

# Bond Market Review

June 10, 2024

## Summary

- Just as the economy appeared to be entering a period of softer growth, the non-farm payrolls report came in well above expectations. The broad-based strength in the labor market should continue to support consumer spending and complicates the Fed's plan to cut rates later this year.
- Volatility could return to the bond market this week with May inflation data and the June FOMC meeting are on the calendar. According to Bloomberg's survey, CPI is projected to have increased by 0.1% in May and the Fed is expected to leave rates unchanged with investors focusing on their forecasts for economic growth, inflation, and the dot plot.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	5.39	-0.01	0.05
6 Month	5.37	-0.02	0.12
1 Year	5.17	-0.07	0.41
2 Year	4.89	-0.15	0.64
5 Year	4.46	-0.25	0.61
10 Year	4.43	-0.25	0.55
30 Year	4.55	-0.23	0.52

## Taxable

### Spreads Lean Wider

- Spreads widened off their tightest levels of the year last week as yields declined and new issue supply activity rose. Through Thursday, the yield on the Bloomberg Corporate Index was about 40 basis points below the April high which helped reduced demand and increase new issuance. Despite weakness in overall spreads, investors continue to reach down in quality for additional yield as lower-rated bonds outperformed higher-rated bonds.

### High Yield Tracks Equities

- High yield mostly tracked equities last week, initially underperforming investment grade as "bad news" on the economy drove some moderate spread widening, only to recover later in the week. An inflow to the sector of \$1.2B and internal cash generation estimated at \$5.2B provided a tailwind, while primary issuance of \$8B increased from just \$900MM in the previous week but was slower than the elevated pace in the few weeks preceding Memorial Day.

## 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	3.28	-0.20	0.61	5.05	-12.13	63.47	-3.09	7.38
2 Year	3.23	-0.05	0.71	4.96	7.63	66.01	0.95	6.72
5 Year	3.01	0.19	0.73	4.62	16.05	67.34	7.66	8.12
10 Year	2.94	0.14	0.66	4.52	8.80	66.29	6.46	7.53
30 Year	3.86	-0.16	0.44	5.93	137.77	84.66	0.67	-0.20

## Tax-Free

### June Reinvestment Flows Firm Muni Demand

- After several weeks of lackluster performance, tax-exempt municipals outperformed Treasuries, as \$36B in June 1 reinvestment flows and cheaper valuations drove strong demand for the sector. The ICE BofA 1-10 Year Municipal Index is up 0.71% month-to-date, and muni-to-Treasury ratios declined back into the mid-60s range after briefly reaching the low 70s.

### New York Governor Halts Congestion Pricing Program

- New York Governor Kathy Hochul directed the MTA to halt the rollout of its congestion pricing program which was set take effect on June 30. The stoppage was labeled an "indefinite hold" on the commencement of the program, despite most of the infrastructure and technology already being put in place. The governor cited rising living costs and a struggling pandemic recovery in midtown Manhattan as cause for the halting of the program.

Fed = Federal Reserve. FOMC = Federal Open Market Committee. MTA = Metropolitan Transit Authority (of New York City). Data is as of 06.07.2024. Sources: Bloomberg L.P.; ICE BofA. Please refer to pages 3 for important definitions and disclosures.



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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	3.08	0.38	4.40	3.16	3.6	3.26	2.98
5 Year	2.68	0.61	4.15	2.99	3.6	3.09	3.25
10 Year	2.62	1.04	4.26	3.10	3.96	3.35	3.67
30 Year	2.73	2.19	4.69	3.53	4.5	3.93	4.22

Sectors <sup>1</sup>						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	88	1	-11	137	85
▪ Financial	5	92	-1	-20	156	88
▪ Industrial	8	84	1	-6	127	81
▪ Utility	8	96	1	-9	140	93
High Yield	3	303	2	-20	438	289
Securitized	6	50	-8	-1	85	45
▪ Commercial Mortgage-Backed Securities	4	95	-3	-31	141	92
▪ Asset-Backed Securities	3	54	1	-14	85	50
▪ Mortgage-Backed Securities	6	48	-8	1	82	42

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	38,798.99	983.07	1109.45
S&P 500	5,346.99	311.30	577.16
Nasdaq	17,133.13	1525.51	2121.78

Volatility			
	Current	Δ MTD	Δ YTD
VIX	12.22	-3.43	-0.23
MOVE	91.82	-15.64	-22.80

Commodities			
	Current	Δ MTD	Δ YTD
CRB	289.86	-1.60	26.03
Gold	2325.00	22.10	253.20
Oil	75.53	-6.40	3.88
Gas	238.26	-30.86	27.63

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	104.89	-1.34	3.56
Euro	1.08	0.01	-0.02
Pound	1.27	0.02	0.00
Yen	156.75	-1.05	15.86
Canadian Dollar	1.38	0.00	0.06
Franc	0.90	-0.02	0.06

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	5.50	0.00	0.00
Europe	4.25	-0.25	-0.25
United Kingdom	5.25	0.00	0.00
Japan	0.10	0.00	0.00
Canada	4.75	-0.25	-0.25
TED Spread	21.04	1.24	-5.03

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<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 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 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 ISM Manufacturing Index** is a leading economic indicator for the level of economic activity in the manufacturing sector in the United States. A reading above 50 indicates an expansion of U.S. manufacturing, while a reading below 50 indicates a contraction.

**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 1-10 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.

