

Fixed Income Weekly Monitor

Last week was inflation week and the results made for a significant “Yield Rally” in the bond market. Investors still believe the Fed will cut another 25 bps at the FOMC meeting on Wednesday -reducing the funds target rate to 4.25%-4.50% range – down 100 bps in 2024, but the inflation reports left some to doubt that the Fed will be nearly as aggressive in cutting rates in 2025 as it was in 2024.

PWM Fixed Income Research

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Treasuries

- November overall CPI was up 0.3% MoM and 2.7% YoY. Both numbers were higher than in October. The core number (less food & energy) was stable at 3.3% YoY. Final Demand PPI in November was up 0.4% MoM and 3.0% YoY - the numbers were elevated from the month before. Core PPI was unchanged at a revised 3.4% level.
- There are hopes that the core PCE (the Fed’s favorite inflation measure) for November will come in at forecast – at 0.2% MoM and 2.9% YoY. The MoM number will be down from the October number and slightly higher than the YoY number. Still, they remain well above the Fed’s 2.0% target (as measured by the Core PCE number).
- Last week, Treasury yields were lower along the yield curve with the exception of the bills: 3-month Bills were down 7 bps to 4.32%, 2-year Notes were 15 bps higher at 4.25%, 10-year Notes were 25 bps higher at 4.40% and 30-year bonds were 26 bps higher at 4.60%. The slope of the yield curve, as measured by the 2s/10s spread, was 15 bps – 10 bps steeper for the week.

Treasury Yield Curve



Municipals

- Municipal bond yields spiked higher last week with the yield on the Bloomberg Municipal Index rising 16 bps to 3.55%.
- Municipal high yield bond yields also spiked higher last week with the Bloomberg High Yield Municipal Index up 11 bps to 5.34%.
- Bloomberg Municipal AAA-rated GO yields were lower last week along the curve: 2-year notes higher by 10 bps at 2.62%, 10-year note yields were 14 bps higher at 2.90%, and 30-year bond yields were higher by 18 bps to 3.59%.
- The 2yr AAA GO Ratio is 61.8%, the 10yr AAA GO Ratio is 65.8%, and the 30yr AAA GO Ratio is 77.9%

Corporates

- Bloomberg Indices: Investment-Grade credit spreads fell 3 bps to 75 bps OAS – yields were 19 bps higher at 5.17%.
- Bloomberg Indices: High-yield credit spreads were 1 bp tighter at 262 bps OAS – yields higher by 14 bps at 7.19%.

GDP Forecasts (Q4 2024)

- Bloomberg Survey – +2.4% (as of 12/13/2024)
- New York Fed Nowcast - +1.85% (as of 12/13/2024)
- Atlanta Fed's GDPNow - +3.3% (as of 12/09/2024)

Looking Ahead:

- 12/18 – FOMC Meeting
- 12/19 - 3Q Final GDP
- 12/20 – Core PCE YoY
- 1/10 – December Employment Report
- 1/14 – PPI Report for December
- 1/20 – Presidential Inauguration
- 1/15 – CPI Report for December
- 1/30 - 4Q Advanced GDP
- 1/31 – Core PCE Report for December

Fixed Income Spread, Yield, and Return Data:

December 13, 2024

Fixed Income Asset Class Data – Bloomberg Indices								
	OAS	YTW	Price	Coupon	Mat.	OAD	YTD TR	1-YR TR
Aggregate	33	4.79%	\$91.20	3.42%	8.43	6.12	+1.97%	+3.27%
Treasury	N/A	4.36%	\$91.20	2.97%	7.78	5.94	+1.18%	+2.39%
Agency	45	4.83%	\$94.38	3.75%	8.44	5.32	+2.43%	+3.68%
MBS	43	5.14%	\$88.72	3.32%	7.68	6.09	+1.83%	+3.15%
IG Corporate	75	5.17%	\$93.08	4.27%	10.67	6.93	+3.20%	+4.65%
Municipal	N/A	3.55%	N/A	N/A	13.62	6.00	+1.99%	+2.44%
High Yield	262	7.19%	\$96.39	6.40%	4.77	3.02	+8.87%	+11.37%
Municipal HY	N/A	5.34%	N/A	N/A	19.76	6.43	+7.45%	+7.71%

Risk Assets & Spreads

Index	Sub-Index	Analytics			12/16/2024 Total Return			
		YTW (%)	OAS (bps)	Duration	5-day	MTD	QTD	YTD
US Aggregate		4.79	33	6.2	(1.38)	(0.93)	(2.37)	1.97
US Gov / Credit		4.66	28	6.4	(1.34)	(0.92)	(2.34)	1.94
US Treasury	1-3	4.25	0	1.9	(0.17)	0.04	(0.28)	3.84
	3-5	4.25		3.8	(0.66)	(0.39)	(1.70)	2.44
	5-7	4.30		5.6	(1.17)	(0.83)	(2.79)	1.57
	7-10	4.37		7.3	(1.64)	(1.24)	(3.61)	0.31
	10-20	4.67		12.9	(3.38)	(2.66)	(5.85)	(2.42)
US Govt-Related		4.83	45	5.6	(1.06)	(0.69)	(2.03)	2.43
US Corp.	Aa	4.86	42	7.8	(1.61)	(1.13)	(2.86)	1.36
	A	5.04	63	6.9	(1.42)	(0.92)	(2.27)	2.73
	Baa	5.34	92	6.7	(1.32)	(0.83)	(1.60)	4.01
US Corp.	Industrial	5.19	74	7.8	(1.57)	(1.07)	(2.29)	2.33
	Financial	5.12	76	5.5	(0.99)	(0.51)	(1.42)	4.76
	Utility	5.26	78	8.6	(1.78)	(1.23)	(2.40)	3.08
US High-yield		7.19	262	3.4	(0.22)	0.20	0.80	8.87
	Ba	6.13	157	3.6	(0.15)	0.05	0.92	8.04
	B	7.10	249	3.2	(0.36)	0.30	0.22	7.06
	Caa	9.71	519	3.2	0.03	0.47	2.66	15.53
Municipal		3.55		6.1	(0.88)	(0.54)	(0.30)	1.99
High Yield Muni		5.34		9.8	(0.88)	(0.62)	(0.03)	7.45
S&P Preferred		6.15		17.3	(1.23)	(1.66)	(1.30)	10.71
SPX Index		1.28			(0.61)	0.37	5.74	29.08

Appendix – Important Disclosures

Some of the potential risks associated with fixed income investments include call risk, reinvestment risk, default risk and inflation risk. Additionally, it is important that an investor is familiar with the inverse relationship between a bond's price and its yield. Bond prices will fall as interest rates rise and vice versa.

When considering a potential investment, investors should compare the credit qualities of available bond issues before they invest. The two most recognized rating agencies that assign credit ratings to bond issuers are Moody's Investors Service ("Moody's") and Standard & Poor's Corporation ("S&P"). Moody's lowest investment-grade rating for a bond is Baa3 and S&P's lowest investment-grade rating for a bond is BBB-. Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest).

The Bond Buyer 20-Bond Index consists of 20 general obligation bonds that mature in 20 years. The average rating of the 20 bonds is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA. The Bond Buyer 11-Bond Index uses a select group of 11 bonds in the 20-Bond Index. The average rating of the 11 bonds is roughly equivalent to Moody's Aa1 and S&P's AA-plus. The Bond Buyer Revenue Bond Index consists of 25 various revenue bonds that mature in 30 years. The average rating is roughly equivalent to Moody's A1 and S&P's A-plus. The indexes represent theoretical yields rather than actual price or yield quotations. Municipal bond traders are asked to estimate what a current-coupon bond for each issuer in the indexes would yield if the bond was sold at par value. The indexes are simple averages of the average estimated yields of the bonds, are unmanaged and a direct investment cannot be made in them.

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