

## MACRO

At its May 7 meeting, the Federal Open Market Committee (FOMC) voted unanimously to hold rates steady at 4.25%-4.50% as was widely anticipated. Federal Reserve (Fed) Chair Jerome Powell indicated that despite elevated uncertainty, he believed policy was “in a good place,” which suggests that the FOMC continues to expect a patient policy approach is warranted in the coming months.

The Conference Board’s Consumer Confidence Index® increased 12.3 points to 98 in May, marking the biggest monthly gain in four years. The increase came across age groups, income levels and political affiliations. Notably, the survey deadline was after the United States and China agreed to temporarily reduce high levies on each other’s goods as they seek to negotiate a trade deal.

On May 16, Moody’s Ratings downgraded the U.S. government’s long-term issuer rating from Aaa to Aa1. This well-telegraphed move was partially driven by the unabated rise in U.S. debt levels over the past two decades, along with increased service costs and little prospect for near-term improvement. The current budget bill that is being negotiated in Congress is projected to exacerbate these trends, per the Congressional Budget Office. \*

## CREDIT

There was approximately \$160 billion in new issuance during the month of May, which brings the year-to-date total to more than \$825 billion. Preliminary expectations for June are approximately \$100 billion in supply; thereafter, new issuance will likely slow in July and August.

Following the de-escalation of trade tensions between the United States and China, credit risk markets rallied throughout the month as the Bloomberg U.S. Investment Grade Credit Index and Corporate High Yield Index tightened by 17 and 69 basis points (bps), to an option-adjusted spread of 83 and 315 bps, respectively.

## STRUCTURED

For the asset-backed sector, May had the highest monthly issuance of the year, pricing \$34 billion in new deals. This brings the total year-to-date new issuance to \$143 billion, trailing last year’s pace by 7%.

The mortgage-backed securities (MBS) market trailed the relief rally experienced in other sectors, generating monthly excess returns of a mere 0.19%.

We believe there are several factors contributing to this phenomenon, i.e., many banks remain cautious buyers pending further regulatory guidance, levels of interest rate volatility continue to be elevated, and the Fed continues to enact quantitative tightening by rolling off its MBS holdings.

**CHART OF THE MONTH**  
Total Marketable U.S. Treasuries Outstanding (\$, Bn) vs. Average Interest Rate on U.S. Treasuries (%)



- ▶ The relentless growth in the size of the U.S. Treasury market, coupled with persistently higher interest rates, continues to pressure long-term U.S. fiscal sustainability.
- ▶ These trends are widely expected to pressure long bond supply and demand dynamics, resulting in a steeper yield curve.

As of 5/31/2025. Source: Bloomberg L.P.

## MARKET DATA

Yields	YTM %	MTD Change	QTD Change	YTD Change
3-Mo UST	4.34	0.05	0.04	0.02
2-Yr UST	3.90	0.30	0.02	-0.34
5-Yr UST	3.96	0.24	0.01	-0.42
10-Yr UST	4.40	0.24	0.20	-0.17
30-Yr UST	4.93	0.25	0.36	0.15
Risk Premia	OAS (Bps)	MTD Change	QTD Change	YTD Change
Investment Grade Credit	83	-17	-6	6
Asset-Backed Securities	60	-14	0	16
High Yield	315	-69	-32	28

As of 5/31/2025. Source: Bloomberg L.P.

\*For more on this topic, read our recent whitepaper: [The Last Straw](#)

**BLOOMBERG SECTOR/INDEX PERFORMANCE (USD)**

	Duration (yrs.)	MTD Excess Return (%)	YTD Excess Return (%)	MTD Total Return (%)	YTD Total Return (%)
<b>Sector</b>					
Investment Grade Credit	6.55	1.18	-0.11	-0.07	2.35
Mortgage-Backed Securities	6.09	0.19	-0.27	-0.91	2.41
Asset-Backed Securities	2.52	0.38	-0.14	0.02	2.05
High Yield	2.85	2.14	0.02	1.68	2.68
<b>Index</b>					
1-3-Yr Government/Credit	1.79	0.09	0.08	-0.13	2.26
Intermediate Government/ Credit	3.68	0.28	0.06	-0.33	3.03
U.S. Aggregate	5.98	0.38	-0.10	-0.72	2.45

*As of 5/31/2025. 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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