VICTORY income investors®
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MONTHLY FIXED INCOME MARKET UPDATE

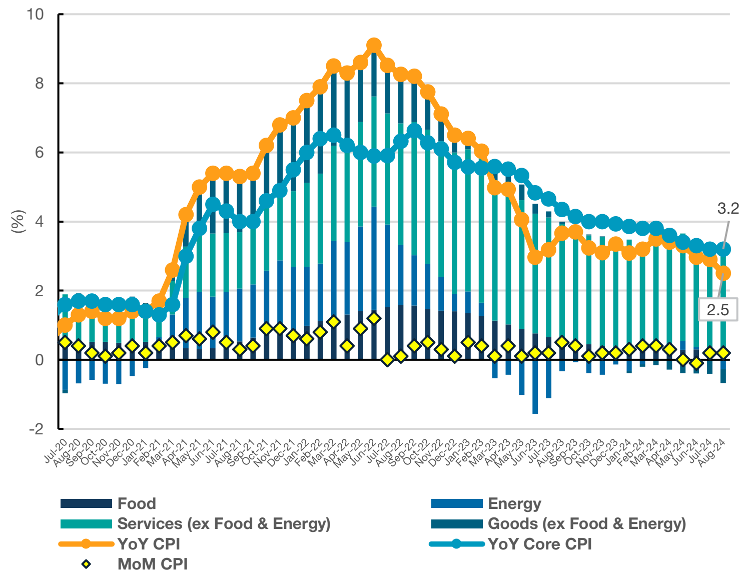
As of September 30, 2024

Key Takeaways

1. The long-predicted rate reduction finally happened – 50 bps no less. The Federal Reserve (the Fed) has decisively pivoted into easing monetary policy after one of the longest pauses in history between the last rate hike and the first rate cut.
2. Treasury yields continued to lower throughout September, following inflation reports closer to the Fed's 2% target and the first-rate reduction.
3. The Consumer Price Index and Personal Consumption Expenditure Index figures for August came in below or close to 3%, at 2.5% and 3.3% respectively.

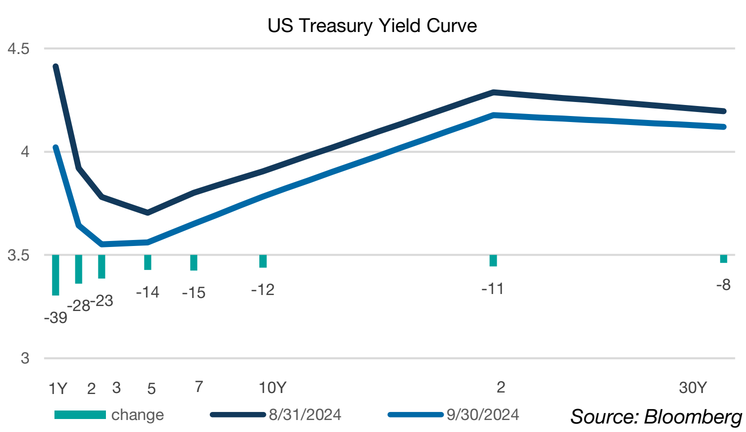
The Month in Charts

August CPI, reported in September, was 2.5% year-over-year and Core CPI was 3.2% year-over-year. Despite the comfort this may bring investors, there is still some hesitation alongside the claims that inflation has been successfully defeated from various economic pundits all the way to one dissenter among FOMC voting members. However, this report lends additional support to the Fed's decision to reduce rates at their September meeting by 50 bps.



Source: Bloomberg

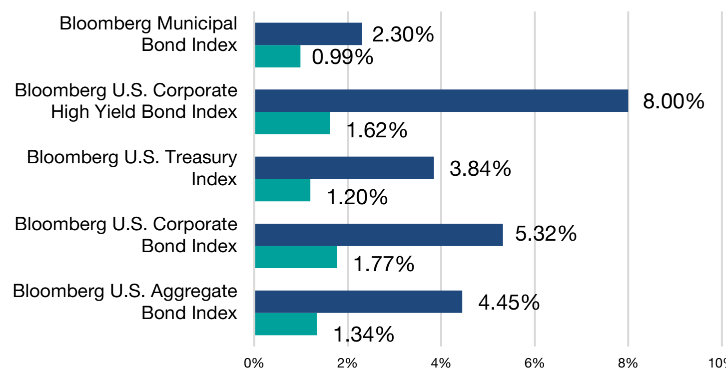
The Treasury yield curve moved down across all maturities as markets reacted to the first rate cut and lower inflation. The yield curve steepened in September, resulting in a positive slope between the 2–10-year segment of the curve, which is the first time this has occurred in 26 months.



Source: Bloomberg

Bonds rallied following the rate cut in mid-September as yields dropped. The lower yields were driven by the rate reduction and the perceived likelihood that this jumbo cut will help the economy achieve a soft landing. Performance was positive across all indices this month.

Returns (%) for Fixed Income Indices



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

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

Credit spreads were mixed in September. Investment grade spreads were 4 bps tighter despite significant new issuance, and high yield spreads narrowed 22 bps.

				Quarter		Change		
Asset Class	Yield	Spread	Qtrly Trend	Tight	Wide	MoM	QoQ	YoY
U.S. Treasury	3.76							
U.S. MBS	4.53	42		37	49	3	-6	42
U.S. Corporate	4.73	88		88	110	-4	-5	88
U.S. Corporate High Yield	7.22	300		296	380	-2	-11	300
CMBS	4.59	94		94	104	-4	-3	94
ABS	4.36	63		56	66	0	7	63
A	4.58	75		75	98	-6	-7	75
BBB	4.97	112		111	134	-3	-3	112
BB	6.00	180		168	242	4	3	180

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 09/30/2024

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

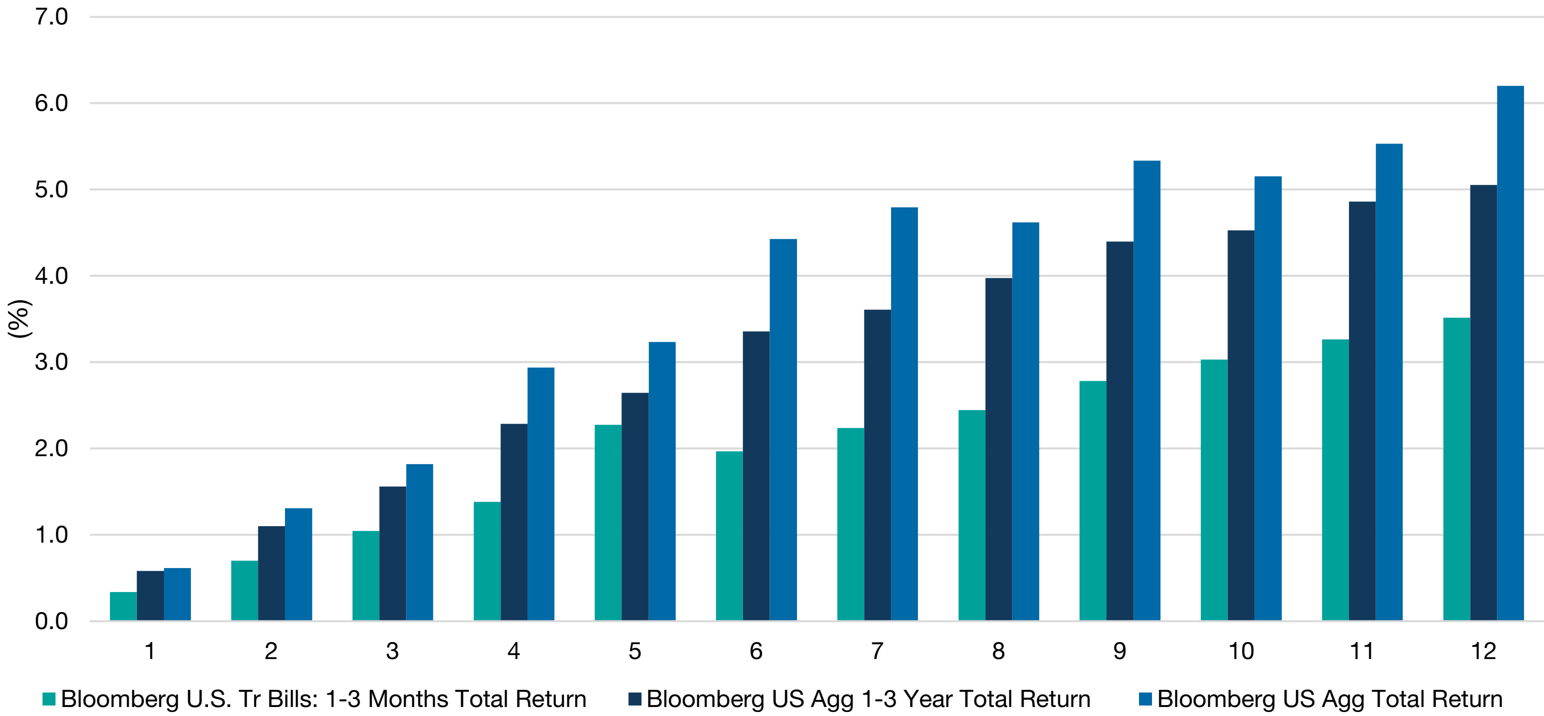
Our Current Thinking

Bonds continued their streak of positive performance in September, leaving some investors with the question: What's going to happen to fixed income now that rates are falling?

Historically, fixed income investors have seen positive returns after the first rate cut. As mentioned in July's market update, short-term yields (like money market products) typically decline more sharply than intermediate-term yields when the Fed eases. Additionally, intermediate-duration bonds historically outperform short-duration bonds after rate cuts begin, as longer durations benefit from price appreciation and locking in higher rates for a longer period.

The below chart shows historical average performance for cash, short-term bonds and intermediate-term bonds for each month following the first cut, from the 1980s to today.

Average Performance Following the First Rate Cut (Monthly)



Source: Bloomberg

1-3 Month T-bills offer the lowest average returns versus short- and intermediate-term bonds, consistent with how closely their yields track the effective federal funds rate. It's our view that fixed income investors could benefit by extending duration and moving out of cash or money markets into risk assets, prior to additional rate cuts.

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:

- **October 4th, the next Nonfarm Payrolls and Unemployment Rate:** These reports are critical inputs for the market and Fed, as the Fed has renewed its focus on the health of the labor market.
- **October 10th, 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.
- **October 29th, the next Conference Board Consumer Confidence report:** This report is a leading indicator of economic conditions and will offer insight into how consumers view the economy, including labor market conditions, business conditions, and future spending plans amongst other points.

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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