

MACRO

U.S. Treasury yields edged higher throughout October, driven by economic data that largely exceeded expectations.

Interest rate volatility also picked up materially in the second half of October, surging to new year-to-date highs as indicated by the ICE BofAML MOVE Index.

Early November market pricing suggests a 25-basis point (bp) cut in the fed funds rate is highly likely at the Federal Open Market Committee (FOMC) meeting on November 7. However, the improved economic backdrop has led investors to reduce their expectations for the degree of additional policy easing to come in 2025.

CREDIT

Investment grade credit spreads remain at historically expensive levels.

During the month of October, the Bloomberg U.S. Aggregate Credit Index touched 76 bps, which marked a new, post-global financial crisis low.

New issue markets remained active during October with almost \$100 billion in new supply. However, the pace of new issuance is anticipated to stall in early November as credit markets “wait out” the outcomes of both the U.S. election and the FOMC meeting.

STRUCTURED

Mortgage-backed security returns were pressured by renewed interest rate volatility during October.

Asset-backed security issuance was robust for the month, exceeding \$40 billion. Despite the heavy supply, new deals were well-received, and spreads compressed for the month.

TABLE OF THE MONTH

Percentile Rank,
Option-adjusted Credit Spread

	1-3 yr.	3-5 yr.	5-7 yr.	7-10 yr.	10+ yr.
AAA-AA	4	11	5	8	5
A	11	11	11	15	6
BBB	11	9	8	10	6
BB	9	6	7	5	10

➤ Credit spreads are currently expensive relative to historical valuations across nearly all maturities and quality segments.

➤ Given the limited opportunity set, we believe defensive credit risk posturing remains prudent.

For the period 12/31/97 – 10/16/24. Source: ICE BofA Indices

MARKET DATA

Yields	YTM %	MTD Change	QTD Change	YTD Change
3-Mo UST	4.55	-0.08	-0.08	-0.80
2-Yr UST	4.17	0.53	0.53	-0.08
5-Yr UST	4.16	0.60	0.60	0.31
10-Yr UST	4.29	0.50	0.50	0.41
30-Yr UST	4.48	0.36	0.36	0.45
Risk Premia	OAS (Bps)	MTD Change	QTD Change	YTD Change
Investment Grade Credit	79	-5	-5	-14
Asset-Backed Securities	55	-9	-9	-13
High Yield	282	-13	-13	-41

As of 10/31/2024. Source: Bloomberg L.P.

[BLOOMBERG SECTOR/INDEX PERFORMANCE (USD)]

	Duration (yrs.)	MTD Excess Return (%)	YTD Excess Return (%)	MTD Total Return (%)	YTD Total Return (%)
Sector					
Investment Grade Credit	6.74	0.33	1.84	-2.41	2.69
Mortgage-Backed Securities	6.01	-0.51	-0.02	-2.83	1.54
Asset-Backed Securities	2.64	0.25	1.14	-0.70	4.34
High Yield	3.00	0.64	4.45	-0.54	7.42
Index					
1-3-Yr Government/Credit	1.77	0.01	0.21	-0.57	3.79
Intermediate Government/ Credit	3.69	0.10	0.57	-1.60	3.00
U.S. Aggregate	6.08	-0.03	0.56	-2.48	1.86

As of 10/31/2024. Source: Bloomberg L.P.

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Indices and/or Benchmarks Definitions are available at <https://www.pnccapitaladvisors.com/index-definitions/>.

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