



MAY 2025 MARKET COMMENTARY

Summary

- **U.S. Treasury Curve:** Uncertainty around fiscal deficits and trade policy dampened demand for Treasury bonds in May. Treasury yields¹ increased month-over-month (M/M) across the curve.
- **Municipal Market Rates and Technicals:** Buoyed by solid demand including reinvestment flows, municipal bonds² outperformed Treasuries and Municipal/Treasury Ratios³ (M/T Ratios) declined.
- **Corporate Market Technicals:** As Treasury yields increased, the option-adjusted spread (OAS) for the Bloomberg (BBG) Corporate Investment Grade (IG) Index⁴ (the Corporate Bond Index) tightened by 18 basis points (bps). Total fixed-rate gross investment grade (IG) corporate bond new issuance was \$150 billion.
- **Securitized Trends:** Excess returns⁵ were positive across mortgage-backed securities (MBS) and asset-backed securities (ABS), per BBG data.
- **Equity Market Trends:** U.S. stocks, as measured by the S&P (the S&P Index),⁶ enjoyed their best month from a return perspective in more than a year, gaining more than 6 percent.

The following commentary is a summary of discussions among members of the Breckinridge Capital Advisors Investment Committee as they reviewed monthly activity in the markets and investment returns. The members of the Investment Committee, under the leadership of Co-Chief Investment Officers Matthew Buscone and Jeffrey Glenn, CFA, are Co-Heads of Research, Nicholas Elfner and Adam Stern, J.D., M.P.A.; and Portfolio Manager and Director, Corporate Research, Josh Perez, CFA.

1. U.S. Department of the Treasury, as of May 31, 2025.

2. Municipal Market Data, as of May 31, 2025.

3. The Municipal/Treasury (M/T) ratio compares yields of municipal bonds with those of U.S. Treasury bonds of the same maturity. M/T ratios can show the relative value of municipal bonds compared with taxable bonds, by indicating when yields for municipal bonds exceed the after-tax yields on taxable bonds. M/T ratio data is per Municipal Market Data, as of May 31, 2025.

4. IG Corporate bond performance is as measured by the BBG U.S. Corporate Investment Grade Bond Index, an unmanaged market-value-weighted index of investment grade corporate fixed-rate debt issues with maturities of one year or more. You cannot invest directly in an index.

5. Excess return refers to the amount by which an investment's actual return exceeds what is expected, given its risk level. It measures how much an investment outperforms a benchmark or a risk-free rate. A positive excess return indicates outperformance, while a negative one suggests underperformance. Bond excess return is typically the return of a corporate or securitized bond compared to the return of a U.S. Treasury security of the same maturity.

6. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted index with each stock's weight in the index proportionate to its market value. You cannot invest directly in an index.



MARKET REVIEW

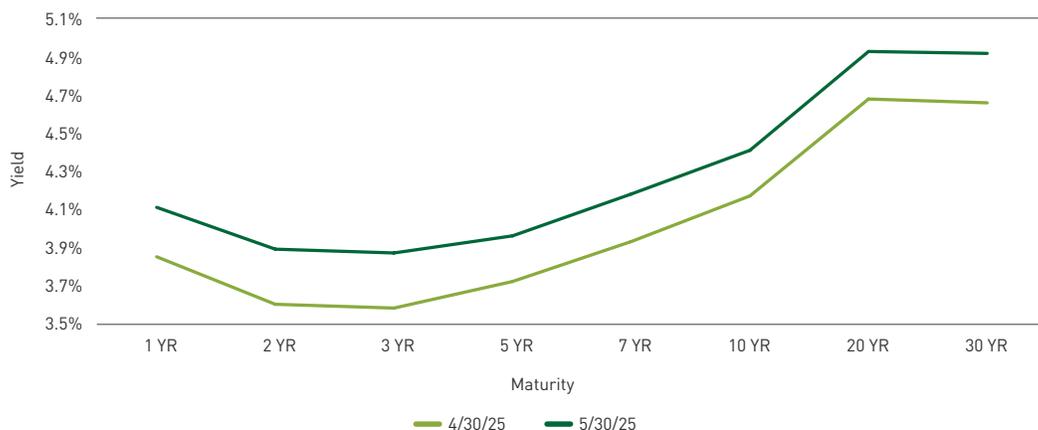
Policy announcements from Washington, D.C. maintained an on-again-off-again pattern in May,⁷ as discussions about tax cuts and deficit concerns appeared to be at odds from time to time.

The U.S. House of Representatives narrowly passed and sent to the Senate a package of spending and tax relief proposals. The bill is now subject to Senate negotiations, with a report on those negotiations expected before July 4.

Proponents of the President's economic agenda support the bill, while opponents maintain proposed spending reductions will harm segments of the population dependent on government programs and the tax cuts proposed will increase the federal deficit.

Concerns over deficits weighed on the Treasury bond market, causing yields to increase (See Figure 1). On May 16, Moody's Investors Service downgraded its credit quality rating on U.S. debt from Aaa to Aa1. Yields on the 2-, 5-, 10-, and 30-year Treasury bonds increased 30, 24, 24, and 25 bps, respectively, on the month, according to BBG data. The BBG Treasury Bond Index⁸ fell 1.03 percent in May.

FIGURE 1: AS SIGNALS FROM WASHINGTON SHIFTED, TREASURY YIELDS INCREASED IN MAY



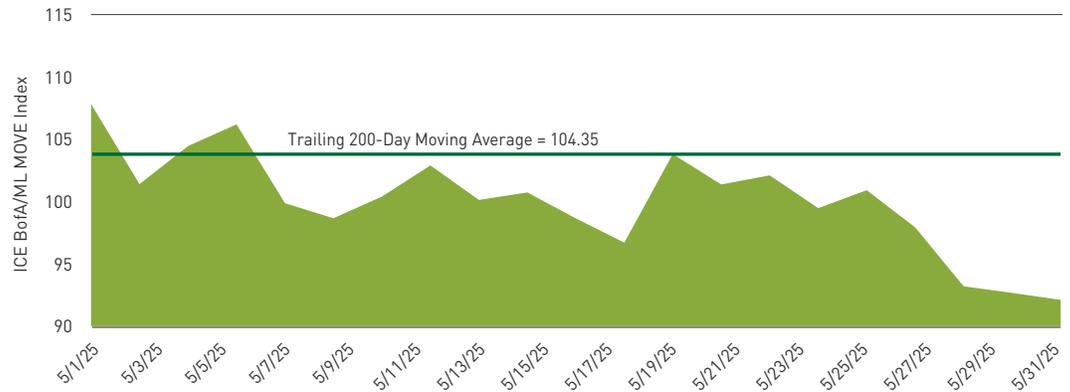
Source: U.S. Department of the Treasury, as of May 31, 2025. Past performance is not indicative of future results.

During May, economic data was steady,⁹ leading the Federal Reserve (Fed) and markets to take a wait-and-see stance. The Federal Open Market Committee left the federal funds rate unchanged at its May meeting. Market volatility fell, as measured by the Intercontinental (ICE) Bank of America/Merrill Lynch Option Volatility Estimate (MOVE) Index¹⁰ (See Figure 2) and the Chicago Board Options Exchange (BoE) Volatility Index¹¹ (VIX) (See Figure 5).

7. For example, the U.S. and China agreed to suspend for 90 days all but 10 percent of Liberation Day tariffs and cancelled retaliatory tariffs. Reports early in the month of advancing trade negotiations buoyed consumer sentiment until threats later in the month of 50 percent tariffs on the European Union dampened the outlook. The President then delayed imposition of these tariffs until July 9. Late in May, the Court of International Trade ruled that the President exceeded his authority under the International Economic Powers Act, when he imposed sweeping tariffs on global trade partners, including Canada, Mexico, and China. The Trade Court's decision was subsequently overturned on appeal, extending the policy push and pull and attendant uncertainty.
8. The Bloomberg U.S. Treasury Bond Index is an unmanaged index of prices of U.S. Treasury bonds with maturities of 1 to 30 years. You cannot invest directly in an index. You cannot invest directly in an index.
9. In mid-May, the U.S. Bureau of Labor Statistics (BLS) reported the Core Consumer Price Index (CPI) rose 0.24 percent month-over-month (M/M), suggesting low tariff-related price pressures on core goods. On May 23, the U.S. Census Bureau reported new home sales rose 10.9 percent M/M in April, stronger-than-expected. On May 29, the U.S. Department of Labor reported initial jobless claims rose 14,000 to 240,000, marginally exceeding expectations. The BEA's May 29 second revision of first quarter GDP growth estimate was little changed from the negative 0.2 percent quarter-over-quarter (Q/Q seasonally adjusted rate (saar)) first estimate. Barclays reported that details reflected a downward revision to consumer spending, a softening in underlying private spending, and a weak incoming gross domestic income (GDI) estimate. On May 30, the U.S. Bureau of Economic Analysis (BEA) reported that April household spending rose 0.2 percent M/M, after rising 0.7 percent in March. The Census Bureau also reported the goods trade deficit narrowed to \$87.6 billion in April, following March's record \$162.3 billion shortfall, which many analysts attributed to frontrunning after April tariff announcements.
10. The Intercontinental (ICE) Bank of America/Merrill Lynch Option Volatility Estimate (MOVE) Index tracks the movement in U.S. Treasury yield volatility implied by current prices of one-month over-the-counter options on 2-year, 5-year, 10-year and 30-year Treasuries. Historically, the index rises as concerns grow that interest rates may be higher. You cannot invest directly in an index.
11. The Chicago Board Options Exchange (OEX) Volatility (VIX) Index is a measure of the stock market's expectation of volatility based on S&P 500 index options. You cannot invest directly in an index.



FIGURE 2: BOND MARKET VOLATILITY DECLINED DURING MAY, ENDING THE MONTH BELOW THE 200-DAY MOVING AVERAGE



Source: Intercontinental Exchange, as of May 31, 2025. Past performance is not indicative of future results.

The Breckinridge Investment Committee expects the Fed will remain on hold over the next few meetings as it assesses the effects of tariffs on the economy. Looking further out in 2025, the Investment Committee sees weaker growth as likely prompting two fed funds cuts by year end.

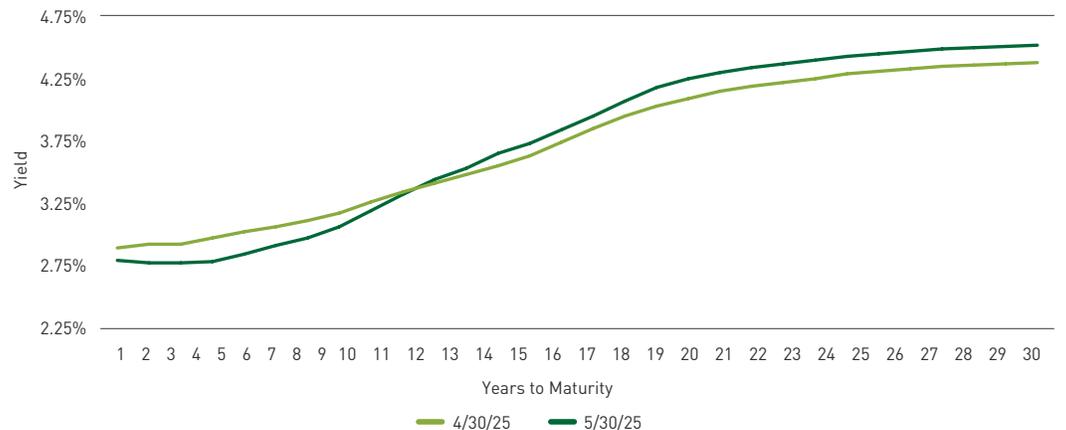
MUNICIPAL MARKET REVIEW

Demonstrating the powerful influence that supply and demand technicals can have on markets, municipal bonds outperformed Treasuries. Even as new bond supply remained solid (about \$50 billion in new issue during the month), demand from investors, including those seeking to reinvest proceeds from maturing bonds, remained strong and supported the relative value of municipals.

The Bloomberg (BBG) Short/Intermediate (1-10) Municipal Bond Index¹² gained 0.98 percent during the month of May.

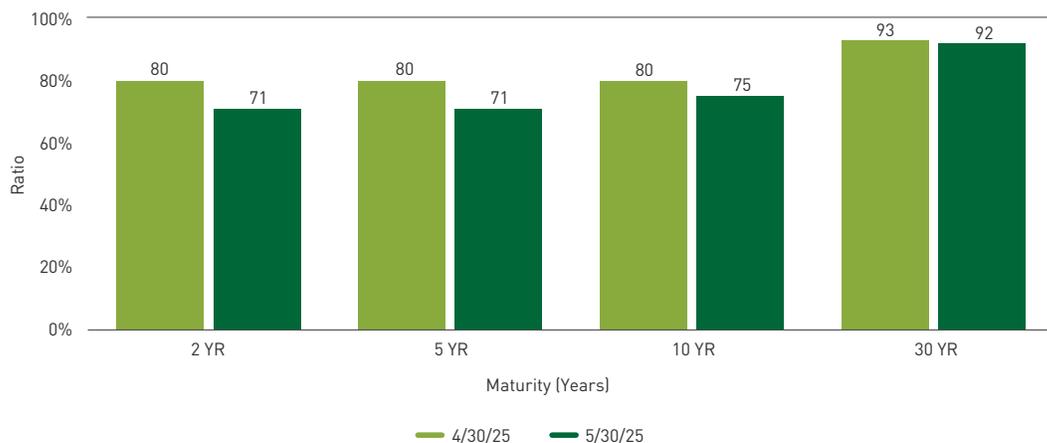
The shorter end of the curve outperformed the intermediate and long ends in May. Yields for 2- and 5- year bonds fell 14 and 18bps, respectively, while 10-year bond yields declined 5bps. The 30-year yield gained 10bps, as the yield curve steepened (See Figure 3). M/T Ratios dropped (See Figure 4).

FIGURE 3: THE MUNICIPAL BOND YIELD CURVE STEEPENED



Source: Municipal Market Data, as of May 31, 2025. Past performance is not indicative of future results.

12. Municipal bond performance is as measured by the BBG Managed Money Short/Intermediate (1-10) Index, which measures the performance of the publicly traded municipal bonds that cover the USD-denominated short/intermediate term tax-exempt bond market, including state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. It is rules-based, and market-value weighted. You cannot invest directly in an index.


FIGURE 4: M/T RATIO DECLINED IN MAY


Source: Municipal Market Data, as of May 31, 2025. Past performance is not indicative of future results.

Per *The Bond Buyer* reporting London Stock Exchange Group (LSEG) data, May bond issuance was \$50 billion, up almost about 11 percent from the prior month and 6 percent from same month in 2024. Through May 30, monthly municipal bond fund net asset inflows were \$3.1 billion, LSEG reported, a reversal of \$3.6 billion in outflows during the prior month.

CORPORATE MARKET REVIEW

The U.S. Corporate Index OAS tightened by 18bps. For May, the Corporate Bond Index's total return was off 1bp and its excess return was a positive 1.27 percent.

According to BBG data, the best sector performances were in Cable Satellite, Refining, Oil Field Services, Exploration and Production, and Midstream. The worst-performing were Supranationals, Foreign Agencies, Foreign Local Government, Health Insurance and Construction Machinery. Across the IG quality spectrum, bonds rated BBB earned positive total and excess returns. Higher-rated bonds had negative total returns. Their positive excess returns trailed the excess returns for bonds rated BBB.

Total fixed rate gross IG supply was \$150.8 billion. After \$127 billion in redemptions, net supply was a \$23.8 billion, BBG reported. May total new issuance was nearly 21 percent higher than the prior month and about the same as the same month one year ago.

Through May 31, a month-to-date net total of approximately \$42 billion flowed into long-term taxable bond mutual and exchange traded funds (ETFs), according to the Investment Company Institute (ICI).

SECURITIZED MARKET REVIEW

SECURITIZED SECTOR ONE-MONTH RETURNS THROUGH MAY 31, 2025

BBG Index	One-Month Total Return (%)	One-Month Excess Return (%)
BBG MBS Index ¹³	-0.91	0.38
BBG CMBS Index ¹⁴	-0.26	0.25
BBG Agency CMBS Index ¹⁴	-0.46	0.16
BBG Non-Agency CMBS Index ¹⁴	-0.04	0.34
BBG ABS Auto Loan Index ¹⁵	0.19	0.19
BBG ABS Credit Card Index ¹⁵	0.05	0.23

Source: BBG Index data, as of May 31, 2025. Past Performance is not a guarantee of future results.

- The Bloomberg MBS Index tracks agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by government-sponsored enterprises (GSEs) Government National Mortgage Association (Ginnie Mae) (GNMA), Federal National Mortgage Association (Fannie Mae) (FNMA), and Federal Home Loan Mortgage Corporation (Freddie Mac) (FHLMC). The index is constructed by grouping individual pools into aggregates or generics based on program, coupon, and vintage. You cannot invest directly in an index.
- The Bloomberg U.S. CMBS Investment Grade Index measures the market of U.S. Agency (GNMA, FNMA, and (FHLMC) and U.S. Non-Agency conduit and fusion CMBS deals with a minimum current deal size of \$300mn. You cannot invest directly in an index.
- Bloomberg U.S. Asset-Backed Securities (ABS) Index is the ABS component of the Bloomberg U.S. Aggregate Bond Index, a flagship measure of the U.S. investment grade, fixed-rate bond market. The ABS index has three subsectors: credit and credit cards, autos, and utility. You cannot invest directly in an index.



During May, ABS total returns were positive, while MBS sectors earned negative total returns. Excess returns were positive across the MBS and ABS segments of the market for the month.

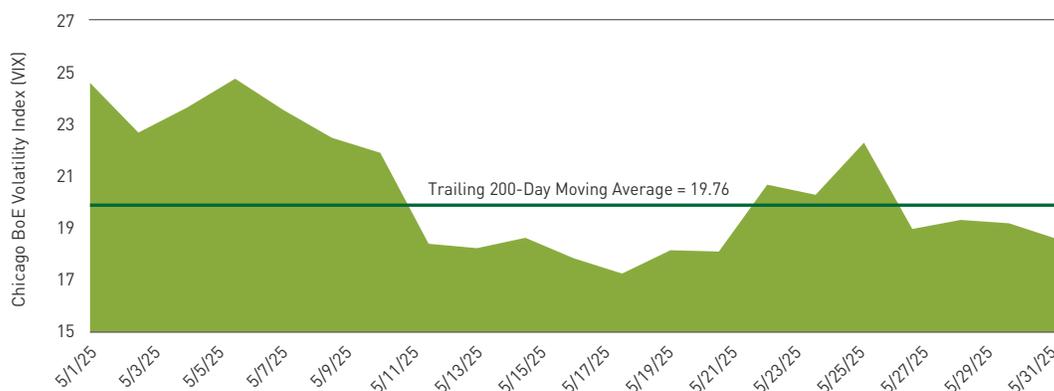
According to BBG data, conventional¹⁶ and Ginnie Mae¹⁷ MBS with coupons ranging from 5.5 to 6.5 outperformed others in the category.

Auto loan ABS outperformed credit card ABS on a total return basis, while credit card ABS outperformed auto loan ABS on an excess return basis.

EQUITY MARKET REVIEW

The S&P Index earned a positive monthly return of 6.3 percent in May, its best performance in more than 12 months. The VIX Index declined (See Figure 5). The 200-day moving average was steady over the month.

FIGURE 5: DESPITE LOWER EQUITY MARKET VOLATILITY IN MAY, THE 200-DAY MOVING AVERAGE CHANGED LITTLE



Source: Chicago Board Options Exchange, as of May 31, 2025. Past performance is not indicative of future results.

At a sector level, 10 of 11 sectors earned positive monthly returns: Information Technology (10.9 percent), Communication Services (9.6 percent), Consumer Discretionary (9.4 percent), Industrials (8.9 percent), Financials (4.4 percent), Utilities (3.8 percent), Materials (3.0 percent), Consumer Staples (1.8 percent), Energy (1.0 percent) and Real Estate (1.0 percent). The only sector that exhibited negative total returns in May was Health Care (5.6 percent).

The Russell 1000 Value Index¹⁸ increased 3.5 percent, while the Russell 1000 Growth Index gained 8.9 percent.¹⁹

From a factor perspective, higher beta and higher growth stocks tended to outperform, while value, quality and low volatility factors underperformed.

With the first quarter earnings season wrapping up, *FactSet* reported that 78 percent of S&P 500 companies exceeded earnings per share estimates, which is above the 5-year average of 77 percent. Also, *FactSet* reported S&P companies reported that growth in earnings averaged 12.9 percent, the second consecutive quarter of double-digit earnings growth.

16. Conventional MBS are issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC).

17. Ginnie Mae MBS are issued by the Government National Mortgage Association (GNMA).

18. The Russell 1000® Value Index is an unmanaged market capitalization-weighted index of value-oriented stocks of U.S. domiciled companies that are included in the Russell 1000 Index. Value-oriented stocks tend to have lower price-to-book ratios and lower forecasted growth values. You cannot invest directly in an index.

19. The Russell 1000® Growth Index is an unmanaged market capitalization-weighted index of growth-oriented stocks of U.S. domiciled companies that are included in the Russell 1000 Index. Growth-oriented stocks tend to have higher price-to-book ratios and higher forecasted growth values. You cannot invest directly in an index.



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