Monthly Market Review

Fixed Income | June 2025

pfm asset management

Only time will tell the totality of tariff toll.

Economic Highlights

- Market sentiment improved in May as the U.S. and China agreed to a 90-day reduction in tariffs on Chinese imports to 30%. A federal court ruled the administration's use of the International Emergency Economic Powers Act (IEEPA) to levy tariffs on certain imports was not legal; however, the tariffs remain in effect pending appeal. Even if the tariffs implemented using IEEPA are ultimately struck down, the administration is expected to use other statutes to implement similar levies.
- The Federal Reserve (Fed) held the target range for the overnight rate unchanged at 4.25% to 4.50% following the Federal Open Market Committee (FOMC) meeting on May 7. In its press release, the Fed noted increased uncertainty around the economic outlook with increasing risks of both higher unemployment and higher inflation. During the press conference, Fed Chair Jerome Powell noted the uncertainty caused by larger-than-expected tariffs warranted patience.
- The month-over-month change in the Core Personal Consumption Expenditures Index (PCE), the Fed's preferred measure of inflation, rose a modest 0.1%. The benign reading underscores the Fed's ability to wait to see the impact of tariffs on the economy.
- Moody's Ratings (Moody's) downgraded the long-term issuer rating of the United States by one notch to Aa1 from Aaa. Moody's cited the United States' large annual fiscal deficits, driving up government debt and interest payment ratios to levels significantly above those of Aaa-rated peers.
- While personal income grew at the fastest pace since January 2024, consumer spending slowed in May after two strong months of above-trend consumption ahead of tariffs. The consumer's resilience in the face of higher prices will remain a key area of focus.
- The May jobs report was broadly in line with expectations and showed 139,000 new jobs created in April while the unemployment rate remained stable at 4.2%. Headwinds are mounting, however, as initial jobless claims continue to increase, and the number of unemployed individuals is now at the highest level since October 2021.

Bond Markets

- Yields on 3-month, 2-year, and 10-year U.S. Treasuries ended May at 4.33%, 3.90%, and 4.40%, representing increases of +5 basis points (bps), +29 bps, and +24 bps, respectively. The steepness of the yield curve (measured by the yield difference between 2- and 10-year maturities) has remained near 0.50% for the majority of the past two months.
- Fixed income indices produced negative returns for the month due to higher yields with the exception of the shortest duration indices. The ICE BofA 3-month, 2-year, and 10-year U.S. Treasury indices returned +0.36%, -0.29%, and -1.41%, respectively.

Equity Markets

- Equity markets rallied sharply following the announcement of tariff pauses, reversing a rough start to the year. The S&P 500 Index is now positive year-to-date. For the month of May, the NASDAQ returned +9.7%, the S&P 500 Index +6.3%, and the Dow Jones Industrial Average +4.2%.
- International equities, as measured by the MSCI ACWI ex USA Net Total Return Index, returned +4.6% for the month while the U.S. Dollar Index declined 0.1%. The U.S. Dollar Index is down 4.9% since Liberation Day on April 2.

PFMAM Strategy Recap

- We will continue to maintain portfolio durations near 100% of benchmarks given ongoing rate and policy uncertainty and the rebound in yields from their early-May lows.
- Spreads on federal agencies and supranationals remain narrow, and we will maintain low allocations in favor of other sectors. While no significant impact is expected in the near term, we will closely monitor developments related to privatization efforts of Fannie Mae and Freddie Mac.
- Investment-grade (IG) corporate bond spreads narrowed during May after widening in April. Opportunities to add to the sector in early May contributed to portfolio performance for the month. While valuations retraced closer to 12-month narrows, technicals (supply and demand dynamics) remain a tailwind for the sector. Most industries produced positive excess returns for the month, underscoring the market sentiment shift since early April.
- Spreads on asset-backed securities (ABS) also narrowed through May, although not to the same extent as similar duration IG corporates. This created opportunities to increase allocations in the sector with new purchases at spreads near the higher end of their 12-month trading range. These additions contributed to positive relative performance for the month.
- Agency-backed commercial MBS (CMBS) and mortgage-backed securities (MBS) also performed well in May. Shorter-duration collateral (15-year mortgages) modestly outperformed longer-duration counterparts (30-year mortgages). Waning bond volatility over the past five weeks also supported mortgage-related sectors. However, we remain cautious as fiscal policy uncertainty could weigh on performance going forward.
- Reduced U.S. Treasury Bill supply due to debt ceiling dynamics has applied modest downward pressure on yields. We are closely monitoring the impact of maturities around the debt ceiling deadline, which the Treasury Department estimates will occur in August 2025.
- Credit spreads on the short end of the curve have tightened from April wides but remain somewhat elevated for certain issuers and maturities, creating idiosyncratic buying opportunities.

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U.S. Treasury Yields

Maturity	May 31, 2024	Apr 30, 2025	May 31, 2025	Monthly Change
3-Month	5.41%	4.29%	4.34%	0.05%
6-Month	5.38%	4.18%	4.32%	0.14%
2-Year	4.87%	3.61%	3.90%	0.29%
5-Year	4.51%	3.73%	3.96%	0.23%
10-Year	4.50%	4.16%	4.40%	0.24%
30-Year	4.65%	4.68%	4.93%	0.25%

Yields by Sector and Maturity

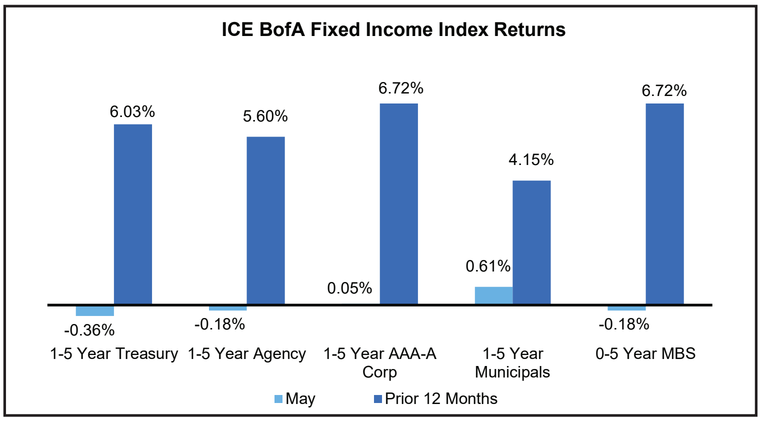
Maturity	U.S. Treasury	Federal Agency	Corporates-AA-A Industrials	AAA Municipals
3-Month	4.34%	4.35%	4.44%	-
6-Month	4.32%	4.32%	4.53%	-
2-Year	3.90%	3.91%	4.30%	2.76%
5-Year	3.96%	3.97%	4.59%	2.90%
10-Year	4.40%	4.46%	5.12%	3.39%
30-Year	4.93%	-	5.87%	4.18%

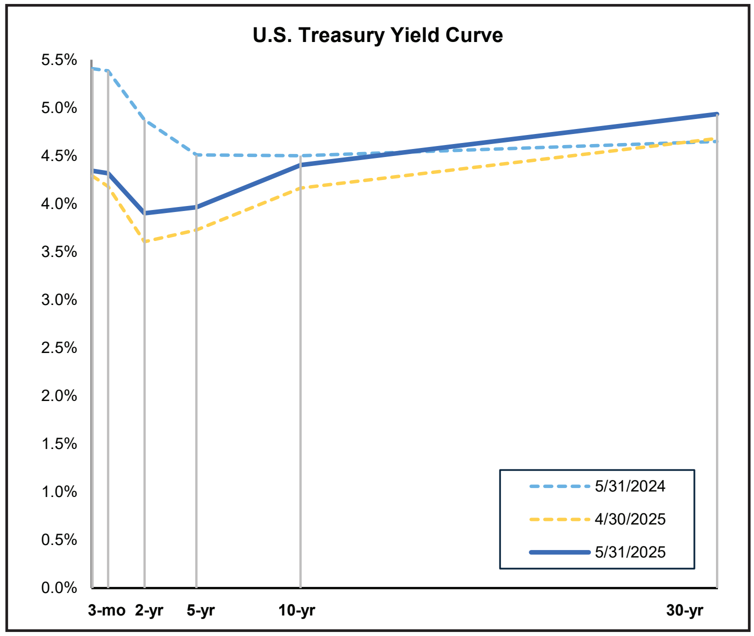
Spot Prices and Benchmark Rates

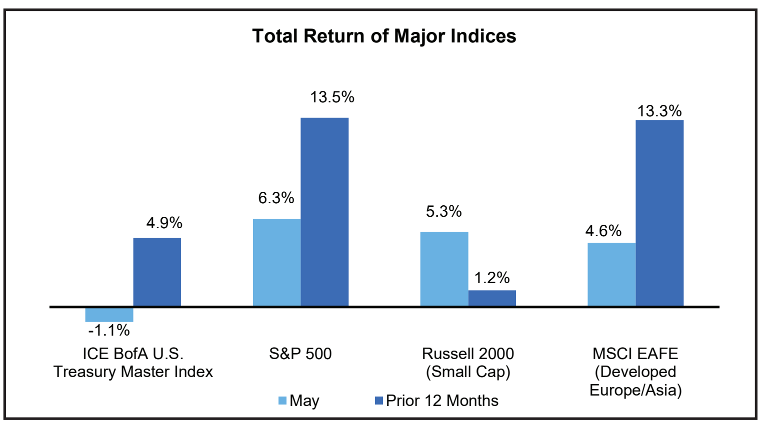
Index	May 31, 2024	Apr 30, 2025	May 31, 2025	Monthly Change
1-Month SOFR	5.33%	4.32%	4.32%	0.00%
3-Month SOFR	5.34%	4.27%	4.32%	0.05%
Effective Fed Funds Rate	5.33%	4.33%	4.33%	0.00%
Fed Funds Target Rate	5.50%	4.50%	4.50%	0.00%
Gold ($/oz)	$2,323	$3,319	$3,289	-$30
Crude Oil ($/Barrel)	$76.99	$58.21	$60.79	$2.58
U.S. Dollars per Euro	$1.08	$1.13	$1.13	$0.00

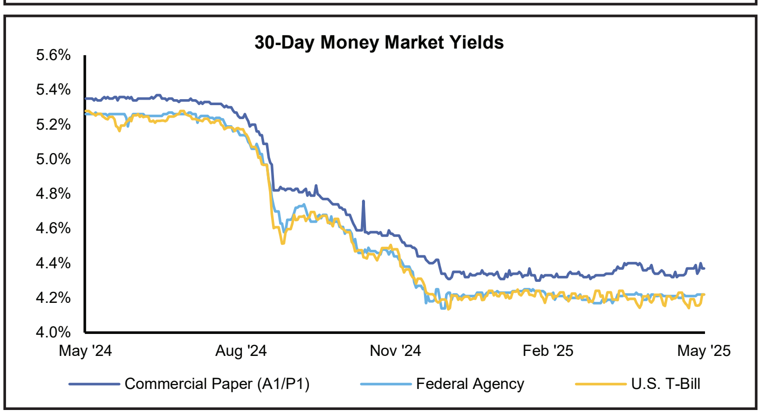
Economic Indicators

Indicator	Release Date	Period	Actual	Survey (Median)
Change in Non-Farm Payrolls	2-May	Apr	177K	138K
FOMC Rate Decision	5-May	May	4.50%	4.50%
Retail Sales Advance MoM	15-May	Apr	0.10%	0.00%
GDP Annualized QoQ	29-May	1Q S	-0.20%	-0.30%
U. of Mich. Consumer Sentiment	30-May	May F	52.2	51.5
PCE YoY	30-May	Apr	2.10%	2.20%
ISM Manufacturing	2-Jun	May	48.5	49.5









Source: Bloomberg. Data as of May 31, 2025, unless otherwise noted.

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