



IG Fixed Income Recap

First Quarter 2025

A review of IG Fixed Income Sectors

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Sector performance during the month as well as valuation

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

	bps	bps	%	%
	OAS	OAS change	Total Return	Excess Return
Bloomberg Aggregate	35	1	2.78	-0.23
IG Corporate Market	93	13	2.31	-0.85
Intermediate	82	11	2.27	-0.29
Long	115	17	2.38	-1.99
A Finance	83	9	2.35	-0.47
BBB Finance	122	17	2.23	-0.69
A Industrials	70	11	2.49	-0.87
BBB Industrials	110	15	2.26	-0.96
BBB-A basis	40	5		
MBS	36	-6	3.06	-0.07
current coupon 30 year	143	9		
ABS	59	16	1.53	-0.29
CMBS	88	7	2.57	-0.07
Local Authorities	65	7	2.77	-0.62
High Yield	342	57	1.00	-1.13
CCCs	666	124	-0.44	-2.52
Euro Agg Corporate	96	-5	-0.01	0.48
EM USD	234	16	2.34	-0.63
IG	110	5	2.78	-0.31
HY	439	42	1.60	-1.18
Asia	128	7	2.50	-0.07
Latin America	347	15	2.33	-0.89

Source (data): Bloomberg; Date range: 12/31/2024 - 3/31/2025

Ticker performance and market graphs

Structured Products summary

Performance recap for the month

Muni summary

Performance recap for the month

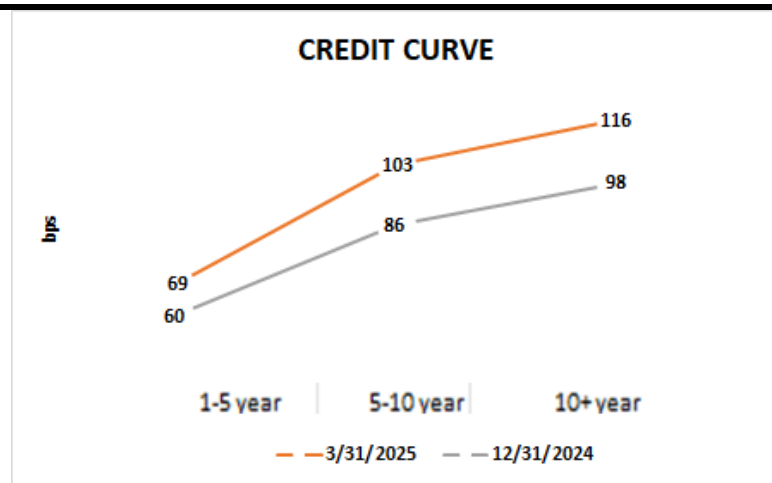
Other Asset Classes

Fixed Income Summary

By Elizabeth Henderson, CFA

Spreads widened as risk assets started to re-price wider with high yield and long duration assets 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 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. Higher coupon mortgages, Credit Card and Auto ABS, and Agency CMBS outperformed with the rate volatility and re-pricing of higher risk assets. Issuance of new bonds remained active in sectors such as Corporates, CMBS and ABS, a healthy sign of market access.

IG Fixed Income Recap



Corporate Market

Corporate spreads widened 14 bps across the curve in the first quarter, with the short end outperforming as growth concerns were priced into the curve. BBB spreads widened more than As, but only 5bps in Industrials, leaving them historically rich. Cyclical sectors (e.g., Autos) and BBB Financials underperformed due to the uncertainty related to tariffs and the economy. Less economically sensitive sectors outperformed. Rating agency actions continued to be positive as upgrades outpaced downgrades.

Looking at sectors relative to broad Industrials as of 3/31/25:

- **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 continued to run higher than historic averages in the first quarter. New issue bonds outperformed secondaries.

The average daily **trading volume** for HG bonds was **much higher than average** (\$40B, 10% higher). 14% of bond trading in March was via portfolio trading vs. 11% earlier this year and 7% in March 2024.

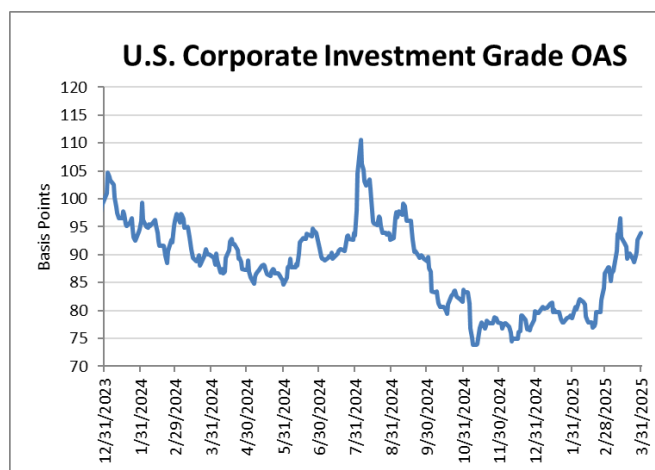
New issue supply is expected to be around **\$100B in April**, a seasonally low month for new issue given the start of earnings season and thus, black-out periods.

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:* Nissan, Viatris, Michael Kors, Celanese
- *Rising stars:* NewsCorp, Levi Strauss, Western Alliance Bank, Vontier, Carnival Corp, Enlink Midstream, Royal Caribbean



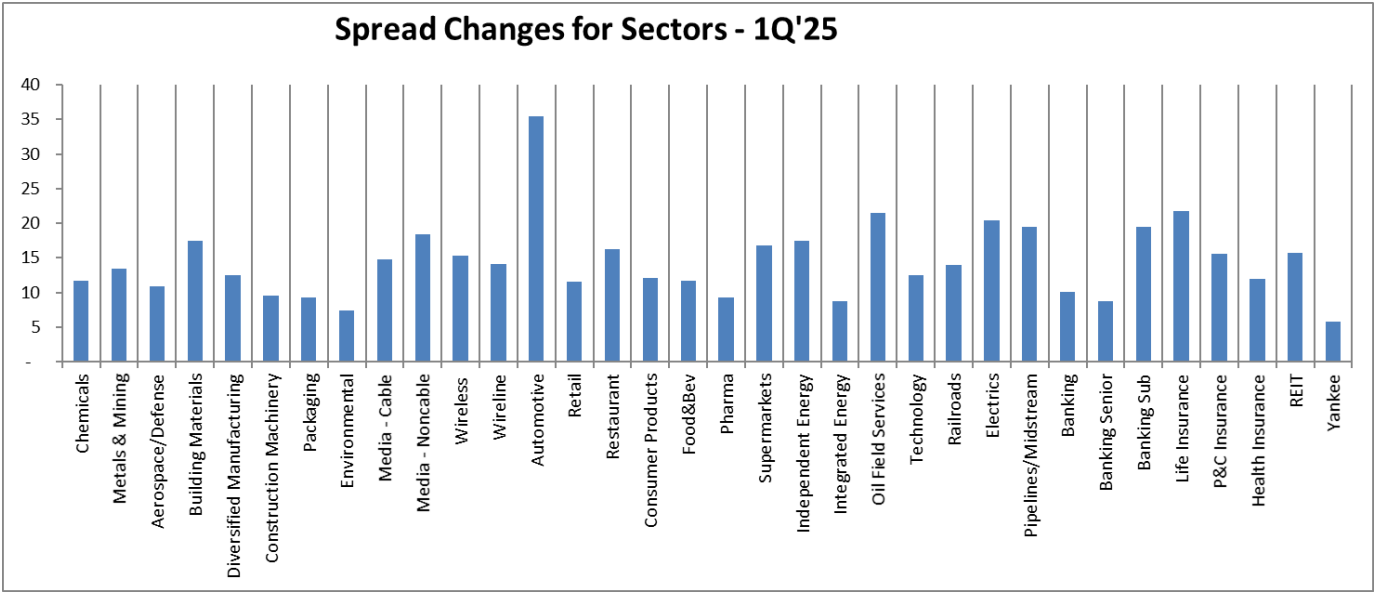
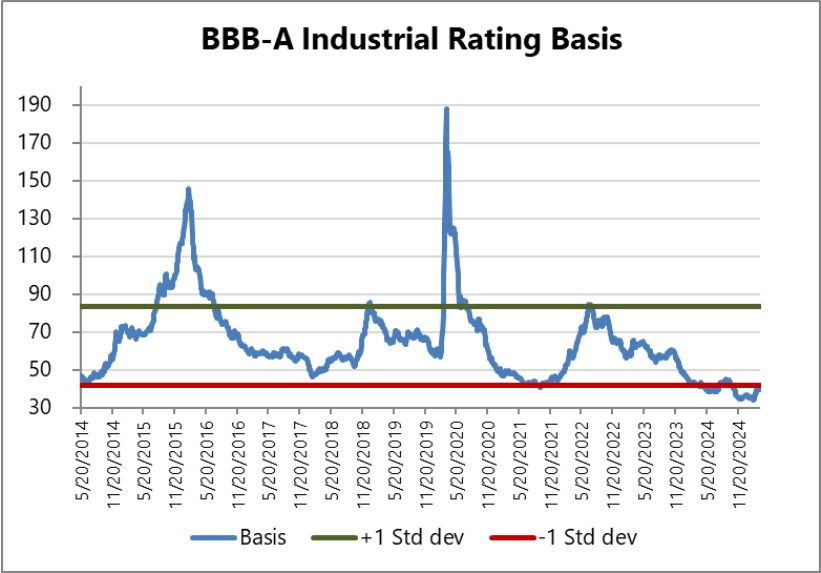
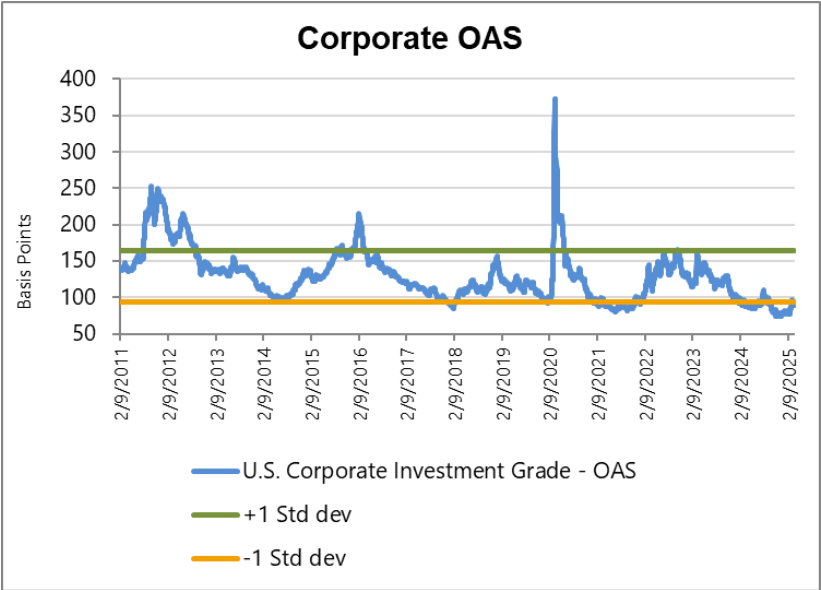
Ticker level performance

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 Bloomberg Corporate Index. AAM's analysts have provided an explanation for issuer performance.

Top 15 tickers	Tickers	Sector	ER (%)	MV%*	Duration Notes
1	SUZANO	Paper	0.6	0.09	3.9 Brazilian paper co; Better than expected results
2	BIDU	Technology	0.4	0.05	3.1 Planned issuance of 10B yuan (offshore)
3	DB	Banking	0.4	0.32	3.5 Earnings in-line; German elections
4	EQT	Independent	0.4	0.05	3.9 Natural gas focused companies rallied
5	CVS	Healthcare	0.8	0.69	7.5 Strong 1Q'25 results
6	SANUK	Banking	0.3	0.10	2.9 Increased capital; potential acquisition interest from NWG
7	BBVASM	Banking	0.4	0.05	4.8 Increased likelihood of Sabadell merger
8	EXE	Independent	0.3	0.05	4.1 Natural gas focused companies rallied
9	INTC	Technology	0.6	0.54	8.8 Strategic options being considered
10	NACN	Banking	0.2	0.05	2.7 Canadian Western Bank acquisition
11	NWG	Banking	0.2	0.27	3.2 Strong earnings; low exposure to motor finance developments
12	JBSSBZ	Food and Beverage	0.3	0.21	7.2 Brazilian meat co; Better than expected results, tender, US listing
13	NAB	Banking	0.1	0.12	2.5 Improved operating performance after challenging 2024
14	TD	Banking	0.1	0.37	3.0 Increased capital through sale of Schwab shares
15	SANTAN	Banking	0.1	0.43	3.8 Considering plans to exit UK banking business
Bottom 15	Tickers	Sector	ER (%)	MV%*	Duration Notes
1	VTRS	Pharmaceuticals	(4.2)	0.12	7.1 Downgraded to BB+; weak qtrly results
2	F	Automotive	(2.2)	0.65	4.0 Weak guidance; Tariffs, risk of downgrade (S&P)
3	FDX	Transportation Services	(4.8)	0.16	9.0 Annual forecast cut by management
4	EIX	Electric	(3.8)	0.40	7.6 LA fires
5	PCG	Electric	(3.5)	0.48	7.9 LA fires
6	GM	Automotive	(1.9)	0.71	4.6 Tariff uncertainty
7	JEF	Brokerage Assetmanage	(2.1)	0.10	5.2 High beta, exposure to leveraged credit
8	SRE		(2.7)	0.32	7.8 LA fires
9	ARESSI	Finance Companies	(1.3)	0.05	3.9 High beta, BDC, sensitive to economic forecasts
10	BCRED	Finance Companies	(1.1)	0.11	3.7 High beta, BDC, sensitive to economic forecasts
11	UAL	Airlines	(1.2)	0.1	3.9 Economic and travel related concerns
12	FSK	Finance Companies	(0.9)	0.05	3.1 BDC; high beta; Low BBB
13	CRHID	Building Materials	(1.8)	0.07	6.5 Economic uncertainty; new issue
14	WBD	Media Entertainment	(2.0)	0.38	7.6 Economic/ad revenue concerns; Event risk (split)
15	OCINCC	Finance Companies	(0.9)	0.08	3.3 BDC; high beta; Low BBB

Source (graph, table data): Bloomberg, AAM

Corporate market graphs (Source: Bloomberg, AAM)



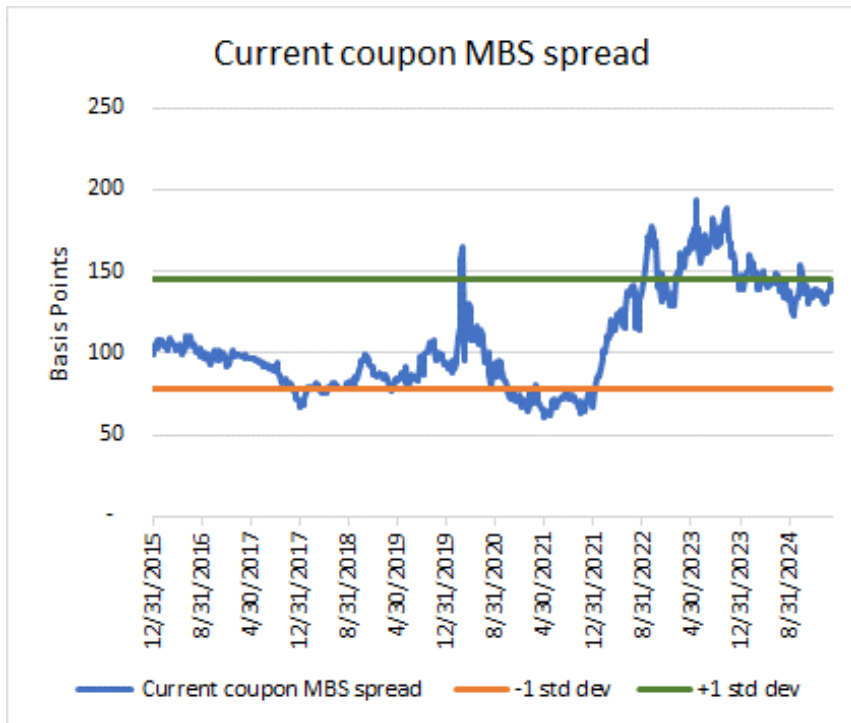
Structured Products

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 -7 bps

The AGY RMBS sector underperformed US Treasuries due primarily to discount 30-year passthroughs. Current coupon MBS spreads were 9 basis points (bps) wider for the quarter. The 30-year current coupon opened near +134 and closed at +143 bps, which is one standard deviation wide of its 10-year mean. Higher coupon (6-7s) 30-years outperformed (15bps) as did 15 year passthroughs. Nonagency MBS outperformed. Technicals were soft given the volatility in the market and fund flows out of Fixed Income.

CMBS ER -7 bps

CMBS performed well in the first quarter, especially Agency CMBS which benefited from its high-quality status (+8bps ER). Non-agency new issue supply was heavy in the first quarter, a positive technical for a market that has been under pressure. Notably, the first quarter of 2025 was the heaviest supply period 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. That said, there were a few deals with higher retail and office exposure where price talk had to be widened to clear.

ABS ER -29 bps

The ABS new issue market continued on its 2025 record pace, 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 outperformed the wildfire bonds significantly (-5 and -6 bps vs. -190 bps respectively).

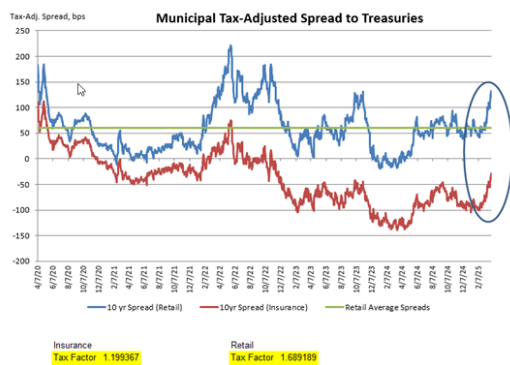
The CLO market underperformed due mainly to spread widening, as risk premiums in credit increased during the quarter. Technicals turned negative as ETF outflows resulted in sales of assets that had outperformed such as CLOs.

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).

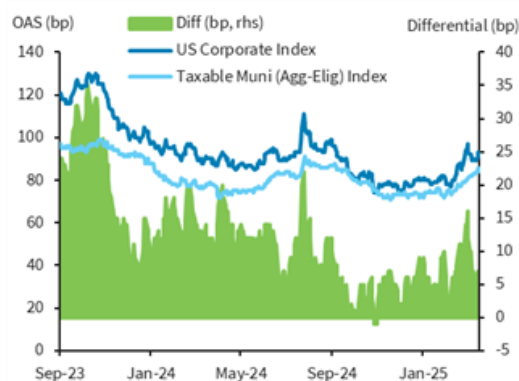


Tax-exempts The start of the weak technical cycle that is expected to run from March 1st through the end of June, resulted in one of the weakest relative performances for March in recent memory. A combination of factors including increased rate volatility tied to tariffs; elevated selling activity tied 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)

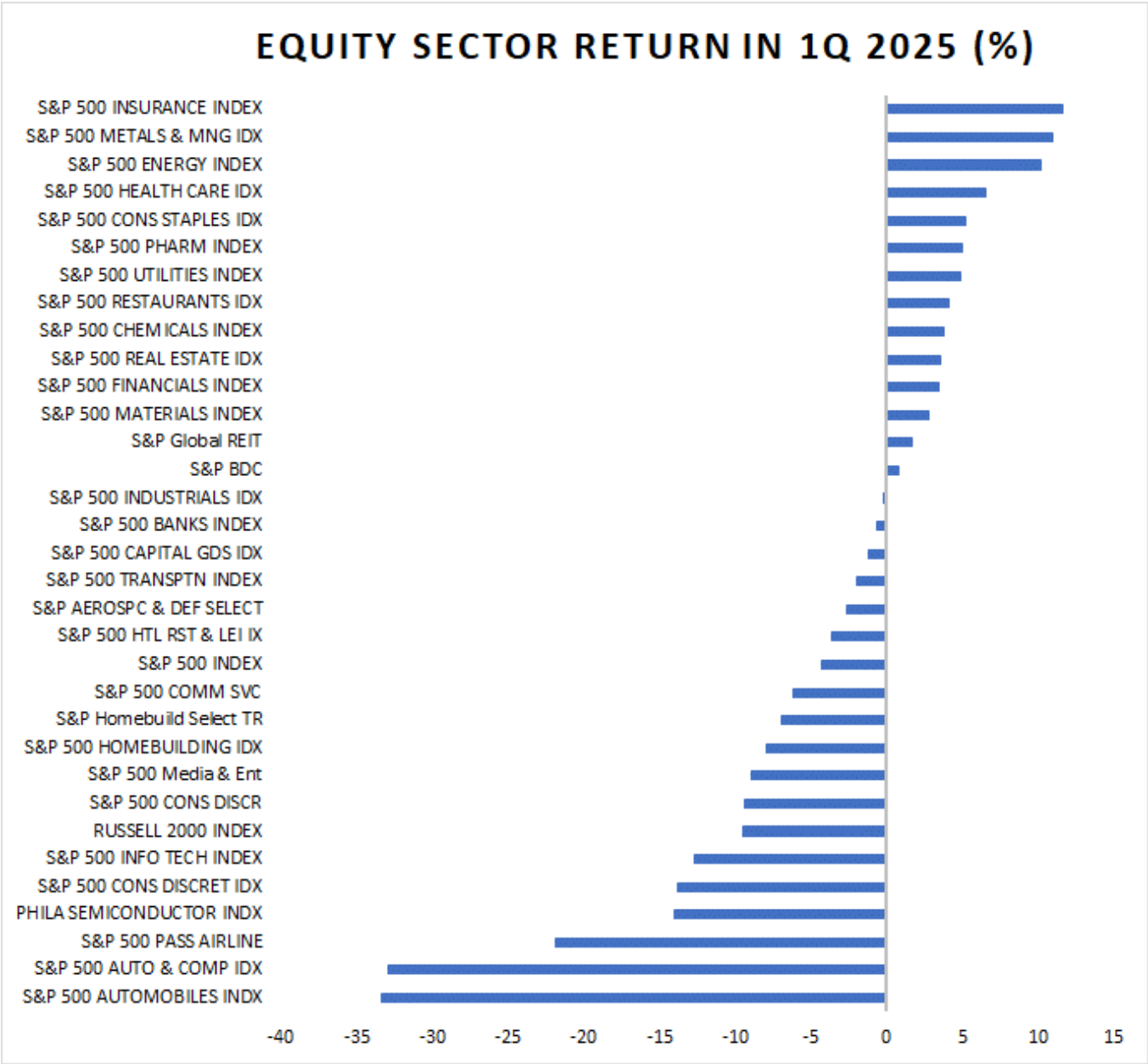
On a tax-adjusted basis for insurance company portfolios (subject to the 21% corporate rate), 10yr spreads to Treasuries during the month widened by 48bps to end the month at -30bps. That's the widest spread since November 28th of 2022. Although relative performance for the sector has resulted in dramatic 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