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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **February 20, 2025**

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Last week's S&P 500 Index: +1.5%

Fixed income opportunities

Key takeaways

- Our regular readers know that over the last 10 years or more, fixed-income yields have been historically low.
- We favor moving money out of short-term instruments and into higher-yielding investment-grade fixed income further out on the maturity spectrum.

Opportunities and patience are two topics we have been focused on over the past couple of years and covered often in reports and other various communications. You have to take what the market gives you. In other words, for example, when looking at the equity market and the forward outlook is positive but investors get spooked by fears about potential inflation, global geopolitical tensions, or any number of other concerns that lead to a pullback, longer-term investors need to have a plan to put funds to work and take advantage of lower stock prices.

The same can be said about the fixed-income market. Many, if not most, of our regular readers know that over the past 10 years or more, fixed-income yields have been historically low. Opportunities to lock in attractive longer-term yields have been few and far between. In fact, since the beginning of 2009, the average yield on the 10-year Treasury note through January of this year was just 2.55%. It wasn't all that long ago (mid-2022) when the 10-year Treasury note yield finally rose above 3% after an extended period of more modest rates. The yield stands just above 4.5% at the time of this writing, still low by historical standards. Note that from January 1961 through January of this year, the average yield on the 10-year Treasury note was 5.8% according to Bloomberg data.

We have conviction around our year-end target range of 4.50% – 5.00% for the U.S. 10-year Treasury note, and on that basis, we see attractive fixed-income opportunities for investors. We favor moving money out of short-term instruments, such as money market funds, into higher-yielding investment-grade fixed income further out on the maturity spectrum. We believe that intermediate maturities (three to seven years) offer attractive yields and less sensitivity to rising interest rates should economic growth or inflation increase more than we currently expect.

For investors who want to lock in yields today for a longer period, and who can look past the potential price volatility as economic growth and inflation fluctuate, we would bring longer-term fixed-income allocations up to neutral or in line with their strategic target level.

And finally, we favor investment-grade corporate bonds over other types, including high-yield, Treasury, and agency securities, and we prefer to stick to high-quality issuers.

We believe investors have a number of potential opportunities to put funds to work in fixed income now and favor a review of portfolio positioning to see if any adjustments need to be considered.

Risk considerations

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk. Although **Treasuries** are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate.

Definitions

Investment Grade bonds - A rating that indicates that a municipal or corporate bond has a relatively low risk of default. Bond rating firms, such as Standard & Poor's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's credit quality rating. 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ('BB', 'B', 'CCC', etc.) are considered low credit quality, and are commonly referred to as "junk bonds".

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