MONTHLY FIXED INCOME MARKET UPDATE

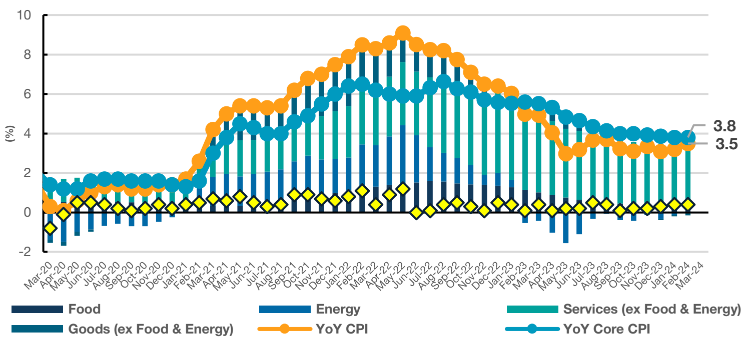
As of April 30, 2024

Key Takeaways

1. Treasury yields increased across the curve in April. The 10-year Treasury increased 48 basis points to end the month at 4.68%.
2. The Consumer Price Index and Personal Consumption Expenditure Index figures for March came in above forecasts, stubbornly higher than the Federal Reserve's (the Fed's) 2% target.
3. Market participants have priced the first rate cut further into the year, further walking back the multiple cut consensus we saw earlier this year.

The Month in Charts

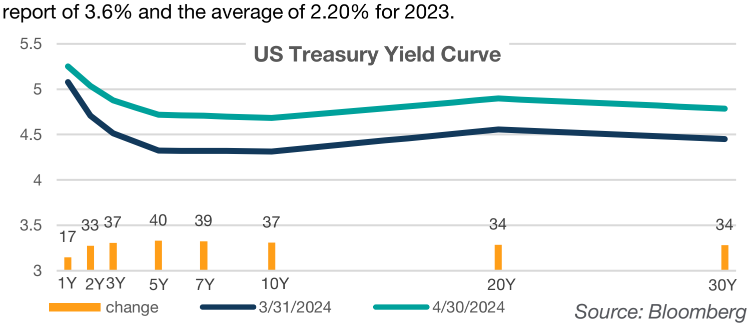
Year-over-year CPI for March, as reported April 10th, came in at 3.5% driven by services inflation. This is up from 3.2% in January. Year-over-year Core CPI held steady at 3.8%. Another month of hotter than expected inflation has taken hold of the market. As rate cut expectations fell and Chairman Powell has noted that recent data "have clearly not given us greater confidence" on the path to 2%.



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

Source: Bloomberg

The Treasury yield curve rose in April driven by a more hawkish Fed and concern that the strength of the economy and the labor market will disrupt the course to looser monetary policy. First quarter real GDP was reported at 1.6% at an annual rate, below estimates of 2.5%. This was lower than the previous quarterly analysis report of 3.6% and the average of 2.20% for 2023.



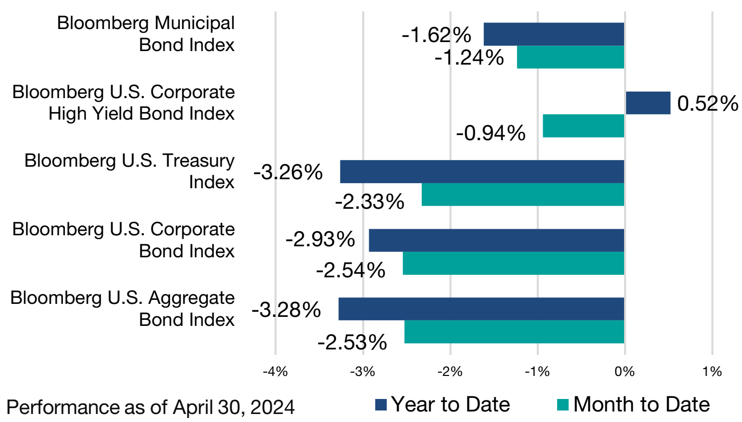
Source: Bloomberg

Credit spreads tightened slightly month-over-month for most fixed income asset classes, aside from MBS and CMBS. Investment grade and high yield spreads were 3 bps tighter.

				Quarter		Change		
Asset Class	Yield	Spread	Trend	Tight	Wide	MoM	QoQ	YoY
U.S. Treasury	4.88							
U.S. MBS	5.57	56		44	56	7	9	-10
U.S. Corporate	5.73	86		86	99	-3	-9	-49
U.S. Corporate High Yield	8.27	300		290	343	-3	-43	-147
CMBS	5.84	99		92	114	2	-15	-42
ABS	5.58	50		49	63	-5	-12	-32
A	5.61	75		75	87	-3	-8	-42
BBB	5.95	109		107	123	-3	-10	-55
BB	6.95	179		174	220	-5	-34	-103

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 04/30/2024

Returns (%) for Fixed Income Indices

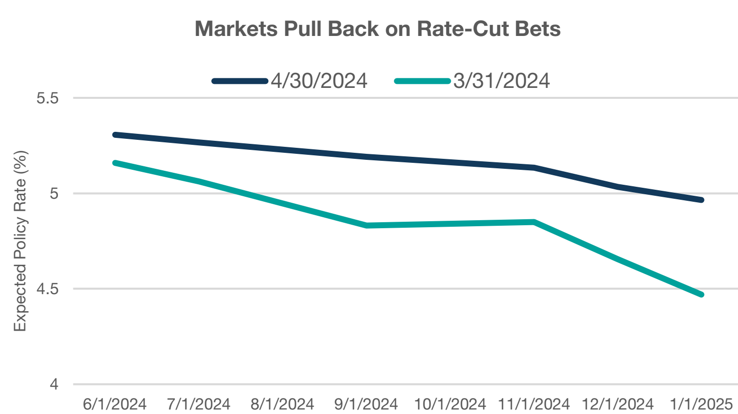


Performance as of April 30, 2024

Past performance is no guarantee of future results.

Source: Bloomberg

The April FOMC meeting was unsurprising – Chair Powell and committee members agreed to keep the federal funds rate at a restrictive 5.25%-5.50%. While not unexpected for market participants this decision sends a message to those hoping for rate cuts that they will need to be even more patient. Chair Powell noted in his press conference that the FOMC is still aiming for the inflation objective of 2%, which some economists have recently called into question.



Source: Bloomberg

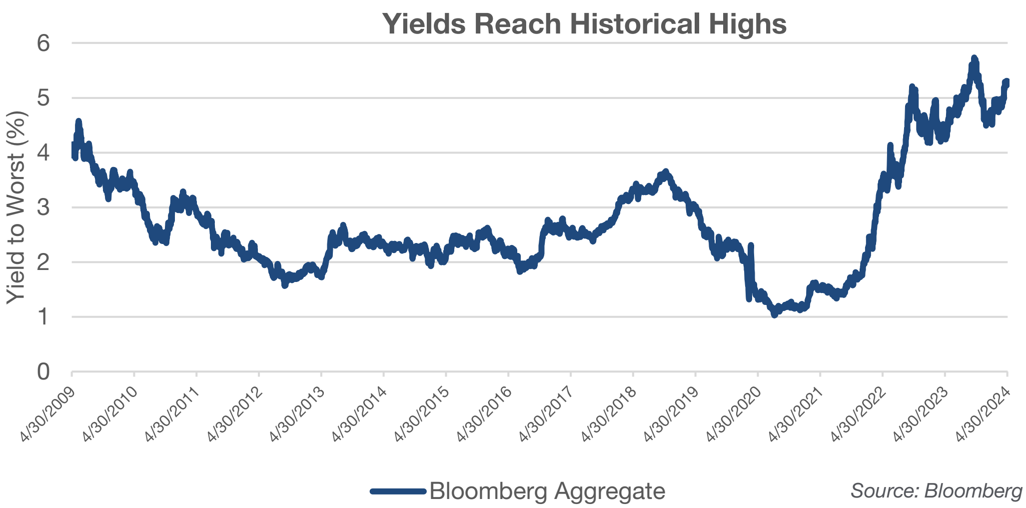
Bonding over Bonds

Our video series on the fixed income markets

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

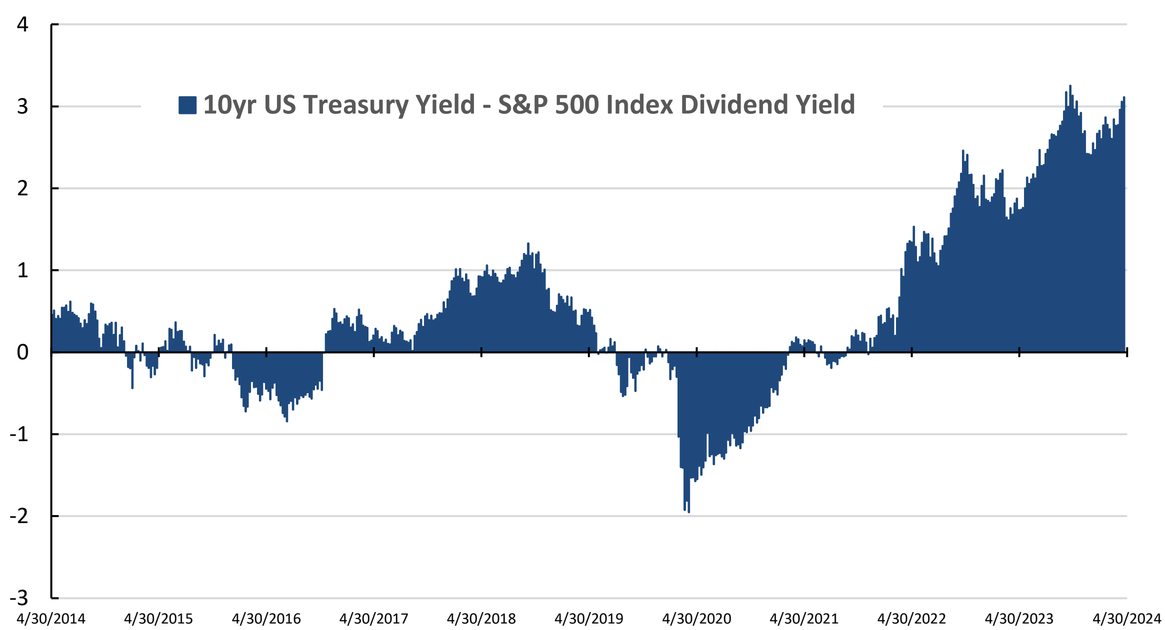
Our Current Thinking

There is a substantial focus on what the Fed will do next. While we are observant of the Fed as well, it seems as though some market participants are missing the forest for the trees. Of course, the fixed income market will feel the impact of current and future monetary policy decisions, but amidst the headlines there are some remarkable things happening for fixed income investors that are not as avidly discussed. In the first chart below, we show that the yield to worst for the U.S. Bloomberg Aggregate has reached 15-year highs. This is important because starting yields have historically been good predictors of the potential returns offered by a bond throughout its life. Locking in higher yields now has the potential to benefit fixed income investors going forward – while there is palpable uncertainty surrounding the timing of rate cuts, markets and the Fed appear to be aligned that they *will* happen.



Source: Bloomberg

If the above did not provide sufficient convincing that fixed income looks attractive on an absolute basis, perhaps putting things into a historical perspective on a relative basis will. The second chart below shows the difference in yields between a 10-year Treasury bond and the S&P 500 dividend yield. The compensation investors can receive from investing in a risk-free asset exceeds that of equity dividends, as seen in the chart. We believe that the current market environment offers an opportunity to invest in fixed income to potentially achieve compelling returns.



Source: Bloomberg

What We'll Be Watching in the Month Ahead

Alongside Chairman Powell and other FOMC Members scheduled to speak in May, we will be watching the strength of the economy, inflation, and the following in the month to come:

May 3rd, the next Nonfarm Payrolls and Unemployment Rate: These reports and accompanying revisions will be important data points for the market and Fed to consider prior to their April meeting.

May 15th, the next CPI release: This report will offer insight as to if inflation is still moderating towards the Fed's targeted 2% rate.

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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