Monthly Fixed Income Market Update

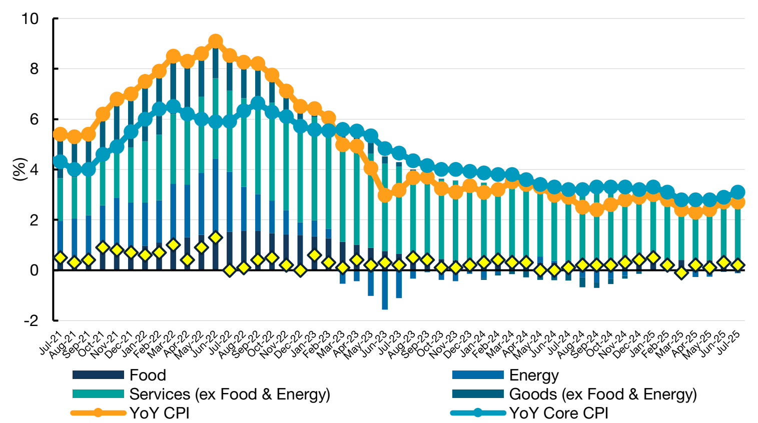
As of August 31, 2025

Key Takeaways

1. August headlines were driven by the Federal Reserve (the Fed), with markets focused on potential rate cuts and growing concerns about the independence on the Fed's rate setting process. The 10-year yield declined and ended the month at 4.23%, down from July's 4.37%.
2. Fixed income experienced positive performance in August driven largely by yield decreases across most of the Treasury curve. Corporate credit spreads remain below long-term averages.
3. Why is the independence of the Federal Reserve important? We dive into the historical implications of a politically biased central bank.

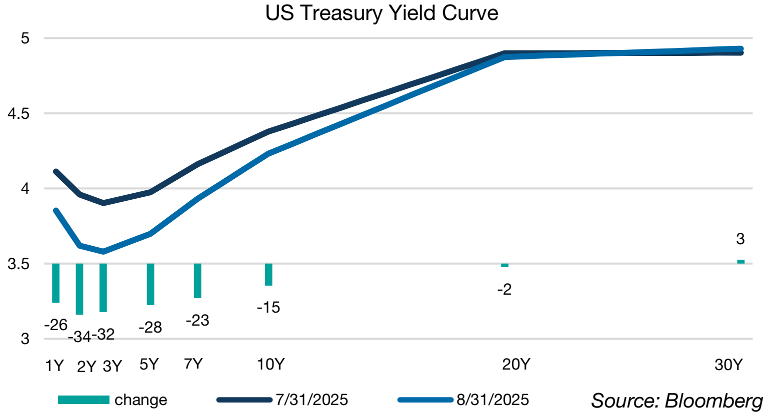
The Month in Charts

July CPI, reported in August, remained at 2.7% year-over-year and Core CPI rose to 3.1% year-over-year. In August Chair Powell led his last Fed annual symposium in Jackson Hole Wyoming. During this speech Powell signaled a bit more definitively that the Fed may reduce rates in September, but reemphasized that these decisions hinge on the economic conditions versus political pressure from the executive branch. Market pricing for interest rate cuts held at two cuts through 2025, slightly increasing expectations month over month.



Source: Bloomberg

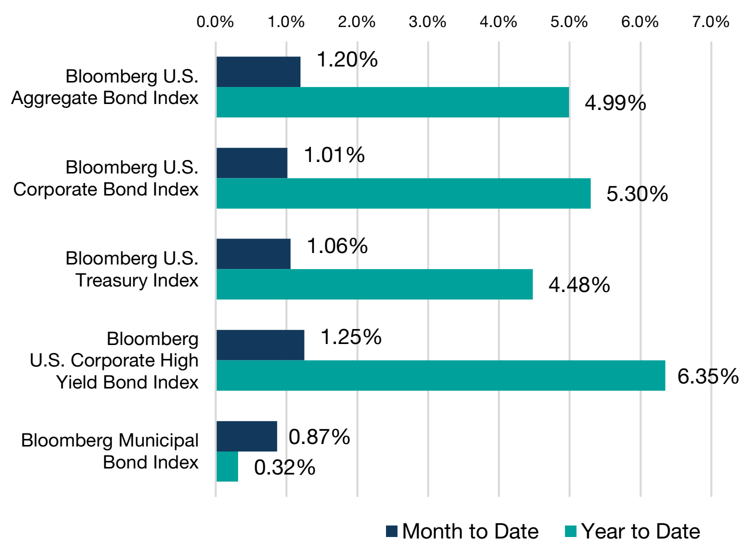
The Treasury yield curve concluded August lower as markets reacted to some softer economic data published throughout the month. Shorter-term yields fell faster given expectations for an interest rate cut in September, but longer-maturity yields remained elevated or even rose in August due to concerns about longer term inflation management and government borrowing. Weaker consumer and business confidence, more dovish Fed commentary and potential downside employment risks bolstered market conviction that the Fed will cut in September.



Source: Bloomberg

Performance was positive across fixed income in August. High yield corporates continued to deliver the highest returns and municipal bonds have overcome the underperformance we saw earlier this year.

Returns (%) for Fixed Income Indices



Performance as of 08/31/2025

Past performance is no guarantee of future results. *Source: Bloomberg*

Credit spreads tightened month-over-month following more positive economic data and advancements in some trade talks. Investment grade spreads widened 3 bps and high yield spreads tightened 9 bps.

				Quarter		Change			Trailing
Asset Class	Yield	Spread	Trend	Tight	Wide	MoM	QoQ	YoY	10 yr avg
U.S. Treasury	3.97								
U.S. MBS	4.86	34		33	42	-5	-7	-5	38
U.S. Corporate	4.92	79		73	88	3	-9	-14	118
U.S. Corporate High Yield	7.14	272		268	315	-9	-43	-30	405
CMBS	4.52	78		78	86	-3	-9	-20	90
ABS	4.23	50		50	59	0	-8	-13	55
A	4.80	67		62	75	3	-7	-13	96
BBB	5.12	99		93	112	3	-12	-15	152
BB	5.99	170		157	190	1	-23	-6	265

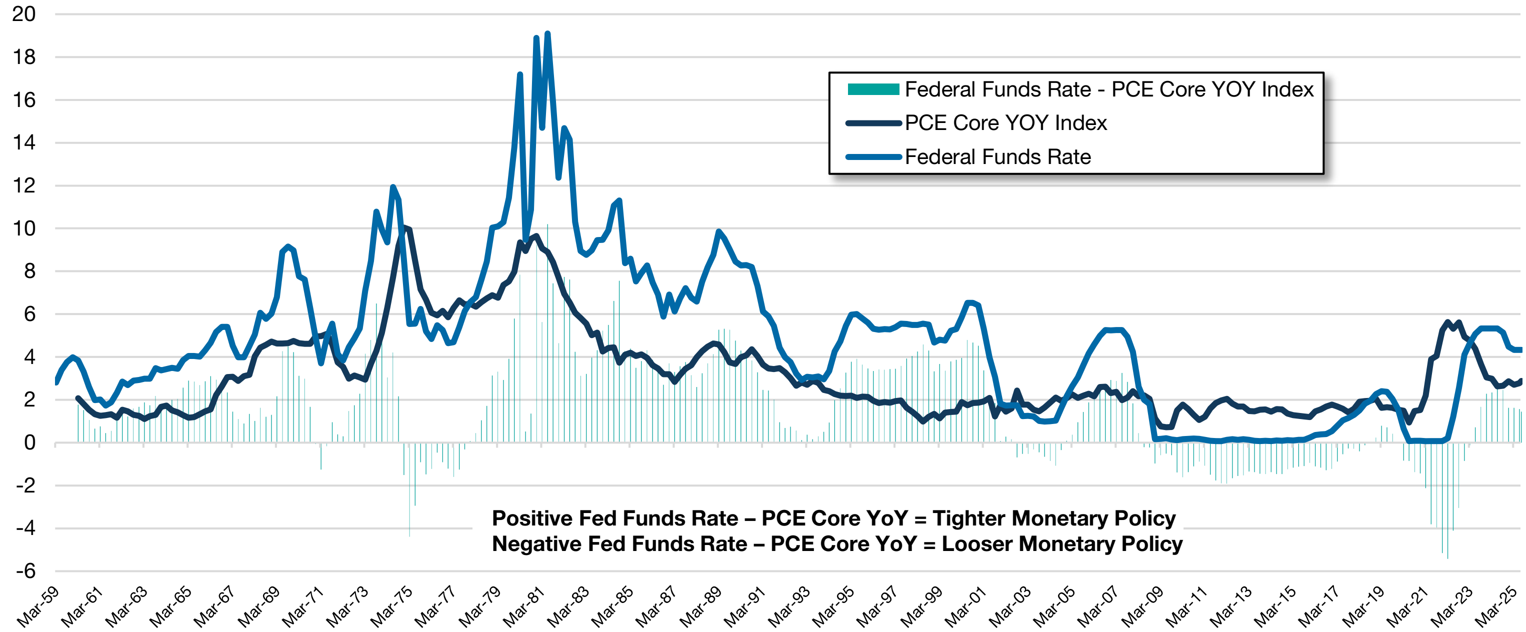
Source: Bloomberg; Asset Classes represented by: ICE BofA US Treasury & Agency Index, Bloomberg US MBS Index, Bloomberg US Agg Total Return Value Unhedged USD, ICE BofA US High Yield Index, ICE BofA US Fixed Rate CMBS Index, ICE BofA US Fixed Rate Asset Backed Securities Index, Bloomberg US Agg A Total Ret Index, Bloomberg US Agg Baa Total Ret Index, Bloomberg Ba US High Yield TR Index. MoM/QoQ/YoY as of 08/31/2025

Frequently Asked Questions

Amidst the dramatic headlines and directives to reduce rates from President Trump a question that might have been on investors' minds in August is 'Why is it important to have an independent central bank?".

Across the globe central banks serve slightly varying functions but generally focus on price stability and financial stability – in the U.S. the Fed has a dual mandate of managing price stability and maximum employment, the European Central Bank has a secondary goal of combating climate change and the People's Bank of China places a larger focus on currency stability. In most developed countries the central bank is structured to reduce political bias and typically have legal protections in place to maintain their policy-making autonomy. While independence is a new(ish) concept, gaining traction amongst academics in the 1970s and 80s, the central argument is that if monetary policy is politically influenced it will be subject to the will of the incumbent administration. Generally, as they seek to stimulate growth, in the hopes of getting reelected, this fans the flames of inflation.

Turkey provides us a recent example of what can happen when central banks lose their independence. While the Turkish central bank gained legal independence in 2001, in the past decade this has eroded significantly and harmed the banks credibility amongst investors. The Turkish administration prioritized growth over inflation management and directed the central bank to adjust monetary policy to do the same – resulting in inflation rising from 7% in 2015 to 85% in 2022.



The U.S. has its own cautionary tale in President Nixon and his relationship with Fed Chair Arthur Burns in the 1970s. Heading into the presidential election in 1972 the U.S. was coming out of a recession and experiencing rising unemployment and Nixon demanded expansionary monetary policy. While initially disagreeing, Burns eventually obliged. Nixon won his bid for reelection, but U.S. inflation exploded in the decade following which is shown in the above chart. When the Fed Funds Rate-PCE (Inflation) difference is positive it generally indicates tight monetary policy and vice versa; the chart highlights the impacts of loose (or expansionary) monetary policy during periods of elevated inflation like in 1972. Despite being a less extreme example versus Turkey it's evident that independence for central banks is a critical operating component, as it enables them to make monetary policy decisions that work towards the long-run goals of its mandate versus adjusting monetary policy for political gain.

What We'll Be Watching in the Month Ahead

We will be watching the economic health indicators, inflation, and the following in the month to come:

- **September 5th, the next Nonfarm Payrolls will be released:** This report will offer insight into whether the labor market is weakening and a closely watched data point by the Fed.
- **September 11th, the next CPI report will be released:** The July Core CPI came in slightly above expectations and we, alongside the Fed, will be watching closely to determine if this is potentially a trend.
- **September 16-17th, the next FOMC rate decision:** The market largely expects a rate cut to come from this meeting. While a jumbo cut (50 bps) is up for debate, generally interest rate traders are pricing in one reduction.

Basis point "bps" is 1/100th of a percentage point. **Credit spread** is the difference in yield between a U.S. Treasury bond and another debt security of the same maturity but different credit quality. Credit spreads are the additional compensation that investors require to hold securities that are not as safe and liquid as those issued by the US Treasury. **The Treasury Yield Curve** shows the relationship between the US bond yield and the time to maturity. Yield and price have an inverse relationship. As the yield curve lowers, the price of bonds increase. **Core CPI:** CPI excluding food and energy. **Consumer Price Index (CPI),** a popular measure of inflation and deflation calculated by the Bureau of Labor Statistics, measures the monthly change in prices paid by U.S. consumers. **Personal Consumption Expenditure Price Index** is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services and is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

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