Logan Fixed Income

LOGAN FIXED INCOME MARKET COMMENTARY
Q3 | 2024 REVIEW

MARKET ENVIRONMENT

The decision to cut the Fed Funds rate by 50 bp was motivated by Fed participants' realization maybe they should have cut in July. It appears they went an extra quarter point in September to catch policy up to where it should be, and they can cut at a more measured pace going forward. In other words, it looks like the market is pricing an overly aggressive pace for the remaining two meetings this year.

Although investors assigned the chances of a 50 bp rate cut at approximately 50%, we have always assumed the FOMC needs to maintain credibility after claiming inflation was transitory in July 2021. If the unemployment aspect of the Fed's mandate stabilizes, we could see an increased focus on the inflation mandate. The Fed's never-ending fight to keep these two mandates in balance will continue.

The 50 bp move was a sign of policymakers' "commitment not to get behind" as the labor market weakens and inflation cools.

Over the last few weeks, we have been discussing the inflationary impact of labor strikes. Headlines have included groups and organizations such as the United Auto Workers, Boeing, American Airlines, and teachers' unions.

Dock workers are next, scheduled to strike October 1.

PORTFOLIO REVIEW

Treasuries

Treasuries have generated gains for five months, the longest run since 2010 (source: Bloomberg). The yield curve rallied across every tenor within the U.S. Treasury curve, with the largest moves occurring in the 1-to-3-year part of the curve, the most sensitive to moves by the FOMC.

Corporates

The rates paid by investment-grade corporate borrowers have tumbled to a 2-year low of around 4.8%, down from as much as 6.4% last October. Spreads remain quite low on both a quarter-to-date and year-to-date basis. The sector has been additive to performance and does not reflect an economy on the brink of a recession.

Municipals

Forward calendar monthly issuance stands at $16 billion, which is well above the $10 billion monthly average figure. September's supply increase and reinvestment decrease may further impact generic trading spreads. State and local governments are motivated to complete borrowing for infrastructure and other projects before a new president and Congress add the potential for market volatility.

Oil
Pump prices are one of the most visible measures of inflation for voters.

Oil fell to the lowest level in more than a year as persistent concerns about weakening demand overshadowed the potential for OPEC+ to delay supply increases. OPEC+ has recently been pumping more than 600,000 barrels a day above their self-imposed limits. This oversupply will continue to cap oil prices over the medium term.

PORTFOLIO OUTLOOK

The range of end-2024 fed funds projections within the FOMC spans from no more cuts this year to 75bp of additional cuts over only two more meetings, there is a notable lack of consensus at the Fed about how the economy and rates will progress by mid-December.

We see fixed income returns moderating into year end as the bond market is reflecting terminal levels—barring the unexpected from geopolitics or our election.

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Actual results, performance, or achievements may differ materially from those expressed or implied. Information is based on data gathered from what we believe are reliable sources. It is not guaranteed as to accuracy, does not purport to be complete and is not intended to be used as a primary basis for investment decisions. It should also not be construed as advice meeting the particular investment needs of any investor. ***Past performance does not guarantee future results.***

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

U.S. TREASURY YIELDS	12/31/2023	3/31/2024	6/30/2024	9/30/2024	YTD Change
2 YR	4.25%	4.62%	4.72%	3.64%	0.61%
3 YR	4.01%	4.41%	4.52%	3.56%	0.45%
5 YR	3.85%	4.22%	4.34%	3.56%	0.29%
7 YR	3.88%	4.21%	4.34%	3.66%	0.22%
10 YR	3.88%	4.20%	4.37%	3.79%	0.09%
20 YR	4.19%	4.45%	4.54%	4.18%	0.01%
30 YR	4.70%	4.34%	4.64%	4.13%	0.57%
10S MINUS 2S	-37.0bps	-42.0bps	-35.0bps	14.5bps	

Source: FactSet