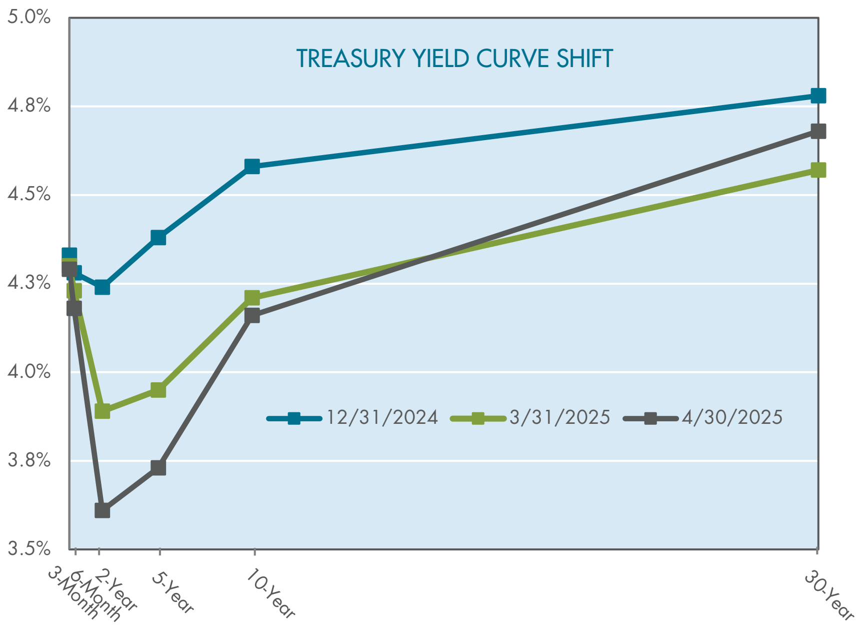
GW&K INVESTMENT MANAGEMENT

# TAXABLE BOND
## MARKET REVIEW & OUTLOOK

### KEY TAKEAWAYS

- April got off to a rocky start, as the administration announced tariff policies and follow-on reciprocal policies, which elevated the market's fear of a large global trade war.
- Yet, risk assets turned positive after President Trump downshifted the tariff language, the administration touted ongoing negotiations with numerous countries, and talk around letting go of Fed Chair Jerome Powell abated.
- The US Aggregate Bond Index returned 0.39%, as the decline in yields offset modest spread widening. The fixed income market logged its fourth straight month of gains and is up 3.18% year to date (YTD).

## TAXABLE BOND MARKET UPDATE & OUTLOOK




Sources: FactSet and Bloomberg

**US TREASURY YIELDS**

| | 12/31/24 | 3/31/25 | 4/30/25 | MTD Change (bps) | YTD Change (bps) |
|---|---|---|---|---|---|
| 3-Month | 4.33% | 4.30% | 4.29% | -1 | -4 |
| 6-Month | 4.28% | 4.23% | 4.18% | -5 | -10 |
| 2-Year | 4.24% | 3.89% | 3.61% | -28 | -63 |
| 5-Year | 4.38% | 3.95% | 3.73% | -22 | -65 |
| 10-Year | 4.58% | 4.21% | 4.16% | -5 | -42 |
| 30-Year | 4.78% | 4.57% | 4.68% | +11 | -10 |

**FIXED INCOME SECTOR PERFORMANCE**

| | MTD | YTD | Yield to Worst |
|---|---|---|---|
| Bloomberg Aggregate Index | 0.39% | 3.18% | 4.51% |
| US Treasuries | 0.63% | 3.57% | 3.94% |
| Investment Grade Corporates | -0.03% | 2.27% | 5.14% |
| Mortgage-Backed Securities | 0.29% | 3.35% | 4.93% |
| Asset-Backed Securities | 0.49% | 2.03% | 4.49% |
| Taxable Municipal Bonds | -0.20% | 2.62% | 5.26% |
| High Yield Corporate Bonds | -0.02% | 0.98% | 7.90% |

- The new tariff policy uncertainties shook the confidence of consumers and businesses, which was reflected in surveys. Additionally, Q1 2025 GDP shrunk -0.3% but was fueled by an increase in imports before tariffs took effect and a reduction in government spending. While these and other weak signs fed market jitters, much of the reported economic data, such as those for the labor market, have held up well to date.
- Treasuries were not immune to the volatility seen in other parts of the market. The range in the yield for the 10-year note was the most since March of 2023 when Silicon Valley Bank folded. Still, after hitting an intra-month closing high of 4.49%, its yield closed lower, driven by dampened growth expectations and cooler than expected inflation.
- With the yield on the 2-year note down more so than the longer maturities, the curve steepened considerably. The 2-year/10-year and 2-year/30-year segments are at levels last seen in early 2022.
- Investment grade corporates lagged rates and the broad bond market due to the upward movement in spreads. Option-adjusted spreads (OAS) increased the most in a month since March of last year with the overall market trepidation. High yield sputtered to close just below flat. Overall, the widening in spreads took place during the beginning of the month, but rallied thereafter, as the market's backdrop shifted positive.
- The securitized index underperformed similar duration Treasuries but outperformed other spread products on both an excess and total return basis. Economic uncertainty increased rate volatility, putting upward pressure on Agency mortgage-backed security (MBS) spreads, while technical factors also added to the weakness. Although rate volatility eased toward month-end, nominal spreads remain near the wide end of their recent range due to continued lack of demand.
- As in prior months, core asset-backed securities (ABS) sectors — autos and credit cards — led performance, while utility and solar ABS lagged. Some positive dynamics emerged and included strong investor demand in the primary market after a pause in issuance near the start of the month. Spreads retraced about half of their earlier widening.
- Agency commercial mortgage-backed securities (CMBS) posted the strongest performance among securitized sectors, as they benefited from their naturally lower sensitivity to rate volatility and limited new issuance.
- Preferreds have underperformed BB-rated corporates month to date and year to date, impacted by larger move wider in spreads and lower price return from rate duration. Spreads have lagged on the move back tighter.

MONTHLY UPDATE | APRIL 2025

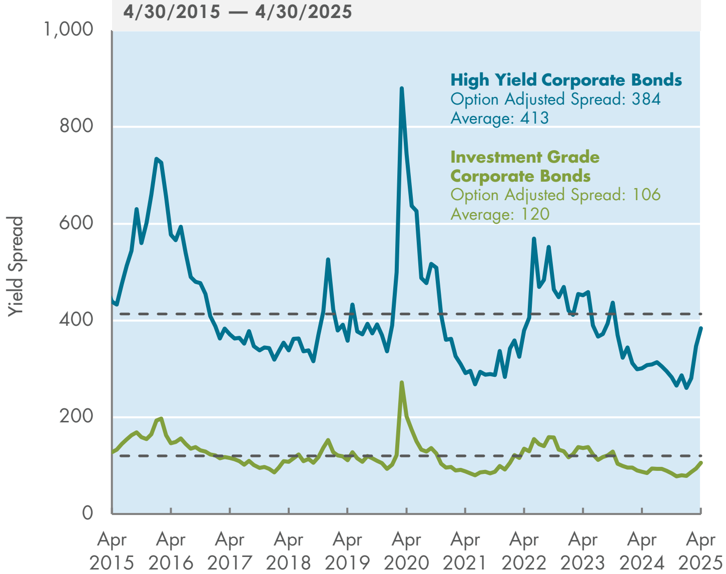
GW&K INVESTMENT MANAGEMENT

# TAXABLE BOND
## MARKET REVIEW & OUTLOOK

| SECTOR ALLOCATION | POSITIONING |
|---|---|
| **DURATION & YIELD CURVE** | Our duration stance is neutral, as the expectations for rising inflation from tariff polices are offset by emerging evidence of some real growth concerns in the soft data. We believe medium and longer rates should remain relatively rangebound until the market gains clarity around trade and tariff policies. |
| **TREASURIES** | We favor spread product over Treasuries in this attractive carry environment. |
| **GOVERNMENT RELATED** | We are overweight taxable municipal bonds given strong fundamentals and the recession-resistant characteristics offered by the asset class. |
| **CORPORATE BONDS** | Tactically, we are somewhat more cautious around spread sectors. Toward that end, we maintain our higher quality bias within corporates, favoring more defensive sectors while avoiding lower-rated cyclicals. |
| **SECURITIZED** | Agency MBS and ABS remain key components of our overall portfolio allocation. The MBS sector offers attractive value, with nominal spreads near the wider end of their long-term range. Similarly, high-quality ABS continues to look attractive, supported by favorable valuations and constructive technical factors. |

**HIGH YIELD & INVESTMENT GRADE CORPORATE BOND SPREADS**

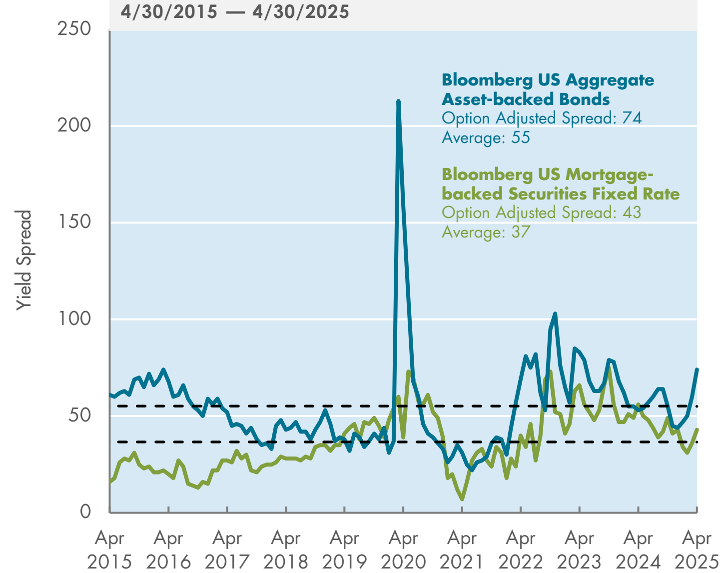
**4/30/2015 — 4/30/2025**




Source: Bloomberg

**ASSET- & MORTGAGE-BACKED SPREADS**

**4/30/2015 — 4/30/2025**




Source: Bloomberg