

Monthly Market Review

Fixed Income | October 2024

Information provided by MOSIP's Program Administrator PFM Asset Management



The First Cut is the Deepest...Or Is It?

Economic Highlights

- ▶ The Federal Open Market Committee (FOMC) lowered the target range for the federal funds rate by 50 basis points (bps) to 4.75% - 5.00% at its September meeting. The half percentage point cut was well-digested by markets despite expectations being split between 25 and 50 bps. Federal Reserve Chair Powell described the risks to achieving the Fed's employment and inflation goals as now being "roughly in balance."
- ▶ The FOMC's updated median "dot" projection suggests an additional 50 bps in rate cuts by the end of the year "if the economy performs as expected." The projections also show an additional full percentage point of cuts in 2025, resulting in a federal funds rate target range of 3.25% - 3.50%.
- ▶ The FOMC released an updated Summary of Economic Projections (SEPs), which showed a higher median expectation for the unemployment rate at 4.4% for the remainder of 2024 and through 2025. The updated projections for the Core Personal Consumption Expenditure Price Index (PCE) and gross domestic product (GDP) were both modestly lowered, with real growth prospects near 2% for the next several quarters.
- ▶ The August PCE reading of 2.2% year-over-year hit its lowest level since February 2021, continuing the trajectory towards the Fed's 2% inflation target.
- ▶ Nonfarm payrolls came in well above expectations and showed 254,000 net new jobs created in September, the strongest print since March. The July and August prints were revised up by a combined 72,000. Additionally, the unemployment rate ticked back down to 4.1%, from 4.2% the prior month. The strength of the labor market continues to serve as a tailwind to the consumer.
- ▶ The final GDP reading showed the economy grew at a 3% pace during the second quarter. Consumer spending showed strength, growing at a pace of 2.8% versus Q1's 1.9% pace. Current estimates show similar growth in consumer spending for the third quarter.

Bond Markets

- ▶ U.S. Treasury yields continued their descent in September as markets digested the Fed's first cut. Overnight and short-term maturities (less than three months) declined in lockstep with the 50 basis point cut. Meanwhile, the yield on the 2-year U.S. Treasury note declined 1.4% from its six-month high in April.
- ▶ Yields on benchmark 2-, 5-, and 10-year U.S. Treasuries ended the month at 3.64%, 3.56%, and 3.78%, respectively, representing changes of -28, -14, and -12 bps for the month, respectively.
- ▶ As a result, fixed income total returns were strong as yields fell. The ICE BofA 2-, 5-, and 10-year U.S. Treasury indexes returned 0.79%, 1.03%, and 1.37%, respectively, for the month.

Equity Markets

- ▶ The first Fed rate cut was received with open arms across risk assets, as positive sentiment pushed equity markets to new all-time highs. The S&P 500 Index increased 2.1%, the Dow Jones Industrial Average was up 2.0%, and the NASDAQ Index was up 2.8%.
- ▶ International equities (as measured by MSCI ACWI ex U.S. Net Index) rose by 2.7% for the month, while the U.S. Dollar Index fell 5.2% from its high in April.

PFMAM Strategy Recap

- ▶ Given that market reactions and economic conditions remain supportive of a soft landing, we will continue to maintain portfolio durations near 100% of benchmarks.
- ▶ September marked the first time since July 2022 that the yield of the 10-year Treasury exceeded that of the 2-year as the U.S. Treasury yield curve un-inverted during the month. Historically, as markets price in overnight rate cuts, the yield curve has steepened with longer-term yields declining less than short- to intermediate-term yields. As a result, we prefer a modestly "bulleted" curve positioning.
- ▶ Spreads on federal agencies and supranationals remain unchanged near multi-year tightness and are not expected to change in the near term. We expect to maintain low allocations in favor of other sectors.
- ▶ Investment-grade (IG) corporate bonds posted positive excess returns relative to U.S. Treasuries in September as spreads continued to retrace from early-August widening. Despite expensive valuations, corporate fundamentals are supportive, as is our expectation for a soft-landing. As a result, we are constructive on the sector and will maintain allocations.
- ▶ Asset-backed securities (ABS) generated flat excess returns in September as sector spreads remained elevated relative to IG corporates. With valuations slightly more attractive than IG corporates, we will likely maintain or slightly increase allocations and utilize principal paydowns as reinvestment opportunities to extend duration in the sector.
- ▶ Mortgage-backed securities (MBS) and agency-backed commercial MBS (CMBS) continued an impressive run of performance through September. Shorter collateral MBS (15-year mortgages) generated notable outperformance versus longer collateral MBS (30-year mortgages). Curve steepening and housing market supply and demand dynamics were the primary factors.
- ▶ Credit spreads on the short end of the curve were relatively unchanged and remained tight despite the repricing in short-term U.S. Treasury Bills. In general, the money market yield curve remains inverted as the market continues to price in multiple Fed rate cuts. Money market funds and similar pools tend to lag the decline in cash yields during periods of Fed rate cutting, as they take time to adjust as investments roll over.

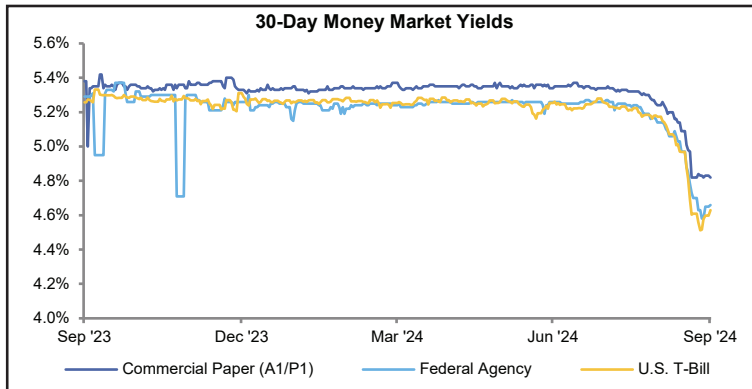
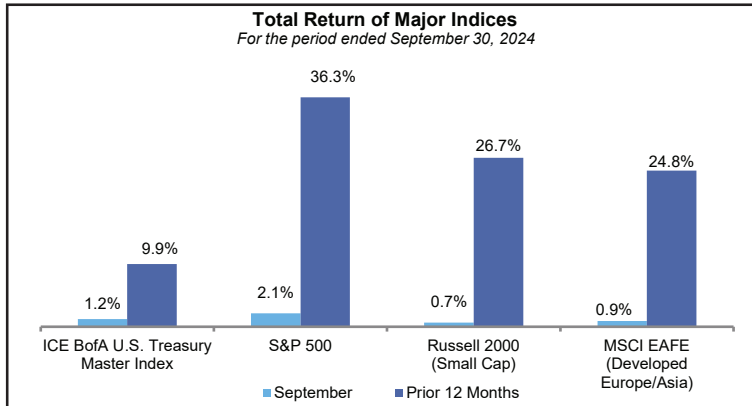
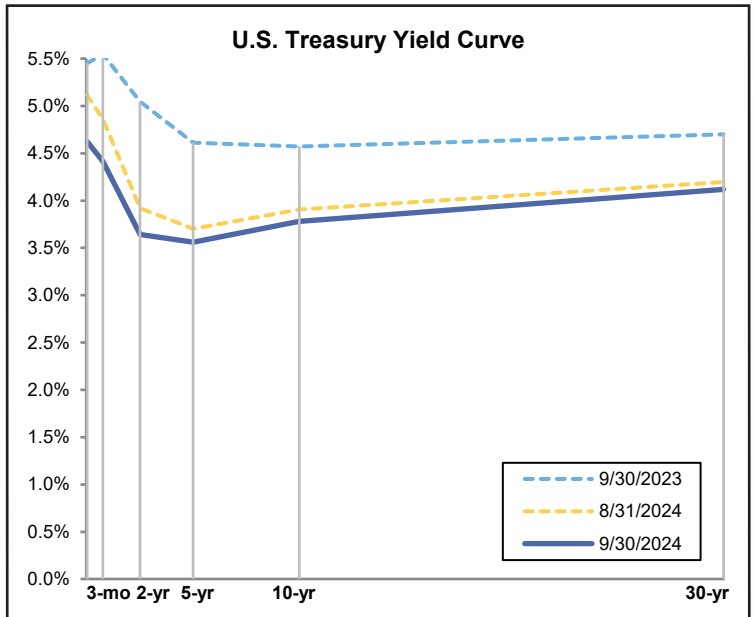
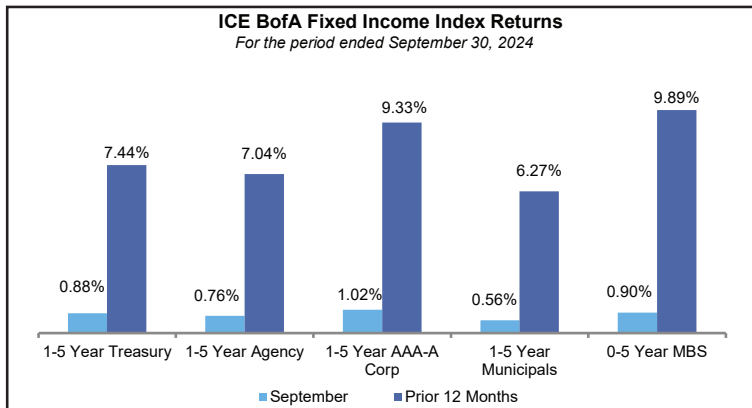
This information is for institutional investor use only, not for further distribution to retail investors, and does not represent an offer to sell or a solicitation of an offer to buy or sell any fund or other security. Investors should consider the investment objectives, risks, charges and expenses before investing in any of the Missouri Securities Investment Program's portfolios. This and other information about the Program's portfolios is available in the Program's current Information Statement, which should be read carefully before investing. A copy of the Information Statement may be obtained by calling 1-877-MY-MOSIP or is available on the Program's website at www.mosip.org. While the MOSIP Liquid Series seeks to maintain a stable net asset value of \$1.00 per share and the MOSIP Term portfolio seeks to achieve a net asset value of \$1.00 per share at the stated maturity, it is possible to lose money investing in the Program. An investment in the Program is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Shares of the Fund are distributed by U.S. Bancorp Investments, Inc., member FINRA (www.finra.org) and SIPC (www.sipc.org). PFM Asset Management is a division of U.S. Bancorp Asset Management, Inc., which serves as administrator and investment adviser to the Fund. U.S. Bancorp Asset Management, Inc. is a direct subsidiary of U.S. Bank N.A. and an indirect subsidiary of U.S. Bancorp. U.S. Bancorp Investments, Inc. is a subsidiary of U.S. Bancorp and affiliate of U.S. Bank N.A.

U.S. Treasury Yields				
Maturity	Sep 30, 2023	Aug 31, 2024	Sep 30, 2024	Monthly Change
3-Month	5.45%	5.12%	4.63%	-0.49%
6-Month	5.55%	4.86%	4.41%	-0.45%
2-Year	5.05%	3.92%	3.64%	-0.28%
5-Year	4.61%	3.70%	3.56%	-0.14%
10-Year	4.57%	3.90%	3.78%	-0.12%
30-Year	4.70%	4.20%	4.12%	-0.08%

Yields by Sector and Maturity				
Maturity	U.S. Treasury	Federal Agency	Corporates-AA-A Industrials	AAA Municipals
3-Month	4.63%	4.64%	4.67%	-
6-Month	4.41%	4.41%	4.66%	-
2-Year	3.64%	3.65%	4.06%	2.39%
5-Year	3.56%	3.57%	4.14%	2.34%
10-Year	3.78%	3.84%	4.51%	2.56%
30-Year	4.12%	-	5.08%	3.42%

Spot Prices and Benchmark Rates				
Index	Sep 30, 2023	Aug 31, 2024	Sep 30, 2024	Monthly Change
1-Month LIBOR	5.43%	5.31%	4.96%	-0.35%
3-Month LIBOR	5.66%	5.28%	4.85%	-0.43%
Effective Fed Funds Rate	5.33%	5.33%	4.83%	-0.50%
Fed Funds Target Rate	5.50%	5.50%	5.00%	-0.50%
Gold (\$/oz)	\$1,848	\$2,505	\$2,636	\$132
Crude Oil (\$/Barrel)	\$90.79	\$73.55	\$68.17	-\$5.38
U.S. Dollars per Euro	\$1.06	\$1.10	\$1.11	\$0.01

Economic Indicators				
Indicator	Release Date	Period	Actual	"Survey (Median)"
Retail Sales Advance MoM	16-Sep	Aug	0.10%	-0.20%
FOMC Rate Decision	18-Sep	Sep	5.00%	5.00%
Existing Home Sales MoM	19-Sep	Aug	-2.50%	-1.30%
GDP Annualized QoQ	26-Sep	2Q T	3.00%	2.90%
U. of Mich. Consumer Sentiment	27-Sep	Sep F	70.1	69.4
PCE YoY	27-Sep	Aug	2.20%	2.30%
ISM Manufacturing	1-Oct	Sep	47.2	47.5



Source: Bloomberg. Data as of September 30, 2024, unless otherwise noted.

Indexes shown are not available for investment. The index data reference herein is the property of the index provider and/or its licensors. The index provider assumes no liability in connections with its use and does not sponsor, endorse or recommend the products or services contained herein. Index returns do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause investment performance to be lower than the performance shown.

The views expressed within this material constitute the perspective and judgment of U.S. Bancorp Asset Management, Inc. at the time of distribution and are subject to change. Any forecast, projection, or prediction of the market, the economy, economic trends, and equity or fixed-income markets are based upon current opinion as of the date of issue and are also subject to change. Opinions and data presented are not necessarily indicative of future events or expected performance. Information contained herein is based on data obtained from recognized statistical services, issuer reports or communications, or other sources, believed to be reliable. No representation is made as to its accuracy or completeness.

PFM Asset Management serves clients in the public sector and is a division of U.S. Bancorp Asset Management, Inc., which is the legal entity providing investment advisory services. U.S. Bancorp Asset Management, Inc. is a registered investment adviser, a direct subsidiary of U.S. Bank N.A. and an indirect subsidiary of U.S. Bancorp. U.S. Bank N.A. is not responsible for and does not guarantee the products, services, or performance of U.S. Bancorp Asset Management, Inc.

NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE

