

Every four years, the world trains its sights on the international phenomenon that features triumph and heartbreak – the Summer Olympic Games. As bond-letes for Team IR+M, we compete daily in the US Fixed Income Games, leaping over hurdles, flexing our research muscles, and fighting to climb the medal stand.

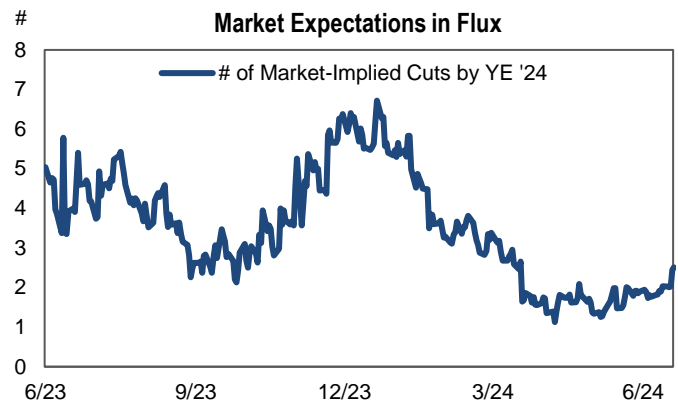


While Paris 2024 kicks off on July 26th, US Fixed Income 2024 is well underway, and the competition is heating up. As we settle into the second half of 2024, we review the first half highlights and preview the events to watch.



## The Torch Has Been Lit (What Has Happened Thus Far in 2024)

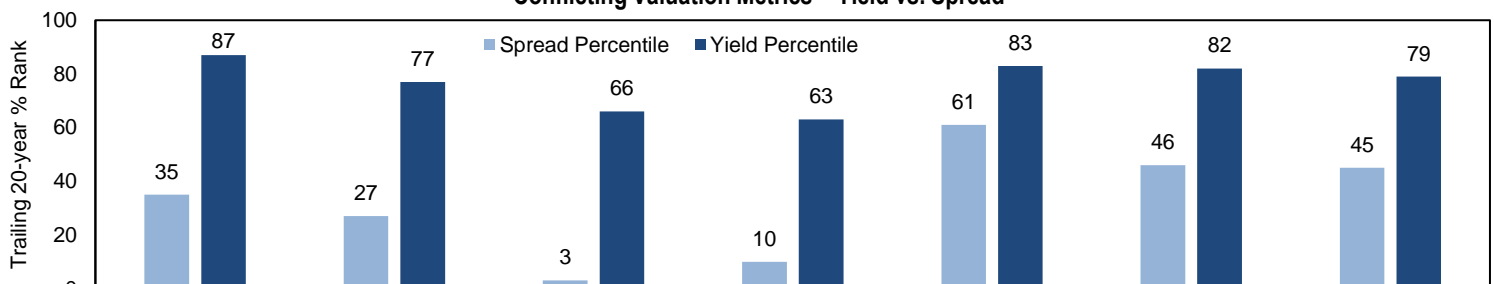
- **Investor expectations whipsawed from six 25bp cuts to just two possible cuts in 2024.** Initially, investors feared that tight monetary policy would tip the US into a recession. However, market participants have quickly reduced the number of expected cuts amid signs of a resilient economy and labor market.
- **The Fed reiterated patience.** With the Fed’s heightened focus on economic data, investors recognized that positive data implied that rates would remain “higher for longer.” The intermediate- and long-end of the Treasury curve repriced and increased 30 to 60bps, as the economy remained resilient, and inflation elevated.
- **Yields drove demand.** Through June 2024, taxable fixed income fund inflows totaled over \$218 billion, with investors adding to the asset class in 25 out of 26 weeks. The heavy demand kept corporate spreads relatively tight – trading below 100bps for over 115 trading days – despite supply reaching the second highest first-half total on record.



## Opening Ceremonies (Where We Are Today)

- **Inflation remains stubbornly high.** Over the last year, CPI ranged from 3.0% to 3.7%, far from the Fed’s desired 2.0%. More recently, it has begun trending lower, mostly driven by consumer goods’ falling prices. However, service price pressures still need to soften further – and that requires lower labor costs and service-sector demand.
- **The economy is still growing, albeit at a slower pace.** While first quarter GDP was revised upward to 1.4%, it was still down from 4.9% and 3.4% in Q3 ‘23 and Q4 ‘23, respectively. Labor market strength, coupled with supportive fiscal policies, has buoyed growth and should continue to provide a tailwind.
- **Valuations are mixed.** Yields, which are the primary driver of long-term returns, remain attractive across fixed income sectors. While spreads are less compelling, there is ample opportunity for skilled bottom-up investors, and demand for fixed income continues to be robust.






Conflicting Valuation Metrics – Yield vs. Spread



	Short Corp	Int Corp	Long Corp	HY Corp	Agency MBS	ABS	CMBS
Spread (bps)	60	94	115	309	48	57	97
Yield (%)	5.40	5.36	5.70	7.91	5.22	5.32	5.48



## Medal Count (Year-to-date Sector Performance)

Sector	YTD Excess Return (%)	Performance Drivers
 <b>Non-Agency CMBS</b>	2.62	<ul style="list-style-type: none"> <li>Fundamentals improved as CRE prices across many property types, outside of office, began to rebound</li> </ul>
 <b>High Yield Corporates</b>	1.96	<ul style="list-style-type: none"> <li>Spreads tightened amid a solid market backdrop characterized by a resilient economy, solid earnings, and ongoing demand for yield</li> </ul>
 <b>Investment-Grade Corporates</b>	0.85	<ul style="list-style-type: none"> <li>Attractive all-in yields and resilient fundamentals led to solid demand for corporates, particularly in BBBs</li> </ul>
 <b>Agency CMBS</b>	0.79	<ul style="list-style-type: none"> <li>Limited issuance relative to recent history supported the sector</li> </ul>
 <b>ABS</b>	0.71	<ul style="list-style-type: none"> <li>Robust investor demand for shorter-duration, higher-yielding assets drove spreads tighter</li> </ul>



## TV Timeout (10 Olympic Fun Facts & Figures)

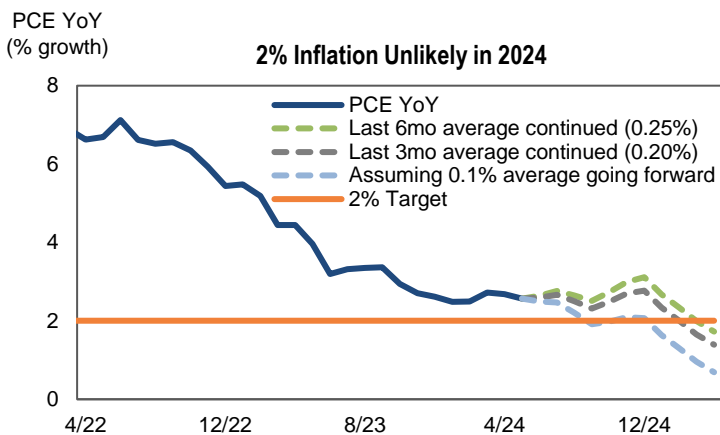
- At least one color from the Olympic Rings can be found in every nation's flag.
- Motorboat sailing, hot air ballooning, and tug of war all used to be Olympic sports.
- Skateboarding, sport climbing, and surfing first appeared at the 2020 Tokyo Games.
- Artists used to participate in the games by creating works of art, such as paintings, sculptures, and music, for medals.
- Tarzan won six medals. The actor who played Tarzan in the 1930s and 1940s was a professional swimmer.
- The Beijing Olympics started at 8pm on 8/8/08.
- Ethiopian marathon runner Abebe Bikila won the men's marathon in the 1960 Rome Olympics in bare feet.
- At the Paris 2024 Olympics, medals will contain a piece of original iron from the Eiffel Tower.
- The Olympic motto is "Citius, Altius, Fortius" which translates to "Faster, Higher, Stronger" in Latin.
- Bahamas is the smallest nation to win an Olympic medal.



## The Dark Horses (What We Are Watching)

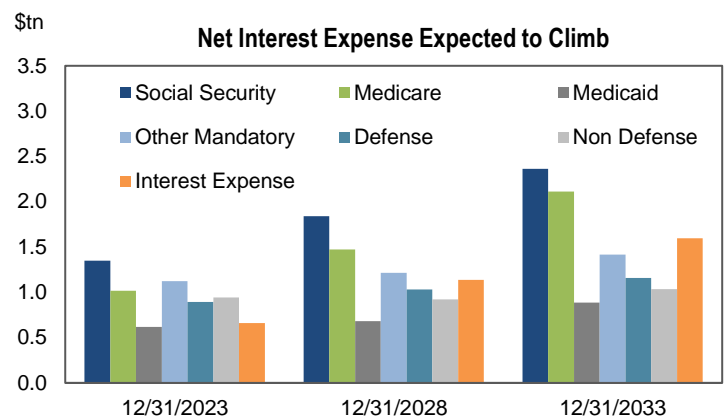
### Inflation could move higher before going lower.

The Fed will likely cut rates before inflation reaches 2%. If their preferred measure of inflation, PCE, follows recent trends – which are in-line with Fed expectations – optically, it could appear counter to progress. “Bad news” has been “good news” as we approach the first rate cut, but “bad news” could mean “bad news” if economic data becomes much weaker and spark volatility.



### The US debt burden is growing.

The US fiscal situation continues to worsen with no apparent easy solution. Interest expense is quickly becoming one of the largest Government expenditures due to higher rates and Treasury issuance. Treasury debt could be on an unsustainable path longer-term, but the US position within the global financial system will likely delay any immediate consequences.



**Honorable mentions:** Election (could cause increased volatility), Consumer Health (delinquencies increasing), Geopolitical Conflicts (Ukraine/Russia, and Israel/Hamas ongoing), and Liquidity (an unforeseen event could cause liquidity to dry up fast).

With the second half of 2024 underway, the US Fixed Income Games’ closing ceremony and official medal count are still in the distance. Anticipation is mounting and outcomes are far from certain. The market continues to be intrigued by fiscal and monetary policy divergence across sectors, and the Fed is at a crossroads. While economic and inflationary pressures are subsiding, the Fed could ignite growth if it acts too quickly. At IR+M, we pride ourselves on our athleticism and flexibility, which allows us to adjust portfolios based on the field at play. In this environment, we favor durable and defensive yield across sectors versus securities whose outperformance depends on meaningful spread tightening. Momentum can abruptly shift, and as a result, we have ample liquidity and dry powder to take advantage of any market dislocations.

Sources: Bloomberg as of 6/30/24 unless otherwise noted. **Market Expectations in Flux Chart** - Number of cuts based on the WIRP Est Number of Moves Priced in for the US – Futures Model as of 7/11/24. Fund flows based on the ICI Taxable Total Bond Long-Term Mutual Fund and ETFs Weekly Flows as of 6/26/24. Corporate spreads based on the Bloomberg US Corporate Index. **Conflicting Valuation Metrics – Yield Versus Spread Chart** - Each category based on Bloomberg Indices (Short = Bloomberg 1-3yr Corporate Index, Intermediate = Bloomberg 3-10yr Corporate Index, Long = Bloomberg Long Corporate Index, Bloomberg US High Yield Index, Bloomberg US MBS Index, Bloomberg ABS Index, and Bloomberg CMBS Index, respectively). Percentile calculated using monthly spread and yields back 20 years. **Sector performance table** based on the Bloomberg Non-Agency CMBS: Agg Eligible Index, Bloomberg US High Yield Index, Bloomberg Corporate Index, Bloomberg Agency CMBS: Agg Eligible Index, and Bloomberg ABS Index, respectively, which are the main sector indices of the Bloomberg Aggregate Index and Bloomberg High US Yield Index. Only Top 5 listed. Percentages within the Medal Count section are year-to-date excess returns. Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries. 10 Olympic fun facts & figures sourced from [National Geographic Kids](#), [Facts.net](#), and [Discover Walks](#). PCE is the Fed preferred inflation measure, differences to CPI include weightings as well as the frequency of changes to the basket. **US Net Interest Burden Projected To Be 3rd Largest Expense Chart** - Sources: FiscalData.gov and Congressional Budget Office as of 6/30/24. The views contained in this report are those of Income Research + Management (“IR+M”) and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M’s views and opinions. “Bloomberg®” and Bloomberg Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited (“BISL”), the administrator of the index (collectively, “Bloomberg”) and have been licensed for use for certain purposes by IR+M. Bloomberg is not affiliated with IR+M, and Bloomberg does not approve, endorse, review, or recommend the products described herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to any IR+M product. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. Investing in securities involves risk of loss that clients should be prepared to bear. More specifically, investing in the bond market is subject to certain risks including but not limited to market, interest rate, credit, call or prepayment, extension, issuer, and inflation risk. It should not be assumed that the yields or any other data presented exist today or will in the future. Securities listed in this presentation are for illustrative purposes only and are not a recommendation to purchase or sell any of the securities listed. This material may not be reproduced in any form or referred to in any other publication without express written permission from IR+M.