

Bond Market Review

August 18, 2025

Summary

- The Federal Reserve's (Fed) job may face increased challenges following last week's higher than expected July Producer Price Index (PPI) tempered expectations for Fed Funds rate cuts. The July Non-Farm Payrolls report and Consumer Price Index (CPI) report seemed to imply that an easing cycle was imminent, however, the renewed threat of price pressures suggests patience is warranted. The Treasury futures market continues to price in two cuts in 2025 and three in 2026.

Taxable

Corporate Spreads Near 25-Year Lows

- Positive market technicals continue to overwhelm any macro concerns as we are now near 25-year lows in the Bloomberg U.S. Agg Corporate Index as of Friday's close. The weak Non-Farm Payrolls report from two weeks ago seems like a distant memory now. While supply has been elevated over the last two weeks, this seems to have been more than offset by two-consecutive weeks of over \$10B in retail inflows.

High Yield Tighter Amid Mixed Data

- The high yield market continued to grind last week with spreads tightening six bps to 289 bps amid mixed economic data. The option-adjusted spread is now 24 bps inside the local high from August 1 which marked the one-day 27 bps widening event following the July payrolls number. Market optimism remains elevated as some investors seem to be looking through incrementally hotter inflation data and expecting the Fed to commence rate cuts again in September. Healthcare and Food & Beverage outperformed this week while Paper & Packaging was the only sector to post negative total returns.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	4.21	-0.13	-0.10
6 Month	4.07	-0.20	-0.20
1 Year	3.92	-0.18	-0.23
2 Year	3.75	-0.21	-0.49
5 Year	3.84	-0.14	-0.55
10 Year	4.32	-0.06	-0.25
30 Year	4.92	0.02	0.14

Municipal Yields								
Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Tax-Equivalent Spread (bps)	Muni/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	2.24	-0.14	-0.73	3.45	-46.80	57.23	-0.98	-14.41
2 Year	2.26	-0.14	-0.56	3.47	-27.82	60.18	-0.40	-6.31
5 Year	2.41	-0.12	-0.49	3.71	-12.39	62.90	-0.76	-3.32
10 Year	3.19	-0.08	0.06	4.90	58.55	73.82	-0.85	5.36
30 Year	4.64	-0.05	0.77	7.14	221.86	94.32	-1.41	13.30

Tax-Free

Munis Ignored Treasury Weakness

- The municipal market outperformed Treasuries as tax-exempt yields declined across the curve while Treasury yields rose. Volatility was limited and the pace of activity slowed from the previous few weeks' strong pace of new issuance. This could be due to thinly staffed trading desks or simply apathy from the compressed valuations, but the end result was positive in our view. The new issue calendar slows to \$7.5B this week, or 84% of the 5-year average, as we passed the inflection point for the positive summer technical period.

Healthcare Sector Positive in June

- The healthcare sector may face approaching headwinds with enacted cuts to Medicare and Medicaid, but the coming stress is not showing up in the data yet, at least in aggregate. The latest Kaufman Hall Hospital Flash report indicates hospital operating margins improved in June to 6.6%, up from 6.0% in May. Revenues rose 7% year-to-date, outpacing the 6% growth in total expenditures. Expenditure growth has been mostly driven by non-labor expenses in recent months.

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International Yields								
	Canada	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.72	1.97	0.83	3.93	2.24	2.2	2.08	2.10
5 Year	2.98	2.34	1.12	4.09	2.84	2.8	2.55	2.71
10 Year	3.45	2.79	1.57	4.70	3.47	3.59	3.35	3.44
30 Year	3.85	3.35	3.11	5.56	4.33	4.5	4.19	4.32

Sectors ¹							
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low	
Investment Grade Corporate	6.84	73	-3	-7	119	73	
▪ Financial	5.33	74	-3	-8	122	74	
▪ Industrial	7.49	71	-3	-7	116	71	
▪ Utility	8.06	81	-3	-1	119	78	
High Yield	2.88	279	1	-8	453	253	
Securitized	5.82	39	-3	-6	52	34	
▪ Commercial Mortgage-Backed Securities	3.91	79	-1	-1	101	75	
▪ Asset-Backed Securities	2.69	51	0	7	75	42	
▪ Mortgage-Backed Securities	5.99	36	-4	-7	49	31	

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	44,946.12	815.14	2401.90
S&P 500	6,449.80	110.41	568.17
Nasdaq	21,622.98	500.53	2312.19

Volatility			
	Current	Δ MTD	Δ YTD
VIX	15.09	-1.63	-2.26
MOVE	76.66	-3.18	-22.14

Commodities			
	Current	Δ MTD	Δ YTD
CRB	295.54	-4.24	-1.18
Gold	3382.60	34.00	741.60
Oil	62.80	-6.46	-8.92
Gas	207.25	-10.14	6.33

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	97.85	-2.12	-10.63
Euro	1.17	0.03	0.13
Pound	1.36	0.03	0.10
Yen	147.19	-3.56	-10.05
Canadian Dollar	1.38	0.00	-0.06
Franc	0.81	-0.01	-0.10

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	4.50	0.00	0.00
Europe	2.15	0.00	-1.00
United Kingdom	4.00	-0.25	-0.75
Japan	0.50	0.00	0.25
Canada	2.75	0.00	-0.50

Data is as of 08.15.2025. Source: Bloomberg L.P. Please refer to page 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). The **federal funds rate** is the interest rate at which depository institutions (mainly banks) lend reserve balances to other depository institutions overnight on an uncollateralized basis. In simpler terms, it's the rate banks charge each other for short-term loans to meet their reserve requirements. **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 take into account 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 Spread** is the spread needed on a taxable bond to produce the same yield as a municipal 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. **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 **Federal Open Market Committee (FOMC)** is a key part of the Federal Reserve System, responsible for setting the nation's monetary policy. The **Kaufman Hall National Hospital Flash Report** is a monthly publication that provides a snapshot of the financial health of the U.S. hospital industry. It analyzes data from over 1,300 hospitals across the country to highlight key trends and metrics relevant to hospital and health system leaders.

The volatility of an index varies greatly. All indices are unmanaged, and investments cannot be made directly in an index.

The **Commodity Research Bureau Index (CRB)** comprises a basket of 19 commodities, with 39% allocated to energy contracts, 41% to agriculture, 7% to precious metals, and 13% to industrial metals. The CRB is designed to isolate and reveal the directional movement of prices in overall commodity trades. **Down 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 Producer Price Index (PPI)** program measures the average change over time in the selling prices received by domestic producers for their output. **The Consumer Price Index (CPI)** is a measure of the average change over time in the prices urban consumers pay for a market basket of consumer goods and services. **The Bloomberg U.S. Agg Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. **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. **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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