

Fixed Income Weekly Monitor

Bond yields spiked higher last week as the odds of another 25 bps rate cut at the December FOMC meeting is 50/50. Also, discussion of the appropriated Fed funds neutral rate could be as high as 4.0%, rather than the 2.50%-2.75% projections of a couple of years ago and the more recent 3.00%-3.25% level.

PWM Fixed Income Research

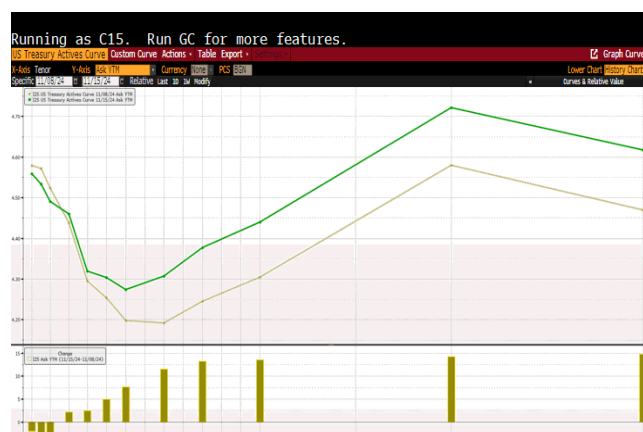
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Treasuries

- Perceived hawkish comments from Fed Chair Jay Powell last Thursday that future interest rate cuts are not “preset” but economic data dependent along with economic data that showed static inflation levels (both CPI & PPI) and job market strength (Weekly Initial Jobless Claims).
- However, we await more pertinent data in the PCE core YoY inflation number - that the Fed favors - next week and the nonfarm payroll number – part of the monthly Employment report the first Friday in December before the FOMC will make a decision on an interest rate reduction at its meeting on the 18th of December.
- Last week, Treasury yields were lower on the short-end of the curve and much higher on the long-end of the curve: 3-month Bills were down 3 bps to 4.49%, 2-year Notes were 5 bps higher at 4.30%, 10-year Notes were 14 bps higher at 4.44% and 30-year bonds were 15 bps higher at 4.62%. The slope of the yield curve, as measured by the 2s/10s spread, was steeper at 14 bps.

Treasury Yield Curve



Municipals

- Municipal bond yields fell last week with the yield on the Bloomberg Municipal Index down 1 bp to 3.59%.
- Municipal high yield bond yields were unchanged last week with the Bloomberg High Yield Municipal Index at 5.38%.
- Bloomberg Municipal AAA-rated GO yields were lower last week along the curve: 2-year notes lower by 1 bp at 2.63%, 10-year note yields were 1 bps lower at 2.96%, and 30-year bond yields were down 2 bps to 3.69%.
- The 2yr AAA GO Ratio is 61.3%, the 10yr AAA GO Ratio is 66.5%, and the 30yr AAA GO Ratio is 79.9%

Corporates

- Bloomberg Indices: Investment-Grade credit spreads were wider by 4 bps at 78 bps OAS – yields higher by 16 bps to 5.25%.
- Bloomberg Indices: High-yield credit spreads were 10 bps wider at 266 bps OAS – yields higher by 17 bps to 7.29%.

GDP Forecasts (Q4 2024)

- Bloomberg Survey – 2.2% (as of 11/15/2024)
- New York Fed Nowcast - 2.1% (as of 11/15/2024)
- Atlanta Fed's GDPNow - +2.5% (as of 11/15/2024)

Looking Ahead:

- 11/27 – PCE Core YOY Inflation Report
- 12/6 – Employment Report
- 12/18 – FOMC Meeting

Fixed Income Spread, Yield, and Return Data:

Fixed Income Asset Class Data – Bloomberg Indices								
	OAS	YTW	Price	Coupon	Mat.	OAD	YTD TR	1-YR TR
Aggregate	34	4.84%	\$90.81	3.40%	8.46	6.17	+1.33%	7.12%
Treasury	N/A	4.41%	\$90.84	2.94%	7.78	5.95	+0.66%	5.47%
Agency	44	4.87%	\$94.10	3.72%	8.44	5.34	+1.83%	6.45%
MBS	43	5.18%	\$88.36	3.30%	7.77	6.15	+1.18%	7.61%
IG Corporate	78	5.25%	\$92.60	4.26%	10.70	6.94	+2.37%	9.48%
Municipal	N/A	3.54%	N/A	N/A	13.63	6.10	+1.46%	6.69%
High Yield	266	7.29%	\$95.89	6.37%	4.81	3.08	+7.88%	13.56%
Municipal HY	N/A	5.38%	N/A	N/A	19.73	6.47	+6.74%	13.26%

Risk Assets & Spreads

Index	Sub-Index	Analytics			11/15/2024 Total Return			
		YTW (%)	OAS (bps)	Duration	5-day	MTD	QTD	YTD
US Aggregate		4.84	34	6.2	(0.63)	(0.52)	(2.98)	1.33
US Gov / Credit		4.72	29	6.4	0.03	(0.58)	(2.95)	1.31
US Treasury	1-3	4.32	-1	1.9	(0.03)	(0.09)	(0.69)	3.41
	3-5	4.31		3.8	(0.10)	(0.41)	(2.21)	1.91
	5-7	4.36		5.6	(0.01)	(0.66)	(3.39)	0.94
	7-10	4.43		7.4	0.06	(0.97)	(4.28)	(0.39)
	10-20	4.69		13.0	(0.74)	(1.51)	(6.36)	(2.96)
US Govt-Related		4.87	44	5.6	0.11	(0.49)	(2.61)	1.83
US Corp.	Aa	4.90	41	7.7	(0.84)	(0.65)	(3.59)	0.59
	A	5.11	65	6.9	(0.79)	(0.48)	(3.00)	1.96
	Baa	5.43	96	6.8	(0.70)	(0.25)	(2.47)	3.09
US Corp.	Industrial	5.26	77	7.8	0.01	(0.46)	(3.08)	1.50
	Financial	5.20	78	5.5	(0.64)	(0.20)	(2.16)	3.98
	Utility	5.34	82	8.6	0.08	(0.60)	(3.35)	2.08
US High-yield		7.29	266	3.5	0.36	0.43	(0.11)	7.88
	Ba	6.22	160	3.7	0.12	0.29	(0.02)	7.03
	B	7.24	256	3.3	0.09	0.43	(0.63)	6.15
	Caa	10.07	550	3.3	0.17	0.74	1.50	14.23
Municipal		3.59		6.2	1.09	0.64	(0.82)	1.46
High Yield Muni		5.38		9.8	1.09	0.85	(0.69)	6.74
S&P Preferred		6.09		17.4	(0.96)	0.18	(0.44)	11.68
SPX Index		1.31			(0.36)	4.33	2.02	24.55

	Nominals	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	1 yr	4.32	2	14	-44
	2yr	4.30	5	36	5
	5yr	4.31	12	45	46
	7yr	4.38	13	44	50
	10yr	4.44	14	41	56
	30yr	4.62	15	30	59
	Inflation breakeven	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	5yr	2.40	-3	18	24
	10yr	2.34	-2	6	17
	Real yield	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	5yr	1.90	14	27	20
	10yr	2.10	16	35	40
Municipals	AAA Rated GO	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	2yr AAA GO	2.65	-1	14	15
	5yr AAA Go	2.70	-1	21	48
	10yr AAA GO	2.98	-1	23	71
	A Rated GO	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	2yr A GO	3.04	7	23	5
	5yr A GO	3.14	3	31	42
	10yr A GO	3.43	-3	23	53
	A Rated Revenue	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	2yr A Revenue	2.97	-1	20	10
	5yr A Revenue	3.03	-3	20	36
	10yr A Revenue	3.39	-2	20	54
	GO Ratios	Ratio	5d Chg.	1 mo.Chg.	YTD Chg.
	5yr AAA GO Ratio	62.71	-1.9	-1.8	5.1
	10yr AAA GO Ratio	67.13	-2.3	-1.1	8.7
MBS 30-yr		Curr. Cpn.	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	FNMA	5.80	18	47	55
	GNMA	3.63	NM	3	25

Corporate	Yield %	OAS (bps)	Chg. OAS (bps)	Chg. OAS (bps)	Chg. OAS (bps)
Intermediate IG Index	5.05	68	4	-3	-22
AA rated	4.9	41	3	1	-7
A Rated	0.66	66	4	-1	-19
BBB Rated	5.45	98	3	-5	-24
Intermed. High-yield Index	2.65	265	10	-24	-58
BB Rated	6.22	160	8	-19	-41
B Rated	7.24	256	15	-23	-54
CCC Rated	10.07	550	11	-52	-226
Preferred Index	6.09				
Other		Level	5d Chg.	1 mo.Chg.	YTD Chg.
	Fed Funds Rate (Eff.)	4.58%	-0.25%	-0.25%	-0.75%
	Treas. Volatility Index	102.5	-1.6	-24.8	-12.2
	S&P 500 Index	5870.6	-2.08%	0.95%	23.08%
	VIX Index	16.1	1.2	-4.5	3.7
	U.S Dollar Index	1285.7	1.42%	2.90%	6.00%

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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