

September 30, 2024

**Third Quarter Fixed Income Letter to Clients**

The third quarter of 2024 brought significant shifts in the U.S. fixed income markets, highlighted by the Federal Reserve's 50 basis point interest rate cut. This move, aimed at bolstering economic growth amid signs of slowing inflation and economic deceleration, had a profound impact across the fixed income landscape. In this context, the municipal bond market remained a key area of strength, offering both stability and attractive tax-advantaged yields for investors.

This shift in policy had a broad impact on fixed income markets, particularly by reversing some of the upward pressure on yields seen earlier in the year. Short-term yields fell in response to the cut, while long-term rates remained relatively stable, steepening the yield curve. Investors viewed the move as an effort to prevent a sharper economic downturn, although questions remained about the Fed's ability to balance supporting growth while managing inflation risks.

The broader U.S. economy continued to grow, albeit at a slower pace. Consumer spending cooled somewhat, and business investment slowed, contributing to rising concerns about the possibility of a mild recession in early 2025. In this environment, the fixed income markets saw heightened demand for safer, higher-quality assets, as investors sought protection against potential economic headwinds.

The municipal bond market performed well in the third quarter, benefiting from both the Fed's rate cut and strong credit fundamentals at the state and local levels. The rate cut made municipals more attractive relative to other fixed income sectors, as the lower-rate environment enhanced their appeal for income-seeking investors, particularly those in higher tax brackets. U.S. Treasuries saw yields fall across the curve in response to the Fed's rate cut, with short-term yields declining more sharply than long-term yields, resulting in a steepening of the yield curve.

As we look ahead to the fourth quarter, the fixed income markets will continue to be shaped by the Fed's evolving policy stance and the trajectory of economic growth. While the Fed's rate cut provided some relief, the potential for further cuts remains dependent on future inflation and growth data. Investors in the municipal bond market are well-positioned to benefit from the combination of strong credit fundamentals, tax-advantaged income, and relative stability in a low-rate environment.

Fixed income investors should focus on maintaining high-quality exposure, be cautious about duration risk, and stay attuned to any shifts in Fed policy or economic conditions that could influence future market dynamics.

*Evan Slater*

*Fixed Income Portfolio Manager*