

First Quarter 2024 Bond Market Commentary

Interest rates generally rose in the first quarter of 2024, facing stronger than expected economic and employment data, while inflation remained stubbornly in the 3.0% range. As a result, investors backed away from a potential March rate cut. This resulted in interest rates adjusting upward as the Fed confirmed a higher for longer interest rate policy. This was based on a lack of confidence in making progress toward their 2.0% rate target in a timely manner.

For the first three months of the year, most sectors and components of the bond market produced modest losses. The six-month returns were much improved with most sectors providing mid to upper single digit returns. One-year returns were mixed and very sector, duration and quality specific.

We remain in the higher for longer camp when looking forward to interest rates for the balance of 2024. Lingered excess liquidity resulting from multiple covid related economic programs, together with continuing federal deficit financing requirements, are driving interest rates. The U.S. Treasury monthly debt refinancing is ballooning. Higher interest rates are also contributing to the financing explosion.

Outside the Federal Government financing needs, both State and local government and corporate financing requirements need to be met. The large portion of Federal Government debt issued begins to crowd out the other entities. This leads to higher cost of debt for all related parties.

While base interest rates are higher, credit spreads (yield premium due to idiosyncratic factors) remain historically unattractive. This has caused us to favor U.S. Treasury Notes relative to corporate and municipal bonds in selected special situations.

Confirmation of the lack of progress in bringing inflation closer to the Federal Reserve 2.0% target was made public with the March CPI report. Year over Year CPI was reported at 3.5% above the February report of 3.2%. Similarly, Year over Year CPI Ex Food & Energy was 3.8%, above market expectations.

Progress in lowering inflation has stalled, while the economy remains strong. This only adds support to our expectation for higher interest rates for longer.

Index Returns (%) As of 3/31/2024	Performance Period		
	3 Month	6 Month	1 Year
Bloomberg U.S. Treasury Intermediate	-0.36	3.62	1.60
Bloomberg Govt/Credit Intermediate	-0.15	4.40	2.69
Bloomberg Intermediate Aggregate	-0.42	5.06	2.30
Bloomberg U.S. Treasury	-0.96	4.65	0.05
Bloomberg Govt/Credit	-0.72	5.86	1.74
Bloomberg Aggregate	-0.78	5.99	1.70
Bloomberg U.S. Treasury 20+ Year	-3.83	9.05	-7.35
Bloomberg Corporate	-0.40	8.07	4.43
Bloomberg Corporate Intermediate	0.26	6.14	4.94
Bloomberg Corporate High Yield	1.47	8.74	11.15
Bloomberg Credit AAA	-1.64	7.96	0.16
Bloomberg Credit AA	-0.98	7.22	1.95
Bloomberg Credit A	-0.55	7.61	3.70
Bloomberg Credit BAA	-0.14	8.63	5.59
Bloomberg MBS	-1.04	6.36	1.39
Bloomberg TIPS	-0.08	4.62	0.45
Bloomberg Inter-Short Muni	-0.36	4.67	2.07

Source: Bloomberg

Daily Generic Municipal Bond Yields (%) as of 3/31/2024

Term	Maturity	AAA	AA	A	BAA
1 Yr.	2025	3.19	3.35	3.51	4.16
2 Yr.	2026	2.98	3.14	3.29	3.94
3 Yr.	2027	2.79	2.97	3.12	3.76
4 Yr.	2028	2.61	2.81	2.97	3.59
5 Yr.	2030	2.50	2.71	2.87	3.47
7 Yr.	2032	2.46	2.69	2.86	3.44
9 Yr.	2033	2.49	2.72	2.89	3.50
10 Yr.	2035	2.50	2.74	2.90	3.53
12 Yr.	2037	2.70	2.93	3.10	3.75
14 Yr.	2038	2.91	3.17	3.34	4.01
15 Yr.	2040	2.99	3.27	3.44	4.13
17 Yr.	2042	3.17	3.43	3.60	4.31
19 Yr.	2043	3.29	3.55	3.73	4.45
20 Yr.	2048	3.39	3.65	3.84	4.56
25 Yr.	2053	3.60	3.87	4.10	4.81
30 Yr.	2054	3.67	3.95	4.19	4.89

Source: Bloomberg



Index Descriptions:

Bloomberg U.S. Intermediate Treasury Index: Unmanaged index includes all domestic publicly issued, U.S. Treasury securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years, are rated investment grade, and have \$250 million or more of outstanding face value.

Bloomberg Intermediate Government/Credit Index: Broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index with less than 10 years to maturity. The index includes investment grade, U.S. dollar-denominated, fixed-rate treasuries, government-related and corporate securities.

Bloomberg Intermediate Aggregate Index: Broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market with less than 10 years to maturity. The securitized sector is wholly included. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

Bloomberg U.S. Treasury Bond Index: Is part of the Bloomberg global family of domestic government bonds indices. The index measures the performance of the U.S. Treasury bond market, using market capitalization weighting and a standard rule-based inclusion methodology.

Bloomberg U.S. Government/Credit Bond Index: Broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index. The index includes investment grade, U.S. dollar-denominated, fixed-rate treasuries, government-related and corporate securities.

Bloomberg U.S. Aggregate Bond Index: Broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg U.S. Treasury 20+ Year Index: Measures U.S. dollar-denominated, fixed-rate nominal debt issues by the U.S. Treasury with 20+ years to maturity.

Bloomberg U.S. Credit Index: Composed of all domestic publicly issued, fixed-rate, nonconvertible, and investment-grade corporate debt. Issues are rated at least Baa by Moody's Investors Service or BBB by Standard & Poor's, if unrated by Moody's. Collateralized Mortgage Obligations (CMOs) are not included.

Bloomberg U.S. Intermediate Credit Index: Measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. The index only includes domestic securities with maturity between one and ten years. It is composed of the Bloomberg Barclays U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

Bloomberg U.S. Corporate High Yield Index: Unmanaged index that is comprised of domestic issues that meet the following criteria: at least \$150 million par value outstanding, maximum credit rating of Ba1 (including defaulted issues) and at least one year to maturity.

Bloomberg Aaa Corporate Index: Measures the Aaa-rated, fixed-rate, taxable domestic corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg Aa Corporate Index: Measures the Aa-rated, fixed-rate, taxable domestic corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg Government/Credit A+ Bond Index: Unmanaged index that tracks the performance of U.S. Government and corporate domestic bonds rated investment grade or better, with maturities of at least one year with a security rating of A or better.

Bloomberg Baa Corporate Index: Measures the Baa-rated, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Mortgage-Backed Securities Index: Unmanaged index that tracks domestic agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by GNMA, FNMA, and FHLM.

Bloomberg U.S. Treasury Inflation-Protected Securities (TIPS) Index: Represents domestic securities that protect against adverse inflation and provide a minimum level of real return. To be included in this index, bonds must have cash flows linked to an inflation index, be sovereign issues denominated in U.S. currency, and have more than one year to maturity, and, as a portion of the index, total a minimum amount outstanding of 100 million U.S. dollars.

Bloomberg Municipal Bond Inter-Short 1-10 Year Index: Unmanaged index of municipal bonds traded in the U.S. with maturities ranging from 1-10 years.

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