

# Fourth Quarter 2024 Bond Market Commentary

The fourth quarter was a volatile period for interest rates. The Federal Funds rate was again cut in December. However, the Federal Open Market Committee (FOMC) revised their forward guidance suggesting that the pace of cuts will slow through 2026 based on stabilizing inflation and continued economic growth. Regardless, the December cut aided in the continued disinflation and steepening of the yield curve. U.S. Treasury Bill rates fell from the 4.60% range to the 4.20% range. The 10-year Treasury yield rose unevenly from 3.78% to close out the year at 4.56%. At the longer end, the 30-year Treasury yield started the quarter at 4.12% and ended at 4.78%. The volatility resulted in mixed quarterly performance in Treasuries dependent upon maturity.

Outside of high-yield and short-term debt, fourth quarter returns were negative across the board and left many fixed income investors unimpressed with their year-end performance.

High-yield investors benefited from spread contraction as well as higher coupon carry. While it didn't seem likely that credit spreads would compress anymore, they hit cyclical and historical lows in November/December 2024. However, chasing yield does come at a cost and a credit selloff in 2025 could quickly negate past performance in this asset class.

We also credit coupon carry in addition to December's rate cut in providing short-duration investors with positive performance in Q4. The 0-3 Month U.S. T-Bill Index returned 1.19% for the quarter and 5.30% for 2024. While the return potential of short-term investments remains attractive, yields have dropped by over 100 basis points in the past year.

The FOMC's more cautious rate cutting stance has led to rising yields and falling prices for intermediate and long-term bonds which led to the lackluster performance in the majority of fixed income securities for Q4 as well as put a significant damper on year-end performance.

Municipal bond yields as a percentage of U.S. Treasuries have continued to trade below historical averages. 2-, 5-, and 10-year AAA rated municipals bonds are trading around 65% of U.S. Treasury yields while historical averages have been at 75%-85%. These rich ratios have led us to purchase U.S. Treasury Notes in some of our municipal strategies at higher after-tax yields.

While the general shape of the municipal curve has remained constant over the last quarter, we have seen an increase in yields that has led to negative quarterly returns of municipal bonds. While we may see some tax changes with the new administration, investors should still invest in municipal or taxable bonds based upon their long-term goals (independent of the administration).

We expect increased municipal flows that will support improved ratios through the next year. We believe that, in combination with municipal bond's historically low default rates continue to make them an attractive defensive play should we land in a recessionary or economically contractive environment.

Lastly, fixed income investors have much to look forward to in 2025. This is the first time in eighteen years the U.S. Treasury yield curve begins the year across the entire term structure above 4.00%! We believe the opportunity to capture yield across the full spectrum of the investment grade universe remains promising and also provides an opportunity for any necessary repositioning in the fixed income asset classes. Although the year ahead will not be entirely without risks, a higher portion of return from income over time cushions portfolios from the impact fluctuating interest rates have on market prices.

Index	Performance Period		
	3 Month	6 Month	1 Year
<b>Bloomberg U.S. Treasury Intermediate</b>	-1.70	2.20	2.42
<b>Bloomberg Govt/Credit Intermediate</b>	-1.60	2.50	3.00
<b>Bloomberg Intermediate Aggregate</b>	-2.07	2.43	2.47
<b>Bloomberg U.S. Treasury</b>	-3.14	1.45	0.58
<b>Bloomberg Govt/Credit</b>	-3.08	1.87	1.18
<b>Bloomberg Aggregate</b>	-3.06	1.98	1.25
<b>Bloomberg U.S. Treasury 20+ Year</b>	-9.42	-2.21	-7.98
<b>Bloomberg Corporate</b>	-3.04	2.62	2.13
<b>Bloomberg Corporate Intermediate</b>	-1.40	3.19	4.22
<b>Bloomberg Corporate High Yield</b>	0.17	5.47	8.19
<b>Bloomberg Credit AAA</b>	-5.88	0.64	-2.35
<b>Bloomberg Credit AA</b>	-3.94	1.89	0.24
<b>Bloomberg Credit A</b>	-3.31	2.35	1.63
<b>Bloomberg Credit BAA</b>	-2.58	3.03	2.97
<b>Bloomberg MBS</b>	-3.16	2.20	1.20
<b>Bloomberg TIPS</b>	-2.88	1.12	1.84
<b>Bloomberg Inter-Short Muni</b>	-0.88	1.82	1.14

Source: Bloomberg

## Daily Generic Municipal Bond Yields (%) as of 12/31/2024

Term	Maturity	AAA	AA	A	BAA
1 Yr.	2026	2.95	3.01	3.20	3.76
2 Yr.	2027	2.80	2.87	3.07	3.62
3 Yr.	2028	2.81	2.90	3.10	3.66
4 Yr.	2029	2.84	2.93	3.15	3.73
5 Yr.	2030	2.88	2.98	3.21	3.81
7 Yr.	2032	2.98	3.09	3.35	3.97
9 Yr.	2034	3.07	3.18	3.47	4.12
10 Yr.	2035	3.11	3.23	3.53	4.19
12 Yr.	2037	3.19	3.33	3.64	4.31
14 Yr.	2039	3.28	3.46	3.77	4.45
15 Yr.	2040	3.32	3.52	3.83	4.51
17 Yr.	2042	3.42	3.61	3.93	4.61
19 Yr.	2044	3.53	3.74	4.05	4.74
20 Yr.	2045	3.59	3.81	4.12	4.80
25 Yr.	2050	3.74	4.00	4.26	4.96
30 Yr.	2055	3.82	4.09	4.34	5.04

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, supnationals 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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