

MARCH 2025

Fixed Income Market Update

After flattish performance in January, the Bloomberg Barclays U.S. Aggregate Bond Total Return Index was up about 2.2% in February led by a strong rally in Long-Term Treasuries. Breadth remained bullish—all nine fixed income sectors we track had positive returns during the month.

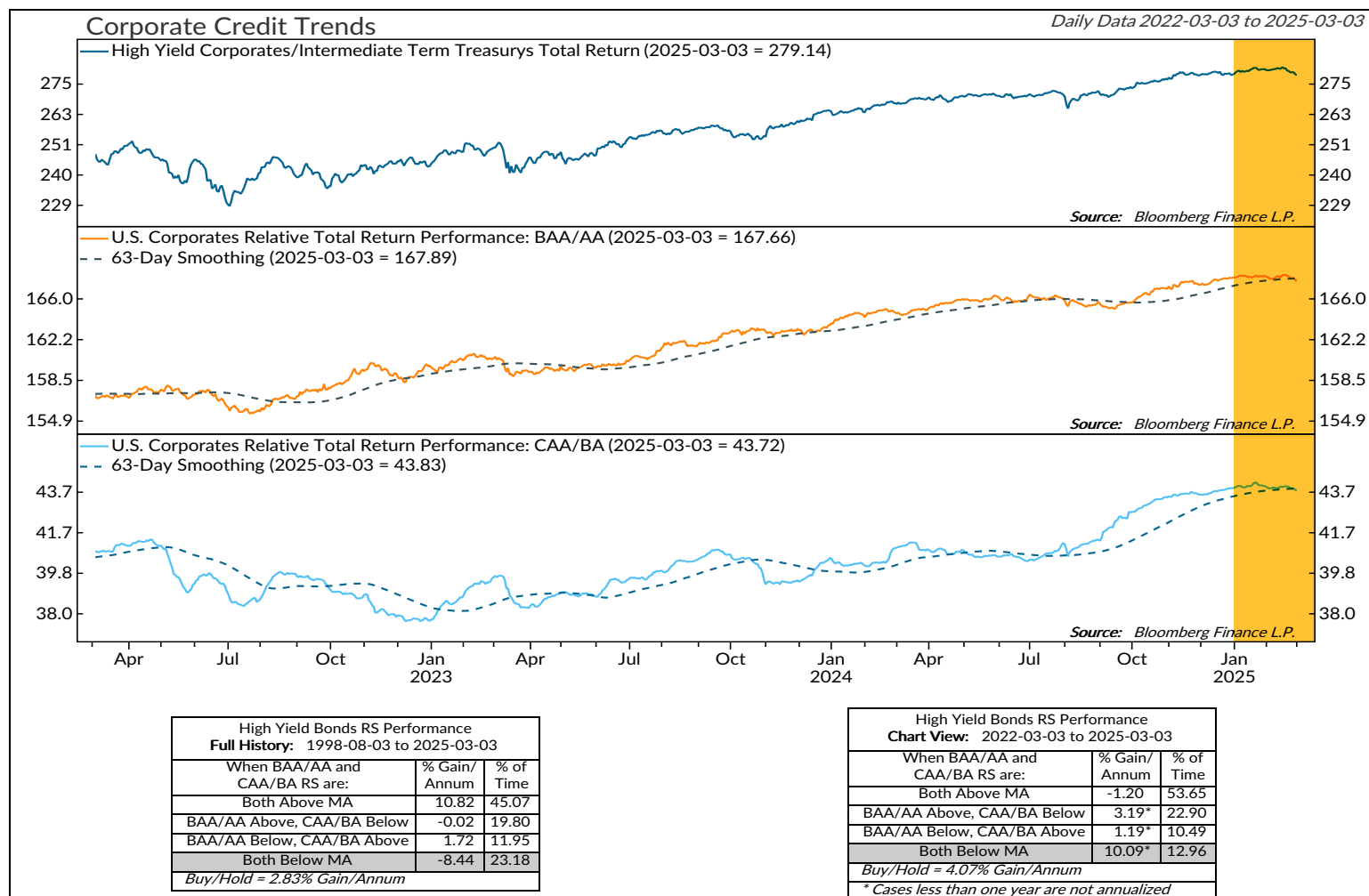
Most of the indicators we follow remain constructive for credit. High yield (HY) continues to make new highs relative to Treasuries and investment grade (IG) corporates. Fundamentals also remain favorable. Our Credit Conditions Index is in expansion

territory. The Credit Mangers' Index remains in an uptrend. Interest coverage ratios remain high. Consumer loan demand has picked up and banks are more willing to make consumer loans. There's plenty of cash in HY funds to support further buying.

Valuations are rich and spreads remain historically tight. HY spreads are one standard deviation below its mean. IG spreads are not quite that tight. But spreads can remain tight for a long time. Carry remains attractive. Within the fixed income universe, credit remains relatively attractive, especially if rates remain

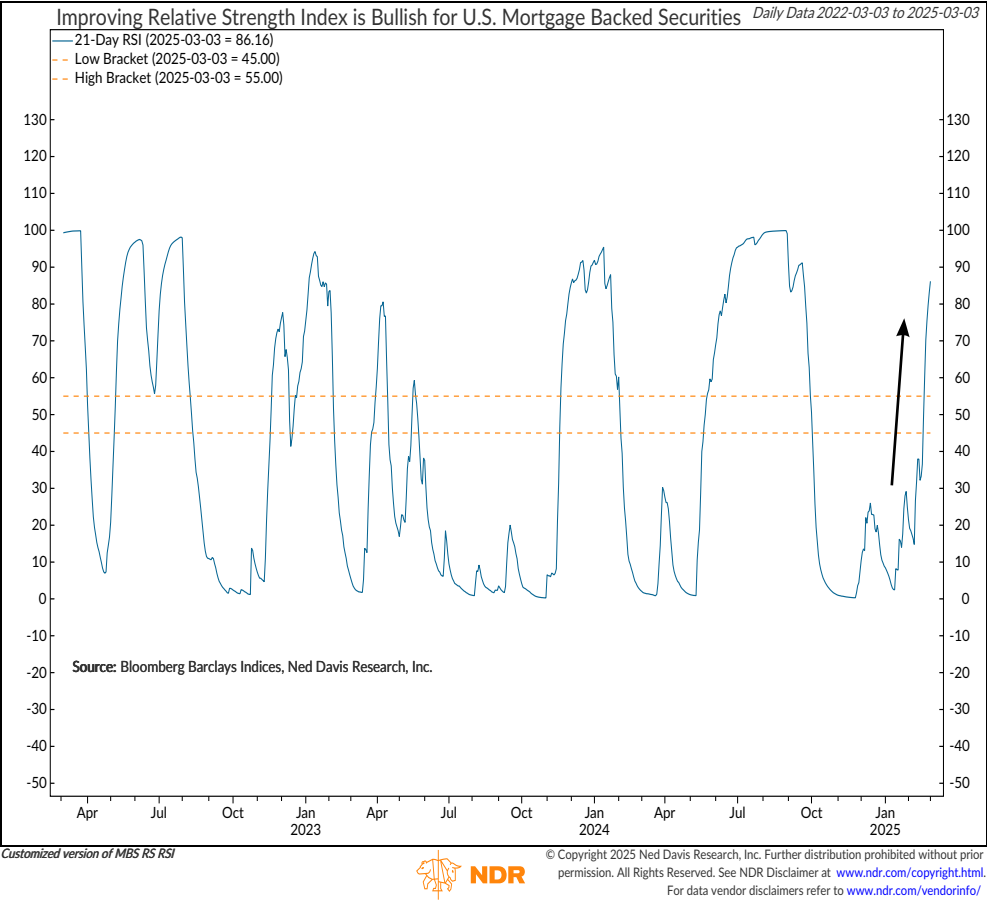
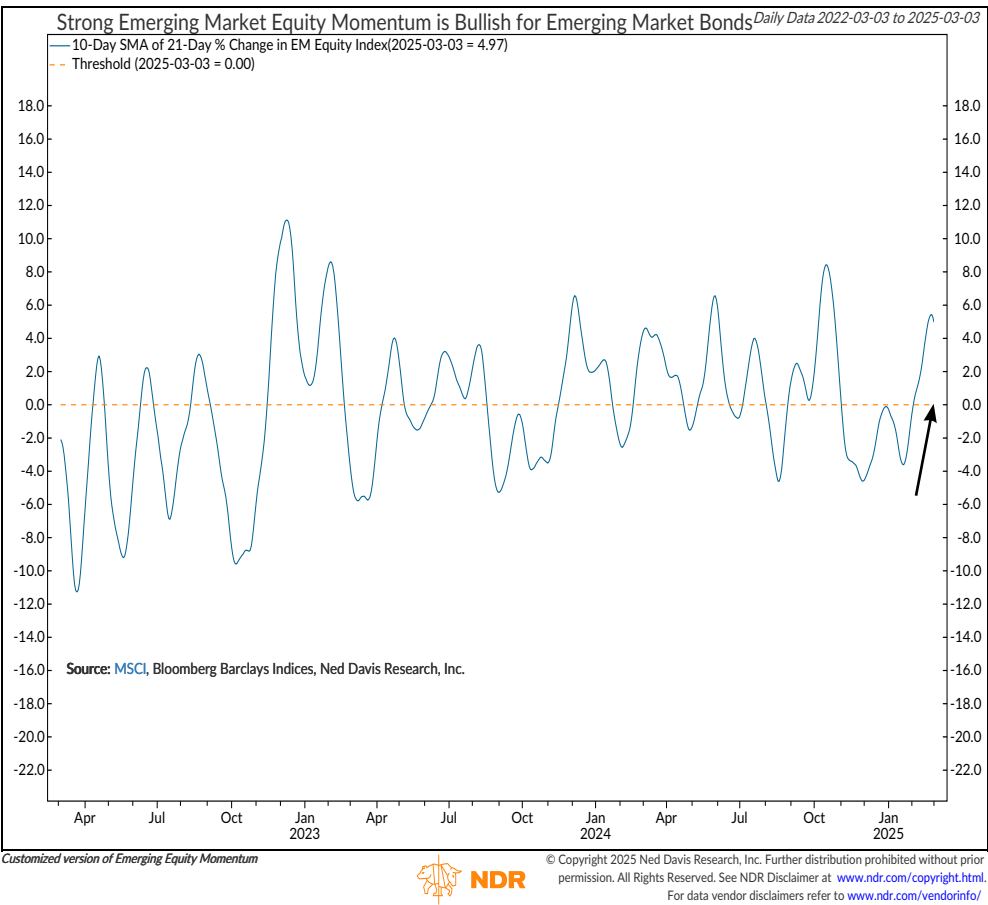
range bound. Low volatility is helpful for credit outperformance. However, there's fraying around the edges—riskier credit is no longer outperforming (chart below).

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



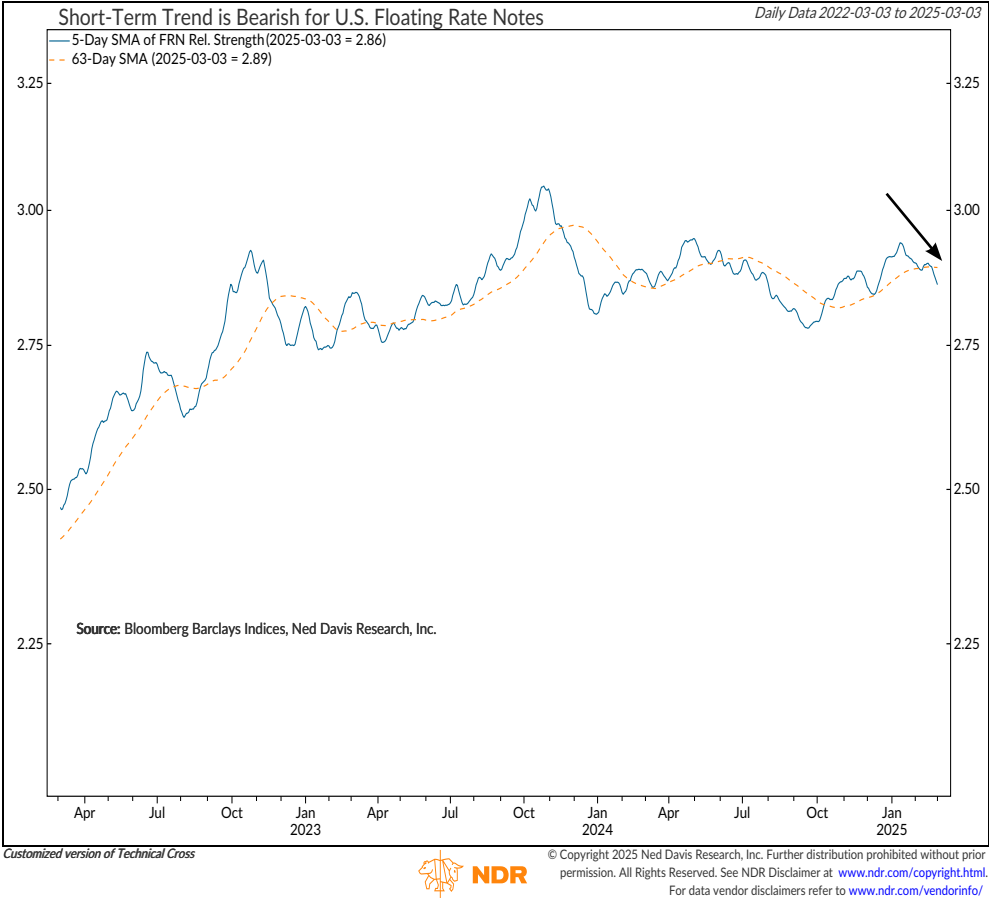
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Emerging Market bonds' allocation is well above benchmark weight. All five indicators are bullish for the sector. During the month, emerging market (EM) equity momentum (chart right) joined bullish readings from commodity market strength, EM currencies, and EM bond relative strength and trend. A bullish outlook is also confirmed by NDR's new EM Bond composite vs. Developed Market (DM) Bond composite.



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

Despite a strong performance in February, 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 (chart right) and U.S. swaps extremes. Additionally, while technicals such as Treasury bond momentum and trend remain neutral and bearish, they are improving.



U.S. Floating Rate Notes' allocation is well below benchmark weight. Four of five indicators including option-adjusted spreads and technical measures like short-term trend (chart left) and momentum are bearish for the sector. Only the sector's relative strength vs. volatility extremes is neutral.

Summary

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

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