IG Fixed Income Recap

March 2025

A review of IG Fixed Income Sectors

INSIDE

—

Corporate performance summary

Performance recap for the year

Sector relative value

Sector performance during the month as well as valuation

Technicals and rating changes

Supply and demand for IG bonds as well as rating actions to/from high yield

Ticker performance and market graphs

Structured Products summary

Performance recap for the month

Muni summary

Performance recap for the month

Other Asset Classes

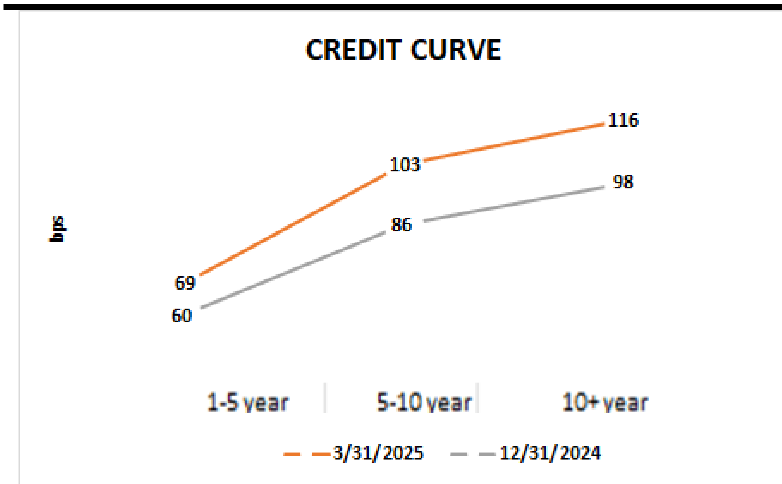
	bps	bps	%	%
	OAS	**OAS change**	**Total Return**	**Excess Return**
Bloomberg Aggregate	35	3	0.04	-0.18
IG Corporate Market	93	7	-0.29	-0.42
Intermediate	82	7	0.27	-0.21
Long	115	7	-1.41	-0.85
A Finance	83	6	0.03	-0.28
BBB Finance	122	12	-0.23	-0.55
A Industrials	70	5	-0.34	-0.36
BBB Industrials	110	9	-0.44	-0.56
BBB-A basis	40	4		
MBS	36	5	-0.02	-0.27
current coupon 30 year	144	13		
ABS	59	9	0.23	-0.18
CMBS	88	8	0.26	-0.25
Local Authorities	65	5	-0.30	-0.41
High Yield	342	63	-1.02	-1.51
CCCs	666	121	-2.24	-2.73
Euro Agg Corporate	96	7	-1.04	-0.26
EM USD	234	14	-0.36	-0.58
IG	110	4	-0.09	-0.25
HY	439	33	-0.80	-1.13
Asia	128	12	-0.07	-0.39
Latin America	347	17	-0.33	-0.51

Source (data): Bloomberg; Date range: 2/28/2025 – 3/31/2025

Fixed Income Summary

By Elizabeth Henderson, CFA

Spreads widened in all sectors and risk assets started to re-price wider with high yield and BBBs underperforming. The Treasury curve "bull twisted" (short end yields fell while long end yields increased). This move, in addition to the performance in the equity and commodity markets appear to reflect an increased risk of higher inflation and lower economic growth (and fed funds rate) in the near term. Tariff and other fiscal related uncertainty pressured sectors like Universities and Autos that are more vulnerable while others that are more immune (i.e., Cable) or positively affected (i.e., Aerospace/Defense) benefited. Current and higher coupon mortgages outperformed with the rate volatility. Issuance of new bonds remained active in sectors such as Corporates, CMBS and ABS, a healthy sign of market access.



Corporate Market

Corporate spreads widened 7-8 bps across the curve in March, with BBB spreads widening twice the rate of single-A spreads. Excess return for the month for the Corporate Index was -42 bps. Despite this widening, BBBs and the Corporate OAS remain historically tight. Cyclical sectors and BBB Financials underperformed due to the uncertainty related to tariffs and the economy. Less economically sensitive sectors outperformed.

Looking at sectors relative to broad Industrials:

- Z scores >1.5: ~~Cable~~, Health Insurance, Autos
- Z scores <-1.5: Metals & Mining, **Cable (LTM), Aerospace/Defense (LTM)**

Source (data and 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 March was **in line with expectations** at $193B, **15% higher** than the average March since 2021. New issue bonds outperformed secondaries.

The average daily **trading volume** for HG bonds was **much higher than average** ($44B, 21% higher). 14% of bond trading in March was via portfolio trading vs. 11% earlier this year and 7% in March 2024.

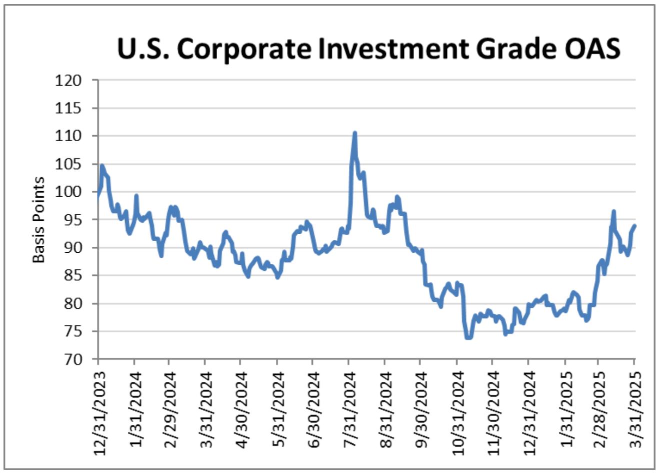
New issue supply is expected to be around **$100B in April**, a seasonally low month for new issue given the start of earnings season and thus, black-out periods.

The attractiveness of U.S. Corporate yields for foreign investors remains at a multi-year low. Overseas buying is down nearly 50% YTD vs. 1Q'24. Fund demand has waned as well, only up 1.5% YTD for IG and down 2% for high yield (EPFR).

Sources: AAM, JPM, Goldman Sachs

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

- *Fallen angels: none*
- *Rising stars: none*



Ticker level performance

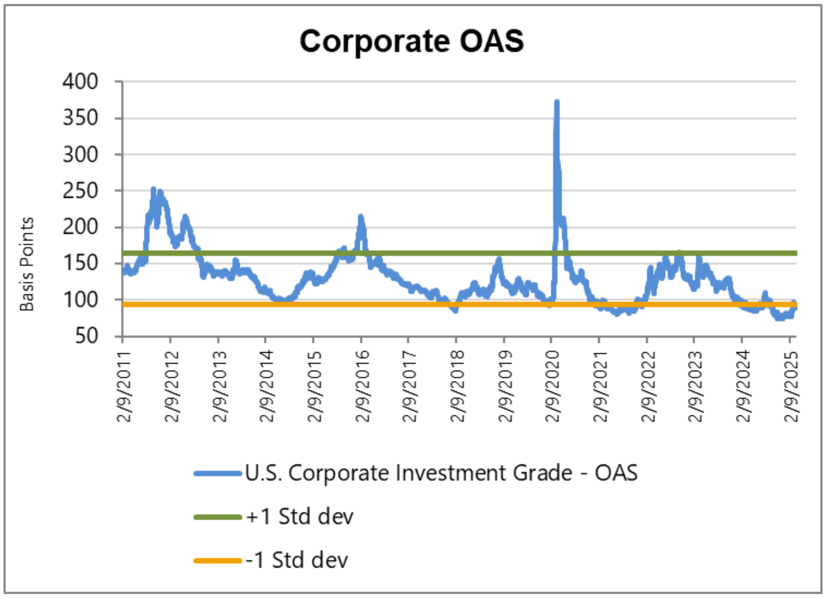
The following shows the top and bottom performing issuers based on 'excess return per unit of duration' for that month. This list excludes those with market values less than 0.05% of the Bloomberg Corporate Index. AAM's analysts have provided an explanation for issuer performance.

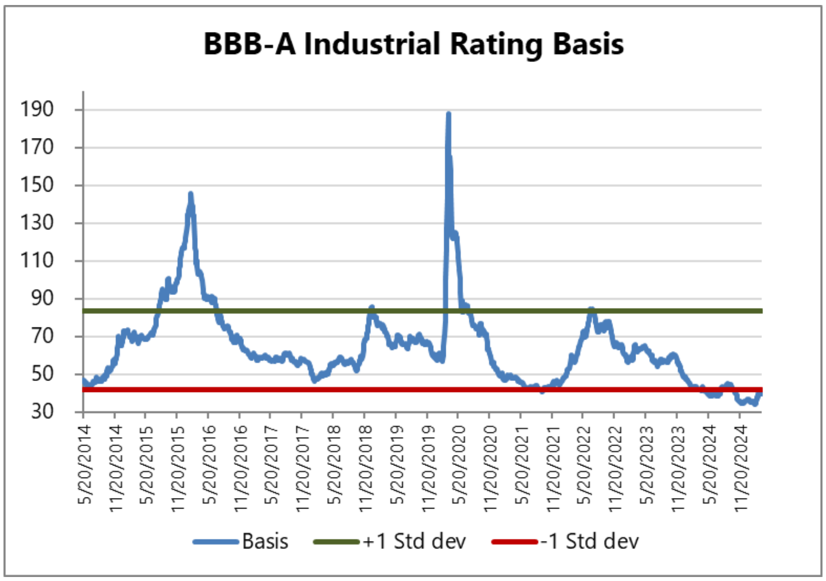
Top 15 tickers	Tickers	Sector	ER (%)	MV%*	Duration	Notes
1	**SCCO**	Metals and Mining	0.5	0.07	9.96	Sells 10% of copper volume to U.S. with flexibility to reallocate sales volume if tariffs are an issue
2	**COST**	Retailers	0.2	0.07	3.75	Strong operator, short duration
3	**DT**	Wirelines	0.1	0.07	4.33	Positive sentiment re German broadband and beneficiary of fiscal stimulus
4	**BRK**	Insurance/Utility	0.2	0.23	10.04	PacifiCorp positive news
5	**QCOM**	Technology	0.1	0.18	8.46	Rumors of Alphawave acquisition, and new Intel CEO, reduce chances of an Intel bid
6	**APH**	Diversified Manufacturi	0.0	0.08	5.51	Short duration
7	**RRX**	Diversified Manufacturi	0.0	0.05	4.29	Short duration
8	**GOOGL**	Technology	0.0	0.12	8.81	High quality
9	**BIDU**	Technology	0.0	0.05	3.14	Competitive AI offerings
10	**BA**	Aerospace/Defense	0.0	0.62	8.20	Limited progress with operations
11	**JNJ**	Pharmaceuticals	(0.0)	0.42	7.39	High quality AAA
12	**UNH**	Health Insurance	(0.0)	0.97	9.40	High quality
13	**TTEFP**	Integrated	(0.1)	0.20	10.93	High quality integrated
14	**MSFT**	Technology	(0.1)	0.49	10.87	High quality
15	**MA**	Technology	(0.0)	0.22	6.73	High quality

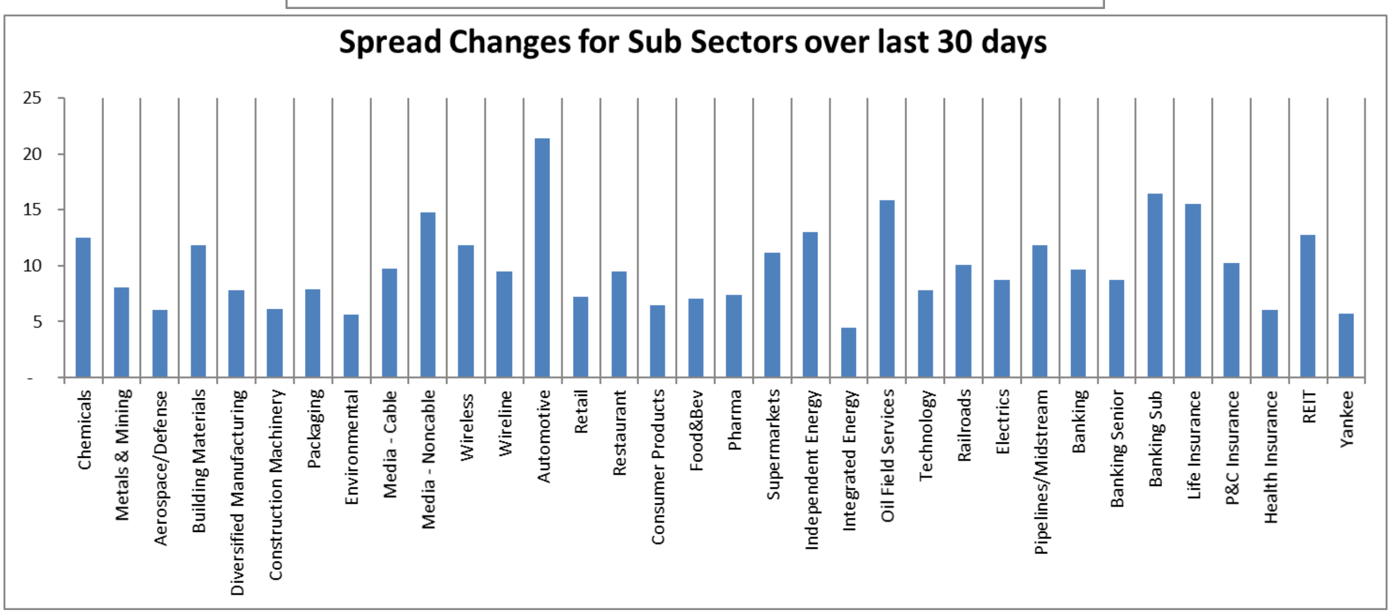
Bottom 15	Tickers	Sector	ER (%)	MV%	Duration	Notes
1	**VTRS**	Pharmaceuticals	(2.5)	0.12	7.08	Downgraded to BB+. Current ratings Baa3/BB+/BBB
2	**FSK**	Finance Companies	(1.0)	0.05	3.13	High Beta, BDC, sensitive to economic forecasts
3	**ARESSI**	Finance Companies	(1.2)	0.05	3.91	High Beta, BDC, sensitive to economic forecasts
4	**OCINCC**	Finance Companies	(1.0)	0.08	3.28	High Beta, BDC, sensitive to economic forecasts
5	**WBD**	Media Entertainment	(2.2)	0.38	7.56	Sensitive to economic forecasts given leverage and cyclical advertising; Activist shareholder takes Board seat
6	**BCRED**	Finance Companies	(0.8)	0.11	3.66	High Beta, BDC, sensitive to economic forecasts
7	**FDX**	Transportation Services	(2.0)	0.16	8.95	Annual forecast cut by management
8	**F**	Automotive	(0.9)	0.65	4.01	Tariff uncertainty
9	**JEF**	Brokerage Assetmanage	(1.1)	0.10	5.15	High Beta, exposure to leveraged credit
10	**APTV**	Automotive	(2.1)	0.07	10.10	Tariff uncertainty
11	**ARCC**	Finance Companies	(0.7)	0.10	3.25	High Beta, BDC, sensitive to economic forecasts
12	**GM**	Automotive	(0.9)	0.71	4.61	Tariff uncertainty
13	**ALLY**	Banking	(0.8)	0.12	4.02	High Beta, consumer auto finance
14	**OBDC**	Finance Companies	(0.5)	0.05	2.35	High Beta, BDC, sensitive to economic forecasts
15	**BXSL**	Finance Companies	(0.5)	0.05	2.58	High Beta, BDC, sensitive to economic forecasts

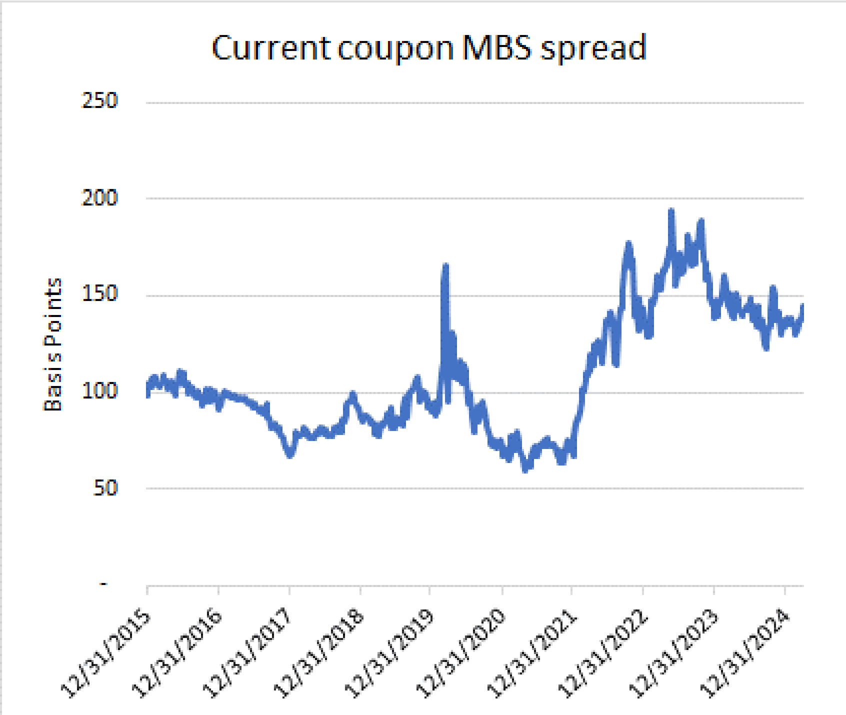
Source (graph, table data): Bloomberg, AAM

Corporate market graphs (Source: Bloomberg, AAM)









Structured Products

By Chris Priebe and Mohammed Ahmed

Spreads widened with heavy new issuance in ABS and CMBS and higher coupon mortgages outperforming.

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 -27 bps

The AGY RMBS sector underperformed US Treasuries by 27 basis points in March. Current coupon MBS spreads were 10 basis points (bps) wider on the month. The 30-year current coupon opened near +131 and closed at +141 bps. The only positive news on the month was the performance of higher coupons, namely 15-year 5.50, 6.00's, 30-year 6.00 and 6.50s. Low coupon 30 year 2.00's through 5.50's posted negative excess returns (-25 to – 44 bps).

CMBS ER -25 bps

CMBS new issues for March were priced at about $15 billion, with $4 billion allocated to single asset/single borrower (SASB) transactions. The CMBS market repriced this month with a few 5- and 10-year new issue spreads moving out to over 100 bps. A heavy supply and a few deals with higher retail and office exposure pushed a few new issue spreads wider than usual. Notably, the first quarter of 2025 was the heaviest supply month since 2016. Refinancing of properties is continuing, especially in NYC office and a few retail properties, which is very positive for the market's tone and the pricing of risk.

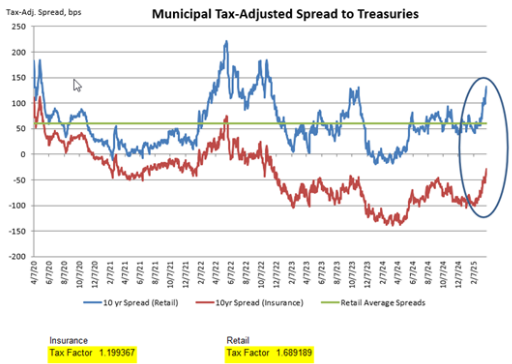
ABS ER -18 bps

The ABS new issue market continued on its 2025 record pace with $30.1 billion hitting the market in March alone. Issuance in ABS was the second-highest in one quarter since 2016. The ABS index posted negative excess returns, dragged down by California utilities (rate reduction deals). High quality credit card and autos deals again outperformed the wildfire bonds by close to 40 bps.

The CLO market has stabilized with AAAs trading with spreads in the mid-120s (bps) with 3-month SOFR only dropping 3 bps month-over-month.

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

Municipal Bonds



Source: Greg Bell, CFA, CPA

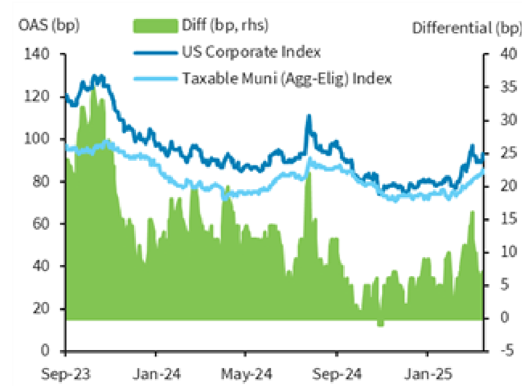
Tax-exempts underperformed due to weak technicals and rate volatility with spreads reaching the widest level vs. UST since Nov 2022. Taxable muni spreads also widened due to fiscal related headlines and uncertainty (e.g., DOGE, appropriation cuts, tariffs).

Tax-exempts The start of the weak technical cycle that is expected to run from March 1st through the end of June, resulted in one of the weakest relative performances for March in recent memory. A combination of factors including increased rate volatility tied to tariffs; elevated selling activity tied to mutual fund outflows and tax-loss harvesting; and elevated new issuance pressured yields to higher levels. Tax-exempt yields in 3yr and 10yr maturities moved higher by 14 and 40 basis points (bps), respectively, during March. By contrast, Treasury yields in the same years saw yield adjustments of -10 and 0bps, respectively, during the month. Muni-to-Treasury ratios in 10yrs are now just below 78% at 77.5%, which is the weakest level for this relative valuation metric since December of 2022. (Source: Refinitiv, Bloomberg)

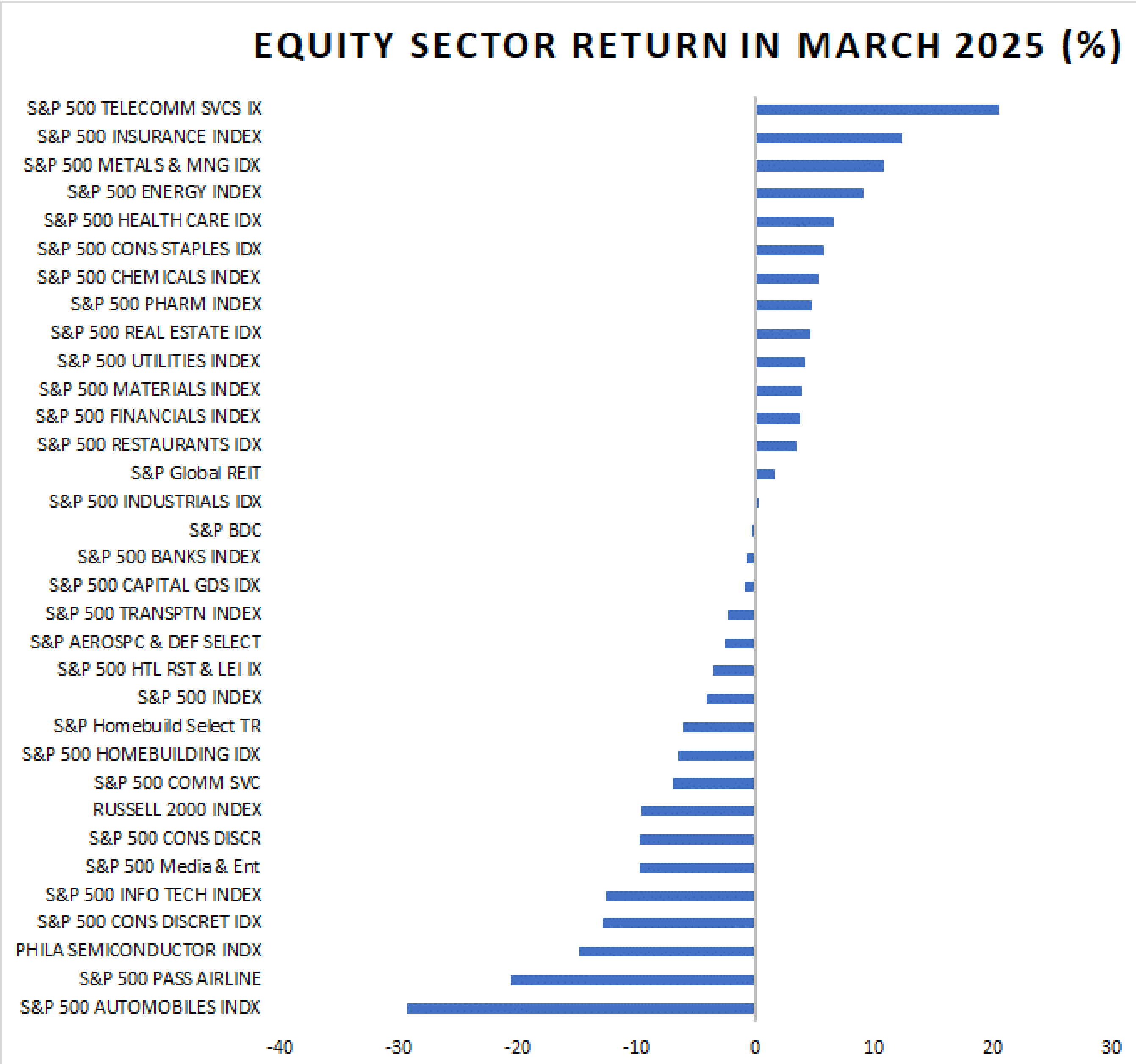
On a tax-adjusted basis for insurance company portfolios (subject to the 21% corporate rate), 10yr spreads to Treasuries during the month widened by 48bps to end the month at -30bps. That's the widest spread since November 28th of 2022. Although relative performance for the sector has resulted in dramatic cheapening relative to Treasuries, the tax-adjusted spread levels remain unattractive for insurance company portfolios, and we continue to advocate for the reduction in exposure to the sector in favor of taxable alternatives. (Source: Refinitiv, Bloomberg)

Taxables Taxable municipals also felt the impact of market volatility from both tariffs and targeted Trump administration cuts in appropriations to higher education institutions. Spreads for the overall sector were pressured wider across the curve by 6 to 10bps. However, over the last two months, 10 and 30yr spreads have exhibited more pronounced weakening, with spreads wider by 19 and 14.5bps, respectively.

We expect the headlines tied to tariffs and the Department of Government Efficiency (DOGE) to continue to impact market volatility and spread levels for the sector over the coming months. The 10 year area of the curve is wide relative to historic levels. (Source: AAM, Bloomberg, Barclays)



U.S. Equity Performance



Source: Bloomberg, AAM