

Bond Market Review

July 22, 2024

Summary

- In a stunning turn of events, President Joe Biden withdrew from the presidential race and endorsed Vice President Kamala Harris as his successor. With one month left until the convention, Harris will seek to rally the party around her candidacy and inject energy into the campaign. Although there is time for competitors to emerge, we believe it seems unlikely that someone other than VP Harris will receive the nomination.
- Although the election dynamics will likely increase uncertainties and volatility, we remain focused on the macro trajectory and this week there are several important data releases. The advanced estimate of Q2 Gross Domestic Product (GDP), Personal Income and Spending, and Core Personal consumption expenditures (PCE) are expected to show solid economic activity with moderating inflation pressures. In our opinion, the data should continue to support a mid-cycle adjustment cut from the Federal Reserve (Fed) in September as the real Fed Funds rate has become increasingly restrictive.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	5.33	-0.02	0.00
6 Month	5.19	-0.13	-0.05
1 Year	4.88	-0.23	0.12
2 Year	4.51	-0.24	0.26
5 Year	4.17	-0.21	0.32
10 Year	4.24	-0.16	0.36
30 Year	4.45	-0.11	0.42

Taxable

Corporate Bonds Stable Despite Political Uncertainty

- Investment grade corporates seemed to largely ignore the turmoil in U.S. politics and weakness in the stock market, widening very modestly on a week that also saw \$45B in new issuance. Supportive inflows served as a tailwind for the sector, as did the relative calm in the rates market. The banking sector saw some softness due to elevated issuance but earnings reports were generally either neutral or slightly positive for spreads.

High Yield Shrugs Off Volatility

- High yield shrugged off an increase in equity volatility last week as spreads tightened by 9 basis points (bps) with compression between quality bands being the notable theme. This combination is an unusual one for high yield as correlation to equity moves are usually positive except over short periods. Inflows of \$2.6B and internal cash generation from calls, tenders, maturities and coupons estimated at \$7.9B probably played a role in keeping things firm.

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	2.96	-0.24	0.29	4.56	-31.83	60.76	-1.87	4.66
2 Year	2.90	-0.24	0.38	4.47	-4.32	64.38	-1.73	5.08
5 Year	2.83	-0.14	0.55	4.35	17.97	67.80	0.22	8.58
10 Year	2.80	-0.06	0.52	4.31	7.49	66.15	1.15	7.39
30 Year	3.73	-0.06	0.31	5.73	128.55	83.79	0.68	-1.07

Tax-Free

States Expected to Cut Spending

- According to a new report released by the Pew Charitable Trusts, U.S. states are expected to cut spending by \$1.2T in FY25, a 6% decline from estimates for FY24. That would be the sharpest drop since the '07-'09 recession; although next year's spending drop would be coming off a high base compared to historical norms given the record federal stimulus level funneled to states to spur spending.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.78	0.35	4.00	2.93	3.3	3.02	2.63
5 Year	2.42	0.60	3.93	2.87	3.3	2.88	2.89
10 Year	2.47	1.06	4.12	3.14	3.78	3.25	3.45
30 Year	2.66	2.18	4.64	3.63	4.4	3.89	4.10

Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	91	-3	-8	130	85
▪ Financial	5	95	-2	-17	153	88
▪ Industrial	8	87	-3	-3	117	81
▪ Utility	8	100	-4	-5	130	93
High Yield	3	303	-6	-20	438	289
Securitized	6	47	-4	-4	85	45
▪ Commercial Mortgage-Backed Securities	4	97	0	-29	141	92
▪ Asset-Backed Securities	3	58	1	-10	85	50
▪ Mortgage-Backed Securities	6	43	-5	-4	82	42

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	40,287.53	1168.67	2597.99
S&P 500	5,505.00	44.52	735.17
Nasdaq	17,726.94	-5.66	2715.59

Volatility			
	Current	Δ MTD	Δ YTD
VIX	16.52	4.08	4.07
MOVE	94.29	-4.30	-20.33

Commodities			
	Current	Δ MTD	Δ YTD
CRB	280.36	-10.11	16.53
Gold	2446.80	107.20	375.00
Oil	80.13	-1.41	8.48
Gas	245.04	-5.11	34.41

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	104.40	-1.47	3.07
Euro	1.09	0.02	-0.01
Pound	1.29	0.03	0.02
Yen	157.48	-3.40	16.59
Canadian Dollar	1.37	0.00	0.05
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	21.57	-1.56	-4.50

Data is as of 07.22.2024. 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.

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).

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.

Personal consumption expenditures (PCE) is the primary measure of consumer spending on goods and services in the U.S. economy.

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.