

# Bond Market Review

April 28, 2025

## Summary

- This week we received several key data points on the economy including Q1 gross domestic product (GDP), core personal consumption expenditures (PCE) inflation, and initial jobless claims on Friday. Unless we see a large surprise in the data, it will likely be considered stale because the full impact of the tariffs announced in April is not reflected. The Fed is likely to remain on hold at its upcoming Federal Open Market Committee (FOMC) meeting on May 7<sup>th</sup>, however, expectations for higher inflation and slower growth will likely make future decisions much more challenging.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	4.29	0.00	-0.02
6 Month	4.19	-0.03	-0.08
1 Year	3.94	-0.08	-0.20
2 Year	3.75	-0.14	-0.49
5 Year	3.86	-0.09	-0.52
10 Year	4.24	0.03	-0.33
30 Year	4.70	0.13	-0.08

## Taxable

### Credit Improves on Positive Tariff Headlines

- Investment grade corporate bonds staged a solid rally as the Trump administration sought to soothe fears by posting headlines about imminent trade deals and backed off on the rhetoric on dismissing Fed Chair Powell. Buyers leaned into the rally as spreads moved steadily tighter all week with lower quality outperforming. We wonder how long will it be until investors dismiss this as idle talk without concrete deals signed and a true sentiment shift on tariffs?

### High Yield Outperforms Investment Grade

- The high yield market continued to recover from the early April sell-off as spreads tightened 29 bps last week, ending Thursday at 373 bps which is 87 bps inside the year-to-date high of 460 bps. Having decompressed in the sell-off, high yield outperformed investment grade generating excess return of 0.96% last week. This is reflected in compression of the BB-BBB rated bond spread which tightened 18 bps to 111 bps, in from a local high of 163 bps on April 8<sup>th</sup>.

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	2.90	0.34	-0.07	4.46	51.60	73.51	9.75	1.87
2 Year	2.97	0.31	0.15	4.56	81.51	79.14	10.69	12.65
5 Year	3.13	0.26	0.23	4.82	96.21	81.20	8.54	14.98
10 Year	3.44	0.24	0.31	5.29	105.55	81.20	5.03	12.74
30 Year	4.52	0.25	0.65	6.96	225.44	96.17	2.82	15.15

## Tax-Free

### Muni Market Stabilizes

- The muni market showed signs of stabilization last week as outflows subsided and the new issue market was able to work through most of the backlog of day-to-day deals waiting for improved market conditions. Muni-to-Treasury ratios remain relatively attractive at 80% in 5-years but economic uncertainty and Treasury market volatility likely keep ratios above last year's levels.

### Los Angeles Proposes Spending Cuts

- Los Angeles Mayor Karen Bass is proposing deep spending cuts to the city's FY26 budget to address a nearly \$1B budget gap which includes laying off up to 5% of the city government's labor force. The proposed budget holds general fund spending flat but will redirect spending allocations to different departments. 1,647 layoffs are targeted with the bulk to come from the city's police department civilian workforce with a target of 403.

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International Yields								
	Canada	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.59	1.72	0.69	3.86	1.88	2.0	1.92	1.99
5 Year	2.78	2.02	0.90	3.97	2.43	2.7	2.37	2.52
10 Year	3.18	2.47	1.32	4.48	3.19	3.57	3.12	3.31
30 Year	3.50	2.89	2.70	5.22	3.90	4.4	3.94	4.10

Sectors <sup>1</sup>							
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low	
Investment Grade Corporate	7	101	7	21	119	74	
▪ Financial	5	105	10	23	122	74	
▪ Industrial	7	98	6	20	116	73	
▪ Utility	8	105	2	23	119	78	
High Yield	3	360	13	73	453	253	
Securitized	6	45	5	0	58	34	
▪ Commercial Mortgage-Backed Securities	4	97	9	17	104	75	
▪ Asset-Backed Securities	3	75	15	31	75	42	
▪ Mortgage-Backed Securities	6	41	5	-2	56	31	

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	40,113.50	-1888.26	-2430.72
S&P 500	5,525.21	-86.64	-356.42
Nasdaq	17,382.94	83.65	-1927.85

Volatility			
	Current	Δ MTD	Δ YTD
VIX	24.84	2.56	7.49
MOVE	105.79	4.44	6.99

Commodities			
	Current	Δ MTD	Δ YTD
CRB	298.46	-10.84	1.74
Gold	3298.40	148.10	657.40
Oil	63.02	-8.46	-8.70
Gas	211.89	-17.18	10.97

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	99.47	-4.74	-9.02
Euro	1.14	0.05	0.10
Pound	1.33	0.04	0.08
Yen	143.67	-6.29	-13.57
Canadian Dollar	1.39	-0.05	-0.05
Franc	0.83	-0.06	-0.08

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	4.50	0.00	0.00
Europe	2.40	-0.25	-0.75
United Kingdom	4.50	0.00	-0.25
Japan	0.50	0.00	0.25
Canada	2.75	0.00	-0.50

Data is as of 04.25.2025. 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.



# Important Information

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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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