Monthly Fixed Income Market Update

VICTORY income investors®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

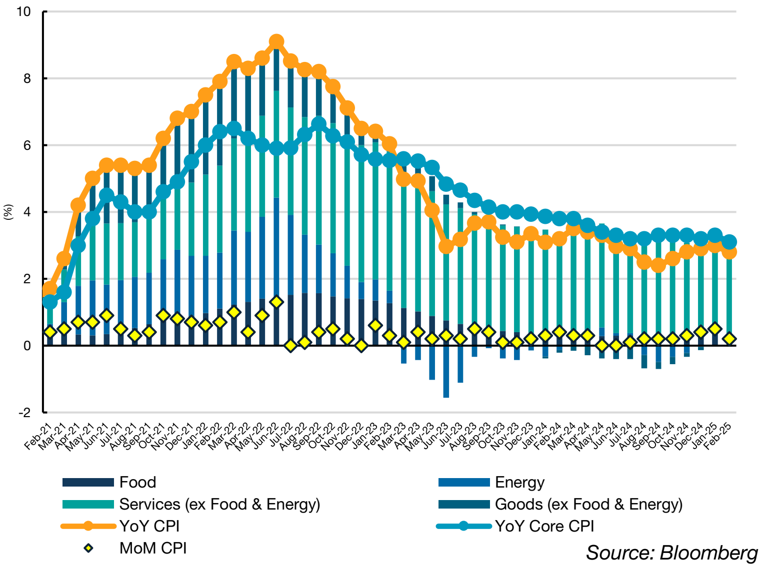
As of March 31, 2025

Key Takeaways

1. The Treasury yield curve steepened in March as markets adjusted to slower growth expectations and concerns on future inflation. The 10-year yield ended the month at 4.20%, barely moving from February's 4.21%.
2. The Consumer Confidence Index dropped in March, nearing the lows of 2020 as the economy worked through uncertainty on tariffs, inflation and future monetary policy. Markets priced in a quicker pace of interest rate reductions in 2025.
3. When should you add fixed income? Equity volatility in March highlighted the diversification benefits a fixed income allocation may offer.

The Month in Charts

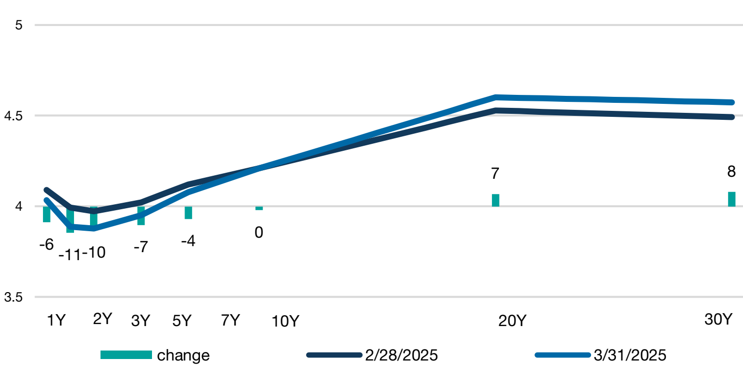
February CPI, reported in March, lowered to 2.8% year-over-year and Core CPI to 3.2% year-over-year. The Federal Reserve (the Fed) unanimously voted to hold rates steady at their meeting in March and indicated that they are willing to adjust their current restrictive stance should risks to the labor market or meeting the 2% inflation target arise. The Fed's newest economic projections showed reduced growth expectations and higher core inflation at the end of the year, reflecting recently implemented tariffs and expected retaliation. Chair Powell used the phrase 'transitory' once again in reference to the potentially inflationary impact of tariffs, maintaining a 'wait and see' approach to gain more clarity.



Source: Bloomberg

The Treasury yield curve steepened in March. The shorter end of the curve declined due, in our view, to the market pricing in more rates cuts in 2025 due to slower economic growth.

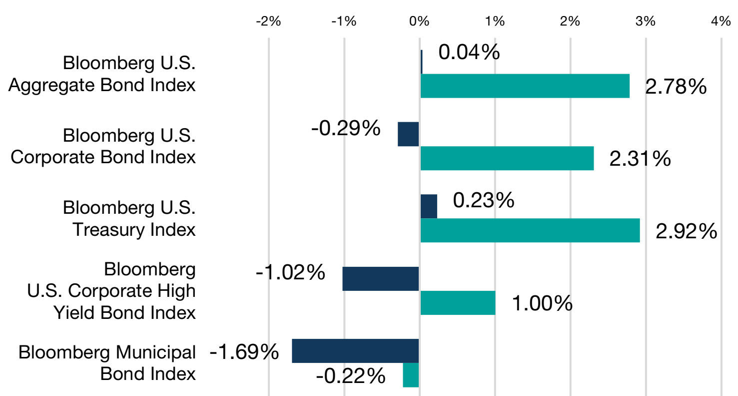
US Treasury Yield Curve



Source: Bloomberg

Performance was mixed in March, but positive for the quarter across most indices.

Returns (%) for Fixed Income Indices



Performance as of March 31, 2025 ■ Month to Date ■ Year to Date

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

Credit spreads widened in March and appear to be slowly moving out of historically low territories. Investment grade spreads widened 7 bps and high yield spreads widened 63 bps.

Asset Class	Yield	Spread	Qtrly Trend	Quarter Tight	Quarter Wide	Change MoM	Change QoQ	Change YoY
U.S. Treasury	4.11							
U.S. MBS	4.92	36		31	48	5	-7	-12
U.S. Corporate	5.15	93		77	96	7	13	4
U.S. Corporate High Yield	7.87	345		256	345	63	58	42
CMBS	4.88	88		76	88	8	7	-9
ABS	4.58	59		42	59	10	16	5
A	5.01	81		67	83	5	11	3
BBB	5.39	117		97	118	10	16	5
BB	6.54	217		151	217	41	38	33

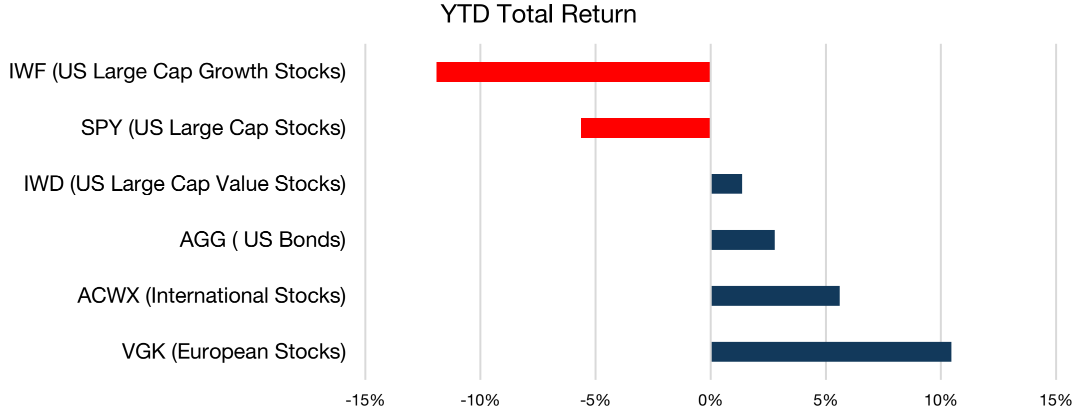
Source: Bloomberg; Asset Classes represented by: ICE BofA US Treasury & Agency Index, Bloomberg US MBS Index, Bloomberg US Agg Total Return Value Unhedged USD, ICE BofA US High Yield Index, ICE BofA US Fixed Rate CMBS Index, ICE BofA US Fixed Rate Asset Backed Securities Index, Bloomberg US Agg A Total Ret Index, Bloomberg US Agg Baa Total Ret Index, Bloomberg Ba US High Yield TR Index. MoM/QoQ/YoY as of 03/31/2025

Frequently Asked Questions

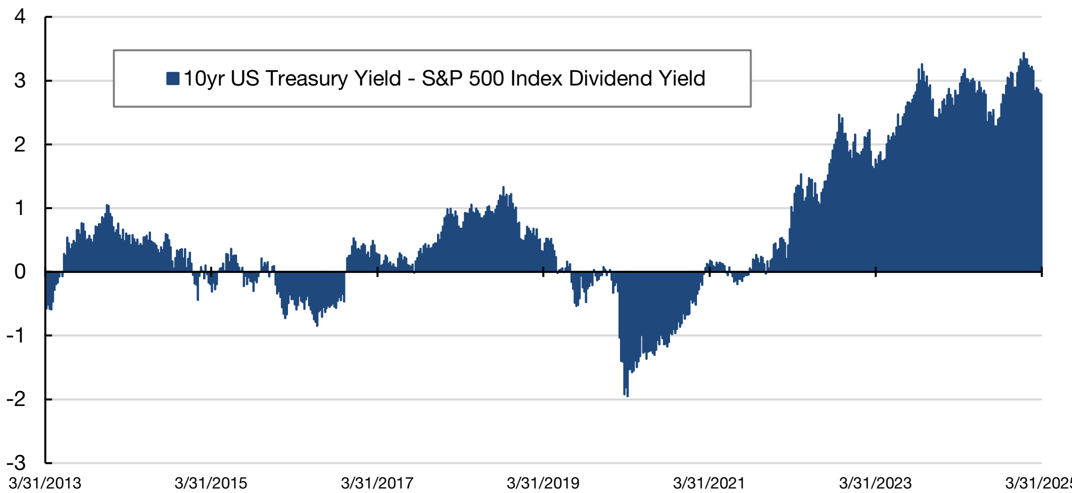
We are often asked, “Why is now a good time to add fixed income?” While a few years ago that question may have been more difficult to respond to, with current yields and a temperamental equity market we believe that there are (at minimum) two very clear reasons why investors should consider the value fixed income offers.

1. **Diversification:** Despite the difficulties fixed income investors experienced in 2022 when equity and fixed income correlation was positive, currently, it is our view that fixed income provides a great opportunity for risk diversification and has reclaimed its role as a ballast to equity volatility.
2. **Relative Value**: As covered in our January monthly, equities were close to being priced to perfection. While this has improved over the past two months, the subsequent annualized returns investors have received for investing at current 1 yr Forward P/E ratios still leave something to be desired. On the other hand, fixed income yields are elevated. As shown in the chart to the right, even risk-free investments such as the 10 yr Treasury appear attractive relative to the S&P 500 dividend yield.

We believe that the opportunity fixed income offers investors is very attractive – providing relatively attractive income opportunities as well as a cushion for equity volatility.



Source: Bloomberg



Source: Bloomberg

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:

- **April 4th, the Nonfarm Payrolls and Unemployment Rate:** These reports will be critical input for the Fed in assessing the health of the labor market and help inform future rate reductions.
- **April 10th, the next CPI will be released:** This report will offer insight into whether inflation remains somewhat sticky or is moving towards the Fed’s 2% target.
- **April 11th, the University of Michigan Consumer Sentiment Reports:** These surveys will be informative regarding consumer expectations for inflation, assessment of current conditions and general sentiment regarding the economy.

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.

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