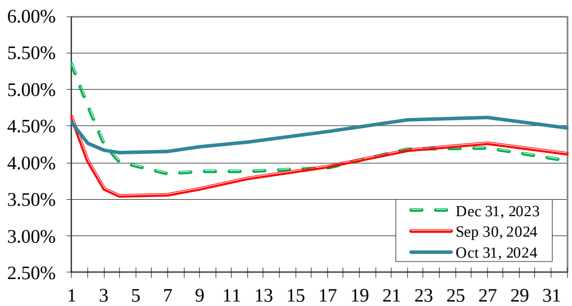
Baird Advisors
Fixed Income Market Commentary
October 2024

Treasury Yields Climb Sharply on Resilient Data and Reduced Expectations of Fed Easing

Yields climbed notably across the Treasury curve in October, ending a 5-month trend of lower yields. The 10yr yield rose 51 bps and the 2yr yield rose 53bps, leaving the slope of the 2s10s segment largely unchanged, but still positive. Interestingly, the 10yr yield finished October at 4.29%, up 41 bps from the beginning of the year (3.88%) but down 41 bps from the YTD high (4.70%) set in April. Yields rose in October despite the Fed's 50 bps rate cut in September as stronger economic data and election-induced policy uncertainty boosted market volatility. September's payroll report of 254k new jobs handily exceeded the 150k consensus and the unemployment rate fell 0.1% to 4.1%. Key inflation measures also proved sticky; October's CPI was 2.4% YoY (2.3% estimate) and Core PCE was 2.7% YoY (2.6% expectation). Expectations of future Fed rate cuts also fell. By month end the market was pricing 25 bps less in rate cuts for 2024 and another 50 bps less in 2025 compared to the start of October. Complicating the outlook for investors is the impact of hurricanes Helene and Milton in upcoming data, both in terms of reduced economic activity in the aftermath but also boosts from subsequent rebuilding. The pending outcome of what appears to be another very tight presidential election is also weighing on the market.

Treasury Yields



Maturity	12/31/23	9/30/24	10/31/24	1 Mo Chg	YTD Chg
3 Mo	5.36%	4.64%	4.56%	-0.08%	-0.80%
1	4.78%	4.02%	4.27%	0.25%	-0.51%
2	4.25%	3.64%	4.17%	0.53%	-0.08%
3	4.01%	3.55%	4.14%	0.59%	0.13%
5	3.85%	3.56%	4.16%	0.60%	0.31%
7	3.88%	3.65%	4.23%	0.58%	0.35%
10	3.88%	3.78%	4.29%	0.51%	0.41%
20	4.20%	4.18%	4.59%	0.41%	0.39%
30	4.03%	4.12%	4.48%	0.36%	0.45%

Agency RMBS Wider, Most Sectors Tighter in October

Agency RMBS widened +7 bps in October, negatively impacted by rising rate volatility, bringing the sector +2 bps wider YTD. IG Corporate spreads tightened due to attractive absolute yields, light dealer inventories, and the US economy's resilience, reaching +79 mid-month, a level not seen since 1998, before widening to finish at +84, -5 tighter for October. Non-Agy CMBS (-5 bps) and ABS (-9 bps) both tightened for the month in sympathy with other spread sectors. High Yield Corporate and EM debt tightened most in the month as spreads compressed amid Treasury weakness.

Agg Index Posts First Negative Monthly Return Since April

The Agg Index returned -2.48%, bringing its YTD return to +1.86%. Agency RMBS produced negative excess returns of -0.51%, but all other major sectors produced positive excess returns in October. Taxable Munis bounced back to generate +0.64% of excess returns for the month. IG Corporates had +0.38% of excess returns in October.

Option-Adjusted Spreads (in bps)

	12/31/23	9/30/24	10/31/24	1 Mo Chg	YTD Chg
U.S. Aggregate Index	42	36	36	0	-6
U.S. Agency (non-mortgage)	17	16	10	-6	-7
Mortgage and ABS Sectors					
U.S. Agency RMBS (Pass-throughs)	47	42	49	7	2
U.S. Agency CMBS	48	39	40	1	-8
U.S. Non-Agency CMBS	203	149	144	-5	-59
Asset-Backed Securities	68	64	55	-9	-13
Corporate Sectors					
U.S. Investment Grade	99	89	84	-5	-15
Industrial	90	87	82	-5	-8
Utility	105	92	87	-5	-18
Financial Institutions	112	90	85	-5	-27
Non-Corporate Credit	55	54	51	-3	-4
U.S. High Yield Corporates	323	295	282	-13	-41
Emerging Market Debt	598	470	423	-47	-175

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	-2.48%	-0.03%	0.25%	0.22%	1.86%	0.56%	6.14
U.S. Gov't/Credit Index	-2.38%	0.13%	0.35%	0.37%	1.90%	0.73%	6.23
U.S. Intermediate Gov't/Credit Index	-1.60%	0.10%	0.61%	0.22%	3.00%	0.57%	3.75
U.S. 1-3 Yr. Gov't/Credit Index	-0.57%	0.01%	1.18%	0.05%	3.79%	0.21%	1.84
U.S. Treasury	-2.38%	0.00%	0.06%	0.00%	1.36%	0.00%	5.91
U.S. Agency (Non-Mortgage)	-1.17%	0.05%	0.70%	0.05%	3.05%	0.33%	3.23
U.S. Agency RMBS (Pass-Throughs)	-2.83%	-0.51%	-0.09%	-0.20%	1.54%	-0.02%	6.07
CMBS (Commercial Mortgage Backed Securities)	-1.84%	0.11%	0.66%	0.39%	4.29%	2.22%	4.17
ABS (Asset-Backed Securities)	-0.70%	0.25%	1.25%	0.32%	4.34%	1.14%	2.72
U.S. Corporate Investment Grade	-2.43%	0.38%	0.86%	1.04%	2.77%	2.00%	6.95
U.S. High Yield Corporates	-0.54%	0.64%	2.72%	1.98%	7.42%	4.45%	3.08
Emerging Market Debt	0.18%	2.17%	4.86%	4.61%	13.05%	11.19%	4.90
Municipal Bond Index	-1.46%	N/A	0.30%	N/A	0.81%	N/A	6.23
Taxable Municipal Bond: Agg Eligible	-3.08%	0.64%	-0.14%	0.56%	1.46%	1.96%	9.35
TIPS (Treasury Inflation Protected Securities)	-1.79%	0.00%	0.46%	0.00%	2.97%	0.00%	6.75

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

Disclosures

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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.