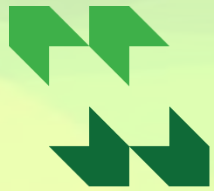

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THIRD QUARTER, 2024

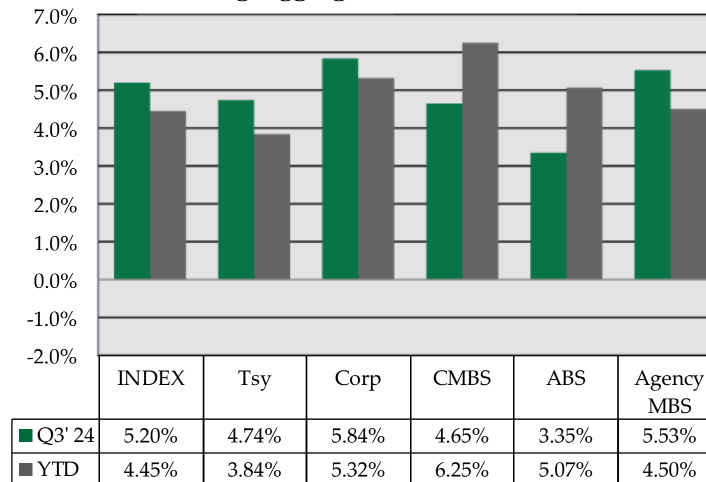
INVESTMENT REVIEW

FIXED INCOME OVERVIEW

Bond bulls got a long-awaited rally as the market embraced a slowing inflationary backdrop and a softening labor market. Market participants forecasted and received a 50 basis point cut to the Fed Funds Rate while the overall appetite for risk-taking remained solid. The Bloomberg Aggregate Index saw a gain of over 5% as investors enjoyed duration benefits. The Bloomberg Intermediate Govt./Credit Index finished up 4.17, and the short-term Bloomberg 1-3 year Govt./Credit Index returned 2.96% for the third quarter, with all areas of the marketplace enjoying the backdrop. While duration was a key determinant of overall performance, corporate bonds thrived despite a heavy issuance calendar and the market volatility associated with the unwind of the Yen carry-trade. The market is undoubtedly resilient, and given the bumpy ride of the last few years, few are complaining.

ARTICLE HIGHLIGHTS

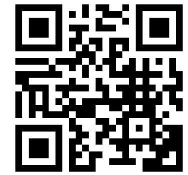
- Bonds Rally
- Yields Decline
- Resilient Job Market
- Continued Cautious Positioning



	INDEX	Tsy	Corp	CMBS	ABS	Agency MBS
Q3' 24	5.20%	4.74%	5.84%	4.65%	3.35%	5.53%
YTD	4.45%	3.84%	5.32%	6.25%	5.07%	4.50%

Source: Bloomberg

For the latest on NIS happenings and firm updates



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777 E Wisconsin Ave
Suite 2350
Milwaukee, WI
53202

Phone:
414.765.1980

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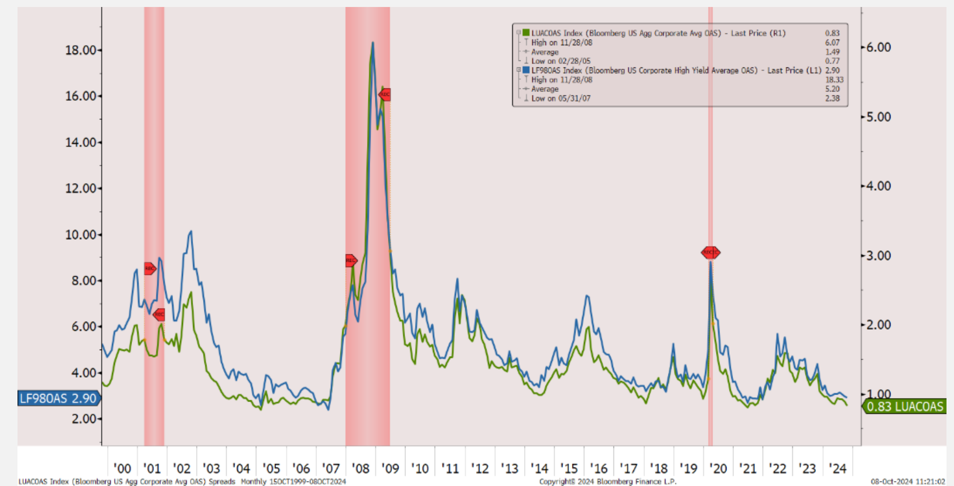
INTEREST RATES

Bond yields moved sharply lower as the rates market correctly anticipated a dovish Federal Reserve. Yields in the 1-2yr. part of the curve dropped over 100bps, while the 5yr. part dropped about 80bps, and the 10yr. -61bps to close at 3.78%. Perhaps the most interesting byproduct of these movements is that after over two years, the Treasury curve is finally not inverted, a welcomed relief for those looking to add duration like us.

Source: Bloomberg

Corporate bond valuations once again appear stretched as we head into the fall months. Both investment grade and high-yield bond spreads briefly widened in early August as contagion fears around the Yen carry trade curbed risk-taking. This episode was short-lived as economic data boosted chances for either a very soft or no landing scenario around the Federal Reserve rate policy and what looks to be a reasonably close U.S. election. Overall, investment grade and high-yield corporate bond spreads trade near pre- and post-pandemic tights.

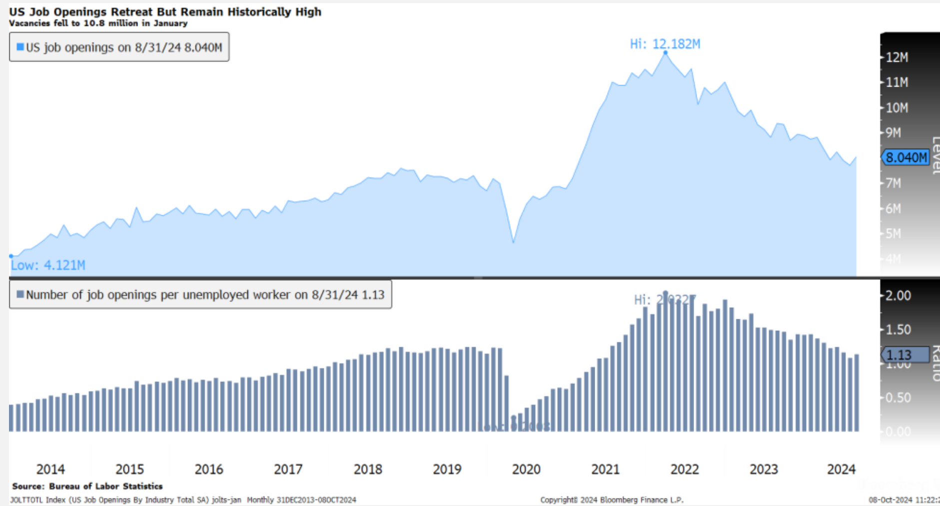
BOND SPREADS



Source: Bloomberg

EMPLOYMENT & THE ECONOMY

While manufacturing readings have stagnated in recessionary territory, the resiliency of the services sectors has been most impressive, and sticky inflation is one of the main reasons we remain concerned. A relatively strong labor market is another area of the economy that has recently exhibited stickiness. Recent job openings data highlights a familiar story of a general retrace of post-pandemic tightness but not the full give-up to earlier levels.



Source: Bureau of Labor Statistics, Bloomberg

FOURTH QUARTER, 2024 STRATEGY

Inflationary readings echo similar trends, which makes for a constructive scenario for most companies and many workers, but the Federal Reserve's job of balancing inflation and labor somewhat difficult.

Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Bloomberg

We are concerned that a resilient jobs market, leftover pandemic capital, trade policy, and stimulus from China could all keep inflation above what the Fed hopes for in the coming months, which may act to pressure yields slightly higher. With corporate bond spreads trading near their historically tightest levels in 25 years we are not necessarily negative on the economy or corporate earnings. However, we view the risk/reward at these spread levels as skewed negatively. We, therefore, prefer to hold our BBB exposure close to, or modestly underweight, index levels. Our more cautious stance will likely continue into Q4 2024, as we expect some elevated volatility due to U.S. elections and continued geopolitical instability. Meanwhile, the tone remains positive in ABS, with a robust new issue pipeline meeting strong demand. With most spreads tight, we prefer to go down the capital structure for value but stick to more experienced, liquid issuers. Following the recent rally in corporates, structured products appear relatively cheap, and we are comfortable with our overweighting here.

Mark R. Anderson, CFA
Chief Strategy Officer

Please note that this Investment Review contains NIS's opinions and observations as of the date of this letter, which are subject to change and should not be relied upon as investment advice.

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