BondBloxx Fixed Income Monthly Update

October 2023

- During October, **bond and equity markets sold off globally** as risk rose across the investment landscape and potential bond returns became more attractive. The US Treasury yields were up while S&P 500 was down over 2% for the month. Returns were even worse for small-cap and foreign equities.
- **The Bureau of Economic Analysis released an eye-popping +4.9% GDP growth number for the 3rd quarter,** the fastest pace in over 2 years, above the +4.5% that analysts expected. Not surprisingly, the quarter was driven by consumer spending, which remains impressive given the Federal Reserve's relentless pace of rate hikes this cycle.
- **Higher income assets such as emerging markets and high yield outperformed again in October,** as their higher average coupon income and lower duration shielded returns from rising Treasury yields. Notably, these are the only two major fixed income groups in positive territory for year-to-date returns (Table 1).
- **While the Federal Funds Rate has been stable (5.50%) since July,** longer-duration yields have risen for several months, generating negative returns across most fixed income sectors. **Higher rates appear to be impacting economically-sensitive sectors** such as housing, auto sales, small-business lending, and to a lesser extent, hiring.
- **With yields at around 5.0% for most the U.S. Treasury curve** (Chart 3), the prospect for stable economic growth, and the decreasing chance of additional rate hikes, there is more cushion today in fixed income against negative surprises**.**

Chart 1

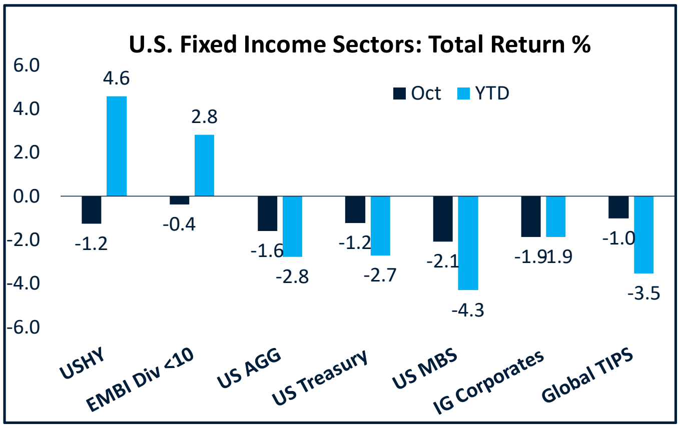

Chart 2

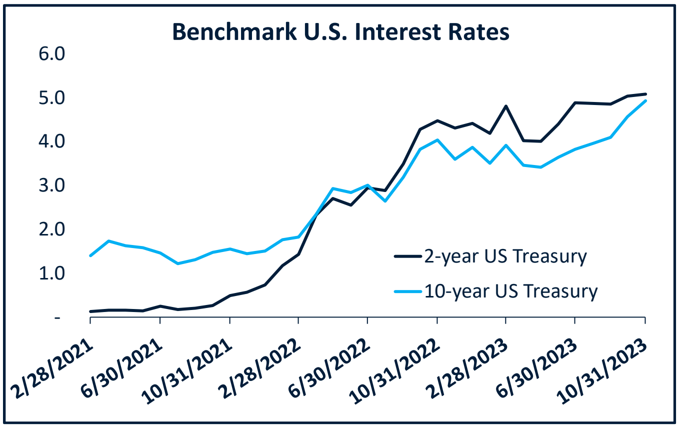

Table 1

Name	Index Name	Total Return			OAS				Yield (%)	Duration
		Oct	3 Mo	YTD	Oct	Δ Oct	Δ 3 Mo	Δ YTD		
US AGG	Bloomberg **US Agg** Index	-1.6%	-4.7%	-2.8%	56	+4	+11	+5	5.65	6.0
US Treasury	Bloomberg **US Treasury** Index	-1.2%	-3.9%	-2.7%					5.03	5.6
Mortgages	Bloomberg **US Mortgage Backed** Securities Index	-2.1%	-6.0%	-4.3%	75	+9	+27	+23	5.93	6.4
IG Corporate	Bloomberg **US Corporate** Index	-1.9%	-5%	-1.9%	128	+8	+16	-2	6.35	6.5
US High Yield	ICE BofA US Cash Pay **High Yield** Constrained Index	-1.2%	-2.1%	4.6%	435	+36	+59	-40	9.36	3.6
EM Debt <10	JP Morgan **EMBI Global Diversified 1-10 Liquid** Index	-0.4%	-2.6%	2.8%	591	-10	+34	+26	10.82	4.1
Global TIPS	Bloomberg **Global Inflation Linked** Index	-1.0%	-6.7%	-3.5%						
Munis	Bloomberg **Municipal** Bond Index	-0.9%	-5.1%	-2.2%					4.49	6.5

Chart 1, 2 and Table 1 Sources: ICE Data Services, JP Morgan, Bloomberg | Data as of 10/31/2023

Fixed Income: U.S. Treasuries

- **In the wake of strong economic data and persistent price growth, U.S. interest rates continued to rise in October, especially on the longer end of the yield curve**. Yields on 5-year and 10-year Treasuries rose 24 basis points and 36 basis points respectively in October. Over the last six month, yields on the 2-year benchmark Treasuries have risen over 100 basis points, ending the month at 5.09% (Chart 3).
- Even as inflation has slowed from the blistering pace of 2022, **it has remained stubbornly above 3.0%**, ticking back up during recent months (September CPI grew +3.7% year-over-year), enforcing the view that the Federal Reserve ("Fed") will need to keep rates elevated for an extended period.
- However, **rising yields in the longer-end of the curve help to "do the job of the Fed"** by helping to slow lending, investment, and wage growth, and thus requiring less future policy action from the Fed.
- **The Fed has kept its target interest rate unchanged at 5.50%** at its last two meetings and has also hinted that future increases may not be needed given evidence of a cooling labor market and tighter financial conditions. Interest rate futures are currently predicting no further increases in the Federal Funds Rate.
- While war in the Middle East and Ukraine kept our collective attention during the last few weeks, the impact to Treasury markets has been limited so far, although volatility remains high. The risk of a spreading conflict could impact inflation, mainly through commodity prices or disruption of shipping.

Chart 3

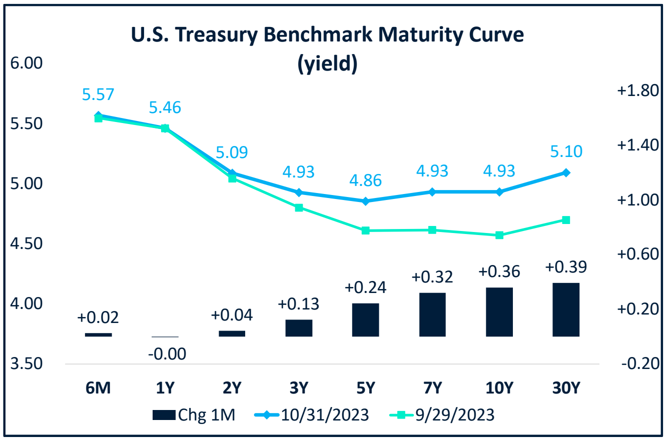

Chart 4

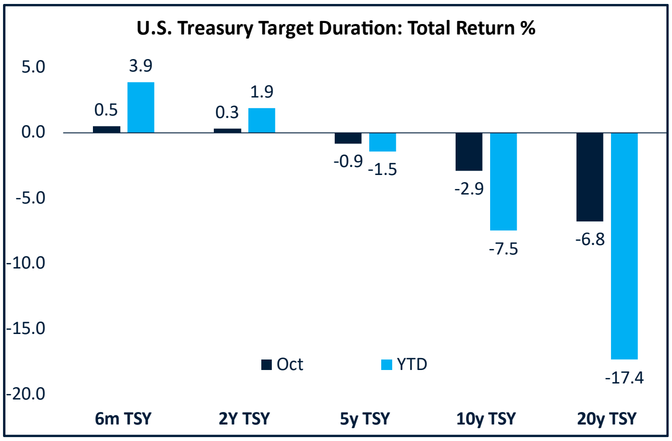

Table 2

Name	Index Name	Total Return			Yield (%)	Duration
		Oct	3 Mo	YTD		
6m Tsy	Bloomberg US Treasury **Six Month Duration** Index	0.5%	1.3%	3.9%	5.45	0.5
1y Tsy	Bloomberg US Treasury **One Year Duration** Index	0.4%	1.2%	3.3%	5.43	1.0
2y Tsy	Bloomberg US Treasury **Two Year Duration** Index	0.3%	0.6%	1.9%	5.09	2.0
3y Tsy	Bloomberg US Treasury **Three Year Duration** Index	0.0%	-0.3%	0.9%	4.91	3.0
5y Tsy	Bloomberg US Treasury **Five Year Duration** Index	-0.9%	-2.6%	-1.5%	4.90	5.0
7y Tsy	Bloomberg US Treasury **Seven Year Duration** Index	-1.8%	-5.2%	-4.2%	4.91	7.0
10y Tsy	Bloomberg US Treasury **Ten Year Duration** Index	-2.9%	-8.6%	-7.5%	5.08	10.0
20y Tsy	Bloomberg US Treasury **Twenty Year Duration** Index	-6.8%	-18.7%	-17.4%	5.13	20.0

Chart 3, 4 and Table 2 Sources: Bloomberg | Data as of 10/31/2023

Fixed Income: U.S. Investment Grade

- Reflecting its longer average duration in a rising long-rate environment in October, **the US Corporate Index was down 1.8% for the month**, bringing its year-to-date return down into negative territory (-1.4%).
- **BBB corporates mirrored the broad index** in October (-1.8%) and moved into negative territory year-to-date (-1.2%). Yield spreads for BBB corporates were 9 basis points wider in October (Table 3, Chart 5).
- The year-to-date performance dispersion between the BBB **1-5 Year** Corporate Index, the BBB **5-10 Year** Corporate Index, and the BBB **Long** Corporate Index reflects their short, medium and long duration profiles. Specifically, the indices generated returns of +2.1%, -0.8% and -5.4% respectively (Table 3, Chart 5).
- October returns for the **Financials, Industrials and Utilities** industry sectors were all in negative territory, down -1.3%, -2.1% and -2.6% respectively. **Year-to-date, the performance of these sectors has been aligned with duration profile**s, as the shorter duration Financials sector was down the least (-0.6%), while the longer duration Utilities sector was down the most (-4.1%) (Chart 5, Table 3).
- **Investment grade new issue volume totaled $85 billion in October,** roughly in line with the $88 billion monthly average experienced over the past four years. October's issuance was driven by Financials (61% of total supply), and the average coupon was 6.3%, the highest since June 2009. Year-to-date gross investment grade corporate supply totals $1,084 billion, which is behind last year's gross supply at this time of $1,238 billion (J.P. Morgan, as of 10/31/23).

Chart 5

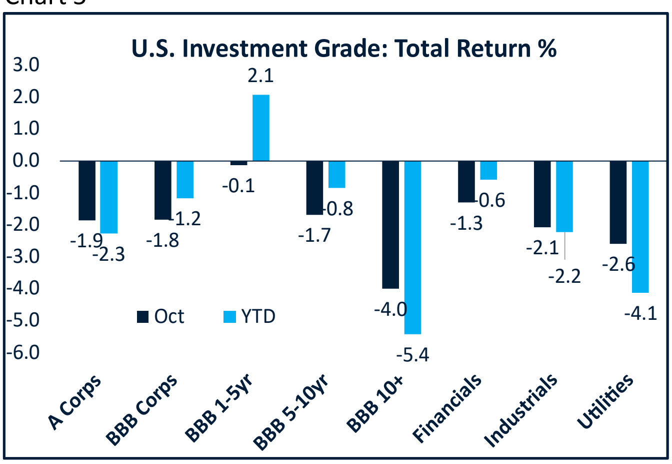

Chart 6

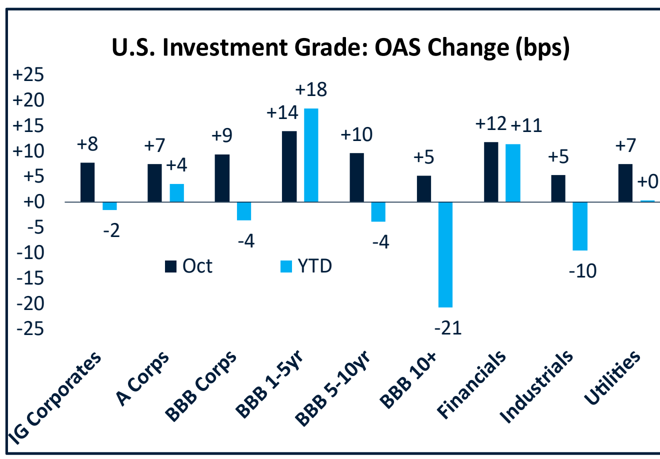

Table 3

Name	Index Name	Total Return Oct	Total Return 3 Mo	Total Return YTD	OAS Oct	OAS Δ Oct	OAS Δ 3 Mo	OAS Δ YTD	Yield (%)	Duration
A Corp	Bloomberg **A Rated Corporate** Index	-1.9%	-5.3%	-2.3%	112	+7	+18	+4	6.19	6.4
BBB Corp	Bloomberg **BBB Rated Corporate** Index	-1.8%	-5.0%	-1.2%	155	+9	+17	-4	6.62	6.4
BBB 1-5yr	Bloomberg **BBB 1-5 year Corporate** Index	-0.1%	-0.5%	2.1%	131	+14	+34	+18	6.41	2.5
BBB 5-10yr	Bloomberg **BBB 5-10 year Corporate** Index	-1.7%	-4.6%	-0.8%	169	+10	+19	-4	6.63	5.9
BBB 10+	Bloomberg **BBB Long Corporate** Index	-4.0%	-10.3%	-5.4%	172	+5	-1	-21	6.87	11.6
Financial	Bloomberg **Financials Corporate** Index	-1.3%	-3.8%	-0.6%	151	+12	+27	+11	6.58	5.0
Industrial	Bloomberg **Industrials Corporate** Index	-2.1%	-5.8%	-2.2%	115	+5	+11	-10	6.22	7.2
Utility	Bloomberg **Utilities Corporate** Index	-2.6%	-6.8%	-4.1%	129	+7	+9	+0	6.38	8.1

Chart 5, 6 and Table 3 Sources: ICE Data Services, Bloomberg | Data as of 10/31/2023

Fixed Income: Emerging Markets Debt

- **Emerging markets debt ("EMD") posted negative returns in October**, in sympathy with lower equity markets, greater U.S. interest rate volatility, wider spreads in credit markets, and continued strength of the U.S. dollar.
- **EMD with maturities under 10 years returned -0.3% for the month** and are up +2.8% since the start of the year, surpassing the performance of the investment grade corporate and U.S. Treasury markets. The longer-dated, full-maturity EMD index finished the month down –1.4% and has returned +0.4% year-to-date (Chart 7).
- Due to its more attractive income component and lower interest rate sensitivity, **EMD has consistently been a top fixed-income performer in 2023,** surpassing the Aggregate Index by over +5.0%, while also exceeding the returns of U.S. Treasuries, mortgages, and investment grade corporates (Table 1).
- Regionally, several of the larger issuing countries from the Asia-Pacific region **led in performance in October**, while South and Central American issuers lagged in performance for the month.
- While October felt like a "risk-off" month for equities and credit markets, in fact, the increased volatility was focused on mainly on Treasuries and long-duration assets. **High yield EMD outperformed investment grade-rated EMD in October** (-0.6% vs. -2.1%), as credit spreads were stable while duration drove returns. The impact is magnified year-to-date, as high yield EMD has outperformed investment grade EMD by over 700 basis points.
- Distressed issuer Sri Lanka neared agreement on a restructuring plan with global lenders, having reached an agreement with the International Monetary Fund (IMF) on a loan package.

Chart 7

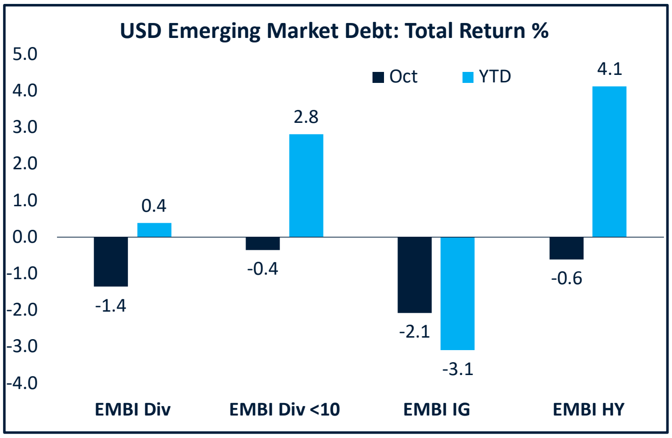

Chart 8

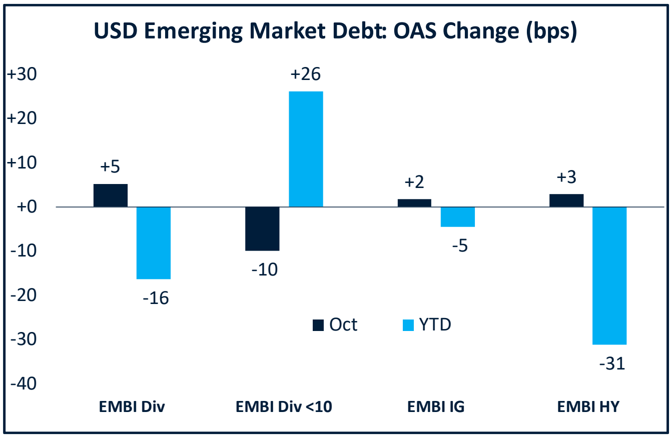

Table 4

Name	JP Morgan Index Name	Total Return			OAS				Yield (%)	Duration
		Oct	3 Mo	YTD	Oct	Δ Oct	Δ 3 Mo	Δ YTD		
EMBI DIV<10	EMBI Global Diversified **1-10 Liquid** Index	-0.4%	-2.6%	2.8%	591	-10	+34	+26	10.82	4.1
EMBI DIV	EMBI Global Diversified **Composite** Index	-1.4%	-5.4%	0.4%	436	+5	+38	-16	9.38	6.3
EMBI IG	EMBI Global Diversified **Inv Grade** Index	-2.1%	-6.7%	-3.1%	134	+2	+11	-5	6.40	7.4
EMBI HY	EMBI Global Diversified **High Yield** Index	-0.6%	-4.0%	4.1%	791	+3	+58	-31	12.89	5.2

Chart 7, 8 and Table 4 Sources: J.P. Morgan | Data as of 10/31/2023

Fixed Income: U.S. High Yield Ratings

- The U.S. high yield market generated losses in October, with the broad U.S. high yield index down -1.2% for the month. However, **year-to-date U.S. high yield remains a performance leader among fixed income,** returning +4.9% (Table 1, Chart 1).
- In credit rating categories, the BB-sector experienced the least negative return in October, down -0.7%, while the CCC-rated sector was down the most (-3.4%). Nonetheless, CCC's continue to outperform both BB's and single-B's year-to-date with their 8.3% return (Chart 9, Table 5).
- **Single-B and BB-rated** high yield bonds have generated year-to-date returns of 5.3% and 3.0% respectively, despite October's weaker month of performance for both these rating categories, with single-B's down -1.3% and BB's down -0.7% (Chart 9, Table 5).
- **High yield new issue volume of $9.4 billion in October** was the fourth lowest monthly total year-to-date. A total of 10 bonds priced during the month, and refinancing was the primary use of proceeds. Year-to-date new issue volume of $146 billion remains **well ahead of last year's volume** at this time of $95 billion. Refinancing activity continues to lead in terms of the use of proceeds year-to-date, representing over 64% of gross volume (J.P. Morgan, as of 10/31/23).
- **Default activity increased in October to the greatest number of defaults in three years.** Seven companies defaulted in October, 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 U.S. high yield default rate improved 29 basis points in September to 2.11%, the lowest rate since March 2023 (J.P. Morgan, as of 10/31/23).

Chart 9

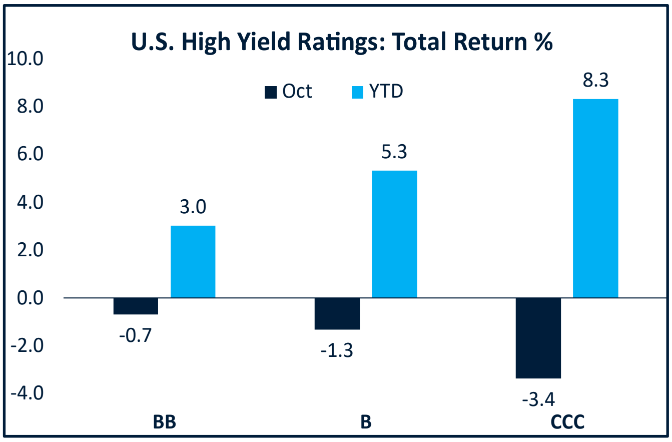

Chart 10

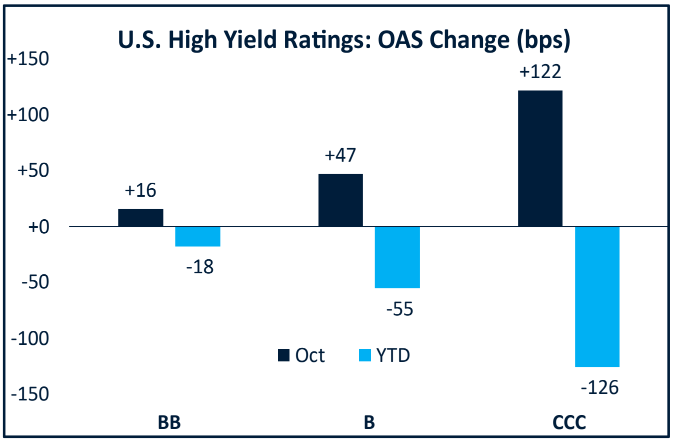

Table 5

Name	Index Name	Total Return			OAS				Yield (%)	Duration
		Oct	3 Mo	YTD	Oct	Δ Oct	Δ 3 Mo	Δ YTD		
BB	ICE BofA **BB** US Cash Pay High Yield Constrained Index	-0.7%	-2.2%	3.0%	292	+16	+48	-18	7.93	3.9
B	ICE BofA **Single-B** US Cash Pay High Yield Constrained Index	-1.3%	-1.8%	5.3%	461	+47	+65	-55	9.59	3.4
CCC	ICE **CCC** US Cash Pay High Yield Constrained Index	-3.4%	-3.1%	8.3%	962	+122	+146	-126	14.73	3.0

Chart 9, 10 and Table 5 Sources: ICE Data Services, Bloomberg | Data as of 10/31/2023

Fixed Income: U.S. High Yield Industry Sectors

- All seven high yield industry sectors generated negative total return performance in October, with Energy and Consumer Non-Cyclical generating the least negative returns, down -0.6% each for the month. Alternatively, the worst performing sectors for the month were Healthcare (-2.1%) and TMT (-1.9%) (Chart 11, Table 6).
- The **Consumer Cyclical industry remains the total return performance leader** among sectors year-to-date, up 7.6%. In second place among the sectors is Energy (+6.6%). Energy's outperformance during the past several months have enabled it to pull ahead of Core Industrial (4.3%) and Financials (4.9%) year-to-date (Chart 11, Table 6).
- Large monthly moves wider in OAS in October were experienced by the **TMT (+59 bps)** and **Core Industrial sectors (+47 bps).**
- **Credit spreads for the Consumer Cyclical sector**, while modestly wider in October, **have tightened 164 basis points year-to-date**, the largest spread tightening move among all high yield industry sectors.
- Besides the Consumer Cyclical sector, the **Healthcare (-96bps)** **and Energy (-54 bps)** have tightened the most year-to-date**,** while the TMT sector has widened year-to-date by 59 basis points (Chart 12, Table 6).
- The year-to-date total return performance of the Telecom, Media & Technology sector (+2.1%) has lagged all other sectors (Chart 11, Table 6).

Chart 11

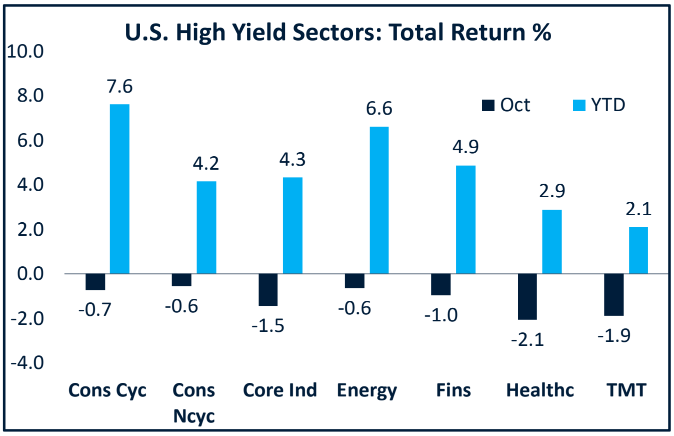

Chart 12

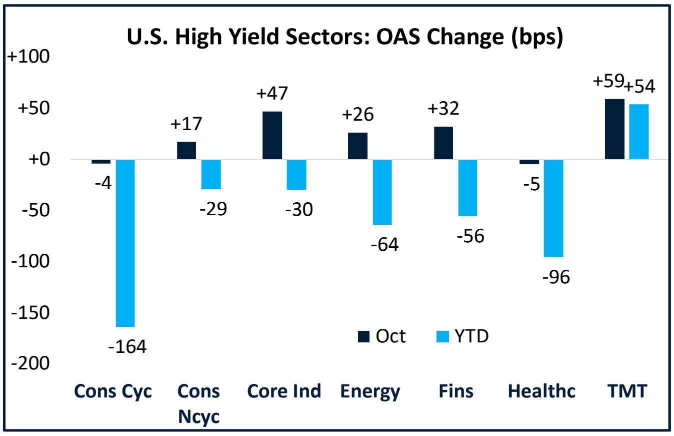

Table 6

Name	ICE Diversified U.S. Cash Pay High Yield Index Name	Total Return			OAS				Yield (%)	Duration
		Oct	3 Mo	YTD	Oct	Δ Oct	Δ 3 Mo	Δ YTD		
Cons Cyc	**Consumer Cyclical** Index	-0.7%	-1.9%	7.6%	365	-4	+37	-164	8.76	3.5
Cons NCyc	**Consumer Non-Cyclical** Index	-0.6%	-1.7%	4.2%	342	+17	+36	-29	8.40	4.0
Core Ind	**Core Industrial** Index	-1.5%	-2.6%	4.3%	402	+47	+84	-30	8.99	3.5
Energy	**Energy** Index	-0.6%	-0.6%	6.6%	312	+26	+25	-64	8.26	3.4
Fins	**Financial & REIT** Index	-1.0%	-1.9%	4.9%	429	+32	+58	-56	9.29	3.4
Healthc	**Healthcare** Index	-2.1%	-4.1%	2.9%	514	-5	+18	-96	10.08	3.8
TMT	**Telecom Media & Technology** Index	-1.9%	-2.1%	2.1%	584	+59	+63	+54	10.79	3.9

Chart 11, 12 and Table 6 Sources: ICE Data Services | Data as of 10/31/2023

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 BBB 1-5 year, 5-10 year and Long Corporate indices** measure BBB-rated, fixed-rate, taxable corporate bonds of maturities between 1-5 years, 5-10 years, and 10+ years respectively.
- The **Bloomberg Global Inflation-Linked Total Return Index** the performance of investment-grade, government inflation-linked debt from 12 different developed market countries.
- 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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There are risks associated with investing, including possible loss of principal. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline. Securities that are rated below investment-grade (sometimes referred to as “junk bonds”) be deemed speculative, may involve greater levels of risk than higher-rated securities of similar maturity and may be more likely to default. Investing in mortgage- and asset backed securities involves interest rate, credit, valuation, extension and liquidity risks and the risk that payments on the underlying assets are delayed, prepaid, subordinated or defaulted on.

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