

# Bond Market Review

September 9, 2024

## Summary

### Soft Labor Market Data Add to Economic Concerns

- August labor market data was mixed, with the unemployment rate improving to 4.2% while the non-farm payrolls report was below expectations.
- More concerning were the downward revisions to the July non-farm payrolls report, which fell below 100K for the first time since December 2020.
- We believe the weakening employment data removes any doubt about a rate cut in September, but the pace and depth of the cutting cycle remains uncertain.

## Taxable

### Record New Issuance Post-Labor Day

- The new issue market gave market participants a nice post-Labor Day welcome package with a record 29 deals on Tuesday, a pace that slowed only modestly throughout the week. While a large new issue calendar is not unusual, the magnitude of last week's volume was noteworthy, as was the relative ease with which it was absorbed. Spreads were only 4 bps wider on the week despite the increase in supply and volatility.

### High Yield Spreads Widen on Volatility

- The high yield corporate market leaked for most of the week, with spreads widening by 14 bps in four trading sessions producing excess returns of -0.26%. An increase in rate volatility following the jobs data was negative for the sector as well as a busy primary market which printed \$7.5B in new deals through Thursday.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	5.05	-0.06	-0.28
6 Month	4.72	-0.14	-0.53
1 Year	4.09	-0.31	-0.67
2 Year	3.65	-0.27	-0.60
5 Year	3.49	-0.22	-0.36
10 Year	3.71	-0.20	-0.17
30 Year	4.02	-0.18	-0.01

## 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	2.47	-0.06	-0.20	3.80	-28.95	60.40	2.80	4.31
2 Year	2.42	-0.06	-0.10	3.72	7.23	66.29	2.99	6.99
5 Year	2.41	-0.06	0.13	3.70	21.63	69.03	2.30	9.81
10 Year	2.63	-0.07	0.35	4.04	33.20	70.82	1.70	12.06
30 Year	3.56	-0.09	0.14	5.48	145.89	88.60	1.51	3.74

## Tax-Free

### Muni Supply Higher in August

- August saw \$50B in new issue supply, the largest one-month total for the year. The 30-day visible supply currently stands at \$21B, the highest visible supply since October 2020. Year-to-date we have seen \$325B in issuance with current 2024 projections of \$450B+. We last saw this pattern in 2020 with a rush to issue ahead of that year's Presidential election, which appears to be repeating this year.

### Chicago's Deficit Forecast Increases

- Unlike New York City, which surprised with better-than-expected general fund performance for FY23, Chicago has continued to struggle with its usual fiscal challenges, which largely lie in two categories, in our view:
  1. Unrealistic revenue assumptions and other income assumptions and
  2. An unwillingness to cut expenditures enough to meaningfully move the needle on general fund performance.
- Last week Mayor Brandon Johnson released a budget forecast projecting the fund deficit will rise to \$982.4MM at FYE25, up significantly from the estimated \$222.9MM deficit expected at FYE24.

# Bond Market Review

September 9, 2024

International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.23	0.40	3.95	2.46	2.7	2.57	2.19
5 Year	2.05	0.53	3.77	2.50	2.9	2.53	2.57
10 Year	2.17	0.90	3.89	2.88	3.62	3.00	3.22
30 Year	2.44	2.06	4.43	3.44	4.2	3.69	3.96

Sectors <sup>1</sup>							
	Duration	Spread	Δ MTD	Δ YTD	52-Week High	52-Week Low	
Investment Grade Corporate	7	98	5	-1	130	85	
▪ Financial	6	99	4	-13	153	88	
▪ Industrial	8	96	5	6	117	81	
▪ Utility	9	105	4	0	130	93	
High Yield	3	322	21	-1	438	289	
Securitized	6	44	1	-7	85	42	
▪ Commercial Mortgage-Backed Securities	4	98	1	-28	141	92	
▪ Asset-Backed Securities	3	65	1	-3	85	50	
▪ Mortgage-Backed Securities	6	41	2	-6	82	38	

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	40,345.41	-1217.67	2655.87
S&P 500	5,408.42	-239.98	638.59
Nasdaq	16,690.83	-1022.80	1679.48

Volatility			
	Current	Δ MTD	Δ YTD
VIX	22.38	6.83	9.93
MOVE	107.24	-0.53	-7.38

Commodities			
	Current	Δ MTD	Δ YTD
CRB	266.86	-10.17	3.03
Gold	2524.60	-3.00	452.80
Oil	67.67	-5.88	-3.98
Gas	189.60	-19.72	-21.03

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	101.18	-0.48	-0.15
Euro	1.11	0.00	0.01
Pound	1.31	0.00	0.04
Yen	142.30	-4.62	1.41
Canadian Dollar	1.36	0.01	0.04
Franc	0.84	-0.01	0.00

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	4.25	-0.25	-0.75
TED Spread	14.92	-1.73	-11.15

Data is as of 09.06.2024. Source: Bloomberg L.P. Please refer to page 3 for important definitions and disclosures.

<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

**Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Economic charts are provided for illustrative purposes only. The information provided herein is subject to market conditions and is therefore expected to fluctuate.**

The opinions contained in this presentation reflect those of Sterling Capital Management LLC (SCM), are for general information only, and are educational in nature. The opinions expressed are as of the date of publication and are subject to change without notice. These opinions are not meant to be predictions and do not constitute an offer of individual or personalized investment advice. They are not intended as an offer or solicitation with respect to the purchase or sale of any security. This information and these opinions are subject to change without notice. All opinions and information herein have been obtained or derived from sources believed to be reliable. SCM does not assume liability for any loss which may result from the reliance by any person upon such information or opinions.

Investment advisory services are available through SCM, an investment adviser registered with the U.S. Securities & Exchange Commission and an indirect, wholly-owned subsidiary of Guardian Capital Group Limited. SCM manages customized investment portfolios, provides asset allocation analysis, and offers other investment-related services to affluent individuals and businesses.

SCM does not provide tax or legal advice. You should consult with your individual tax or legal professional before taking any action that may have tax or legal implications.

Specific securities identified and described do not represent all of the securities purchased, sold or recommended to clients. There are no assurances that securities identified will be profitable investments. The securities described are neither a recommendation nor a solicitation. Security information is being obtained from resources the firm believes to be accurate, but no warrant is made as to the accuracy or completeness of the information.

Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied upon for, accounting, legal or tax advice. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

**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 **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.