IG Fixed Income Recap

December 2024

A review of IG Fixed Income Sectors

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Performance recap for the month

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	bps	bps	%	%
	OAS	**OAS change**	**Total Return**	**Excess Return**
IG Corporate Market	80	-19	2.13	2.46
Intermediate	71	-19	4.22	2.10
Long	98	-18	-1.95	3.10
A Finance	74	-24	3.49	2.44
BBB Finance	106	-42	4.97	4.10
A Industrials	59	-6	-0.18	1.06
BBB Industrials	95	-18	2.28	2.78
BBB-A basis	36	-13		
EM USD	219	-78	6.58	6.14
IG	106	-12	1.87	1.96
HY	398	-205	14.90	13.57
Asia	122	-84	5.16	3.52
Latin America	332	-90	10.53	10.82
High Yield	285	-36	8.19	5.02
CCCs	542	-202	15.09	11.72
Euro Agg Corporate	102	-36	4.74	2.94

Source (data): Bloomberg; Date range:12/31/23-12/31/24

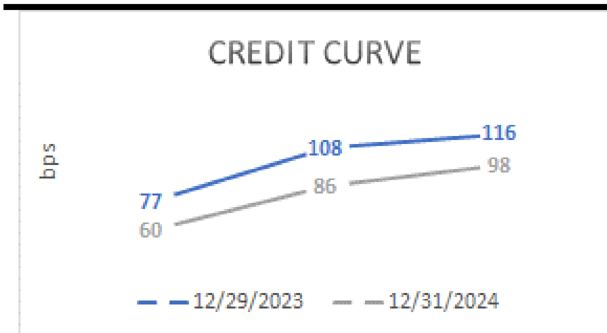
USD IG Corporate Market

By Elizabeth Henderson, CFA

Another strong year of performance

2024 was another year of positive excess returns over Treasuries for the Corporate bond market despite a soft month for spreads in December with widening in the short end of the curve after the Federal Reserve signaled fewer rate cuts than the market had expected for 2025. This is also in spite of higher than anticipated net issuance, as companies took advantage of tight spreads and looked to maintain debt leverage after generally stronger than anticipated earnings growth. M&A activity while modestly higher in 2024 vs 2023 didn't spur the increase and continued to pale in comparison to 2014-2019. Investor demand for IG fixed income was consistent in 2024, with fund inflows each month. Rating upgrades outpaced downgrades at a place close to 5x. Low-BBB rated bonds represent the lowest percentage of the Index since 2012 at 10% (Source: JPM).

IG Fixed Income Recap



Sector Relative Value

The OAS tightened 19 bps during 2024 to reach 80 bps, marking the tightest year-end spreads since 2005. As investors reached for yield/risk, BBBs outperformed on a spread basis during 2024, with the BBB vs single-A basis closing at 29bps, just a basis point off its post-GFC tights. Across maturities, 7-10 year outperformed the index. Financial sectors and Utilities outperformed during the year while most defensive Industrial sectors underperformed. (Source: Wells)

Looking at sectors relative to broad Industrials (LTM noted otherwise 5+ year history) (bold=new for the month; strike-through = no longer valid vs last month):

o Z scores >1.5: Cable, Integrated Energy**,** Health Insurance, ~~Pharma~~

o Z scores <-1.5: **Metals & Mining** (LTM), ~~Diversified Manufacturing~~, Retail

Source (graph): Bloomberg, AAM

Technicals and Rating Changes

High Grade bond supply in 2024 was **higher than expectations** at $1.5T, **25% higher** than 2023. Long end issuance increased again, making up 17% of total issuance.

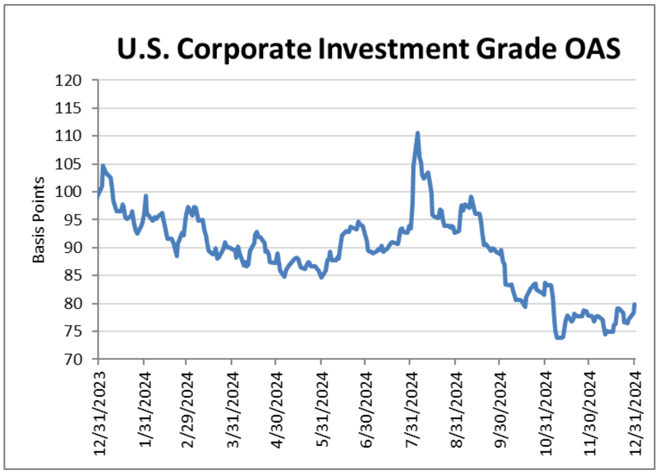
The average daily trading volume for HG bonds was lower than average ($31B vs. 35B/day for cash). **11% of bond trading in 2024 was via portfolio trading** per TRACE.

New issue supply is expected to be **$1.5T again in 2025**, with more M&A related funding and maturities up 20% vs. 2024.

Source: AAM, JPM

Rating changes (rising stars/fallen angels) Source: Bloomberg:

- *Fallen angels: Prospect Capital, Michael Kors*
- *Rising stars: none*



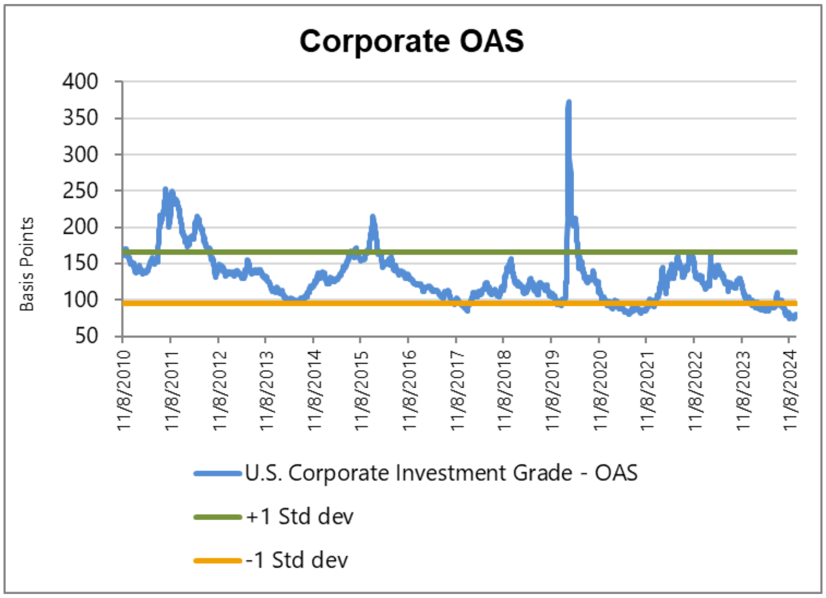
Ticker level performance

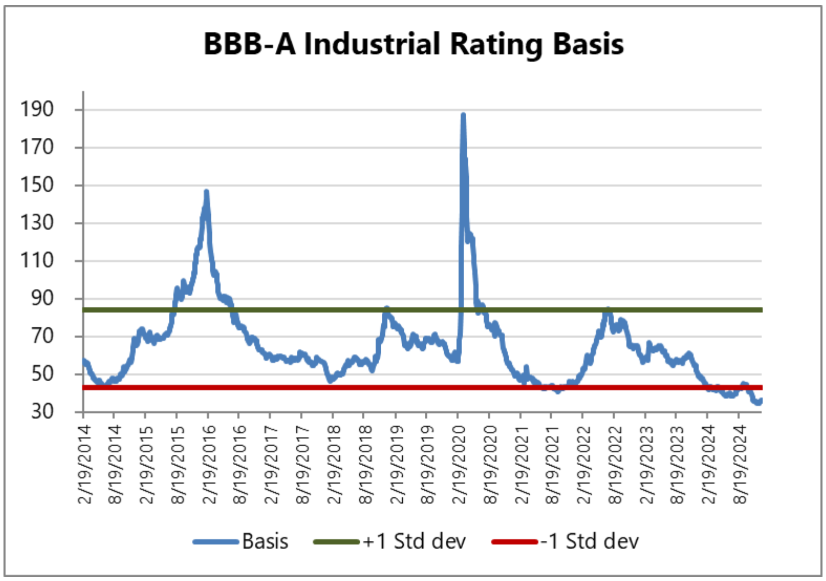
The following shows the top and bottom performing issuers based on excess return per unit of duration for 2024. This list excludes those with market values less than 0.04% of the Corporate Index. AAM's analysts have provided an explanation for issuer performance.

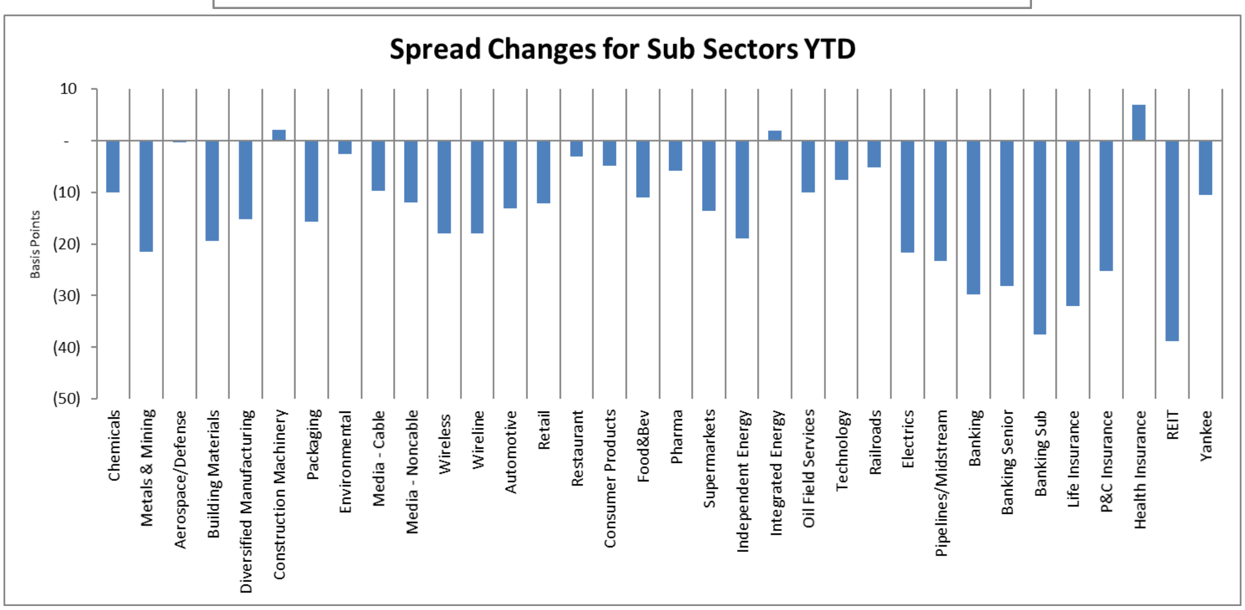
Top 15 tickers	Tickers	Sector	ER (%)	MV%*	Duration	Notes
1	**OCINCC**	Finance Companies	7.1	0.07	3.39	Short duration, high beta, BDC
2	**BXSL**	Finance Companies	4.0	0.06	2.17	Short duration, high beta, BDC
3	**FSK**	Finance Companies	4.7	0.06	2.78	Short duration, high beta, BDC
4	**OBDC**	Finance Companies	3.7	0.06	2.38	Short duration, high beta, BDC
5	**OHI**	Healthcare REITs	5.3	0.05	3.59	Short duration, high beta
6	**ARCC**	Finance Companies	4.1	0.11	2.73	Short duration, high beta, BDC
7	**DFS**	Banking	5.1	0.09	3.43	Short duration, high beta
8	**KEY**	Banking	6.0	0.13	4.12	Short duration, high beta
9	**BCRED**	Finance Companies	4.8	0.07	3.48	Short duration, high beta, BDC
10	**CFG**	Banking	5.5	0.11	4.14	Short duration, high beta
11	**SYF**	Banking	4.4	0.06	3.34	Short duration, high beta
12	**ALLY**	Banking	5.5	0.11	4.22	Short duration, high beta
13	**KD**	Technology	7.0	0.04	5.57	Continues to perform better than expected after IBM spinoff
14	**MTB**	Banking	4.1	0.09	3.29	Short duration, high beta
15	**COF**	Banking	4.1	0.37	3.94	Short duration, high beta
Bottom 15	**Tickers**	**Sector**	**ER (%)**	**MV%**	**Duration**	**Notes**
1	**TELVIS**	Media Entertainment	(5.8)	0.04	9.94	Fundamental weakness, rating downgrades, bordering HY
2	**INTC**	Technology	(4.8)	0.56	8.30	Abrupt CEO exit, rating downgrades
3	**CVS**	Healthcare	(0.8)	0.72	7.25	Moody's downgrade to Baa3, outlook stable
4	**NKE**	Retailers	(0.6)	0.10	8.26	Exposure to China tariffs
5	**HUM**	Health Insurance	(0.4)	0.16	7.01	Medicare Advantage weak results continue, Cigna circling
6	**CL**	Consumer Products	(0.3)	0.05	6.40	Rich trading credit
7	**LLY**	Pharmaceuticals	(0.5)	0.29	9.61	Longer duration, spread volatility high for sector
8	**WBD**	Media Entertainment	(0.2)	0.42	7.27	Event risk increases rating downgrade risk
9	**MA**	Technology	0.1	0.21	6.98	Rich trading credit
10	**HON**	Diversified Manufacturing	0.1	0.27	6.66	Possible breakup
11	**JNJ**	Pharmaceuticals	0.1	0.35	7.95	Ultra rich credit, spread volatility high for sector
12	**KO**	Food and Beverage	0.1	0.33	8.93	Rich trading credit
13	**PG**	Consumer Products	0.1	0.22	4.97	Rich trading credit
14	**NOVNVX**	Pharmaceuticals	0.1	0.16	8.26	Rich trading credit
15	**ITW**	Diversified Manufacturing	0.1	0.04	7.74	Rich trading credit

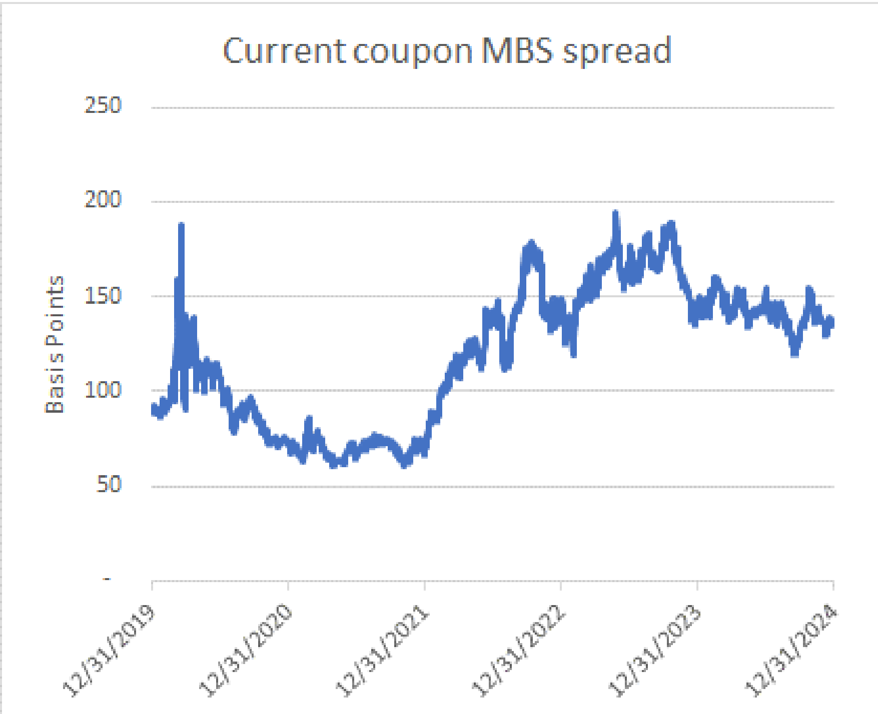
Source (graph, table data): Bloomberg, AAM

Market graphs (Source: Bloomberg, AAM)









Structured Products

By Chris Priebe and Mohammed Ahmed

Agency MBS underperformed in December while CMBS and ABS performance was positive.

Rating Changes

Rating changes continued to be negative for CMBS conduit and single-asset deals. More ABS deals were upgraded than downgraded, continuing a positive trend.

The Agency RMBS sector underperformed US Treasuries by 17 bps in December. Current coupon MBS spreads widened a few bps, and volatility ticked up around the Fed meeting. The market is still uncertain in regards to the number of cuts in 2025, causing spreads to lag into the 2024 close. The 30-year current coupon closed the year at +135. MBS demand was quiet into year-end. The 30-year coupon performance was weak, led by low coupons, and the belly of the stack struggled the most. 30-year 2.00's through 30-year 4.50's were the worst-performing coupons, generating an average of -32 bps in excess returns. The highest coupons with dollar prices above par, 30 year 6.00's through 7.00's, crushed it at +28, +58 and +71 bps of excess return. **AGENCY MBS ER -17 bps**

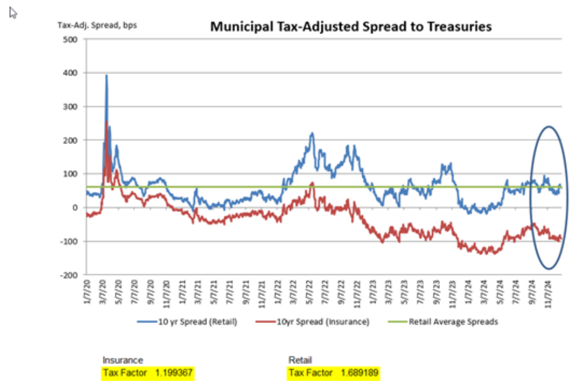
The CMBS market continued its strong post-election rally. CMBS sentiment has been nothing but positive the last four weeks. The entire December new issuance calendar was well received and heavily oversubscribed. Any new issue conduit or SASB that hit the market has been met with huge demand across all types of buyers. AAA-rated deals maturating in six and eight-in-a-half years were the top performers with +33 and +58 bps of excess return respectively, almost beating BBBs (+68 bps). **CMBS ER +16 bps**

After a record November of supply, the ABS new issuance market slowed to a screeching halt. New issue ABS supply for 2024 was over $339 billion, up more than 20% versus 2023. Issuers in later 2024 were taking advantage of the tight all-in funding costs so we saw heavy issuance in September through November. The market is expecting heavy January supply. ABS issuers usually hit the market early in 2025 to take advantage of tight funding costs and spreads. ABS fundamentals are strong, as trusts are performing across all asset classes. The esoteric ABS sector grew from $41B in 2023 to $66B in 2024, with incremental spread vs liquid auto and credit card ABS transactions. **ABS ER +6 bps**

ABS-**CLO** new issuance was also quiet going into year-end. AAA-rated classes are trading near +120-125. AAA CLOs have had a strong 2024, as spreads are close to 35 tighter.

Sources: Bloomberg Index (chart: FNCL CC Spread to 5/10), JP Morgan

Municipal Bonds



Source: Greg Bell, CFA, CPA

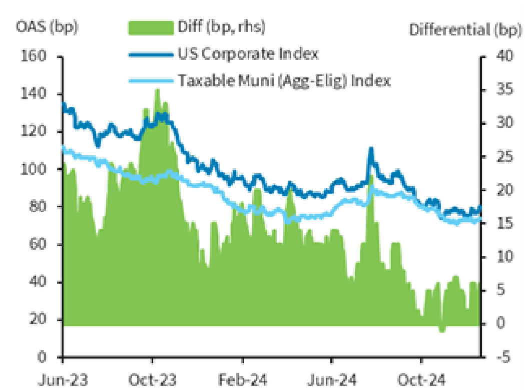
Tax exempt muni sector had fairly healthy performance with favorable technical in December. Taxable spreads widened modestly in the short and long ends of the maturity curve despite light issuance, which is expected to remain supportive for spreads in early 2025.

Tax-exempts Treasury market volatility weakened relative valuation levels for tax-exempts during the middle of December. Treasury yields in 10 years spiked higher by 46bps to 4.63% on 12/30/24 before firming by 5bps to end the year at 4.57%. For the tax-exempt market, the muni-to-Treasury yield ratio in 10 years started the month at 66.6% and reached a high point for the month of 68% on 12/23/24. However, favorable technicals over the month's balance resulted in tax-adjusted spread levels (21% corporate tax rate) tightening by 7bps to end the year at -90bps. This ratio would end the year at 66.9%. On a nominal basis, 10-year tax-exempt yield spreads to Treasuries tightened by 12bps in December.

For new issue supply, issuance continued to moderate. After seeing only $24.7B in November, December produced just $31.6B for a year-over-year increase of 14.6% for the month. Prior to November's issuance, the sector produced an average of $48B per month, which helped propel the total for the year to a new record of $507.6B. The total issuance for 2024 produced a year-over-year increase of 31.8%. (Source: Bond Buyer)

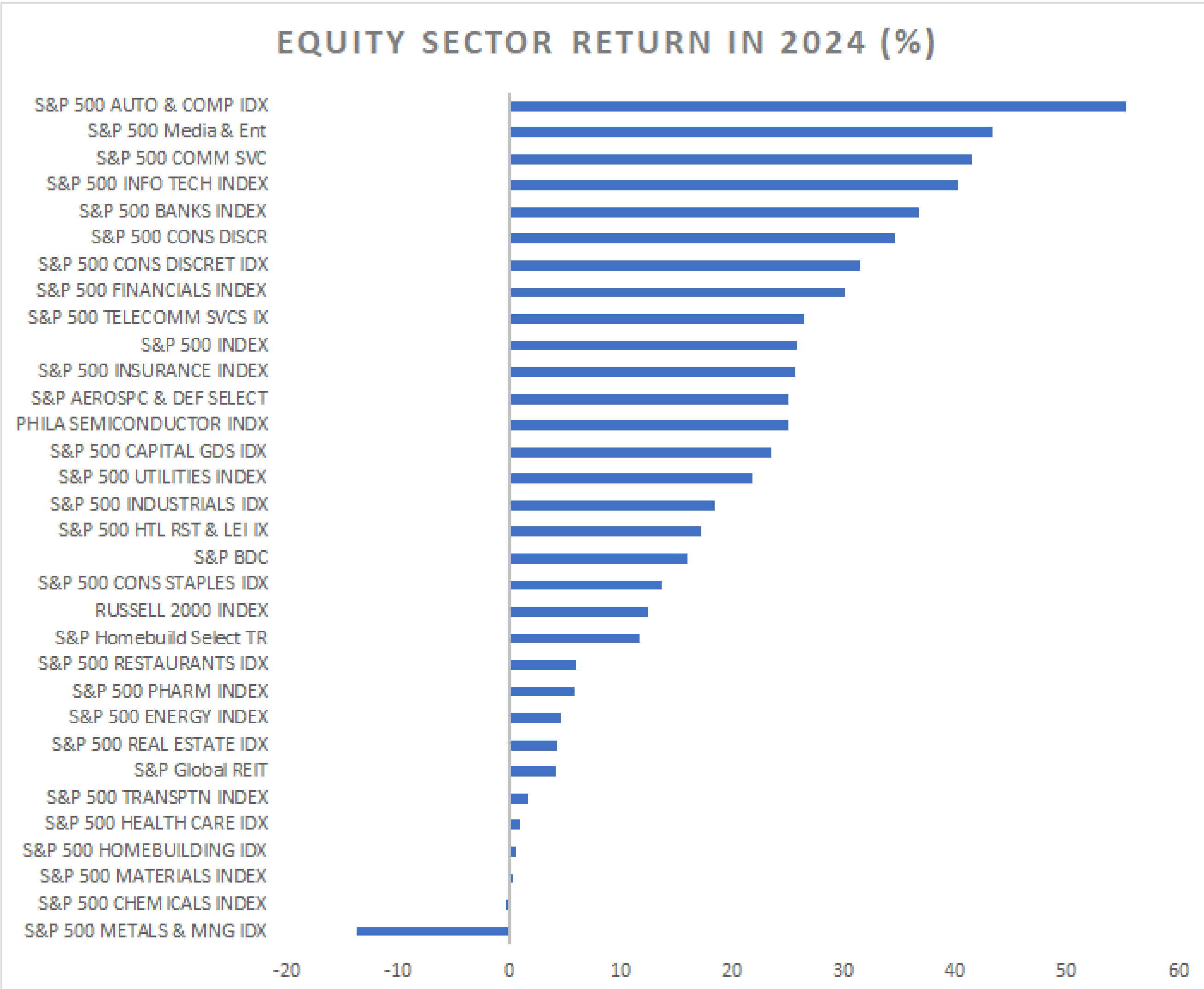
On the demand side, with Treasury rate volatility increasing, muni mutual fund flows were negative over the last three weeks of the month. After posting inflows of $1.15B during the first week of December, mutual funds produced average weekly outflows of $683M per week. (Source: Lipper)

Taxables The taxable muni sector continued to remain in a tight trading range. The anemic new issuance trend continued to be one of the main areas of support for the sector. New issuance for December came in at just $2.13B. That was down 48.9% versus December 2023. For the year, taxable issuance came in at $35.6B, a 10.5% decline from December 2023. (Source: Bond Buyer)



In reviewing spreads over the last month, after remaining in a tight trading range of 72 and 74bps, the taxable muni OAS of the Bloomberg AGG index widened by 3bps to end the month at 74bps. When reviewing trades and secondary offerings, 'AAA' spreads across the curve were unchanged to modestly wider by 3bps. The widening was exhibited in the 3-year and 30-year areas of the yield curve. Favorable technicals for the sector are expected to continue to be a significant driver of support for current spread levels into the new year. (Source: AAM, Bloomberg, Barclays)

Other Asset Classes



Source: Bloomberg, AAM