Monthly Fixed Income Market Update

VICTORY income investors®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

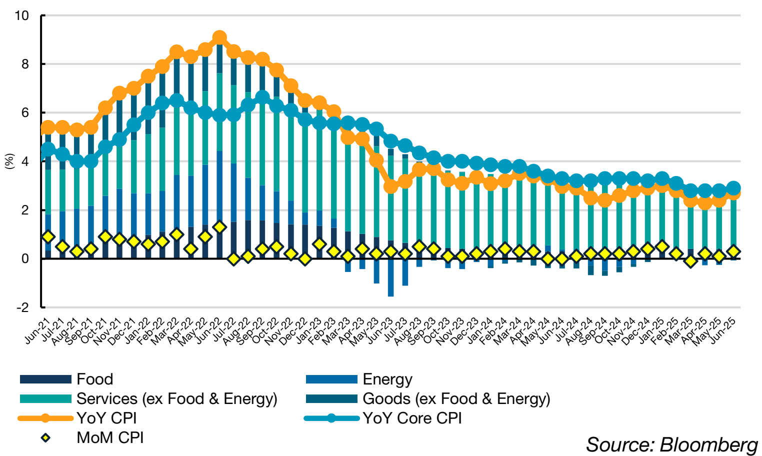
As of July 31, 2025

Key Takeaways

1. Treasury yields rose in July, driving mixed performance in fixed income. Despite strong fundamentals and healthy economic data, downside economic risks remain considerable. The 10-year yield ended the month at 4.37%, up from June's 4.23%.
2. Spread sectors outperformed Treasuries in July, with positive performance supported by strong corporate earnings and solid economic indicators. New U.S. trade deals have further driven investor appetite for credit risk and spread tightening.
3. In the face of many unknowns, what can fixed income offer investors? We home in on the income opportunity for bonds in the current interest rate regime.

The Month in Charts

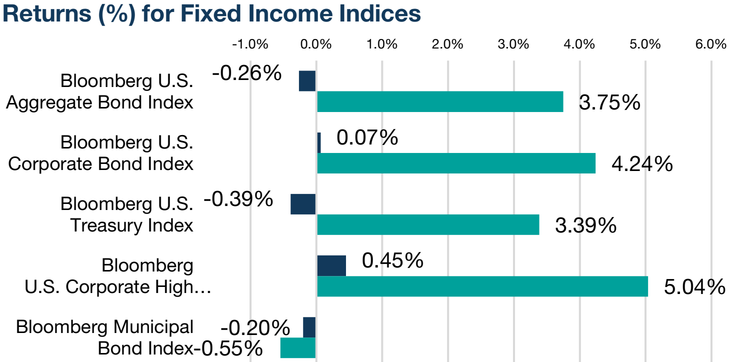
June CPI, reported in July, rose to 2.7% year-over-year and Core CPI rose to 2.9% year-over-year. The Federal Reserve (the Fed) kept rates at 4.25%-4.50% at their July meeting. The Federal Open Market Committee (FOMC) voted 9-2, which marks the first time in more than 30 years that two voting members voted against a rate decision. In the press conference following the decision, Chair Powell indicated to reporters that it's still too soon to comment on a September cut. While weaker growth expectations exist, the economy has shown resiliency. However, with the threat of inflation and the potential pressure tariffs could place on prices, the data dependency of this Fed has become more significant. Insights into future tariff policy were announced August 1, but the impacts of new tariffs and trade deals on the economy are not yet fully identifiable. Market pricing for interest rate cuts continues to flip-flop, but ended the month with two or less cuts through the end of the year (down from 2.5 at the end of June).



Source: Bloomberg

Credit spreads tightened month-over-month following more positive economic data and advancements in some trade talks. Investment grade spreads tightened 8 bps and high yield spreads tightened 11 bps.

Returns (%) for Fixed Income Indices



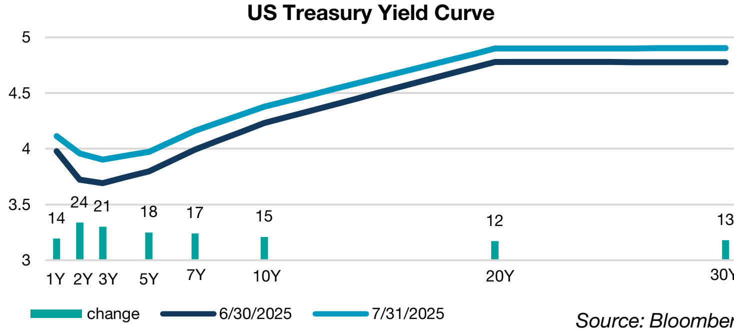
Performance as of 07/31/2025

Past performance is no guarantee of future results.

Source: Bloomberg

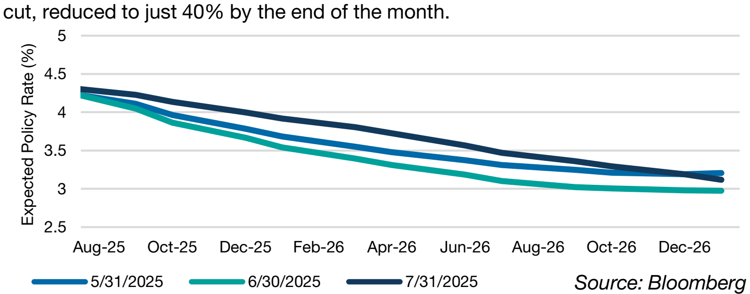
The Treasury yield curve rose in July as markets reacted to generally positive economic data: strong labor numbers, trade deals secured with the EU and Japan, and strong corporate earnings. Markets had almost fully priced in a September rate reduction, but conviction has waned. Toward the end of the month yields fell, largely due to the weaker employment data in July and downward revisions for the two prior months.

US Treasury Yield Curve



Source: Bloomberg

Markets again softened their rate-cut expectation stance over the past month. At the beginning of July interest rate traders priced in a 90% chance for a September cut, reduced to just 40% by the end of the month.



Source: Bloomberg

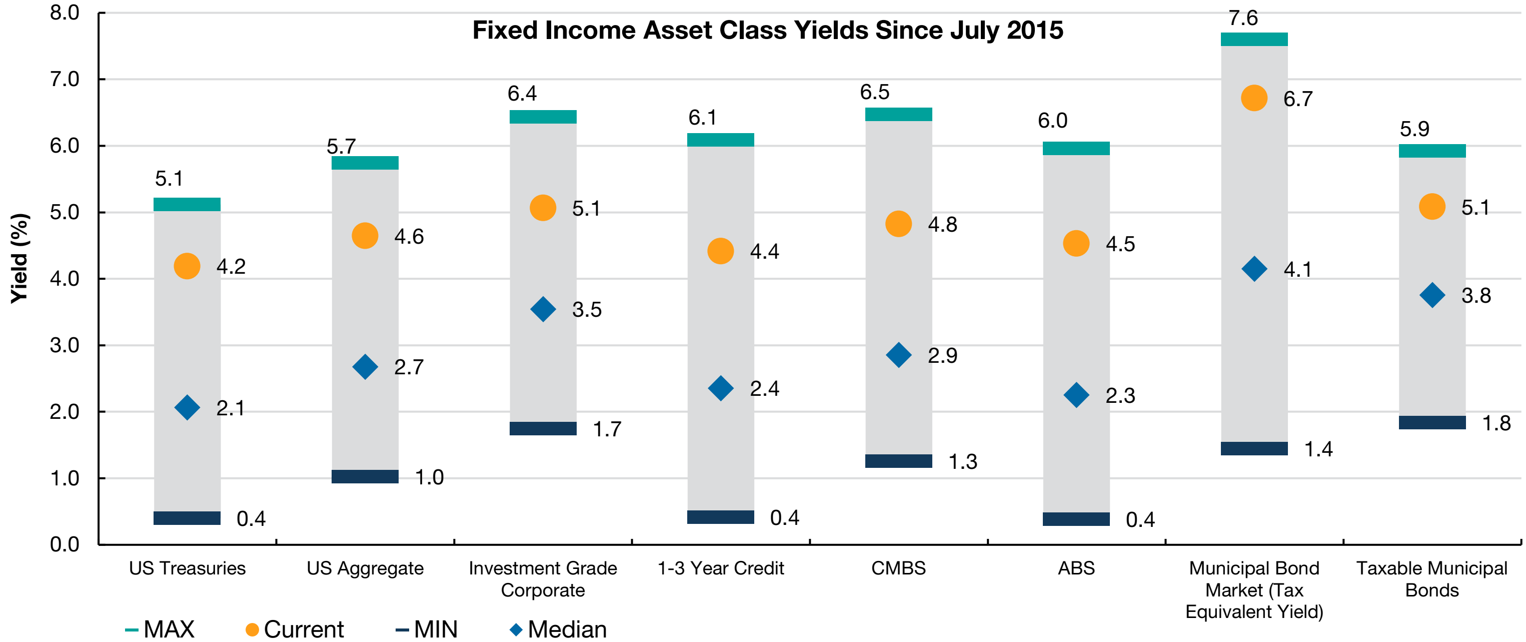
Credit spreads tightened month-over-month following more positive economic data and advancements in some trade talks. Investment grade spreads tightened 8 bps and high yield spreads tightened 11 bps.

				Quarter		Change		
Asset Class	Yield	Spread	Qtrly Trend	Tight	Wide	MoM	QoQ	YoY
U.S. Treasury	4.19							
U.S. MBS	5.07	40		34	44	3	-4	-4
U.S. Corporate	5.07	76		75	102	-8	-30	-17
U.S. Corporate High Yield	7.36	281		270	358	-11	-103	-33
CMBS	4.82	81		81	96	-3	-16	-18
ABS	4.53	50		50	73	-6	-23	-7
A	4.95	65		64	86	-7	-25	-17
BBB	5.28	97		97	130	-10	-37	-19
BB	6.17	169		157	228	1	-81	-19

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 07/31/2025

Frequently Asked Questions

In the low-interest rate regime of the past two decades fixed income investors had to reach for yield and potentially seek out riskier investments in the pursuit of income. Bonds currently offer investors an attractive level of yield on both a real and nominal basis and investors can seek out this income without necessarily taking on additional interest rate or credit risk. Since interest rates reached their peak in 2023 markets have overshot rate cut forecasts, subsequently walked them back based on new data, then returned with even more conviction that this time rates will lower.



Past performance is no guarantee of future results. Source: Bloomberg; Indices represented are Bloomberg US Treasury Index, Bloomberg US Aggregate Index, Bloomberg US Corporate Index, Bloomberg 1-3 yr Credit Index, Bloomberg US CMBS: Erisa Eligible Index, Bloomberg US Aggregate ABS Index, Bloomberg Municipal Bond Index, and Bloomberg Taxable Municipal Bond Index. Yield-to-worst is the lowest possible yield received on a bond, absent default. Tax Equivalent yield for Municipals assumes the highest tax bracket.

While a central part of our investment philosophy is avoiding interest rate forecasting in portfolio construction, another aspect of our philosophy is a focus on starting yields and their historical relationship with returns over the life of a bond. There are still unknowns, particularly related to future U.S. trade policy, that may impact future rate reductions. However, as historically the long-term performance of bond investments has largely been explained by starting yields, we find it prudent to highlight to investors that in this higher interest rate environment there is an opportunity to potentially improve earning potential given higher yields.

Bonding over Bonds

Our video series on the fixed income markets

In our #BondingOverBonds video series, experts discuss notable activity in the fixed income markets: Watch Now

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:

- **August 12th, the next CPI will be released:** This report will offer insight into whether inflation is continuing to trend downward towards the Fed's 2% target.
- **August 26th, the next Conf. Board Consumer Confidence Survey:** This report will illuminate how the consumer is feeling about current economic conditions, spending plans, and expectations for inflation.
- **August 29th, the next PCE report will be released:** The PCE (Price Consumption Expenditure Index) is the Fed's preferred inflation gauge. It came in higher than expected in June, so this report will offer additional insight into any potential trends to be considered by the Fed.

All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class. Interested parties are strongly encouraged to seek advice regarding the best options for their particular circumstances from qualified tax and financial experts.

The opinions are as of the date noted and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

Index performance includes reinvestment of dividends and other income but does not reflect management fees, transaction costs or expenses. One cannot invest directly in an index. **Past performance does not guarantee future results.**

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.

Advisory services offered by Victory Capital Management Inc., an SEC-registered investment adviser.

V21.047 // July 2025 VINC Fixed Income Monthly Update COM

VictoryCapital®