



MAY 2025

## Fixed Income Market Update

The Bloomberg Barclays U.S. Aggregate Bond Total Return Index was flattish with a gain of only 0.39% in April. Breadth improved—six of the fixed income sectors we track had positive returns during the month. While U.S. Long-term Treasuries was a drag on the overall performance of the U.S. Aggregate, International Investment Grade had the strongest performance.

With the latest update of our Composite Leading Index (CLI), we recently shifted our growth regime from “Rising” to “Weak.” This was the first time we have made that jump. All the other times, the CLI has risen into positive territory and then transitioned to growth “Stable.”

The regime shift does not mean that we are calling for a U.S. recession at this time. It

means that the markets are likely to behave as if growth will be weak, which may include a recession. That is why we call this growth weak and not outright contraction.

We don’t know how long this regime will last but it could be fairly short, as economic uncertainty and tariff hits fade later in the year, while tax cuts are likely extended and expanded. We have no preconceived notions and will classify this as a weak growth regime until the CLI bottoms.

In a weak growth regime, stocks and economically sensitive assets such as commodities and REITs, are likely to perform poorly, while bonds and gold outperform (chart below). Within fixed income, U.S. Treasuries, investment grade bonds, and TIPs tend to perform best, while floating-

rate notes, leveraged loans, and high-yield bond performance are among the weaker sectors.

Entering May, the fixed income portfolio did not rebalance. U.S. Investment Grade Corporate, U.S. Mortgage-Backed Securities, and U.S. Treasury Inflation-Protected Securities are above benchmark weight. International Investment Grade, U.S. Long-Term Treasuries, and U.S. High Yield bonds are below benchmark weight.



## Financial and Alternative Asset Performance During Growth Regimes

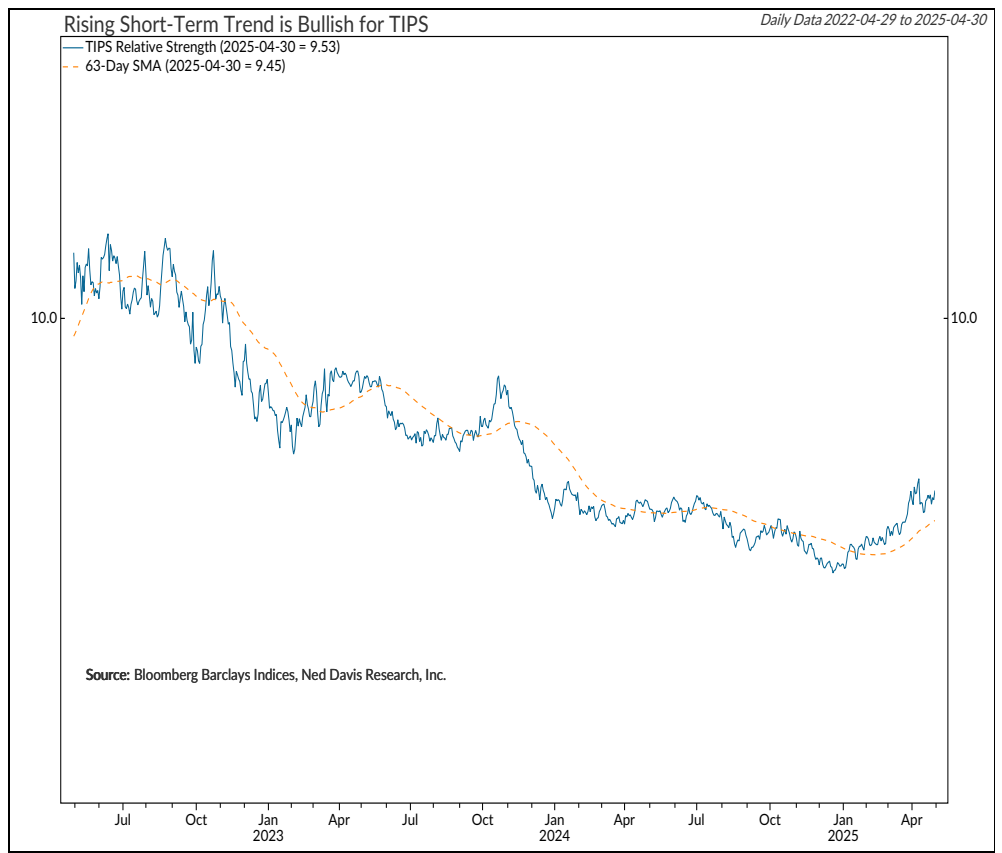
Regime	% Gain/Annum (Analysis Period: Jul 1972 to Mar 2025)										% of Time	
	S&P 500	Bonds	Gold	Commodities	T-Bills	REITs	CRE	RRE	Hedge Funds	Custom Portfolio	Since Jul 1972	Custom Portfolio
Growth Rising	19.4	6.0	-0.4	8.4	3.8	19.0	5.4	5.3	12.7	14.2	37.0	36.0
Growth Stable	11.8	6.4	7.6	12.1	4.7	10.3	12.0	7.2	13.2	9.8	42.3	42.3
Growth Weak	-5.1	7.4	23.3	-8.3	5.5	-8.7	6.8	0.8	4.4	0.5	20.5	20.5
Active Regime	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.0	0.0
All Time	10.7	6.5	7.5	6.3	4.5	9.1	8.4	5.3	11.2	9.3		
Time-Series Chart	<a href="#">Chart</a>	<a href="#">Chart</a>	<a href="#">Chart</a>	<a href="#">Chart</a>	<a href="#">Chart</a>	<a href="#">Chart</a>	<a href="#">Chart</a>	<a href="#">Chart</a>	<a href="#">Chart</a>	<a href="#">Chart</a>		

Growth Rising is defined as the period from the trough in the NDR Composite Leading Index (CLI) to the peak in the CLI. After the peak, until growth turns negative, is defined as Growth Stable, since the CLI tends to peak out early in the economic cycle. Growth Weak is defined as the period from when the CLI turns negative until the trough.

### Report Notes:

Custom Portfolio: S&P 500 = 60.0%, Bonds = 40.0%, Rebalanced Yearly (Analysis period: Jan 1973 to Feb 2024), S&P 500 = S&P 500 Total Return (Analysis period: Jul 1972 to Feb 2024; Source: S&P Dow Jones Indices), Bonds = Bloomberg Float Adjusted U.S. Agg (Analysis period: Jan 1973 to Feb 2024; Source: Bloomberg Barclays Indices), Gold = Spot Gold (Analysis period: Jul 1972 to Feb 2024; Source: Bloomberg Finance L.P.) Commodities = S&P GSCI Total Return (Analysis period: Jul 1972 to Feb 2024; Source: S&P GSCI), T-Bills = Treasury Bill Total Return (Analysis period: Jul 1972 to Feb 2024; Source: Ned Davis Research, Inc.)  
REITs = NAREIT All-REIT (Analysis period: Jul 1972 to Feb 2024; Source: NAREIT), CRE = NCREIF NPI (Analysis period: Dec 1977 to Dec 2023; Source: NCREIF.com), RRE = S&P Core Logic Case Shiller HPI (Analysis period: Jan 1975 to Dec 2023; Source: S&P Dow Jones Indices and CoreLogic), Hedge Funds = BarclaysHedge Hedge Fund Index (Top 50 Managed Futures index 1987-1996, CTA Index prior to 1987) (Analysis period: Dec 1979 to Jan 2024; Source: Bloomberg Finance L.P.), Private Credit = Cliffwater Direct Lending Index (Analysis period: Sep 2004 to Sep 2023; Source: Bloomberg Finance L.P.), \* Histogram not available for assets with 6 or fewer returns in a regime

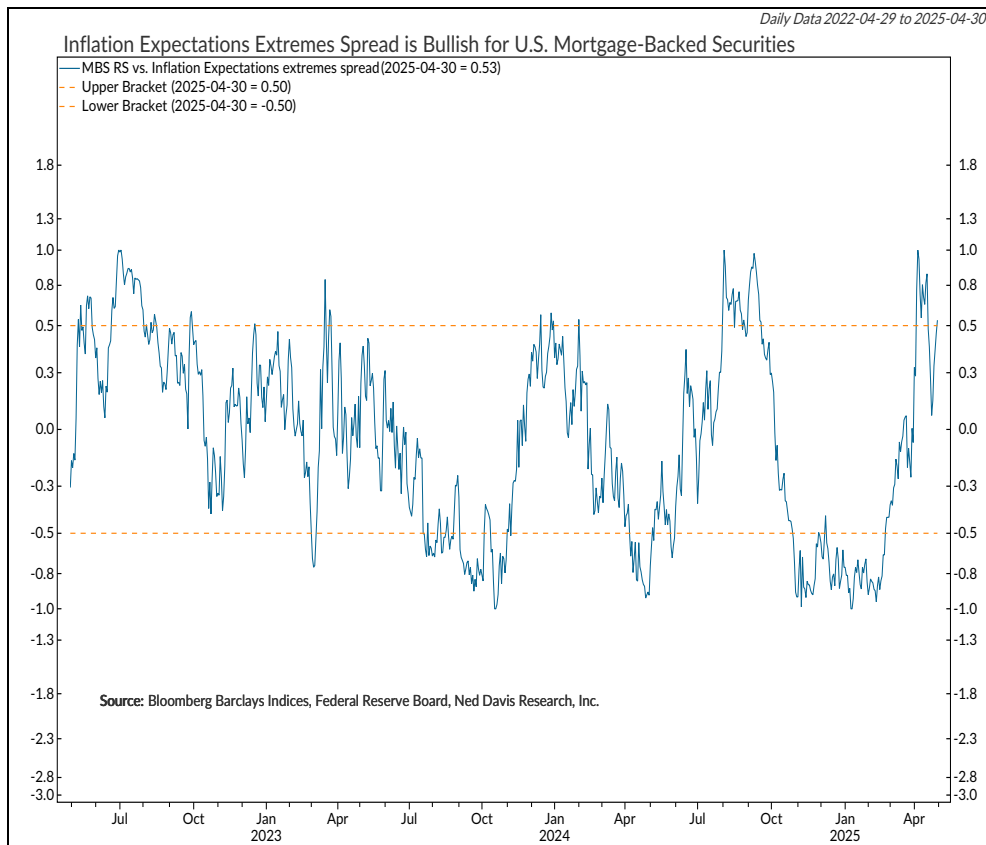
U.S. Treasury Inflation-Protected Securities' (TIPS) allocation is well above benchmark weight. Three of six indicators are bullish for the sector including high-yield option-adjusted spread extremes, relative strength index, and trend (chart right). However, during the month, commodity price trends and relative strength slope flashed bearish signals and inflation expectation extremes moved to neutral. TIPS are still a good investment for risk-averse, buy-and-hold investors seeking to preserve their domestic purchasing power. They offer a nice real yield with guaranteed inflation protection from Trump's tariffs. TIPS should outperform cash this year, especially when the Fed starts cutting rates. However, TIPS do not protect you from a loss of global purchasing power due to a falling U.S. dollar.



Customized version of Rel Strength MA Cross



© Copyright 2025 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html). For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/)



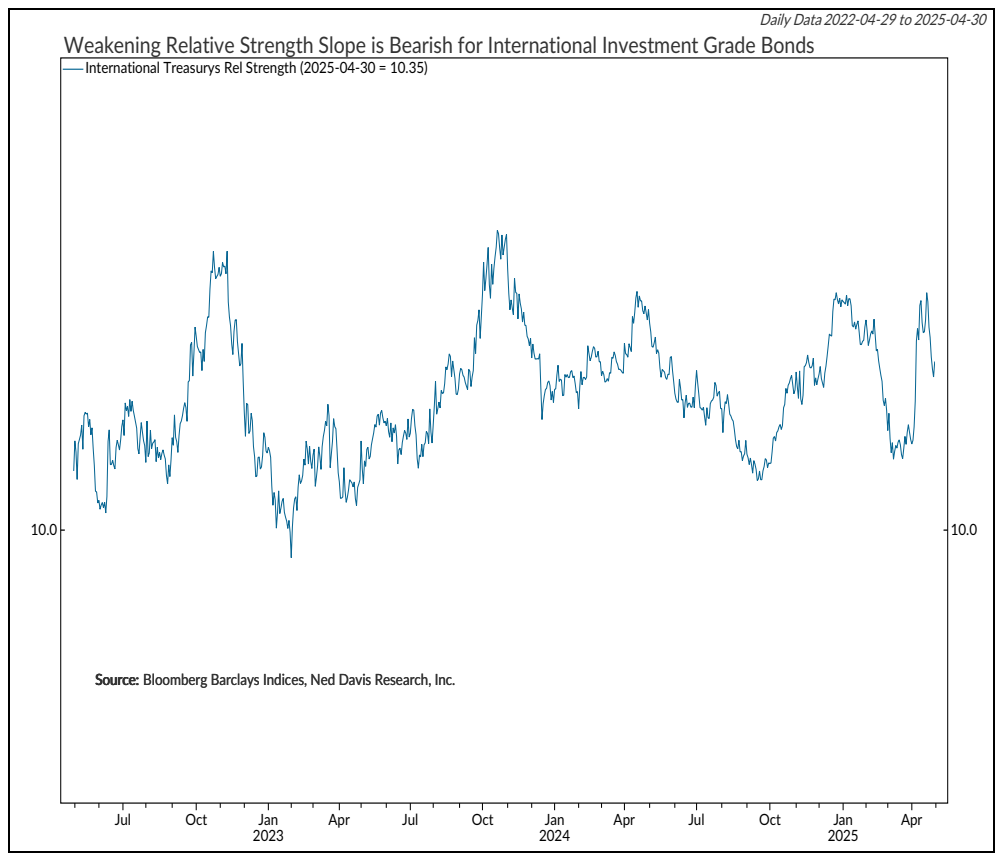
Customized version of MBS RS vs. Infl. Expectations Extremes



© Copyright 2025 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html). For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/)

U.S. Mortgage-Backed Securities' allocation is above benchmark weight. Indicators are favorable for the sector. During the month, inflation expectation extremes flashed a bullish signal (chart left), joining positive readings from high yield option-adjusted spreads, the relative strength index, relative strength trend, and the 10-year yield. There's only one bearish reading from another trend measure.

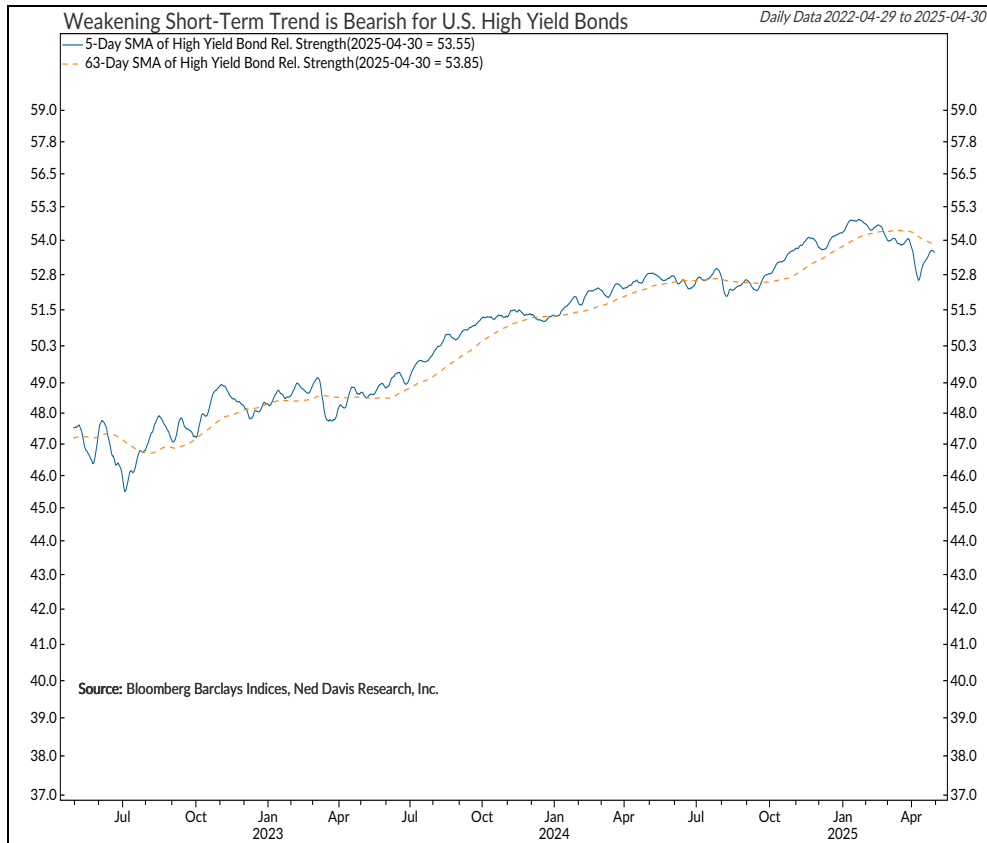
International Investment Grade bonds' allocation is below benchmark weight. Only two of five indicators are bullish for the sector—equity risk VIX and trend. Relative strength slope remains at a bearish level (chart right). Rising inflation expectations and U.S. swaps extremes remain neutral for the sector.



Customized version of Rel. Strength Slope



© Copyright 2025 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html). For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/)



Customized version of Technical Cross



© Copyright 2025 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html). For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/)

U.S. High Yield bonds' allocation is well below benchmark weight. Four of six indicators are bearish. During the month, the high-yield bond sector's short-term trend flashed a bearish signal (chart left) joining negative readings from small-cap equity trend, high-yield sector breadth, and the VIX. Only the sector's moving average cross measure is bullish.

## Summary

Entering May, the fixed income portfolio did not rebalance. U.S. Investment Grade Corporate, U.S. Mortgage-Backed Securities, and U.S. Treasury Inflation-Protected Securities are above benchmark weight. International Investment Grade, U.S. Long-Term Treasuries, and U.S. High Yield bonds are below benchmark weight.



**NDR**  
NED DAVIS RESEARCH

## Fixed Income Allocation Strategy

### **Ned Davis Research Disclaimer:**

The data and analysis contained within are provided "as is" and without warranty of any kind, either expressed or implied. The information is based on data believed to be reliable, but it is not guaranteed. NDR DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. All performance measures do not reflect tax consequences, execution, commissions, and other trading costs, and as such investors should consult their tax advisors before making investment decisions, as well as realize that the past performance and results of the model are not a guarantee of future results. The Fixed Income Allocation Strategy is not intended to be the primary basis for investment decisions and the usage of the model does not address the suitability of any particular investment for any particular investor.

Using any graph, chart, formula, model, or other device to assist in deciding which securities to trade or when to trade them presents many difficulties and their effectiveness has significant limitations, including that prior patterns may not repeat themselves continuously or on any particular occasion. In addition, market participants using such devices can impact the market in a way that changes the effectiveness of such devices. NDR believes no individual graph, chart, formula, model, or other device should be used as the sole basis for any investment decision and suggests that all market participants consider differing viewpoints and use a weight of the evidence approach that fits their investment needs.