

JUNE 2025

## Fixed Income Market Update

The Bloomberg Barclays U.S. Aggregate Bond Total Return Index was weak with a loss of -0.72% in May. Breadth was steady—six of the nine fixed income sectors we track had positive returns during the month. U.S. Long-term Treasuries continued to be a drag on the overall performance of the U.S. Aggregate, while U.S. High Yield Bonds had the strongest performance, signaling a shift in risk appetite.

This has been one of the most difficult times to figure out the direction of Treasury yields. Moody's U.S. debt downgrade in mid-May was the latest action to call attention to the unsustainable fiscal path of U.S. finances. Treasury yields fell after the S&P downgrade but showed little reaction to the Fitch downgrade.

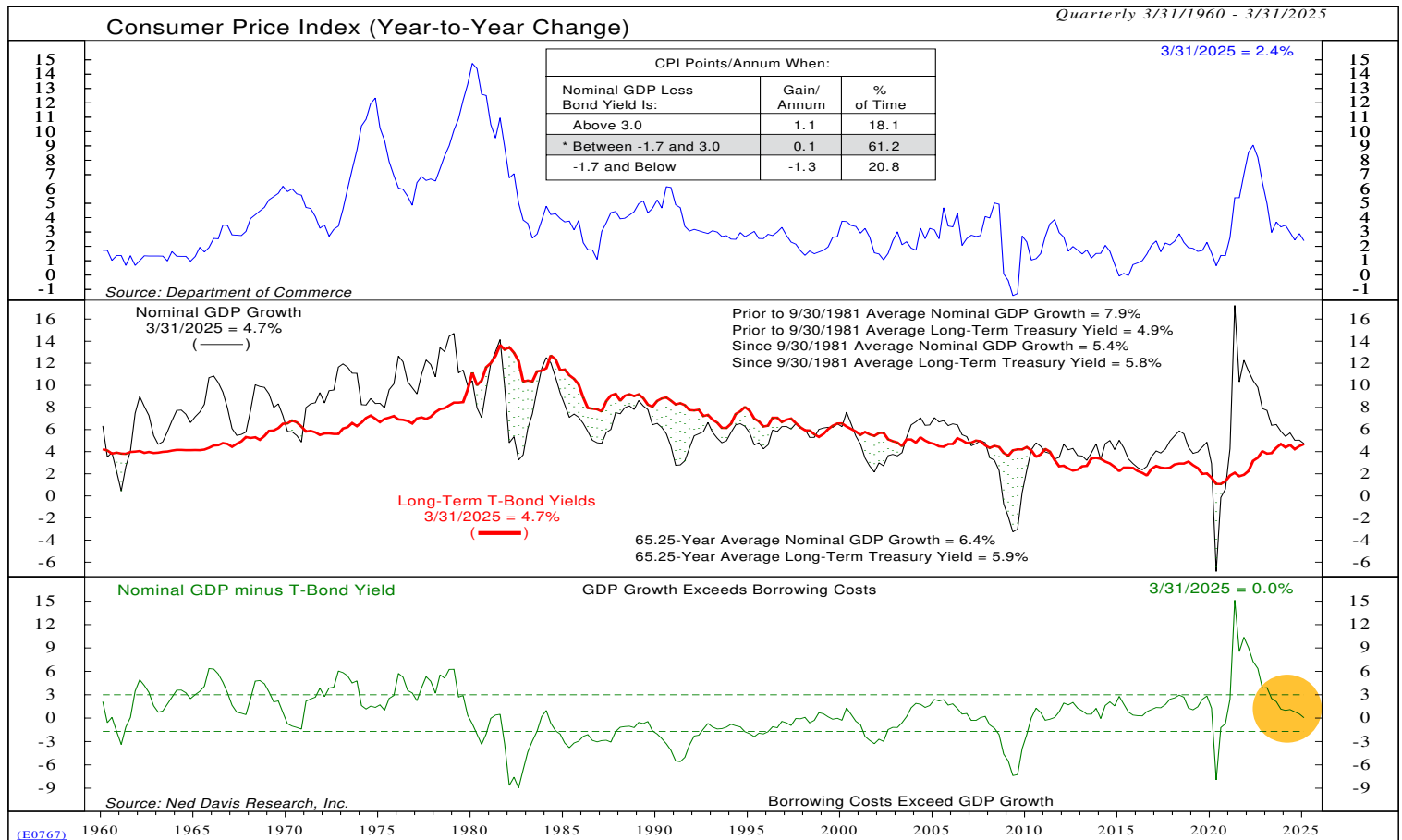
When is the federal debt too high? Most investors focus on yields, but it's an imperfect measure. We prefer to focus on three metrics:

- 1. Term premium.** The longer the fiscal situation is on an unsustainable path, the more investors should ask for in compensation. The term premium has been rising.
- 2. When the financing cost of the debt exceeds nominal GDP.** So far, the two have converged (chart below).
- 3. Credit default swaps (CDS) on U.S. debt.** CDS has not improved materially since the first tariff reversal on April 9, suggesting investors are more concerned with the budget than the trade war.

Although we are tactically 105% of benchmark

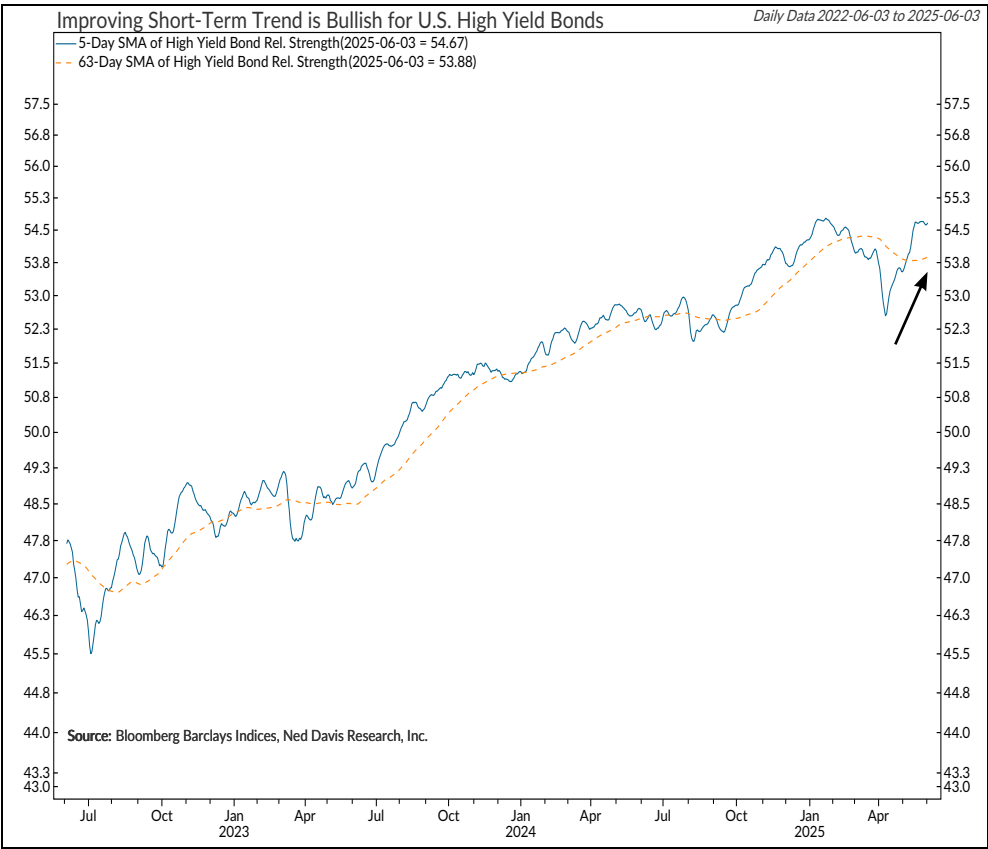
duration, we will look to scale that back in the near future. The fair value range of 4.00% to 5.25% for the 10-year yield still makes sense. We'd still look to buy if 10-year yields got up into our buy zone of 5.00% +/- 25 basis points. We'd still look to sell if the 10-year got below 4.00%.

Entering June, the fixed income portfolio rebalanced and increased exposure to risk assets. U.S. High Yield bonds, Emerging Market bonds, and Floating Rate Notes are above benchmark weight. U.S. Long-Term Treasuries improved to marketweight. U.S. Investment Grade Corporate, U.S. Mortgage-Backed Securities, and U.S. Treasury Inflation-Protected Securities, and International Investment Grade are below benchmark weight.

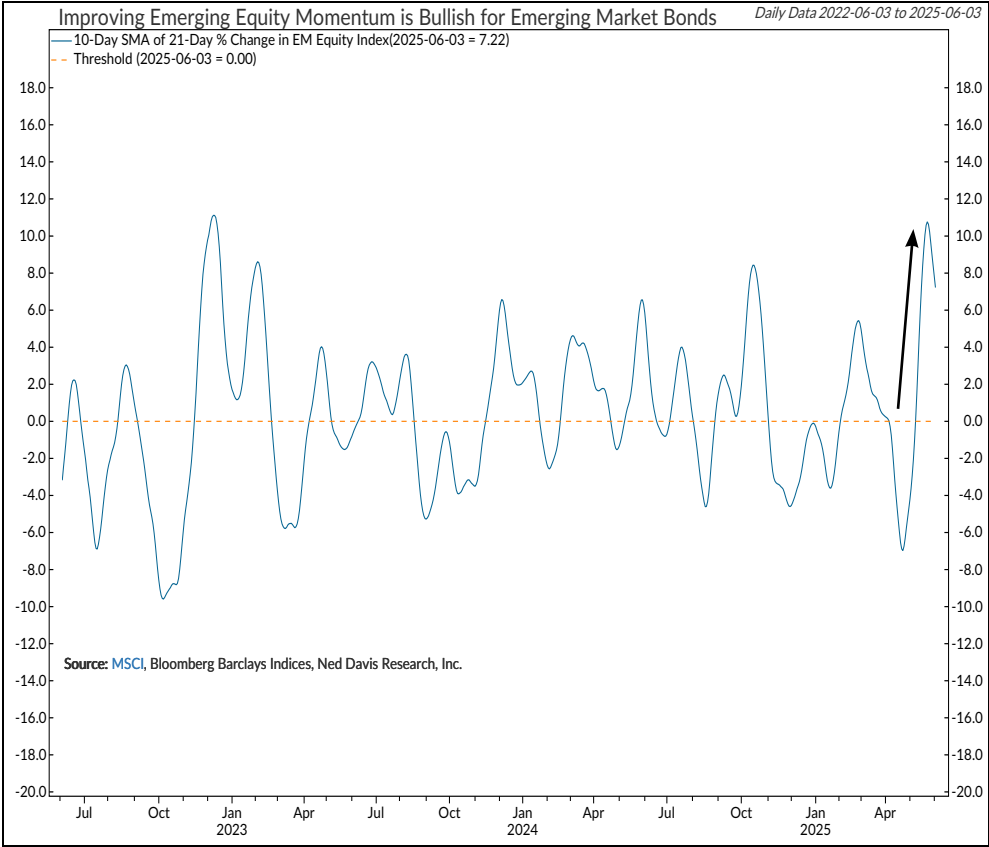


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With the June update, U.S. High Yield bonds' allocation rose sharply to well above benchmark weight, signaling investors' appetite for riskier assets. All six indicators are now bullish. During the month of May, the high-yield bond sector's short-term trend (chart right), moving average cross measure, small-cap equity trend, high-yield sector breadth, the VIX, and high-yield vs. option-adjusted spread extremes all moved to positive levels for the sector.



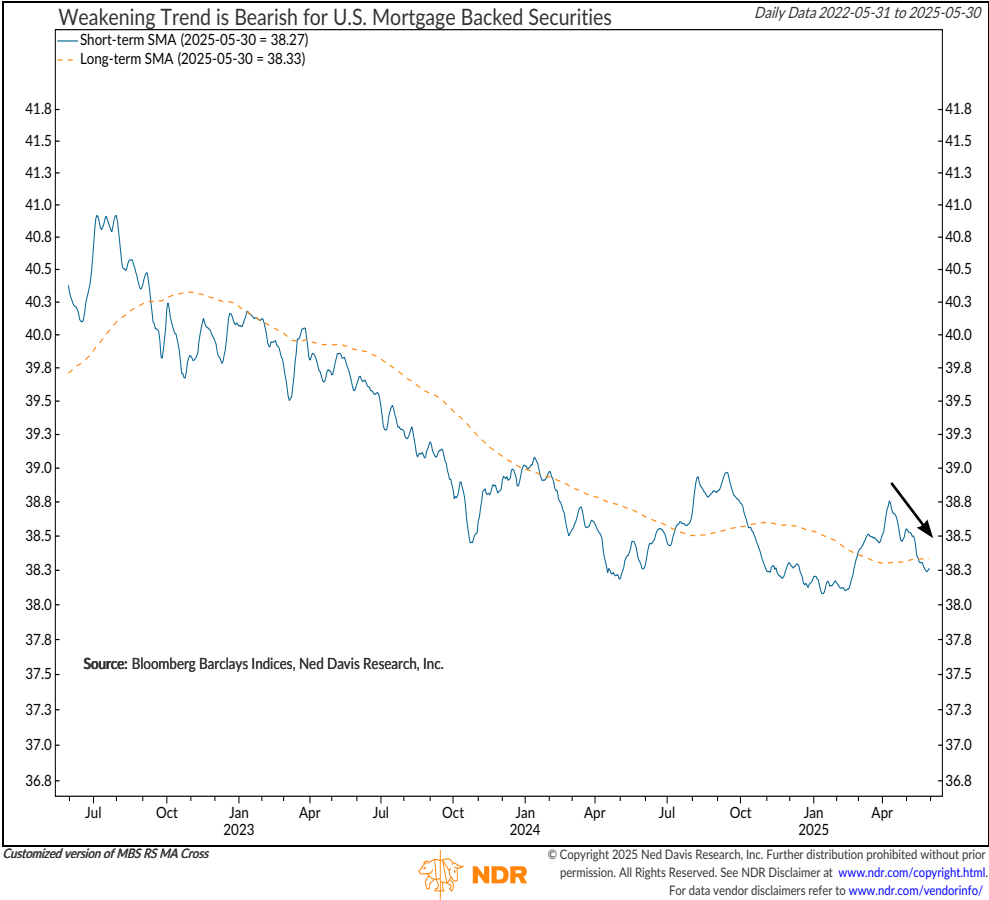
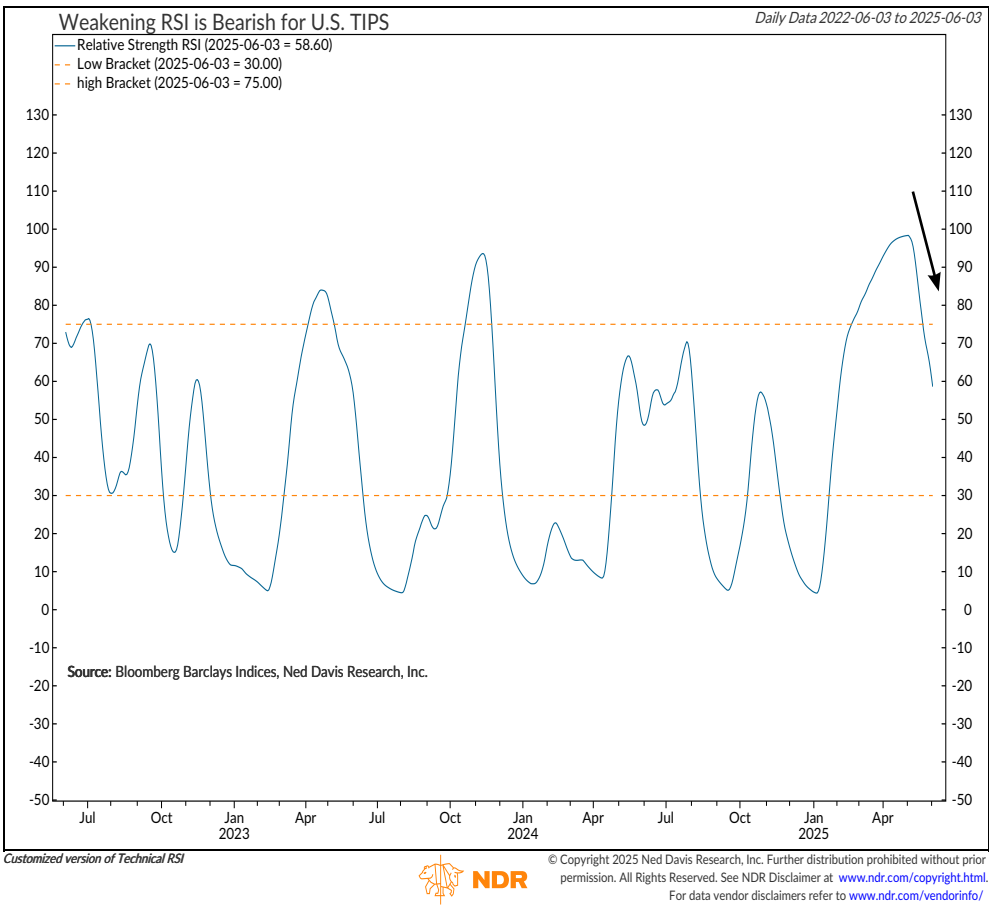
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Emerging Market bonds' allocation is well above benchmark weight. Four out of five indicators are bullish for the sector. During the month, emerging equity momentum flashed a bullish signal (chart left), joining positive readings from emerging currencies, as well as absolute and relative trend. The weak trend in commodities remains bearish for the sector.

U.S. Treasury Inflation-Protected Securities' (TIPS) allocation declined and is now well below benchmark weight. Three of six indicators are bearish for the sector. During the month, the sector's relative strength index flashed a bearish signal (chart right) joining commodity price trends and relative strength slope. The sector's relative strength trend indicator, while at a bullish level, has been weakening. Inflation expectation extremes and high-yield option-adjusted spread extremes remain neutral.



U.S. Mortgage-Backed Securities' allocation is well below benchmark weight. Indicators lean bearish. During the month, high yield option-adjusted spreads, the relative strength index, and relative strength trend (chart left) flashed bearish signals, joining relative strength slope. The inflation expectation extremes indicator is neutral, and the 10-year yield is bullish.

## Summary

Entering June, the fixed income portfolio rebalanced and increased exposure to risk assets. U.S. High Yield bonds, Emerging Market bonds, and Floating Rate Notes are above benchmark weight. U.S. Long-Term Treasuries improved to marketweight. U.S. Investment Grade Corporate, U.S. Mortgage-Backed Securities, and U.S. Treasury Inflation-Protected Securities, and International Investment Grade are below benchmark weight.

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