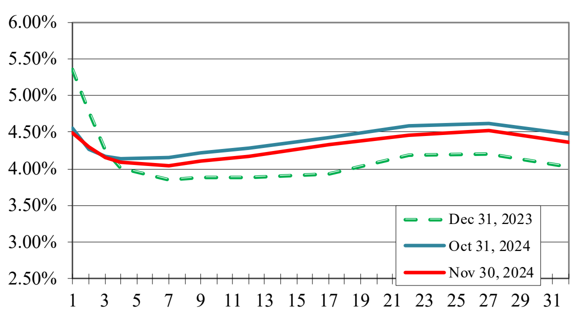
Baird Advisors
Fixed Income Market Commentary
November 2024

Treasury Yields Volatile as Election Concludes and Fed Cuts Rates as Expected

The Treasury curve shifted lower and flattened during November as yields seesawed on fiscal and monetary policy uncertainty. The 10yr yield began the month at 4.29% and rose to 4.45% on expectations of higher future economic growth, inflation and deficits under President Trump, before ultimately declining to finish at 4.17%, -12 bps lower MoM. The 2yr followed a similar path and ended November at 4.16%. The 2s10s yield curve barely retained its upward slope (+1 bp) on the prospect of a slower pace and fewer future Fed rate cuts. The payroll report showed just +12k jobs vs +100k survey estimate. The prior month's reading (+254k) was also revised downward to 223k. Investors believed hurricanes Helene and Milton and the Boeing strike contributed to the weak report. Treasuries remained volatile as Republicans swept all three branches of government. That same week, as expected, the Fed cut its policy rate 25 bps to a 4.5-4.75% range noting "inflation is moving sustainably toward 2%" and "labor market conditions have generally eased." Inflation, using the Fed's preferred PCE Price Index, matched estimates at 2.3% YoY. The second half of November featured a decline in Treasury yields as investors turned toward Trump's policy proposals and cabinet nominations, especially his selection of Scott Bessent as Treasury Secretary.

Treasury Yields



Maturity	12/31/23	10/31/24	11/30/24	1 Mo Chg	YTD Chg
3 Mo	5.36%	4.56%	4.50%	-0.06%	-0.86%
1	4.78%	4.27%	4.30%	0.03%	-0.48%
2	4.25%	4.17%	4.16%	-0.01%	-0.09%
3	4.01%	4.14%	4.09%	-0.05%	0.08%
5	3.85%	4.16%	4.05%	-0.11%	0.20%
7	3.88%	4.23%	4.11%	-0.12%	0.23%
10	3.88%	4.29%	4.17%	-0.12%	0.29%
20	4.20%	4.59%	4.46%	-0.13%	0.26%
30	4.03%	4.48%	4.36%	-0.12%	0.33%

Spreads Tighter Across the Board in November

Spreads tightened further in November. All major sectors ended tighter for the year. IG Corporate spreads reached their 2024 tight (+74) mid-month before ending at +78, -6 bps on the month. IG Corporates are at their tightest spread in over 25 years. Agency RMBS tightened -8 bps and is now -6 bps tighter YTD and just +4 bps wider than the 2024 tight achieved in September. Non-Agy CMBS was -10 bps for the month, closing November at +134, its tightest level of 2024.

Agg Index Positive for the Month

The Agg Index returned 1.06% in November, partially bouncing back from October's price declines. Agency RMBS also bounced back with +0.56% of excess returns after being the laggard last month. Its excess returns were bested only by taxable munis (+0.77%) among IG sectors. IG Corporate debt produced strong excess returns for the month (+0.49%). US HY and EM Debt performed well alongside risk assets in November.

Option-Adjusted Spreads (in bps)

	12/31/23	10/31/24	11/30/24	1 Mo Chg	YTD Chg
U.S. Aggregate Index	42	36	32	-4	-10
U.S. Agency (non-mortgage)	17	10	8	-2	-9
Mortgage and ABS Sectors					
U.S. Agency RMBS (Pass-throughs)	47	49	41	-8	-6
U.S. Agency CMBS	48	40	35	-5	-13
U.S. Non-Agency CMBS	203	144	134	-10	-69
Asset-Backed Securities	68	55	45	-10	-23
Corporate Sectors					
U.S. Investment Grade	99	84	78	-6	-21
Industrial	90	82	76	-6	-14
Utility	105	87	81	-6	-24
Financial Institutions	112	85	79	-6	-33
Non-Corporate Credit	55	51	51	0	-4
U.S. High Yield Corporates	323	282	266	-16	-57
Emerging Market Debt	598	423	403	-20	-195

Source: Bloomberg Indices

Total Returns of Selected Bloomberg Indices and Subsectors

	MTD Total Return	MTD Excess Return	3 Mo Total Return	3 Mo Excess Return	YTD Total Return	YTD Excess Return	Effective Duration (years)
U.S. Aggregate Index	1.06%	0.28%	-0.13%	0.36%	2.93%	0.85%	6.15
U.S. Gov't/Credit Index	0.97%	0.17%	-0.06%	0.47%	2.89%	0.92%	6.29
U.S. Intermediate Gov't/Credit Index	0.62%	0.11%	0.09%	0.28%	3.64%	0.69%	3.76
U.S. 1-3 Yr. Gov't/Credit Index	0.34%	0.04%	0.60%	0.08%	4.13%	0.26%	1.85
U.S. Treasury	0.78%	0.00%	-0.44%	0.00%	2.15%	0.00%	5.98
U.S. Agency (Non-Mortgage)	0.61%	0.13%	0.38%	0.21%	3.68%	0.47%	3.30
U.S. Agency RMBS (Pass-Throughs)	1.33%	0.56%	-0.37%	0.02%	2.89%	0.55%	5.91
CMBS (Commercial Mortgage Backed Securities)	0.92%	0.40%	0.35%	0.74%	5.25%	2.65%	4.17
ABS (Asset-Backed Securities)	0.70%	0.31%	0.98%	0.63%	5.07%	1.46%	2.74
U.S. Corporate Investment Grade	1.34%	0.49%	0.63%	1.34%	4.14%	2.52%	7.02
U.S. High Yield Corporates	1.15%	0.71%	2.23%	2.07%	8.66%	5.23%	2.98
Emerging Market Debt	1.87%	1.23%	4.56%	4.84%	15.17%	12.65%	4.97
Municipal Bond Index	1.73%	N/A	1.23%	N/A	2.55%	N/A	6.02
Taxable Municipal Bond: Agg Eligible	1.88%	0.77%	0.34%	1.49%	3.37%	2.76%	9.38
TIPS (Treasury Inflation Protected Securities)	0.48%	0.00%	0.16%	0.00%	3.47%	0.00%	6.70

*Excess return represents the return of a spread sector versus a like-duration U.S. Treasury.

Disclosures

Information in this document regarding market or economic trends, or the factors influencing historical or future performance, reflects the opinions of management as of the date of this document. These statements should not be relied upon for any other purpose. This is not a complete analysis of every material fact regarding any company, industry or security. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy. *Past performance is not a guarantee of future results.*

Fixed income is generally considered to be a more conservative investment than stocks, but bonds and other fixed income investments still carry a variety of risks such as interest rate risk, credit risk, inflation risk, and liquidity risk. In a rising interest rate environment, the value of fixed- income securities generally decline and conversely, in a falling interest rate environment, the value of fixed-income securities generally increase. High yield securities may be subject to heightened market, interest rate or credit risk and should not be purchased solely because of the stated yield.

Treasury yields are the interest rates that the U.S. government pays to borrow money for varying periods of time.

Option-adjusted spread is the difference between the yield of a security that pays fixed interest payments and the current U.S. Treasury rates, which represents the rate of return on a risk-free investment.

Indices are unmanaged, and are not available for direct investment.

The Bloomberg U.S. Aggregate Bond Index is an index comprised of approximately 6000 publicly traded bonds including U.S. Government, mortgage-backed, corporate, and Yankee bonds with an average maturity of approximately 10 years.

The Bloomberg Government/Credit Index is a combination of the Government Index which measures government-bond general and Treasury funds, and the Credit Bond Index, which is a market value-weighted index which tracks the returns of all publicly issued, fixed-rate, nonconvertible, dollar-denominated, SEC registered, investment grade Corporate Debt.

The Bloomberg Intermediate U.S. Government/Credit Bond Index is a combination of the Government Index which measures government-bond general and Treasury funds, and the Credit Bond Index, which is a market value-weighted index which tracks the returns of all publicly issued, fixed-rate, nonconvertible, dollar-denominated, SEC registered, investment grade Corporate Debt with maturities between one and ten years.

The Bloomberg 1-3 Year U.S. Government/Credit Bond Index is a combination of the Government Index which measures government-bond general and Treasury funds, and the Credit Bond Index, which is a market value-weighted index which tracks the returns of all publicly issued, fixed-rate, nonconvertible, dollar-denominated, SEC registered, investment grade Corporate Debt with maturities between zero and three years.

The Bloomberg U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint of at least one year but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double- counting. Securities in the Index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices. The U.S. Treasury Index was launched on January 1, 1973.

U.S. Agency: This index is the U.S. Agency component of the U.S. Government/Credit index. Publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government (such as USAID securities). The largest issues are Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System (FHLB). The index includes both callable and non-callable agency securities.

U.S Corporate – Investment Grade: This index is the Corporate component of the U.S. Credit index. It includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

CMBS (Commercial Mortgage-Backed Securities): This index is the CMBS component of the U.S. Aggregate index. The Bloomberg CMBS ERISA-Eligible Index is the ERISA-eligible component of the Bloomberg CMBS Index. This index, which includes investment grade securities that are ERISA eligible under the underwriter's exemption, is the only CMBS sector that is included in the U.S. Aggregate Index.

MBS (Mortgage-Backed Securities): This index is the U.S. MBS component of the U.S. Aggregate index. The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The MBS Index is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates.

ABS (Asset-Backed Securities): This index is the ABS component of the U.S. Aggregate index. The ABS index has three subsectors: credit and charge cards, autos, and utility. The index includes pass-through, bullet, and controlled amortization structures. The ABS Index includes only the senior class of each ABS issue and the ERISA-eligible B and C tranche. The Manufactured Housing sector was removed as of January 1, 2008, and the Home Equity Loan sector was removed as of October 1, 2009.

Corporate High Yield: The Bloomberg U.S. High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

Emerging Market: Bloomberg uses a fixed list of countries defined as emerging markets countries for index inclusion purposes that is based on World Bank Income group definitions (Low/Middle), IMF country classifications (Non-Advanced Economies), and other advanced economies that may be less accessible or investable for global debt investors.

The Bloomberg Municipal Bond Index is a broad-based, total-return index. The bonds are all investment-grade, tax-exempt, and fixed-rate securities with long-term maturities (greater than 2 years). They are selected from issues larger than $50 million.

The Bloomberg TIPS Index consists of Treasury Inflation Protected Securities (TIPS). TIPS are securities whose principal is tied to the Consumer Price Index. TIPS pay interest semi-annually, based on the fixed rate applied to the adjusted principal.

Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest). Investment grade investments are those rated from highest down to BBB- or Baa3.