BondBloxx Fixed Income Monthly Update

September 2023

Fixed income markets slumped in September, as the Federal Reserve ("Fed") raised their outlook for the Federal Funds rate for the next 2 years, and fixed-income investors adopted a "higher for longer" mindset. Equity markets sold off nearly 5.0% and credit spreads widened as volatility rose across bond and equity markets.

The Fed left the **Federal Funds rate unchanged** (5.50% upper range) at September's meeting, reiterated their commitment to a 2.0% inflation rate, and released their quarterly "DOTS" projection, **raising their rate guidance by +50 basis points for 2023 and 2024**, to 4.625% and 3.375%, respectively.

Asset classes with higher yields and lower duration led returns for the most recent time periods. For example, U.S. high yield and emerging markets debt ("EMD") have returned +0.5% and -0.4% for the third quarter, respectively, while the index of broad investment grade bonds ("AGG") has returned -3.2%. This pattern is enhanced for the year-to-date period, with high yield and EMD strongly in positive territory while most of fixed income is generating negative total return performance.

Globally, while **developed countries continue to battle inflation with higher rates, several emerging economies have started lowering rates in response to weaker growth**, and estimates for growth are declining for China, with the World Bank lowering their 2024 GDP forecast for China to +4.4% growth in 2024.

Led by oil prices, **commodity prices started to fall near month-end,** as high gasoline prices at the pump started to impact demand. Nonetheless, OPEC and Russia continue to keep a tight rein on production.

Chart 1

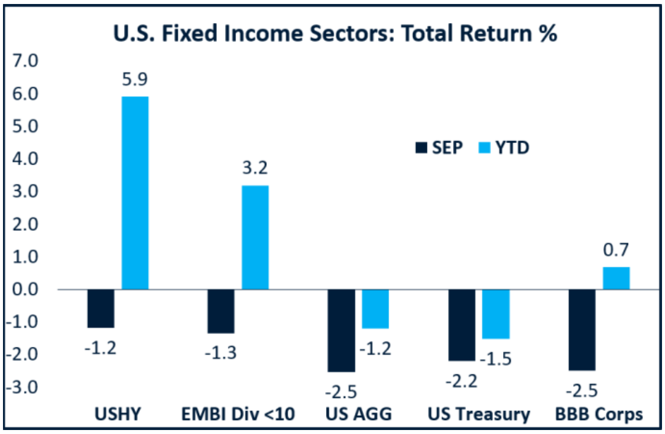

Chart 2

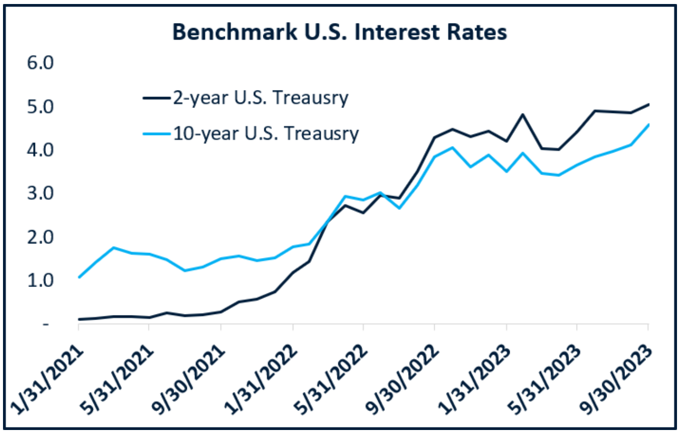

Table 1

Name	Index Name	Total Return			OAS				Yield (%)	Duration
		Sep	3 Mo	YTD	Sep	Δ Sep	Δ 3 Mo	Δ YTD		
US AGG	Bloomberg **US Agg** Index	-2.5%	-3.2%	-1.2%	52	+4	+3	+1	5.39	6.1
US Treasury	Bloomberg **US Treasury** Index	-2.2%	-3.1%	-1.5%					4.85	5.8
Mortgages	Bloomberg **US Mortgage-Backed** Securities Index	-3.2%	-4.1%	-2.3%	66	+13	+14	+14	5.57	6.4
A Corps	Bloomberg **A Corporate** Index	-2.7%	-3.2%	-0.4%	105	+5	+2	-4	5.89	6.6
BBB Corps	Bloomberg **BBB Corporate** index	-2.5%	-2.7%	0.7%	146	+3	-4	-13	6.29	6.5
Munis	Bloomberg **Municipal** Bond Index	-2.9%	-3.9%	-1.4%					4.32	6.4
USHY	ICE BofA US Cash Pay **High Yield** Constrained Index	-1.2%	0.5%	5.9%	400	+19	-4	-77	8.91	3.6
EMBI DIV<10	JP Morgan **EMBI Global Diversified 1-10 Liquid** Index	-1.3%	-0.4%	3.2%	600	+7	-1	+36	10.69	4.1

Chart 1, 2 and Table 1 Sources: ICE Data Services, JP Morgan, Bloomberg | Data as of 9/30/2023

Fixed Income: U.S. Treasuries

- **U.S. interest rates continued their march higher in September.** Yields on long-duration bonds rose by nearly 50 basis points while the yield on the 10 year rose by nearly 20 basis points. This brings the rise in the 10-year benchmark yield to nearly 75 basis points for the third quarter.
- Following September's Federal Reserve policy meeting and commentary, and continued strong labor numbers, **it seems that investors are embracing the concept of "higher for longer"** and adjusting their expectations for higher policy rates through 2024.
- As expected, **the Fed maintained their target policy rate of 5.50%** (upper range) at their September meeting**,** continued to maintain a hawkish stance in their statements, mentioning that economic activity has been "solid" (vs. "moderate" previously) and not backing away from their 2.0% inflation target.
- **Significantly, the Fed released their quarterly outlook for rate policy and Key Economic Indicators,** also known as the "DOTS." Specifically, they doubled the forecast for 2023 GDP growth to 2.1% and increased their guidance for the Federal Funds rate by 50 basis points for 2024 and 2025 (i.e., "higher for longer"). Interestingly, their forecast for inflation was little-changed from June's statement, gradually declining to 2.0% by 2026.
- Underpinning this outlook, **recent labor data continues to support resilient economic activity**, with August unemployment at 3.8%, growing labor force participation, average hourly earnings +4.3%, and growing job openings.

Chart 3

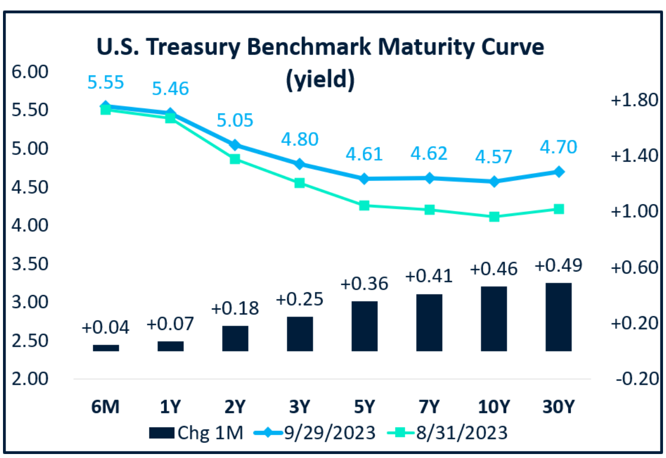

Chart 4

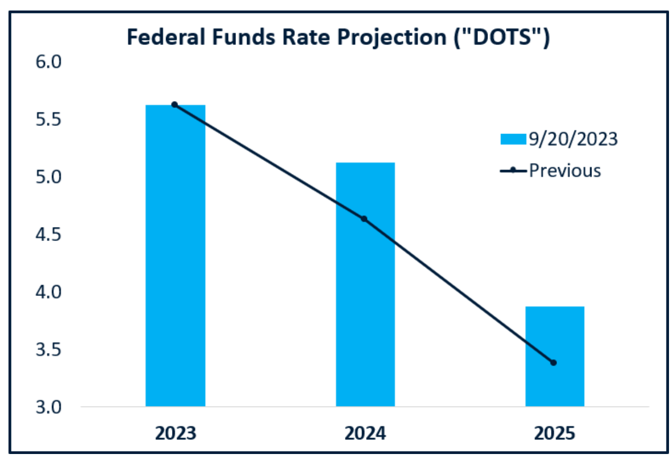

Table 2

Name	Index Name	Total Return			Yield (%)	Duration
		Sep	3 Mo	YTD		
6m Tsy	Bloomberg US Treasury **Six Month Duration** Index	0.4%	1.3%	3.4%	5.47	0.5
1y Tsy	Bloomberg US Treasury **One Year Duration** Index	0.3%	1.2%	2.9%	5.44	1.0
2y Tsy	Bloomberg US Treasury **Two Year Duration** Index	-0.1%	0.6%	1.6%	5.07	2.0
3y Tsy	Bloomberg US Treasury **Three Year Duration** Index	-0.5%	0.0%	0.8%	4.81	3.0
5y Tsy	Bloomberg US Treasury **Five Year Duration** Index	-1.6%	-1.8%	-0.6%	4.65	5.0
7y Tsy	Bloomberg US Treasury **Seven Year Duration** Index	-2.8%	-4.0%	-2.5%	4.60	7.0
10y Tsy	Bloomberg US Treasury **Ten Year Duration** Index	-4.5%	-6.8%	-4.7%	4.74	10.0
20y Tsy	Bloomberg US Treasury **Twenty Year Duration** Index	-9.3%	-15.3%	-11.4%	4.77	20.0

Chart 3, 4 and Table 2 Sources: Bloomberg | Data as of 9/30/2023

Fixed Income: Emerging Markets Debt

- **Emerging markets debt ("EMD") posted wider spreads and negative returns in September**, in sympathy with weaker equity markets, greater U.S. interest rate volatility, and a strengthening U.S. dollar.
- **EMD with maturities under 10 years returned -1.3% for the month,** finished the third quarter at -0.4%, and is up +3.2% on a year-to-date basis. The longer-dated, full-maturity index finished the month down -2.6% and has returned +1.8% year-to-date.
- **Despite the jump in U.S. bond yields and slump in equities, EMD held up remarkably well,** with spreads widening out just 7 basis points on the month, and slightly tighter for the quarter. Given the lower duration and higher income component, EMD has been a top fixed-income performer for the third quarter, down -0.4%, compared to a -3.1% for broad U.S. Treasuries, -3.9% for municipals, and -3.1% for investment grade corporates.
- For the month and quarter, **high yield EMD held up better than investment grade EMD,** also due to lower interest rate sensitivity and a higher income component.
- Regionally, Europe, the Middle East and Africa **("EMEA") debt led in performance for the month**, while Latin American issuers lagged in September.
- With slowing economic growth outside the U.S., **many central banks are starting to ease rates,** while the U.S. is embracing "higher for longer." For example, the Bank of Brazil has eased their policy rate by 100 basis points in the last two months. Chile, Uruguay, and Poland are among other debt issuers that have lowered rates recently. This spread in rate policy has helped to increase the value of the U.S. dollar.

Chart 5

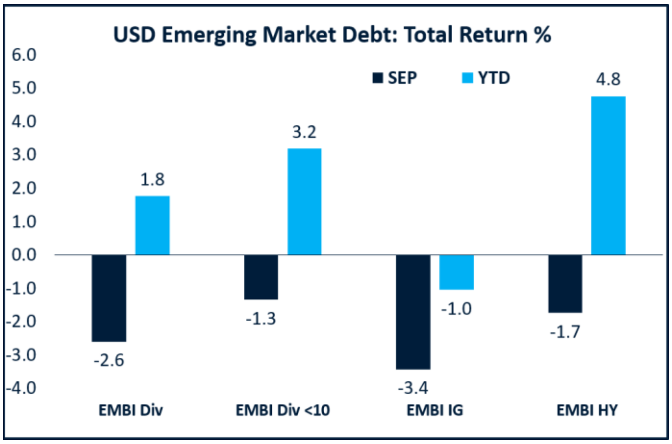

Chart 6

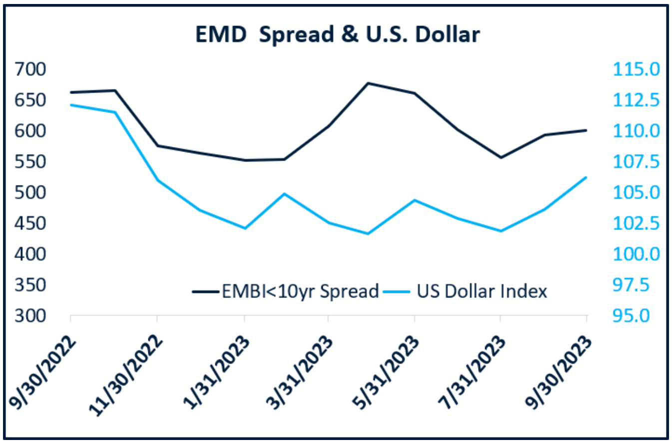

Table 3

Name	JP Morgan Index Name	Total Return			OAS				Yield (%)	Duration
		Sep	3 Mo	YTD	Sep	Δ Sep	Δ 3 Mo	Δ YTD		
EMBI DIV<10	EMBI Global Diversified 1-10 Liquid Index	-1.3%	-0.4%	3.2%	600	+7	-1	+36	10.69	4.1
EMBI DIV	EMBI Global Diversified Composite Index	-2.6%	-2.2%	1.8%	431	+9	-2	-22	9.04	6.4
EMBI IG	EMBI Global Diversified Inv Grade Index	-3.4%	-4.3%	-1.0%	132	+2	-3	-6	6.07	7.6
EMBI HY	EMBI Global Diversified High Yield Index	-1.7%	0.0%	4.8%	788	+9	-13	-34	12.60	5.3

Chart 5, 6 and Table 3 Sources: J.P. Morgan | Data as of 9/30/2023

Fixed Income: U.S. High Yield Ratings

- The U.S. high yield market generated negative total return performance in September, with the broad U.S. high yield index down -1.2%. However, on a comparative basis versus other broad fixed income indices, high yield was a relative outperformer. **Year-to-date, U.S. high yield remains the clear performance leader among fixed income,** returning 5.9% (Table 1, Chart 1).
- In credit rating categories, the CCC-rated sector experienced the least negative return in September, down -0.8%, while the longer duration BB-rated sector was down the most (-1.5%). CCC's continue to significantly outperform both BB's and single-B's year-to-date, with an impressive 12.1% return (Chart 7, Table 4).
- **Single-B and BB-rated** high yield bonds have generated year-to-date returns of 6.7% and 3.7% respectively, although September was a weaker month of performance for both these rating categories, with single-B's down -1.0% and BB's down -1.50% (Chart 7, Table 4).
- **High yield new issue volume of $24.6 billion in September** was the highest level since January 2022. A total of 38 bonds priced during the month, and refinancing was the primary use of proceeds. Year-to-date new issue volume of $137 billion remains well ahead of last year's volume at this time of $91 billion. Refinancing activity continues to lead in terms of the use of proceeds year-to-date, representing over 63% of gross volume (J.P. Morgan).
- **Default activity was lower in September than August**, with only one company defaulting and only three completing distressed exchanges for the month. With the lower defaults experienced in September, the 12-month trailing US high yield default rate improved 29 basis points in September to 2.11%, the lowest rate since March 2023 (J.P. Morgan).

Chart 7

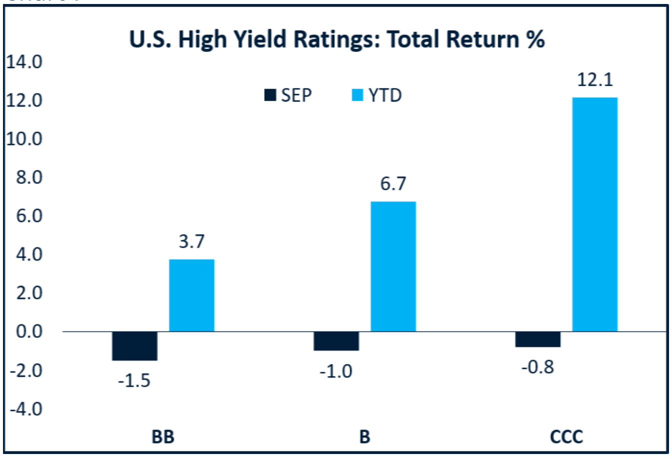

Chart 8

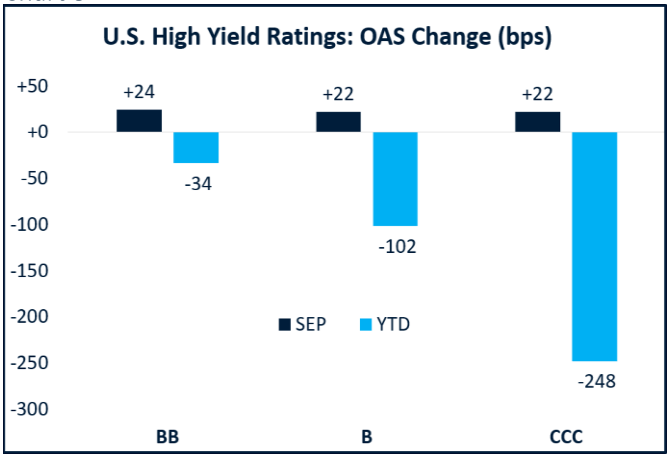

Table 4

Name	Index Name	Total Return			OAS				Yield (%)	Duration
		Sep	3 Mo	YTD	Sep	Δ Sep	Δ 3 Mo	Δ YTD		
BB	ICE BofA BB US Cash Pay High Yield Constrained Index	-1.5%	-0.4%	3.7%	277	+21	+13	-32	7.66	3.9
B	ICE BofA Single-B US Cash Pay High Yield Constrained Index	-1.0%	0.9%	6.7%	420	+22	-5	-92	9.13	3.4
CCC	ICE CCC US Cash Pay High Yield Constrained Index	-0.8%	2.5%	12.1%	852	+28	-16	-244	13.45	3.1

Chart 7, 8 and Table 4 Sources: ICE Data Services, Bloomberg | Data as of 9/30/2023

Fixed Income: U.S. High Yield Industry Sectors

- All seven high yield industry sectors generated negative total return performance in September, with Energy generating the least negative return, down -0.8% for the month (Chart 9, Table 5).
- TMT was the second-best industry performer in September, down -0.9% for the month. Alternatively, Healthcare and Consumer Non-Cyclical were the worst performers, down -2.2% and -1.5% respectively in September (Chart 9, Table 5)
- Despite a weaker month of performance in September, the **Consumer Cyclical industry remains the total return performance leader** among sectors year-to-date, up 8.4% (Chart 9, Table 5).
- **In second place year-to-date among the sectors is Energy (+7.3%).** Energy's outperformance during the third quarter enabled it to pull ahead of **Core Industrial (5.9%) and Healthcare (+5.1%)** year-to-date (Chart 9, Table 5).
- **Credit spreads for the Consumer Cyclical sector**, while 32 basis points wider in September, **have tightened 160 basis points year-to-date**, the largest spread move among all high yield industry sectors.
- Other large monthly moves wider in OAS were for the **Healthcare (+31 bps**) and **Core Industrial sectors (+31 bps)**, while TMT widened the least (+8 bps). Year-to-date, the sectors that experienced the most credit spread tightening besides Consumer Cyclical were **Healthcare (-91bps**) **and Energy (-90 bps),** while TMT experienced the least (-5 bps) (Chart 10, Table 5).
- The year-to-date total return performance of the Telecom, Media & Technology sector (+4.1%) has lagged all other sectors (Chart 9, Table 5).

Chart 9

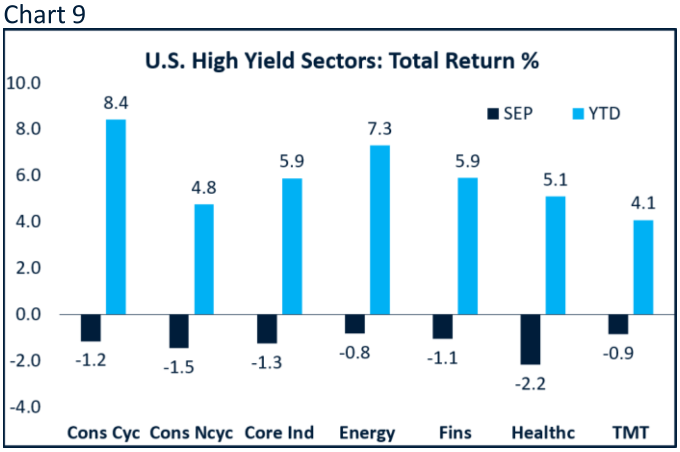

Chart 10

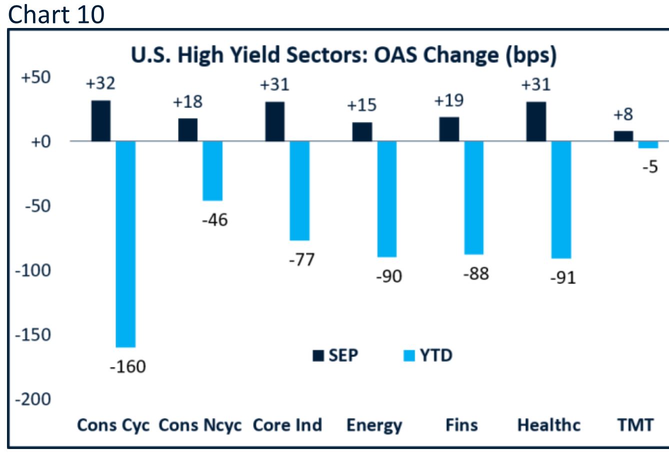

Table 5

Name	ICE Diversified U.S. Cash Pay High Yield Index Name	Total Return			OAS				Yield (%)	Duration
		Sep	3 Mo	YTD	Sep	Δ Sep	Δ 3 Mo	Δ YTD		
Cons Cyc	Consumer Cyclical Index	-1.2%	0.0%	8.4%	353	+5	+6	-174	8.46	3.6
Cons NCyc	Consumer Non-Cyclical Index	-1.5%	0.0%	4.8%	331	+22	+4	-41	8.18	4.1
Core Ind	Core Industrial Index	-1.3%	0.1%	5.9%	357	+26	+16	-76	8.48	3.5
Energy	Energy Index	-0.8%	1.7%	7.3%	291	+15	-36	-86	7.95	3.4
Fins	Financial & REIT Index	-1.1%	1.0%	5.9%	398	+17	-16	-89	8.92	3.4
Healthc	Healthcare Index	-2.2%	-0.3%	5.1%	466	-12	-64	-146	9.50	3.9
TMT	Telecom Media & Technology Index	-0.9%	1.2%	4.1%	529	+10	-16	-11	10.11	3.9

Chart 9, 10 and Table 5 Sources: ICE Data Services | Data as of 9/30/2023

Glossary and Index Definitions

- **Credit Spread:** the difference in yield between a debt security and its benchmark measured in basis points
- **OAS:** Option Adjusted Spread. For a bond, the option-adjusted spread is the measurement of the spread between the bond and the underlying government yield curve. For an Index, the average of its constituent security government option-adjusted spreads, weighted by full market value.
- The **Bloomberg U.S. Aggregate Index** is a broad-based flagship benchmark that measures the investment grade, US-dollar-denominated, fixed-rate taxable bond market.
- The **Bloomberg A Corporate Index** measures the A-rated, fixed-rate, taxable corporate bond market.
- The **Bloomberg BBB Corporate Index** measures the BBB-rated, fixed-rate, taxable corporate bond market.
- The **Bloomberg Municipal Bond Index** covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prefunded bonds.
- The **Bloomberg US Mortgage-Backed Securities Index** tracks fixed-rate agency mortgage-backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).
- The **Bloomberg U.S. Treasury Target Duration Indices** are a suite of 8 indices designed to target a specific duration using US Treasury securities. The 8 durations targeted are 6 Month, 1 Year, 2 Year, 3 Year, 5 Year, 7 Year, 10 Year and 20 Year.
- The **ICE BofA U.S. High Yield Index** tracks the performance of U.S. dollar-denominated, below investment grade-rated corporate debt publicly issued in the U.S. domestic market.
- The **ICE BofA Broad Market Index** measures the performance of U.S. dollar-denominated, investment grade debt securities, including U.S. Treasury notes and bonds, quasi-government securities, corporate securities, residential and commercial mortgage-backed securities and asset-backed securities.
- The **ICE BofA U.S. Corporate Index** tracks the performance of U.S. dollar-denominated investment grade rated corporate debt publicly issued in the U.S. domestic market.
- The **ICE BofA U.S. Treasury Index** tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market.
- The **ICE BofA Current 10-year U.S. Treasury Index** is a one-security index comprised of the most recently issued 10-year U.S. Treasury note.
- The **ICE Diversified U.S. Cash Pay High Yield Rating Category Indices** contain all securities in the ICE BofA U.S. Cash Pay High Yield Index, broken down by their rating categories: BB1-BB3, B1-B3, and CCC1-CCC3. Index constituents are capitalization-weighted, based on their current amount outstanding.
- The **ICE Diversified U.S. Cash Pay High Yield Sector Category Indices** contain all securities in the ICE BofA U.S. Cash Pay High Yield Index, broken down by industry including: Industrials; Telecom, Media & Technology; Healthcare; Financial & REIT; Energy; Consumer Cyclicals; Consumer Non-Cyclicals. Index constituents are capitalization-weighted, based on their current amount outstanding.
- The **JP Morgan EMBI Global Diversified Index** tracks total returns for traded external debt instruments in the emerging markets, including U.S. dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least $500 million.
- The **J.P. Morgan 1-10 Year Emerging Markets Sovereign Index** tracks liquid, U.S. dollar emerging market fixed and floating-rate debt instruments issued by sovereign and quasi sovereign entities. The EMBIGDL 1-10 Index is based on the long-established J.P. Morgan EMBI Global Diversified Index and follows it methodology closely, but only includes securities with at least $1 billion in face amount outstanding and average life below 10 years.
- The **NASDAQ Composite Index** measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market, including over 2,500 companies, An investment can not be made in an index.
- The **Russell 2000 Index** is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index, which is a capitalization-weighted stock market index that seeks to be a benchmark of the entire U.S. stock market.
- The **S&P 500 Index** tracks the performance of 500 leading large-cap U.S. equities and covers approximately 80% of available market capitalization.

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