



January Recap: Bond Market Returns Mirror Cool Weather

Highlights from the fixed income markets:

- Solid economic reports in January led investors to think that rate cuts expected as early as March might be deferred. Late in January, the Federal Reserve (Fed) announced it was leaving the Fed Funds rate unchanged for a fourth consecutive meeting.
- Returns were negative across most fixed income categories in January as interest rates rose fractionally. The Bloomberg U.S. Aggregate Index (the Agg) was down -0.27% while outperforming similar-duration Treasuries. Investment grade (IG) corporates and municipal bonds posted losses for the month, while high yield (HY) corporates were flat.
- IG corporate spreads finished the month close to unchanged, with a slight bias tighter. HY, on the other hand, saw spreads widen across all sectors, with the most significant widening coming in the Communications sector.
- The HY default rate improved in January to 3.4%, as the number of high yield issuers to have defaulted in the past 12 months came down.

Read on for more details and analysis.

MARKET SUMMARY

2024 started off slowly for most fixed income categories. High yield corporates were the top performer with a flat return on the month.

YIELDS & RETURNS (%)¹

	Duration (years)	Yield	January Return	YTD Return
Treasuries	6.18	4.12	-0.28	-0.28
Investment Grade Corporates	7.21	5.11	-0.17	-0.17
High Yield Corporates	3.74	7.80	0.00	0.00
Municipal Bonds	5.81	3.37	-0.51	-0.51

U.S. TREASURY MARKET

Treasury yield changes were mixed in January. The long and short end of yield curve moved higher, while the belly of the curve was relatively stable.

TREASURY YIELDS (%)¹

	January Change	Year-to-Date Change	1/31/2024	12/31/2023	11/30/2023	10/31/2023
90-Day T-Bills	0.09	0.09	5.37	5.28	5.40	5.43
2-year Treasury	-0.03	-0.03	4.22	4.25	4.70	5.06
5-year Treasury	0.03	0.03	3.86	3.83	4.28	4.83
10-year Treasury	0.08	0.08	3.94	3.86	4.34	4.91
30-year Treasury	0.18	0.18	4.20	4.02	4.51	5.07

This update provides an overview of certain broad-based Fixed Income benchmarks and does not include performance of the Segall Bryant & Hamill Fixed Income styles. Past performance cannot guarantee future results. All investments involve risk, including the possible loss of capital. SBH is a wholly owned subsidiary of Corient Holdings.

Short Treasury returns were positive, while longer Treasuries—10-years and beyond—posted negative returns.

TREASURY RETURNS (%)¹

	Duration (years)	January Return	YTD Return
90-Day T-Bills	0.24	0.43	0.43
2-year Treasury	1.94	0.36	0.36
5-year Treasury	4.58	0.13	0.13
10-year Treasury	8.00	-0.30	-0.30
30-year Treasury	16.67	-2.70	-2.70
U.S. Treasury TIPS	6.90	0.18	0.18

BROAD INVESTMENT GRADE

The Agg posted a small loss in January while outperforming Treasuries. Long corporates and mortgage-backed securities (MBS) were the main drivers of the losses for the month.

INVESTMENT GRADE INDEX & SECTOR RETURNS (%)¹

	Duration (years)	Yield	January Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
U.S. Aggregate	6.24	4.59	-0.27	0.08	-0.27	0.08
Treasuries	6.18	4.12	-0.28		-0.28	
Agencies	3.39	4.44	0.29	0.13	0.29	0.13
Mortgage-Backed Securities	5.73	4.80	-0.46	-0.18	-0.46	-0.18
Asset-Backed Securities	2.67	4.90	0.47	0.25	0.47	0.25
Intermediate Corporates	4.14	5.00	0.19	0.08	0.19	0.08
Long Corporates	13.28	5.32	-0.87	1.15	-0.87	1.15

IG corporate credit spreads were essentially flat across the short and intermediate buckets. Long corporate spreads tightened.

INVESTMENT GRADE SPREADS (basis points)¹

	January Change	Year-to-Date Change	1/31/2024	12/31/2023	11/30/2023	10/31/2023
1-3 Year Corporates	-1	-1	66	67	75	96
Intermediate Corporates	0	0	90	90	99	125
Long Corporates	-9	-9	107	116	113	138
MBS Current Coupon Spread	2	2	141	139	152	176

IG corporate returns were negative, although all IG ratings categories outperformed Treasuries.

INVESTMENT GRADE CORPORATE CREDIT QUALITY RETURNS (%)¹

	Duration (years)	Yield	January Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
AAA	10.81	4.55	-1.10	0.49	-1.10	0.49
AA	8.23	4.66	-0.62	0.31	-0.62	0.31
A	7.20	4.96	-0.21	0.40	-0.21	0.40
BBB	6.99	5.32	-0.04	0.50	-0.04	0.50

This update provides an overview of certain broad-based Fixed Income benchmarks and does not include performance of the Segall Bryant & Hamill Fixed Income styles. Past performance cannot guarantee future results. All investments involve risk, including the possible loss of capital.

IG corporate spreads were mixed, with every sector but one finishing unchanged to slightly tighter. The only sector to realize wider spreads in the month was Capital Goods (industrial products, defense, etc.)

INVESTMENT GRADE CORPORATE BOND SPREADS BY SECTOR (basis points)¹

	January Change	YTD Change	1/31/2024	12/31/2023	11/30/2023	10/31/2023
Consumer Non-Cyclical	-2	-2	82	84	84	106
Technology	0	0	73	73	73	100
Energy	-4	-4	104	108	107	130
Consumer Cyclical	0	0	85	85	92	113
Transportation	-4	-4	86	90	94	111
Basic Industry	0	0	109	109	116	141
Communications	-3	-3	110	113	115	146
Capital Goods	3	3	82	79	83	104
Utilities	-4	-4	101	105	111	129
Financials	-5	-5	107	112	123	152

HIGH YIELD

HY corporates were flat overall for the month, with slight positive returns from BBs and Bs offset by a negative return on CCCs. All ratings categories realized wider spreads while outperforming similar-duration Treasuries.

HIGH YIELD SECTOR RETURNS (%)¹

	Duration (years)	Yield	January Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
High Yield Corporates	3.74	7.80	0.00	-0.22	0.00	-0.22
BB	4.07	6.48	0.06	-0.11	0.06	-0.11
B	3.51	7.63	0.07	-0.19	0.07	-0.19
CCC	3.25	12.67	-0.66	-0.92	-0.66	-0.92

HIGH YIELD OPTION-ADJUSTED SPREADS (OAS) (basis points)¹

	January Change	YTD Change	1/31/2024	12/31/2023	11/30/2023	10/31/2023
High Yield OAS	21	21	344	323	370	437
BB OAS	15	15	216	201	228	286
B OAS	11	11	321	310	367	443
CCC OAS	57	57	833	776	880	966

Spreads were wider across the board in HY corporates. Communications made the most significant move wider, while Consumer Cyclical widened by the least.

HIGH YIELD CORPORATE BOND SPREADS (OAS) BY SECTOR (basis points)¹

	January Change	YTD Change	1/31/2024	12/31/2023	11/30/2023	10/31/2023
Consumer Non-Cyclical	9	9	382	373	424	497
Technology	35	35	392	357	412	490
Energy	10	10	267	257	271	309
Consumer Cyclical	6	6	283	277	323	398
Transportation	25	25	385	360	396	471
Basic Industry	13	13	343	330	370	418
Communications	60	60	566	506	574	623
Capital Goods	22	22	263	241	290	364
Utilities	19	19	256	237	256	304
Financials	23	23	323	300	352	441

This update provides an overview of certain broad-based Fixed Income benchmarks and does not include performance of the Segall Bryant & Hamill Fixed Income styles. Past performance cannot guarantee future results. All investments involve risk, including the possible loss of capital.

The number of HY issuers to have defaulted in the past 12 months decreased by 3 in January, bringing the HY default rate down to 3.4% – still low by historical standards.

HIGH YIELD DEFAULT RATES²

	January Change	YTD Change	1/31/24	12/31/23	11/30/23	10/31/23
Number of Issuers in Default	-3	-3	27	30	27	27
Issuer Default Rate	-0.4%	-0.4%	3.4%	3.8%	3.4%	3.4%

MUNICIPALS & OTHER

Municipal bond returns were negative in January. Yields moved higher across most rating and maturity categories.

MAJOR MUNICIPAL BOND INDEX RETURNS (%)¹

	YTW	Duration (years)	January Return	YTD Return
Short Duration (1-5 Years)	2.95	2.67	-0.21	-0.21
Intermediate (1-15 Years)	3.04	4.32	-0.39	-0.39
Long Duration (22+ Years)	4.13	9.90	-0.89	-0.89

MUNICIPAL YIELDS BY RATING CATEGORY AND MATURITY (%)¹

	AAA		AA		A		BBB	
	1/31	12/31	1/31	12/31	1/31	12/31	1/31	12/31
1 Year	2.86	2.57	2.95	2.76	3.18	2.96	4.03	3.68
5 Year	2.37	2.19	2.46	2.37	2.74	2.66	3.61	3.63
10 Year	2.44	2.25	2.53	2.43	2.83	2.84	3.80	3.84
30 Year	3.56	3.34	3.90	3.77	4.13	4.08	4.92	4.83

AA MUNICIPALS – HYPOTHETICAL AFTER-TAX YIELDS BY EFFECTIVE TAX RATE (%)³

	35%	30%	25%	20%
1 Year	4.54	4.21	3.93	3.69
5 Year	3.79	3.52	3.29	3.08
10 Year	3.89	3.61	3.37	3.16
30 Year	6.00	5.57	5.20	4.88

Among the assorted other sectors, preferred stocks and leveraged loans generated a positive return for the month.

OTHER SECTOR RETURNS (%)^{1,4}

	Duration (years)	Yield	January Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Emerging Markets	5.26	10.23	-0.22	-0.08	-0.22	-0.08
Global Investment Grade Treasuries (Unhedged)	7.43	3.00	-1.87	0.04	-1.87	0.04
S&P/LSTA Leveraged Loan Index		9.56	0.32		0.32	
S&P Preferred Stock Index		6.83	3.23		3.23	
U.S. Convertibles	1.86	0.79	-1.35		-1.35	

This update provides an overview of certain broad-based Fixed Income benchmarks and does not include performance of the Segall Bryant & Hamill Fixed Income styles. **Past performance cannot guarantee future results. All investments involve risk, including the possible loss of capital.** All opinions expressed in this material are solely the opinions of Segall Bryant & Hamill. You should not treat any opinion expressed as a specific inducement to make a particular investment or follow a particular strategy, but only as an expression of the manager's opinions. The opinions expressed are based upon information the manager considers reliable, but completeness or accuracy is not warranted, and it should not be relied upon as such. Market conditions are subject to change at any time, and no forecast can be guaranteed. Any and all information perceived from this material does not constitute financial, legal, tax or other professional advice and is not intended as a substitute for consultation with a qualified professional. The manager's statements and opinions are subject to change without notice, and Segall Bryant & Hamill is not under any obligation to update or correct any information provided in this material.

¹Source: Bloomberg.

²Source: Bank of America Merrill Lynch.

³Hypothetical yields are calculated as the AA municipal yield divided by (1-tax rate). Actual tax-adjusted yields will depend on individual tax circumstances.

⁴Source: Standard & Poor's.