IG Fixed Income Recap

May 2025

A review of IG Fixed Income Sectors

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Performance recap for the month

Other Asset Classes

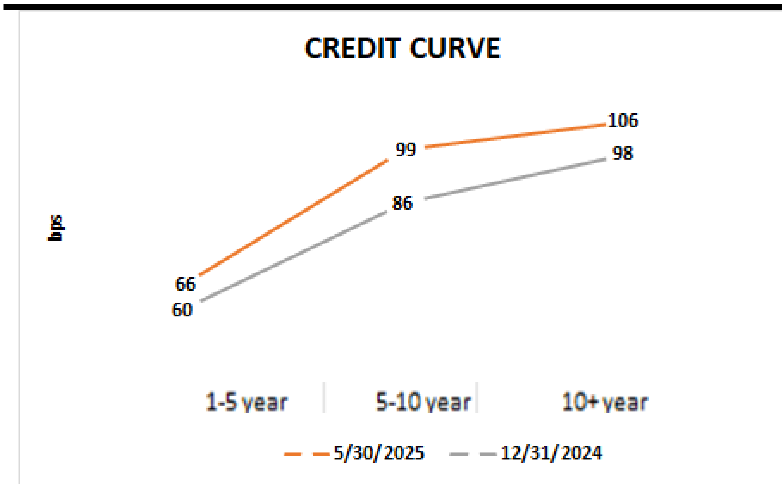
	bps	bps	%	%
	OAS	OAS change	Total Return	Excess Return
Bloomberg Aggregate	34	-6	-0.72	0.38
IG Corporate Market	87	-18	-0.01	1.27
Intermediate	79	-18	0.20	0.91
Long	106	-17	-0.46	2.04
A Finance	79	-15	0.02	0.99
BBB Finance	119	-25	0.40	1.38
A Industrials	62	-15	-0.32	1.16
BBB Industrials	106	-21	0.26	1.58
BBB-A basis	44	-7		
MBS	41	-2	-0.91	0.19
current coupon 30 year	155	0		
ABS	58	-15	0.02	0.38
CMBS	87	-10	-0.26	0.46
Local Authorities	67	-2	-1.16	0.26
High Yield	312	-68	1.68	2.14
CCCs	685	-49	2.43	2.81
Euro Agg Corporate	98	-13	0.54	0.69
EM USD	224	-29	0.67	1.76
IG	105	-17	0.00	1.21
HY	419	-54	1.78	2.67
Asia	132	-20	0.25	1.10
Latin America	316	-35	0.91	2.14

Source (data): Bloomberg; Date range: 4/30/2025-5/31/2025

Fixed Income Summary

By Elizabeth Henderson, CFA

Spreads tightened in all sectors and the Treasury curve shifted higher, as markets priced in less economic risk after a walk-back of US-China tariffs and the potential for a higher deficit after the House of Representatives passed the budget bill. Risk outperformed, duration and credit, as investors saw an opportunity to add yield. New bond issuance in all sectors was active. Despite a positive month for risk assets and higher yields, the US dollar remained flat vs. other currencies. With first quarter earnings season largely over, credit fundamentals remain solid yet the outlook for 2025 is less favorable vs. the start of the year.



Corporate Market

There continues to be greater dispersion at a sector level, as spreads have been volatile since February. Tariff-related risk (positive and negative) continues to be reflected sectors as well as idiosyncratic issues in the Energy and Cable sectors.

Looking at sectors relative to broad Industrials:

- Z scores >1.5: **Chemicals,** Construction Machinery, Health Insurance, Autos, Independent Energy (LTM), Oil Field Services (LTM), Midstream (LTM), ~~Consumer Products~~
- Z scores <-1.5: Metals & Mining, Cable (LTM), Aerospace/Defense (LTM), Environmental, ~~Wireless~~ (LTM), Wireline, Food & Beverage, Pharma (LTM), ~~Railroads (LTM), P&C Insurance (LTM),~~ **Retailers, Consumer Products**

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 May was **higher than expectations** at $150B, **22% higher** than the average May since 2021. New issue bonds underperformed secondaries, tightening 5 bps from issuance to month-end.

The average daily **trading volume** for HG bonds was **higher than average** ($38B, 22% higher).

Net inflows to US IG bond funds at ETFs returned in May.

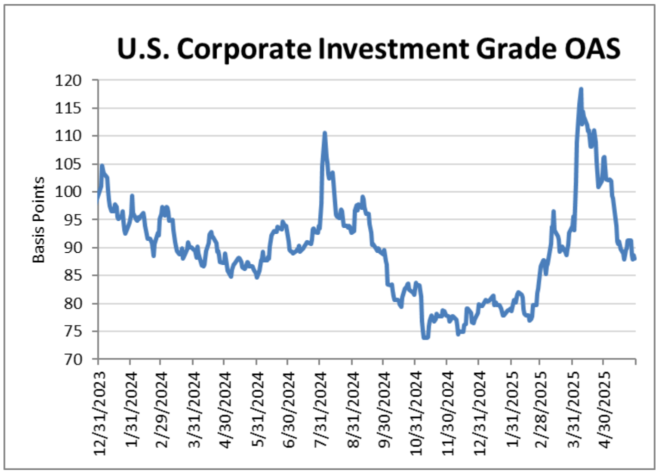
New issue supply is expected to be around **$120B in June**.

The attractiveness of U.S. Corporate yields for foreign investors remains unattractive. Implied forwards do not suggest hedging costs moving materially lower for EUR buyers, but do suggest a decline for Taiwan and Canadian investors.

Sources: AAM, JPM, BofA

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

- *Fallen angels: Warner Brothers Discovery, Whirlpool*
- *Rising stars: Berry Global, Royal Caribbean Cruises, Viper Energy, Block Inc, CareTrust REIT*



Ticker level performance

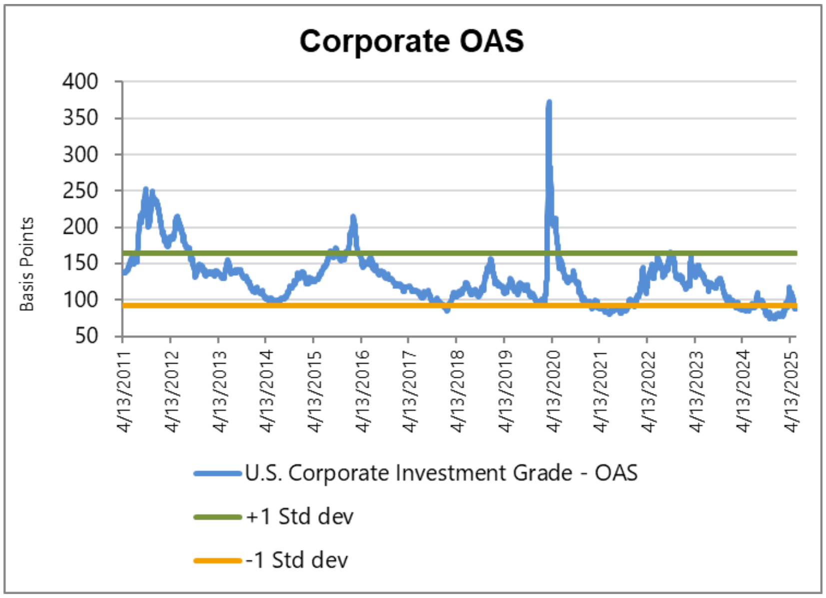
The following shows the top and bottom performing issuers based on 'excess return per unit of duration' for that month. This list excludes those with market values less than 0.05% of the Bloomberg Corporate Index. AAM's analysts have provided an explanation for issuer performance.

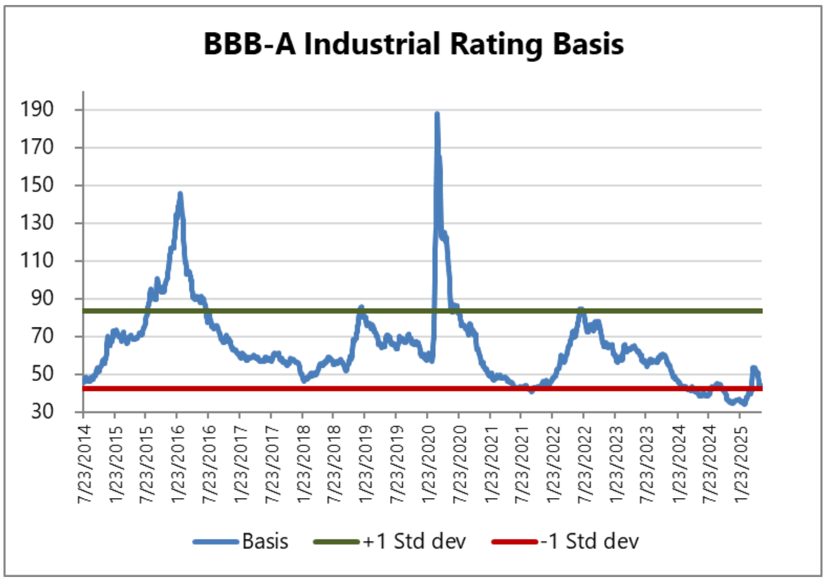
Top 15 tickers	Tickers	Sector	ER (%)	MV%*	Duration	Notes
1	OCINCC	Finance Companies	1.7	0.05	2.7	BDC; BBB high beta
2	OBDC	Finance Companies	1.4	0.05	2.2	BDC; BBB high beta
3	ALLY	Banking	2.0	0.12	3.9	Auto finance; BBB high beta
4	BXSL	Finance Companies	1.2	0.05	2.4	BDC; low BBB high beta
5	CHTR	Cable Satellite	4.5	0.66	9.3	M&A (Cox Communications) causing a more conservative capital strategy
6	RRX	Diversified Manufacturi	2.0	0.05	4.2	Reaffirmed '25 results due to tariff mitigation plans (supply chain realignment, production relo, cost cuts)
7	ARCC	Finance Companies	1.5	0.10	3.1	BDC; BBB high beta
8	BCRED	Finance Companies	1.4	0.08	3.1	BDC; BBB high beta
9	F	Automotive	1.7	0.66	4.0	Bounce back from tariff noise.
10	EQT	Independent	1.3	0.10	3.4	High beta independent rebound
11	FSK	Finance Companies	1.2	0.05	3.0	BDC; BBB high beta
12	DVN	Independent	3.0	0.10	7.7	High beta independent rebound
13	OXY	Independent	2.3	0.22	6.2	High beta independent rebound
14	AL	Finance Companies	1.0	0.15	2.8	Better than expected results
15	JEF	Brokerage Assetmanage	1.9	0.10	5.1	Broker; BBB high beta

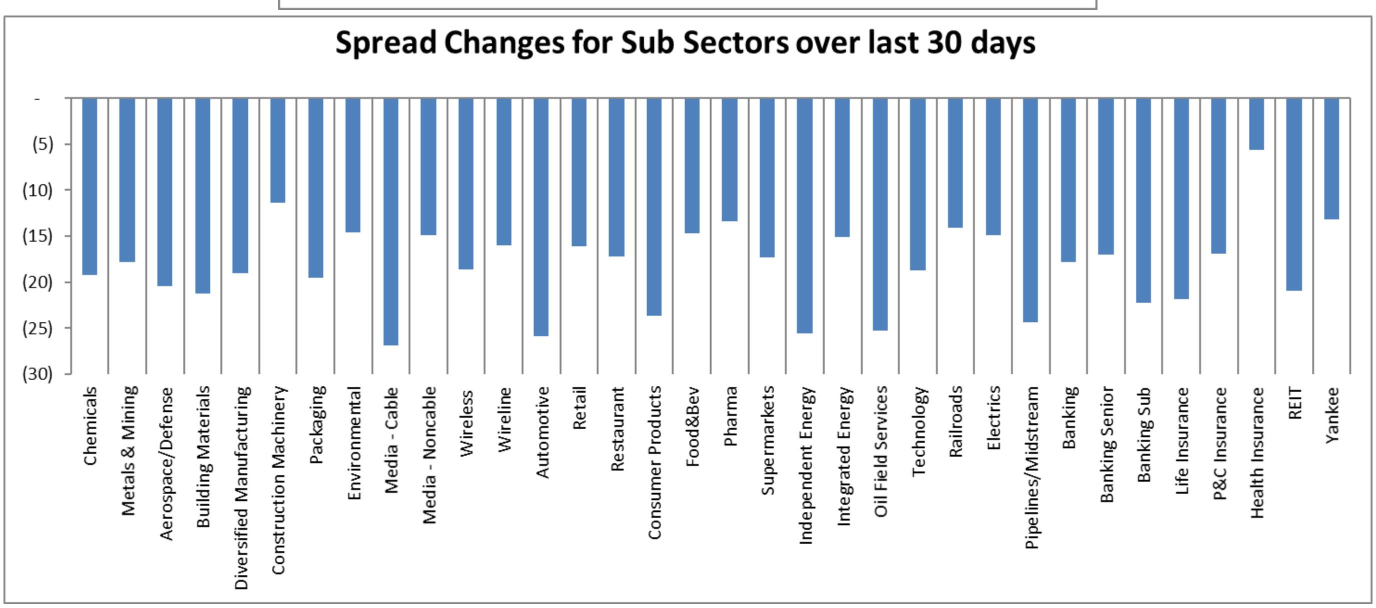
Bottom 15	Tickers	Sector	ER (%)	MV%	Duration	Notes
1	WBD	Media Entertainment	(0.8)	0.35	7.1	S&P downgrades to BB+
2	UNH	Health Insurance	0.2	0.93	9.2	Weak earnings, removed guidance, management changes
3	GOOGL	Technology	0.4	0.19	9.7	New issue
4	KHC	Food and Beverage	0.5	0.22	8.2	Talking about unlocking shareholder value; Could impact credit picture
5	BCECN	Wirelines	0.7	0.07	10.9	S&P places BBB rating on Negative Outlook despite dividend cut and JV partner for US fiber plan
6	AMXLMM	Wireless	0.7	0.12	8.4	Telecom Bill in Mexico, if passed, could increase competition; Mexico is ~1/3 of AMX's EBITDA
7	CL	Consumer Products	0.6	0.05	6.7	Solid credit, high quality didn't tighten as much
8	LLY	Pharmaceuticals	0.9	0.37	9.3	Solid credit, high quality didn't tighten as much
9	TAP	Food and Beverage	0.7	0.06	7.1	Disappointing 1Q, lowered guidance to a decline in low single digits
10	TRV	P&C	1.2	0.10	11.7	High quality, didn't tighten as much
11	JNJ	Pharmaceuticals	0.8	0.39	7.7	Solid credit, high quality didn't tighten as much
12	PPL	Electric	1.0	0.12	9.4	Defensive utility
13	EIX	Electric	0.8	0.41	7.3	Wildfire headlines
14	ELV	Health Insurance	0.9	0.37	8.9	UNH fallout, sector underperformed
15	HES	Independent	0.7	0.08	6.9	Trades in sympathy with low beta CVX in anticipation of merger

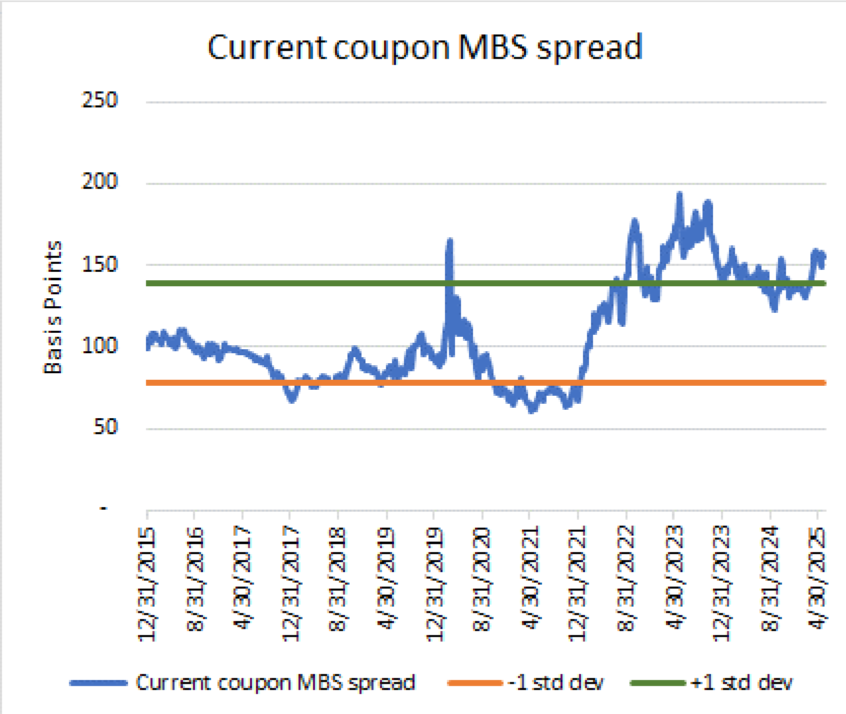
Source (graph, table data): Bloomberg, AAM

Corporate market graphs (Source: Bloomberg, AAM)









Structured Products

By Chris Priebe and Mohammed Ahmed

Agency MBS lagged with low coupons underperforming, as CMBS and ABS spreads tightened

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 19 bps

Current coupon MBS spreads were 5_basis points tighter on the month, closing at +154. The AGY MBS market did see higher 30-year coupons in 6.00's and 6.50's produce over +44 and +37 bps of performance versus UST in May. Low coupon 30 year 2.00's through 30 year 3.00's were near flat in excess returns and were the worst performers respectively. The GSE headlines ultimately had no effect on the MBS market despite intermittent volatility.

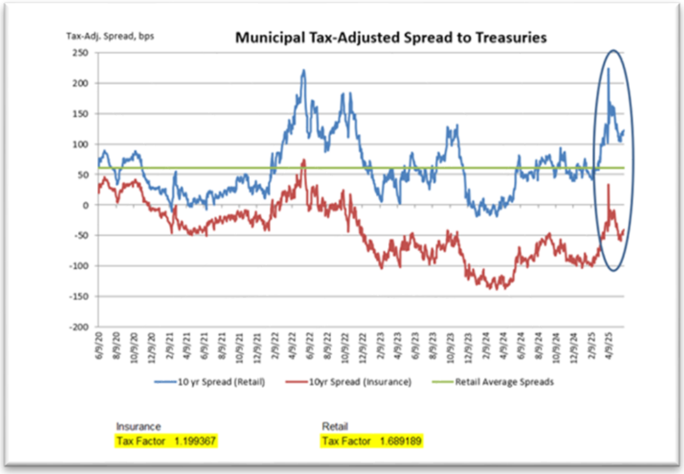
CMBS ER 46 bps

New issue supply was just under $15 billion for the month of May. CMBS spreads aggressively tightened in May versus the volatile April tariff headline infused month. CMBS spreads over the last month have tightened around 15 bps on some 8+ year last cash flow deals. CMBS 5-year spreads also tightened into the low 90s to mid-80's spread on certain deals. During the month of May, new issue conduit spreads converged with secondaries, as new issue spread concessions narrowed with healthy demand across all new issue transactions. The recent transactions have been single asset/single borrower transactions across various property types and smaller conduit deals.

ABS ER 38 bps

2025 ABS new issue volume is approximately 8.9% lower year-over-year at roughly $143.2 billion YTD. ABS May new issue supply was near $34.3 billion. May's 2025 heavy deal flow was just shy of the of this year's monthly high supply issuance set in January. The market saw a number of first-time issuers in Autos and Equipment offerings with wider spreads. We also saw many on-the-run issuers in Autos hit the markets that had value to secondary offerings. The large number of deals issued saw heavy oversubscription across all tranches at tighter levels. The ABS-Utility sector gained a little from the wildfire widening earlier in the year and had a nice 66 bps of excess return, yet are still lagging the Index by 147 basis points. The Utility index excess return is at -161 bps YTD versus -14 bps on the overall ABS index. CLO issuance was near $20.40 billion in the month of May with spreads tighter than April, outperforming fixed alternatives.

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



Municipal Bonds

Source: Greg Bell, CFA, CPA

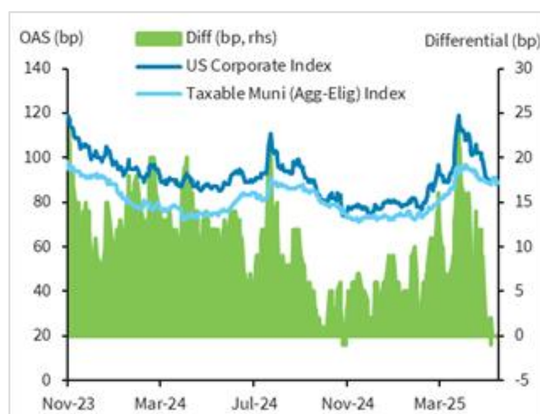
Tax-exempts had a better tone in May due to improved technicals but face headwinds in June. Taxable muni spreads contracted in June but remain elevated given headline risk related to announced cuts or freezes in federal appropriations to higher education institutions.

Tax-exempts Technicals for the tax-exempt sector exhibited a much better tone during May, which helped relative valuations improve sharply. A combination of increased reinvestment flows and mutual fund inflows were the largest contributors of the stronger demand profile. Mutual fund inflows produced a weekly average of $780M during the month, after struggling with outflows of $1.06B per week during April. Investment flows from coupon/calls/maturities for May increased by 58% to $49B versus April. The stronger demand helped 10yr muni-to-Treasury yield ratios improve by 5 percentage points to end the month at 75.6%.

Looking forward into June, the sector is facing substantial headwinds from a new issue calendar that's expected to produce a total of over $55B for the month. This heavy supply, along with elevated bid list activity that's averaged $1.4B per day over the last 30 days, may provide challenges for the market, and we could see relative valuation metrics pressured to weaker levels. However, tempering some of the weaker supply technicals will be another solid increase in seasonal reinvestment flows that are expected to increase in June by another 46% to $72B on a month-over-month basis. (Source: BofA, Bond Buyer)

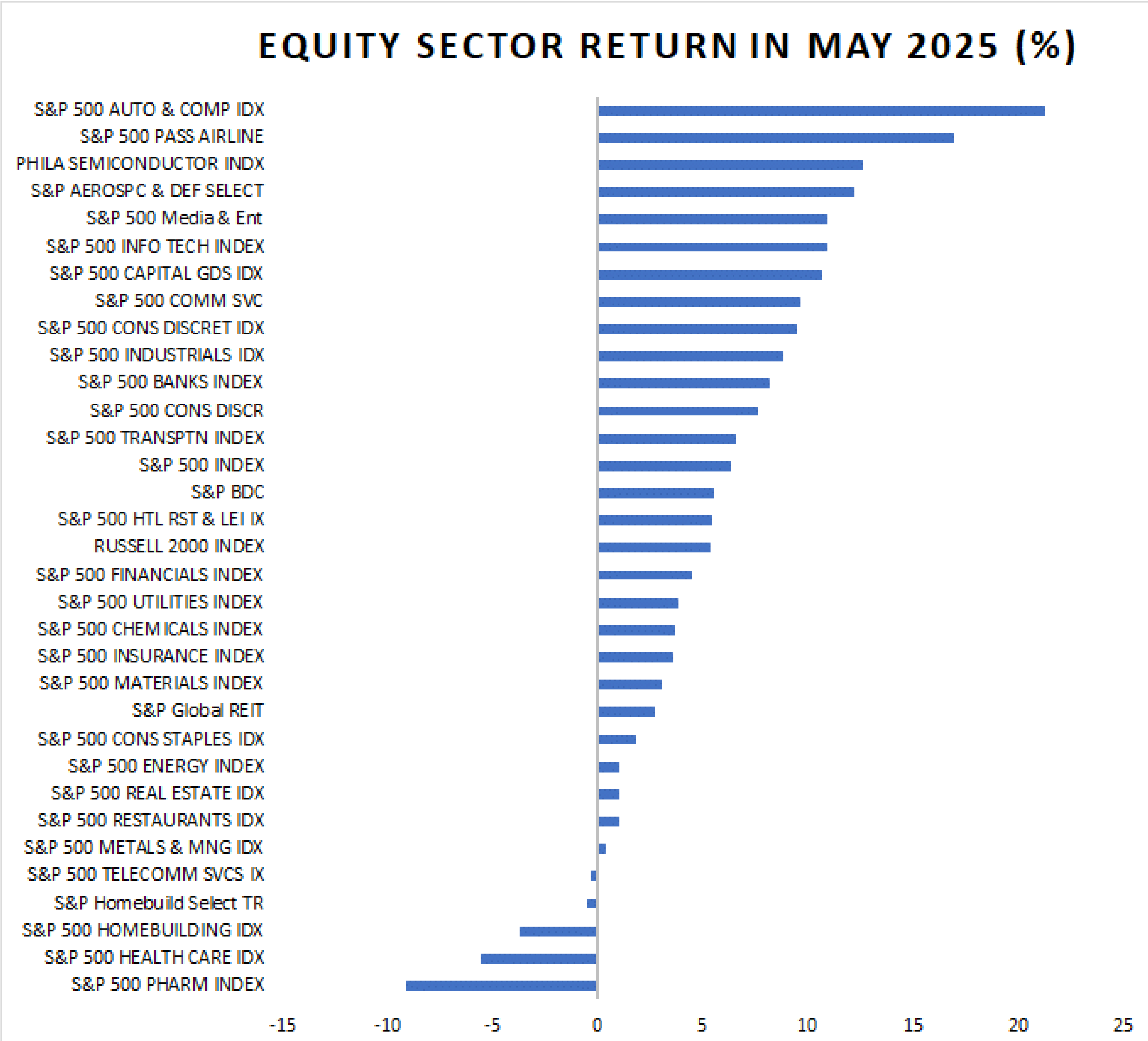
The 10yr tax-adjusted Treasury spread comparison between 'AAA' tax-exempts and similarly-rated taxable munis continue to favor taxable munis by a yield advantage of 93bps. (Source: AAM, Bloomberg, Refinitiv)

Taxables Taxable muni spreads contracted across the curve, as volatility in the market receded from April's elevated levels. However, spreads overall remain elevated as the sector continues to be pressured by headline risk related to announced cuts or freezes in federal appropriations to higher education institutions.



Spreads during the month moved tighter by 2 to 18bps in maturities 10yrs and shorter, while spreads in the 30yr area were essentially unchanged during the month. Even with the stronger performance, we find that the sector spreads remain historically wide. We continue to expect that the headlines tied to tariffs and potential federal appropriation cuts are likely to continue to pressure market volatility and spread levels for the sector over the coming months. (Source: AAM, Bloomberg, Barclays)

U.S. Equity Performance



Source: Bloomberg, AAM