

Fixed Income Weekly Monitor

The current question is whether the Fed will raise rates by 25 bps at either of its remaining meetings this year or will they stay on the sidelines. However, one has to ask is the bond market's apparent belief that the economy is too strong, and inflation is still a threat for the Fed to take any action.

PWM Fixed Income Research

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Treasuries

We looked at the movement in rates since the Fed cut the funds target range by 50 bps on September 18th. The benchmark 10-year note has risen 53 bps to 4.24% while the two year note is up 49 bps to 4.11% - the five-year note has spiked 58 bps to 4.06%.

So much for stimulating economic activity through lower interest rates in the case as the only rates that are lower are on the short-end of the curve – and not by much – 12 bps on the 3-month bill which is down to 4.63%.

This Thursday we will get the September PCE core number for September with the expectation of a 2.6% increase. Then on Friday we will see the October Employment report with expected job creation of 110k. These numbers will likely influence actions taken by the Fed with the fed funds rate for the remainder of this year.

Last week, Treasury yields were significantly higher: 3mo Bills were unchanged at 4.63%, 2-year Notes were 16 bps higher at 4.11%, 10-year Notes were 16 bps higher at 4.24% and 30-year bonds were 11 bps higher at 4.50%. The slope of the yield curve, as measured by the 2s/10s spread, was unchanged at 13 bps.

Treasury Yield Curve



Municipals

- Municipal bond yields rose last week with the yield on the Bloomberg Municipal Index up 21 bps to 3.64%.
- Municipal high yield bond yields rose last week with the Bloomberg High Yield Municipal Index higher by 14 bps to 5.41%.
- Bloomberg Municipal AAA-rated GO yields were higher last week along the curve: 2-year notes higher by 16 bps at 2.64%, 10-year note yields were 27 bps higher at 2.99%, and 30-year bond yields were up 20 bps to 3.79%.
- The 2yr AAA GO Ratio is 64.9%, the 10yr AAA GO Ratio is 70.3%, and the 30yr AAA GO Ratio is 84.4%

Corporates

- Bloomberg Indices: Investment-Grade credit spreads were wider by 1 bp at 82 bps OAS – yield higher by 17 bps to 5.10%.
- Bloomberg Indices: High-yield credit spreads unchanged at 286 bps OAS – yields up 14 bps to 7.30%.

GDP Forecasts (Q3 & Q4 2024)

- Bloomberg Survey - +2.5% / 2.2% (as of 10/27/2024)
- New York Fed Nowcast - +2.91% / 2.47% (as of 10/25/2024)
- Atlanta Fed's GDPNow - +3.3% (as of 10/25/2024)

Looking Ahead:

- 9/27 – PCE Core YoY – September (Bloomberg Survey# +2.6%)
- 11/1 – Employment Report (Nonfarm Payroll # - Survey +110,000 job creation) - October
- 11/5 – Presidential Election
- 11/7 – FOMC Meeting
- 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	36	4.67%	\$91.66	3.38%	8.42	6.15	+2.03%	11.13%
Treasury	N/A	4.21%	\$91.78	2.92%	7.74	5.93	+1.47%	8.83%
Agency	44	4.68%	\$95.03	3.70%	8.43	5.35	+2.54%	9.41%
MBS	48	5.03%	\$89.10	3.29%	7.70	6.08	+1.80%	12.54%
IG Corporate	82	5.10%	\$93.39	4.25%	10.71	6.97	+2.96%	14.02%
Municipal	N/A	3.64%	N/A	N/A	13.58	6.19	+0.84%	9.82%
High Yield	286	7.30%	\$95.81	6.35%	4.83	3.07	+7.46%	16.82%
Municipal HY	N/A	5.41%	N/A	N/A	19.73	6.62	+6.04%	17.63%

Risk Assets & Spreads

Index	Sub-Index	Analytics			10/27/2024 Total Return			
		YTW (%)	OAS (bps)	Duration	5-day	MTD	QTD	YTD
US Aggregate		4.67	36	6.2	(0.92)	(2.32)	(2.32)	2.03
US Gov / Credit		4.54	30	6.4	(0.87)	(2.25)	(2.25)	2.05
US Treasury	1-3	4.13	-1	1.9	(0.20)	(0.57)	(0.57)	3.54
	3-5	4.07		3.8	(0.60)	(1.58)	(1.58)	2.57
	5-7	4.12		5.6	(0.88)	(2.38)	(2.38)	1.99
	7-10	4.21		7.3	(1.11)	(3.01)	(3.01)	0.94
	10-20	4.55		12.9	(1.71)	(4.94)	(4.94)	(1.48)
US Govt-Related		4.68	44	5.6	(0.70)	(1.93)	(1.93)	2.54
US Corp.	Aa	4.76	43	8.1	(1.19)	(2.83)	(2.83)	1.39
	A	4.95	68	6.9	(1.05)	(2.34)	(2.34)	2.66
	Baa	5.30	102	6.8	(1.00)	(2.05)	(2.05)	3.53
US Corp.	Industrial	5.12	81	7.8	(1.14)	(2.47)	(2.47)	2.14
	Financial	5.05	84	5.5	(0.82)	(1.75)	(1.75)	4.42
	Utility	5.19	85	8.7	(1.21)	(2.62)	(2.62)	2.85
US High-yield		7.30	285	3.5	(0.37)	(0.51)	(0.51)	7.46
	Ba	6.19	176	3.8	(0.38)	(0.81)	(0.45)	6.56
	B	7.25	275	3.3	(0.40)	(0.45)	(0.81)	5.95
	Caa	10.27	584	3.3	(0.13)	0.66	0.66	13.28
Municipal		3.64		6.2	(1.08)	(1.42)	(1.42)	0.84
High Yield Muni		5.41		9.4	(1.08)	(1.34)	(1.34)	6.04
S&P Preferred		6.02		17.6	(1.39)	(0.31)	(0.31)	11.83
SPX Index		1.32			(0.96)	0.86	0.86	23.13

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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