Columbia Threadneedle Fixed-Income Monitor: April 2024

April 18, 2024

Track fixed-income opportunities with this monthly update.

One way to identify opportunities in fixed income is to look at bond yields. That's because yield, which is based on a bond's price and coupon payments, reflects total return potential. Yields can change over time and across bond sectors.

Spread, which refers to the difference between a bond's yield and the yield of a risk-free issue with the same duration (e.g., U.S. Treasuries),[1] indicates how much investors are being compensated for taking on additional credit (default) risk. If spreads are above their long-term average (sometimes called "wide " or "cheap"), investors are being paid more to take on credit risk; if they're below their long-term average (called "narrow" or "tight"), investors are being paid less.

Our proprietary Fixed-Income Monitor compares yields and credit spreads over 20 years of history and across fixed income. It's designed to help investors identify opportunities and risks in the asset class.

Evaluating risk and opportunities across fixed income

Current value vs. 20-year average

	Yield (%)	Yield (percentile)	Spread (percentile)
10-year U.S. Treasury	4.2	83	—
Agency MBS	5.5	96	91
Investment grade	5.3	76	11
High yield	7.7	58	8
Municipal bonds	5.9	64	17

Source: Columbia Threadneedle Investments as of March 29, 2024. Yield is represented by yield to worst, which is the minimum return received on a callable bond, apart from the yield if the issuer were to default. For municipal bonds, yield is represented by taxable equivalent yield, which is based on the top federal bracket (37%) and net investment income tax (3.8%). Other taxes are possible. Yield percentile and spread percentile are represented by the range of daily yields and daily spreads, respectively, and both are for the last 20 years, with the current percentile position indicated. **Past performance is not a guarantee of future results.**

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Key takeaways for April 2024

- Despite benchmark U.S. Treasury 10-year yields increasing over 20 basis points in response to hotter-than-expected inflation and labor market data, yields for intermediate and longer maturity Treasuries ended March lower.

- During the first quarter, corporations took advantage of capital market conditions to refinance outstanding debt at a historic clip. The high demand for corporates reflects attractive all-in yields and healthy risk sentiment, which drove credit spreads to near post-COVID tights.

- Treasuries and municipal bond yields moved in opposite directions, resulting in a slightly steeper municipal bond curve that offers investors better value for extending maturity.

[1] There's no credit spread on U.S. Treasuries, which are considered risk-free government securities since payments are guaranteed by the U.S. government.

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Agency MBS is represented by the Morgan Stanley 30-Year Conventional Current Coupon ZV Indicator, which represents the zero volatility spread for the hypothetical $100-priced 30-year conventional mortgage over time. **Investment grade** is represented by the Bloomberg U.S. Corporate Investment Grade Index. **High yield** is represented by the Bloomberg U.S. High Yield Corporate Bond Index. **Municipal bonds** are represented by the Bloomberg Municipal Bond Index. It is not possible to invest directly in an index. Index descriptions are available here.

Past performance is not a guarantee of future results. There are risks associated with **fixed-income** investments, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities. A rise in **interest rates** may result in a price decline of fixed-income instruments. Falling rates may result in a fund investing in lower yielding debt instruments, lowering income and yield. These risks may be heightened for longer maturity and duration securities. **Mortgage- and asset-backed securities** are affected by interest rates, financial health of issuers/originators, creditworthiness of entities providing credit enhancements and the value of underlying assets. Income from tax-exempt municipal bonds or municipal bond funds may be subject to state and local taxes, and a portion of income may be subject to the federal and/or state alternative minimum tax for certain investors. Federal and state income tax rules will apply to any capital gains.

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