

June 28, 2024

Bond Market Update - June 2024

Prices are up and yields are down across major fixed income indices this month as softer U.S. economic data strengthened the case that interest rates have likely peaked this cycle. The Bureau of Labor Statistics reported that unemployment ticked up to 4%, its highest level in over two years, while inflation cooled for a second consecutive month. In a widely anticipated move, the Federal Reserve (Fed) held interest rates steady in June, noting "modest further progress toward the Committee's 2 percent inflation objective" but that greater confidence is needed before interest rate cuts can begin. High-yield municipal, high-yield U.S. corporate, and emerging market bonds continue to outperform this year, while U.S. Treasuries and mortgage back securities continue to lag. The charts below summarize the yield changes and performance of select fixed income tenors and indices as of June 25.

U.S. Treasury Yield Curve Change (Basis Points) Yield Month-to-date Year-to-date Maturity 2-year 4.757 -11.6 50.6 4.289 -21.9 44.1 5-year -23.9 4.26 38 10-year 30-year 4.391 -25.8 36.2

Source: Bloomberg, 25 June 2024 (US On/Off The Run Sovereign Curve)

U.S. Corporate (Investment Grade) Yield Curve

		Change (Basis Points)			
Maturity	Yield	Month-to-date	Year-to-date		
2-year	5.283	-7.8	29.6		
5-year	5.109	-21.9	36.7		
10-year	5.38	-19.7	31.3		
30-year	5.534	-16.4	37.5		

Source: Bloomberg, 25 June 2024 (USD US Corporate IG B VAL Yield Curve)

index Characteristics and Returns						
				(0/)		
			Returns (%)			
Index	Yield (Worst)	Modified Duration	Month-to-date	Year-to-date		
U.S. Treasury	4.49	6.22	1.820	-0.046		
U.S. Agency	4.80	3.39	0.956	1.114		
U.S. Corporate Investment Grade	5.41	6.69	1.452	0.845		
U.S. Corporate High Yield	7.82	3.47	1.050	2.702		
U.S. Mortgage Backed Securities	5.08	5.81	1.903	-0.145		
U.S. Broad Market	4.93	6.10	1.695	0.260		
Global Broad Market	4.04	6.39	1.391	-0.334		
Emerging Market Corporate	6.29	4.83	1.217	3.132		
Municipal Investment Grade	3.70	5.88	1.831	0.160		
Municipal High Yield	5.10	5.93	2.078	4.752		

Municipal (AAA) Yield Curve						
		Change (Basis Points)				
Maturity	Yield	Month-to-date	Year-to-date			
2-year	3.105	-25.5	60.1			
5-year	2.91	-23	69.4			
10-year	2.821	-28.5	55.2			
30-year	3.763	-23.6	36			

Source: Bloomberg,	25 June	2024	(BVAL	M uni	AAA	Yield	Curve)

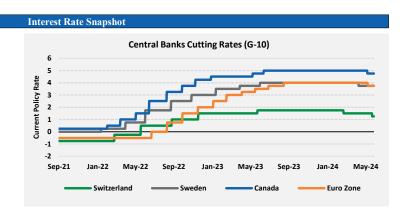
Past performance is no guarantee of future results.

Federal Open Market Committee (FOMC)					
Fed Funds Rate - Upper Bound	5.50	Last FOMC Decision	12-Jun-24		
Fed Funds Rate - Lower Bound	5.25	Next FOMC Decision	31-Jul-24		
Fed Funds Effective Rate	5.33				
Discount Rate	5.50				

Source: Bloomberg, 25 June 2024

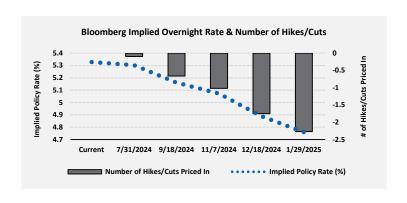
The Central Bank Easing Club has some new members. On June 5, Canada became the first G-7 country to cut interest rates—4.75% from 5.00%—in 2024, followed by a cut from the European Central Bank on June 6—3.75% from 4.00%. Including the cuts already seen in Switzerland and Sweden, a broad pivot from tightening to easing appears to be well underway.

Source: Bloomberg, 25 June 2024. Past performance is no guarantee of future results.



Expectations for a U.S. rate cut in 2024 remain high. Bloombera's interest rate model. probability which analyzes the Federal Funds futures market. currently estimates a 100% probability of a rate cut by November. This is roughly in line with the Fed, which expects 25 basis points of easing this year, according to the median "Dot Plot" projections released in June.

Source: Bloomberg, 25 June 2024. Past performance is no guarantee of future results.



Treasury yields are trending lower. After a weak start to the year that saw yields on 2, 10 and 30-year Treasuries increase by over 70 basis points, U.S. government bonds are seeing finally increased demand. The rally that started in May continued into June, with yields collapsing 30-45 basis points across those same tenors as of the 25.

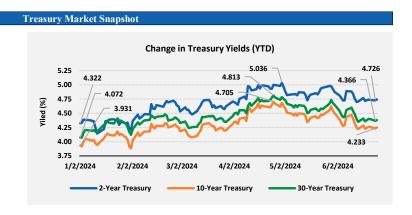
Source: Bloomberg, Bloomberg Intelligence. Past performance is no guarantee of future results.

The ICE BofA US Treasury Index's YTD performance has improved since yields started trending lower in May. As of June 25, the index is within 5 basis points of turning positive for the year. Years with negative total returns are historically rare in the Treasury market, with just six recorded in the last 40 years from 1983 to 2023.

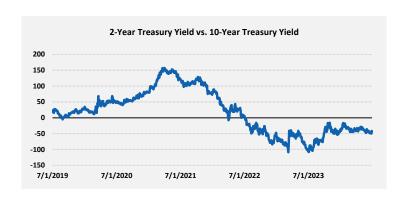
Source: ICE DATA INDICES, LLC ("ICE DATA"), 25 June 2024. Past performance is no guarantee of future results.

The Treasury curve remains deeply inverted. The two-year Treasury has yielded more than the ten-year since July 2022, making this the longest 2/10 curve inversion in history and the longest on record without a recession.

Source: Bloomberg, 25 June 2024. Past performance is no guarantee of future results.







A prudent approach to fixed income investing calls for diversification across both credit and duration exposure. As always, Dynamic recommends staying balanced, diversified and invested. Despite short-term market pullbacks, it's more important than ever to focus on the long-term, improving the chances for investors to reach their goals.

Bill Smith serves as president, Portfolio Management & Trading, of Harmont Fixed Income in Phoenix.

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2415 E. Camelback Rd., Ste. 700, Phoenix, AZ 85016 | 877.257.3840 | dynamicwealthadvisors.com