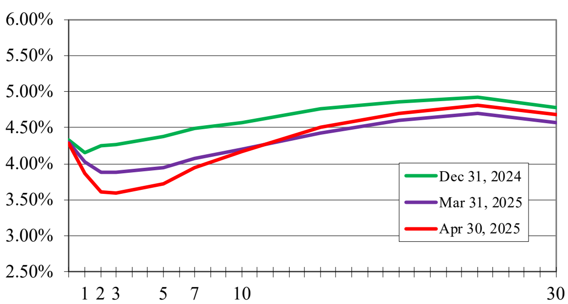
Baird Advisors
Fixed Income Market Commentary
April 2025

Treasury Curve Steepens Amid Elevated Volatility Following Significant Tariff Announcements

The Treasury curve steepened further in April as the 2s10s slope increased 23 bps to 55 bps. Pivoting near the 10yr Treasury maturity, which fell just 5 bps MoM to 4.16%, short rates fell and long rates rose. The monthly changes, however, understate the intramonth Treasury market volatility. Ten-year yields began the month at 4.21% before falling to 3.99% following President Trump's new tariff announcements on "Liberation Day," April 2nd. Tariffs were raised to an average effective rate of 23% (+20 percentage points), the largest increase since the Smoot Hawley Act of 1930 (+19 percentage point increase). Treasury yields quickly reversed course on April 4th after Fed Chair Powell reiterated that the Fed is "well positioned to wait for greater clarity", disappointing those looking for near-term rate cut relief from the negative tariff impact. The 10yr yield rose 50 bps over the next week to an intramonth high of 4.49%. Despite cooling "soft" survey-based data and President Trump's frustration, fearing that the Fed Chair may ease "too late," Chair Powell's focus on solid hard data, including +228k March payrolls and core PCE Price Index inflation of 2.6%, would seem to justify his patience. Also, the US Dollar declined in April relative to other currencies and financial markets swung notably. Investors struggled to forecast the impact of tariffs on growth, inflation and foreign capital flows. President Trump, with advisement from Treasury Secretary Bessent, ultimately issued a 90 day pause on tariffs (ex-China) to enable bilateral trade negotiations to proceed.

Treasury Yields



Maturity	12/31/23	12/31/24	3/31/25	4/30/25	1 Mo Chg	YTD Chg
3 Mo	5.36%	4.33%	4.30%	4.29%	-0.01%	-0.04%
1	4.78%	4.16%	4.03%	3.86%	-0.17%	-0.30%
2	4.25%	4.24%	3.89%	3.61%	-0.28%	-0.63%
3	4.01%	4.28%	3.88%	3.60%	-0.28%	-0.68%
5	3.85%	4.38%	3.95%	3.73%	-0.22%	-0.65%
7	3.88%	4.48%	4.08%	3.94%	-0.14%	-0.54%
10	3.88%	4.58%	4.21%	4.16%	-0.05%	-0.42%
20	4.20%	4.86%	4.60%	4.70%	0.10%	-0.16%
30	4.03%	4.78%	4.57%	4.68%	0.11%	-0.10%

Elevated Spread Volatility in April

Spreads widened in all major sectors during April with notable intramonth movement. Industry outflows from IG funds emerged amid trade-induced economic uncertainty and rebalancing into stocks after the significant sell-off. IG Corporate spreads widened 12 bps for the month to close at +106, but reached as high as +119 intramonth, its widest level since Q4 of 2023. Spread volatility was even greater in HY Corporates which finished April 37 bps wider to finish at +384 despite reaching +453 intramonth.

Third Straight Month of Negative Excess Returns

The Agg Index total return was positive in April (+0.39%) and the trailing 3-month period (+2.64%), however April excess returns were negative (-0.25%) for the third consecutive month (3 Mo -0.55%). All major subsectors produced negative excess returns for the month with the largest declines in HY Corporate (-1.0%) and EM Debt (-1.10%).

Option-Adjusted Spreads (in bps)

	12/31/23	12/31/24	3/31/25	4/30/25	1 Mo Chg	YTD Chg
U.S. Aggregate Index	42	34	35	40	5	6
U.S. Agency (non-mortgage)	17	12	11	12	1	0
Mortgage and ABS Sectors						
U.S. Agency RMBS (Pass-throughs)*	47	43	36	43	7	*9
U.S. Agency CMBS	48	35	37	43	6	8
U.S. Non-Agency CMBS	203	127	139	152	13	25
Asset-Backed Securities	68	44	60	74	14	30
Corporate Sectors						
U.S. Investment Grade	99	80	94	106	12	26
Industrial	90	78	92	104	12	26
Utility	105	82	103	112	9	30
Financial Institutions	112	82	95	108	13	26
Non-Corporate Credit	55	55	57	59	2	4
U.S. High Yield Corporates	323	287	347	384	37	97
Emerging Market Debt	598	393	433	462	29	69

Source: Bloomberg Indices

*Bloomberg updated U.S. Agency RMBS (Pass-Throughs) prepayment model effective 1/24/25.

Adjusting to the new model, U.S. Agency RMBS (Pass-Throughs) 12/31/24 OAS would be 34; 2025 spread changes reflect the adjusted 12/31/24 OAS.

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	0.39%	-0.25%	2.64%	-0.55%	3.18%	-0.49%	6.08
U.S. Gov't/Credit Index	0.42%	-0.21%	2.58%	-0.56%	3.13%	-0.51%	6.15
U.S. Intermediate Gov't/Credit Index	0.93%	-0.15%	2.79%	-0.28%	3.37%	-0.23%	3.77
U.S. 1-3 Yr. Gov't/Credit Index	0.76%	-0.04%	1.93%	-0.05%	2.39%	-0.01%	1.87
U.S. Treasury	0.63%	0.00%	3.04%	0.00%	3.57%	0.00%	5.89
U.S. Agency (Non-Mortgage)	0.72%	-0.07%	2.28%	-0.19%	2.84%	-0.06%	3.27
U.S. Agency RMBS (Pass-Throughs)	0.29%	-0.38%	2.83%	-0.51%	3.35%	-0.47%	6.05
CMBS (Commercial Mortgage Backed Securities)	0.91%	-0.25%	2.76%	-0.56%	3.49%	-0.32%	4.04
ABS (Asset-Backed Securities)	0.49%	-0.24%	1.70%	-0.46%	2.03%	-0.53%	2.63
U.S. Corporate Investment Grade	-0.03%	-0.62%	1.71%	-1.62%	2.27%	-1.49%	6.80
U.S. High Yield Corporates	-0.02%	-1.00%	-0.38%	-3.06%	0.98%	-2.15%	3.02
Emerging Market Debt	-0.29%	-1.10%	-0.31%	-3.42%	1.30%	-2.27%	4.86
Municipal Bond Index	-0.81%	N/A	-1.52%	N/A	-1.03%	N/A	6.55
Taxable Municipal Bond: Agg Eligible	-0.20%	-0.51%	2.31%	-1.37%	2.62%	-1.51%	9.12
TIPS (Treasury Inflation Protected Securities)	0.12%	0.00%	2.96%	0.00%	4.29%	0.00%	6.69

*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.