

# Third Quarter 2024 Bond Market Commentary

The big news of the quarter (albeit, expected) is that the Federal Open Market Committee (FOMC) cut the federal funds rate for the first time since March of 2020 after an extended hiking cycle. Since July of 2023, the reference rate had remained at the 5.25% to 5.50% range, marking the highest levels we've seen since 2001.

The cut was on the more aggressive end of expectations at 50 basis points (bps) bringing the rate to the 4.75-5.00% range. The market had already priced in cuts by the time Jerome Powell announced the decision to cut following September's FOMC meeting. While we experienced an immediate but small drop in rates on the very front end of the curve, we are seeing the opposite effect on the long end. As the longer end of the curve is more sensitive to the inflation outlook, the 30-year rate has ticked higher by about 30 bps by the time of this writing. The back-and-forth focus of the FOMC between the target inflation rate and protecting the job market could allow for a rebound in price pressures. All eyes are on CPI as it plays a pivotal role in the Committee's next move at their November meeting.

While we continue to seek relative value across the fixed income spectrum, the market is doing its best to make it difficult. Credit spreads continue to be near all-time lows and the Municipal/U.S. Treasury ratios are also below historical averages. In many instances, it is difficult to quantify the risk/reward of owning fixed income securities in certain situations beyond U.S. Treasury notes.

As we move forward, our portfolio positioning will be prudent to scrutinize and take advantage of short-lived disconnects in the marketplace.

Nominal yields across the curve remain attractive. As the market continues to be volatile, we remain neutral to the benchmark but positioned to take advantage of relative value when it appears.

Index Returns (%) As of 9/30/2024	Performance Period		
	3 Month	6 Month	1 Year
<b>Bloomberg U.S. Treasury Intermediate</b>	3.97	4.57	8.35
<b>Bloomberg Govt/Credit Intermediate</b>	4.17	4.83	9.45
<b>Bloomberg Intermediate Aggregate</b>	4.60	5.08	10.39
<b>Bloomberg U.S. Treasury</b>	4.74	4.84	9.72
<b>Bloomberg Govt/Credit</b>	5.10	5.15	11.31
<b>Bloomberg Aggregate</b>	5.20	5.26	11.57
<b>Bloomberg U.S. Treasury 20+ Year</b>	7.96	5.62	15.18
<b>Bloomberg Corporate</b>	5.84	5.74	14.28
<b>Bloomberg Corporate Intermediate</b>	4.66	5.43	11.90
<b>Bloomberg Corporate High Yield</b>	5.28	6.44	15.74
<b>Bloomberg Credit AAA</b>	6.93	5.49	13.89
<b>Bloomberg Credit AA</b>	6.06	5.38	12.99
<b>Bloomberg Credit A</b>	5.86	5.70	13.75
<b>Bloomberg Credit BAA</b>	5.76	5.84	14.98
<b>Bloomberg MBS</b>	5.53	5.60	12.32
<b>Bloomberg TIPS</b>	4.12	4.94	9.79
<b>Bloomberg Inter-Short Muni</b>	-0.36	4.67	2.07

Source: Bloomberg

## Daily Generic Municipal Bond Yields (%) as of 9/30/2024

Term	Maturity	AAA	AA	A	BAA
<b>1 Yr.</b>	2025	3.19	3.35	3.51	3.28
<b>2 Yr.</b>	2026	2.98	3.14	3.29	3.15
<b>3 Yr.</b>	2027	2.79	2.97	3.12	3.14
<b>4 Yr.</b>	2028	2.61	2.81	2.97	3.16
<b>5 Yr.</b>	2030	2.50	2.71	2.87	3.19
<b>7 Yr.</b>	2032	2.46	2.69	2.86	3.36
<b>9 Yr.</b>	2033	2.49	2.72	2.89	3.51
<b>10 Yr.</b>	2035	2.50	2.74	2.90	3.60
<b>12 Yr.</b>	2037	2.70	2.93	3.10	3.72
<b>14 Yr.</b>	2038	2.91	3.17	3.34	3.85
<b>15 Yr.</b>	2040	2.99	3.27	3.44	3.93
<b>17 Yr.</b>	2042	3.17	3.43	3.60	4.12
<b>19 Yr.</b>	2043	3.29	3.55	3.73	4.24
<b>20 Yr.</b>	2048	3.39	3.65	3.84	4.30
<b>25 Yr.</b>	2053	3.60	3.87	4.10	4.50
<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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