

BondBloxx Fixed Income Market Commentary – Q3 2024

Overview

- **The fixed income market experienced a rally in the third quarter of 2024**, primarily driven by the Federal Reserve’s (Fed) cut in interest rate policy and indications of slower U.S. inflation and employment growth.
- **Higher-yielding and longer-duration sectors led the market** as confidence grew in the Fed's ability to support the U.S. economy while controlling inflation.
- **Emerging market and U.S. high yield bonds are the leading sectors** in fixed income year-to-date, while **U.S. Aggregate** and **U.S. Treasuries** lagged, posting negative returns for most of the year.
- **At their September meeting, the Fed cut the benchmark policy interest rate by 0.50%**, publicly commenting on slowing job gains and progress toward its inflation goals. In its updated quarterly forecast, the Fed lowered its outlook for inflation and interest rate policy for the next several years.

Insights: Now that the Federal Reserve has begun cutting rates in the context of a still-resilient U.S. economy, we recommend that investors:

- Move out to the intermediate range of the U.S. Treasury curve
- Prioritize income with intermediate maturity BBB corporates
- Tap into opportunities in U.S. high yield with CCC index exposure

Chart 1: U.S. Fixed Income – Q3 Total Return %

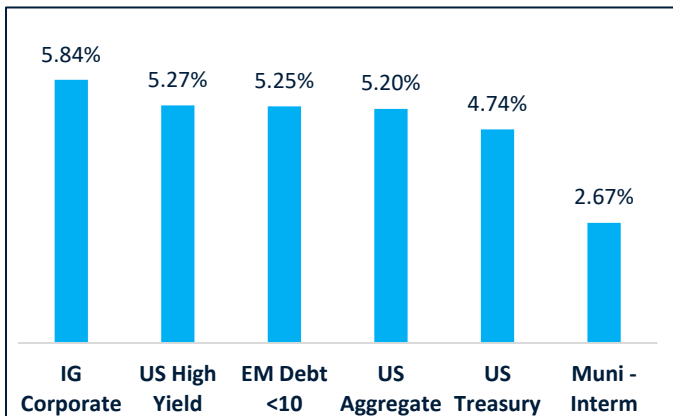


Chart 2: U.S. Fixed Income – YTD Total Return %

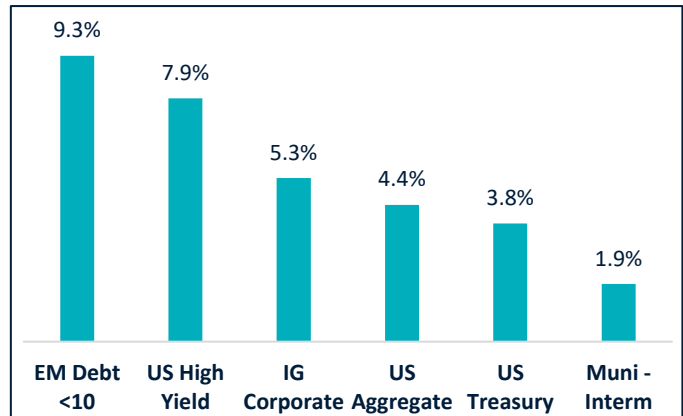


Table 1

Name	Index Name	Total Return			OAS	Yield (%)	Duration
		Q3	YTD	12 Mo	Q3		
US High Yield	ICE BofA US Cash Pay High Yield Constrained Index	5.3%	7.9%	15.6%	304	6.96	3.0
IG Corporate	Bloomberg US Corporate Index	5.8%	5.3%	14.3%	88	4.72	7.1
EM Debt <10	JP Morgan EMBI Global Diversified 1-10 Liquid Index	5.2%	9.3%	17.1%	539	9.04	4.2
US Aggregate	Bloomberg US Aggregate Index	5.2%	4.4%	11.6%	36	4.23	6.1
US Treasury	Bloomberg US Treasury Index	4.7%	3.8%	9.7%			
Muni - Interm	Bloomberg U.S. Municipal 1-10 year Index	2.7%	1.9%	7.4%		4.85*	3.9

*Tax equivalent yield

Sources for charts, table and overview data: ICE Data Services, JP Morgan, Bloomberg | Data as of 9/30/2024

U.S. Treasuries

Overview

- **U.S. Treasury bonds recovered in the third quarter**, as softer labor market data and slowing inflation drove investor sentiment and prompted the **Fed to enact its first policy rate cut since 2020**. While returns were negative in the first half of 2024 for U.S. Treasuries with a duration above 5 years, recent strong performance has returned the full yield curve to positive year-to-date returns.
- As widely expected, the **Fed cut its benchmark policy rate by 0.50% at its September meeting** to a range of 4.75 to 5.00%. They released an updated forecast calling for another 50 bps of cuts by year-end, and a further 100 bps of cuts in 2025 (Federal Reserve Minutes and Commentary, as of 9/30/2024).
- Year-to-date, the **best total returns have come in the middle of the U.S. Treasury curve**, with the 5-year and 3-year durations returning +4.4% and +4.2%, respectively. The shorter durations have returned a respectable +4.0 to 4.1%, while the longer end of the curve has shown a recent rebound, albeit with higher volatility.

Insights

- **We recommend an overweight in intermediate-term U.S. Treasuries**, to capture attractive yields and price return potential from ongoing Fed rate cuts and the expected normalization of the yield curve.
- Consider 3-year to 10-year target duration US Treasury exposure to **capture opportunities for price appreciation** in a falling interest rate environment, while reducing reinvestment risk.

Chart 3: U.S. Treasury Target Duration: Q3 Total Return %

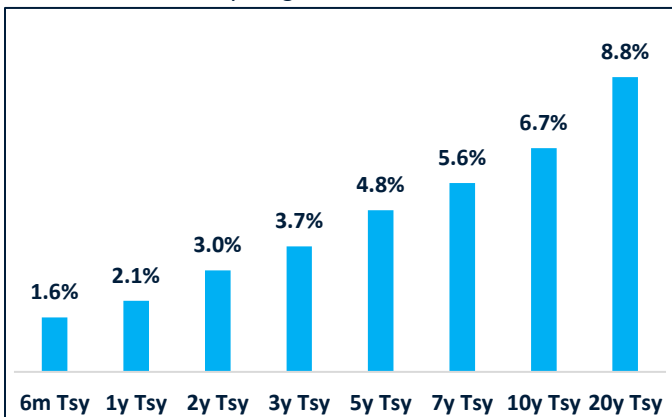


Chart 4: U.S. Treasury Target Duration: YTD Total Return %

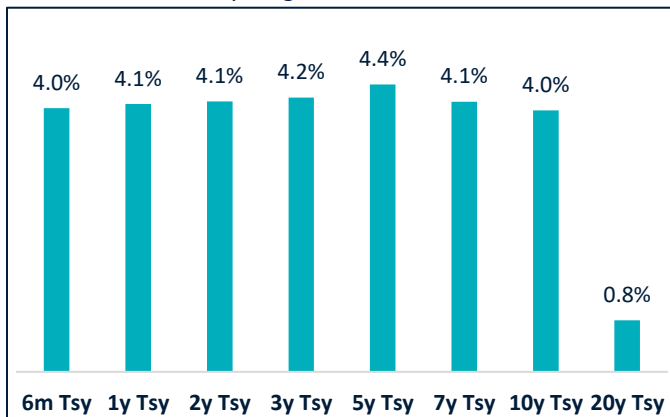


Table 2

Name	Bloomberg Index Name	Total Return			Yield (%)	Duration
		Q3	YTD	12 Mo		
6m Tsy	US Treasury Six Month Duration Index	1.6%	4.0%	5.7%	4.32	0.5
1y Tsy	US Treasury One Year Duration Index	2.1%	4.1%	6.0%	4.00	1.0
2y Tsy	US Treasury Two Year Duration Index	3.0%	4.1%	6.9%	3.68	2.0
3y Tsy	US Treasury Three Year Duration Index	3.7%	4.2%	7.9%	3.58	3.0
5y Tsy	US Treasury Five Year Duration Index	4.8%	4.4%	9.7%	3.61	5.0
7y Tsy	US Treasury Seven Year Duration Index	5.6%	4.1%	10.9%	3.73	7.0
10y Tsy	US Treasury Ten Year Duration Index	6.7%	4.0%	13.3%	3.92	10.0
20y Tsy	US Treasury Twenty Year Duration Index	8.8%	0.8%	16.7%	4.21	20.0

U.S. Municipal Bonds

Overview

- **Municipals posted positive performance for the third quarter** but underperformed both U.S. Treasuries and Corporates. The Bloomberg Municipal Bond Index reported a +2.7% return, which was its best Q3 since 2011, reversing the negative returns of the first half of the year (Bloomberg, 9/30/24).
- **Tax-exempt municipal issuance remained robust in September** with over \$44 billion priced, a level that was 63% higher than last year, and above the trailing 5-year average for the month. Year-to-date issuance of \$348 billion is 42% higher than 2023 (JPMorgan, 9/30/24).
- **Municipal fund flows continued their positive streak**, with net inflows of \$5.3 billion in September and \$28.1 billion year-to-date, marking the 14th consecutive week of inflows, and versus outflows in 2023 and 2022 (J.P. Morgan, LSEG Lipper, 9/30/24).

Insights

- With the relative underperformance of Municipals versus U.S. Treasuries and Corporates in recent months, **we believe the asset class offers compelling after-tax relative value** and recommend increasing allocations to the sector.

Chart 5: U.S. Municipals vs. Corporates – Q3 Total Return %

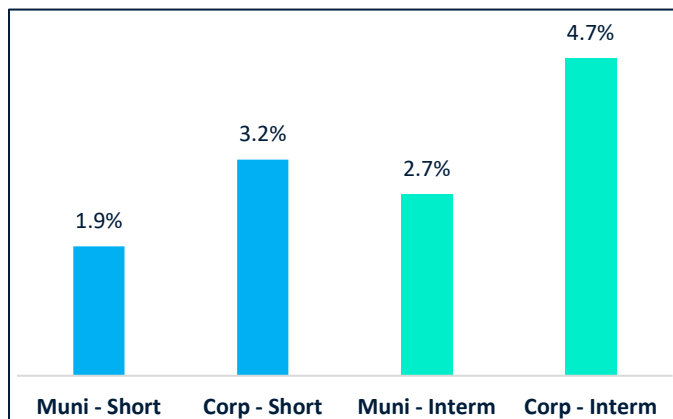


Chart 6: U.S. Municipals vs. Corporates – YTD Total Return %

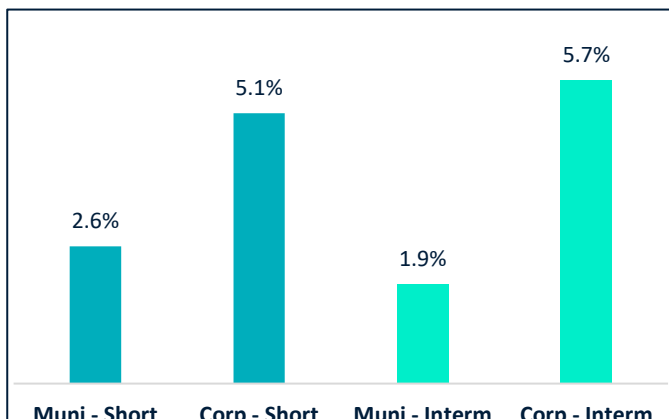


Table 3

Name	Bloomberg Index Name	Total Return			Yield (%)	Tax Equivalent Yield (%)	Duration
		Q3	YTD	12 Mo			
Muni - Short	U.S. Municipal 1-3 Year Index	1.9%	2.6%	5.4%	2.70	4.56	1.6
Corp - Short	U.S. Corporate 1-3 year Index	3.2%	5.1%	8.3%	4.30	4.30	1.8
Muni - Intern	U.S. Municipal 1-10 year Index	2.7%	1.9%	7.4%	2.87	4.85	3.9
Corp - Intern	U.S. Corporate 1-10 year Index	4.7%	5.7%	11.9%	4.49	4.49	4.0

U.S. Investment Grade Corporates

Overview

- **The U.S. Corporate Index posted its strongest quarter of the year in Q3**, delivering a 5.8% return. This performance made up most of the year-to-date return, as investment-grade corporates benefited from a sharp rally in U.S. Treasury rates.
- **BBB-rated bonds** performed similarly (5.7%), led by intermediate-to-long dated maturities. The 5-10 year and 10+ year maturity ranges returned 5.9% and 8.0%, respectively.
- **Year-to-date, the 5-10 year BBB index has rallied the most among the BBB maturity categories**, generating a +6.2% total return. The 5-10 year BBB index surpassed the previous quarter's outperformer, the 1-5 year BBB index, as bond prices appreciated in a declining interest rate environment.
- Reflecting the sharp rally in U.S. Treasury rates in the third quarter, **BBB corporate yields were down 75 basis points (bps) to a quarter-end level of 4.94%**, while BBB corporate spreads tightened 3bps to +111 bps.
- The investment grade corporate bond **new issue market remained robust in Q3**, with \$389b in new deals priced. Year-to-date issuance totals \$1.26 trillion, an all-time record year for investment grade corporates.

Insights: We favor BBB-rated corporates for their higher income and total return potential compared to other investment-grade bonds. Specifically, we see the 5-10 year maturity range as particularly attractive in the current environment, offering opportunities for yield and price appreciation as the Fed continues to cut rates.

Chart 7: U.S. Investment Grade – Q3 Total Return %

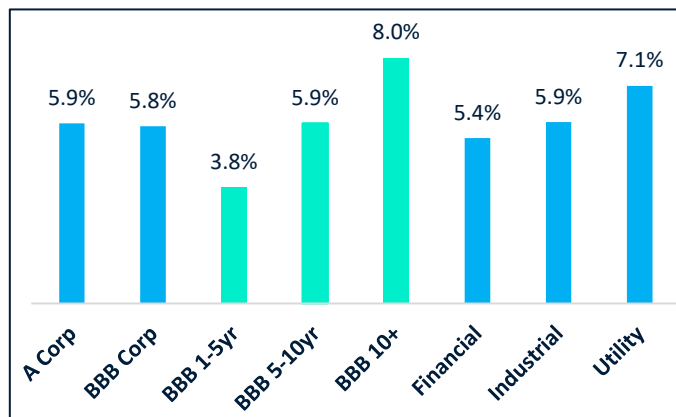


Chart 8: U.S. Investment Grade – YTD Total Return %

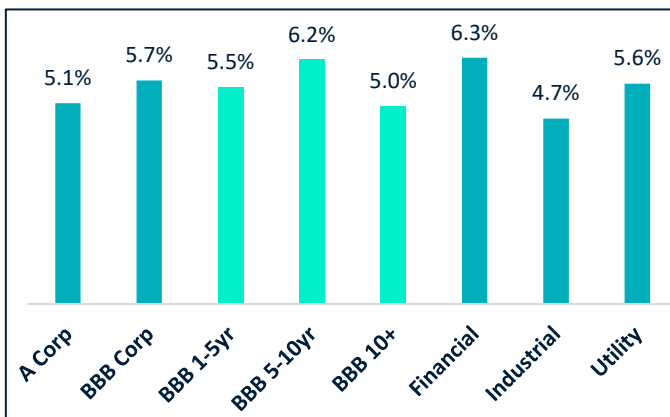


Table 4

Name	Bloomberg Index Name	Total Return			OAS	Yield (%)	Duration
		Q3	YTD	12 Mo	Q3		
BBB Corp	BBB Rated Corporate Index	5.8%	5.7%	15.0%	110	4.94	6.8
A Corp	A Rated Corporate Index	5.9%	5.1%	13.7%	73	4.56	7.1
BBB 1-5yr	BBB 1-5 year Corporate Index	3.8%	5.5%	10.1%	83	4.52	2.6
BBB 5-10yr	BBB 5-10 year Corporate Index	5.9%	6.2%	15.5%	113	4.85	5.9
BBB 10+	BBB 10+ year Corporate Index	8.0%	5.0%	20.4%	134	5.45	12.6
Financial	Financials Corporate Index	5.4%	6.3%	14.0%	89	4.66	5.4
Industrial	Industrials Corporate Index	5.9%	4.7%	14.2%	87	4.74	7.8
Utility	Utilities Corporate Index	7.1%	5.6%	15.9%	92	4.83	8.6

U.S. High Yield Credit Ratings

Overview

- **The U.S. high yield market experienced a strong third quarter**, up 5.27% for the broad high yield index, extending the year-to-date gain to 7.91%.
- **Q3 performance was led by CCCs with a return of 9.16%**, its best quarter since 2020. Year-to-date, the CCC index has gained 11.35%, outperforming single-B and BB ratings by more than 400 basis points, making it one of the top-performing sectors in fixed income for 2024.
- Credit spreads were 12 basis points tighter for the U.S. High Yield Index in the third quarter, led by 63 bps of spread tightening in CCCs. **High yield bond yields fell significantly with the rally in U.S. Treasury rates** as economic growth estimates for the third quarter exceeded expectations.
- The **new issue market finished September with the highest volume in three years**, totaling \$36.7 billion for just this one month. Year-to-date, new issuance totals \$237.7 billion, well above last year's \$133.8 billion. Refinancing was once again the overwhelming use of proceeds (J.P. Morgan, 9/30/2024).

Insights

- We **recommend that investors increase their allocations to CCC and single-B rated exposures** to capture their higher income and total return potential in the context of a resilient economic environment and declining interest rates.
- U.S. high yield's elevated yields in the high 6% to low 11% range for **the BB, single-B and CCC indices offer investors the potential for attractive income generation** (Table 5).

Chart 9: U.S. High Yield Ratings – Q3 Total Return %

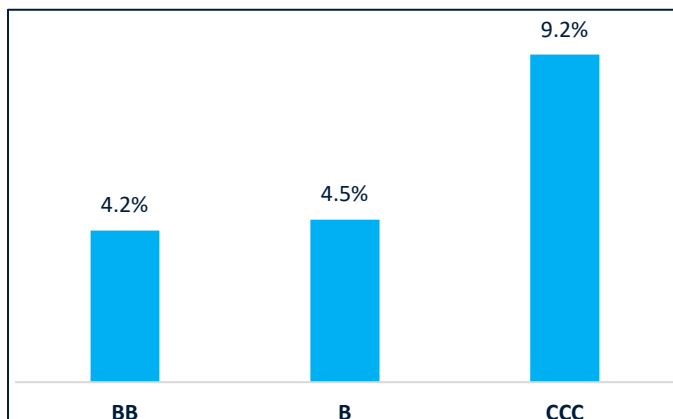


Chart 10: U.S. High Yield Ratings – YTD Total Return %

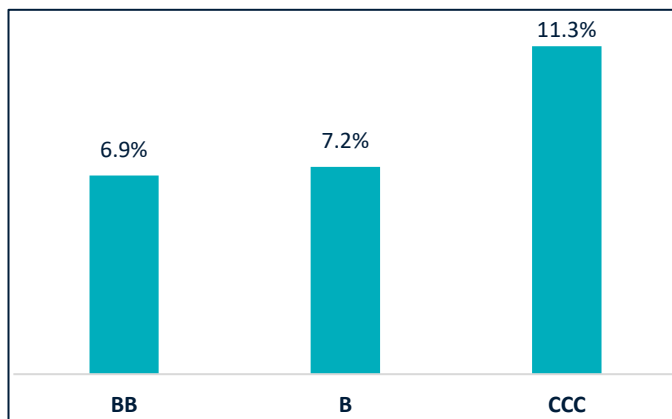


Table 5

Name	ICE BofA Index Name	Total Return			OAS	Yield (%)	Duration
		Q3	YTD	12 Mo	Q3		
BB	BB US Cash Pay High Yield Constrained Index	4.2%	6.9%	14.8%	184	5.77	3.2
B	Single-B US Cash Pay High Yield Constrained Index	4.5%	7.2%	14.5%	300	6.96	2.7
CCC	CCC US Cash Pay High Yield Constrained Index	9.2%	11.3%	19.3%	740	11.21	2.8
US High Yield	ICE BofA US Cash Pay High Yield Constrained Index	5.3%	7.9%	15.6%	304	6.96	3.0

U.S. High Yield Industry Sectors

Overview

- **Third quarter performance was strongly positive for all seven high yield industry sectors**, led by TMT (8.44%) and Healthcare (5.56%).
- Year-to-date, **Healthcare has been the top performer**, with a 10.92% return. This strong performance reflects improved fundamentals, as many previously distressed companies either improved their credit quality or were removed from the index before 2024.
- **High yield bond yields declined significantly in Q3**, with the U.S. High Yield Index ending the quarter 85 basis points lower at a yield-to-worst of 6.95%. **Credit spreads tightened 12 basis points** to a quarter-end OAS level of +301 bps for the broad index, with the most tightening experienced by the TMT sector (-71 bps).
- On the positive side, defaults and distressed exchanges in U.S. high yield bonds are well below last year's pace, totaling \$56.1 billion year-to-date. Including distressed exchanges, **the par-weighted U.S. high yield bond default rate is only 1.64%** for the twelve months ended 9/30/2024. This is significantly lower than the 3.70% default rate experienced by leveraged loans over the same period and represents the widest gap between high yield bond and leveraged loan default rates since 2000 (J.P. Morgan, 9/30/2024).

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 **Healthcare, Core Industrial, Financials, and Consumer Cyclical**.

Chart 11: U.S. High Yield Sectors – Q3 Total Return %

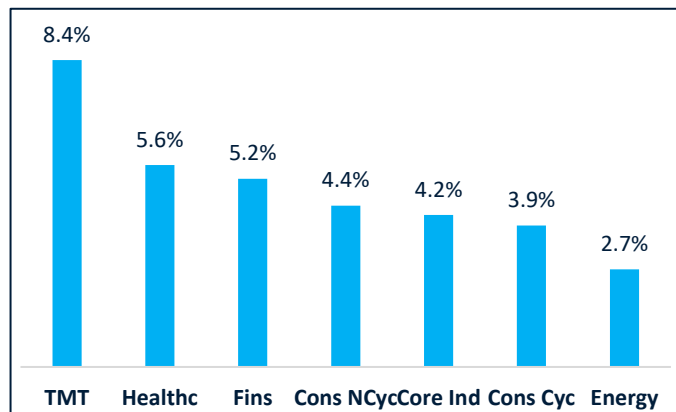


Chart 12: U.S. High Yield Sectors – YTD Total Returns %

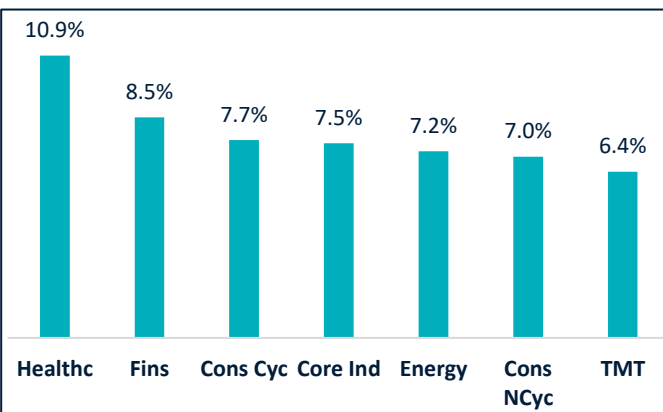


Table 6

Name	ICE Diversified US Cash Pay Index Name	Total Return			OAS	Yield (%)	Duration
		Q3	YTD	12 Mo	Q3		
Energy	High Yield Energy Index	2.7%	7.2%	12.7%	264	6.62	2.9
Cons Cyc	High Yield Consumer Cyclical Index	3.9%	7.7%	15.4%	255	6.48	2.9
Healthc	High Yield Healthcare Index	5.6%	10.9%	19.9%	260	6.52	3.1
Cons NCyc	High Yield Consumer Non-Cyclical Index	4.4%	7.0%	15.1%	213	6.12	3.3
Fins	High Yield Financial & REIT Index	5.2%	8.5%	17.1%	251	6.43	3.0
Core Ind	High Yield Core Industrial Index	4.2%	7.5%	14.7%	272	6.68	2.8
TMT	High Yield Telecom Media & Technology Index	8.4%	6.4%	14.5%	419	8.00	3.2

Emerging Market Debt

Overview

- **Emerging markets (EM) debt reported a strong third quarter**, reflecting falling U.S. Treasury yields and compressing yield spreads. EM debt with maturities less than 10 years returned 5.2%, bringing its year-to-date performance to 9.3%, outperforming the broader EM benchmark.
- **EM debt has been one of the best performing fixed-income asset classes of 2024**, outperforming sectors such as U.S. Treasuries, investment grade corporates, and even U.S. high yield.
- **Lower-rated emerging markets debt has outperformed this year**, with high yield EM debt posting a 6.7% return for the quarter and 12.2% year-to-date. In contrast, investment-grade EM debt, which had negative returns earlier in the year, rebounded with a 5.6% gain in the third quarter, bringing its year-to-date return to 5.1%.

Insights: We recommend investing in emerging markets sovereign debt with maturities under 10 years, as this short-to-intermediate term duration serves to **reduce volatility and interest rate sensitivity**, while offering attractive yield and total return potential.

Chart 13: USD EM Debt – Q3 Total Return %

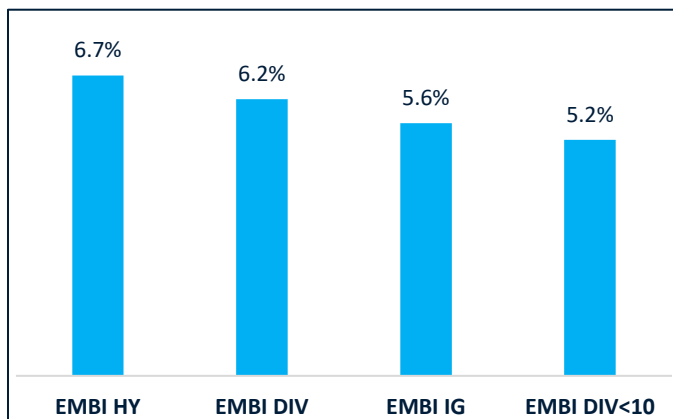


Chart 14: USD EM Debt – YTD Total Return %

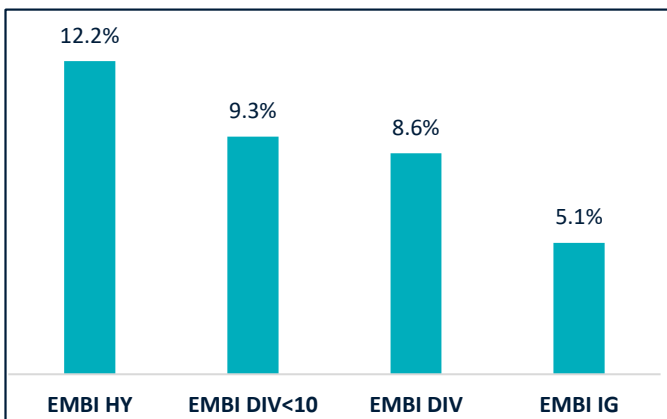


Table 7

Name	J.P. Morgan Index Name	Total Return			OAS	Yield (%)	Duration
		Q3	YTD	12 Mo	Q3		
EMBI DIV<10	EMBI Global Diversified 1-10 Liquid Index	5.2%	9.3%	17.1%	539	9.04	4.2
EMBI HY	EMBI Global Diversified High Yield Index	6.7%	12.2%	23.6%	659	10.39	5.7
EMBI DIV	EMBI Global Diversified Composite Index	6.2%	8.6%	18.6%	361	7.49	6.9
EMBI IG	EMBI Global Diversified Inv Grade Index	5.6%	5.1%	13.8%	118	5.15	8.1

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 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.
- **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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