

# BondBloxx Fixed Income Monthly Update

January 2024

## Overview

- January was full of data that confirmed a robust U.S. economy**, confounding recession-prognosticators yet again. December payrolls of +216,000 and unemployment at 3.7% surprised to the upside, retail sales were healthy, while Q4 GDP (+3.3%) strongly exceeded expectations (Bureau of Labor Statistics).
- Citing the data above, in addition to inflation running above +3.0%, **Federal Reserve (“Fed”) Chairman Jay Powell effectively threw cold water on expectations for a March rate decrease**. Market expectations for Fed rate cuts have been pushed out further to May or June.
- January’s highest performing fixed income segments were U.S. high yield (+0.01%), BBB corporates (-0.04%), and EM debt (-0.19%)** (Chart 1). With higher income and coupons, these segments extended their outperformance from 2023 (Chart 2). **Within investment grade, short-duration BBBs led in January (+0.42%)**.

## Insights

- Given the resiliency of the U.S. economy and likely peak interest rates, we believe investors may benefit from **increasing their allocation to credit, particularly BBB, single-B or CCC-rated U.S. corporates, and emerging markets debt**. In more rate sensitive U.S. Treasuries and BBBs, we believe **intermediate-duration exposure** provide attractive potential returns.

Chart 1

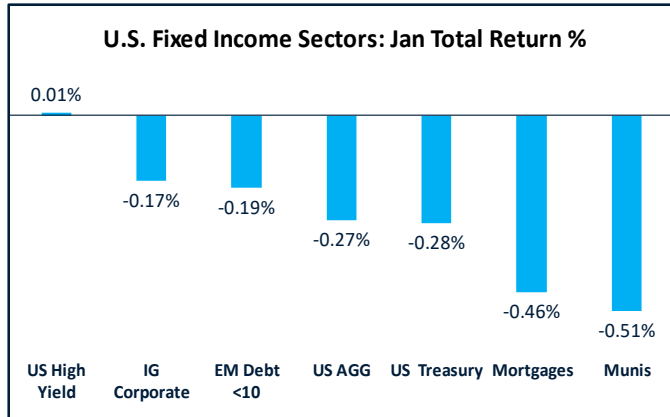


Chart 2

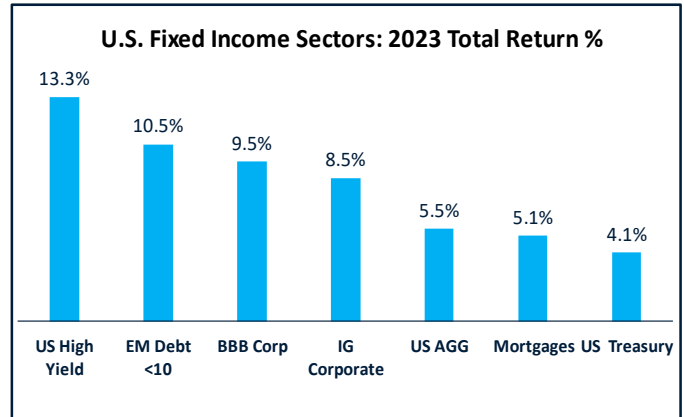


Table 1

Name	Index Name	Total Return			OAS				Yield (%)	Duration
		Jan	3 Mo	YTD	Jan	Δ Jan	Δ 3 Mo	Δ YTD		
US High Yield	ICE BofA US Cash Pay <b>High Yield</b> Constrained Index	0.0%	8.5%	0.0%	349	+20	-86	+20	7.73	3.3
IG Corporate	Bloomberg <b>US Corporate</b> Index	-0.2%	10.4%	-0.2%	95	-3	-33	-3	5.11	7.0
EM Debt <10	JP Morgan <b>EMBI Global Diversified 1-10 Liquid</b> Index	-0.2%	7.3%	-0.2%	554	+8	-37	+8	9.48	4.1
US AGG	Bloomberg <b>US Aggregate</b> Index	-0.3%	8.2%	-0.3%	40	-2	-17	-2	4.59	6.2
US Treasury	Bloomberg <b>US Treasury</b> Index	-0.3%	6.7%	-0.3%					4.12	6.0
Mortgages	Bloomberg <b>US Mortgage-Backed</b> Securities Index	-0.5%	9.2%	-0.5%	47	+0	-28	+0	4.80	6.1
Munis	Bloomberg <b>Municipal</b> Bond Index	-0.5%	8.3%	-0.5%					3.37	6.1

## U.S. Treasuries

### Overview

- **U.S. Treasury yields were mostly unchanged during January**, except for rising yields at the very long end of the duration curve. The benchmark 2-year U.S. Treasury ended the month at 4.21% (4 bps lower), while the benchmark 10-year rose 3 bps to end the month at 3.91%.
- Bond investors spent the last few weeks weighing the benefits of **improving inflation reports** versus the impact of **strong GDP, consumer spending, and employment figures** on the likely pace of Fed Rate action.
- At the Federal Reserve’s recent meeting concluded on January 31st, Chairman Jay Powell confirmed that while inflation was headed in the right direction, it was **unlikely that the Fed would reduce rates at their next meeting in March**.

### Insights

- **We prefer an overweight to intermediate-term within U.S. Treasuries**, capturing potential returns from possible Federal reserve action in mid-2024 and a gradual normalization of the yield curve.

Chart 3

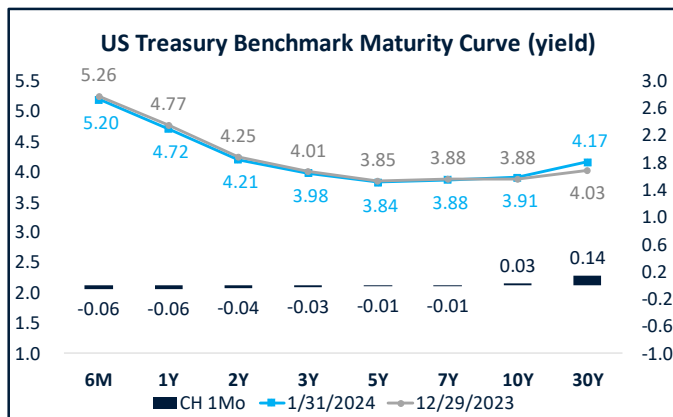


Chart 4

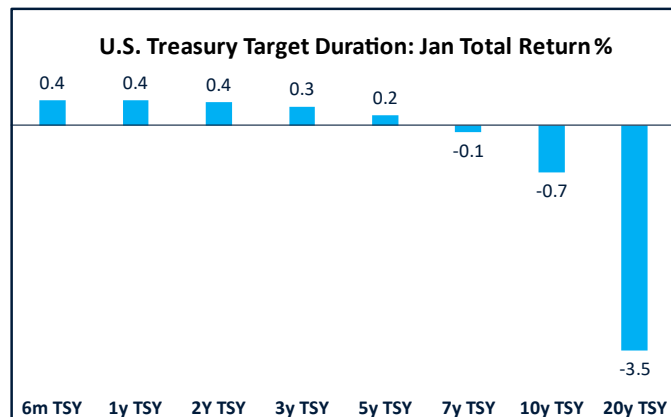


Table 2

Name	Bloomberg Index Name	Total Return			Yield (%)	Duration
		Jan	3 Mo	YTD		
1y Tsy	US Treasury <b>One Year Duration</b> Index	0.4%	1.8%	0.4%	4.75	1.0
6m TSY	US Treasury <b>Six Month Duration</b> Index	0.4%	1.5%	0.4%	5.09	0.5
2y Tsy	US Treasury <b>Two Year Duration</b> Index	0.4%	2.7%	0.4%	4.24	2.0
3y Tsy	US Treasury <b>Three Year Duration</b> Index	0.3%	3.8%	0.3%	4.01	3.0
5y TSY	US Treasury <b>Five Year Duration</b> Index	0.2%	6.2%	0.2%	3.90	5.0
7y TSY	US Treasury <b>Seven Year Duration</b> Index	-0.1%	8.2%	-0.1%	3.93	7.0
10y TSY	US Treasury <b>Ten Year Duration</b> Index	-0.7%	11.4%	-0.7%	4.10	10.0
20y TSY	US Treasury <b>Twenty Year Duration</b> Index	-3.5%	19.8%	-3.5%	4.30	20.0

## U.S. Investment Grade Corporates

### Overview

- The investment grade corporate bond market experienced its busiest new issue month** in nearly two years, issuing \$194 billion in new bonds during the month of January. Demand for the new paper was strong, with **investors attracted to the elevated yields available in the asset class**.
- Total return performance in January was negative for the U.S. Corporate Index (-0.20%), with **the BBB-rated index outperforming**. Within BBB's, **the short duration 1-5 year maturity index** was positive (+0.42%) while longer-duration sectors lagged (Chart 5, Table 3).
- Investment grade credit spreads tightened in January, with the OAS of the U.S. Corporate Index ending the month at +95 bps. However, **the all-in yields for investment grade corporates climbed** in January as long-dated U.S. Treasuries sold off, with the U.S. Corporate Index yielding 5.11% and **BBB's yielding 5.32% as of month-end** (Table 1, Table 3).

### Insights

- We like BBB corporates for the higher income** and total return potential they offer versus the broad U.S. Corporate Index and the other components of the U.S. Aggregate Index. Within the BBB rating category, we are **especially constructive on the 1-5 year and 5-10 year maturity ranges**, which we believe can help investors capture higher yield and total return potential versus other investment grade alternatives.

Chart 5

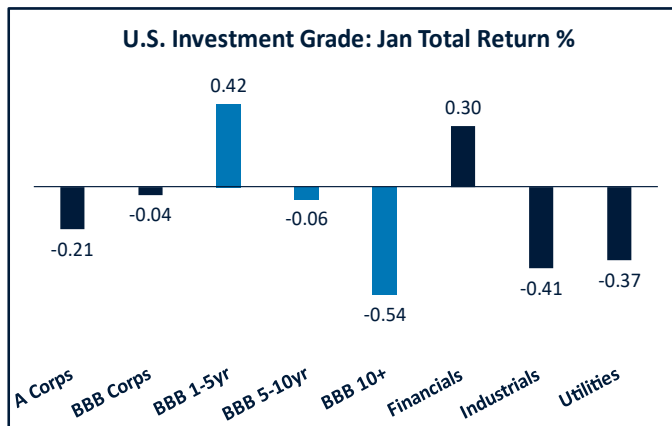


Chart 6

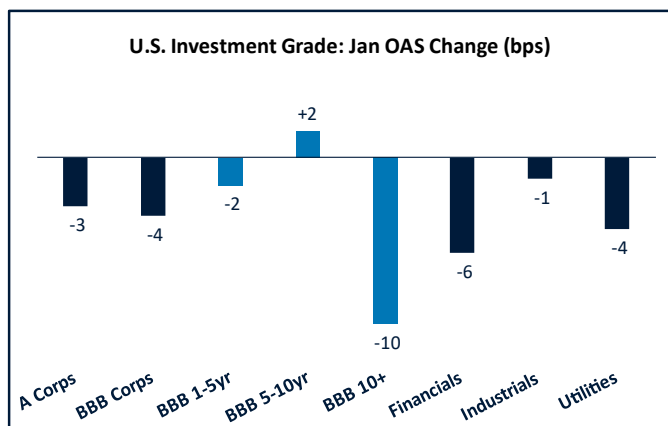


Table 3

Name	Bloomberg Index Name	Total Return			OAS			Yield (%)	Duration	
		Jan	3 Mo	YTD	Jan	Δ 3 Mo	Δ YTD			
BBB Corp	BBB Rated Corporate Index	0.0%	10.8%	0.0%	117	-4	-38	-4	5.32	6.8
A Corp	A Rated Corporate Index	-0.2%	10.0%	-0.2%	81	-3	-31	-3	4.96	7.0
BBB 1-5yr	BBB 1-5 year Corporate Index	0.4%	4.9%	0.4%	94	-2	-37	-2	5.16	2.5
BBB 5-10yr	BBB 5-10 year Corporate Index	-0.1%	10.5%	-0.1%	127	+2	-42	+2	5.24	5.9
BBB 10+	BBB Long Corporate Index	-0.5%	18.5%	-0.5%	135	-10	-37	-10	5.58	12.4
Financial	Financials Corporate Index	0.3%	9.0%	0.3%	106	-6	-45	-6	5.19	5.3
Industrial	Industrials Corporate Index	-0.4%	10.9%	-0.4%	89	-1	-26	-1	5.05	7.7
Utility	Utilities Corporate Index	-0.4%	12.2%	-0.4%	100	-4	-29	-4	5.17	8.7

## U.S. High Yield Credit Ratings

### Overview

- The performance of the U.S. high yield market was flat for the month of January, **with BB's (+0.11%) and single-B's (+0.07%)** outperforming CCC's (-0.47%) (Chart 7, Table 4). The CCC-rated category continues to significantly outperform over the past 3, 6, and 12-month time periods.
- **Credit spreads widened in January**, giving back some of their November and December 2023 spread tightening, with CCC's widening the most (+50 basis points) among the three credit rating categories and BB's widening the least (Chart 8, Table 4).
- **High yield new issue activity was robust in the first month of the year**, with the asset class successfully pricing the highest monthly volume since November 2021. Specifically, 42 bonds priced for total volume of \$31.6 billion for the month, double the historic monthly average (J.P. Morgan, 1/31/24).
- High yield corporate **fundamentals remain generally well-positioned**, with leverage ratios still near pre-pandemic lows and interest coverage ratios near multi-year highs.

### Insights

- **We suggest that investors consider increasing their allocations to single-B and CCC-rated exposures**, to capture their higher income and total return potential, while benefiting from the cushion that higher coupon income provides from possible spread volatility.

Chart 7

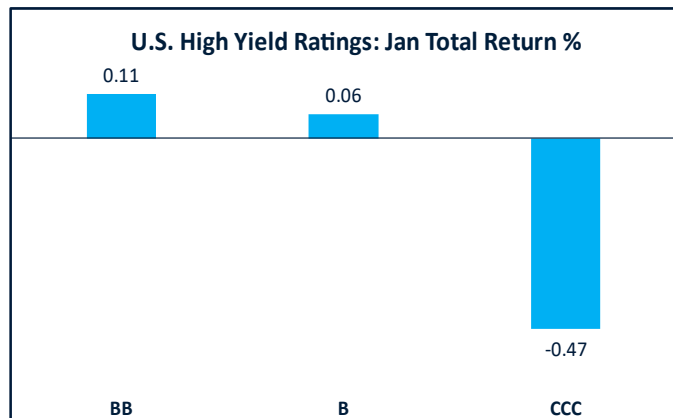


Chart 8

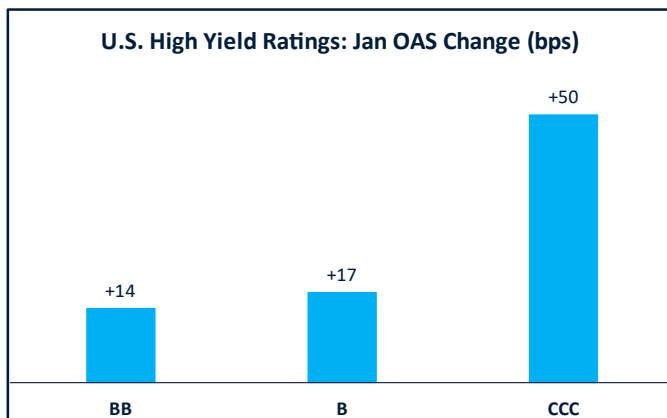


Table 4

Name	ICE BofA Index Name	Total Return			OAS				Yield (%)	Duration
		Jan	3 Mo	YTD	Jan	Δ Jan	Δ 3 Mo	Δ YTD		
BB	BB US Cash Pay High Yield Constrained Index	0.1%	8.2%	0.1%	218	+14	-74	+14	6.43	3.6
B	Single-B US Cash Pay High Yield Constrained Index	0.1%	8.3%	0.1%	362	+17	-99	+17	7.91	3.0
US High Yield	ICE BofA US Cash Pay High Yield Constrained Index	0.0%	8.5%	0.0%	349	+20	-86	+20	7.73	3.3
CCC	CCC US Cash Pay High Yield Constrained Index	-0.5%	10.4%	-0.5%	843	+50	-119	+50	12.53	2.7

## U.S. High Yield Industry Sectors

### Overview

- **January total return performance was positive for six of the seven high yield industry sectors**, led by the more defensive Energy industry (+0.8%) (Chart 9, Table 5).
- As the only laggard, **the Telecom, Media & Technology (TMT) industry was down 1.4% for the month**, as weakness was experienced by issuers including DISH DBS, Level 3, Lumen Technologies, CSC Holdings, and Altice (Chart 9, Table 5, ICE Data Services).
- **Credit spreads vs. Treasuries widened during January in all industry sectors except Energy**, which tightened 9 basis points for the month. The largest spread widening occurred in the TMT (+56 bps), Financials/REITs (+25 bps), and Core Industrial (+19 bps) sectors (Chart 10, Table 5).
- In addition to strong new issuance volumes, the U.S. high yield market experienced its lowest default / distressed exchange volume since July 2023 (J.P. Morgan, 1/31/24).

### Insights

- Within U.S. high yield industry sectors, we remain constructive on high yield industries that demonstrate strong fundamentals and resilience in the current economic climate, including **Core Industrial, Consumer Cyclical, and Energy**.

Chart 9

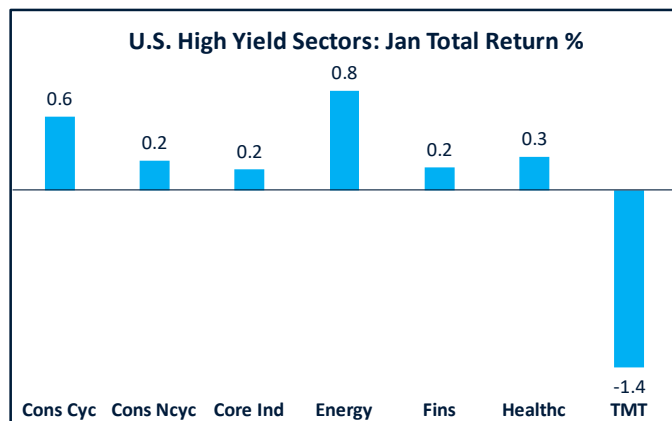


Chart 10

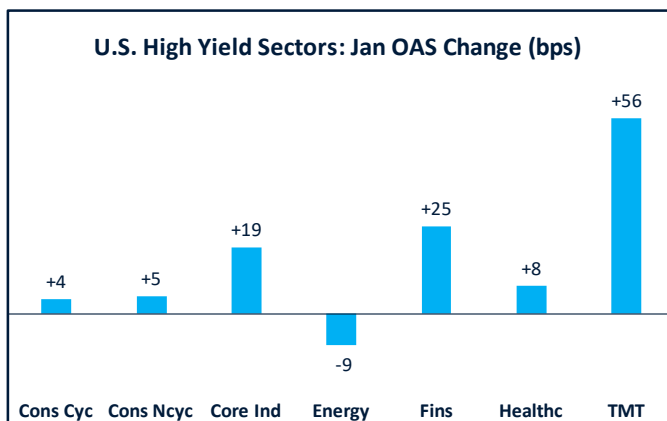


Table 5

Name	ICE Diversified US Cash Pay Index Name	Total Return			OAS			Yield (%)	Duration	
		Jan	3 Mo	YTD	Jan	Δ Jan	Δ 3 Mo			Δ YTD
Energy	High Yield <b>Energy</b> Index	0.8%	6.6%	0.8%	260	-9	-52	-9	6.97	3.0
Cons Cyc	High Yield <b>Consumer Cyclical</b> Index	0.6%	8.6%	0.6%	282	+4	-83	+4	7.10	3.1
Healthc	High Yield <b>Healthcare</b> Index	0.3%	10.7%	0.3%	375	+8	-139	+8	7.97	3.4
Cons NCyc	High Yield <b>Consumer Non-Cyclical</b> Index	0.2%	8.4%	0.2%	247	+5	-95	+5	6.73	3.8
Fins	High Yield <b>Financial &amp; REIT</b> Index	0.2%	9.1%	0.2%	308	+25	-121	+25	7.34	3.1
Core Ind	High Yield <b>Core Industrial</b> Index	0.2%	8.4%	0.2%	308	+19	-94	+19	7.34	3.1
TMT	High Yield <b>Telecom Media &amp; Technology</b> Index	-1.4%	8.1%	-1.4%	526	+56	-58	+56	9.38	3.6

## Emerging Market Debt

### Overview

- **Emerging markets debt reported moderately negative returns in January**, driven by a combination of underlying interest rates as well as wider credit spreads.
- The less-volatile, lower-duration benchmark of **EM debt with maturities less than 10 years returned -0.2% in January, outperforming the longer-duration EM benchmarks** as well as broad US Aggregate and Treasury benchmarks (Table 1, Table 6).
- While spreads widened across the EM debt segment, **investment grade EM debt underperformed high-yield EM debt** due to its greater sensitivity to longer-duration securities and interest rate changes.

### Insights

- **We recommend investing in emerging markets sovereign debt with 1-10 year maturities**, as this short-to-intermediate term duration serves to **reduce volatility** and interest rate sensitivity, while benefiting from attractive yields and total return potential.

Chart 11

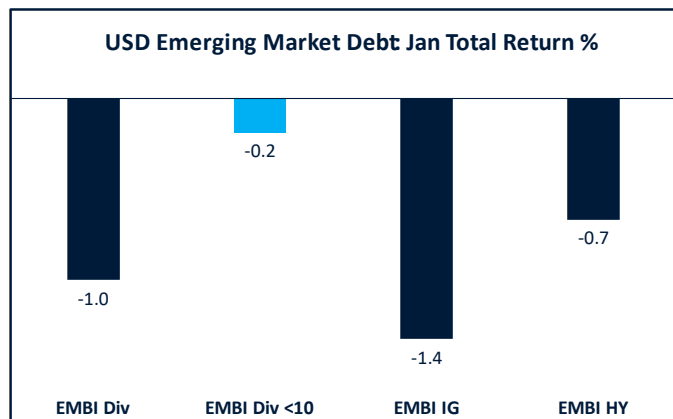


Chart 12

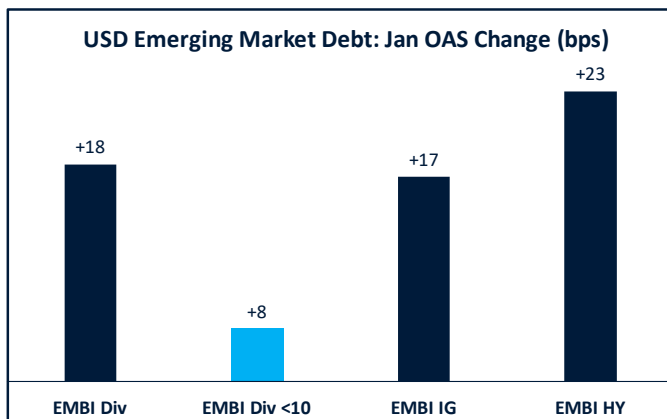


Table 6

Name	J.P. Morgan Index Name	Total Return			OAS			Yield (%)	Duration	
		Jan	3 Mo	YTD	Jan	Δ Jan	Δ 3 Mo			Δ YTD
EMBI DIV<10	EMBI Global Diversified 1-10 Liquid Index	-0.2%	7.3%	-0.2%	554	+8	-37	+8	9.48	4.1
EMBI HY	EMBI Global Diversified High Yield Index	-0.7%	10.1%	-0.7%	723	+23	-69	+23	11.25	5.5
EMBI DIV	EMBI Global Diversified Composite Index	-1.0%	9.5%	-1.0%	402	+18	-34	+18	8.09	6.7
EMBI IG	EMBI Global Diversified Inv Grade Index	-1.4%	9.0%	-1.4%	138	+17	+3	+17	5.49	7.8

## Glossary & index definitions

- **Basis Point (bps):** A standardized measure to denote a percentage change in interest rates, spreads, or other financial metrics. 1 basis point is equivalent to one-hundredth of a percentage point (0.01%).
- 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 indices include USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
- The **Bloomberg Financials Corporate Index** measures the investment grade, fixed-rate, taxable corporate bond market from issuers in the industrial sector, including the banking, financial services, and insurance subsectors.
- The **Bloomberg Global Inflation-Linked Total Return Index** measures the performance of investment-grade, government inflation-linked debt from 12 different developed market countries.
- The **Bloomberg Industrials Corporate Index** measures the investment grade, fixed-rate, taxable corporate bond market from issuers in the industrial sector.
- 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 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 U.S. 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 Index** measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting.
- 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 **Bloomberg Utilities Corporate Index** measures the investment grade, fixed-rate, taxable corporate bond market from issuers in the utilities sector.
- The **Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas. Average price data for select utility, automotive fuel, and food items are also available.
- **Credit Spread:** the difference in yield between a debt security and its benchmark measured in basis points.
- 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 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 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. 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 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 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 Cyclical; Consumer Non-Cyclical.
- 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 **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.
- **Option Adjusted Spread (OAS):** For a bond, OAS 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.
- **Yield** is the annual rate of return on a bond. It has a reverse relationship with price such that as bond prices rise, yields fall.



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