BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

APRIL 2024

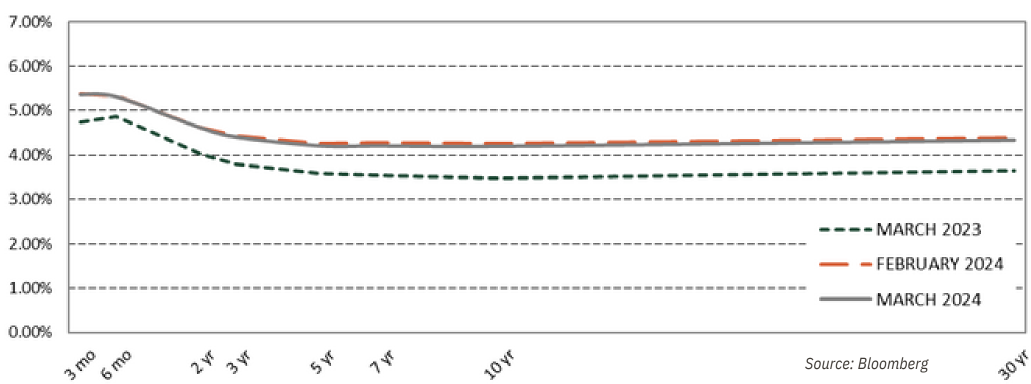
Market Summary

Recent economic data has shown above trend growth fueled by a rise in consumer spending and a continuing healthy US job market. Inflationary trends are subsiding, but core levels remain above the Fed's target. Given the cumulative effects of restrictive monetary policy and tighter financial conditions, we believe the economy will gradually soften and the Fed will loosen monetary policy in 2024.

As expected at the March meeting, the Federal Open Market Committee voted unanimously to leave the Federal Funds rate unchanged at a target range of 5.25 - 5.50%. The March Summary of Economic Projections (SEP) showed stronger real GDP growth outlook and higher core inflation projections for 2024 on resilient labor market and consumer data. The median projection for the Federal Funds rate by year-end remained the same at 4.625%, implying three 0.25% cuts. We continue to believe the FOMC will loosen monetary policy in mid-2024 as inflation and economic growth continue to moderate.

The US Treasury yield curve stabilized in March as the Federal Open Market Committee (FOMC) left the Federal Funds rate unchanged. The 2-year Treasury yield remained steady at 4.62%, while the 5-year Treasury fell by 4 basis points to 4.21%, and the 10-year Treasury yield dropped by 5 basis points to 4.20%. By the end of March, the inversion between the 2-year Treasury yield and the 10-year Treasury yield widened to -42 basis points, compared to -37 basis points at the end of February. The movement of the yield curve suggests a potential flattening trend, indicating market expectations for slower economic growth. Upcoming inflation data are likely to be the primary drivers of the direction of interest rates in the near term and will play a key role in the Federal Reserve's timing of potential rate cuts.

TREASURY YIELDS WERE RANGE BOUND IN MARCH



The US Treasury yield curve held within a narrow range in March. The 2-year Treasury yield was unchanged at 4.62%, the 5-year Treasury fell 4 basis points to 4.21%, and the 10-year Treasury yield dropped 5 basis points to 4.20%. The inversion between the 2-year Treasury yield and 10-year Treasury yield widened to -42 basis points at March month-end versus -37 basis points at February month-end. The spread between the 2-year Treasury and 10-year Treasury yield one year ago was -56 basis points. The inversion between 3-month and 10-year Treasuries widened to -117 basis points in March from -113 basis points in February.

TREASURY YIELDS	Trend (▲/▼)	3/28/2024	2/29/2024	Change
3-Month	▼	5.37	5.38	(0.01)
2-Year	▲	4.62	4.62	0.00
3-Year	▼	4.41	4.42	(0.01)
5-Year	▼	4.21	4.25	(0.03)
7-Year	▼	4.21	4.27	(0.06)
10-Year	▼	4.20	4.25	(0.05)
30-Year	▼	4.34	4.38	(0.04)

Source: Bloomberg

Market Data

World Stock Market Indices
data as of 03/28/2024

	Change (2/29/2024)	%CHG
S&P 500		
5,254.35	158.08	3.10%
NASDAQ		
16,379.46	287.54	1.79%
DOW JONES		
39,807.37	810.98	2.08%
FTSE (UK)		
7,952.62	322.60	4.23%
DAX (Germany)		
18,492.49	814.30	4.61%
Hang Seng (Hong Kong)		
16,541.42	29.98	0.18%
Nikkei (Japan)		
40,168.07	1,001.88	2.56%

Source: Bloomberg. Please see descriptions of indices on Page 2.

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Credit Spreads Tightened in March

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	5.37	5.34	0.03
2-year A corporate note	0.36	0.42	(0.05)
5-year A corporate note	0.58	0.65	(0.08)
5-year Agency note	0.06	0.06	0.00

Source: Bloomberg

Data as of 03/28/2024

Crude oil prices increased as geopolitical concerns pushed prices higher

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(69.37) $B In MAR 24	(69.46) $B In FEB 24	(59.58) $B In MAR 23
Gross Domestic Product	1.60% MAR 24	3.40% DEC 23	2.20% MAR 23
Unemployment Rate	3.80% MAR 24	3.90% FEB 24	3.50% MAR 23
Prime Rate	8.50% MAR 24	8.50% FEB 24	8.00% MAR 23
Refinitiv/CoreCommodity CRB Index	290.29 MAR 24	275.08 FEB 24	267.73 MAR 23
Oil (West Texas Int.)	$83.17 MAR 24	$78.26 FEB 24	$75.67 MAR 23
Consumer Price Index (y/o/y)	3.50% MAR 24	3.20% FEB 24	5.00% MAR 23
Producer Price Index (y/o/y)	1.90% MAR 24	(1.10%) FEB 24	3.00% MAR 23
Euro/Dollar	1.08 MAR 24	1.08 FEB 24	1.08 MAR 23

Source: Bloomberg.

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) came in higher than expected in March, increasing 0.4% month-over-month and 3.5% year-over-year. The Core CPI, which excludes volatile food and energy components, was up 0.4% month-over-month and 3.8% year-over-year in March, unchanged from 3.8% in February. Energy costs accelerated during the month, and shelter costs remain elevated. The Personal Consumption Expenditures (PCE) Index headline inflation increased 0.3% month-over-month and rose 2.5% year-over-year in February, in line with expectations. Core PCE, the Federal Reserve's preferred inflation gauge, increased 0.3% month-over-month and rose 2.8% year-over-year. While the trend is moderating, the path to the Fed's 2% inflation target remains uneven.

Retail Sales

March Retail Sales rose above expectations at +0.7% after a sizeable upward revision to +0.9% in February. On a year-over-year basis, Retail Sales growth increased 4.0% for March. Sales were supported by higher gas prices and higher volume sales in a busy travel period for spring break at schools, as well as strength from non-store retailers. The Conference Board's Consumer Confidence Index edged down to 104.7 in March after a sizeable downward revision to 104.8 in February. The lower reading was largely due to a deteriorating view of the labor market and future business conditions, along with concerns about the highly polarized political environment. While the consumer has been resilient, dwindling excess savings, rising credit card balances, and the resumption of student loan payments pose potential headwinds to future economic growth.

Labor Market

The U.S. economy added a better-than-expected 303,000 jobs in March, and the prior two months were revised up by 22,000. Leading sectors included healthcare and government. Job creation remains healthy, with the three-month moving average payrolls at 276,000 and the six-month moving average at 244,000. The unemployment rate edged down to 3.8% in March. The labor participation rate ticked up to 62.7% but remained below the pre-pandemic level of 63.3%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons was unchanged at 7.3%. Average hourly earnings rose 4.1% year-over-year in March, down from 4.3% last month. Employment remains strong by historical standards.

Housing Starts

Housing Starts increased 10.7% month-over-month in February to 1.521 million units, due to milder weather than seen in January and some rising confidence among homebuilders as mortgage rates fell below 7%. Starts for multi-family homes increased 8.6%, while single family homes increased 11.6% for the month. Total starts of new single-family homes are up 35.2% year-over-year. According to Freddie Mac, 30-year fixed mortgage rates averaged 6.79% as of March 31st. According to the Case-Shiller 20-City Home Price Index, housing prices rose 6.59% year-over-year in January, accelerating from a 6.15% year-over-year gain in December. Tight inventories and higher mortgage rates continue to impact affordability.

World Stock Market Index Descriptions
S&P 500– The S&P 500 is a market value-weighted index of 500 large-capitalization stocks. The 500 companies included in the index capture approximately 80% of available US market capitalization. NASDAQ–The NASDAQ Composite Index is the market capitalization-weighted index of over 3.300 common stocks listed on the NASDAQ stock exchange. Dow Jones–The Dow Jones Industrial Average is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange and the NASDAQ. The Financial Times Stock Exchange Group (FTSE)– The FTSE is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. DAX–The Deutscher Aktienindex (DAX) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. Hang Seng–The Hang Seng Index is a freefloat-adjusted market-capitalization- weighted stock market index in Hong Kong. It is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of overall market performance in Hong Kong. Nikkei–Japan's Nikkei 225 Stock Average is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.