Year	4.99	0.37	0.74
5 Year	4.67	0.46	0.82
10 Year	4.62	0.42	0.74
30 Year	4.71	0.37	0.68

Taxable

Corporate Bonds Widen on Volatility

- The combination of the modestly higher fear premium, lower equities and higher rate volatility dampened the mood in the investment grade corporate market and spreads widened in a fairly uniform fashion. Banks underperformed a little as several issued new bonds at a slight discount to their outstanding bond levels. Inflows to the sector slowed meaningfully but didn't turn to outflows as negative total returns finally awoke investors.

High Yield Posts Negative Returns

- High yield posted its worst week since January with excess return of -0.73% and total return of -0.81%. While year-to-date excess return is positive at 0.96%, total return dipped into negative territory at -0.35%. The ICE BofA High Yield Master II Index OAS widened by 23 basis points (bps) with decompression between ratings buckets as lower-quality bonds underperformed. High yield also decompressed versus investment grade as the spread between BB and BBB rated bonds widening by 8 bps to 95 bps.

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	3.43	0.22	0.76	5.27	11.24	66.42	2.50	10.32
2 Year	3.21	0.22	0.69	4.94	-4.73	64.38	-0.40	5.09
5 Year	2.74	0.22	0.46	4.22	-44.86	58.76	-1.14	-0.46
10 Year	2.74	0.22	0.46	4.21	-40.69	59.28	-0.62	0.51
30 Year	3.97	0.24	0.55	6.11	139.71	84.28	-1.64	-0.59

Tax-Free

Rating Action Skews Negative

- According to Bloomberg, ratings actions by the rating agencies have skewed negative for the third week in a row which is a large departure from the mostly positive upgrade trends experienced over the last two years. However, the ratings shift has not translated into spread widening as the lower quality segment has continued to outperform recently.

Kroll Gaining Market Share

- While Moody's, S&P and Fitch continue to be the largest rating agencies, Kroll now holds 13% market share with most of its activity coming from the multiple ratings category. The agency rated over 19% of par from issuers that came to market with more than one rating during 1Q24 highlighting the fact that while issuers are becoming more comfortable hiring Kroll to rate their bonds, they still prefer to have Kroll's rating in addition to one or more of the opinions of the other three rating agencies.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	3.00	0.28	4.38	3.01	3.6	3.19	2.87
5 Year	2.52	0.49	4.13	2.86	3.5	3.00	3.11
10 Year	2.50	0.89	4.23	3.01	3.93	3.31	3.57
30 Year	2.62	1.92	4.70	3.47	4.4	3.90	3.88

Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	92	2	-7	148	87
▪ Financial	5	99	3	-13	175	93
▪ Industrial	8	87	2	-3	135	82
▪ Utility	8	98	1	-7	143	93
High Yield	3	323	24	0	489	292
Securitized	6	57	6	6	85	47
▪ Commercial Mortgage-Backed Securities	4	96	0	-30	141	92
▪ Asset-Backed Securities	3	53	-2	-15	86	50
▪ Mortgage-Backed Securities	6	55	6	8	82	44

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	37,986.40	-1820.97	296.86
S&P 500	4,967.23	-287.12	197.40
Nasdaq	15,282.01	-1097.45	270.66

Volatility			
	Current	Δ MTD	Δ YTD
VIX	18.71	5.70	6.26
MOVE	111.26	24.88	-3.36

Commodities			
	Current	Δ MTD	Δ YTD
CRB	298.15	7.86	34.32
Gold	2413.80	175.40	342.00
Oil	83.14	-0.03	11.49
Gas	271.03	-1.03	60.40

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	106.15	1.67	4.82
Euro	1.07	-0.01	-0.03
Pound	1.24	-0.03	-0.03
Yen	154.64	3.29	13.75
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	21.58	1.78	-4.49

Data is as of 04.19.2024. 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

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 ICE BofA High Yield Master II Index is an unmanaged index comprised of over 1,200 high yield bonds representative of high yield bond markets as a whole. It includes zero-coupon bonds and payment-in-kind (PIK) bonds.

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.

