Monthly Fixed Income Market Update

VICTORY income investors®
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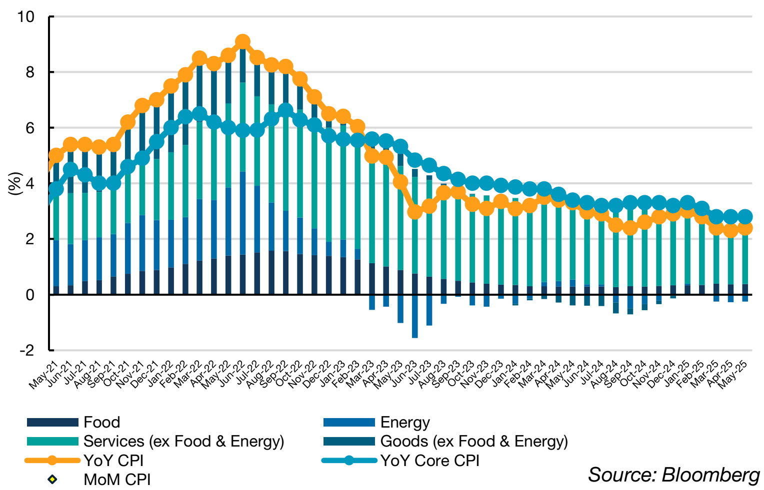
As of June 30, 2025

Key Takeaways

1. Treasury yields fell in June, driven by softer economic data, sideways inflation trends and continued concerns over U.S. fiscal policy. The 10-year yield ended the month at 4.23%, down from May's 4.41%.
2. Fixed income had a strong month, with positive performance across asset classes as yields fell across the curve. Yields were pushed down by more dovish rhetoric from Federal Reserve officials and expectations of slowed economic growth.
3. What does the rest of the year hold for fixed income? We've outlined three themes to explain why we believe fixed income continues to provide an attractive opportunity for investors.

The Month in Charts

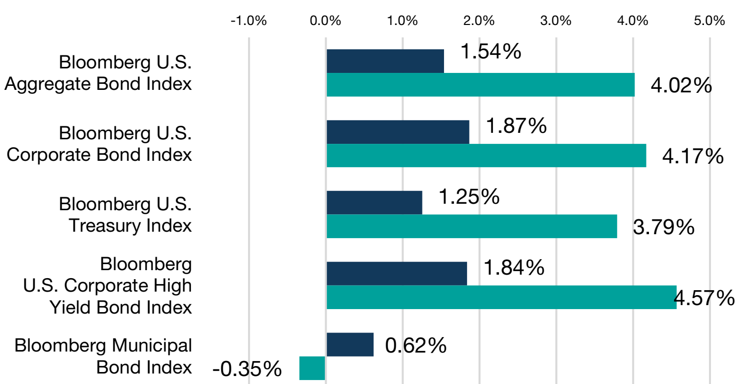
May CPI, reported in June, rose to 2.4% year-over-year and Core CPI held at 2.8% year-over-year. The Federal Reserve (the Fed) kept rates at 4.25%-4.50% at their June meeting. The decision was unanimous, reiterating the "wait and see" approach amidst uncertainty in the economic outlook. With expectations for weaker growth becoming consensus and driving rate cut expectations, Chair Powell noted that the Fed must be forward looking in its policy making. The July 9th tariff deadline has prompted questions as many trade deals are still in flux, and the true economic impact remains to be seen. Market pricing for interest rate cuts has been all over the place year-to-date, but ended the month at 2.5 cuts through the end of the year.



Source: Bloomberg

Performance was positive across fixed income in June. Spread sectors outperformed Treasuries, and high yield corporates continued to deliver the highest returns.

Returns (%) for Fixed Income Indices

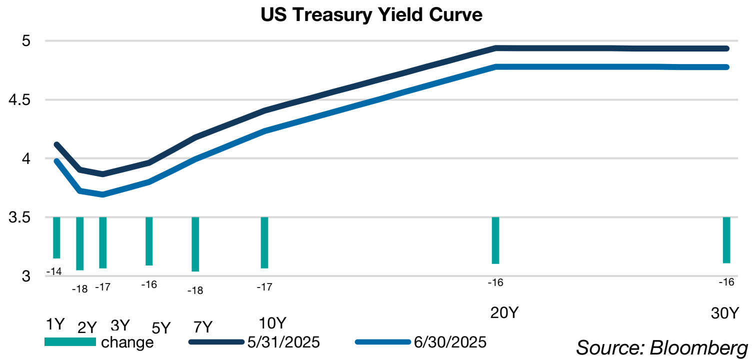


Performance as of 06/30/2025

Past performance is no guarantee of future results.

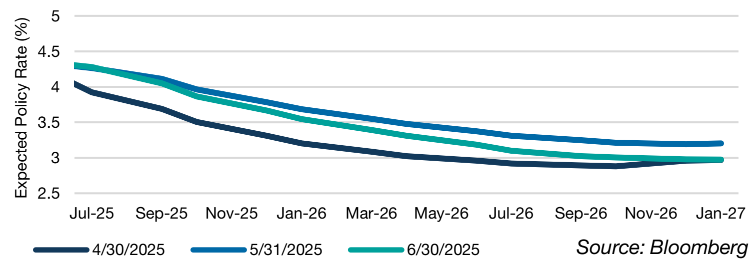
Source: Bloomberg

The Treasury yield curve fell in June amid softer U.S. economic data and more conciliatory statements from some U.S. Federal Reserve officials. Markets have almost fully priced in a September rate reduction. There are still investor concerns about whether the final version of the fiscal bill currently in play in Congress will be sufficient to control long-term inflation and the future of national debt, which is reflected in the steepness of the yield curve.



Source: Bloomberg

Markets have softened their rate cut expectation stance since April but have increased their expectations for interest rate reductions in 2025 month-over-month.



Source: Bloomberg

Credit spreads tightened month-over-month, pricing in a benign outlook that is at odds with some of the softer economic data we saw in June. Investment grade spreads tightened 4 bps and high yield spreads tightened 24 bps.

				Quarter		Change		
Asset Class	Yield	Spread	Qtrly Trend	Tight	Wide	MoM	QoQ	YoY
U.S. Treasury	4.03							
U.S. MBS	4.93	37		34	49	-5	1	-11
U.S. Corporate	5.00	84		84	118	-4	-9	-9
U.S. Corporate High Yield	7.36	292		292	452	-24	-54	-19
CMBS	4.69	85		84	101	-3	-3	-13
ABS	4.41	57		55	74	-2	-3	0
A	4.88	72		72	101	-3	-9	-10
BBB	5.22	107		105	146	-5	-10	-8
BB	6.10	168		168	302	-25	-49	-9

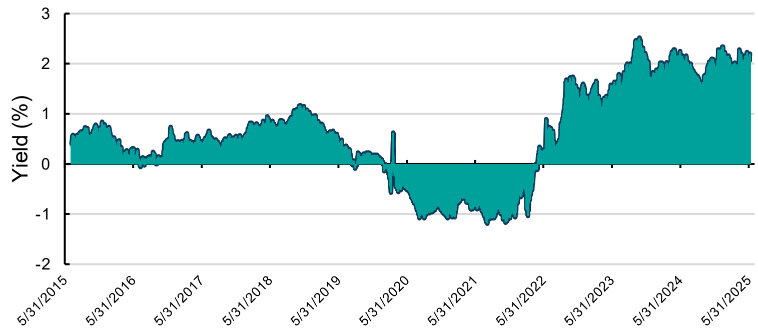
Source: Bloomberg; Asset Classes represented by: ICE BofA US Treasury & Agency Index, Bloomberg US MBS Index, Bloomberg US Agg Total Return Value Unhedged USD, ICE BofA US High Yield Index, ICE BofA US Fixed Rate CMBS Index, ICE BofA US Fixed Rate Asset Backed Securities Index, Bloomberg US Agg A Total Ret Index, Bloomberg US Agg Baa Total Ret Index, Bloomberg Ba US High Yield TR Index. MoM/QoQ/YoY as of 06/30/2025

Frequently Asked Questions

What does the second half of 2025 have in store for fixed income investors? In our mid-year outlook, we've outlined three themes: elevated uncertainty, the ballast potential of fixed income amid this uncertainty, and continued defensive positioning given current credit spread levels. With the wide range of potential outcomes our team sees for the rest of the year, we find ourselves leaning on the three things we found to be true in the current environment.

1. Real yields, which is yield in excess of inflation, are positive and historically elevated.

10-Year Treasury Real Yield*

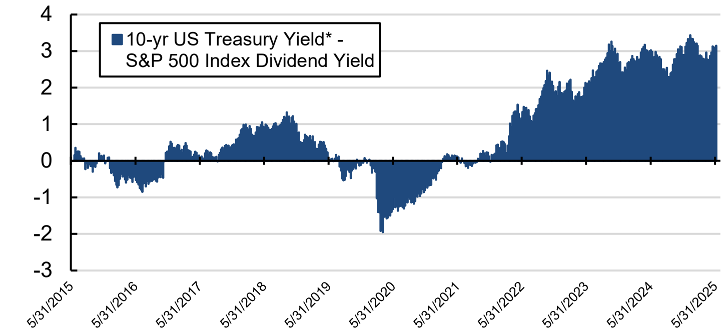


*As measured by the U.S. Treasury Constant Maturity 10-Year Yield Index **Source:** Bloomberg

Past performance is no guarantee of future results. Indexes are unmanaged and do not reflect fees and expenses. One cannot invest directly in an index.

2. Fixed income valuations are attractive relative to equities. The yield on a 10-year Treasury note exceeds the dividend yield of the S&P 500.

Treasury yields far exceed dividend yield of S&P 500



* US Generic Government 10-Year Yield Index. **Source:** Bloomberg.

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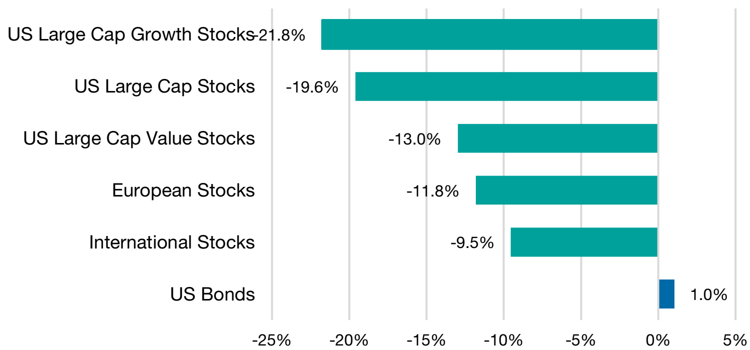
3. Fixed income provided a buffer to portfolios during the post-liberation day period which saw a meaningful drawdown in equities. While correlation may not always be negative, it was negative at the 'right' moment.

Total Return Pre-Liberation Day Peak to Post-Liberation Day

Through (2/19/25 - 4/8/25)



Source: Bloomberg, Indices referenced are the Bloomberg Aggregate Index (US Bonds), STOXX Europe 600 Index (European Stocks), MSCI World Excluding U.S. Index (International Stocks),Bloomberg Large Cap Value Index (US Large Cap Value Stocks),Bloomberg Large Cap Index (US Large Cap Stocks), and Bloomberg Large Cap Growth Index (US Large Cap Growth).

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While we are still defensive regarding credit risk as credit spreads at current levels have historically offered investors negative excess returns in the following year, we are positive on fixed income. For more information on sector views and additional analysis we recommend taking a look at our outlook.

What We'll Be Watching in the Month Ahead

We will be watching the economic health indicators, inflation, and the following in the month to come:

- **July 3rd, the Nonfarm Payrolls and Unemployment Rate:** These reports will be critical for the Fed in assessing the health of the labor market and help inform future rate reductions.
- **July 15th, the next CPI will be released:** This report will offer insight into whether inflation is continuing to trend downward towards the Fed's 2% target.
- **July 30th, the next FOMC rate decision:** We, alongside most of the market, do not expect a rate cut at this meeting. However, the press conference following may provide further insight into the Fed's assessment of economic conditions and tariff impacts.
- **July 31st, the next PCE report will be released:** The PCE (Price Consumption Expenditure Index) is the Fed's preferred inflation gauge. It came in higher than expected in May, so this report will offer additional insight into any potential trends to be considered by the Fed.

All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class. Interested parties are strongly encouraged to seek advice regarding the best options for their particular circumstances from qualified tax and financial experts.

The opinions are as of the date noted and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

Index performance includes reinvestment of dividends and other income but does not reflect management fees, transaction costs or expenses. One cannot invest directly in an index. **Past performance does not guarantee future results.**

Basis point "bps" is 1/100th of a percentage point. **Credit spread** is the difference in yield between a U.S. Treasury bond and another debt security of the same maturity but different credit quality. Credit spreads are the additional compensation that investors require to hold securities that are not as safe and liquid as those issued by the US Treasury. **The Treasury Yield Curve** shows the relationship between the US bond yield and the time to maturity. Yield and price have an inverse relationship. As the yield curve lowers, the price of bonds increase. **Core CPI:** CPI excluding food and energy. **Consumer Price Index (CPI),** a popular measure of inflation and deflation calculated by the Bureau of Labor Statistics, measures the monthly change in prices paid by U.S. consumers. **Personal Consumption Expenditure Price Index** is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services and is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

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