Monthly Market Review

Fixed Income | April 2025

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

IIIT CLASS

Tariff Freight Train Barrels Through Station

Economic Highlights

► The second quarter of 2025 got off to a turbulent start as markets reacted to the April 2 announcement of tariffs on so-called "Liberation Day." The levies, which were significantly more punitive than originally anticipated, include a flat 10% tariff on all imports as well as more focused tariffs on specific countries with which the U.S. runs large trade deficits.

► Several major Wall Street firms reacted to the tariffs by lowering growth forecasts and increasing inflation expectations for 2025. Equity prices declined nearly 10% and the yield on the 5-year U.S. Treasury fell over 25 basis points (bps) over the two-day period following the announcement.

► At the Federal Open Market Committee (FOMC) meeting several weeks earlier, the Federal Reserve (Fed) held the target range for the federal funds rate steady at 4.25% to 4.50%. The Fed's "dot plot" continued to show a total of 50 bps of rate cuts over the balance of 2025 while its Summary of Economic Projections showed worse outlooks for GDP and PCE Inflation.

► In Fed Chair Jerome Powell's post-meeting press conference, he emphasized the high level of uncertainty and increased risks to the economic outlook due to the unknown impact of policy changes. He noted the Fed will remain patient and is well-positioned to react to any increases in inflation or deterioration of labor markets.

► Market sentiment continued to worsen in March. The University of Michigan's Consumer Sentiment Index fell to the lowest level since July 2022 while one-year inflation expectations also jumped significantly to 5.0%, representing the highest level since November 2022.

► The month-over-month change in the Core Personal Consumption Expenditures Index (PCE), which is the Fed's preferred measure of inflation, increased at the fastest pace in over a year. Prices on durable goods, which are items expected to last several years, rose at the fastest pace since September 2022. This is particularly noteworthy because these price increases occurred prior to the implementation of any tariffs.

► Consumer spending for February rose by 0.1% on an inflation-adjusted basis, led by a jump in goods spending. The personal savings rate increased as income growth exceeded spending during the month.

► Non-farm payrolls in March significantly exceeded expectations and grew 228,000 while the unemployment rate ticked up slightly to 4.2%. While the releases continue to point to a steady labor market, it was largely overshadowed by the tariff news earlier in the week.

Bond Markets

► U.S. Treasury yields between six months and seven years declined during March and were led lower by deteriorating growth expectations over the intermediate term. Meanwhile, the yield on the 10-year U.S. Treasury was essentially unchanged. In early April yields fell significantly across the curve in response to tariff news.

► Yields on 3-month, 2-year, and 10-year U.S. Treasuries ended March at 4.30%, 3.88%, and 4.21%, respectively. The move lower in yields resulted in positive fixed income total returns for the month. The ICE BofA 3-month, 2-year, and 10-year U.S. Treasury indices returned +0.33%, +0.46%, and +0.23%, respectively.

Equity Markets

► Equity markets retreated significantly in March on tariff uncertainty. The Dow Jones Industrial Average ended the month down 4.1%, the S&P 500 Index finished down 5.6%, and the NASDAQ fell 8.1%. Equities fell by double digits in early April following the tariff news.

► International equities (measured by the MSCI ACWI ex U.S. Net Index) fell by 0.2%, reflecting the relative rotation of global investors away from U.S. equities. The U.S. Dollar Index ended the month weaker by 3.2%.

PFMAM Strategy Recap

► We will continue to maintain portfolio durations near 100% of benchmarks given the ongoing rate and policy uncertainty and the attractive level of absolute yields. We continue to prefer a bulleted structure for longer-duration strategies as we expect the yield curve to steepen further.

► High levels of uncertainty and a shift in risk sentiment led to spread widening in the investment-grade (IG) corporate bond sector. Incremental income offset this spread widening for corporates inside 10 years, pushing excess returns positive, while longer-duration corporates posted negative excess returns. Fundamentals remain favorable while technicals have weakened on the margins; however, a protracted trade war could pressure both. Valuations have repriced from narrow levels to reflect this uncertainty. We will selectively evaluate opportunities with a focus on industry and credit quality with an eye towards tactically reducing allocations in the sector to make room for future opportunities.

► Asset-backed securities (ABS) spreads widened over the month on heavy new issuance and investors derisking due to market turbulence. With fundamentals still intact and credit metrics normalized, relative valuations for the sector now appear more attractive. We will selectively look for opportunities in the sector with a focus on duration and credit quality.

► Agency mortgage-backed securities (MBS) and commercial MBS (CMBS) spreads ticked wider over the month, though valuations are still rich overall. We will maintain allocations in the sector given expectations for ongoing policy and rate uncertainty.

► A reduction in the supply of U.S. Treasury Bills continues to put downward pressure on the money market yield curve. Meanwhile, credit spreads in the short end of the curve have eased, though existing supply has tightened up heading into quarter-end.

U.S. Treasury Yields

Maturity	Mar 31, 2024	Feb 28, 2025	Mar 31, 2025	Monthly Change
3-Month	5.37%	4.30%	4.29%	-0.01%
6-Month	5.32%	4.28%	4.22%	-0.06%
2-Year	4.62%	3.99%	3.88%	-0.11%
5-Year	4.21%	4.02%	3.96%	-0.06%
10-Year	4.20%	4.21%	4.22%	0.01%
30-Year	4.34%	4.49%	4.59%	0.10%

Yields by Sector and Maturity

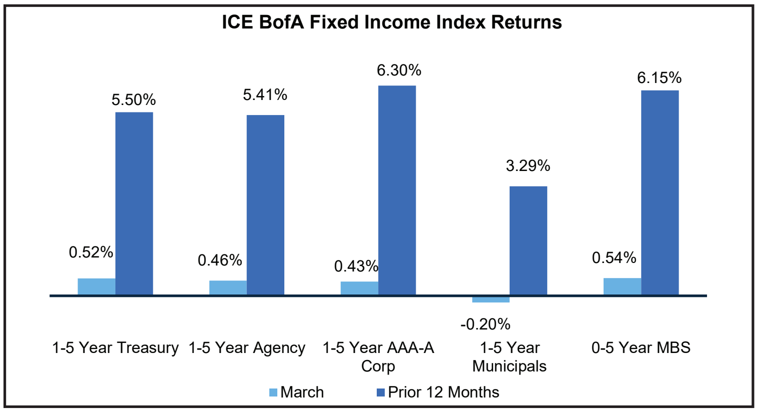
Maturity	U.S. Treasury	Federal Agency	Corporates-AA-A Industrials	AAA Municipals
3-Month	4.29%	4.30%	4.47%	-
6-Month	4.22%	4.22%	4.57%	-
2-Year	3.88%	3.89%	4.33%	2.78%
5-Year	3.96%	3.97%	4.62%	2.93%
10-Year	4.22%	4.28%	5.06%	3.35%
30-Year	4.59%	-	5.66%	3.73%

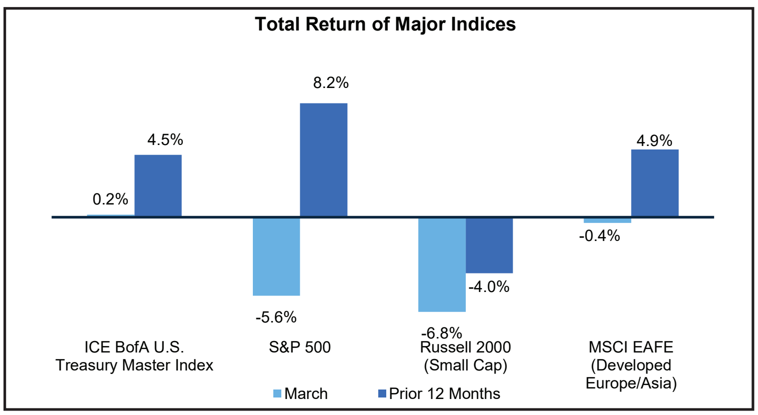
Spot Prices and Benchmark Rates

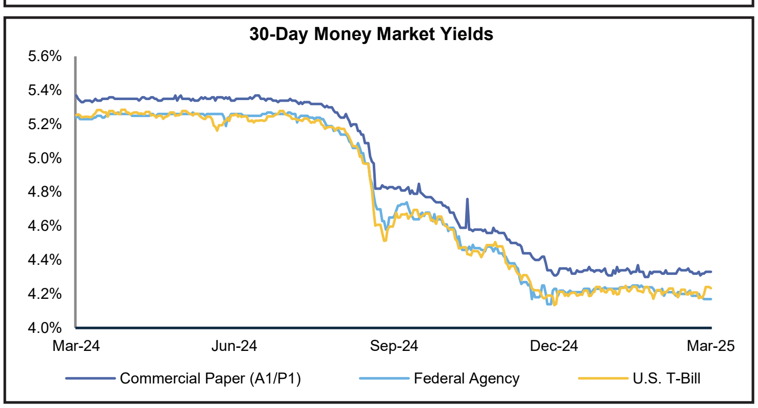
Index	Mar 31, 2024	Feb 28, 2025	Mar 31, 2025	Monthly Change
1-Month SOFR	5.33%	4.32%	4.32%	0.00%
3-Month SOFR	5.30%	4.32%	4.30%	-0.02%
Effective Fed Funds Rate	5.33%	4.33%	4.33%	0.00%
Fed Funds Target Rate	5.50%	4.50%	4.50%	0.00%
Gold ($/oz)	$2,217	$2,849	$3,127	$278
Crude Oil ($/Barrel)	$83.17	$69.76	$70.99	$1.23
U.S. Dollars per Euro	$1.08	$1.04	$1.08	$0.04

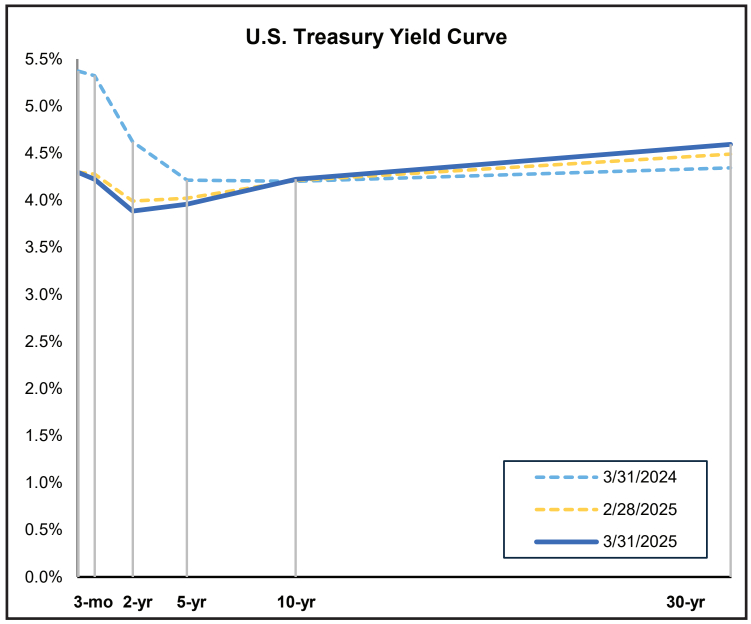
Economic Indicators

Indicator	Release Date	Period	Actual	Survey (Median)
ISM Manufacturing	3-Mar	Feb	50.3	50.7
Change in Non-Farm Payrolls	7-Mar	Feb	151K	160K
Retail Sales Advance MoM	17-Mar	Feb	0.20%	0.60%
FOMC Rate Decision	19-Mar	Mar	4.50%	4.50%
GDP Annualized QoQ	27-Mar	4Q T	2.40%	2.30%
U. of Mich. Consumer Sentiment	28-Mar	Mar F	57	57.9
PCE YoY	28-Mar	Feb	2.50%	2.50%









Source: Bloomberg. Data as of March 31, 2025, unless otherwise noted.

Indices shown are not available for investment. The index data reference herein is the property of the index provider and/or its licensors. The index provider assumes no liability in connections with its use and does not sponsor, endorse or recommend the products or services contained herein. Index returns do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause investment performance to be lower than the performance shown.

The views expressed within this material constitute the perspective and judgment of U.S. Bancorp Asset Management, Inc. at the time of distribution and are subject to change. Any forecast, projection, or prediction of the market, the economy, economic trends, and equity or fixed-income markets are based upon current opinion as of the date of issue and are also subject to change. Opinions and data presented are not necessarily indicative of future events or expected performance. Information contained herein is based on data obtained from recognized statistical services, issuer reports or communications, or other sources, believed to be reliable. No representation is made as to its accuracy or completeness.

NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE