ALTMAN
INVESTMENT MANAGEMENT

FIXED INCOME STRATEGY HIGHLIGHTS

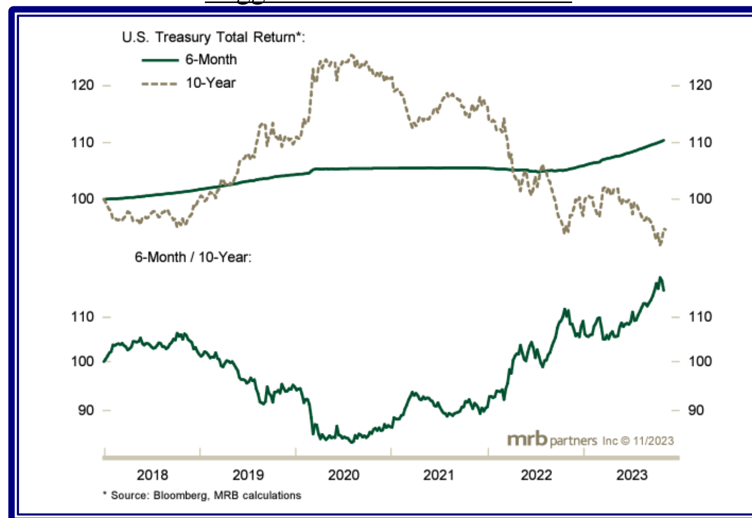
NOVEMBER, 2023

IN BRIEF: The U.S. Fixed Income Markets and Strategy

The opposing forces of tighter fiscal policy and moderating inflation are containing interest rates in the area of 4-5%. Pressuring rates towards the lower end of the range is market anticipation for a Fed reversal in policy from its current tightening phase. At the October meeting however, while reaffirming his commitment to bring inflation back down to its 2%target level, Chairman Powel reiterated inflation is still too high and positive economic data so far is not enough to conclude the recent deceleration is sustainable. Ideally, he'd like to see a softening in the labor market and slower economic growth before the committee would consider unwinding its current policy. The soaring federal deficit alongside record debt levels supports the case for higher yields for longer. Additionally, the Fed is also continuing to reduce its bond buying program. When taken together, the resulting issuance of U.S. Treasuries from higher funding needs would add to overall supplies, pushing rates higher. So, for now, we think yields have the potential to go higher rather than lower.

After the substantial run up in bond yields since April, it is not surprising that bonds reversed here - particularly given some the weaker than expected job growth report this past month. However, it is our opinion that it is too early to call an end to the bond bear market at this stage. While bonds remain in oversold territory, the 40-week average is still in an uptrend. Additionally, as we have stated above, investor optimism for 75 basis points in Fed rate cuts next year seems overly optimistic.

Multiple Years of Short-Term Treasury Out-Performance
Suggest Reversion to the Mean



Source: MRB Partners and Bloomberg

As we have discussed in other commentary this month, we are not of the view that the U.S. economy is in its late cycle and bond volatility is likely to continue with the potential for higher rates to come. This is especially true as the market adjusts its overly optimistic expectations for Fed rate cuts in the new year. Additionally, the out-performance of short-term Treasuries vs the 10-year Treasury bond emphasizes opportunities are on the horizon to begin to extend duration modestly into the 3–5-year range.

APPENDIX:

Fixed Income Sector Performance
YTD as of Sept 2023

	Rating	Yield	Spread	Duration Mod Adj	Maturity	Price	Trailing 12m TR
Treasury (Intermediate)	Aaa/AAA	4.86%	N/A	3.65	3.92	$91.25	0.30%
Agency	Aaa/AA+	5.22%	0.36%	2.71	3.04	$95.27	1.23%
MBS	Aaa/AAA	5.63%	0.77%	5.8	8.07	$84.32	-2.34%
Municipal	AA2	3.93%	-0.93%	3..35	4.71	$101.88	-0.73%
Corporate (Intermediate)	AA2	5.24%	0.38%	5.31	5.99	$87.98	0.27%
High Yield	B1	8.89%	4.03%	3.78	4.88	$87.81	5.97%

Source: Bank of America Global Research and Bloomberg

10 Year Generic Treasury Yield

Source: Bloomberg and Altman Investment Management, LLC

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