Monthly Market Review

Fixed Income | July 2024

Priced for Perfection, but Prices Remain Imperfect

Economic Highlights

► As expected, the Federal Reserve (Fed) left the target range for the federal funds rate unchanged at 5.25% to 5.50% at the June Federal Open Market Committee (FOMC) meeting. The Fed's much-anticipated update to its Summary of Economic Projections showed just one quarter-point rate cut through the balance of 2024, two fewer than previously forecast. Chair Jerome Powell noted the revision reflected the slow progress on moving inflation towards the Fed's 2% target. The labor market was also a focus, as recent economic releases showed it softening as it comes into better balance.

► May's inflation readings improved after several months of disappointingly high readings earlier in the year. The year-over-year (YoY) change in the Consumer Price Index (CPI) came in at 3.3%. Core CPI (which removes volatile food and energy components) came in at 3.4%, which is the smallest increase in over three years. The Personal Consumption Expenditures Index (PCE), the Fed's preferred inflation gauge, showed a similar downward trend as Core PCE hit a three-year low of 2.6%.

► The final reading of first quarter gross domestic product (GDP) came in at 1.4%, down notably from the last two quarters of 2023. Personal spending declined to an annualized rate of 1.5%, below its 20-year average of 2.4%. Meanwhile, net exports and private inventories detracted from the headline figure by more than 1%.

► Retail sales and personal spending both came in below expectations in June, a continuation of the softening trend in consumer activity.

► The jobs report came in slightly above expectations as the nonfarm payrolls report showed 206,000 net new jobs created in June; however, this was accompanied by significant downward revisions to the April and May figures. The unemployment rate also ticked up to 4.1% from 4.0% while the YoY change in average hourly earnings fell to a three-year low of 3.9%. This points to a moderating labor market, which should support the Fed's soft-landing goal.

Bond Markets

► U.S. Treasury yields between 2- and 10-years finished the month down approximately 10 to 15 basis points (bps) but remained relatively rangebound following the FOMC meeting and CPI release on June 12.

► The yield curve remains inverted as the 10-year Treasury yield ended June 35 bps lower than 2-year Treasuries.

► Short-term U.S. Treasury Bills inched lower over the month given expectations that we are nearing the start of a Fed rate-cutting cycle.

► Yields on benchmark 2-, 5-, and 10-year U.S. Treasuries ended the month at 4.76%, 4.38%, and 4.40%, respectively, representing changes of -11, -13, and -10 bps for the month, respectively.

► Fixed income total returns were broadly positive on the rate rally during June. The ICE BofA 2-, 5-, and 10-year U.S. Treasury indices returned 0.58%, 1.02%, and 1.27%, respectively.

Equity Markets

► Equity markets reached their thirty-first new high for the year on optimism around earnings, the transformative AI revolution, and eventually, Fed rate cuts. In June, the S&P 500 Index ended up 3.6%; the Dow Jones Industrial Average increased by 1.2%; and the NASDAQ rose by 6.0%. International equites (as measured by the MSCI ACWI ex U.S. Index) fell 0.1% for the month. For the year, the S&P 500 is up over 15%.

► The dollar index (DXY) fully reversed its decline in May, rising by 1.1% in June and ending the month near the high of the trailing 12-month range.

PFMAM Strategy Recap

► While expectations around the timing and pace of future Fed rate cuts remain fluid, we view that the risk of yields falling far outweighs the risk of a rapid increase over the intermediate term. As a result, we will maintain portfolio durations neutral and in-line with benchmarks.

► Spreads on federal agencies and supranationals remained anchored over the month and offered limited value. Issuance is expected to remain quiet going into the summer, and we expect further reductions in favor of allocations to other sectors.

► Investment-grade corporate bonds underperformed Treasuries for the first time in eight months as spreads across the corporate universe widened modestly off their two-year lows. Issuance has slowed from its record pace earlier in the year but select opportunities remain. We continue to view current valuations as somewhat expensive and therefore an opportunity to selectively trim allocations. But, we plan to remain nimble in search of better opportunities, especially in new issues.

► Asset-backed securities (ABS) continued to perform strongly as yield spreads remained tight. The deluge of issuance in 2024 continued in June and was met with strong demand. We will likely maintain allocations while allowing principal paydowns to provide modest reinvestment opportunities.

► Mortgage-backed securities (MBS) performed well for the second straight month after underperforming in the first four months of 2024. Agency-backed commercial MBS (CMBS) continue to post positive excess returns.

► Short-term money market yields finished the month relatively unchanged. Commercial paper and negotiable bank CD spreads continue to tighten closer to similar-maturity Treasuries.

U.S. Treasury Yields

Maturity	Jun 30, 2023	May 31, 2024	Jun 30, 2024	Monthly Change
3-Month	5.30%	5.41%	5.36%	-0.05%
6-Month	5.43%	5.38%	5.33%	-0.05%
2-Year	4.90%	4.87%	4.76%	-0.11%
5-Year	4.16%	4.51%	4.38%	-0.13%
10-Year	3.84%	4.50%	4.40%	-0.10%
30-Year	3.86%	4.65%	4.56%	-0.09%

Yields by Sector and Maturity

Maturity	U.S. Treasury	Federal Agency	Corporates-AA-A Industrials	AAA Municipals
3-Month	5.36%	5.37%	5.52%	-
6-Month	5.33%	5.33%	5.56%	-
2-Year	4.76%	4.77%	5.13%	3.08%
5-Year	4.38%	4.39%	4.97%	2.80%
10-Year	4.40%	4.46%	5.18%	2.77%
30-Year	4.56%	-	5.56%	3.72%

Spot Prices and Benchmark Rates

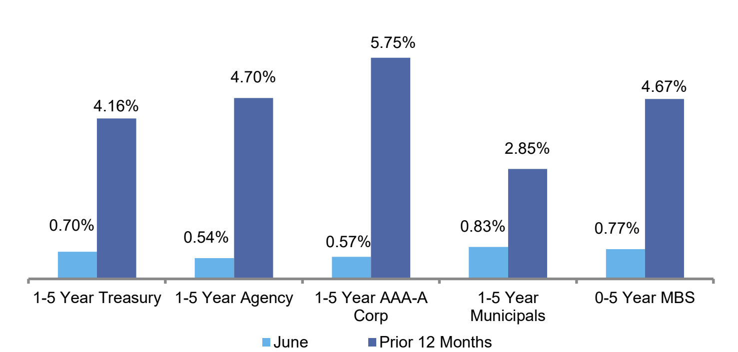
Index	Jun 30, 2023	May 31, 2024	Jun 30, 2024	Monthly Change
1-Month LIBOR	5.22%	5.44%	5.45%	0.01%
3-Month LIBOR	5.55%	5.60%	5.59%	-0.01%
Effective Fed Funds Rate	5.08%	5.33%	5.33%	0.00%
Fed Funds Target Rate	5.25%	5.50%	5.50%	0.00%
Gold ($/oz)	$1,929	$2,323	$2,340	$17
Crude Oil ($/Barrel)	$70.64	$76.99	$81.54	$4.55
U.S. Dollars per Euro	$1.09	$1.08	$1.07	-$0.01

Economic Indicators

Indicator	Release Date	Period	Actual	"Survey (Median)"
FOMC Rate Decision	12-Jun	Jun	5.50%	5.50%
CPI YoY	12-Jun	May	3.30%	3.40%
Retail Sales Advance MoM	18-Jun	May	1.00%	0.30%
Existing Home Sales MoM	21-Jun	May	-0.70%	-1.00%
GDP Annualized QoQ	27-Jun	1Q T	1.40%	1.40%
U. of Mich. Consumer Sentiment	28-Jun	Jun F	68.2	66
PCE YoY	28-Jun	May	2.60%	2.60%

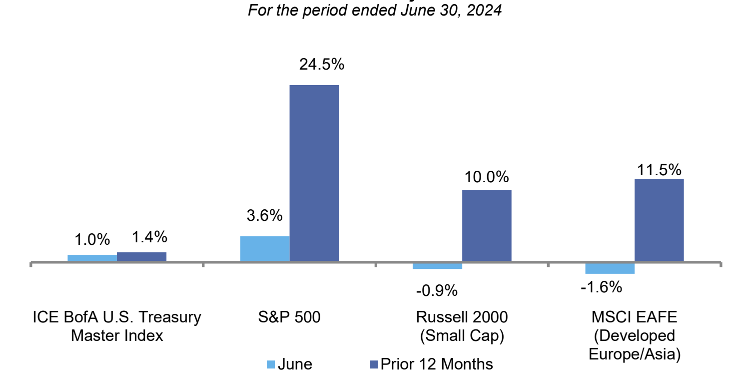
ICE BofA Fixed Income Index Returns

For the period ended June 30, 2024

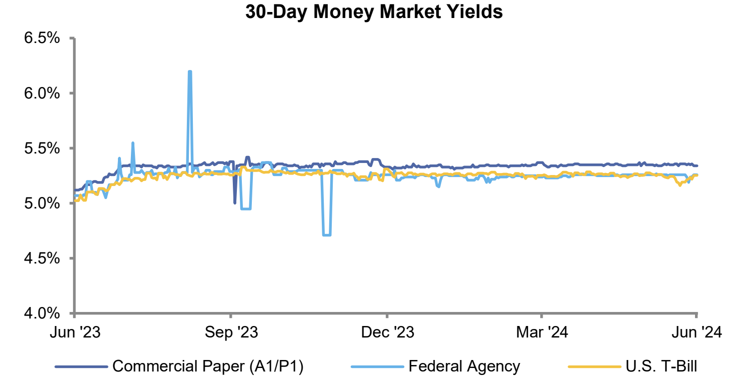


Total Return of Major Indices

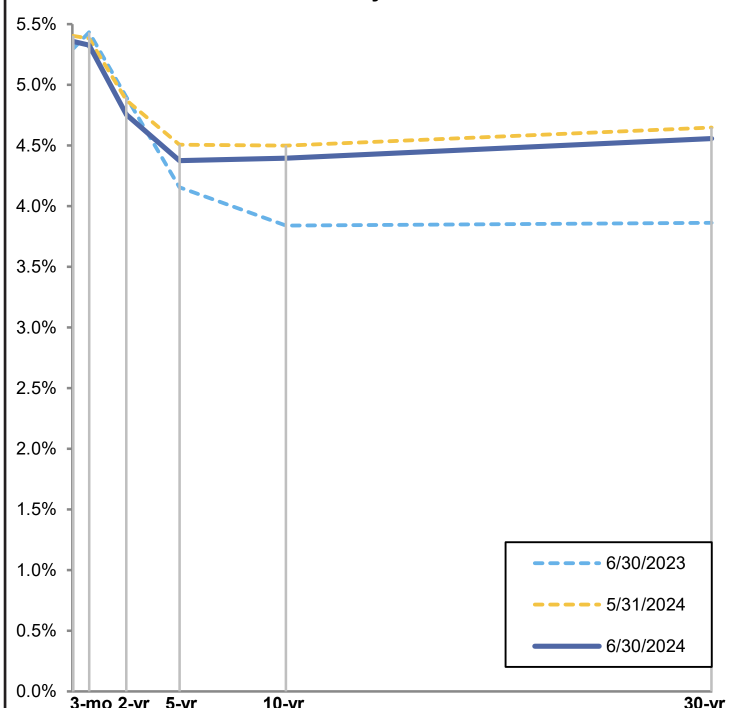
For the period ended June 30, 2024



30-Day Money Market Yields



U.S. Treasury Yield Curve



Source: Bloomberg. Data as of June 30, 2024, unless otherwise noted.

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