Market Commentary Blog

Cash Flow *and Carey*

Robert Carey, CFA
Chief Market Strategist

Peter Leonteos
Market Strategist

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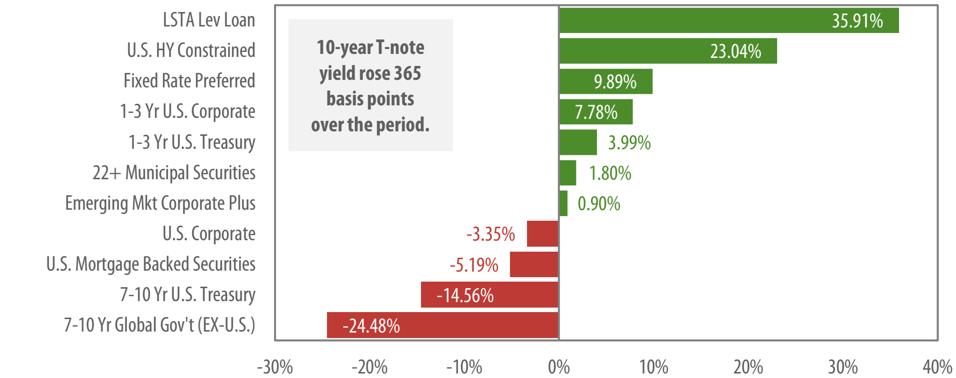
How Bonds Have Fared Since 8/4/20

Bond Index Total Returns (8/4/20 – 12/6/24)



Source: Bloomberg. **Past Performance is no guarantee of future results.** Index returns reflect the performance of ICE BofA Indices.

View from the Observation Deck

The yield on the 10-year Treasury note (T-note) sat at an all-time low of 0.51% on 8/4/20, according to data from Bloomberg. The 10-year T-note's yield increased substantially since then, climbing to 4.99% on 10/19/23 (most-recent high) before settling at 3.62% on 9/16/24 (most-recent low). As of 12/6/24, the yield on the 10-year T-note yield stood at 4.15%, representing an increase of 365 basis points (bps) from its all-time low. To view the last post we did on this topic, click here.

Seven of the 11 debt categories presented in today's chart posted positive total returns over the period.

As many investors may be aware, bond yields typically move in the opposite direction of prices. In our previous post on this topic, we noted that the surge in the 10-year T-note's yield coincided with a dramatic sell-off in the longer-duration fixed income categories we tracked. Today's chart reveals that many of those fixed income asset classes have seen significant price recoveries since then. Notably, seven of the 11 debt categories represented in the chart exhibit positive total returns, up from just two in our last post.

Inflation, as measured by the trailing 12-month rate of change in the Consumer Price Index (CPI), stood at 2.6% at the end of October 2024, down from 3.2% in October of last year and 6.5 percentage points below its most recent high of 9.1% in June 2022.

Recent disinflation, coupled with a weakening U.S. labor market and softening global growth prompted the Federal Reserve ("Fed") to reduce the federal funds target rate (upper bound) by a total of 75 bps over their last two meetings. That said, inflation remains above the Fed's target of 2.0%, and there are concerns that it may not be entirely under control. In the U.S., consumer sentiment surged to a reading of 74.0 in December 2024 (preliminary results), up from its most recent low of 50.0 in June 2022. Holiday sales data paints a picture of a consumer willing to spend (and give!) in increasingly larger sums. Adobe Analytics reported that consumers spent a record $10.8 billion and $13.3 billion shopping online during Black Friday and Cyber Monday this year. Meanwhile charitable donations on Giving Tuesday (the Tuesday following Thanksgiving) surged by 16% year-over-year to a record $3.6 billion in 2024.

The total returns for intermediate-term U.S. and global government bonds remain sharply negative over the period captured in the chart.

The strength in the U.S. dollar likely had a negative impact on the performance of foreign bonds, in our opinion. The U.S. Dollar Index (DXY) increased by 13.57% over the period indicated in today's chart, according to data from Bloomberg. The U.S. Dollar Index stood at 106.06 as of the close of trading on 12/6/24. Remarkably, the U.S. Dollar Index has closed above the 100 mark in all but four trading sessions since 4/13/22.

Takeaway

From our perspective, the fixed income environment has improved dramatically since our last post on this topic just over 13 months ago. Propelled by the combination of disinflation and easing monetary policy, 7 of the eleven indices we track posted positive total returns since 8/4/20, up from just two in our last post. Many investors making an allocation to fixed income do so for the yield these securities provide. Notably, given recent disinflation, the 10-year T-note has offered investors a positive real yield (yield minus inflation) for 17 consecutive months (thru 10/31/24). That said, it is possible that inflation, which remains above the Fed's 2.0% goal, could march steadily higher. Persistent consumer spending and a stronger than expected U.S economy form the basis of this thesis. As of 12/6/24, the federal funds rate futures market revealed that investors expect just two interest rate cuts totaling 67 bps through the first six months of next year, down from four cuts totaling 100 bps at the end of October. We will update this post as new information becomes available.