

# Bond Market Review

September 30, 2024

## Summary

### US Economy Remains Resilient

- Last week's economic data indicate the outlook for growth remains solid with inflation pressures continuing to ease. In fact, the Atlanta Federal reserve (Fed) Gross Domestic Product (GDP) nowcast has Q3 GDP growth at an impressive 3.10% which supports the "soft landing" narrative and overall risk sentiment. This week we get an important look at the health of the labor market with the release of the September Non-Farm Payrolls report and the Unemployment Rate.

## Taxable

### Corporate Spreads Near Lows of Year

- Investment grade corporate spreads continued to grind tighter as strong inflows and elevated investor demand, particularly for duration, helped the sector maintain the recent positive momentum. The macro news also provided a boost as economic growth is above trend and Gross Domestic Income (GDI) was revised significantly higher. Despite minimal progress with its labor union negotiations, Boeing's spreads were stable even as the company faces a potential downgrade to high yield.

### High Yield Widens Slightly

- High yield spreads largely traded sideways last week with spreads widening by 4 basis points (bps) to 314 with an excess return of -0.04%. Spreads are almost flat month-to-date, 3 bps tighter and 12 bps off the year-to-date low. Excess return for the month is 0.51% with a total return of 1.43%. By rating category, CCC-rated bonds generated the highest excess return in September at just over 3.50%.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	4.60	-0.51	-0.73
6 Month	4.38	-0.47	-0.86
1 Year	3.92	-0.48	-0.84
2 Year	3.56	-0.36	-0.69
5 Year	3.51	-0.20	-0.34
10 Year	3.75	-0.15	-0.13
30 Year	4.10	-0.09	0.07

## 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	2.52	-0.02	-0.16	3.87	-5.29	64.12	6.52	8.03
2 Year	2.39	-0.09	-0.13	3.67	11.31	67.07	3.77	7.77
5 Year	2.37	-0.10	0.09	3.65	14.25	67.64	0.91	8.42
10 Year	2.63	-0.07	0.35	4.05	29.56	70.12	1.00	11.36
30 Year	3.55	-0.10	0.13	5.46	135.77	86.51	-0.59	1.64

## Tax-Free

### Trump Announces Support for Lifting SALT Deduction Cap

- Last week President Trump announced his support for lifting the State and Local Tax (SALT) deduction cap in a move that has wide support among municipal bond issuers.<sup>1</sup> The announcement came ahead of a rally in Long Island where, among other blue states, the cap is particularly unpopular. Local Republicans have attempted to work across party lines to have the cap eliminated with no success.

### Muni Ownership Rotates Toward Retail Investors

- Recent data released by the Fed shows continued municipal bond demand rotation toward retail investors (via direct ownership, SMAs, and funds) and away from corporations such as banks and insurance companies which continue to exit the market. We believe this trend has been amplified this year as corporate and foreign buyers of taxable munis has been relatively low given the decline in taxable issuance this year.

1. <https://www.bondbuyer.com/news/trump-signals-salt-cap-removal>

Fed = Federal Reserve; FOMC = Federal Open Market Committee; bps = basis points. Data is as of 09.27.2024. Sources: Bloomberg L.P.; ICE BofA. Please refer to page 3 for important definitions and disclosures.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.08	0.39	3.94	2.31	2.5	2.38	2.00
5 Year	1.95	0.51	3.82	2.46	2.7	2.42	2.40
10 Year	2.13	0.86	3.98	2.92	3.45	2.93	3.10
30 Year	2.47	2.09	4.58	3.56	4.1	3.70	3.95

Sectors <sup>1</sup>							
	Duration	Spread	Δ MTD	Δ YTD	52-Week High	52-Week Low	
Investment Grade Corporate	7	89	-4	-10	130	85	
▪ Financial	6	91	-4	-21	153	88	
▪ Industrial	8	88	-3	-2	117	81	
▪ Utility	9	94	-7	-11	130	93	
High Yield	3	299	-2	-24	438	289	
Securitized	6	43	0	-8	85	41	
▪ Commercial Mortgage-Backed Securities	4	93	-4	-33	141	92	
▪ Asset-Backed Securities	3	65	1	-3	85	50	
▪ Mortgage-Backed Securities	6	40	1	-7	82	37	

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	42,313.00	749.92	4623.46
S&P 500	5,738.17	89.77	968.34
Nasdaq	18,119.59	405.96	3108.24

Volatility			
	Current	Δ MTD	Δ YTD
VIX	16.96	1.41	4.51
MOVE	92.53	-15.24	-22.09

Commodities			
	Current	Δ MTD	Δ YTD
CRB	285.94	8.91	22.11
Gold	2668.10	140.50	596.30
Oil	68.18	-5.37	-3.47
Gas	195.30	-14.02	-15.33

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	100.38	-1.27	-0.95
Euro	1.12	0.01	0.02
Pound	1.34	0.02	0.07
Yen	142.21	-4.71	1.32
Canadian Dollar	1.35	0.00	0.03
Franc	0.84	-0.01	0.00

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	5.00	-0.50	-0.50
Europe	3.65	-0.60	-0.85
United Kingdom	5.00	0.00	-0.25
Japan	0.25	0.00	0.15
Canada	4.25	-0.25	-0.75
TED Spread	25.31	8.65	-0.76

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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. **Nowcasting** is a method of time series modeling that predicts the current value of a target based on past and present data. Technically, it is a forecast window in which the start and end times are 0 (now). **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 **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. 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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