

First Quarter 2025 Bond Market Commentary

The Fourth Quarter 2024 commentary concluded by noting that while the year ahead will come with risks, fixed income investors have plenty to look forward to. A strong start to the year, marked by positive returns across the board, is encouraging.

U.S. Treasuries across all maturities posted positive returns in the first quarter of the year. The Federal Open Market Committee (FOMC) kept rates unchanged, helping to maintain stability at the front end of the yield curve. However, uncertainty surrounding potential policy changes under the new administration led to more significant yield fluctuations beyond the one-year maturity. The 5-year Treasury yield began the year at 4.38% and declined steadily throughout the quarter, finishing at 3.94%. The 30-year yield followed a less direct path but still ended the quarter 20 basis points (bps) lower, at 4.57%.

High issuance costs have limited the volume of new corporate debt. Typically, this would be price positive given the reduced supply. However, heightened market uncertainty has prompted investors to seek safer assets, resulting in a widening of credit spreads to levels not seen since 2023. Although high-yield returns remained positive, more profound spread widening may signal potential challenges ahead. Our ongoing sentiment is that the pursuit of additional yield spread carries inherent risks, and a credit selloff could quickly negate past performance in this asset class.

Higher interest rates continue to provide short-term investors with positive returns. The 0-3 Month U.S. T-Bill Index posted a return of 1.04% for the quarter. While the return potential of short-term investments remains appealing, it's worth noting that this marks the lowest quarterly return for the index since Q4 of 2022.

The change in administration has reignited speculation about the potential repeal of the federal tax exemption on municipal bonds. As of now, this remains just a rumor, and the likelihood of a full repeal is very low. We are staying well-informed on the matter, and we continue to invest in the most defensive sectors that would likely be least impacted should any changes occur. However, the volatility triggered by these rumors along with an increased supply has created attractive opportunities to invest in tax-exempt fixed income. Municipal bonds have become significantly cheaper relative to U.S. Treasuries, offering opportunities to buy at 80-90% of Treasury yields. We continue to view municipal bonds as an appealing defensive play should we land in a period of slower economic growth or a recessionary environment.

Although the entire yield curve is no longer above 4.00%—as it was at the start of the year—fixed income remains an attractive asset class. We anticipate continued volatility in the year ahead and believe opportunities will emerge in areas that have been less appealing over the past two years.

Index Returns (%) As of 3/31/2025	Performance Period		
	3 Month	6 Month	1 Year
Bloomberg U.S. Treasury Intermediate	2.49	0.75	5.35
Bloomberg Govt/Credit Intermediate	2.42	0.78	5.65
Bloomberg Intermediate Aggregate	2.61	0.48	5.58
Bloomberg U.S. Treasury	2.92	-0.31	4.51
Bloomberg Govt/Credit	2.70	-0.46	4.66
Bloomberg Aggregate	2.78	-0.37	4.88
Bloomberg U.S. Treasury 20+ Year	4.59	-5.25	0.07
Bloomberg Corporate	2.31	-0.80	4.90
Bloomberg Corporate Intermediate	2.27	0.84	6.32
Bloomberg Corporate High Yield	1.00	1.18	7.69
Bloomberg Credit AAA	2.69	-3.35	1.95
Bloomberg Credit AA	2.43	-1.61	3.68
Bloomberg Credit A	2.38	-1.01	4.63
Bloomberg Credit BAA	2.21	-0.43	5.39
Bloomberg MBS	3.06	-0.20	5.39
Bloomberg TIPS	4.17	1.17	6.17
Bloomberg Inter-Short Muni	0.81	-0.08	2.32

Source: Bloomberg

Daily Generic Municipal Bond Yields (%) as of 3/31/2025

Term	Maturity	AAA	AA	A	BAA
1 Yr.	2026	2.54	2.72	2.78	3.28
2 Yr.	2027	2.64	2.82	2.87	3.37
3 Yr.	2028	2.73	2.92	2.96	3.45
4 Yr.	2029	2.78	3.00	3.03	3.52
5 Yr.	2030	2.85	3.08	3.11	3.58
7 Yr.	2032	2.98	3.25	3.30	3.72
9 Yr.	2034	3.12	3.42	3.48	3.86
10 Yr.	2035	3.19	3.50	3.57	3.93
12 Yr.	2037	3.32	3.66	3.74	4.06
14 Yr.	2039	3.47	3.85	3.95	4.24
15 Yr.	2040	3.55	3.96	4.07	4.34
17 Yr.	2042	3.70	4.10	4.22	4.46
19 Yr.	2044	3.84	4.25	4.39	4.60
20 Yr.	2045	3.92	4.32	4.47	4.66
25 Yr.	2050	4.13	4.53	4.72	4.87
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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