Monthly Market Review

Fixed Income | May 2025

NJ/ARM

Information provided by NJARM's Program Administrator PFM Asset Management, a division of U.S. Bancorp Asset Management, Inc.

All this tariff talk is really taxing.

Economic Highlights

- Market volatility increased in April to levels last seen at the onset of the pandemic as initial tariff announcements far exceeded market expectations. Even after some tariffs were paused for 90 days, a blanket 10% rate for most countries remains in effect, as does 25% tariffs on steel, aluminum, autos, and imports from Canada and Mexico not covered by the USMCA, along with 145% tariffs on China, with a few exclusions. The effective tariff rate is at the highest level in over 100 years.
- The Federal Reserve (Fed) continues to follow a wait-and-see approach. Fed Chair Jerome Powell said he expects tariffs to move the Fed further away from both sides of its dual mandate goals of stable prices and maximum employment, and will make policy adjustments only in reaction to any increase in inflation or deterioration of labor markets.
- The soft data from business and consumer surveys deteriorated markedly, while hard data, like employment and retail sales, were remarkably firm.
- U.S. gross domestic product (GDP) shrank in Q1 by -0.3% as a surge in imports – a subtraction from GDP –dragged down reported growth. Final sales to domestic purchasers, a metric used by the Fed to gauge private sector demand remained strong. However, prospects for consumer spending remain uncertain given the pull-forward of demand in advance of tariffs which may weigh on growth later in the year.
- The Core Personal Consumption Expenditures Index (PCE), which is the Fed's preferred measure of inflation, was flat in April on a month-over-month basis, marking the slowest pace of price increases in five years.
- Non-farm payrolls continued to beat expectations, growing by 177,000 in April while the unemployment rate remained at 4.2%. The data points toward labor market strength and provides the Fed cover to keep policy rates unchanged while it analyzes the impact of tariffs.

Bond Markets

- The 2- and 10-year U.S. Treasuries traded in a wide range of 60 and 70 basis points (bps) respectively over the month. Interest rate volatility was cited as one of the reasons for the delay in tariff implementation.
- Yields on 3-month, 2-year, and 10-year U.S. Treasuries ended the month lower at 4.29%, 3.60%, and 4.16%, respectively as the market priced in more Fed cuts due to deteriorating growth expectations.
- The move lower in yields resulted in positive fixed income total returns for the month. The ICE BofA 3-month, 2-year, and 10-year U.S. Treasury indices returned +0.34%, +0.81%, and +0.79%, respectively.
- Yields beyond 10 years rose as investors required additional compensation to hold longer-duration bonds. The market continues to focus on potential changes in demand for Treasuries from foreign investors due to tariffs and a weakening U.S. dollar.

Equity Markets

- Equity markets retreated significantly during the first half of the month with the S&P 500 Index briefly threatening a bear market signal of -20% from the February highs. Equities rallied after the tariff delay, and the S&P 500 Index finished the month down a modest 0.7%. The NASDAQ rose 0.9% while the Dow Jones Industrial Average fell 3.1%.
- International equities (measured by MSCI ACWI ex U.S. Net Index) rose 3.6%. The U.S. Dollar Index declined 4.6%, which was the largest monthly decline in over two years.

PFMAM Strategy Recap

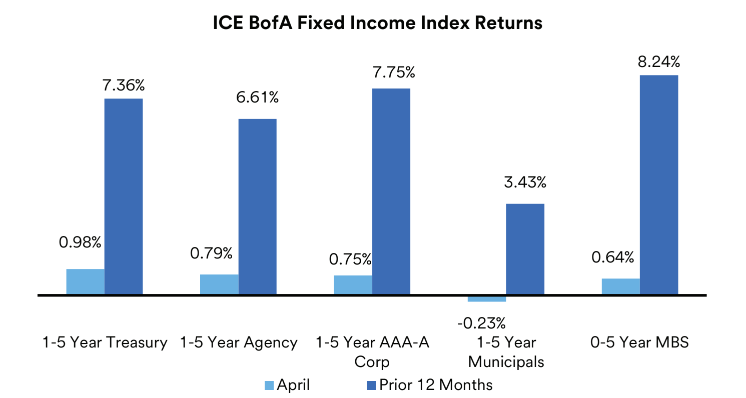
- Short- to intermediate U.S. Treasury yields declined to lows for the year. We generally intend to maintain portfolio durations neutral to benchmarks, but may have a slightly shorter bias if the market builds in a Fed rate cut outlook we feel is too aggressive.
- Spreads on federal agencies and supranationals remain narrow, with no significant changes or new issuance expected in the near term.
- High levels of uncertainty and a shift in market risk sentiment led to spread-widening in the investment-grade (IG) corporate bond sector, creating selective buying opportunities at more attractive levels. We expect technical strength and favorable fundamentals to limit significant downside risks, although spreads may continue to widen if the economy deteriorates further. Selectivity remains paramount.
- Asset-backed securities (ABS) spreads widened over the month due to heavy new issuance and investors becoming more risk averse. Relative valuations for the sector are now more attractive compared to previous periods while consumer fundamentals remain within expectations. We may seek to slightly add allocations with a focus on credit quality-specific issues.
- Spreads on agency-backed mortgage-related sectors moved wider over the month, though valuations in general still appear rich. However, certain sectors, such as longer-duration MBS pass-throughs, now appear more attractive. We may look to add to this specific portion of the MBS market in portfolios with longer-term time horizons.
- U.S. Treasury Bill supply remained balanced throughout the month, easing pressure on the money market yield curve. Meanwhile, credit spreads in the short end of the curve widened meaningfully over the month.

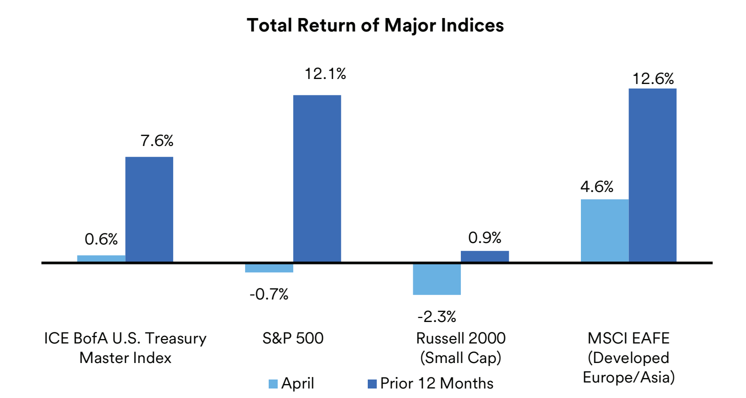
U.S. Treasury Yields				
Maturity	Apr 30, 2024	Mar 31, 2025	Apr 30, 2025	Monthly Change
3-Month	5.40%	4.30%	4.29%	-0.01%
6-Month	5.40%	4.23%	4.18%	-0.05%
2-Year	5.04%	3.89%	3.61%	-0.28%
5-Year	4.72%	3.95%	3.73%	-0.22%
10-Year	4.68%	4.21%	4.16%	-0.05%
30-Year	4.79%	4.57%	4.68%	0.11%

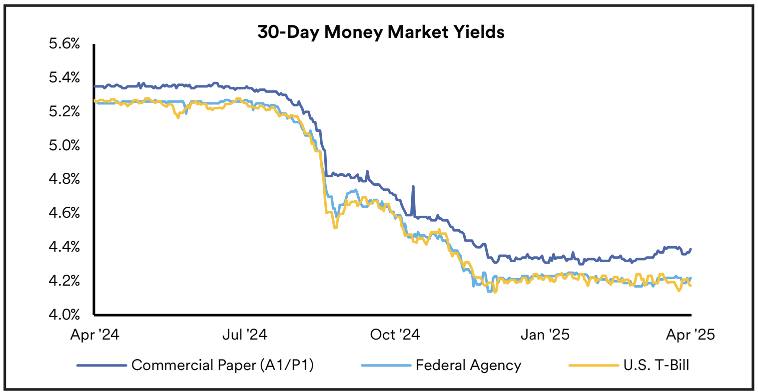
Yields by Sector and Maturity				
Maturity	**U.S. Treasury**	**Federal Agency**	**Corporates- AA-A Industrials**	**AAA Municipals**
3-Month	4.29%	4.30%	4.39%	-
6-Month	4.18%	4.18%	4.47%	-
2-Year	3.61%	3.62%	4.17%	2.92%
5-Year	3.73%	3.74%	4.48%	3.06%
10-Year	4.16%	4.22%	5.02%	3.40%
30-Year	4.68%	-	5.75%	4.02%

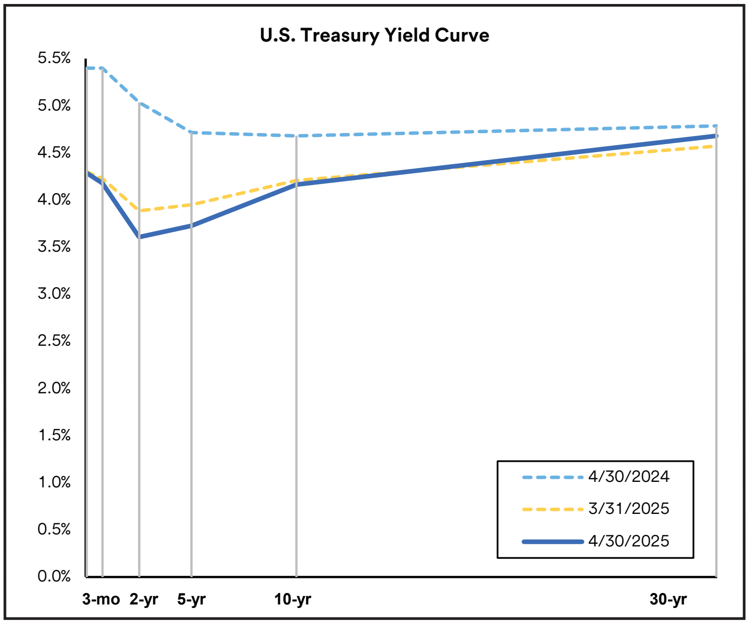
Spot Prices and Benchmark Rates				
Index	**Apr 30, 2024**	**Mar 31, 2025**	**Apr 30, 2025**	**Monthly Change**
1-Month SOFR	5.32%	4.32%	4.32%	0.00%
3-Month SOFR	5.33%	4.29%	4.27%	-0.02%
Effective Fed Funds Rate	5.33%	4.33%	4.33%	0.00%
Fed Funds Target Rate	5.50%	4.50%	4.50%	0.00%
Gold ($/oz)	$2,303	$3,123	$3,319	$196
Crude Oil ($/Barrel)	$81.93	$71.48	$58.21	-$13.27
U.S. Dollars per Euro	$1.07	$1.08	$1.13	$0.05

Economic Indicators				
Indicator	**Release Date**	**Period**	**Actual**	**Survey (Median)**
ISM Manufacturing	1-Apr	Mar	49	49.5
Change in Non-farm Payrolls	4-Apr	Mar	228K	140K
Retail Sales Advance MoM	16-Apr	Mar	0.40%	0.60%
Existing Home Sales MoM	24-Apr	Mar	-5.90%	-3.10%
U. of Mich. Consumer Sentiment	25-Apr	Apr F	52.2	50.5
GDP Annualized QoQ	30-Apr	1Q A	-0.30%	-0.20%
PCE YoY	30-Apr	Mar	2.30%	2.20%









Source: Bloomberg. Data as of April 30, 2025, unless otherwise noted.

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