

# Fourth Quarter 2023 Bond Market Commentary

The economy, interest rates and future investment returns are in the hands of the Federal Reserve Board (Fed). Following the release of the October inflation data, both the stock and bond markets staged powerful rallies. CPI peaking at 9.1% in June had fallen to 3.2% by October. In December, additional fuel was added to the fire as several Board Governors weighed in and signaled the rate hikes are done, and rate cuts may be in the cards in early 2024.

The impact of these events brought 10-year U.S. Treasury rates down 111 basis points, from 5.0% in October to 3.89% at year-end. The impact was reflected across the yield curve, from 2-year to 30-year bonds.

Performance across the bond market was positively impacted. What was looking to be a record losing year in bonds in October reversed and produced positive year-end annual returns. Specifically, year to date returns through October 19 ranged from 3.6% for 1-year U.S. Treasury Bills to -14.2% for 30-year U.S. Treasury bonds. From that point to year-end, returns were 1.4% for 1-year U.S. Treasury Bills to 20.3% for 30-year U.S. Treasury bonds. This 2-month period marks the best performance in the bond market in decades.

The corporate bond sectors of the bond market provided higher annual returns than the U.S. Treasury markets. Additionally, lower quality credit produced higher annual returns than higher quality credit.

The question remains, what will the Fed do in 2024? The markets have priced in as many as 6 interest rate cuts for the year, beginning in March. That seems unlikely to us. Many Fed officials have continued to maintain a consistent dialog of interest rates remaining higher for longer. It all is dependent on inflation, the economy, labor markets and geopolitical events. The bottom line is the Fed must get inflation to their 2% target soon. Failure to accomplish this will reverse the positive momentum and unwind some of the gains that have been previously generated.

Projecting market expectations is highly uncertain. Fed action, inflation, deficits, government and consumer debt, wars, and elections all have impacts on our economy and the markets. Our job is to build portfolios for our clients to meet their investment objectives based on our experience and knowledge. We will adjust as events unfold.

Index Returns (%) As of 12/31/2023	Performance Period		
	3 Month	6 Month	1 Year
<b>Bloomberg U.S. Treasury Intermediate</b>	3.99	3.15	4.28
<b>Bloomberg Govt/Credit Intermediate</b>	4.56	3.69	5.24
<b>Bloomberg Intermediate Aggregate</b>	5.50	3.51	5.18
<b>Bloomberg U.S. Treasury</b>	5.66	2.43	4.05
<b>Bloomberg Govt/Credit</b>	6.63	3.44	5.72
<b>Bloomberg Aggregate</b>	6.82	3.37	5.53
<b>Bloomberg U.S. Treasury 20+ Year</b>	13.39	-1.34	2.66
<b>Bloomberg Corporate</b>	8.50	5.15	8.52
<b>Bloomberg Corporate Intermediate</b>	5.86	4.84	7.29
<b>Bloomberg Corporate High Yield</b>	7.16	7.66	13.45
<b>Bloomberg Credit AAA</b>	9.76	2.84	6.95
<b>Bloomberg Credit AA</b>	8.29	3.68	7.02
<b>Bloomberg Credit A</b>	8.21	4.70	7.74
<b>Bloomberg Credit BAA</b>	8.78	5.83	9.51
<b>Bloomberg MBS</b>	7.48	3.12	5.05
<b>Bloomberg TIPS</b>	4.71	1.99	3.90
<b>Bloomberg Inter-Short Muni</b>	5.05	3.00	4.32

Source: Bloomberg

## Daily Generic Municipal Bond Yields (%) as of 12/31/2023

Term	Maturity	AAA	AA	A	BAA
<b>1 Yr.</b>	2024	2.57	2.75	3.08	3.73
<b>2 Yr.</b>	2025	2.49	2.65	2.99	3.58
<b>3 Yr.</b>	2026	2.33	2.50	2.84	3.49
<b>4 Yr.</b>	2027	2.24	2.41	2.76	3.49
<b>5 Yr.</b>	2028	2.19	2.37	2.72	3.47
<b>7 Yr.</b>	2030	2.17	2.36	2.74	3.47
<b>9 Yr.</b>	2032	2.20	2.41	2.83	3.50
<b>10 Yr.</b>	2033	2.25	2.47	2.90	3.55
<b>12 Yr.</b>	2035	2.47	2.70	3.17	3.75
<b>14 Yr.</b>	2037	2.74	3.02	3.51	3.98
<b>15 Yr.</b>	2038	2.82	3.13	3.62	4.06
<b>17 Yr.</b>	2040	2.93	3.24	3.75	4.11
<b>19 Yr.</b>	2042	3.05	3.39	3.90	4.19
<b>20 Yr.</b>	2043	3.09	3.43	3.94	4.21
<b>25 Yr.</b>	2048	3.27	3.68	4.14	4.42
<b>30 Yr.</b>	2053	4.36	4.79	5.00	5.56

Source: Bloomberg

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## Index Descriptions:

**Bloomberg U.S. Intermediate Treasury Index:** Unmanaged index includes all domestic publicly issued, U.S. Treasury securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years, are rated investment grade, and have \$250 million or more of outstanding face value.

**Bloomberg Intermediate Government/Credit Index:** Broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index with less than 10 years to maturity. The index includes investment grade, U.S. dollar-denominated, fixed-rate treasuries, government-related and corporate securities.

**Bloomberg Intermediate Aggregate Index:** Broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market with less than 10 years to maturity. The securitized sector is wholly included. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

**Bloomberg U.S. Treasury Bond Index:** Is part of the Bloomberg global family of domestic government bonds indices. The index measures the performance of the U.S. Treasury bond market, using market capitalization weighting and a standard rule-based inclusion methodology.

**Bloomberg U.S. Government/Credit Bond Index:** Broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index. The index includes investment grade, U.S. dollar-denominated, fixed-rate treasuries, government-related and corporate securities.

**Bloomberg U.S. Aggregate Bond Index:** Broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

**Bloomberg U.S. Treasury 20+ Year Index:** Measures U.S. dollar-denominated, fixed-rate nominal debt issues by the U.S. Treasury with 20+ years to maturity.

**Bloomberg U.S. Credit Index:** Composed of all domestic publicly issued, fixed-rate, nonconvertible, and investment-grade corporate debt. Issues are rated at least Baa by Moody's Investors Service or BBB by Standard & Poor's, if unrated by Moody's. Collateralized Mortgage Obligations (CMOs) are not included.

**Bloomberg U.S. Intermediate Credit Index:** Measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. The index only includes domestic securities with maturity between one and ten years. It is composed of the Bloomberg Barclays U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

**Bloomberg U.S. Corporate High Yield Index:** Unmanaged index that is comprised of domestic issues that meet the following criteria: at least \$150 million par value outstanding, maximum credit rating of Ba1 (including defaulted issues) and at least one year to maturity.

**Bloomberg Aaa Corporate Index:** Measures the Aaa-rated, fixed-rate, taxable domestic corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

**Bloomberg Aa Corporate Index:** Measures the Aa-rated, fixed-rate, taxable domestic corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

**Bloomberg Government/Credit A+ Bond Index:** Unmanaged index that tracks the performance of U.S. Government and corporate domestic bonds rated investment grade or better, with maturities of at least one year with a security rating of A or better.

**Bloomberg Baa Corporate Index:** Measures the Baa-rated, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

**Bloomberg U.S. Mortgage-Backed Securities Index:** Unmanaged index that tracks domestic agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by GNMA, FNMA, and FHLM.

**Bloomberg U.S. Treasury Inflation-Protected Securities (TIPS) Index:** Represents domestic securities that protect against adverse inflation and provide a minimum level of real return. To be included in this index, bonds must have cash flows linked to an inflation index, be sovereign issues denominated in U.S. currency, and have more than one year to maturity, and, as a portion of the index, total a minimum amount outstanding of 100 million U.S. dollars.

**Bloomberg Municipal Bond Inter-Short 1-10 Year Index:** Unmanaged index of municipal bonds traded in the U.S. with maturities ranging from 1-10 years.

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