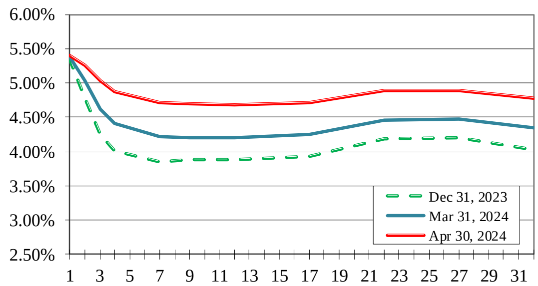
Baird Advisors
Fixed Income Market Commentary
April 2024

Yields Rise on Stubborn Inflation, Firm Labor Market and Reduced Fed Rate Cut Expectations

Treasury yields continued their YTD ascent in April as the 10yr yield rose 48 bps bringing the YTD increase to 80 bps. The 2yr yield moved similarly, rising 42 bps in April and 79 bps YTD, keeping the 2s10s curve inversion intact. The March payroll report exceeded expectations, as has been the trend, with 303k new jobs vs. an estimated 214k. Core inflation, as measured by both the CPI and the Fed's preferred PCE, each came in above expectations at 3.8% and 2.8%, respectively. While the inflation rate for goods has slowed, the pace has risen recently for services, particularly for insurance and healthcare. This stubborn inflation data shifted the market outlook further toward "higher for longer" rate expectations. Roughly 40 bps of implied Fed easing before year end was removed from forward expectations which contributed to the upward shift in the Treasury curve. Q1 GDP grew at a 1.6% annual rate (2.5% exp.), the slowest pace in 2 years, although the GDP release showed consumer spending remained strong (+2.5% annual rate). Higher yields also mean higher borrowing costs for the US Treasury contributing to a widening federal deficit. Not surprisingly, the US Treasury announced its borrowing plans for Q2 of $243bn (above expectations) and $847bn for Q3, the higher end of the estimated range.

Treasury Yields



Maturity	12/31/22	12/31/23	3/31/24	4/30/24	1 Mo Chg	YTD Chg
3 Mo	4.41%	5.36%	5.38%	5.41%	0.03%	0.05%
1	4.73%	4.78%	5.04%	5.25%	0.21%	0.47%
2	4.43%	4.25%	4.62%	5.04%	0.42%	0.79%
3	4.23%	4.01%	4.41%	4.88%	0.47%	0.87%
5	4.01%	3.85%	4.21%	4.72%	0.51%	0.87%
7	3.97%	3.88%	4.21%	4.71%	0.50%	0.83%
10	3.88%	3.88%	4.20%	4.68%	0.48%	0.80%
20	4.15%	4.20%	4.45%	4.90%	0.45%	0.70%
30	3.97%	4.03%	4.35%	4.79%	0.44%	0.76%

Spread Tightening Continues for IG Corporates

IG Corporate spreads ended April at +87, bringing the YTD move to -12 bps tighter as investors seek absolute income amid a resilient economy. Spreads stand just 7 bps wider than prior tights observed in June 2021, led by longer maturity corporate spreads 11bps tighter than June 2021. Agy RMBS widened in April (+7 bps) and stands 9 bps wider YTD. Non-Agy CMBS spreads widened modestly in April (+5 bps) but remain notably tighter YTD (-46 bps).

Bond Market Declines Led by Agency RMBS

Returns for the Agg Index showed notable decline of -2.53% in April. While monthly declines occurred across all major fixed income sectors, Agy RMBS returns were notably weak for the month (-3.03%). Agy RMBS is the lone sector with negative excess returns YTD (-0.74%) as bond market volatility and reduced demand persists while investors await clarity on the Fed's policy path, especially the pace and end date of balance sheet runoff. CMBS also produced negative excess returns in April (-0.06%) but remains a strong outperformer YTD (+1.37%).

Option-Adjusted Spreads (in bps)

	12/31/22	12/31/23	3/31/24	4/30/24	1Mo Chg	YTD Chg
U.S. Aggregate Index	51	42	39	40	1	-2
U.S. Agency (non-mortgage)	26	17	15	13	-2	-4
Mortgage and ABS Sectors						
U.S. Agency RMBS (Pass-throughs)	51	47	49	56	7	9
U.S. Agency CMBS	52	48	41	40	-1	-8
U.S. Non-Agency CMBS	179	203	152	157	5	-46
Asset-Backed Securities	76	68	55	53	-2	-15
Corporate Sectors						
U.S. Investment Grade	130	99	90	87	-3	-12
Industrial	125	90	85	83	-2	-7
Utility	129	105	97	95	-2	-10
Financial Institutions	140	112	96	93	-3	-19
Non-Corporate Credit	66	55	53	51	-2	-4
U.S. High Yield Corporates	469	323	299	301	2	-22
Emerging Market Debt	687	598	527	504	-23	-94

Source: Bloomberg Indices

Total Returns of Selected Bloomberg Indices and Subsectors

	Apr Total Return	Apr Excess Return	YTD Total Return	YTD Excess Return	Effective Duration (years)
U.S. Aggregate Index	-2.53%	-0.10%	-3.28%	0.12%	6.12
U.S. Gov't/Credit Index	-2.38%	0.08%	-3.08%	0.41%	6.13
U.S. Intermediate Gov't/Credit Index	-1.35%	0.07%	-1.50%	0.29%	3.75
U.S. 1-3 Yr. Gov't/Credit Index	-0.33%	0.02%	0.09%	0.10%	1.85
U.S. Treasury	-2.33%	0.00%	-3.26%	0.00%	5.83
U.S. Agency (Non-Mortgage)	-0.98%	0.02%	-0.90%	0.16%	3.11
U.S. Agency RMBS (Pass-Throughs)	-3.03%	-0.61%	-4.04%	-0.74%	6.28
CMBS (Commercial Mortgage Backed Securities)	-1.78%	-0.06%	-0.95%	1.37%	4.26
ABS (Asset-Backed Securities)	-0.61%	0.08%	0.06%	0.61%	2.56
U.S. Corporate Investment Grade	-2.54%	0.22%	-2.93%	1.09%	6.83
U.S. High Yield Corporates	-0.94%	0.13%	0.52%	1.71%	3.24
Emerging Market Debt	-0.55%	1.32%	4.13%	6.61%	4.83
Municipal Bond Index	-1.24%	N/A	-1.62%	N/A	6.15
Taxable Municipal Bond: Agg Eligible	-3.52%	0.31%	-3.94%	1.78%	9.13
TIPS (Treasury Inflation Protected Securities)	-1.69%	0.00%	-1.77%	0.00%	6.61

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

Disclosures

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.

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.

Indices are unmanaged, and are not available for direct investment. *Past performance is not a guarantee of future results.*

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.

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