

Bond Market Review

September 8, 2025

Summary

- Friday's disappointing non-farm payrolls report likely solidified a rate cut at the upcoming September Federal Open Market Committee meeting. The futures market now shows 100% odds of a 25 basis point (bps) cut next week and a slight chance of a 50 bps cut. Last year the labor market slowed in the summer months but rebounded sharply after the Federal Reserve (Fed) cut rates by 50 bps. Will this year repeat the same pattern or is the current weakness likely to persist?

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	4.00	-0.14	-0.31
6 Month	3.87	-0.09	-0.39
1 Year	3.65	-0.18	-0.49
2 Year	3.51	-0.11	-0.73
5 Year	3.58	-0.12	-0.80
10 Year	4.07	-0.16	-0.49
30 Year	4.76	-0.17	-0.02

Taxable

Corporates Tighten on Payrolls Data

- Hopes for a sustained widening in investment grade corporate spreads were dashed last week. Two potential catalysts, heavy post-Labor Day supply, and Friday's payroll report, partially delivered but were mostly overwhelmed by continued technical tailwinds. The new issue market printed approximately \$67B in total supply but continued retail inflows, the steep Treasury curve, and heavy reinvestment flows sustained investor demand enough to absorb the new bonds.

High Yield Resilient

- The high yield corporate market showed resilience last week despite an ongoing supply surge and the softer payrolls report. Following the report, high yield spreads widened as much as five-eight bps intraday but finished roughly two-three bps wider. The largest outperforming sectors on an excess return basis include air transportation, metals/mining, and diversified media with publishing/printing and containers as the biggest underperforming sectors.

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	2.15	-0.04	-0.82	3.30	-34.84	58.80	1.62	-12.84
2 Year	2.15	-0.06	-0.67	3.30	-20.77	61.15	0.10	-5.33
5 Year	2.27	-0.10	-0.63	3.49	-8.94	63.38	-0.68	-2.85
10 Year	3.07	-0.13	-0.06	4.72	64.73	75.33	-0.32	6.87
30 Year	4.49	-0.15	0.62	6.91	214.75	94.33	0.21	13.31

Tax-Free

Munis Rally Across the Curve

- Tax-exempt municipal yields traded in a fairly narrow range for the past month up until Friday's disappointing economic data sparked a strong rally for the sector. The result was a bull flattening of the curve leaving municipal-to-treasury ratios at 64% in five-years and 76% in 10-years. Yields were eight-18 basis points lower from two-30 years with AAA-rated bonds outperforming BBB-rated bonds by two bps.

Florida Proposal Eliminates Local Property Taxes

- Various Florida legislators and Governor Ron DeSantis are pushing a proposal to eliminate local property taxes on primary residences. If enacted Florida would become the first state in the nation with either no income or property taxes which would shift revenue reliance to more cyclical sales and other consumption taxes. The proposal stems from **House Bill 1371** currently sitting with the House select committee on property taxes which will hold various public hearings between now and December to refine proposals. If the bill makes it out of committee, the bill will need to pass the legislature by a 60% supermajority then go before voters on the November 2026 ballot with potential enactment by 01.01.2027.

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International Yields								
	Canada	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.54	1.93	0.83	3.91	2.17	2.2	2.00	2.05
5 Year	2.82	2.22	1.10	4.05	2.78	2.7	2.45	2.59
10 Year	3.27	2.66	1.57	4.65	3.45	3.50	3.25	3.36
30 Year	3.74	3.30	3.28	5.50	4.38	4.5	4.17	4.31

Sectors ¹							
	Duration	Spread	Δ MTD	Δ YTD	52-Week High	52-Week Low	
Investment Grade Corporate	6.92	77	-2	-3	119	73	
▪ Financial	5.39	78	-2	-4	122	74	
▪ Industrial	7.58	76	-2	-2	116	71	
▪ Utility	8.13	84	-2	2	119	78	
High Yield	2.77	272	1	-15	453	253	
Securitized	5.64	35	-2	-10	52	34	
▪ Commercial Mortgage-Backed Securities	3.92	78	0	-2	101	75	
▪ Asset-Backed Securities	2.68	50	-1	6	75	42	
▪ Mortgage-Backed Securities	5.80	32	-2	-11	49	31	

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	45,400.86	-144.02	2856.64
S&P 500	6,481.50	21.24	599.87
Nasdaq	21,700.39	244.84	2389.60

Volatility			
	Current	Δ MTD	Δ YTD
VIX	15.18	-0.94	-2.17
MOVE	85.29	5.90	-13.51

Commodities			
	Current	Δ MTD	Δ YTD
CRB	297.77	-4.58	1.05
Gold	3653.30	137.20	1012.30
Oil	61.87	-2.14	-9.85
Gas	196.42	-0.47	-4.50

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	97.77	0.00	-10.72
Euro	1.17	0.00	0.14
Pound	1.35	0.00	0.10
Yen	147.43	0.25	-9.81
Canadian Dollar	1.38	0.00	-0.06
Franc	0.80	0.00	-0.11

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	0.00	-0.75
Japan	0.50	0.00	0.25
Canada	2.75	0.00	-0.50

Data is as of 09.05.2025. 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 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. **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 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 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. **The Volatility Index (VIX)** is the annualized implied volatility of a hypothetical S&P 500 stock option with 30 days to expiration. **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.