Market Commentary Blog

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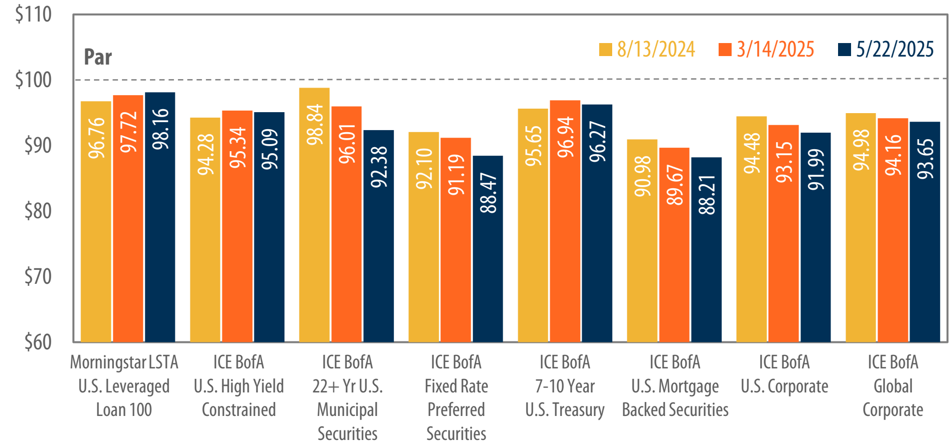
A Snapshot of Bond Valuations

Par Weighted Price of Bond/Income Indices



Source: Bloomberg, Bank of America. **Past performance is no guarantee of future results.**

View from the Observation Deck

Today's blog post is intended to provide insight into the movement of bond prices amidst the current investment climate and prevailing interest rate policy. Aside from the most recent data, other dates in the chart are from prior posts we've written on this topic. Click here to view our last post in this series.

Seven of the eight bond indices we track suffered price declines since our last post.

Echoing our last post, fixed income securities suffered losses amidst increasingly disruptive tariff policies and economic deterioration. Rate cut expectations reveal the difficulty investors have found in pricing in this data. As of 5/22/25, federal funds rate futures indicated that investors expect just two interest rate cuts through the end of 2025, down from greater than four cuts just weeks prior on 4/30/25.

Prices are increasing at a slower rate.

The pace of U.S. price increases continued to stall in April. Inflation, as measured by the trailing 12-month rate of change in the Consumer Price Index, stood at 2.3% in April 2025, its lowest level since February 2021 when it stood at 1.7%. While this could be viewed as a catalyst to further interest rate cuts, there are other factors at play. In commentary after its most recent meeting, the Federal Reserve ("Fed") noted that inflation remains above the Fed's target rate of 2.0% and indicated that a resilient labor market contributed to the Fed's decision to maintain current interest rates.

Takeaway

Valuations decreased in all but one of the eight fixed income indices in today's chart between 3/14/25 and 5/22/25. We believe declining bond valuations continue to reflect reduced certainty in the current investment climate. As told by futures market data, the likelihood of multiple, significant reductions to the federal funds target rate diminished significantly in May. U.S. trade policy continues to be a wildcard, causing investors much difficulty in planning for the near-term. Given these factors, perhaps it is unsurprising that Moody's reduced the U.S. credit rating from Aaa to Aa1 on 5/16/25, marking the first time the three largest credit rating agencies simultaneously rated U.S. debt below the top tier. That said, we see little reason for this to alarm investors beyond the short-term. Keep in mind that U.S. debt continued to be seen as one of the most liquid and safest assets in the world despite downgrades by S&P back in 2011 and Fitch in 2023. We will continue to update this post throughout the year.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The Morningstar LSTA U.S. Leveraged Loan 100 Index is a market value-weighted index designed to measure the performance of the largest segment of the U.S. syndicated leveraged loan market. The ICE BofA U.S. High Yield Constrained Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. The ICE BofA 22+ Year U.S. Municipal Securities Index tracks the performance of U.S. dollar denominated investment grade tax-exempt debt publicly issued by U.S. states and territories, and their political subdivisions with a remaining term to maturity greater than or equal to 22 years. The ICE BofA Fixed Rate Preferred Securities Index tracks the performance of investment grade fixed rate U.S. dollar denominated preferred securities issued in the U.S. domestic market. The ICE BofA 7-10 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government with a remaining term to maturity between 7 to 10 years. The ICE BofA U.S. Mortgage Backed Securities Index tracks the performance of U.S. dollar denominated fixed rate and hybrid residential mortgage pass-through securities publicly issued by U.S. agencies in the U.S. domestic market. The ICE BofA U.S. Corporate Index tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market. The ICE BofA Global Corporate Index tracks the performance of investment grade corporate debt publicly issued in the major domestic and Eurobond markets.