U.S. FIXED INCOME STRATEGIES

Daily Market View

Wealth Management

Friday, June 27, 2025

Market Snapshot	Today	Prior Session
SOFR	4.40%	4.36%
10-year Treasury	4.25%	4.24%
S&P 500	6,041	6,092
IG Corporates	5.03%	5.07%
HY Corporates	7.09%	7.13%
Municipals	3.97%	3.98%

Rates & credit

Treasury bond prices are drifting lower this morning, pushing yields—which move inversely to price—higher by ~3 bps across the curve. This morning's price declines come in the context of a strong week for U.S. government bonds. Rising prices since last Friday have caused yields on 2yr Treasuries to drop ~15 bps while 10yr yields are just over 10 bps lower.

The proximate cause for the improvement in bond prices, in our view, has been increasing expectations for Fed rate cuts amid signs of a weakening U.S. economy. Interest rate futures now show a near certainty of at least one cut by September with a high probability of five cuts over the next twelve months. If futures are correct in their pricing, overnight policy rates would fall to ~3% by September 2026. Fed rate cuts are particularly influential on shorter maturity bond prices, explaining the strong performance of the 2yr Treasury this week.

Bond performance today will likely be influenced by the key data scheduled for release this morning. The numbers due out include Personal Income and Personal Spending for May, an important check on the health of the U.S. consumer. In addition, there is PCE inflation data being reported, and the University of Michigan is releasing the final numbers from June's consumer survey.

One potential troubling sign from the bond market is the continued underperformance of longer maturity bonds. The difference between 2yr and 30yr bond yields, for instance, is 1.07%. That difference has more than doubled since the start of the year and we believe reflects the significant concerns about U.S budget deficits and growing disincentives for foreign investors to buy longer term U.S. government debt.

The 10yr Treasury yield is a more commonly used benchmark than its 30yr counterpart for corporate investment and consumer borrowing. The underperformance of that maturity is less pronounced than the 30yr, although it is still meaningful. Over the last twelve months, the difference between 10yr and 2yr bond yields have increased by roughly 1% and just this week the difference has moved ~5 bps higher. The concern is that continued underperformance of longer maturity bonds may lessen the stimulative effect of central bank rate cuts.

Event	Period	Survey	Actual	Prior
GDP Annualized QoQ	1Q T	-0.2%	**-0.5%**	-0.2%
GDP Price Index	1Q T	3.7%	**3.8%**	3.7%
Personal Consumption	1Q T	1.2%	**0.5%**	1.2%
Core PCE Price Index QoQ	1Q T	3.4%	**3.5%**	3.4%
Durable Goods Orders	May P	8.5%	**16.4%**	-6.6%
Initial Jobless Claims	Jun 21	243k	**236k**	246k
Continuing Claims	Jun 14	1950k	**1974k**	1937k
Wholesale Inventories MoM	May P	0.2%	**-0.3%**	0.1%

U.S. economic data review

U.S. consumer spending grew in the first quarter by the weakest pace since the onset of the pandemic amid a sharp deceleration in outlays for a variety of services. Spending on services only contributed 0.3% to gross domestic product, which is the least since the second quarter of 2020. All seven major categories of services spending were revised lower, led by a sharp drop in recreation services spending.

Continuing jobless claims rose to the highest level since November 2021, signaling more Americans are taking longer to find new work. Elevated continuing claims aligns with other surveys and points to a slowdown in the labor market, suggesting employers are hitting the brakes on hiring. Federal Reserve officials warned that higher tariffs may lead to layoffs, with Richmond Fed President Tom Barkin predicting that businesses may face pressure to raise prices and reduce costs.

Municipals

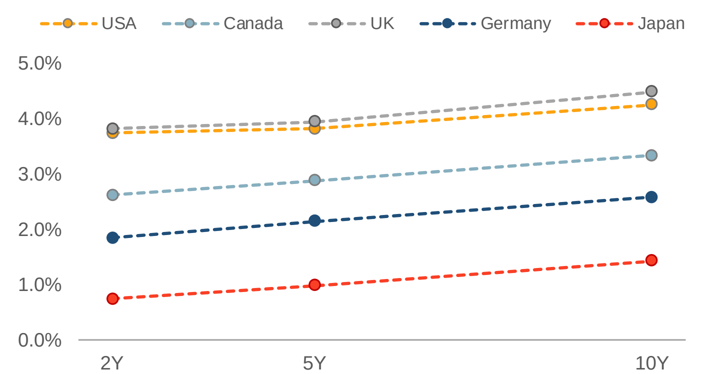
After holding steady throughout the week, tax-exempt yields on municipals due 5-years and in fell 2 to 3 bps, while yields on longer-dated maturities were left unchanged. Tax-exempts continue underperforming Treasuries, which had another strong showing following mixed economic data. Benchmark 5-, 10-, and 30-year municipal bonds ended the session yielding 2.71%, 3.30%, and 4.54%, respectively. 20-year and 30-year municipal/Treasury ratios widened to 90% and 95%.

Investors added $77 million to municipal bond funds, marking the ninth consecutive week of inflows. Investors remained focused on short, short-intermediate and high yield funds, adding an aggregate $278 million while withdrawing $201 million from long-term bond funds.

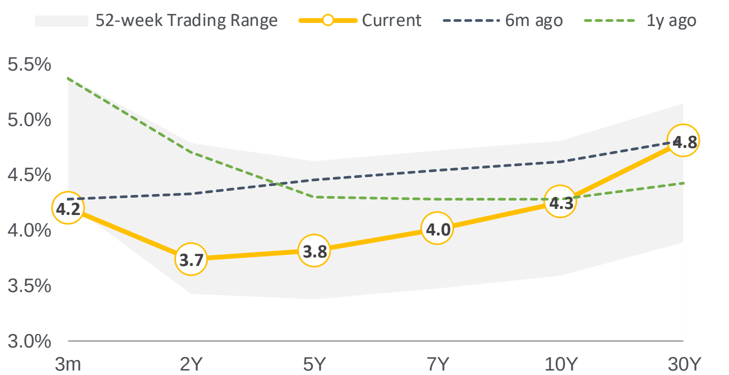
Federal Reserve & Sovereign Yields

		3M	1Y	2Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
Gov't	Treasuries	4.20	3.81	3.74	3.82	4.02	4.26	-	-	-	4.81
	Agencies	4.36	4.04	3.80	3.85	4.06	4.42	4.74	4.99	5.18	5.25
	AAA Munis	2.76	2.61	2.63	2.74	2.90	3.23	3.79	4.17	4.42	4.53
IG Corp	AA	4.26	4.16	4.01	4.20	4.44	4.81	5.25	5.49	5.54	5.55
	A	4.38	4.32	4.17	4.42	4.70	5.05	5.46	5.70	5.71	5.73
	BBB	4.65	4.59	4.46	4.75	5.05	5.39	5.80	6.03	5.99	6.05
HY Corp	BB	5.07	5.10	5.12	5.70	5.97	6.29	6.65	6.99	6.95	6.99
	B	4.83	5.01	5.31	6.28	6.52	6.73	6.96	6.95	6.75	6.76

Global Sovereign Yields



U.S. Treasury Yield Curve

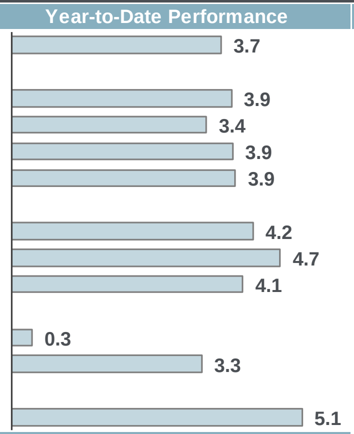


Fed Funds Forecasts	YE2025	YE2026	YE2027	Long-term
Fed's 'Dot Plot' (June)	4.00%	3.75%	3.50%	3.00%
Market Pricing	3.69%	3.01%		
RBC CM	3.75%	3.00%		

10Y Tsy Yield Forecasts	2Q25	3Q25	4Q25	1Q26
Consensus (May)	4.35%	4.41%	4.32%	4.25%
RBC CM (June)	4.40%	4.10%	3.80%	3.65%
Market Forwards	4.31%	4.34%	4.39%	4.43%

Corporates

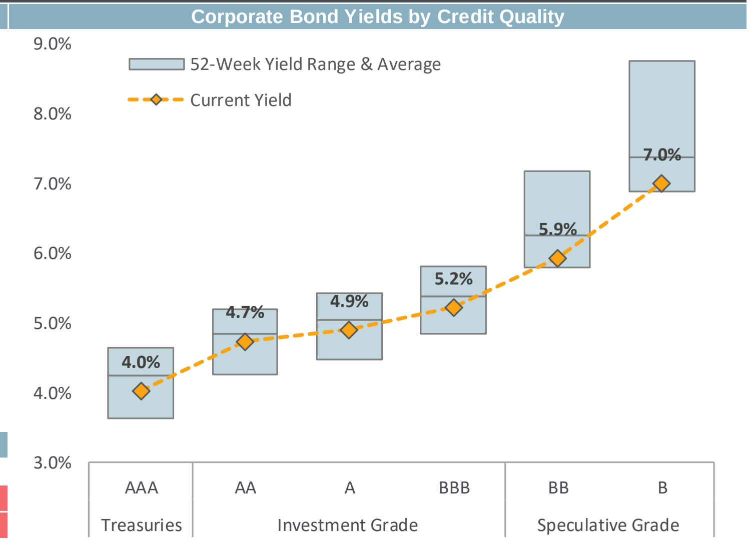
Sector	1w Chng	Year-to-Date Performance
Treasuries	0.8%	3.7
Investment Grade		
Broad Index	0.8%	3.9
AA	0.9%	3.4
A	0.9%	3.9
BBB	0.8%	3.9
Speculative Grade		
Broad Index	0.7%	4.2
BB	0.7%	4.7
B	0.7%	4.1
Preferred Shares		
Fixed-Rate	1.2%	0.3
Hybrids	0.6%	3.3
Equities		
S&P 500	2.9%	5.1



Credit Spreads over Treasuries (bps)

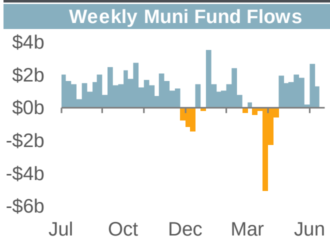
	Current	5Y Low	5Y Avg	5Y High
Investment Grade	86	74	109	165
Speculative Grade	293	253	368	630

Corporate Bond Yields by Credit Quality

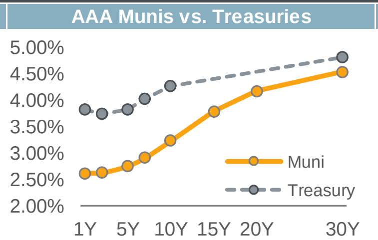


Municipals

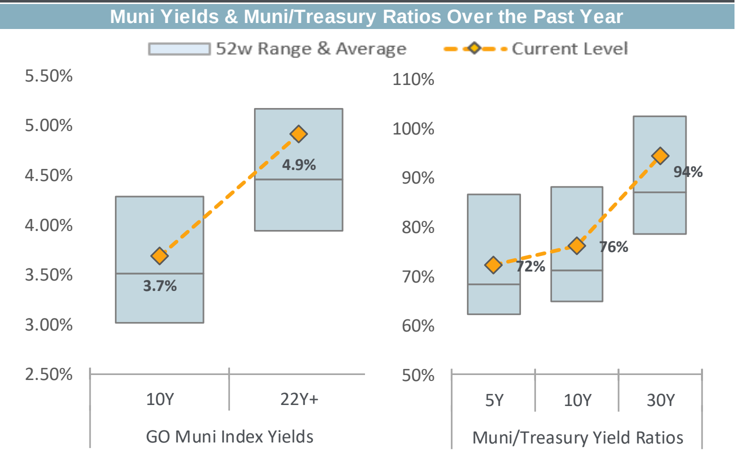
Weekly Muni Fund Flows



AAA Munis vs. Treasuries



Muni Yields & Muni/Treasury Ratios Over the Past Year



Select State Benchmark Yields

CA	3.81%	PA	4.11%	AZ	3.93%
NY	4.03%	OH	3.91%	CT	3.47%
TX	4.06%	VA	3.89%	NC	3.78%
FL	4.20%	MD	3.69%	MI	4.11%
WA	3.75%	NJ	3.97%	WI	4.02%
IL	4.17%	CO	3.99%	OR	3.92%
MA	3.92%	GA	3.92%	MN	3.77%

Source: RBC Wealth Management, Bloomberg Barclays Indexes, Federal Reserve