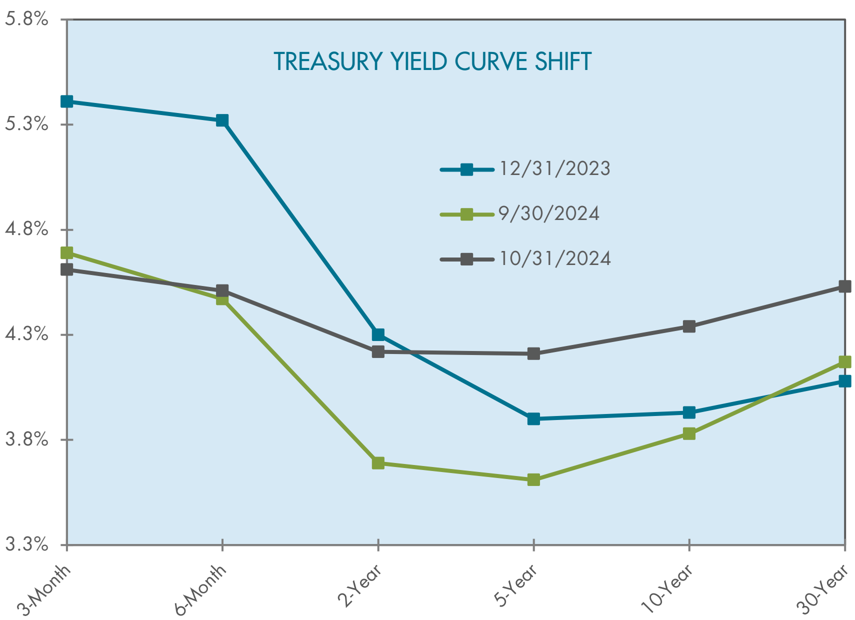
GW&K INVESTMENT MANAGEMENT

TAXABLE BOND
MARKET REVIEW & OUTLOOK

KEY TAKEAWAYS

- Interest rates rose significantly amid a sequence of stronger-than-expected economic data that created heightened uncertainty over the trajectory of the Fed's projected easing cycle.
- Data showing the fastest jobs growth in six months, along with a robust consumer spending report, helped set a new market narrative around the potential of a no-landing scenario.
- Treasury yields and rate volatility marched significantly higher as investors looked ahead to the October employment report and the election outcome. Every major sector of the Bloomberg Aggregate Index posted a negative return.

TAXABLE BOND MARKET UPDATE & OUTLOOK



Sources: FactSet and Bloomberg

US TREASURY YIELDS

	12/31/23	09/30/24	10/31/24	MTD Change (bps)	YTD Change (bps)
3-Month	5.36%	4.64%	4.56%	-8	-80
6-Month	5.27%	4.42%	4.46%	+4	-81
2-Year	4.25%	3.64%	4.17%	+53	-8
5-Year	3.85%	3.56%	4.16%	+60	+31
10-Year	3.88%	3.78%	4.29%	+51	+41
30-Year	4.03%	4.12%	4.48%	+36	+45

FIXED INCOME SECTOR PERFORMANCE

	MTD	YTD
Bloomberg Aggregate Index	-2.48%	1.86%
US Treasuries	-2.38%	1.36%
Investment Grade Corporates	-2.43%	2.77%
Mortgage-Backed Securities	-2.83%	1.54%
Asset-Backed Securities	-0.70%	4.34%
Taxable Municipal Bonds	-3.08%	1.46%
High Yield Corporate Bonds	-0.54%	7.42%

- Fed minutes revealed the decision to cut rates by 50 bps in September was a close call, with some officials favoring a smaller cut. Ultimately, the Committee viewed the rising risks to employment as the key reason to begin its cutting cycle.
- The market has notably repriced the number of expected rate cuts by the end of 2025 from the eight projected in mid-September, to just under five cuts.
- Two-year and 10-year Treasury rates surged approximately 50 bps higher, while 30-year rates increased 36 bps.
- Interest-rate volatility, as measured by the Move Index, rose to its highest level in about a year.
- Positive macro data surprises and a strong technical backdrop drove credit spreads narrower, and within a few basis points of their year-to-date tights.
- The riskiest segment of the high yield market (CCC) saw spreads tighten 76 bps, helping drive a positive return for the sixth month in a row. CCC-rated debt has delivered equity-like returns for the year and is the best-performing asset class in the fixed income market. In contrast, higher-quality BB-rated debt tightened by only 6 bps.
- Growing uncertainty around the direction and magnitude of interest-rate moves drove 30-year agency mortgage-backed securities (MBS) spreads to their widest level since early July.
- Asset-backed securities tightened 9 bps. The sector's spread performance, coupled with its shorter duration profile, made it the best-performing asset class in the Bloomberg Aggregate Index.

GW&K INVESTMENT MANAGEMENT

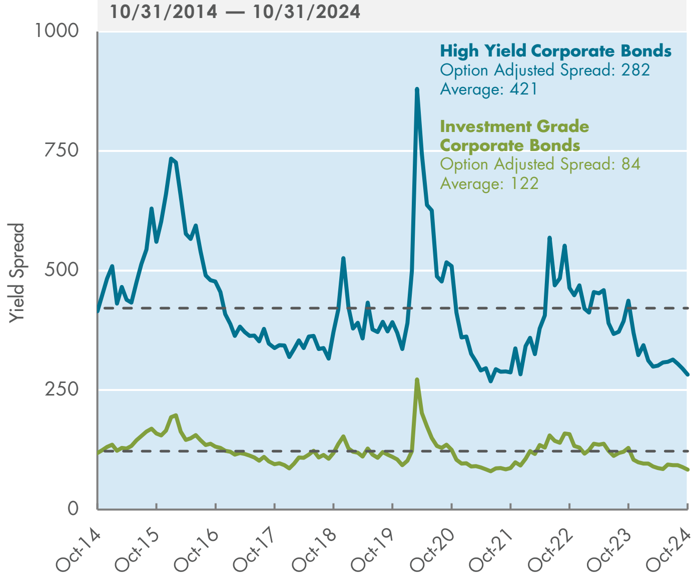
TAXABLE BOND

MARKET REVIEW & OUTLOOK

SECTOR ALLOCATION	POSITIONING
DURATION & YIELD CURVE	We are neutral duration. Futures are generally in line with the Fed's projected easing policy path through 2025, making it difficult for front-end maturities to rally meaningfully. Conversely, with the Fed recalibrating before declaring total victory on inflation, and with fiscal policy still aggressively stimulative, the yield curve could see longer rates sell off. We are focused on the intermediate part of the yield curve where we find the best risk-adjusted value in the spread sectors.
TREASURIES	We favor spread product over Treasuries in this attractive carry environment. Rates rose considerably during the month and remain attractive relative to post-GFC history. Further significant weakness is likely to be capped by investors seeking compelling absolute yields.
GOVERNMENT RELATED	We are overweight taxable municipal bonds given strong fundamentals and the recession-resistant characteristics offered by the asset class.
CORPORATE BONDS	We continue to overweight the corporate bond sector. A soft- or no-landing scenario is a supportive setup for risk assets and their positive carry. Corporates continue to benefit from a strong fundamental backdrop supported by solid balance sheets, resilient earnings, and low default rates. However, spreads are historically tight and further moves lower from here are likely limited.
SECURITIZED	We are overweight the securitized sector. MBS valuations look attractive at these levels, but rate-volatility mean reversion is unlikely until the macroeconomic events are cleared in the first half of November. ABS have proven to be a good diversifier in the securitized space, with less correlation to rate volatility versus the MBS sector. ABS market demand remains strong given the high-quality nature of the structures and that the underlying collateral continues to perform well.

HIGH YIELD & INVESTMENT GRADE CORPORATE BOND SPREADS

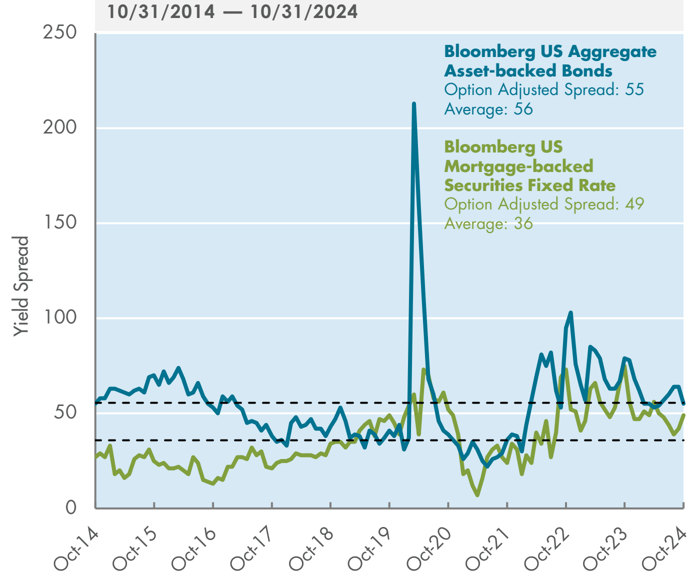
10/31/2014 — 10/31/2024



Source: Bloomberg

ASSET- & MORTGAGE-BACKED SPREADS

10/31/2014 — 10/31/2024



Source: Bloomberg