

Bond Market Review

June 24, 2024

Summary

- Last week's economic data provided additional evidence that growth is moderating in Q2 as the May retail sales report increased 0.10% compared to expectations of 0.30%. Initial jobless claims were also elevated for the second consecutive week which in our opinion raises concerns that the economy may be on the verge of a more profound slowdown. Without an increase in the unemployment rate and a decline in real wage growth, we expect growth will remain positive although slower than last year's pace.
- Treasury yields were relatively stable last week after declining sharply during the first two weeks of June. The economic calendar picks up later this week with Personal Income, Personal Spending, and Core Personal Consumption Expenditures scheduled to be released on Friday.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	5.36	-0.03	0.03
6 Month	5.34	-0.05	0.10
1 Year	5.09	-0.14	0.33
2 Year	4.73	-0.30	0.48
5 Year	4.27	-0.44	0.42
10 Year	4.26	-0.42	0.38
30 Year	4.40	-0.39	0.37

Taxable

Third Consecutive Week of Wider Spreads

- Investment grade corporate spreads widened again last week, making it the third consecutive week of widening, the first such occurrence since last August. Although noteworthy, spreads are only 9 basis points (bps) wider during that time frame and remain below their 5-year historical average. While concerns regarding French political issues seemed to dissipate somewhat, the already weak technical environment worsened modestly which likely drove the weakness in our view.

High Yield Outperforms Investment Grade

- High yield corporates traded in a narrow range all week on seasonally low volume. The market faced some modest headwinds from a weaker equity market due to softer economic data including retail sales, new home starts/permits and continuing claims. While we believe this used to be "good" news for the market, the FOMC's more hawkish recent outlook works in the opposite direction and stokes concerns that the Fed may be too slow to ease.

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	3.16	-0.33	0.49	4.86	-23.46	62.01	-4.56	5.91
2 Year	3.11	-0.17	0.59	4.78	4.47	65.61	0.55	6.32
5 Year	2.90	0.09	0.62	4.46	18.73	67.85	8.17	8.63
10 Year	2.82	0.02	0.54	4.33	7.84	66.20	6.37	7.44
30 Year	3.76	-0.26	0.34	5.79	139.06	85.56	1.57	0.69

Tax-Free

Outlooks for Public Power and Mass Transit

- As we approach mid-year, sector outlooks for the credit rating agencies are largely unchanged, however, mass transit and public power are two notable exceptions. S&P revised its outlook on the public power sector to negative in January in a surprise move citing risk to issuers' financial performance from inflation-related affordability pressures, rising costs, and legislative and regulatory mandates. Moody's recently revised the outlook on mass transit to stable from negative citing growth in government support and tax subsidies, strong ridership recovery despite a slower recovery in office vacancy rates, growth in sales tax collections, stronger liquidity levels in aggregate, and lower liabilities on the books vs. pre-pandemic levels.

Louisiana Bans Underwriting Activity with Select Banks

- Louisiana has become the latest red state to ban localities from engaging in underwriting activities with banking firms it deems to be boycotting to the firearm industry. Governor Jeff Landry, who took office in January, signed legislation last week that was passed in 2021, but vetoed by the previous Governor, John Bel Edwards.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.79	0.30	4.17	3.09	3.5	3.13	2.85
5 Year	2.42	0.55	3.93	2.97	3.5	2.97	3.17
10 Year	2.41	1.00	4.08	3.21	3.94	3.29	3.64
30 Year	2.60	2.18	4.59	3.65	4.5	3.93	4.26

Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	94	7	-5	132	85
▪ Financial	5	98	5	-14	153	88
▪ Industrial	8	90	7	0	121	81
▪ Utility	9	102	7	-3	139	93
High Yield	3	314	13	-9	438	289
Securitized	6	47	-11	-4	85	45
▪ Commercial Mortgage-Backed Securities	4	96	-2	-30	141	92
▪ Asset-Backed Securities	3	57	4	-11	85	50
▪ Mortgage-Backed Securities	6	44	-12	-3	82	42

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	39,150.33	1334.41	1460.79
S&P 500	5,464.62	428.93	694.79
Nasdaq	17,689.36	2081.74	2678.01

Volatility			
	Current	Δ MTD	Δ YTD
VIX	13.20	-2.45	0.75
MOVE	94.09	-13.37	-20.53

Commodities			
	Current	Δ MTD	Δ YTD
CRB	293.22	1.76	29.39
Gold	2331.20	28.30	259.40
Oil	80.73	-1.20	9.08
Gas	251.37	-17.75	40.74

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	105.80	-0.42	4.47
Euro	1.07	0.00	-0.03
Pound	1.26	0.02	-0.01
Yen	159.80	2.00	18.91
Canadian Dollar	1.37	-0.01	0.05
Franc	0.89	-0.03	0.05

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	24.87	5.07	-1.20

Data is as of 06.21.2024. 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.

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 consider 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.

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.



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