MONTHLY FIXED INCOME MARKET UPDATE

VICTORY income investors®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

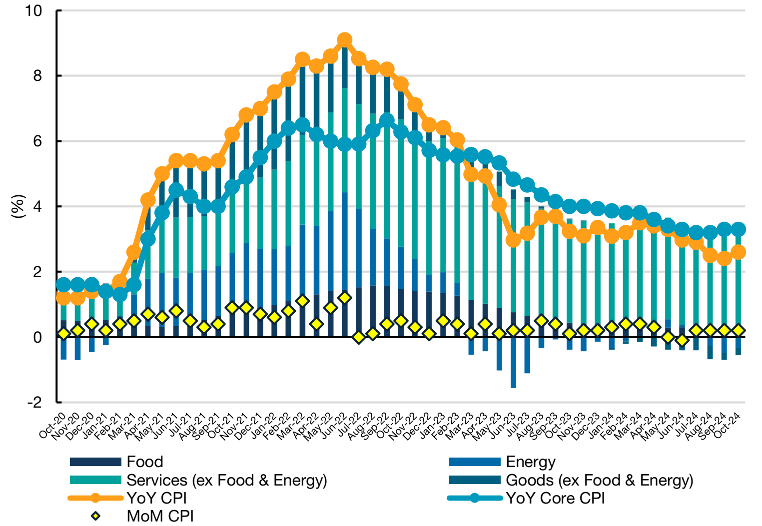
As of November 30, 2024

Key Takeaways

1. Fixed income yields decreased in the last week of November, driving positive performance across indices for the month.
2. As expected, the Federal Reserve (the Fed) reduced rates in November by 25 bps. This brings the Fed Funds Target Range to 4.50%-4.75%.
3. What does your post-election investment strategy look like? We believe fixed income looks attractive on a real and relative basis heading into 2025.

The Month in Charts

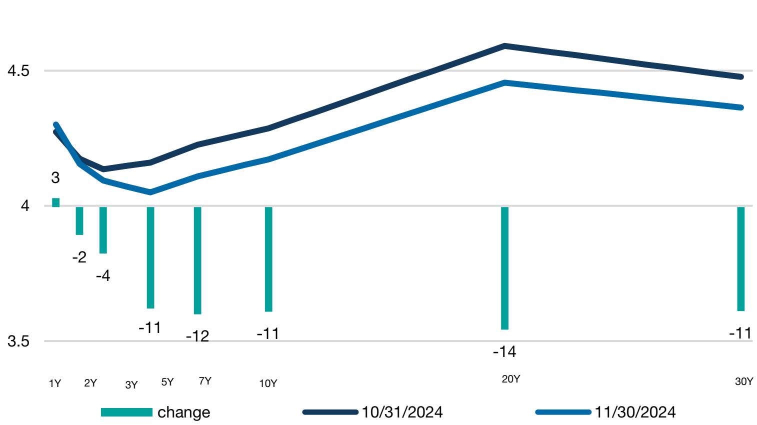
October CPI, reported in November, was 2.6% year-over-year, and Core CPI was 3.3% year-over-year. While progress is being made on disinflation, the latest report shows that Core inflation remains stubborn. Following the economic policies outlined by the incoming administration and some cautionary comments from Chair Powell, the market has reduced the pace of expected rate cuts once more.



Source: Bloomberg

The Treasury yield curve decreased across most tenors toward the end of the month as election volatility subsided, after initially rising in reaction to the potential inflationary pressure and larger fiscal deficits a second Trump administration may bring.

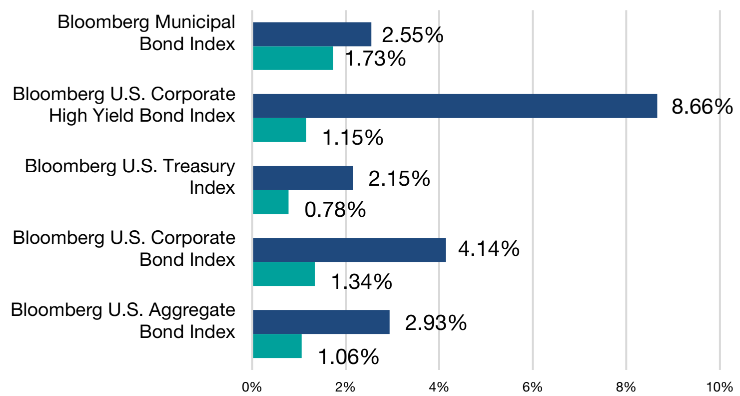
US Treasury Yield Curve



Source: Bloomberg

Performance was positive across all indices in November following the downward movement in yields.

Returns (%) for Fixed Income Indices



Performance as of November 30, 2024 ■ Year to Date ■ Month to Date

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

Credit spreads tightened overall in November. Investment grade spreads were 6 bps tighter and high yield spreads narrowed 18 bps.

				Quarter		Change		
Asset Class	Yield	Spread	Qtrly Trend	Tight	Wide	MoM	QoQ	YoY
U.S. Treasury	4.22							
U.S. MBS	4.95	41		37	49	-8	2	-15
U.S. Corporate	5.05	77		74	99	-6	-15	-26
U.S. Corporate High Yield	7.37	265		253	335	-18	-37	-107
CMBS	5.01	85		85	99	-7	-13	-50
ABS	4.67	45		45	66	-9	-18	-27
A	4.94	67		63	85	-5	-14	-24
BBB	5.26	98		94	123	-7	-17	-30
BB	6.21	159		149	209	-15	-18	-71

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 11/30/2024

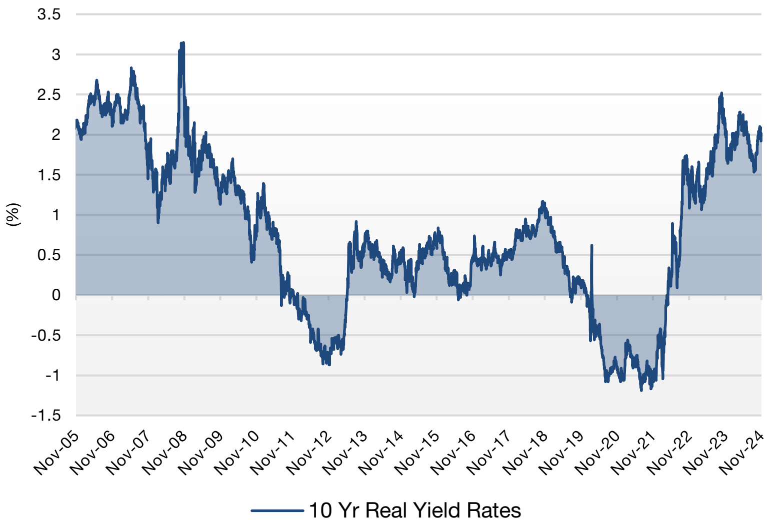
Bonding over Bonds

Our video series on the fixed income markets

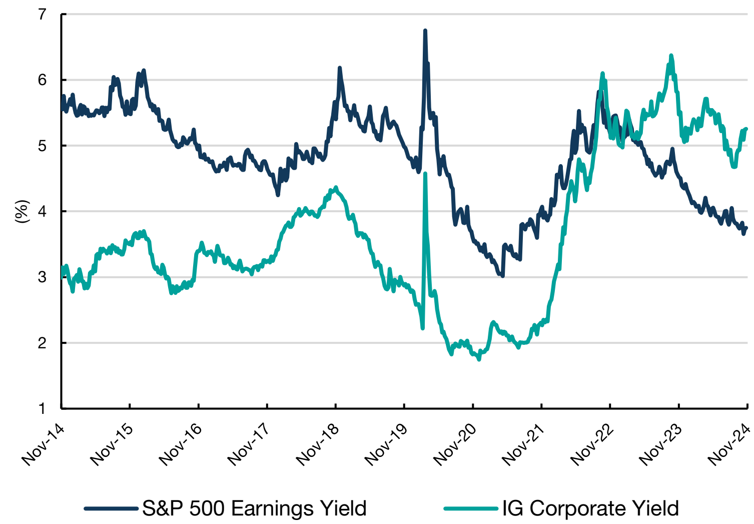
In our #BondingOverBonds video series, experts discuss notable activity in the fixed income markets: [Watch Now]

Our Current Thinking

Current fixed income valuations are attractive on a real and absolute basis, as real yields are currently positive and reach pre-GFC levels. On a relative basis, investment grade corporate bonds are offering a yield that exceeds that of the S&P 500 earnings yield. Additionally, nominal yields remain elevated. While they're not at the highs we saw this time last year, relative to historical figures, investor compensation for inflation risk and potential income is much improved as shown in the charts below.



Source: Bloomberg



Source: Bloomberg

As the Fed continues its easing of monetary policy, markets have priced in a slower pace of rate cuts with the strong economic backdrop and a shift in political power. However quickly or by how much the Fed reduces rates, we find it valuable to remind investors that fixed income historically performs well in falling rate environments. For more insights, please refer to our 2025 Outlook.

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:

- **December 6th, 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.
- **December 11th, the next CPI will be released:** This report will offer insight into whether inflation is continuing to moderate and moving towards the Fed's 2% target.
- **December 18th, the next FOMC Rate Decision:** The market is largely pricing in a cut at this meeting and that rate cuts may slow in 2025. We expect that the press conference will provide further insight.

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.

Index returns are provided to represent the investment environment during the periods shown. Index performance includes reinvestment of dividends and other income. Index returns do not include transaction costs, management fees or other costs. Non-US indices are net of withholding taxes, if any.

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. **Tenor:** the length of time until a debt is due. **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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