BondBloxx Fixed Income April 2024 Update

Overview

- Persistently high inflation numbers caused a **market pullback in April across equities and fixed income** as investors reduced their expectations for Federal Reserve ("Fed") interest rate reductions in 2024.
- **The market currently expects the Fed to cut rates twice by the end of 2024**, while the Fed's most recent official forecast released in March called for three rate cuts this year. Earnings reports for Q1 were strong with average growth of +5.0%, the strongest in two years (Factset, 3/31/24).
- Longer duration assets were down sharply in performance, **while shorter duration and higher yielding categories**, including U.S. high yield, municipals, and emerging markets debt, **posted less negative returns**.
- **Geopolitical risk** has been rising amidst the threat of an expanding war in the Middle East and gains by Russia in Ukraine, keeping oil prices in the mid $80s and raising the risk of further energy shocks.

Insights

- Given the fundamental strength of U.S. corporations, we believe investors may benefit from increasing their allocation to **credit, particularly BBB, single-B or CCC-rated U.S. corporates**. We believe **short-to-intermediate duration exposure** provides attractive potential returns in U.S. Treasuries and emerging markets.
- Buying higher spread and shorter duration has been a winning fixed income strategy over the last two years, and we believe this trend will persist.

Chart 1: U.S. Fixed Income – April Total Return %

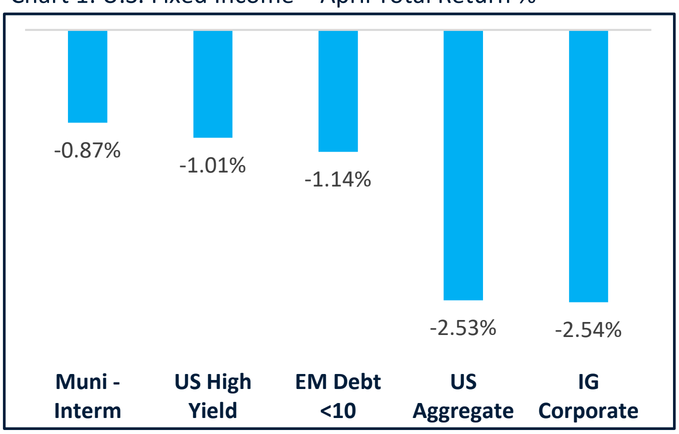

Chart 2: U.S. Fixed Income – YTD Total Return %

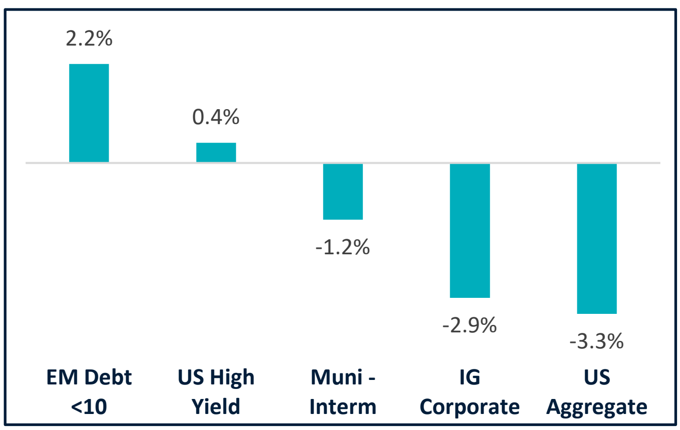

Table 1

Name	Index Name	Total Return			OAS				Yield (%)	Duration
		APR	YTD	12 Mo	APR	Δ APR	Δ YTD	Δ 12 Mo		
US High Yield	ICE BofA US Cash Pay **High Yield** Constrained Index	-1.0%	0.4%	8.8%	306	1	-23	-138	8.01	3.3
IG Corporate	Bloomberg **US Corporate** Index	-2.5%	-2.9%	1.0%	86	-3	-12	-49	5.73	6.7
EM Debt <10	JP Morgan **EMBI Global Diversified 1-10 Liquid** Index	-1.1%	2.2%	11.2%	513	49	-32	-164	9.90	4.1
US Aggregate	Bloomberg **US Aggregate** Index	-2.5%	-3.3%	-1.5%	40	1	-2	-17	5.31	6.0
US Treasury	Bloomberg **US Treasury** Index	-2.3%	-3.3%	-2.8%					4.88	5.8
Muni - Interm	Bloomberg **Intermediate Municipal Bond** Index	-0.9%	-1.2%	1.6%					5.76*	3.8

*Tax equivalent yield

Sources for charts, table and overview data: ICE Data Services, JP Morgan, Bloomberg | Data as of 4/30/2024

U.S. Treasuries

Overview

- U.S. Treasury yields rose sharply in April as **investors lowered their expectations for 2024 Federal Reserve rate cuts**, in response to persistently high inflation data. This resulted in negative returns for U.S. Treasury bonds beyond one year in duration, with the steepest declines in longer-duration Treasuries (Chart 3, Table 2).
- As the March data for **Consumer Price Index (CPI) and Core Personal Consumption Expenditure (PCE) deflator were higher than expected**, at +3.8% year-over-year and +2.8% year-over-year respectively, the number of Federal Reserve interest rate cuts expected by the market by year-end 2024 fell from three to two during the month (Bureau of Economic Analysis, Bureau of Labor Statistics, as of 4/30/2024).
- **There were some signs of weakness in economic data,** with gross domestic product for Q1 reporting below expectations at +1.6%, lower job openings, slower wage growth, and a slight rise in the unemployment rate to 3.9% (Bureau of Labor Statistics, as of 4/30/2024).

Insights

- **We prefer an overweight in short-to-intermediate-term U.S. Treasuries**, to capture attractive yields, price returns from potential Fed actions, and a gradual normalization of the yield curve. The 6 month to the 3 year part of the curve are less sensitive to the high volatility of long-term rates as well as the reinvestment risk of ultra-short maturities.

Chart 3: U.S. Treasury Target Duration: April Total Return %

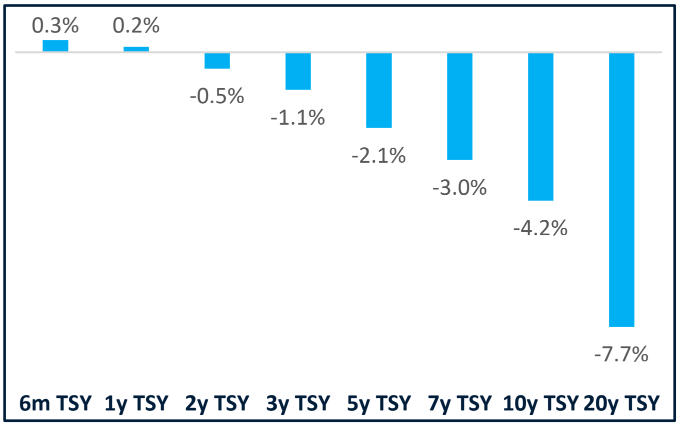

Chart 4: U.S. Treasury Yield Curve: YTD Change

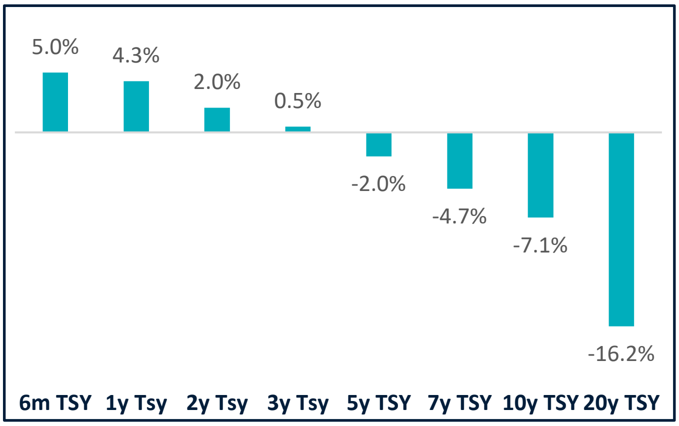

Table 2

Name	Bloomberg Index Name	Total Return			Yield (%)	Duration
		APR	YTD	12 Mo		
6m TSY	US Treasury **Six Month Duration** Index	0.3%	1.5%	5.0%	5.33	0.5
1y TSY	US Treasury **One Year Duration** Index	0.2%	1.0%	4.3%	5.27	1.0
2y Tsy	US Treasury **Two Year Duration** Index	-0.5%	-0.3%	2.0%	5.04	2.0
3y Tsy	US Treasury **Three Year Duration** Index	-1.1%	-1.3%	0.5%	4.87	3.0
5y TSY	US Treasury **Five Year Duration** Index	-2.1%	-2.9%	-2.0%	4.73	5.0
7y TSY	US Treasury **Seven Year Duration** Index	-3.0%	-4.3%	-4.7%	4.69	7.0
10y TSY	US Treasury **Ten Year Duration** Index	-4.2%	-5.9%	-7.1%	4.79	10.0
20y TSY	US Treasury **Twenty Year Duration** Index	-7.7%	-12.1%	-16.2%	4.82	20.0

Sources for Charts 3 & 4, Table 2, and overview data: ICE Data Services, Bloomberg | Data as of 4/30/2024

U.S. Municipal Bonds

Overview

- Mirroring the move in U.S. Treasuries, **intermediate municipal bonds returned -0.9% in April** while short duration municipal bonds returned -0.1%.
- Similar to the U.S. Treasury yield curve, the municipal yield curve is inverted, resulting in higher municipal yields in shorter maturities. **Investors may now receive enhanced income in shorter-dated municipals** relative to longer-dated bonds, but with lower expected risk.
- **Tax-exempt municipal issuance totaled $41 billion in April**, a 21% increase from April 2023. The heavier supply was driven by municipalities' greater borrowing needs in the wake of depleted federal Covid relief funds (Barclays, 4/30/2024).

Insights

- For tax-sensitive investors, we believe **that municipals offer compelling value relative to broad based corporates in shorter dated maturities,** and have uncovered opportunities in several subsectors, including housing, healthcare, and higher education.
- Against the current backdrop of economic and political uncertainty, **municipals can help mitigate a portfolio's overall risk profile.**

Chart 5: U.S. Municipals vs. Corporates– April Total Return %

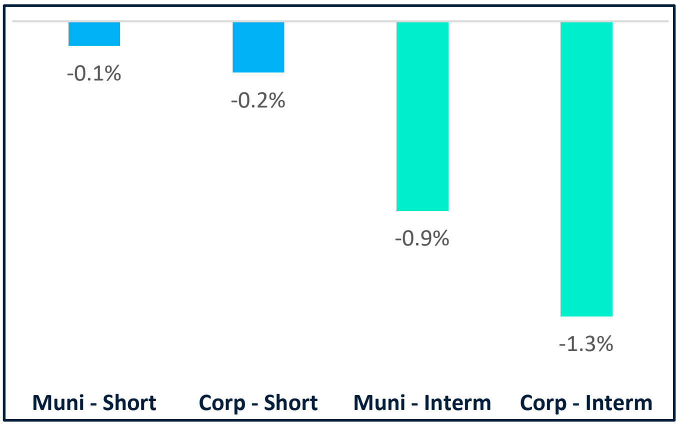

Chart 6: U.S. Municipals vs. Corporates – YTD Total Return %

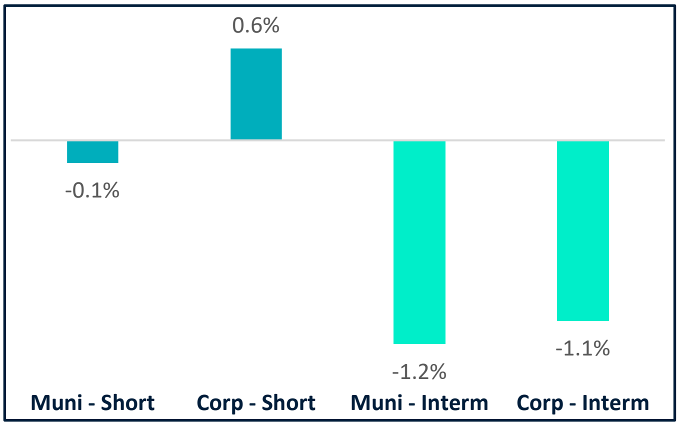

Table 3

Name	Bloomberg Index Name	Total Return			Yield (%)	Tax Equivalent Yield (%)	Duration
		APR	YTD	12 Mo			
Muni - Short	U.S. **Municipal 1-3 Year** Index	-0.1%	-0.1%	2.4%	3.55	5.99	1.6
Corp - Short	U.S. **Corporate 1-3 year** Index	-0.2%	0.6%	4.2%	5.63	5.63	1.7
Muni - Interm	U.S. **Municipal 1-3 Year Bond** Index	-0.9%	-1.2%	1.6%	3.41	5.76	3.8
Corp - Interm	U.S. **Intermediate Corporate** Index	-1.3%	-1.1%	2.7%	5.65	5.65	3.9

Sources for Charts 5 & 6, Table 3, and overview data: Bloomberg | Data as of 4/30/2024

U.S. Investment Grade Corporates

Overview

- **The U.S. Corporate Index fell 2.5% in April,** extending its negative year-to-date return to -2.9%, impacted by sharply rising U.S. Treasury yields in response to recalibrated Fed rate cut expectations.
- Reflecting its shorter duration and modestly tightening spreads, **the 1-5 year BBB index was down less in April (-0.7%)** than longer duration U.S. corporate indices. The 1-5 year BBB index is also outperforming year-to-date with its flat (0.0%) return versus -2.4% for the 5-10 year BBB index and -6.0% for the 10+ year BBB index.
- Reflecting the back-up in U.S. Treasury rates in April, **BBB-rated corporate yields were up 38 basis points in April to a month-end level of 5.93%,** while BBB corporate spreads tightened 3 basis points on average to +106 basis points.
- The investment grade corporate new issue market remained active in April, with $105 billion in new deals priced. **Year-to-date issuance totals $636 billion, making it the second most active year since 2020.**

Insights

- **We like BBB corporates for the higher income** and total return potential they offer compared to all other asset classes of investment grade fixed income.
- 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 attractive yield and total return potential with less volatility than other investment grade alternatives.

Chart 7: U.S. Investment Grade – April Total Return %

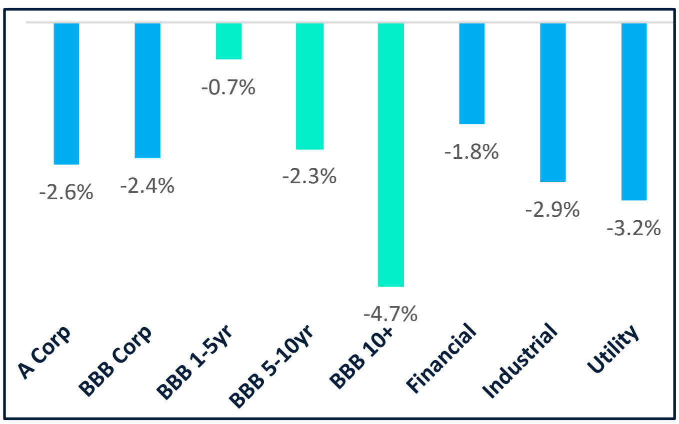

Chart 8: U.S. Investment Grade – YTD Total Return %

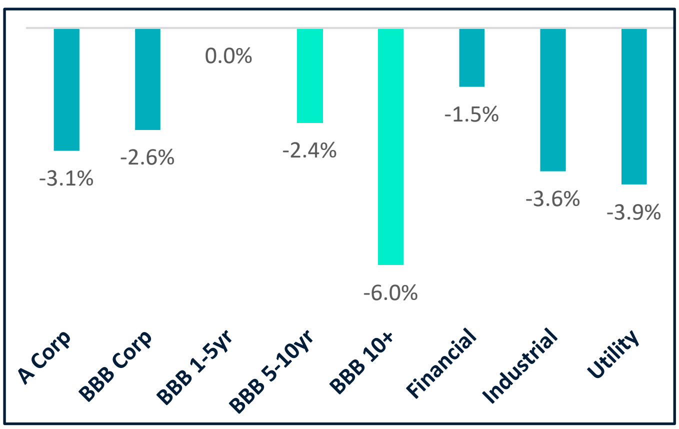

Table 4

Name	Bloomberg Index Name	Total Return			OAS				Yield (%)	Duration
		APR	YTD	12 Mo	APR	Δ APR	Δ YTD	Δ 12 Mo		
BBB Corp	**BBB Rated Corporate** Index	-2.4%	-2.6%	2.2%	106	-3	-14	-58	5.93	6.5
A Corp	**A Rated Corporate** Index	-2.6%	-3.1%	0.3%	73	-3	-11	-42	5.59	6.7
BBB 1-5yr	**BBB 1-5 year Corporate** Index	-0.7%	0.0%	4.1%	78	-3	-14	-46	5.77	2.5
BBB 5-10yr	**BBB 5-10 year Corporate** Index	-2.3%	-2.4%	2.4%	112	-3	-11	-58	5.86	5.9
BBB 10+	**BBB 10+ year Corporate** Index	-4.7%	-6.0%	-0.1%	132	-2	-11	-61	6.16	12.1
Financial	**Financials Corporate** Index	-1.8%	-1.5%	3.0%	92	-4	-19	-65	5.80	5.2
Industrial	**Industrials Corporate** Index	-2.9%	-3.6%	0.2%	82	-3	-8	-42	5.68	7.4
Utility	**Utilities Corporate** Index	-3.2%	-3.9%	-1.1%	95	-2	-10	-38	5.80	8.2

Sources for Charts 7 & 8, Table 4, and overview data: ICE Data Services, Bloomberg | Data as of 4/30/2024

U.S. High Yield Credit Ratings

Overview

- The U.S. high yield market experienced its largest total return loss since last October amid sharply higher U.S. Treasury yields. CCC's were down the most for the month (-1.5%), while BB's and single-B's were down -0.9% each.
- Despite its underperformance in April, **the CCC rating category continues to outperform the rest of the high yield market on a year-to-date basis**, returning 1.3% through the end of April versus 0.6% for single-Bs and 0.2% for BB's.
- **CCC's have outperformed the rest of high yield plus all other broad market fixed income indices** by an even larger margin over the past 12 months (Chart 10).
- The **elevated yields of 7-12% for the BB, single-B and CCC indices** offer the potential for higher income generation for investors (Table 5).
- Credit spreads were roughly unchanged for the U.S. High Yield Index in April, with the 13 basis points widening in CCC's offset by 7 basis points tightening in single-B's and 3 basis points tightening in BB's.
- U.S. high yield new issue volume remained robust in April for the 4th month in a row, totaling $26.4 billion for the month. Refinancing was once again the overwhelming use of proceeds (J.P. Morgan, 4/30/24).

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 in the context of a resilient economic environment, while benefiting from the cushion that higher coupon income provides from possible spread volatility.

Chart 9: U.S. High Yield Ratings – April Total Return %

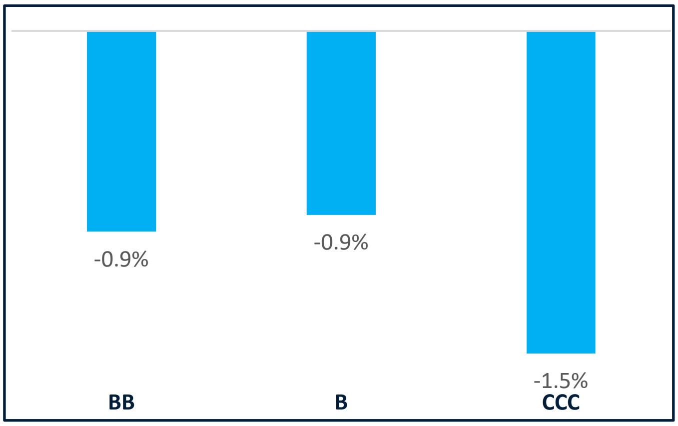

Chart 10: U.S. High Yield Ratings – YTD Total Return %

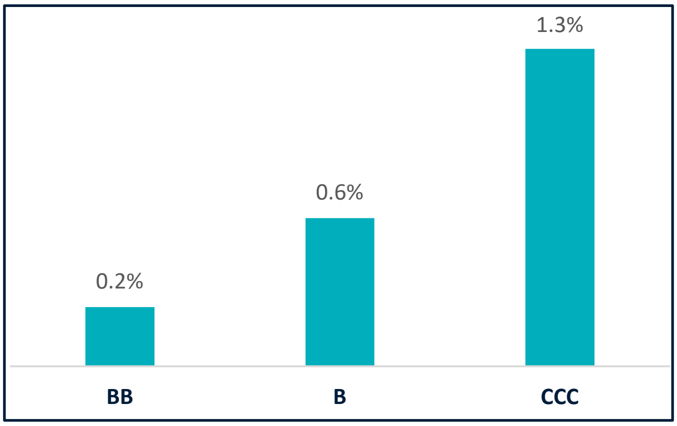

Table 5

Name	ICE BofA Index Name	Total Return			OAS				Yield (%)	Duration
		APR	YTD	12 Mo	APR	Δ APR	Δ YTD	Δ 12 Mo		
BB	**BB** US Cash Pay **High Yield** Constrained Index	-0.9%	0.2%	7.3%	182	-3	-22	-104	6.80	3.6
B	**Single-B** US Cash Pay **High Yield** Constrained Index	-0.9%	0.6%	9.3%	307	-7	-38	-171	8.04	3.0
CCC	**CCC** US Cash Pay **High Yield** Constrained Index	-1.5%	1.3%	13.6%	756	13	-37	-192	12.32	2.8
US High Yield	ICE BofA US Cash Pay **High Yield** Constrained Index	-1.0%	0.4%	8.8%	306	1	-23	-138	8.01	3.3

Sources for Charts 9 & 10, Table 5, and overview data: ICE Data Services, Bloomberg | Data as of 4/30/2024

U.S. High Yield Industry Sectors

Overview

- **April total return performance was negative for all seven high yield industry sectors,** although the returns experienced by the **Healthcare and Energy industries** were only modestly negative, at -0.1% and -0.3% respectively.
- **The laggards for the month were TMT (-2.2%) and Consumer Non-Cyclical (-1.3%).** TMT continues to be the worst performer year-to-date, down -3.2%, reflecting weakness in its Cable/Satellite and Telecommunications sub-sectors.
- **Credit spread changes were mixed in April**, with the most tightening experienced by the Energy industry (-17 bps) and the Healthcare industry (-15 bps), while TMT experienced the most widening (+27 bps).
- **Default activity moderated in April**, with total default volume coming in at a 9-month low of $2.9 billion. Additionally, the 12-month default rate of 2.33% has improved 52 basis points since year-end 2023. (J.P. Morgan, 4/30/24).

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 11: U.S. High Yield Sectors – April Total Return %

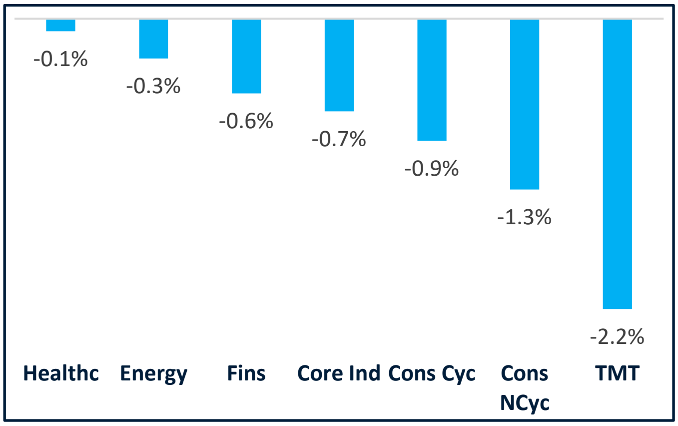

Chart 12: U.S. High Yield Sectors – YTD Total Returns %

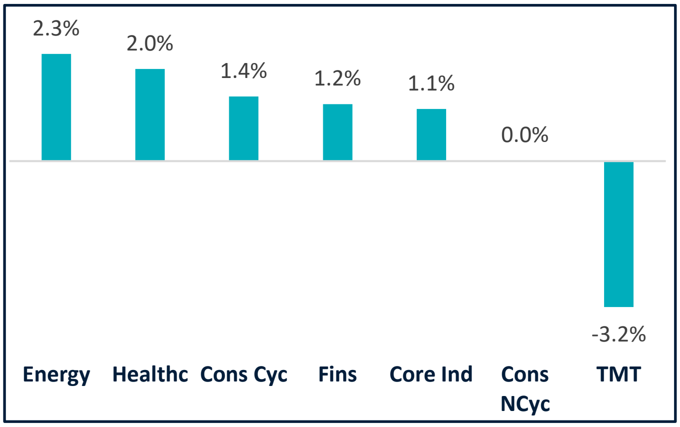

Table 6

Name	ICE Diversified US Cash Pay Index Name	Total Return			OAS				Yield (%)	Duration
		APR	YTD	12 Mo	APR	Δ APR	Δ YTD	Δ 12 Mo		
Energy	High Yield **Energy** Index	-0.3%	2.3%	10.0%	197	-17	-72	-152	6.98	2.9
Cons Cyc	High Yield **Consumer Cyclical** Index	-0.9%	1.4%	11.4%	249	7	-29	-200	7.46	3.2
Healthc	High Yield **Healthcare** Index	-0.1%	2.0%	8.8%	301	-15	-66	-238	7.91	3.4
Cons NCyc	High Yield **Consumer Non-Cyclical** Index	-1.3%	0.0%	6.7%	226	8	-16	-103	7.17	3.8
Fins	High Yield **Financial & REIT** Index	-0.6%	1.2%	11.0%	257	-5	-26	-221	7.47	3.2
Core Ind	High Yield **Core Industrial** Index	-0.7%	1.1%	8.4%	244	-2	-45	-130	7.47	3.1
TMT	High Yield **Telecom Media & Technology** Index	-2.2%	-3.2%	6.2%	514	27	44	-56	10.01	3.5

Sources for Charts 11 & 12, Table 6, and overview data: ICE Data Services | Data as of 4/30/2024

Emerging Market Debt

Overview

- **Emerging markets (EM) debt reported negative returns in April**, reflecting by rising U.S. Treasury yields and a strengthening U.S. dollar. However, lower duration emerging markets debt outperformed broad market emerging market benchmarks, continuing the pattern experienced over the last 12 months.
- **EM debt with maturities less than 10 years returned -1.1% in March,** bringing its year-to-date return to +2.2%, outperforming the broader EM benchmark by over 200 basis points. Over the last 12 months, the maturity-constrained index has returned +11.2% compared to +8.4% for the broad EM benchmark, while also exhibiting lower volatility.
- **Lower-rated emerging markets debt has outperformed this year**, with a +3.5% year-to-date total return for high yield emerging markets debt, compared to a negative -3.5% return for investment grade-rated emerging markets debt.

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 13: USD EM Debt – April Total Return %

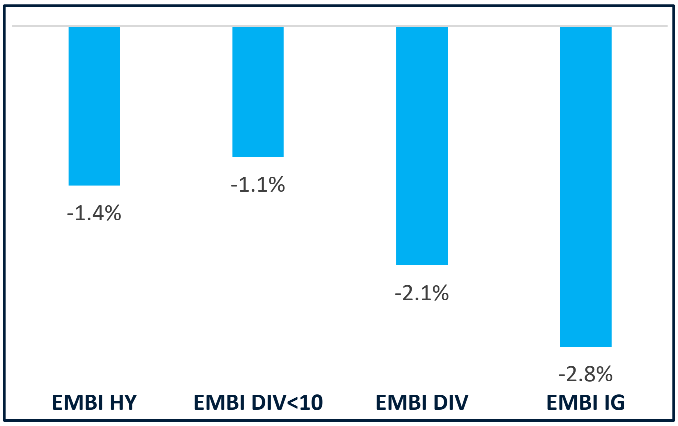

Chart 14: USD EM Debt – YTD Total Return %

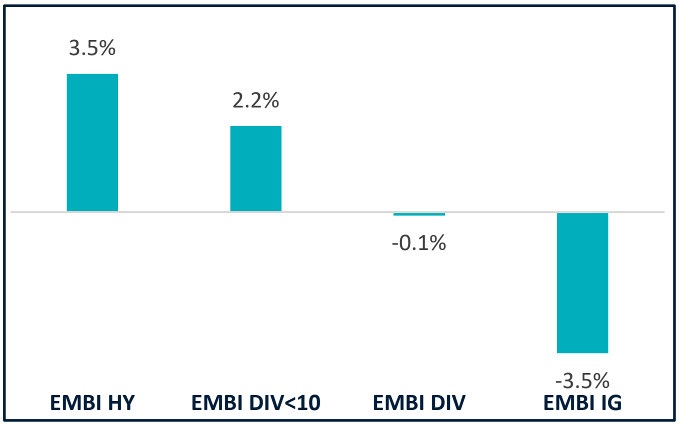

Table 7

Name	J.P. Morgan Index Name	Total Return			OAS				Yield (%)	Duration
		APR	YTD	12 Mo	APR	Δ APR	Δ YTD	Δ 12 Mo		
EMBI DIV<10	**EMBI Global Diversified 1-10 Liquid** Index	-1.1%	2.2%	11.2%	513	49	-32	-164	9.90	4.1
EMBI HY	**EMBI Global Diversified High Yield** Index	-1.4%	3.5%	18.8%	680	73	-20	-225	11.59	5.4
EMBI DIV	**EMBI Global Diversified Composite** Index	-2.1%	-0.1%	8.4%	373	31	-11	-110	8.53	6.4
EMBI IG	**EMBI Global Diversified Inv Grade** Index	-2.8%	-3.5%	-0.9%	116	-4	-5	-32	5.96	7.5

Sources for Charts 13 & 14, Table 7, and overview data: J.P. Morgan| Data as of 4/30/2024

Glossary & index definitions

- 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 10+ year 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 Corporate 1-3 Year Index** measures the investment grade, fixed-rate, taxable corporate bond market with 1-3 year maturities. It includes 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 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 US Corporate 1-3 Year Index** measures the investment grade, fixed-rate, taxable corporate bond market with 1-3 year maturities. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
- The **Bloomberg US Corporate 1-10 Year Index** measures the investment grade, fixed-rate, US dollar-denominated corporate bonds with 1-10 year maturities. The index includes publicly issued securities by industrial, utility, and financial issuers with at least USD 300mn amount outstanding.
- The **Bloomberg US Intermediate Corporate Index** measures the investment grade, fixed-rate, US dollar-denominated securities issued by corporate issuers. The index includes publicly issued securities by industrial, utility, and financial issuers with at least USD 300mn amount outstanding.
- 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. Municipal 1-3 Year Index** measures the performance of USD-denominated, tax-exempt bonds with maturities of 1-3 years, including state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
- The **Bloomberg U.S. Municipal 1-10 Year Index** measures the performance of USD-denominated, tax-exempt bonds with maturities of 1-10 years, including state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
- 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.
- **Core Personal Consumption Expenditure (PCE)** is a measure of prices that people living in the United States, or those buying on their behalf, pay for goods and services. It excludes food and energy categories which can have price swings.
- **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 Cyclicals; Consumer Non-Cyclicals.
- 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.
- **Tax Equivalent Yield:** The yield that a taxable bond would need to equal the yield on a comparable tax-exempt municipal bond, taking into account the impact of taxes. The calculation is a tool that investors can use to fairly compare the yield between a tax-free investment and a taxable alternative. TEY assumes the highest marginal Federal tax rate, is measured at the individual bond level, and aggregated to the portfolio level. Tax Equivalent Yield = Tax Free Municipal Bond Yield / (1-Tax Rate).
- **YTD:** Year-to-date.
- **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.

Disclosures

Index performance is not illustrative of fund performance. One cannot invest directly in an index. Please visit bondbloxxetf.com for fund performance.

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