

Monthly Market Review

Fixed Income | June 2024

Information provided by Texas Range's Investment Advisor PFM Asset Management LLC



“Powell and Prices: The Staring Contest”

Economic Highlights

- ▶ The minutes from the Federal Reserve's (Fed) May FOMC meeting showed that the monetary policymaking body remains focused on year-over-year inflation readings that continue to come in above its 2% target. Fed officials kept the overnight target rate unchanged noting the disinflation process “would likely take longer than previously thought” while some members shared a willingness “to tighten policy further” if necessary. Markets were largely undeterred by the cautious commentary.
- ▶ In April, the Personal Consumption Expenditures (PCE) Price Index, the Fed's preferred gauge of inflation, was in-line with expectations of 2.70%, reversing the recent trend of coming in above consensus forecasts. Core PCE (which excludes volatile food and energy components) eased slightly to 2.75%, which on an unrounded basis is the lowest level since March 2021.
- ▶ The second estimate for 1Q GDP was revised to 1.3% from the previous advanced estimated of 1.6%. The revision mainly reflected a downtick in consumer spending.
- ▶ A pair of releases also showed cooling personal consumption over the month. Real personal spending fell to 2.6% year-over-year in April (compared to 2.8% in March) driven by a full percentage point decline in spending on goods. Retail sales were flat month-over-month as sales decreased in seven out of 13 categories. This included a 0.3% decline in the so-called ‘control group,’ a subset of retail sales which is closely tied to the PCE component of GDP.
- ▶ Counterbalancing some of the recent weakness in consumer spending, the May jobs report pointed to a labor market that is expected to remain supportive of personal consumption. Nonfarm payrolls came in well above expectations at 272,000, while the unemployment rate ticked up to 4.0%. A separate release showed layoffs falling to their lowest level since December 2022.
- ▶ Despite the inconsistencies in April's economic data, the Conference Board Consumer Confidence Survey rose in May for the first time in three months, reflecting increased optimism surrounding current business and labor market conditions.

Bond Markets

- ▶ U.S. Treasury yields between 2- and 10-years finished the month down approximately 15 to 20 basis points (bps) on the mixed economic data.
- ▶ The yield curve remains inverted as the difference between the 2- and 10-year U.S. Treasury yield has remained in a relatively tight range near 40 bps for the past four months. Short-term maturities have remained relatively unchanged for most of 2024 reflecting Fed overnight rate policy.
- ▶ Yields on benchmark 2-, 5-, and 10-year U.S. Treasuries ended the month at 4.87%, 4.51%, and 4.50%, respectively, representing changes of -16, -21, and -18 bps for the month, respectively.

- ▶ Fixed income total returns were broadly positive on the rate rally during May. The ICE BofA 2-, 5-, and 10-year U.S. Treasury indexes returned 0.67%, 1.25%, and 1.88%, respectively.

Equity Markets

- ▶ Led by the tech sector, equity markets rebounded sharply thanks in part to increasing investor sentiment and the April inflation data. In May, the S&P 500 Index ended up 5.0%; the Dow Jones Industrial Average increased by 2.6%; and the NASDAQ rose by 7.0%. International equities (as measured by the MSCI ACWI ex US) advanced 2.9% for the month.
- ▶ The dollar index (DXY) retreated by 1.5% in May as the market continued to debate timing of the Fed's first anticipated rate cut.

PFMAM Strategy Recap

- ▶ The Fed reiterated its intention to align its policies to meet its long-term inflation target of 2%, including keeping rates higher-for-longer if necessary. Although initial Fed rate cut expectations continue to be pushed back, we continue to expect the general trend towards lower interest rates over the next several quarters and years. As a result, we plan to maintain neutral portfolio durations relative to benchmarks.
- ▶ Spreads on federal agencies and supranationals remained anchored over the month and offer limited value. Issuance is expected to remain quiet going into the summer. Further reductions in allocations may provide opportunities elsewhere.
- ▶ Investment-grade corporate bonds showed positive excess returns for the seventh consecutive month as spreads inside of five years continue to test and mark new multi-year lows. Issuance remains below the record pace in Q1 but may offer more attractive opportunities relative to secondary markets. With portfolio allocations still near historically high levels, we continue to believe it is a prudent time to opportunistically trim allocations and remain nimble in search of better opportunities.
- ▶ Asset-backed securities (ABS) continue to perform strongly as tightness in spreads persist. A resurgence in issuance was met with strong demand and heavy oversubscriptions as stable consumer fundamentals continue to support the sector. We will likely look to maintain allocations while allowing natural principal paydowns to provide modest increases in portfolio liquidity.
- ▶ Mortgage-backed securities (MBS) generated stronger returns in May after firmly underperforming in April, while agency-backed commercial MBS (CMBS) continued to generate positive excess returns.
- ▶ Short-term money market yields remain quite attractive on the heels of the higher-for-longer rate policy narrative. Commercial paper and negotiable bank CD spreads were relatively unchanged over the month, although the notable increase in yield from 6- to 12-month maturities relative to 1- to 3-month maturities remains.

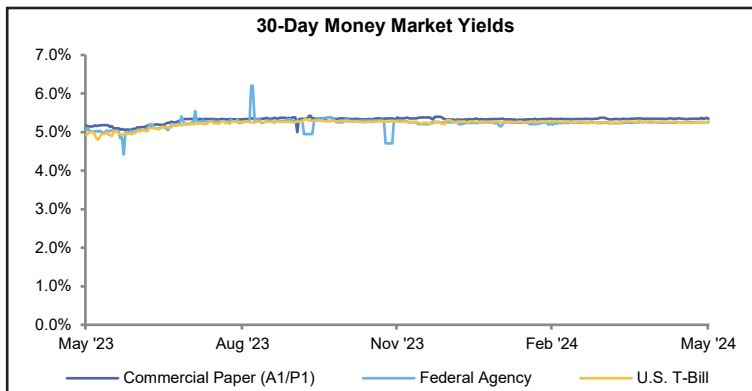
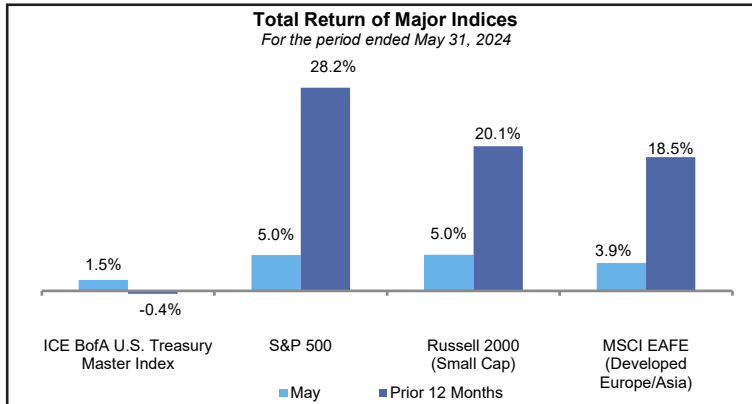
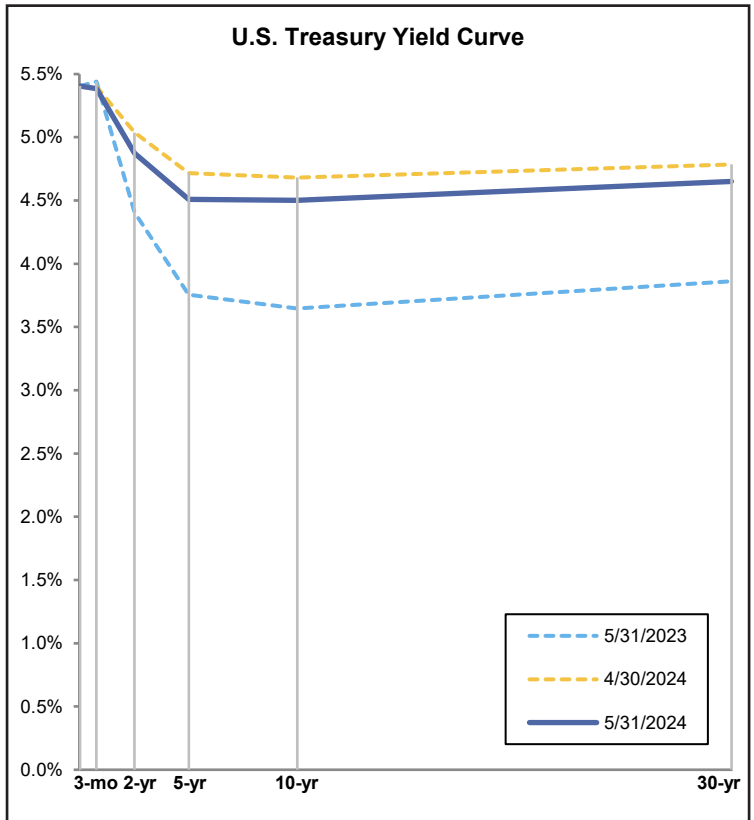
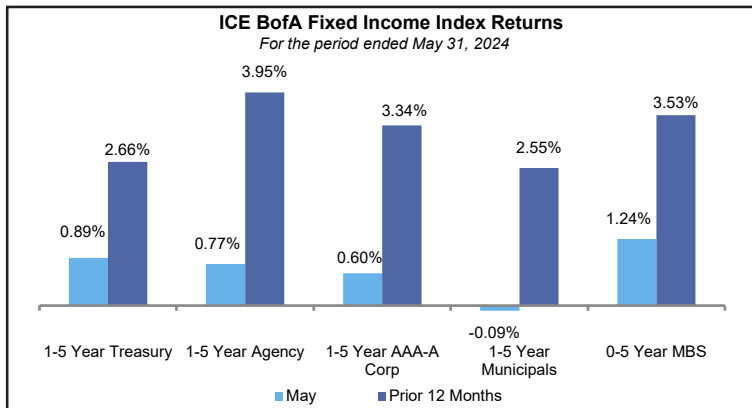
This information is for institutional investors, not for further distribution to retail investors, and does not represent an offer to sell or a solicitation of an offer to buy or sell any fund or other security. Investors should consider the Texas Range Investment Program's (the “Program's”) investment objectives, risks, charges and expenses before investing. This and other information about the Program is available in the Program's Information Statement, which should be read carefully before investing. A copy of the Program's Information Statement may be obtained by calling 1-866-839-8376 or is available on the Program's website at www.texas-range.com. While TexasDAILY and TexasDAILY Select seek to maintain a stable net asset value of \$1.00 per share and TexasTERM seeks to achieve a net asset value of \$1.00 per share at its stated maturity, it is possible to lose money investing in the Program. An investment in the Program is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency. Shares of the Program are distributed by PFM Fund Distributors, Inc., member Financial Industry Regulatory Authority (FINRA) (www.finra.org) and Securities Investor Protection Corporation (SIPC) (www.sipc.org). PFM Fund Distributors, Inc. is an affiliate of PFM Asset Management LLC.

U.S. Treasury Yields				
Maturity	May 31, 2023	Apr 30, 2024	May 31, 2024	Monthly Change
3-Month	5.40%	5.40%	5.41%	0.01%
6-Month	5.44%	5.40%	5.38%	-0.02%
2-Year	4.41%	5.04%	4.87%	-0.17%
5-Year	3.76%	4.72%	4.51%	-0.21%
10-Year	3.65%	4.68%	4.50%	-0.18%
30-Year	3.86%	4.79%	4.65%	-0.14%

Yields by Sector and Maturity				
Maturity	U.S. Treasury	Federal Agency	Corporates-AA-A Industrials	AAA Municipals
3-Month	5.41%	5.42%	5.51%	-
6-Month	5.38%	5.38%	5.55%	-
2-Year	4.87%	4.88%	5.15%	3.33%
5-Year	4.51%	4.52%	5.04%	3.01%
10-Year	4.50%	4.56%	5.25%	3.02%
30-Year	4.65%	-	5.57%	4.01%

Spot Prices and Benchmark Rates				
Index	May 31, 2023	Apr 30, 2024	May 31, 2024	Monthly Change
1-Month LIBOR	5.19%	5.43%	5.44%	0.01%
3-Month LIBOR	5.52%	5.59%	5.60%	0.01%
Effective Fed Funds Rate	5.08%	5.33%	5.33%	0.00%
Fed Funds Target Rate	5.25%	5.50%	5.50%	0.00%
Gold (\$/oz)	\$1,964	\$2,303	\$2,323	\$20
Crude Oil (\$/Barrel)	\$68.09	\$81.93	\$76.99	-\$4.94
U.S. Dollars per Euro	\$1.07	\$1.07	\$1.08	\$0.01

Economic Indicators				
Indicator	Release Date	Period	Actual	"Survey (Median)"
FOMC Rate Decision	1-May	May	5.50%	5.50%
Retail Sales Advance MoM	15-May	Apr	0.00%	0.40%
CPI YoY	15-May	Apr	3.40%	3.40%
Existing Home Sales MoM	22-May	Apr F	-1.90%	0.80%
U. of Mich. Consumer Sentiment	24-May	May F	69.1	67.7
GDP Annualized QoQ	30-May	1Q S	1.30%	1.30%
PCE YoY	31-May	Apr F	2.80%	2.80%



Source: Bloomberg. Data as of May 31, 2024, unless otherwise noted. The views expressed constitute the perspective of PFM Asset Management LLC at the time of distribution and are subject to change. The content is based on sources generally believed to be reliable and available to the public; however, PFMAM cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation.

PFM Asset Management LLC ("PFMAM") is an investment adviser registered with the U.S. Securities and Exchange Commission and a subsidiary of U.S. Bancorp Asset Management, Inc. ("USBAM"). USBAM is a subsidiary of U.S. Bank National Association ("U.S. Bank"). U.S. Bank is a separate entity and subsidiary of U.S. Bancorp. U.S. Bank is not responsible for and does not guarantee the products, services or performance of PFMAM.

NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE