MONTHLY FIXED INCOME MARKET UPDATE

VICTORY income investors®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

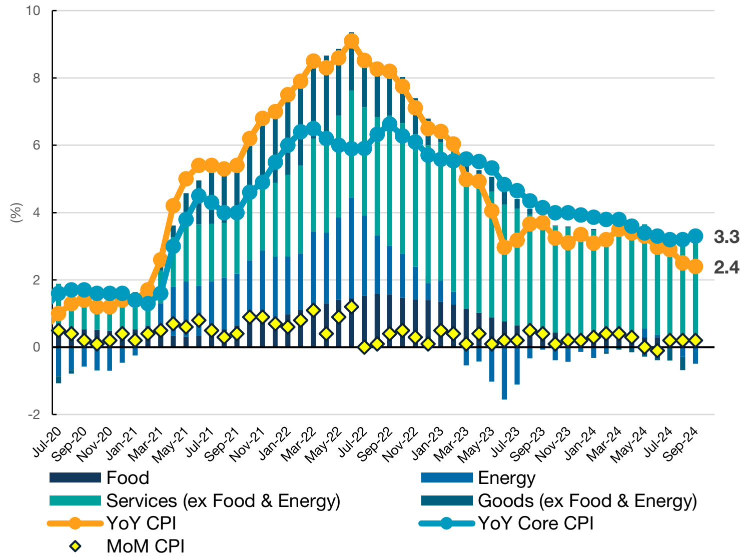
As of October 31, 2024

Key Takeaways

1. Fixed income yields rose in October following stronger than expected economic reporting and the resulting uncertainty surrounding future monetary policy.
2. Markets have pulled back on rate cut expectations following September's Core CPI report coming in slightly higher than expected, at 3.3%.
3. Election uncertainty might lead to some volatility, but we advise looking through the near-term noise and not letting political bias influence investment decisions.

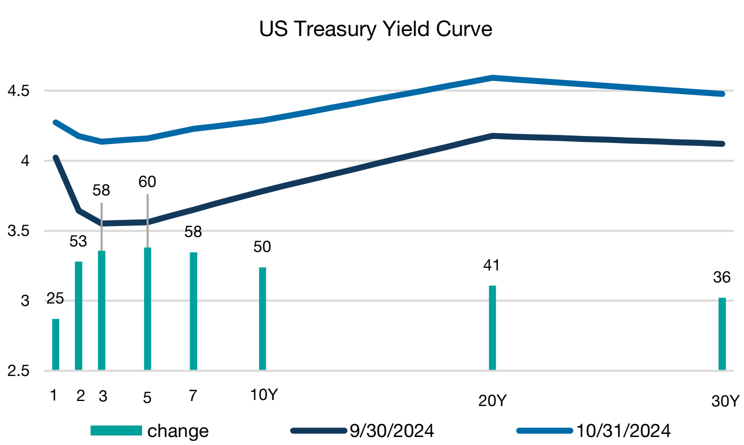
The Month in Charts

CPI reported in September was 2.4% year-over-year and Core CPI was 3.3% year-over-year. This has forced some interest rate traders that expected multiple cuts through the end of the year to reconsider their bets and expectations, following this report the pace of rate reductions priced in has been significantly reduced. But, one report does not make a trend and the Federal Reserve's (The Fed) preferred inflation gauge, the Personal Consumption Expenditure Index, declined to 2.7% year-over-year.



Source: Bloomberg

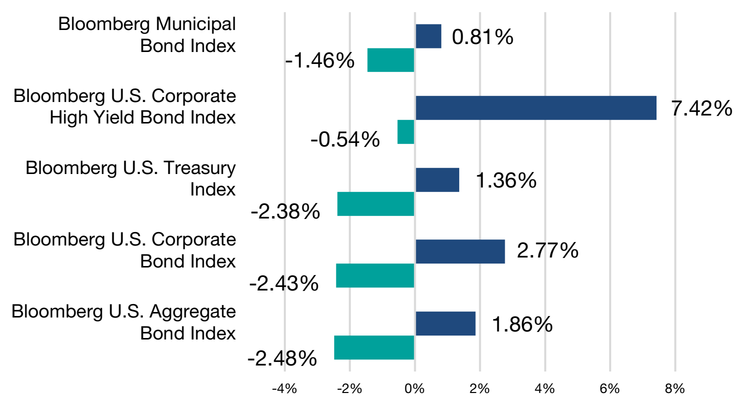
The Treasury yield curve rose across all tenors as markets reacted to strong economic growth and mostly easing inflation ahead of the U.S. election.



Source: Bloomberg

Performance was negative across all indices in October following the rise in yields across the curve.

Returns (%) for Fixed Income Indices



Performance as of October 31, 2024

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

Credit spreads tightened overall in October. Investment grade spreads were 5 bps tighter and high yield spreads narrowed 17 bps.

Asset Class	Yield	Spread	Qtrly Trend	Quarter		Change		
				Tight	Wide	MoM	QoQ	YoY
U.S. Treasury	4.27							
U.S. MBS	5.08	48		37	49	6	4	-26
U.S. Corporate	5.16	83		79	110	-5	-10	-45
U.S. Corporate High Yield	7.50	283		276	380	-17	-31	-149
CMBS	5.13	92		92	104	-2	-7	-49
ABS	4.76	54		54	66	-9	-3	-24
A	5.03	71		67	98	-4	-10	-42
BBB	5.39	105		101	134	-7	-10	-50
BB	6.35	174		167	242	-6	-15	-105

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 10/31/2024

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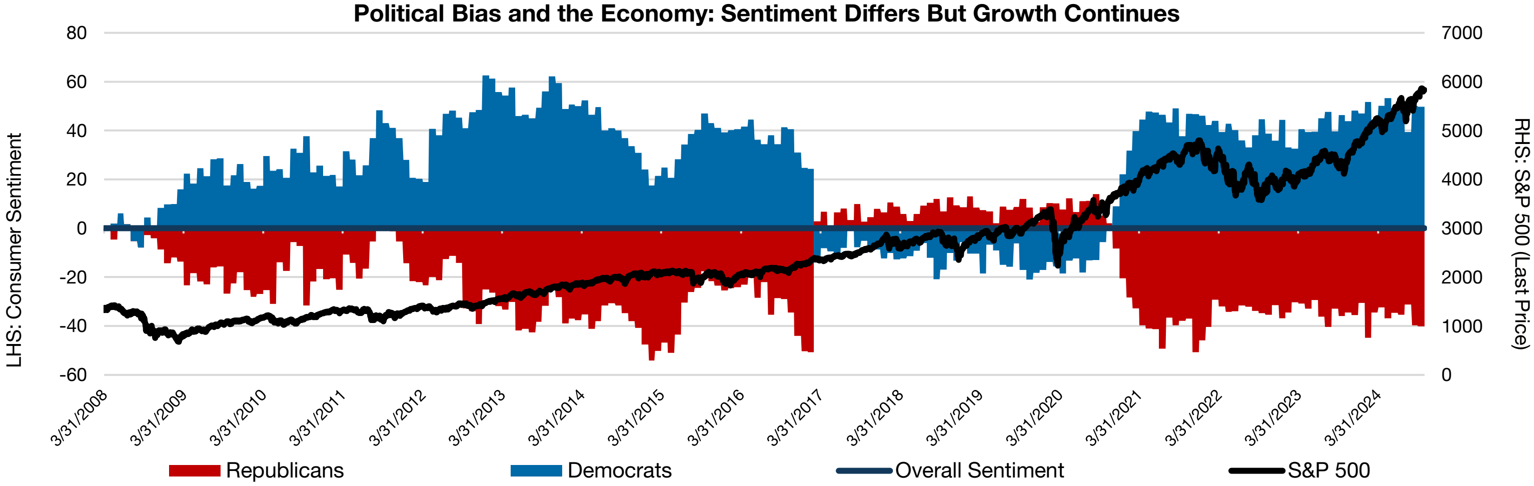
Our Current Thinking

While the Fed reduced interest rates in September by 50 bps, recent data, including the stronger than expected jobs report, historically low unemployment, and positive GDP, show that the U.S. economy has been stronger than expected. Generally, growing economies face higher inflation risk, one factor that has influenced markets to pull back on the rapid pace of interest rate cuts they had priced in before the September cut. This concern was raised further by Septembers Core CPI coming in higher than expected, at 3.3%, prompting a higher frequency of ‘no landing’ headlines. As a reminder, ‘no landing’ is when the economy continues to grow despite restrictive monetary policy. With more uncertainty surrounding what the path forward looks like for rates, yields have been climbing back up and interest rate traders have priced in a slower path for rate reductions.

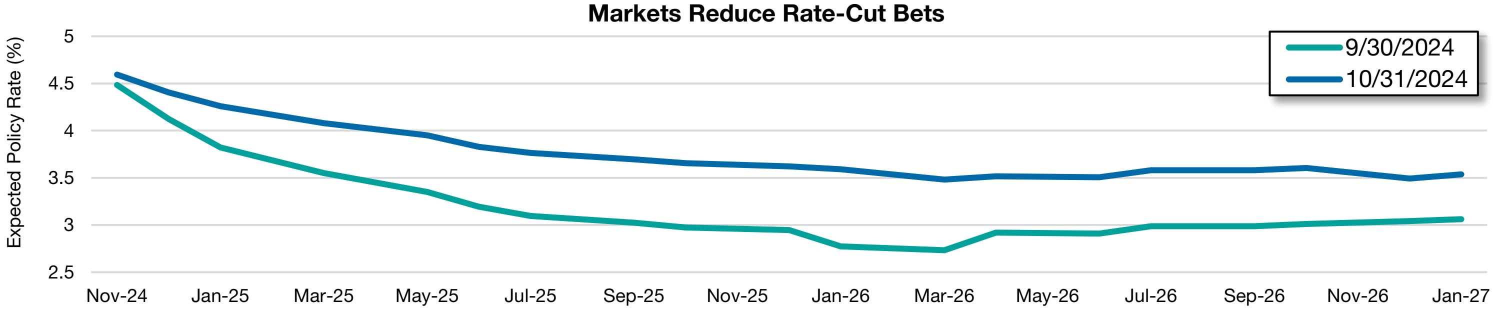
Although we think economic fundamentals are the primary driver of higher Treasury yields, election uncertainty might also play a role. Betting markets largely favor former President Trump in the upcoming elections. Higher Treasury yields might be tied to higher inflation risk tied to his success in the polls. All that to say, we would advise investors to consider leaving politics out of their portfolios and stick to a long-term strategy. The chart below highlights the dramatic difference in consumer sentiment on the economy depending on political party all while the S&P 500 continues to grow.

Political Bias and the Economy: Sentiment Differs But Growth Continues



Source: Bloomberg

Markets Reduce Rate-Cut Bets



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:

- **November 1st, the next Nonfarm Payrolls and Unemployment Rate:** These reports will be critical inputs for the market and the Fed.
- **November 13th, 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.
- **November 27th, the “second” estimate for 3Q 2024 GDP will be released:** This will be based on more complete source data than the “advance” estimate that has already been published and provide further insight into the health of 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.

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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