

Bond Market Review

April 29, 2024

Summary

- Q1 gross domestic product (GDP) growth came in weaker than expected at 1.6% but the largest drags came from the more volatile categories of trade and inventories while personal consumption remained solid at 2.5%. The market moving data point was Core Personal Consumption Expenditures (PCE) that showed inflation advanced 3.7% in the first quarter which remains well above the Federal Reserve's (Fed's) target inflation rate of 2%. The monthly Core PCE data revealed most of the increase came in January while inflation in February and March was more benign at 0.26% and 0.32% respectively.
- Treasury yields jumped on the news with the 10-year reaching 4.73% on Thursday but closed the week only slightly higher after the data was digested. Interest rate volatility is likely to remain elevated this week as the Fed is expected to deliver a hawkish message Wednesday at the May Federal Open Market Committee (FOMC) meeting as their projection for rate cuts this year declines from 3 that they expected in March.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	5.19	0.17	0.43
2 Year	4.99	0.37	0.74
5 Year	4.69	0.47	0.84
10 Year	4.66	0.46	0.78
30 Year	4.78	0.43	0.75

Taxable

Corporate Spreads Tighten Despite Volatility

- Despite the higher-than-expected inflation data, increased geopolitical tensions, and interest rate volatility, the corporate bond market was relatively calm as all eyes shifted towards first quarter earnings. Spreads reversed the softness from the prior week and tightened across the board with communications, autos and banks the top performing sectors. The yield on the Barclays U.S. Aggregate Bond Index is now at 5.75%, an increase of 45 basis points (bps) from the 5.30% at the start of this month, which is helping drive demand for the sector.

High Yield Bounces Back

- High Yield corporates bounced back last week as spreads for the ICE BofA High Yield Master II Index tightened by 15 bps with little dispersion across rating buckets. Some compression with investment grade bonds was evident with the spread between BB and BBB-rated bonds tightening by 10 bps. Spreads are now 19 bps off the year-to-date low while all-in yields are still close to the year-to-date high at 8.2%.

Municipal Yields								
Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Tax-Equivalent Spread (bps)	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	3.48	0.27	0.81	5.36	16.84	67.11	3.19	11.02
2 Year	3.27	0.28	0.75	5.04	4.20	65.55	0.76	6.25
5 Year	2.81	0.29	0.53	4.33	-36.08	60.00	0.10	0.77
10 Year	2.80	0.29	0.52	4.31	-35.38	60.07	0.17	1.31
30 Year	4.02	0.29	0.60	6.18	140.31	84.10	-1.82	-0.77

Tax-Free

New York Agrees to Budget

- New York Governor Kathy Hochul announced a conceptual agreement with legislators for a \$237B budget for the state in FY25. Details of the budget appear to be sparse at present, but the Governor stated income and business taxes would not be raised and state reserve levels will remain at the current 15% of the state's fund balance. The budget allocates more to the Governor's administrative priorities such as affordable housing, fighting crime, and greater investment in health, transportation, and infrastructure.

Laws Restricting Investment Banks Could Raise Borrowing Costs

- A study released Monday by the Oklahoma Rural Association highlights that Oklahoma's law restricting state and local government contracts with investment banks deemed to "boycott" the fossil fuel industry raised municipalities' borrowing costs by 59 bps on average given the stifled competition in the investment banking space. Opposition voices to similar laws in other red states appear to be growing louder.

Data is as of 04.26.2024. Sources: Bloomberg L.P.; ICE BofA. Please refer to pages 3 for important definitions and disclosures.



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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.99	0.29	4.48	3.06	3.5	3.23	2.92
5 Year	2.59	0.48	4.24	2.91	3.5	3.04	3.15
10 Year	2.58	0.89	4.32	3.07	3.93	3.36	3.59
30 Year	2.71	1.94	4.78	3.54	4.4	3.97	3.97

Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	87	-3	-12	148	87
▪ Financial	5	94	-2	-18	175	93
▪ Industrial	7	83	-2	-7	135	82
▪ Utility	8	95	-2	-10	143	93
High Yield	3	304	5	-19	489	292
Securitized	6	53	2	2	85	47
▪ Commercial Mortgage-Backed Securities	4	98	2	-28	141	92
▪ Asset-Backed Securities	3	53	-2	-15	85	50
▪ Mortgage-Backed Securities	6	50	1	3	82	44

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	38,239.66	-1567.71	550.12
S&P 500	5,099.96	-154.39	330.13
Nasdaq	15,927.90	-451.56	916.55

Volatility			
	Current	Δ MTD	Δ YTD
VIX	15.03	2.02	2.58
MOVE	104.40	18.02	-10.22

Commodities			
	Current	Δ MTD	Δ YTD
CRB	296.84	6.55	33.01
Gold	2347.20	108.80	275.40
Oil	83.85	0.68	12.20
Gas	276.46	4.40	65.83

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	105.94	1.45	4.61
Euro	1.07	-0.01	-0.03
Pound	1.25	-0.01	-0.02
Yen	158.33	6.98	17.44
Canadian Dollar	1.37	0.01	0.05
Franc	0.91	0.01	0.07

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	5.50	0.00	0.00
Europe	4.50	0.00	0.00
United Kingdom	5.25	0.00	0.00
Japan	0.10	0.00	0.00
Canada	5.00	0.00	0.00
TED Spread	19.80	0.00	-6.27

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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

Municipal/Treasury Ratio: a comparison of the current yield of municipal bonds to U.S. Treasuries

Non-farm payroll measures the number of workers in the U.S. except those in farming, private households, proprietors, non-profit employees, and active 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.

Rich Valuation refers to a security that is priced above expected levels without a logical explanation. The term is applicable to the valuation of any asset, but it is most used with reference to stock valuations.

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.

Barclays U.S. Aggregate Bond Index: A broad measure of the U.S. investment-grade fixed-income securities market. MetLife Investment Advisors Company, LLC ("MLIAC"), subadvisor to the Portfolio, will invest in a selected stratified sample of the bonds included in the Index.

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 ICE BofA High Yield Master II Index is an unmanaged index comprised of over 1,200 high yield bonds representative of high yield bond markets as a whole. It includes zero-coupon bonds and payment-in-kind (PIK) bonds.

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 1-10 Year 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.

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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.

