

# MONTHLY FIXED INCOME MARKET UPDATE

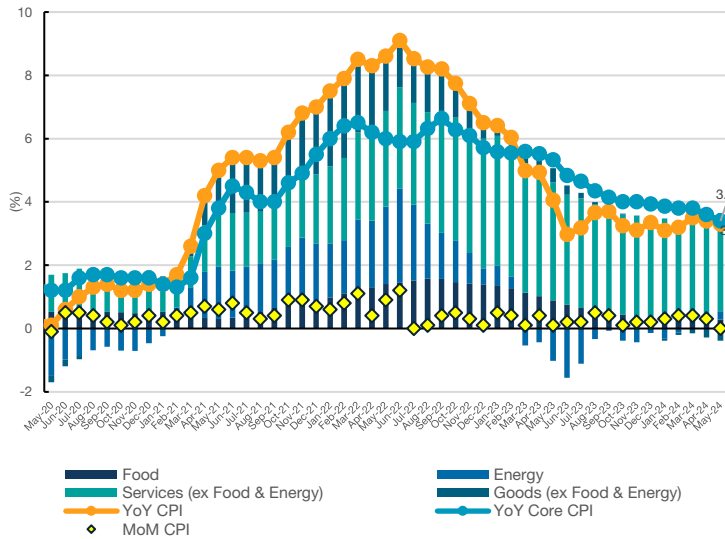
As of June 30, 2024

## Key Takeaways

1. Treasury yields decreased across the curve in June in response to softer economic data. The 10-year Treasury decreased 10 basis points to end the month at 4.30%.
2. The Consumer Price Index and Personal Consumption Expenditure Index figures for April were slightly below expectations, making progress toward the Federal Reserve's (the Fed's) 2% target.
3. Market participants have solidified their position that the Fed will cut once this year following mild inflation reports, but the timing remains uncertain.

## The Month in Charts

Year-over-year CPI for May came in at 3.3% driven by services inflation. This is down from 3.4% in April. Year-over-year Core CPI decreased as well, to 3.4%. June's FOMC meeting left markets with the understanding that the Fed expects inflation to remain elevated in the near term but anticipates it will fall in 2025. The Fed emphasized that it would need a few more months of good inflation readings to solidify confidence in future rate cuts but stood by the message that there is a potential for one to two 25 bps cuts this year.

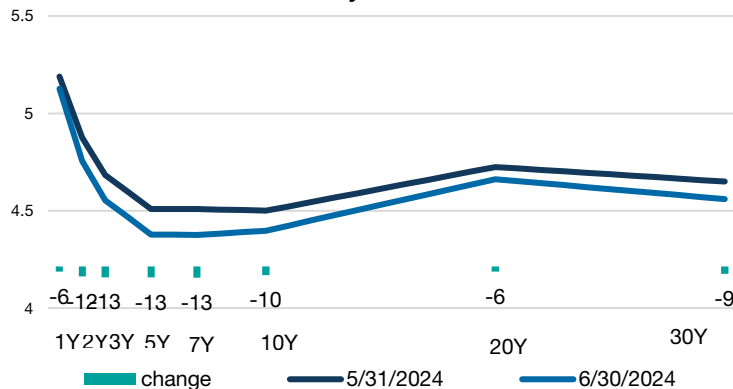


\*Basis point "bps" is 1/100th of a percentage point.

Source: Bloomberg

The Treasury yield curve shifted downward in June, as economic data and Fed speak published throughout the month encouraged market participants that rate cuts will come.

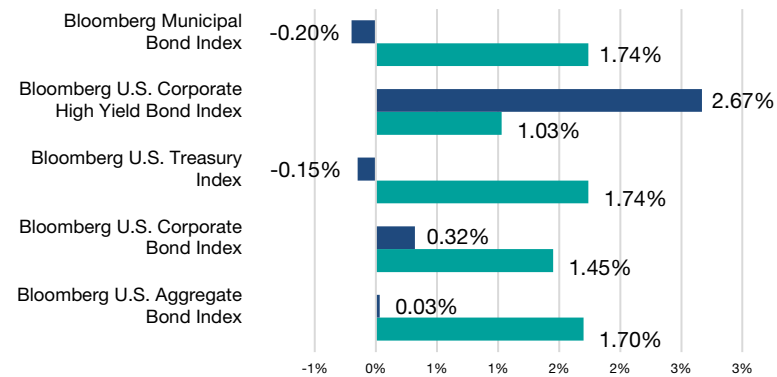
### US Treasury Yield Curve



Source: Bloomberg

The downward shift in the Treasury curve resulted in positive performance across fixed income indices for June.

### Returns (%) for Fixed Income Indices



Performance as of June 30, 2024

Past performance is no guarantee of future results.

Source: Bloomberg

Credit spreads widened slightly for most fixed income asset classes throughout the month, aside from high yield and MBS. Investment grade spreads were 9 bps wider, while high yield widened 5 bps.

Asset Class	Yield	Spread	Trend	Quarter		Change		
				Tight	Wide	MoM	QoQ	YoY
U.S. Treasury	4.57							
U.S. MBS	5.22	48		42	56	-2	-1	-4
U.S. Corporate	5.48	93		84	94	9	4	-29
U.S. Corporate High Yield	8.09	311		288	326	5	8	-81
CMBS	5.48	97		92	99	3	1	-37
ABS	5.32	56		49	58	4	2	-12
A	5.36	82		73	83	9	4	-23
BBB	5.70	115		105	116	10	4	-34
BB	6.66	177		171	205	-7	-8	-75

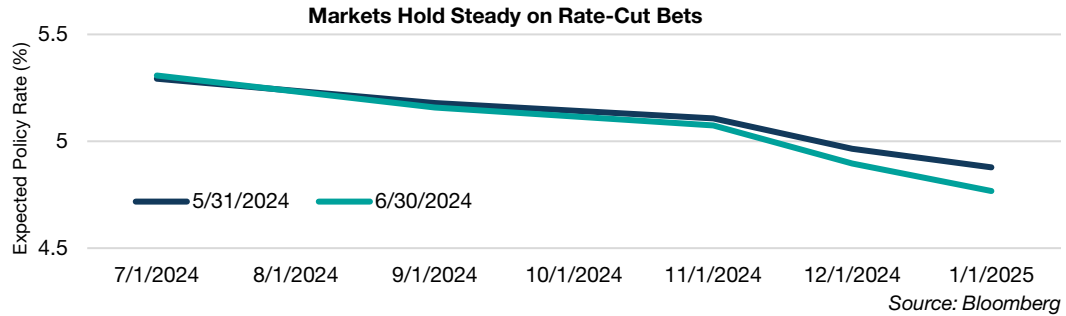
Source: Bloomberg; Asset Classes represented by: ICE BofA US Treasury & Agency Index, Bloomberg US Agg Total Return Value Unhedged USD, ICE BofA US High Yield Index, ICE BofA US Fixed Rate CMBS Index, ICE BofA US Fixed Rate Asset Backed Securities Index, Bloomberg US Agg A Total Ret Index, Bloomberg US Agg Baa Total Ret Index, Bloomberg Ba US High Yield TR Index. MoM/QoQ/YoY as of 06/30/2024

### Bonding over Bonds

Our video series on the fixed income markets

In our #BondingOverBonds video series, experts discuss notable activity in the fixed income markets: [Watch Now](#)

Expectations heading into the July FOMC meeting are more mixed than those preceding the June meeting, however market participants largely do not expect a change in the federal funds rate until September at the earliest. While more difficult to determine whether the economic softening we've seen will be sufficient for the Fed to cut when the market thinks it will, in our view, it's worth considering that the market doesn't have the best track record when it comes to forecasting rate cuts.

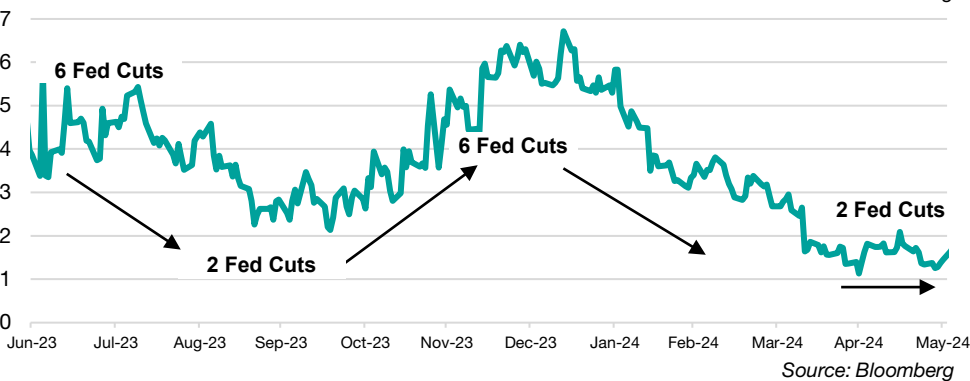
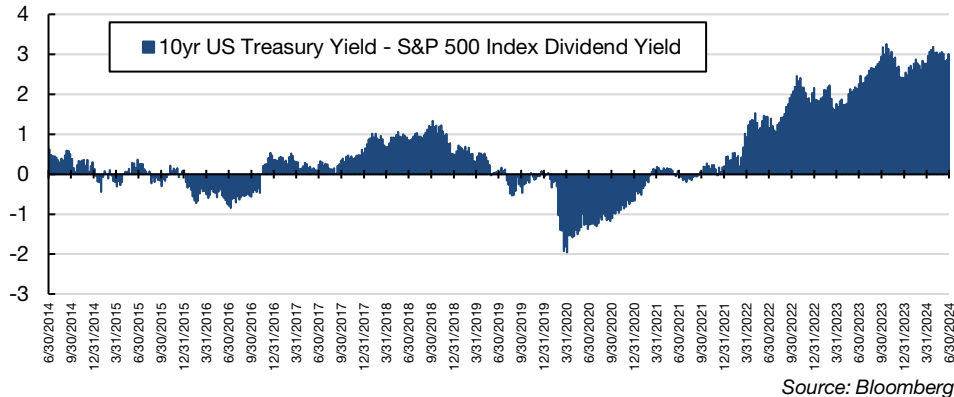


### Our Current Thinking

Our 2024 Mid-Year outlook is driven by four themes.

- Fixed income is attractive in our view, both on an absolute and relative basis. Starting yields remain historically elevated, offering an attractive entry point, particularly relative to equities.
- We expect monetary policy to continue dominating the narrative – adding fixed income throughout 2024 might serve investors better than attempting to time the Fed's moves.
- Don't get distracted by election year market commentary - sticking to a long-term strategy to achieve your investment goals is likely the best strategy.
- We remain defensive regarding credit risk, but we think there are a couple of pockets of opportunity in ABS and MBS.

See more in our Mid Year Outlook.



### What We'll Be Watching in the Month Ahead

We will be watching the economic health indicators, inflation, and the following in the month to come:

**July 5<sup>th</sup>:** The next Nonfarm Payrolls and Unemployment Rate: These reports will be important data points for the market and Fed to consider prior to the July FOMC meeting.

**July 11<sup>th</sup>:** The next CPI will be released. This report will offer insight into whether inflation is continuing to moderate and moving towards the Fed's 2% target.

**July 30<sup>th</sup>-July 31<sup>st</sup>:** August 1st, the next FOMC Meeting and rate decision: We, like the market at large do not expect a rate cut to come from this meeting, but we expect the press conference to follow may offer additional insight to what the Fed may do in the future.

### Annualized Investment Return and GDP Growth by Presidential Party

AVERAGE ANNUALIZED RETURN	REPUBLICAN	DEMOCRAT	AVERAGE
Average GDP % Change From Previous Year	2.69%	2.93%	2.81%
Bloomberg U.S. Aggregate Index	9.21%	3.91%	6.56%
Bloomberg Corporate Index	9.87%	4.65%	7.26%
Bloomberg Municipal Index	7.71%	4.80%	6.25%
S&P 500 Index	8.04%	11.91%	9.97%

Source: Bloomberg, Bureau of Economic Analysis. Performance calculated since Index inception, GDP since 1976.

All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class. Interested parties are strongly encouraged to seek advice regarding the best options for their particular circumstances from qualified tax and financial experts.

The opinions are as of the date noted and are subject to change at any time due to changes in market or economic conditions.

Index returns are provided to represent the investment environment during the periods shown. Index performance includes reinvestment of dividends and other income. Index returns do not include transaction costs, management fees or other costs. Non-US indices are net of withholding taxes, if any.

**Credit spread** is the difference in yield between a U.S. Treasury bond and another debt security of the same maturity but different credit quality. Credit spreads are the additional compensation that investors require to hold securities that are not as safe and liquid as those issued by the US Treasury. **The Treasury Yield Curve**

shows the relationship between the US bond yield and the time to maturity. Yield and price have an inverse relationship. As the yield curve lowers, the price of bonds increase. **Tenor:** the length of time until a debt is due. **Core CPI:** CPI excluding food and energy. **Consumer Price Index (CPI),** a popular measure of inflation and deflation calculated by the Bureau of Labor Statistics, measures the monthly change in prices paid by U.S. consumers. **Personal Consumption Expenditure Price Index** is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services and is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

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