

Bond Market Review

July 29, 2024

Summary

- Economic data released over the past few weeks suggests the economy remains on solid footing and a sharp slowdown in growth is unlikely near-term. Q2 Gross Domestic Product (GDP) growth surprised to the upside at 2.8% vs. 2.0% expected and other data like the June Retail Sales report was reassuring. In addition, inflation data showed continued improvement relative to last year's pace as Core Personal Consumption Expenditures (PCE) advanced 0.2% month-over-month in June bringing the annualized pace down to 2.6%.
- The July Federal Open Market Committee (FOMC) meeting concludes this Wednesday with the futures market pricing in a 4% chance of a rate cut. The recent strength in the economic data should create some uncertainty around the timing of the first cut, however, the market continues to have strong conviction in a September cut. Although we lean towards September for an adjustment cut, we are less confident in this view than the market.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	5.29	-0.06	-0.04
6 Month	5.14	-0.18	-0.11
1 Year	4.80	-0.31	0.04
2 Year	4.38	-0.37	0.13
5 Year	4.07	-0.31	0.22
10 Year	4.19	-0.21	0.31
30 Year	4.45	-0.11	0.42

Taxable

Corporates Widen Slightly

- Despite a weaker equity market, increased interest rate volatility, and political uncertainty, investment grade corporate spreads continue to trade at historically tight levels. Option-adjusted spreads for the Bloomberg U.S. Corporate Index widened 2 basis points (bps) to 93 which is 26 bps tighter than the 5-year average. Demand remains solid as inflows to the sector are supporting market technicals and the recent steeping in the yield curve seems to have boosted interest in short-term bonds.

High Yield Outperforms

- Volatility picked-up last week but high yield remained resilient as spreads tighten 1 bps producing excess returns of 0.10%. Spreads briefly touched the year-to-date low of 302 bps before giving back some of the gains and the spread between BB and BBB-rated bonds reached its lowest level since March of 2020.

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	2.90	-0.30	0.23	4.47	-32.98	60.53	-2.09	4.44
2 Year	2.86	-0.28	0.34	4.40	1.37	65.20	-0.90	5.91
5 Year	2.77	-0.19	0.49	4.26	18.66	67.98	0.40	8.76
10 Year	2.78	-0.08	0.50	4.28	8.61	66.33	1.33	7.57
30 Year	3.71	-0.08	0.29	5.71	125.39	83.31	0.19	-1.56

Tax-Free

Connecticut's Surplus Increases

- Connecticut made a large upward revision to its FY24 surplus with estimates now projecting the final figures for FY24 will indicate a \$329.3M surplus. Conservative estimations are the cause for the revisions which is a good problem to have as revenues came in higher than expected while expenses came in lower. The revision was a 47% increase from estimates from just a month ago.

New Issuance Led By High Quality

- Muni issuance has overwhelmingly come from higher grade names year-to-date, specifically in the general obligation and state housing sectors. Even in the riskier cohort of the market, it tends to be the up-in-quality names that have issued such as AA tier rated names in the healthcare and higher education spaces.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.62	0.40	3.92	2.84	3.2	2.93	2.56
5 Year	2.33	0.60	3.90	2.81	3.2	2.83	2.90
10 Year	2.41	1.03	4.10	3.12	3.76	3.23	3.44
30 Year	2.63	2.12	4.66	3.64	4.4	3.90	4.13

Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	93	-1	-6	130	85
▪ Financial	5	96	-1	-16	153	88
▪ Industrial	8	89	-1	-1	117	81
▪ Utility	8	101	-3	-4	130	93
High Yield	3	306	-3	-17	438	289
Securitized	6	47	-4	-4	85	45
▪ Commercial Mortgage-Backed Securities	4	98	1	-28	141	92
▪ Asset-Backed Securities	3	58	1	-10	85	50
▪ Mortgage-Backed Securities	6	44	-4	-3	82	42

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	40,589.34	1470.48	2899.80
S&P 500	5,459.10	-1.38	689.27
Nasdaq	17,357.88	-374.72	2346.53

Volatility			
	Current	Δ MTD	Δ YTD
VIX	16.39	3.95	3.94
MOVE	97.76	-0.83	-16.86

Commodities			
	Current	Δ MTD	Δ YTD
CRB	277.40	-13.07	13.57
Gold	2427.90	88.30	356.10
Oil	77.16	-4.38	5.51
Gas	246.05	-4.10	35.42

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	104.32	-1.55	2.99
Euro	1.09	0.02	-0.01
Pound	1.29	0.03	0.02
Yen	153.76	-7.12	12.87
Canadian Dollar	1.38	0.01	0.06
Franc	0.88	-0.02	0.04

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	4.50	-0.25	-0.50
TED Spread	22.71	-0.42	-3.36

Data is as of 07.26.2024. 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.