

# Bond Market Review

August 12, 2024

## Summary

- The July labor market data released on August 2 sent shockwaves through markets as the non-farm payrolls report, unemployment rate, and average hourly earnings were all weaker than expected.
- Treasury yields rallied sharply on the news, and the futures market priced in almost 140 bps of Fed rate cuts by year-end on heightened concerns of a looming economic slowdown.
- However, the panic was relatively short-lived and by last Friday much of the growth concern had faded. Our base case is for continued slowing of the economy and gradual easing of the labor market, allowing the Fed to potentially begin its cutting cycle in September.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	5.21	-0.07	-0.13
6 Month	4.97	-0.12	-0.27
1 Year	4.48	-0.26	-0.28
2 Year	4.05	-0.21	-0.20
5 Year	3.80	-0.11	-0.05
10 Year	3.94	-0.09	0.06
30 Year	4.22	-0.08	0.19

## Taxable

### Rollercoaster Week for Corporates

- Investment-grade corporates had a rollercoaster week, with option-adjusted spreads widening to 111 bps on Monday as volatility peaked following weak unemployment data. Investor sentiment reversed quickly as spreads tightened 5 bps Tuesday and continued tighter the rest of the week. A few defensive issues that came to the market on Tuesday were well-received, clearing the way for \$31B in issuance on Wednesday, including Meta Platforms' \$10B deal. Several of the new issues launched through the initial price guidance, providing evidence of solid demand despite the recent spread widening.

### High Yield Spreads Reach Highs for the Year

- High yield spreads widened to a year-to-date high of 393 bps on Monday, driven by a weaker-than-expected payroll report and a surprise increase in interest rates by the Bank of Japan, triggering an unwind of Yen carry trades. At the peak, spreads were 91 bps wider than the year-to-date low of 302 and 54 bps wider than where we started the year. Similar to investment grade, we ended the week with a firmer tone, having reversed about half of the spread widening.

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	2.70	-0.19	0.03	4.16	-32.12	60.34	-0.63	4.25
2 Year	2.67	-0.18	0.15	4.11	5.77	65.92	-0.98	6.63
5 Year	2.62	-0.15	0.34	4.03	23.16	68.97	-1.88	9.74
10 Year	2.68	-0.10	0.40	4.12	18.02	67.97	-1.01	9.21
30 Year	3.64	-0.06	0.22	5.60	138.14	86.28	0.24	1.42

## Tax-Free

### New York MTA Reformulates Capital Plans

- As New York's MTA management regroups and reformulates capital plans following Governor Hochul's kibosh on congestion pricing, management announced via Bloomberg that the MTA will be issuing \$2B later in 2024 or early 2025, backed by real property transfer taxes. This tax, also known as a "mansion tax," is a supplemental tax levied on the transfer of residential properties in excess of \$2MM within New York City. Management is adjusting the MTA's capital plan to focus on the most critical infrastructure needs only, rather than undertaking larger plans to modernize the transit system.

Fed = Federal Reserve; FOMC = Federal Open Market Committee; bps = basis points; New York MTA = New York Metropolitan Transportation Authority. Data is as of 08.09.2024. 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	2.39	0.29	3.65	2.64	2.9	2.71	2.32
5 Year	2.13	0.44	3.73	2.64	3.1	2.65	2.70
10 Year	2.23	0.85	3.95	2.97	3.64	3.09	3.33
30 Year	2.46	2.07	4.52	3.50	4.3	3.76	4.00

Sectors <sup>1</sup>						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	102	9	3	130	85
▪ Financial	5	106	9	-6	153	88
▪ Industrial	8	99	9	9	117	81
▪ Utility	9	109	7	4	130	93
High Yield	3	339	25	16	438	289
Securitized	6	48	1	-3	85	45
▪ Commercial Mortgage-Backed Securities	4	102	4	-24	141	92
▪ Asset-Backed Securities	3	63	3	-5	85	50
▪ Mortgage-Backed Securities	6	44	0	-3	82	42

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	39,497.54	-1345.25	1808.00
S&P 500	5,344.16	-178.14	574.33
Nasdaq	16,745.30	-854.10	1733.95

Volatility			
	Current	Δ MTD	Δ YTD
VIX	20.37	4.01	7.92
MOVE	108.26	8.85	-6.36

Commodities			
	Current	Δ MTD	Δ YTD
CRB	275.96	-2.16	12.13
Gold	2473.40	0.40	401.60
Oil	76.84	-1.07	5.19
Gas	239.03	-5.22	28.40

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	103.14	-0.96	1.81
Euro	1.09	0.01	-0.01
Pound	1.28	-0.01	0.01
Yen	146.61	-3.37	5.72
Canadian Dollar	1.37	-0.01	0.05
Franc	0.87	-0.01	0.03

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	5.00	0.00	-0.25
Japan	0.25	0.00	0.15
Canada	4.50	0.00	-0.50
TED Spread	16.75	-5.78	-9.32

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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

## Disclosures, Technical Terms & Indices

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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. **Non-farm payroll** refers to the number of jobs in the private sector and government agencies. It excludes farm workers, private household employees, proprietors, non-profit employees, and actively serving 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 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 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 1-10Y 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. **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. **Bloomberg L.P. Information:** "Bloomberg®" and the Bloomberg indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Sterling Capital Management LLC and its affiliates. Bloomberg is not affiliated with Sterling Capital Management LLC or its affiliates, and Bloomberg does not approve, endorse, review, or recommend the product(s) presented herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the product(s) presented herein.



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