IG Fixed Income Recap

February 2025

A review of IG Fixed Income Sectors

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Performance recap for the month

Other Asset Classes

	bps	bps	%	%
	OAS	OAS change	Total Return	Excess Return
Bloomberg Aggregate	32	2	2.20	-0.10
IG Corporate Market	86	8	2.04	-0.55
Intermediate	75	7	1.37	-0.23
Long	108	10	3.42	-1.21
A Finance	78	8	1.62	-0.43
BBB Finance	110	9	1.76	-0.36
A Industrials	65	8	2.32	-0.61
BBB Industrials	101	9	2.08	-0.59
BBB-A basis	36	1		
MBS	31	-3	2.55	0.16
current coupon 30 year	135	-3		
ABS	47	3	0.32	-0.06
CMBS	79	2	1.57	-0.05
Local Authorities	61	2	2.67	-0.15
High Yield	278	20	0.67	-0.52
CCCs	545	20	0.30	-0.84
Euro Agg Corporate	90	0	0.60	0.07
EM USD	220	14	1.62	-0.68
IG	106	7	2.16	-0.34
HY	406	35	0.76	-1.22
Asia	117	-3	1.96	0.15
Latin America	330	28	1.27	-1.31

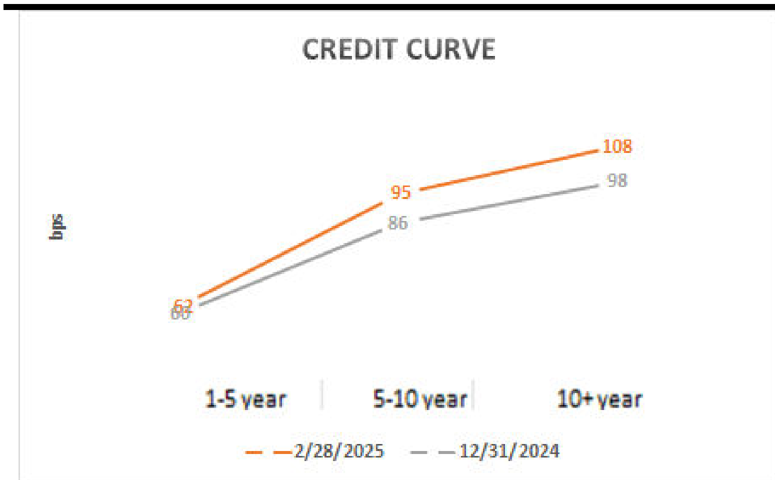
Source (data): Bloomberg; Date range: 1/31/2025 – 2/28/2025

Fixed Income Summary

By Elizabeth Henderson, CFA

Spreads widened in virtually all fixed income sectors except Mortgages as markets priced in economic growth concerns due to heightened fiscal related uncertainties (tariffs, DOGE). Treasuries rallied with the flight to quality and increased probability of Fed cuts, leading to increased demand for discount mortgages. Risk did not re-price despite the widening in spreads (i.e., high yield vs. IG and BBB vs. A) While fourth quarter earnings were strong, management forecasts for 2025 were weaker than anticipated for industries that had been expected to rebound like Materials and Industrials. M&A activity has been muted despite optimism after the election given the expectation for easing regulatory oversight. This has resulted in less new issuance year-to-date from the Corporate bond sector. Comparatively, new issuance was active in the ABS, CMBS and Tax-exempt Muni markets.

IG Fixed Income Recap



Corporate Market

Corporate spreads widened and the credit curve steepened, as risk premiums reset with the falling Treasury yields. Although the spread widening was widespread across rating and maturity, sectors more exposed to tariffs underperformed (Autos, Consumer Products, Technology). Banks, Pharma and Environmental Services outperformed. The OAS remains historically low at 86 bps. (Source: AAM, Bloomberg)

Looking at sectors relative to broad Industrials:

o Z scores >1.5: Cable, ~~Integrated Energy~~**,** Health Insurance, ~~Electric Utilities,~~ **Consumer Products (LTM), Technology (LTM), Autos (LTM)**

o Z scores <-1.5: Metals & Mining, Retail, **NonCable Media (LTM)**

Source (graph): Bloomberg, AAM (LTM noted otherwise 5+ year history) (bold=new for the month; strike-through = no longer valid vs last month)

Corporate market Technicals and Rating Changes

High Grade bond supply in February was **higher than expected** at $155B, **16% higher** than the average February since 2021.

The average daily **trading volume** for HG bonds was **higher than average** ($40B, 9% higher). 13% of bond trading in Feb was via portfolio trading vs. 11% last month

New issue supply is expected to be **$190-210B in March**, a seasonally active month for new issue given the high coupon and principal payments in March.

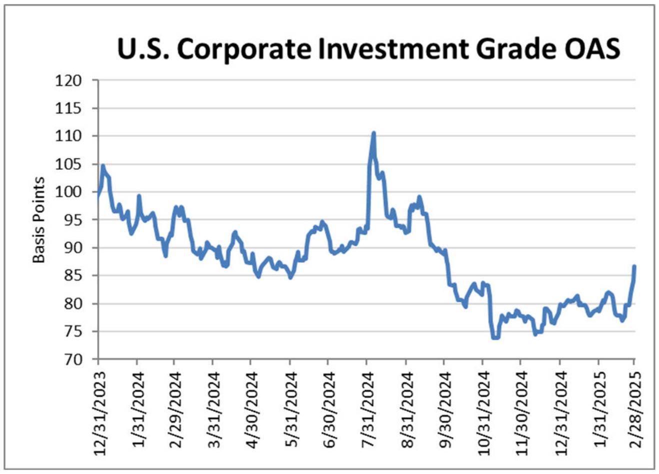
The attractiveness of US Corporate yields fell vs. foreign assets due to declining Treasury yields and increased hedging costs. Fund demand remains strong although ETFs remain a small percentage of the overall market.

Sources: AAM, JPM, BofA

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

- *Fallen angels: Nissan, Viatris, Michael Kors, Celanese*

- *Rising stars: Levi Strauss, Western Alliance Bank, Vontier, Carnival Corp, Enlink Midstream, Royal Caribbean*



Ticker level performance

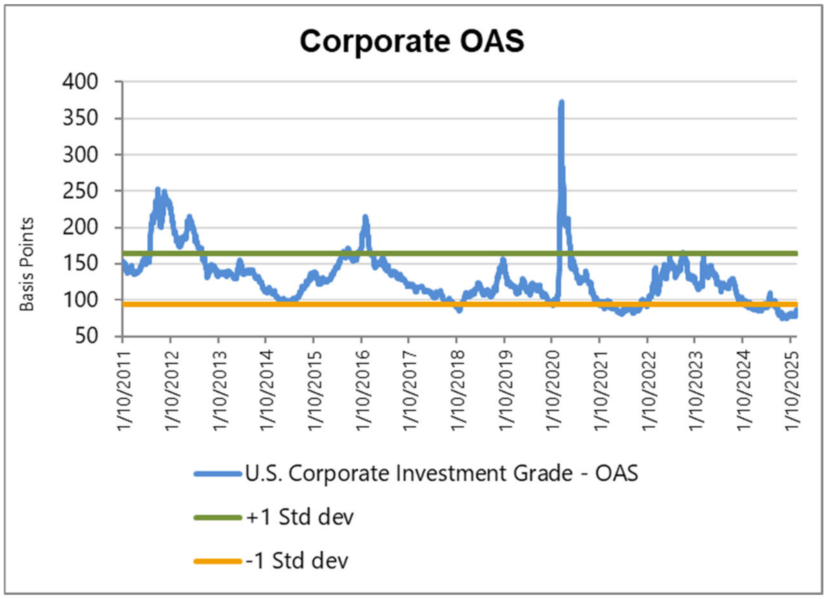
The following shows the top and bottom performing issuers based on excess return per unit of duration for that month. This list excludes those with market values less than 0.05% of the Corporate Index. AAM's analysts have provided an explanation for issuer performance.

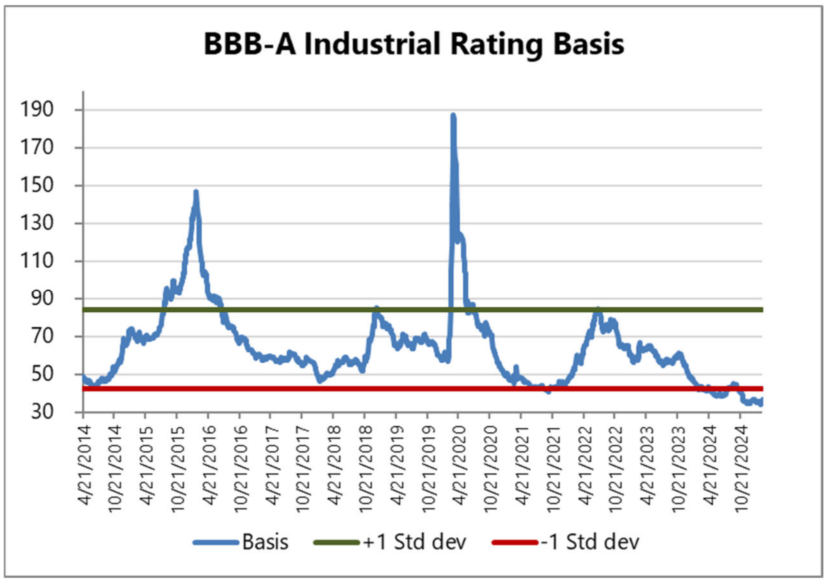
Top 15 tickers	Tickers	Sector	ER (%)	MV%*	Duration	Notes
1	**INTC**	Technology	0.7	0.57	8.60	Strategic options being considered
2	**BABA**	Retailers	0.7	0.18	9.19	Excellent quarterly results.
3	**EXE**	Independent	0.3	0.05	4.10	Natural gas focused companies rally
4	**PCG**	Electric	0.5	0.46	8.00	Bounce from initial wildfire sell off
5	**BIDU**	Technology	0.2	0.05	3.21	Planned issuance of 10B yuan (offshore)
6	**SANUK**	Banking	0.1	0.10	3.01	Increased capital; Potential acquisition interest from NWG
7	**NOMURA**	Brokerage Assetmanage	0.1	0.19	4.03	Strong earnings
8	**EQT**	Independent	0.1	0.05	3.80	Natural gas focused companies rally
9	**LVS**	Gaming	0.1	0.05	3.23	Earnings better than feared
10	**CE**	Chemicals	0.1	0.11	3.84	Demand from HY investors
11	**EIX**	Electric	0.2	0.41	7.61	Bounce from initial wildfire sell off
12	**NWG**	Banking	0.1	0.27	3.22	Strong earnings, low exposure to motor finance developments
13	**DLR**	Other REITs	0.0	0.05	2.88	Data center, constructive 2025 guidance
14	**DB**	Banking	0.0	0.32	3.55	In line earnings, German elections
15	**MKL**	P&C	0.1	0.05	11.78	Strong earnings

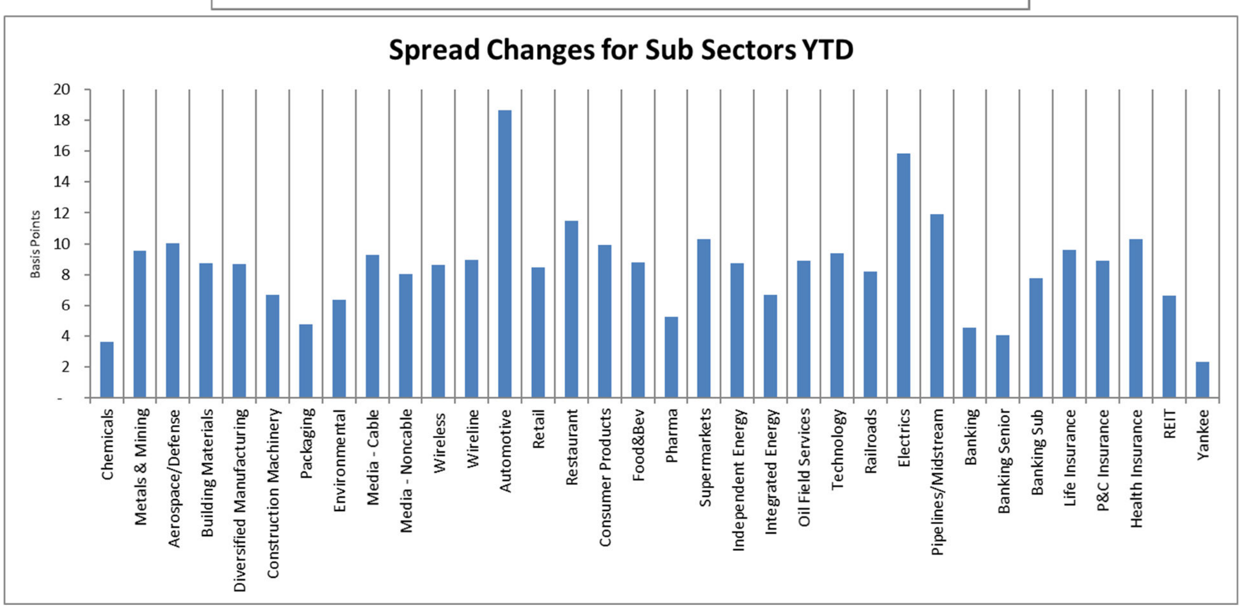
Bottom 15	Tickers	Sector	ER (%)	MV%	Duration	Notes
1	**F**	Automotive	(1.5)	0.66	4.09	Weak guidance, S&P outlook to negative, tariffs
2	**FDX**	Transportation Services	(1.8)	0.07	7.08	Spun off LTL trucking assets from parent
3	**VTRS**	Pharmaceuticals	(1.6)	0.13	7.40	Ugly quarter. Ratings risk, shareholder friendly action risk
4	**HPE**	Technology	(1.2)	0.18	6.35	Uncertainty with JNPR deal
5	**JEF**	Brokerage Assetmanage	(1.0)	0.10	5.27	Long duration, high beta broker, leveraged credit exposure
6	**GM**	Automotive	(0.9)	0.69	4.75	Tariffs
7	**RRX**	Diversified Manufacturi	(0.6)	0.07	3.55	Missed earnings estimates
8	**PSX**	Refining	(1.3)	0.19	7.88	Elliott proposes spinning off pipelines / chem business
9	**VOD**	Wireless	(1.8)	0.18	11.87	Long duration which underperformed in Feb; soft results in Germany; tenders likely in the short end of curve
10	**SRE**	Electric	(1.2)	0.32	7.86	Disappointing guidance reset
11	**DOW**	Chemicals	(1.4)	0.16	9.39	Still no sign of a demand recovery
12	**UAL**	Airlines	(0.6)	0.10	4.01	EETCs underperform
13	**SOBOCN**	Midstream	(0.9)	0.05	6.40	Tariffs on CAD crude
14	**ALLY**	Banking	(0.5)	0.12	4.12	Auto/tariff exposure
15	**H**	Lodging	(0.5)	0.05	3.61	Acquisition announcement of Playa Hotels; plans to reduce debt via asset sales (execution risk)

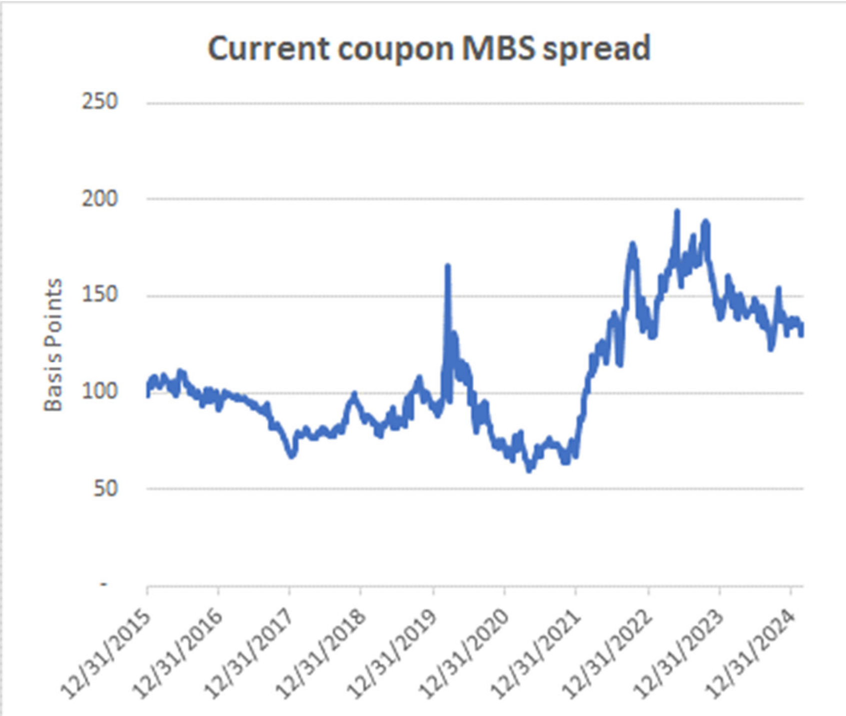
Source (graph, table data): Bloomberg, AAM

Corporate market graphs (Source: Bloomberg, AAM)









Structured Products

By Chris Priebe and Mohammed Ahmed

ABS and CMBS performance was weaker in February while Agency MBS remained 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.

AGENCY MBS ER +16 bps

The AGY RMBS sector outperformed US Treasuries by 16 bps in February. Current coupon MBS spreads were 5 bps tighter for the month, closing at +131. Shorter MBS product was the top performers in February, as 15 year paper performed very well with +24 bps of excess return due to strong technicals as net supply remained negative. In 30 year paper, 4.00s and 4.50s performed well with +45 to +48 bps of excess return respectively, and lower coupons were weaker but still positive. Higher coupon 30 year 6.00s and 6.50s struggled a bit with -8 and -22 bps of excess return.

CMBS ER -5 bps

CMBS printed about $20 billion in new issue in the month of February with $5 billion in conduit deals and $15 billion single asset/single borrower (SASB) transactions. This was the third busiest month in terms of issuance in the last 3 years. The market continues to see low levered loans getting refinanced into single asset fixed floating rate deals. The higher issuance coupled with overall market volatility led to wider spreads in CMBS. Last Cashflow CMBS AAA's ended the month at +85 bps vs. US Treasuries for both 5 and 10-year conduit spreads. The average concessions for single asset deals versus conduit are still remaining near 30 bps and look attractive. The tone in CMBS remains positive despite tight spreads, as surplus inflows need to be invested against a backdrop of macro volatility.

ABS ER -4 bps

The ABS new issue market remained active in February, yet the sector delivered weak excess returns two months in a row. New issue in February was the heaviest supply since 2016. The ABS index negative excess returns continue to be deceiving as Credit Card and Autos again were positive (+3 and +1 bp respectively) while the ABS-Utility index again was negative (-39bps). These securities (stranded assets/rate reduction) have produced close to -132 bps of excess returns in 2 months. The January California wildfires continue to leave their burn marks, with spreads outside of their fair value range.

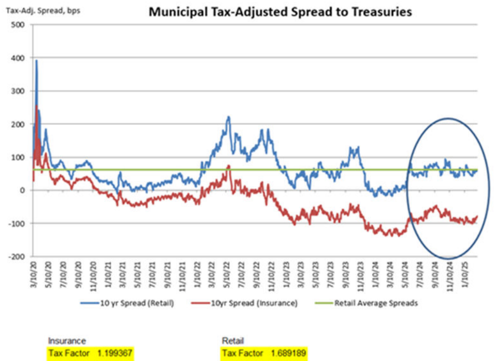
ABS-CLO spreads were firm, inside 120 for seniors. Resets remain high, and new issuance remains very active. ETF inflows have been strong.

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

Municipal Bonds

Source: Greg Bell, CFA, CPA

Tax-exempts underperformed with heavy new issue supply which is expected to continue. Taxable muni spreads were largely unchanged on the short end with 10+ years underperforming.



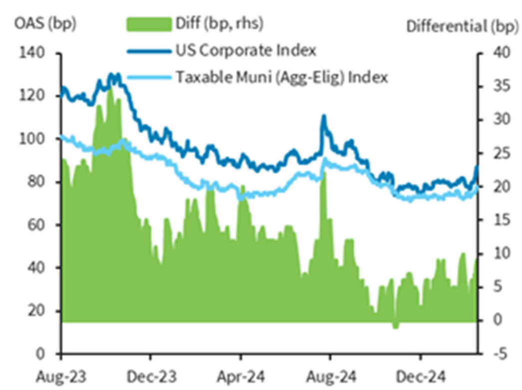
Tax-exempts The end of the expected favorable technical cycle for the tax-exempt sector came to an end in February. However, during the month, sector rate moves continued to underperform the Treasury market. Treasury rates fell by 27 and 33 basis points (bps) in 3 and 10yrs, respectively, while muni rates fell 12 and 11bps in those same years, respectively. Most of the underperformance was attributable to heavier new issue supply, which came in at $33.7B. Although the issuance was only an increase of 1.6% versus February 2024, 2025's issuance was the 3rd highest issuance for February on record. (Source: Bond Buyer, Refinitiv, Bloomberg)

Going into March, relative valuations levels are expected to weaken further as the new issue cycle continues to build momentum. The March-to-June time period typically produces the highest cycle of new issuance during the year. For 2025, monthly issuance over this period is expected to average $46B per month, with a high of $53B expected for the month of June. (Source: Bond Buyer)

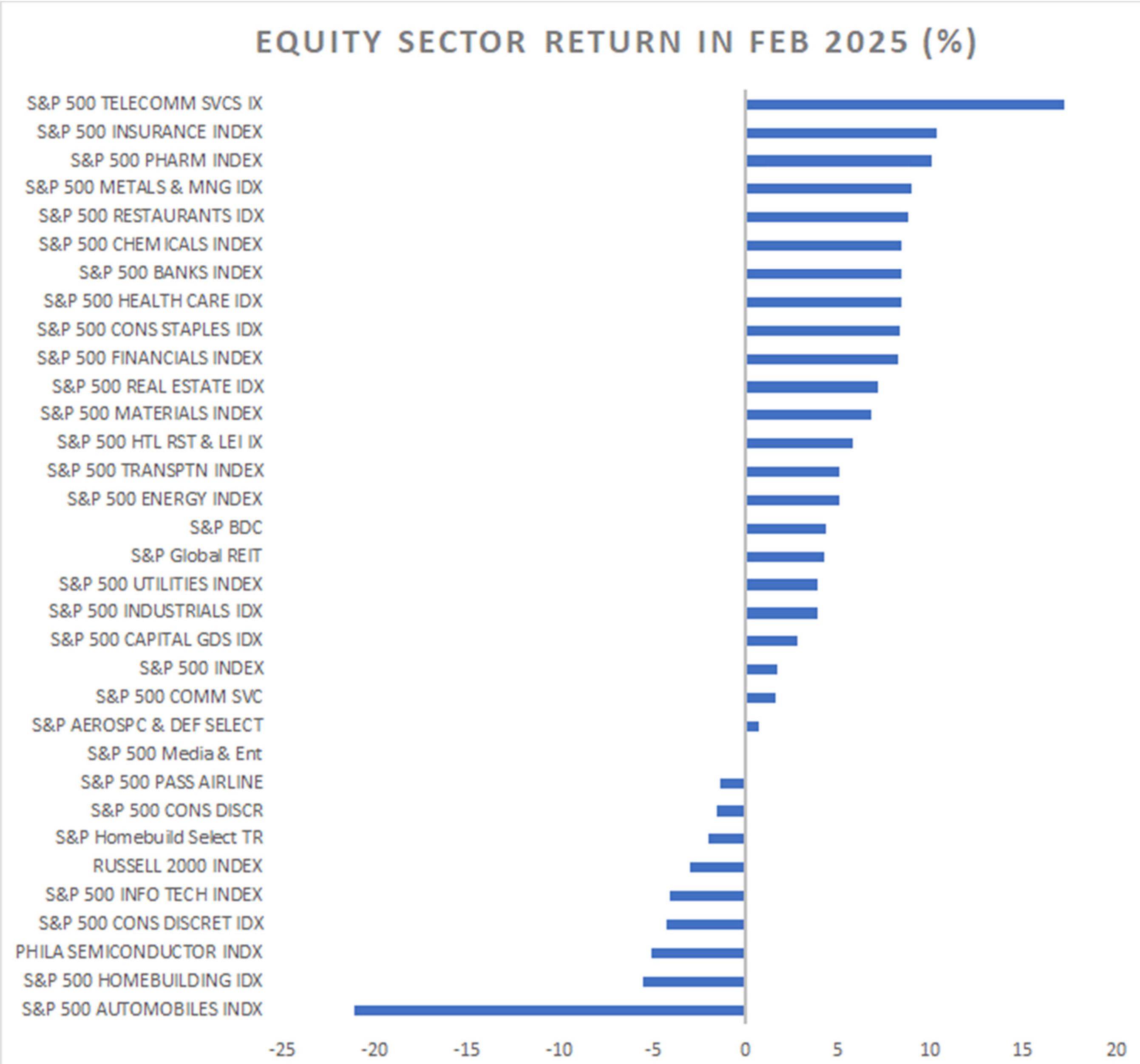
On a tax-adjusted basis for insurance company portfolios (subject to the 21% corporate rate), 10yr spreads to Treasuries during the month widened by 20bps to end the month at -78bps. Muni -to-Treasury ratios in 10yrs also weakened by 2.5 percentage points to end the month at 68%. Both of these relative valuation metric readings remain unattractive for insurance company portfolios and we continue to advocate for the reduction in exposure to the sector while it remains expensive relative to taxable alternatives. (Source: Refinitiv, Bloomberg)

Taxables The taxable muni sector largely remained stable for the month, with the exception of the longer end of the market, which saw spreads leak wider by 5 and 6bps, respectively. New issuance for February came in at just $2.48B. That was an increase of 1.9% relative to February 2024. (Source: Bond Buyer)

In reviewing spreads over the last month, the taxable muni OAS of the Bloomberg AGG index widened by 2bps to end the month at 78bps. This modest weakening followed a 2bps widening during the month of January. When reviewing trades and secondary offerings, 'AAA' spreads during the month were essentially unchanged 7yrs and shorter, while spreads in 10 and 30yrs widened by 5 and 6bps, respectively. (Source: AAM, Bloomberg, Barclays)



U.S. Equity Performance



Source: Bloomberg, AAM