

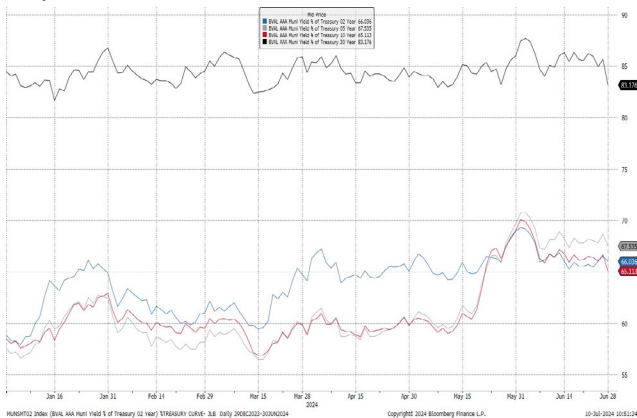
# Second Quarter 2024 Bond Market Commentary

Interest rates were highly volatile in the second quarter of 2024. Following a quarter when market sentiment was discounting multiple interest rate cuts in 2024, surprises in the strength of the economy and labor markets together with a lack of progress in meeting inflation objectives drove interest rates higher. The number of, and the timing of any interest rate cuts this year were significantly altered. Ten-year interest rates which bottomed on 2/01/24 at 3.87%, reversed and rapidly rose to 4.70% on 4/25/24. The yield curve steepened. Short-term US Treasury Bills remained in the low 5% range, while longer-term US Treasury Notes rose from low 4% levels to mid 4% levels. The impact of the rising rates led to modest, positive returns in the quarter for US Treasury Notes less than five years, and negative returns for US Treasury Notes longer than seven years.

As presented in the accompanying chart, second quarter returns were modest, with shorter-term bond portfolios producing better returns than the longer-term portfolios. Lower credit quality allocations benefited from the carry produced by the higher coupon income received or accrued.

The 6-month and 1-year index returns were broadly positive except for the longer-term 20+ year US Treasury index and the triple-A credit sector index, which lack the coupon carry benefit previously described.

The municipal bond sector has been difficult to navigate. As represented in the chart below, municipal bond yields as a percentage of US Treasuries have traded well below historical averages for much of the first half of the year. While difficult to read, it shows that current 2-, 5-, and 10-year triple-A rated municipals are trading in the range of 65% to 68% of US Treasuries. Historical averages have been at 75%-85% of US Treasuries. This has caused us to purchase select US Treasury Notes at higher after-tax yields, rather than the rich municipal issues. We are currently witnessing some improved percentages than earlier in the year.



We expect the municipal market to eventually move back near more historically attractive levels as supply/demand conditions normalize.

Currently, we believe the second half of the year is in the hands of the Federal Reserve. In their efforts to be transparent, they have continued to maintain their stance of data dependency before initiating any change in policy. Further progress in moving to their 2% inflation policy goal or an unexpected turn down in the labor market could cause them to lower short-term interest rates later this year. Should lack of improvement in inflation continue, we expect to remain in a higher for longer interest rate environment. In general, we anticipate higher interest rates than we experienced over the past 15+ years.

Index	Performance Period		
	3 Month	6 Month	1 Year
<b>Bloomberg U.S. Treasury Intermediate</b>	0.58	2.19	3.37
<b>Bloomberg Govt/Credit Intermediate</b>	0.64	3.35	4.19
<b>Bloomberg Intermediate Aggregate</b>	0.46	2.77	3.55
<b>Bloomberg U.S. Treasury</b>	0.09	0.15	1.55
<b>Bloomberg Govt/Credit</b>	0.05	1.78	2.74
<b>Bloomberg Aggregate</b>	0.07	1.76	2.63
<b>Bloomberg U.S. Treasury 20+ Year</b>	-2.16	-9.35	-7.17
<b>Bloomberg Corporate</b>	-0.09	4.34	4.63
<b>Bloomberg Corporate Intermediate</b>	0.74	5.72	5.89
<b>Bloomberg Corporate High Yield</b>	1.09	12.37	10.44
<b>Bloomberg Credit AAA</b>	-1.35	-1.20	-0.21
<b>Bloomberg Credit AA</b>	-0.64	1.29	2.00
<b>Bloomberg Credit A</b>	-0.15	3.55	3.97
<b>Bloomberg Credit BAA</b>	0.08	5.67	5.77
<b>Bloomberg MBS</b>	0.07	1.46	2.12
<b>Bloomberg TIPS</b>	0.79	1.25	2.71
<b>Bloomberg Inter-Short Muni</b>	-0.31	1.75	2.31

Source: Bloomberg

## Daily Generic Municipal Bond Yields (%) as of 6/30/2024

Term	Maturity	AAA	AA	A	BAA
<b>1 Yr.</b>	2025	3.19	3.35	3.51	3.91
<b>2 Yr.</b>	2026	2.98	3.14	3.29	3.86
<b>3 Yr.</b>	2027	2.79	2.97	3.12	3.74
<b>4 Yr.</b>	2028	2.61	2.81	2.97	3.71
<b>5 Yr.</b>	2030	2.50	2.71	2.87	3.72
<b>7 Yr.</b>	2032	2.46	2.69	2.86	3.76
<b>9 Yr.</b>	2033	2.49	2.72	2.89	3.79
<b>10 Yr.</b>	2035	2.50	2.74	2.90	3.81
<b>12 Yr.</b>	2037	2.70	2.93	3.10	3.87
<b>14 Yr.</b>	2038	2.91	3.17	3.34	4.03
<b>15 Yr.</b>	2040	2.99	3.27	3.44	4.10
<b>17 Yr.</b>	2042	3.17	3.43	3.60	4.31
<b>19 Yr.</b>	2043	3.29	3.55	3.73	4.44
<b>20 Yr.</b>	2048	3.39	3.65	3.84	4.51
<b>25 Yr.</b>	2053	3.60	3.87	4.10	4.71
<b>30 Yr.</b>	2054	3.67	3.95	4.19	4.89

Source: Bloomberg

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## 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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