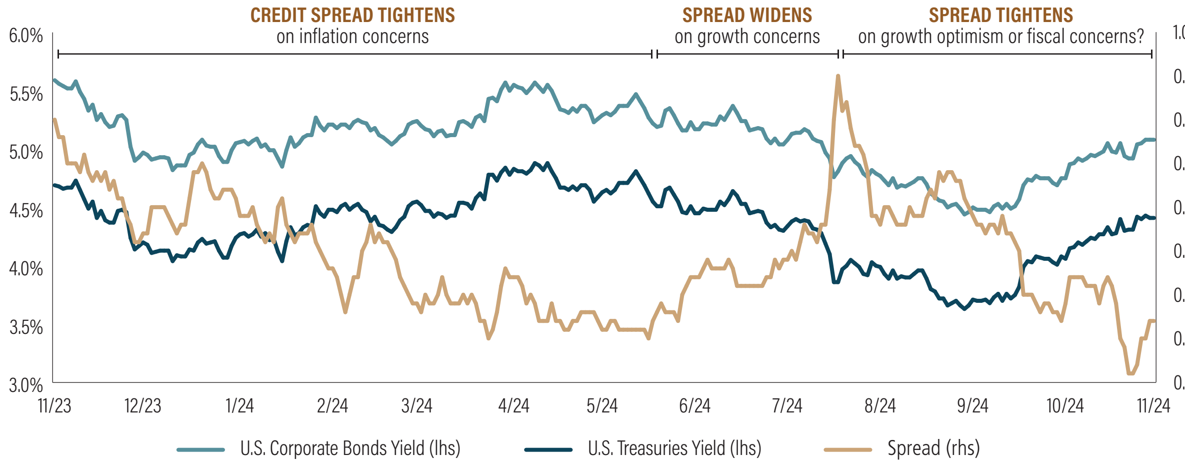
Solving for 2025

Bond Markets Will Focus on Fiscal Rather than Monetary Policy

ARE HIGH-GRADE CORPORATE BONDS BECOMING THE NEW SAFE HAVEN?

U.S. Treasury and corporate bonds, yields and credit spread, November 2023 to November 2024



Source: FactSet. Indices: Bloomberg U.S. Aggregate—Treasury Index; Bloomberg U.S. Aggregate—Corporate (A or >) Index. Data as of November 18, 2024. Nothing herein constitutes a prediction or projection of future events or future market behavior. Historical trends do not imply, forecast or guarantee future results. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed or any historical results. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

What does it show?

In the first half of 2024, investors were concerned about slow progress against inflation, and the prospect of higher rates for longer. As bond yields rose, the spread of corporate bond yields over government bond yields narrowed. During the third quarter, as inflation resumed its downward trend, concern shifted to weakening jobs data and spreads widened. Since then, U.S. economic data has strengthened and investors appear more confident that growth can withstand higher rates for longer, particularly following November's election result.

What does it mean?

Corporate bond yields have risen less than Treasury yields because higher growth would make corporate balance sheets more secure. But might it also reflect high-grade corporate's growing safe-haven appeal, as the expansive fiscal policies supporting economic growth raise questions about the government's balance sheet?

What is our take for 2025?

Having focused on central bank policy over the past two years, we think bond investors will continue to shift focus to the growth outlook through most of 2025, and possibly deficits during 2026. This does make high-grade corporate bonds attractive fundamentally, but a lot of that safe-haven appeal may already be in the price.

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