

Bond Market Review

July 15, 2024

Economy

- For the second consecutive month, the Consumer Price Index (CPI) showed inflationary pressures broadly cooled with the June headline CPI declining -0.10%. One of the more encouraging aspects of the June data in our opinion was the decline in owner's equivalent rent which posted its smallest advance since early in the pandemic. Shelter costs, a large component in CPI, have been a primary driver of overall inflation during the past few years. With back-to-back favorable monthly readings, we could be seeing the long-awaited slowdown in rent prices. The Producer Price Index (PPI) was also benign over the same period although the headline PPI data in June was above expectations. However, the details of the report proved to be less concerning, and favorable data should flow through to Core PCE which is released later in the month.
- The decline in inflation is occurring alongside further softening in the labor market as initial jobless claims and the unemployment rate have increased while nonfarm payrolls has declined. In addition, consumer-focused companies have reported slowing demand as shoppers are more selective with their spending behaviors. The Federal Reserve (Fed) has consistently stated they need more confidence that inflation is returning to their target before cutting the Fed Funds Rate. If the July and August inflation reports continue the recent trend, we expect this will provide ample evidence for rate cut(s) later this year. In our opinion, the Fed will likely acknowledge the decline in economic activity and cooling inflation at its next meeting, and prepare the market for an upcoming rate cut.
- Our forecast has been for the economy to slow later this year as tight monetary policy and high costs of living begin to negatively impact the consumer. Excess savings from the pandemic are largely gone so going forward consumption will be driven by the labor market, which is softening. This narrative appears to be playing out earlier than our forecast.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	5.33	-0.02	0.00
6 Month	5.18	-0.14	-0.07
1 Year	4.85	-0.26	0.09
2 Year	4.45	-0.30	0.20
5 Year	4.10	-0.28	0.25
10 Year	4.18	-0.22	0.30
30 Year	4.40	-0.16	0.37

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	3.00	-0.20	0.33	4.62	-23.45	61.86	-0.76	5.77
2 Year	2.93	-0.21	0.41	4.51	6.24	65.91	-0.19	6.62
5 Year	2.84	-0.12	0.56	4.37	26.88	69.26	1.68	10.04
10 Year	2.82	-0.04	0.54	4.34	15.25	67.37	2.37	8.61
30 Year	3.75	-0.04	0.33	5.76	136.87	85.24	2.12	0.37

Taxable

- Investment grade corporate spreads took a breather from the recent tightening and traded sideways for the most part. The continued move lower in yields doesn't help much in our opinion, and while the new issue calendar wasn't overwhelming, it was substantially larger than recent weeks. We believe there is likely some technical resistance at these compressed levels, but yields remain attractive especially if the Federal Reserve embarks on a rate cutting cycle.
- The high yield market was firm last week, especially on Thursday when spreads and yields rallied after the CPI data was released. Spreads were 7 basis points (bps) tighter on the week with yields down 0.22%, driving excess return of 0.26% and total return of 0.91%. At 318 bps, spreads are within 18 bps of the year-to-date lows and have declined 21 bps this year.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.82	0.34	4.09	2.99	3.3	3.04	2.66
5 Year	2.48	0.60	3.95	2.91	3.3	2.91	3.00
10 Year	2.50	1.07	4.11	3.15	3.79	3.26	3.48
30 Year	2.68	2.19	4.62	3.63	4.4	3.88	4.12

Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	89	-5	-10	130	85
▪ Financial	5	93	-4	-19	153	88
▪ Industrial	8	86	-4	-4	117	81
▪ Utility	8	99	-5	-6	131	93
High Yield	3	307	-2	-16	438	289
Securitized	6	46	-5	-5	85	45
▪ Commercial Mortgage-Backed Securities	4	97	0	-29	141	92
▪ Asset-Backed Securities	3	57	0	-11	85	50
▪ Mortgage-Backed Securities	6	42	-6	-5	82	42

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	40,000.90	882.04	2311.36
S&P 500	5,615.35	154.87	845.52
Nasdaq	18,398.45	665.85	3387.10

Volatility			
	Current	Δ MTD	Δ YTD
VIX	12.46	0.02	0.01
MOVE	86.79	-11.80	-27.83

Commodities			
	Current	Δ MTD	Δ YTD
CRB	290.44	-0.03	26.61
Gold	2420.70	81.10	348.90
Oil	82.21	0.67	10.56
Gas	251.53	1.38	40.90

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	104.09	-1.78	2.76
Euro	1.09	0.02	-0.01
Pound	1.30	0.04	0.03
Yen	157.83	-3.05	16.94
Canadian Dollar	1.36	-0.01	0.04
Franc	0.89	-0.01	0.05

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	5.50	0.00	0.00
Europe	4.25	0.00	-0.25
United Kingdom	5.25	0.00	0.00
Japan	0.10	0.00	0.00
Canada	4.75	0.00	-0.25
TED Spread	21.62	-1.51	-4.45

Data is as of 07.12.2024. 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.

Fed Funds Rate is the interest rate that U.S. banks pay one another to borrow or loan money overnight.

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.