

MARCH 2024

Fixed Income Market Update

After the strong performance by the Bloomberg Barclays U.S. Aggregate Bond Total Return Index at year end 2023, the index dropped for the second consecutive month in 2024, down about -1.4% in February. Breadth remained weak—five of the nine fixed income sectors we track had negative returns in February with long-term Treasuries' performance the weakest.

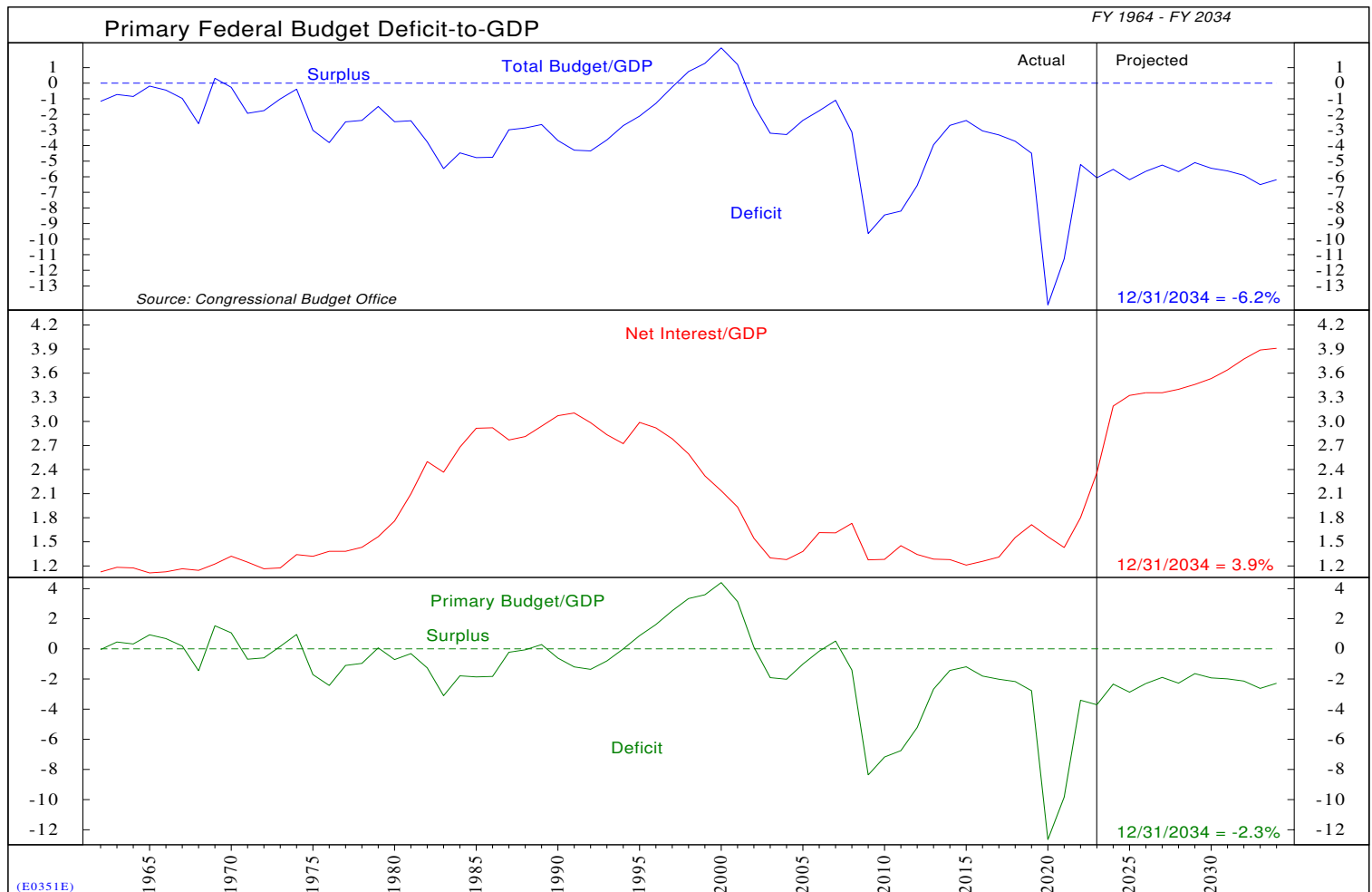
A majority of registered voters don't want a rematch between Trump and Biden, but that's likely what we will get. Fiscal policy preferences are vastly different between them. Biden hasn't met a spending bill he

doesn't like. The Trump tax cuts would expire at the end of 2025, and taxes are likely to be raised on the wealthy. Trump would extend his tax cuts. He would likely shy away from major infrastructure bills.

Despite these differences in policy approach, neither one seems interested in reducing the budget deficit (chart below). That should result in a higher term premium and higher interest rates, which could slow economic growth. Interest costs will continue to skyrocket, regardless of who occupies the White House. The fastest growing item in the federal budget, interest

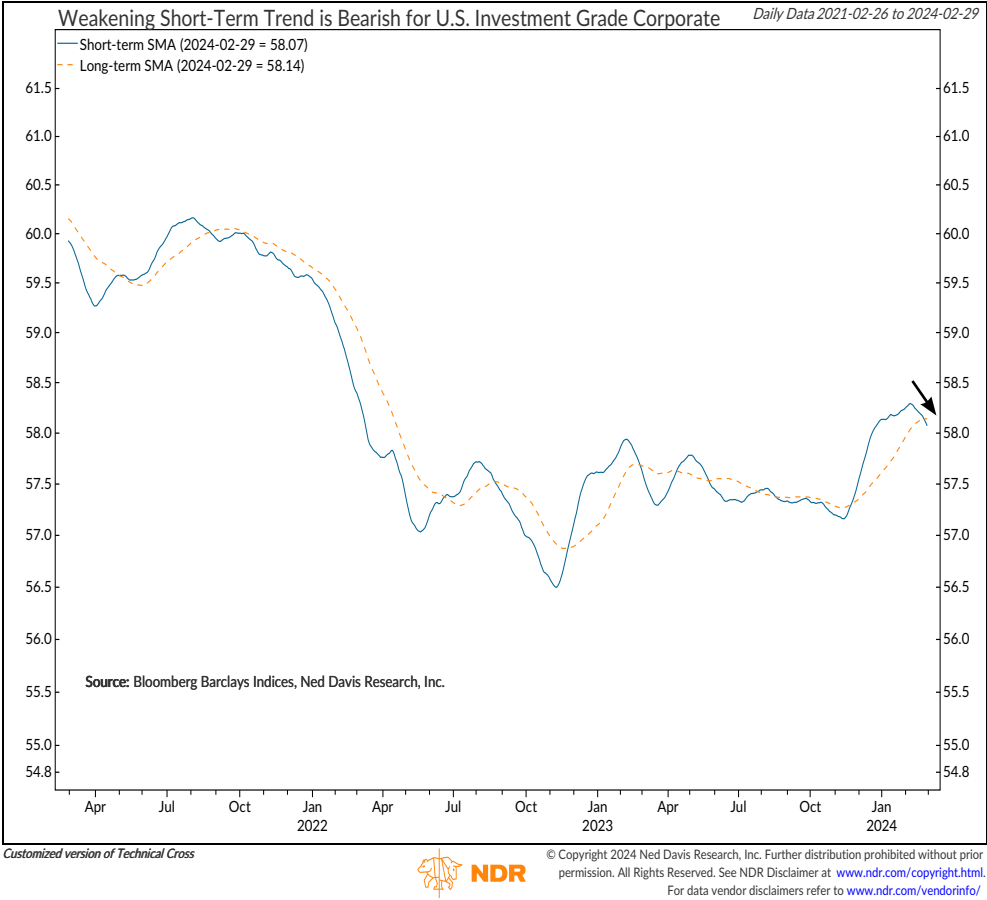
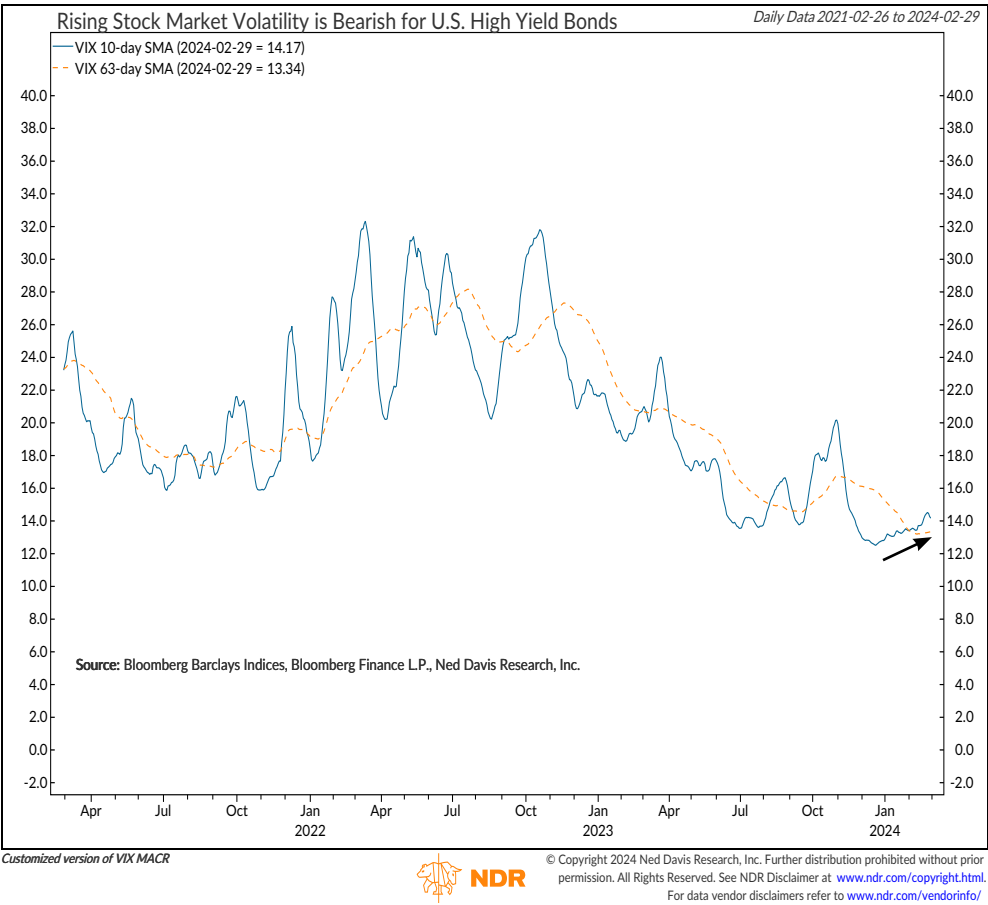
expense, will soon exceed our spending on defense, according to the CBO.

Entering March, the fixed income allocation strategy continued to favor risk-on leadership but did not rebalance. The model remained overweight Emerging Market bonds, U.S. High Yield, U.S. Investment Grade Corporate, and U.S. Mortgage-Backed Securities. U.S. Long-Term Treasuries is marketweight. The model remained underweight U.S. Floating Rate Notes, U.S. Treasury Inflation-Protected Securities, and International Investment Grade.



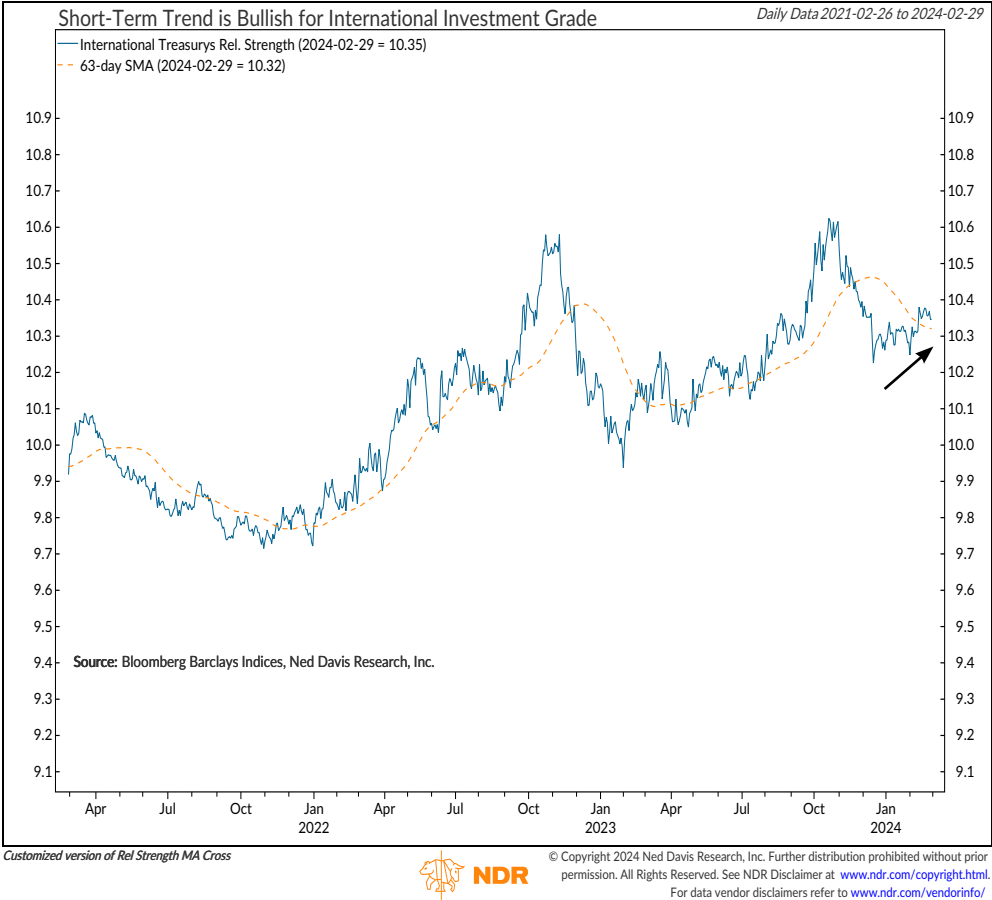
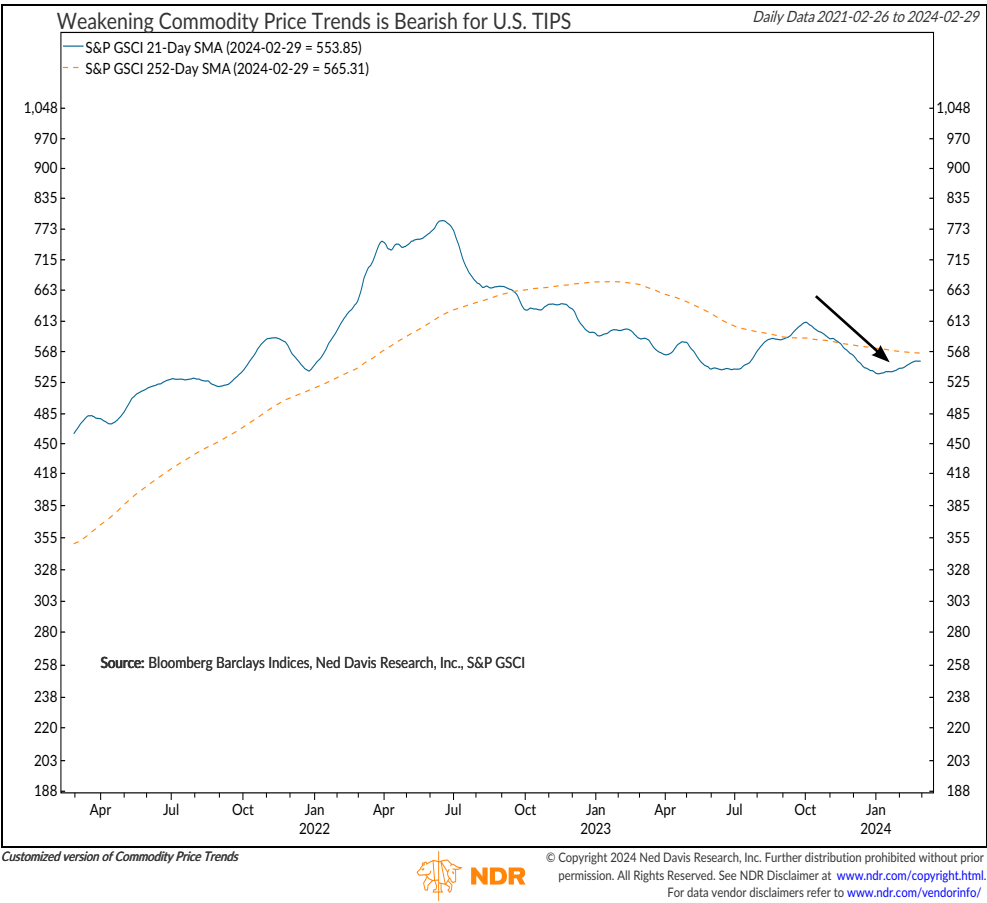
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U.S. High-Yield bonds' remained the largest overweight. Five of the six indicators remain bullish for the sector. However, during the month, stock market volatility (as measured by the VIX) moved bearish for high-yield bonds (chart right).



U.S. Investment Grade Corporate bond's allocation remained at overweight. Indicators are now mixed. On a fundamental basis, bond volatility and the U.S. Dollar Index are bullish, but are offset by widening option-adjusted spreads and rising credit default swaps. Weakness was picked up by technicals, as a short-term trend measure flashed a bearish signal during the month (chart left).

U.S. Treasury Inflation-Protected Securities' (TIPS) allocation remained the largest underweight. Commodity price trends (chart right) and high-yield option-adjusted spreads remain headwinds for TIPS. These bearish measures are being confirmed by TIPS' weak technicals including the relative strength index, the slope of its relative strength, and short-term trend.



International Investment Grade bonds' allocation remained at underweight. Rising inflation expectations is bearish for the sector but is offset by rising stock market volatility. Price-based measures—rising relative strength and short-term trend (chart left)—improved during the month to bullish levels.

Summary

Entering March, the fixed income allocation strategy continued to favor risk-on leadership. The model remained overweight Emerging Market bonds, U.S. High Yield, U.S. Investment Grade Corporate, and U.S. Mortgage-Backed Securities. U.S. Long-Term Treasuries is marketweight. The model remained underweight U.S. Floating Rate Notes, U.S. Treasury Inflation-Protected Securities, and International Investment Grade.

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