Monthly Market Review

Fixed Income | July 2025

Information provided by MOSIP's Program Administrator PFM Asset Management, a division of U.S. Bancorp Asset Management, Inc.

MOSIP MISSOURI SECURITIES INVESTMENT PROGRAM

Markets stonewall fireworks and power ahead.

Economic Highlights

- As expected, at the meeting held on June 18 the Federal Reserve (Fed) held the target range for the overnight rate unchanged at 4.25% to 4.50%. In its press release, the Fed noted uncertainty has diminished since April but remains elevated. During the press conference, Fed Chair Jerome Powell noted that the effect, size, and duration of tariffs are all highly uncertain and that warrants the Fed remaining on hold as it continues to observe the data.
- The Fed's "dot plot" continued to show a median expectation of 50 basis points (bps) of rate cuts over the remainder of the year while its Summary of Economic Projections showed a weaker outlook for both gross domestic product (GDP) and PCE inflation. Fed Chair Powell emphasized the divergence of views across the committee noting eight members called for two cuts in 2025 while seven members project none.
- Increasing geopolitical tension in the Middle East adds to the already uncertain outlook. While the ceasefire has eased immediate concerns, future flare-ups may pressure domestic inflation through higher oil and energy prices.
- The Core Personal Consumption Expenditures Index (PCE), the Fed's preferred measure of inflation, rose a modest 0.2% over the prior month. This marks the third straight month of benign inflation readings, but the future impact of tariffs remains uncertain and supports the Fed's patience before it resumes cutting rates.
- The final read of first quarter GDP showed consumers spending at their slowest pace since the first quarter of 2022. The large pullback in spending amid strong income and wage growth likely represents consumer caution due to the uncertainty caused by tariffs. Future spending will remain a key area of focus for economic resilience.
- The June jobs report surprised the market to the upside with 147,000 new jobs created while the unemployment rate dipped to 4.1%. However, these figures masked underlying softness in the labor market as job growth in the private sector rose at the slowest pace in over six months and the decline in the unemployment rate was driven by a drop in labor force participation.

Bond Markets

- Yields on 3-month, 2-year, and 10-year U.S. Treasuries ended June at 4.29%, 3.72%, and 4.23%, representing decreases of -4 bps, -18 bps, and -17 bps, respectively.
- Fixed income indices produced positive returns for the month due to lower yields across the curve. The ICE BofA 3-month, 2-year, and 10-year U.S. Treasury indices returned +0.33%, +0.59%, and +1.63%, respectively.

Equity Markets

- Equities continued to rally and ended the month at new all-time highs. The S&P 500 Index is up +6.2% year-to-date. For the month of June, the NASDAQ returned +6.6%, the S&P 500 Index +5.1%, and the Dow Jones Industrial Average +4.5%.
- International equities, as measured by the MSCI ACWI ex U.S. Net Index, returned +3.4% for the month while the U.S. Dollar Index declined 2.5% and is now at its lowest level since February 2022.

PFMAM Strategy Recap

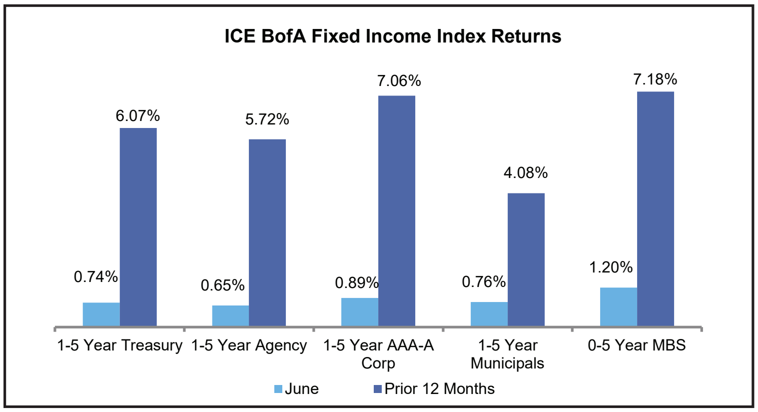
- We expect to maintain portfolio durations at or slightly above 100% of benchmarks given the ongoing rate and policy uncertainty, and the rebound in the absolute yield levels from their early-May lows.
- Spreads on federal agencies and supranationals remain quite narrow with no significant changes or new issuance expected in the near term. We will maintain low allocations in favor of other sectors. We will closely monitor developments related to the potential privatization efforts of Fannie Mae and Freddie Mac.
- Investment-grade (IG) corporate bond spreads inched tighter through June following notable retracement from prior months and now sit below their multi-year averages. Risk sentiment in the sector has been quite strong due to a stable economic outlook that supports corporate fundamentals. Technicals also remain favorable given attractive overall yields and low net issuance. Credit markets have seemingly shrugged off the risk of conflict in the Middle East. The robust pace of gross new issuance continues to present opportunities to selectively add at attractive levels.
- Asset-backed securities (ABS) retraced from April wides, although to a lesser extent than similar-duration IG corporates. As a result, this created an opportunity to increase allocations in the sector. Supply forecasts have seen reductions of ~10%, coming mainly from autos, while demand remains strong despite broad market volatility and uncertainty regarding tariffs.
- Agency-backed commercial MBS (CMBS) and mortgage-backed securities (MBS) also posted strong excess returns in June as waning bond volatility supported performance in mortgage-related sectors. Longer-duration MBS slightly outperformed shorter-duration counterparts while agency CMBS eked out a small positive gain. We remain cautious moving forward as we believe heightened fiscal policy uncertainty may weigh on the sector over the near term.
- On the short end of the yield curve, debt ceiling dynamics have reduced U.S. Treasury Bill supply and has applied modest downward pressure on yields. We are closely monitoring maturities around the Treasury's "X-date," which is currently projected to be mid-August or September. Meanwhile, credit spreads on the short end of the curve have stabilized during the month, allowing selective attractive adds across tenors.

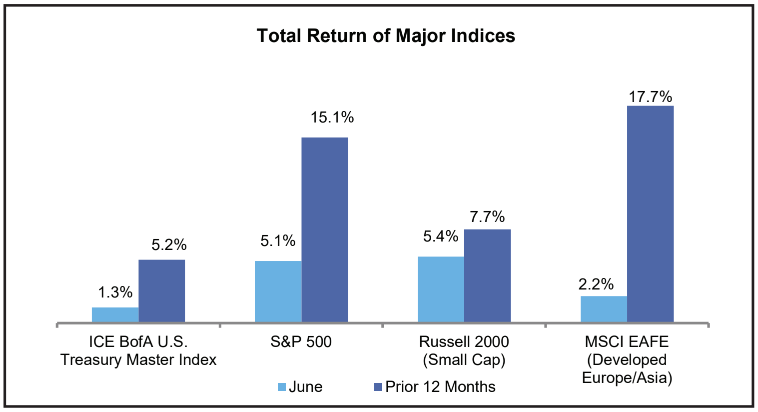
U.S. Treasury Yields				
Maturity	Jun 30, 2024	May 31, 2025	Jun 30, 2025	Monthly Change
3-Month	5.36%	4.34%	4.30%	-0.04%
6-Month	5.33%	4.32%	4.25%	-0.07%
2-Year	4.76%	3.90%	3.72%	-0.18%
5-Year	4.38%	3.96%	3.80%	-0.16%
10-Year	4.40%	4.40%	4.23%	-0.17%
30-Year	4.56%	4.93%	4.78%	-0.15%

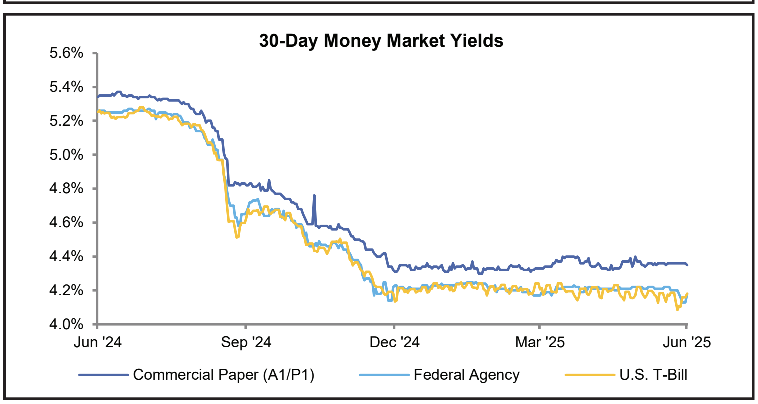
Yields by Sector and Maturity				
Maturity	**U.S. Treasury**	**Federal Agency**	**Corporates-AA-A Industrials**	**AAA Municipals**
3-Month	4.30%	4.31%	4.34%	-
6-Month	4.25%	4.25%	4.40%	-
2-Year	3.72%	3.73%	4.14%	2.60%
5-Year	3.80%	3.81%	4.39%	2.74%
10-Year	4.23%	4.29%	4.91%	3.34%
30-Year	4.78%	-	5.66%	4.28%

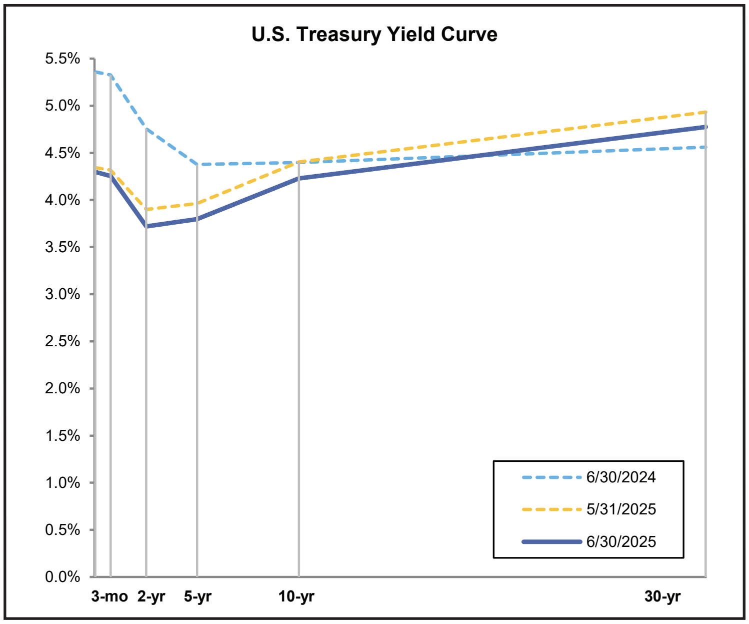
Spot Prices and Benchmark Rates				
Index	**Jun 30, 2024**	**May 31, 2025**	**Jun 30, 2025**	**Monthly Change**
1-Month SOFR	5.34%	4.32%	4.32%	0.00%
3-Month SOFR	5.32%	4.32%	4.29%	-0.03%
Effective Fed Funds Rate	5.33%	4.33%	4.33%	0.00%
Fed Funds Target Rate	5.50%	4.50%	4.50%	0.00%
Gold ($/oz)	$2,340	$3,289	$3,308	$19
Crude Oil ($/Barrel)	$81.54	$60.79	$65.11	$4.32
U.S. Dollars per Euro	$1.07	$1.13	$1.18	$0.05

Economic Indicators				
Indicator	**Release Date**	**Period**	**Actual**	**Survey (Median)**
Retail Sales Advance MoM	17-Jun	May	-0.90%	-0.60%
FOMC Rate Decision	18-Jun	Jun	4.50%	4.50%
GDP Annualized QoQ	26-Jun	1Q T	-0.50%	-0.20%
U. of Mich. Consumer Sentiment	27-Jun	Jun F	60.7	60.5
PCE YoY	27-Jun	May	2.30%	2.30%
ISM Manufacturing	1-Jul	Jun	49	48.8
Change in Non-farm Payrolls	3-Jul	Jun	147K	106K









Source: Bloomberg. Data as of June 30, 2025, unless otherwise noted.

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