



AUGUST 2024

## Fixed Income Market Update

The Bloomberg Barclays U.S. Aggregate Bond Total Return Index rose again in July with a gain of 2.3%. Breadth remained bullish—all nine fixed income sectors we track posted positive returns for the month. Treasuries had the strongest returns during the month.

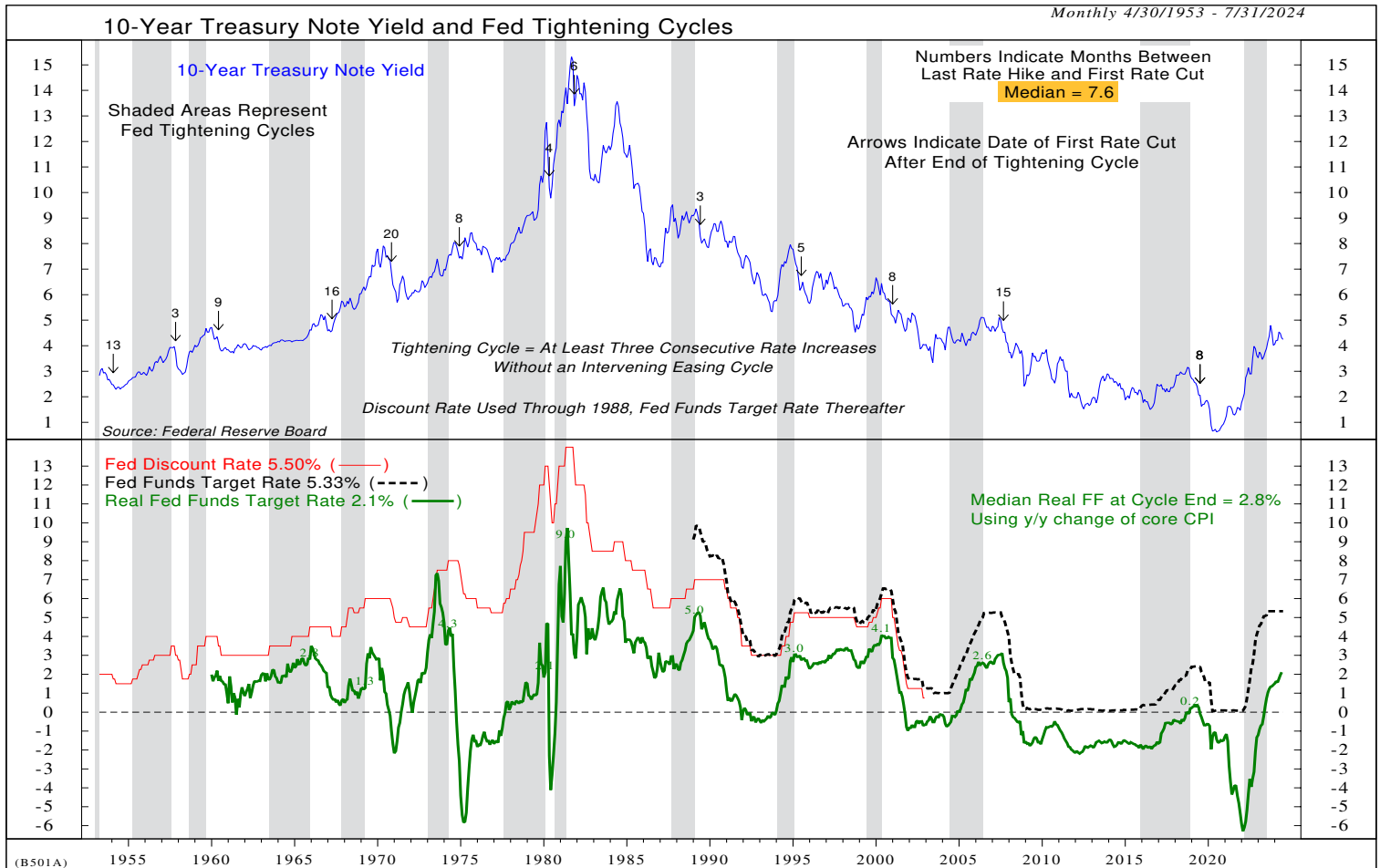
As widely expected, the FOMC kept the fed funds target range at 5.25% to 5.50% for the eighth consecutive meeting. It has been 12 months since the Fed last raised rates, longer than the median eight months. There have been four times when the Fed has waited longer, most recently from 2006-07

(chart below). But that's all about to change.

The Fed is preparing the markets for a September rate cut, due to moderating job growth and modest progress on inflation which remains somewhat elevated. The big change to their comments was to the balance of risks. Instead of focusing solely on the inflation risks, it now says there are risks to both sides of its dual mandate. What they didn't say is that they have gained greater confidence that inflation is moving toward target. That will change when they actually cut rates.

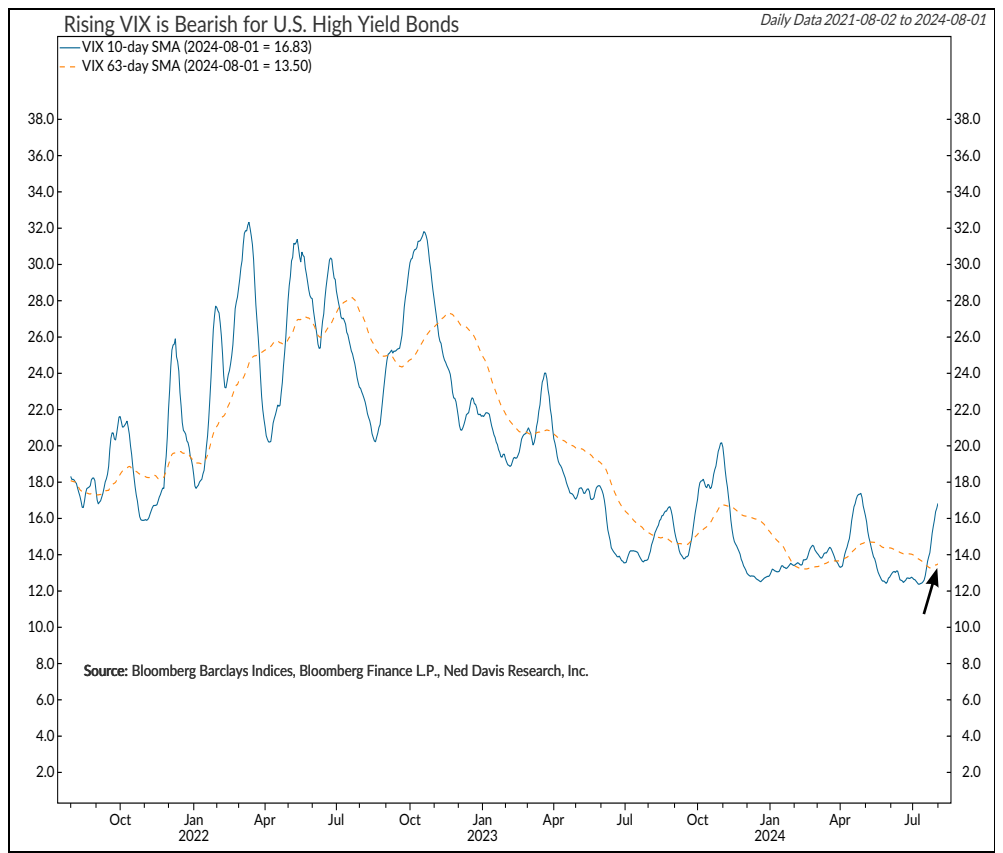
Markets have discounted a reasonable path, assuming no recession. However, 10-year Treasury yields may have trouble making further progress without fundamental help.

Entering August, the fixed income allocation strategy's positioning stayed the same. U.S. High Yield, U.S. Investment Grade Corporate, U.S. Mortgage-Backed Securities, and U.S. Treasury Inflation-Protected Securities are above benchmark weight. Emerging Market bonds, International Investment Grade, and U.S. Floating Rate Notes are below benchmark weight.



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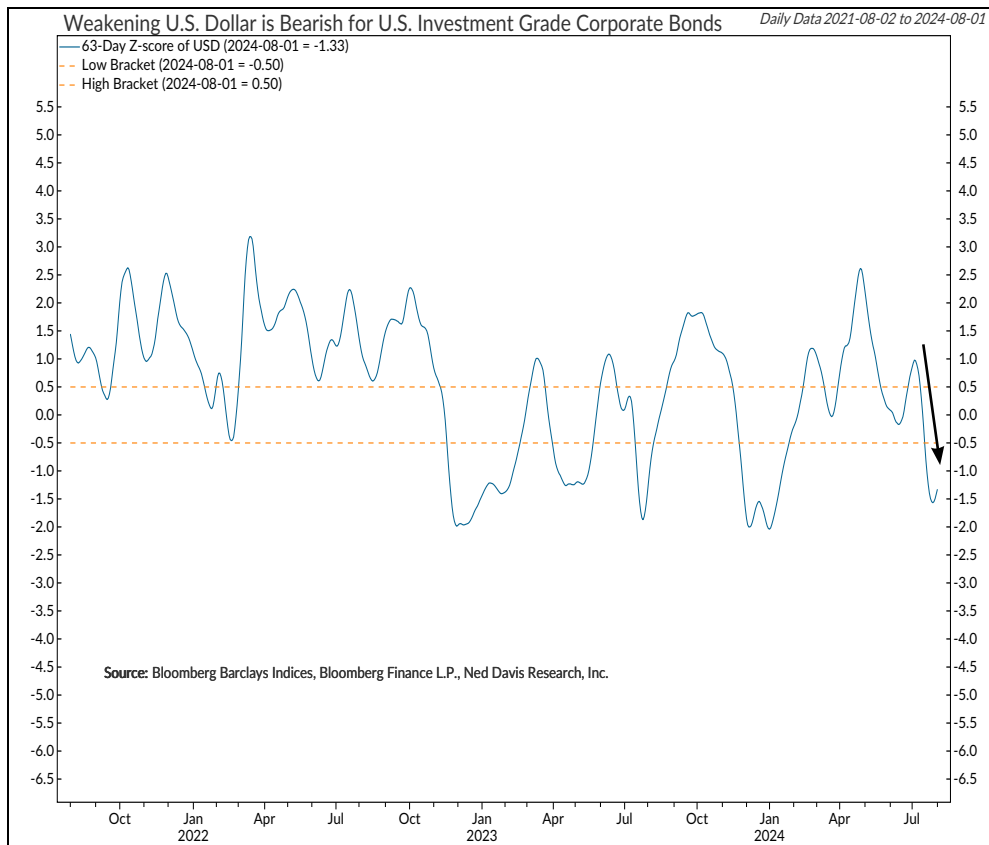
U.S. High-Yield bonds' allocation is above benchmark weight. Five of six indicators are bullish. Option-adjusted spreads, the small-cap equity trend, and trend and breadth for high-yield bonds remain bullish. Investors had become complacent, and now a rising VIX has moved bearish for the sector (chart right) which could set up a pullback.



Customized version of VIX MACR



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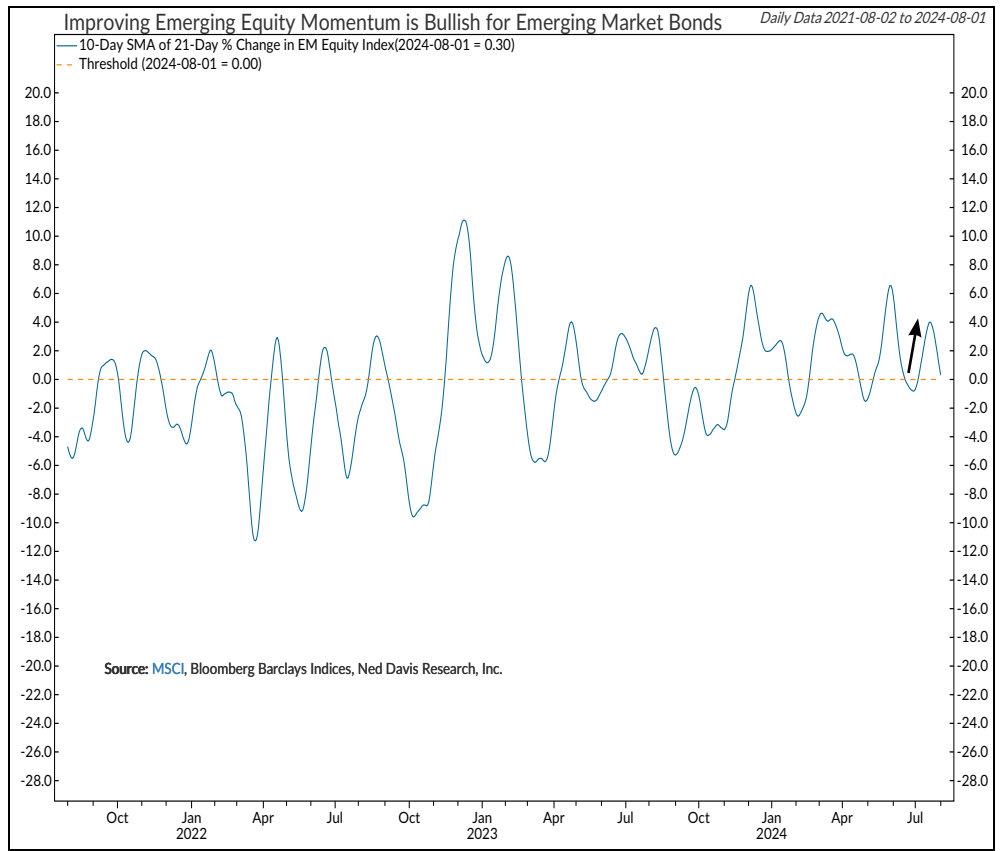
Customized version of US Dollar



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U.S. Investment Grade Corporate bonds' allocation remains above benchmark weight. Four of six measures are bullish for the sector. Externals are mixed. Option-adjusted spreads and credit default swaps are bullish for the sector. But while bond volatility remained neutral, a weakening U.S. Dollar Index moved bearish for the sector during the month (chart left). Price-based measures such as trend and mean reversion are bullish for the sector.

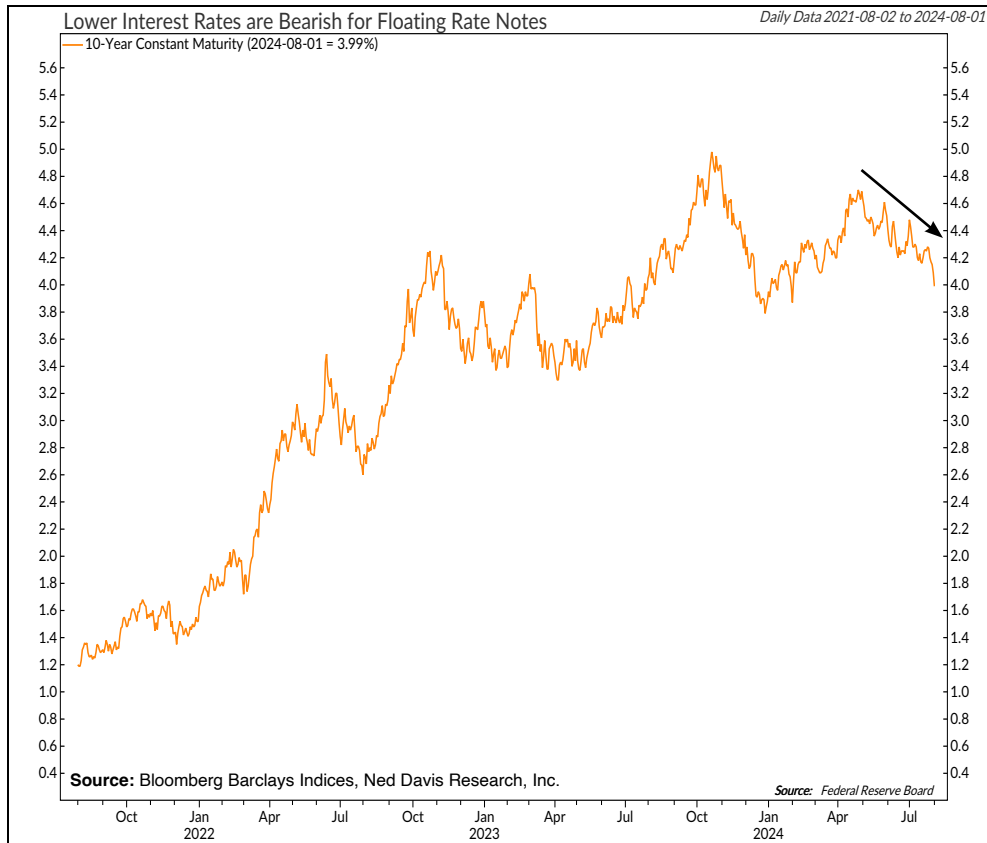
Emerging Market (EM) bonds' allocation remains below benchmark weight. Indicators are mixed. Externals are bearish including EM currencies and commodities strength. EM equity momentum reversed and flashed a bullish signal during the month (chart right). However, this indicator has been whipsawing for the past four months. Price-based measures such as trend and relative strength are bullish for the sector.



Customized version of Emerging Equity Momentum



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U.S. Floating Rate Notes' allocation remains well below benchmark weight. The sector tends to perform well when interest rates are rising. Rates have been trending lower since April (chart left). As a result, four of five indicators are bearish for the sector. Only the VIX is neutral, while option-adjusted spreads, short-term trend, momentum, and relative strength slope are all negative.

## Summary

Entering August, the fixed income allocation strategy's positioning stayed the same. U.S. High Yield, U.S. Investment Grade Corporate, U.S. Mortgage-Backed Securities, and U.S. Treasury Inflation-Protected Securities are above benchmark weight. Emerging Market bonds, International Investment Grade, and U.S. Floating Rate Notes are below benchmark weight.



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## Fixed Income Allocation Strategy

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