



APRIL 2025

Fixed Income Market Update

The Bloomberg Barclays U.S. Aggregate Bond Total Return Index was flattish with a gain of only 0.04% in March. Breadth deteriorated—five of the fixed income sectors we track had positive returns during the month. U.S. Long-Term Treasuries declined -1.2% during the month.

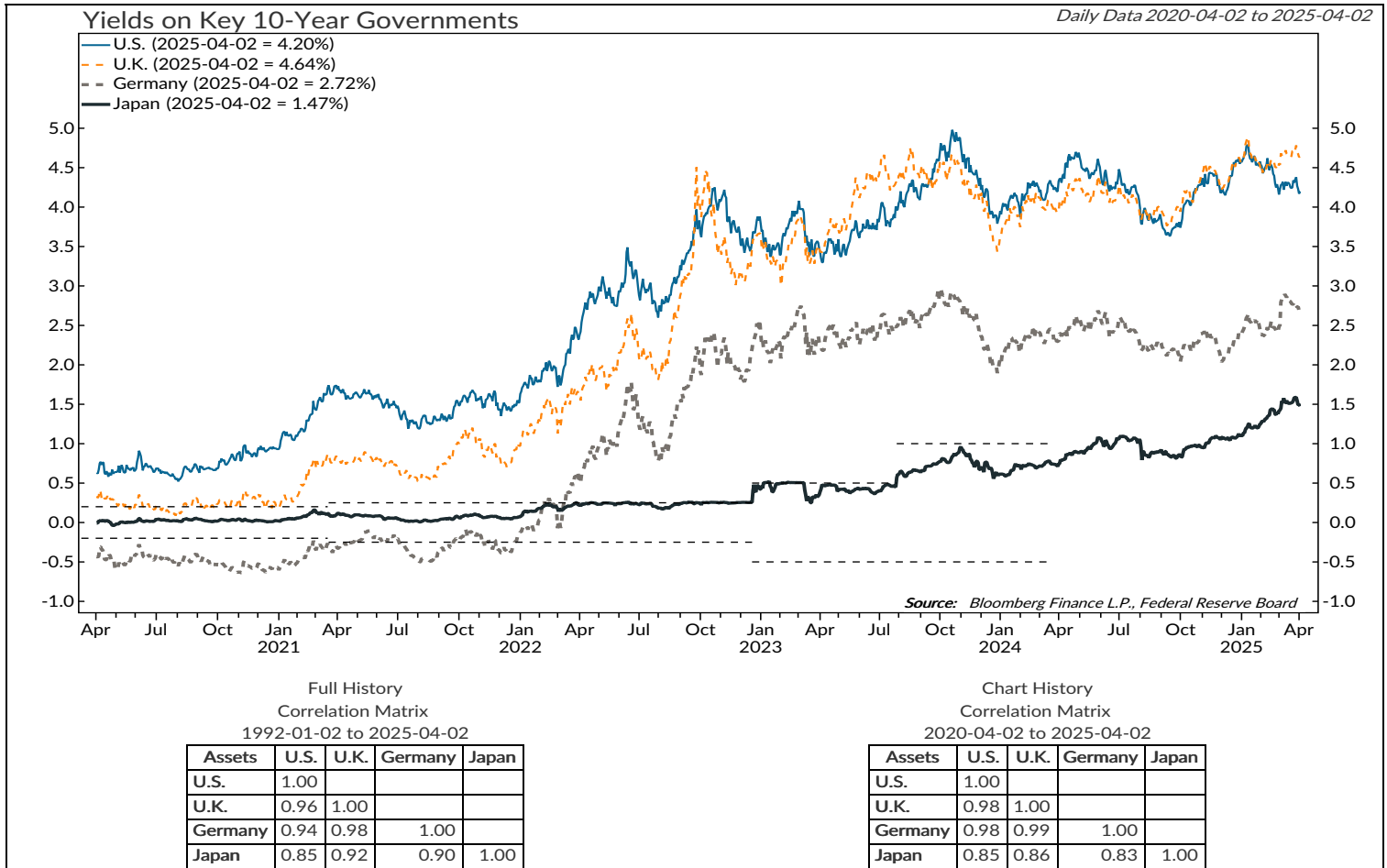
Despite increased recession risk, a weaker than expected inflation report, a correction in stock prices, and collapsing consumer sentiment, 10-year Treasury yields barely budged in mid-March after falling as low as 4.11% on March 4. The failure to break, or even test, those lows suggest something else is going on.

It's not tariffs. Although near term inflation expectations have risen, long-term inflation expectations remain well anchored under 2.5%. Treasuries are following bunds (chart below). Normally, most developed bond markets follow Treasuries (except Japan). But the mega shift going on in Germany has caused the U.S. and Germany to swap places. If this trend continues, Treasuries will provide a poor hedge against equities. And the assumption that the U.S. economy could drag the world down with it may not hold this cycle.

A final factor is the resumption of the unwinding of the yen carry trade. Rising Japanese yields and the narrowing of rate

differentials has made the yen more attractive relative to the U.S. dollar and the euro. The U.S. is no longer the only game in town. It will have to compete for capital, which will require a higher r-star, a higher term premium, and a higher equity risk premium.

Entering April, there was some rotation among sectors. U.S. Investment Grade Corporate, U.S. Mortgage-Backed Securities, and U.S. Treasury Inflation-Protected Securities are above benchmark weight. Emerging Market bonds and U.S. Floating Rate Notes moved to benchmark weight. International Investment Grade, U.S. Long-Term Treasuries, and U.S. High Yield bonds are below benchmark weight.



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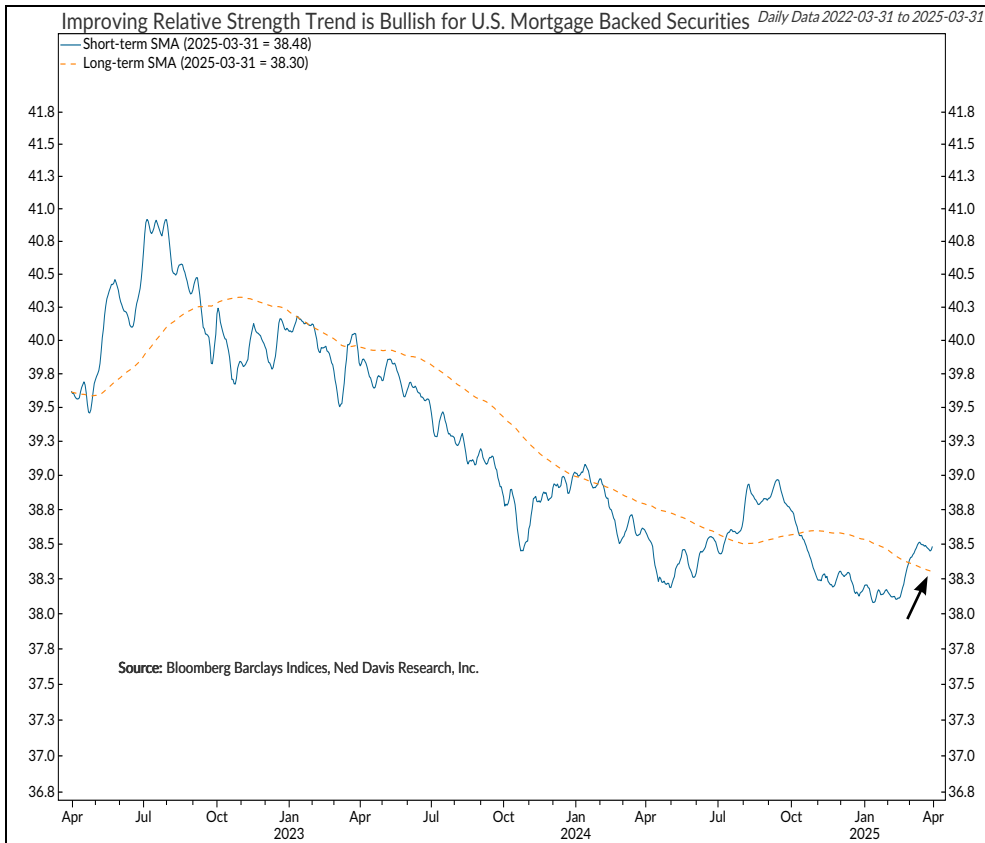
U.S. Treasury Inflation-Protected Securities' allocation is well above benchmark weight. Five of six indicators are bullish for the sector. During the month, high-yield option-adjusted spread extremes flashed a bullish signal (chart right) joining positive readings from commodity price trends, inflation expectation extremes, relative strength, and trend.



Customized version of TIPS TR vs. US HY OAS Extremes



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Customized version of MBS RS MA Cross



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U.S. Mortgage-Backed Securities' allocation is above benchmark weight. Indicators are favorable for the sector. During the month, relative strength trend flashed a bullish signal (chart left), joining positive readings from high yield option-adjusted spreads, the relative strength index, and the 10-year yield. Offsetting those signals are a bearish reading from another trend measure and a neutral reading from inflation expectation extremes.

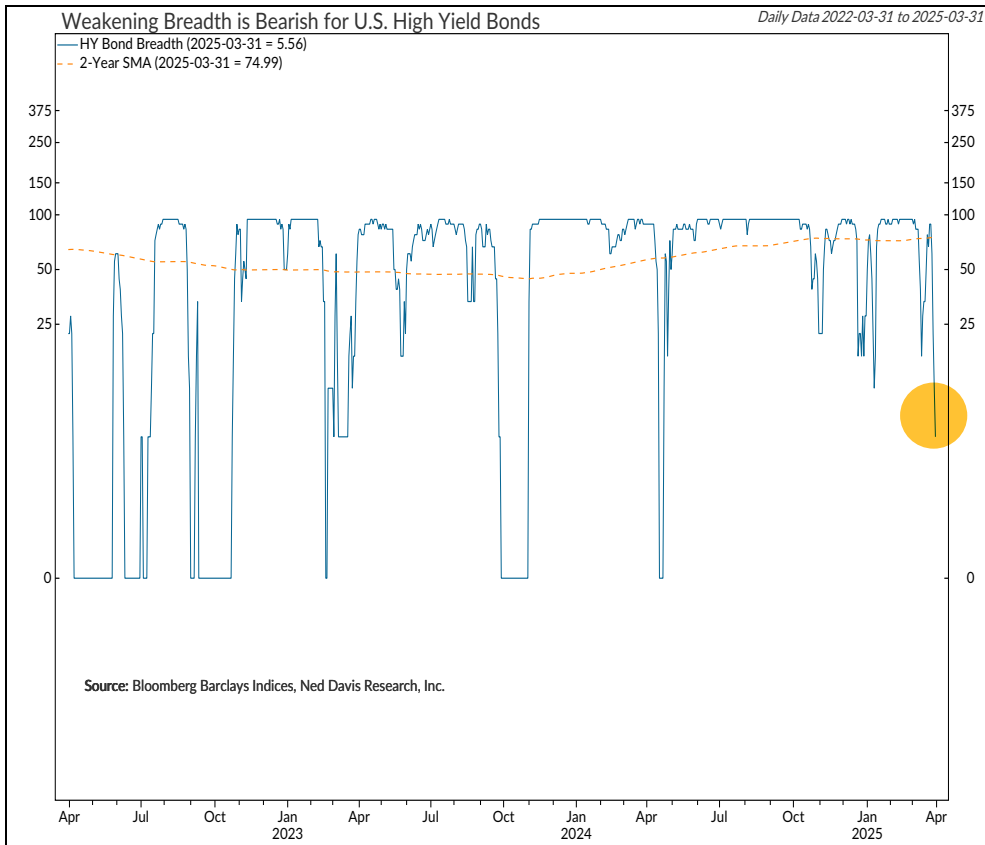
U.S. Long-Term Treasury bonds' allocation remained below benchmark weight. Only one of five indicators is bullish for Treasuries—U.S. stock market performance. However, it is offset by rising inflation expectations and U.S. swaps extremes which are bearish for the sector. Additionally, while technicals such as Treasury bond momentum and trend (chart right) remain neutral and bearish, they are improving.



Customized version of Technical Cross



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Customized version of High Yield Bond Sectors Breadth



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U.S. High Yield bonds' allocation is well below benchmark weight. Four of six indicators are bearish. During the month, high-yield bond sector breadth flashed a bearish signal (chart left) joining negative readings from small-cap equity trend, high-yield absolute return, and the VIX. Only the sector's trend is bullish.

Summary

Entering April, there was some rotation among sectors. U.S. Investment Grade Corporate, U.S. Mortgage-Backed Securities, and U.S. Treasury Inflation-Protected Securities are above benchmark weight. Emerging Market bonds and U.S. Floating Rate Notes moved to benchmark weight. International Investment Grade, U.S. Long-Term Treasuries, and U.S. High Yield bonds are below benchmark weight.



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Fixed Income Allocation Strategy

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