

MACRO

Financial markets took note of the more balanced tone of the Federal Open Market Committee’s July 31 post-meeting statement, in contrast to the more hawkish undertones of prior statements. Inflation was described as “somewhat” elevated, job gains were described as having “moderated,” and there was an acknowledgment that “the unemployment rate has moved up but remains low.”¹

The July jobs report was uniformly softer than anticipated; nonfarm payroll growth came in below consensus expectations and the unemployment rate unexpectedly ticked up to 4.3%.

The combined impact of these two releases during the last week of July and beginning of August, resulted in decidedly lower interest rates, with the 2-year U.S. Treasury yield plummeting 50 basis points (bps) for the week.

CREDIT

Issuance for July was robust, coming in slightly under \$120 billion. Supply was driven by the Financials sub-sector as several banks issued debt following their second quarter earnings reports.

While credit spreads were unchanged for the month, the tone has been markedly weaker in the opening days of August, with spreads moving 11 bps wider in just the first two trading days of the month.

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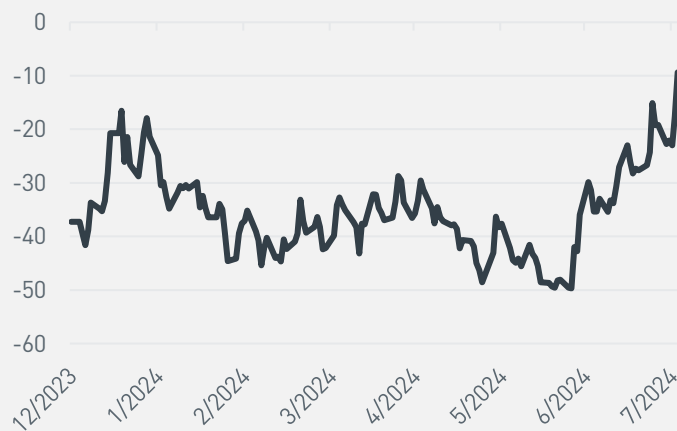
Mortgage-backed securities led all investment grade sectors, with 42 bps of excess returns for the month.

Despite a continuation of heavy supply, the asset-backed securities sector continued to see strong investor demand, which propelled the sector to another month of positive returns.

¹ <https://www.federalreserve.gov/newsevents/pressreleases/monetary20240731a.htm>

CHART OF THE MONTH

2/10YR UST Yield Curve, bps
Yield curve close to dis-inverting



- After reaching a year-to-date high of approximately 50 bps of inversion, the 2/10-yr yield curve has steepened by 40 bps over the last month.
- Increased expectations for rate cuts from the Federal Reserve have been one of the primary drivers of the recent steepening.

As of 8/2/2024. Source: Bloomberg L.P.

MARKET DATA

Yields	YTM %	MTD Change	QTD Change	YTD Change
3-Mo UST	5.29	-0.07	-0.07	-0.06
2-Yr UST	4.26	-0.50	-0.50	0.01
5-Yr UST	3.91	-0.46	-0.46	0.07
10-Yr UST	4.03	-0.37	-0.37	0.15
30-Yr UST	4.30	-0.26	-0.26	0.28
Risk Premia	OAS %	MTD Change	QTD Change	YTD Change
Investment Grade Credit	88.00	0.00	0.00	-5.00
Asset-Backed Securities	60.00	3.00	3.00	-8.00
High Yield	314.00	5.00	5.00	-9.00

As of 7/31/2024. Source: Bloomberg L.P.

[BLOOMBERG SECTOR/INDEX PERFORMANCE (USD)]

	Duration (yrs.)	MTD Excess Return (%)	YTD Excess Return (%)	MTD Total Return (%)	YTD Total Return (%)
Sector					
Investment Grade Credit	6.77	0.07	0.88	2.35	1.88
Mortgage-Backed Securities	5.84	0.42	0.18	2.64	1.63
Asset-Backed Securities	2.60	0.07	0.80	1.36	3.05
High Yield	2.98	0.36	2.36	1.94	4.58
Index					
1-3-Yr Government/Credit	1.77	0.04	0.16	1.19	2.58
Intermediate Government/ Credit	3.70	0.03	0.34	1.88	2.37
U.S. Aggregate	6.08	0.13	0.33	2.34	1.61

As of 7/31/2024. Source: Bloomberg L.P.

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