Monthly Market Review

Fixed Income | August 2025

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

NEW HAMPSHIRE Public Deposit Investment Pool

Next stop, September.

Economic Highlights

- As expected, the Federal Reserve (Fed) kept the target range for the overnight rate unchanged at 4.25% to 4.50% for the fifth consecutive time following the Federal Open Market Committee (FOMC) meeting on July 30. Notably, Governors Waller and Bowman both dissented, arguing instead for a 25-basis point (bp) rate cut.
- During the press conference, Fed Chair Jerome Powell continued to emphasize the importance of making sure the effects of tariffs are short-lived and do not spark a broader reflationary event elsewhere in the economy. He also noted the importance of the incoming data as the Fed attempts to balance downside risks to the labor market and inflation, which remains above its target.
- Trade deals with several key trading partners including Japan and the European Union were announced in advance of the August 1 deadline. President Trump has maintained a floor of 10% for the reciprocal tariff baseline, with expectations of the average effective tariff rate to be around 15%. Tariff negotiations remain a focus, though the market impact has notably diminished relative to earlier in the year.
- The tax and reconciliation bill was signed into law in early July. Significant longer-term budget concerns remain as the Congressional Budget Office (CBO) estimates the bill will add $3.4 trillion to the U.S. deficit over the next decade.
- The Consumer Price Index (CPI) increased to 2.7% on a year-over-year basis. Goods inflation, particularly in import-reliant subcategories such as household furnishings and recreation, are beginning to show evidence of upward price pressures. The full effect of tariffs have not been felt but are expected to materialize over the coming months.
- The first read of the second quarter GDP showed strong headline growth at 3.0%, mainly due to a sharp reversal in the trade which dragged down Q1 GDP. The headline figure masked underlying softness in demand and consumer spending.
- The July jobs report surprised to the downside with 73,000 new jobs created, and the unemployment rate rose to 4.2%. While the July jobs report was weaker than expected, the prior two months garnered greater attention with downside revisions of 258,000 less jobs in May and June versus previously reported figures. Following the report, the 2-yr Treasury was down 22 bps, and futures priced in an 83% chance for a 25-bp cut in September.

Bond Markets

- Yields on 3-month, 2-year, and 10-year U.S. Treasuries ended July at 4.34%, 3.96%, and 4.37%, representing increases of +4 bps, +24 bps, and +14 bps, respectively. The steepness of the yield curve as measured by the yield difference between 2- and 10-year maturities has now remained near 50 bps for three straight months despite interest rate volatility.
- Fixed income indices produced mixed returns for the month, as the short end of the curve outperformed longer tenors. The ICE BofA 3-month, 2-year, and 10-year U.S. Treasury indices returned +0.35%, -0.13%, and -0.67%, respectively.

Equity Markets

- Equities continued to rally and ended the month at new all-time highs. The S&P 500 Index is now up +7.6% year-to-date. For the month of July, the NASDAQ returned +3.7%, the S&P 500 Index +2.2%, and the Dow Jones Industrial Average just +0.1%.
- International equities, as measured by the MSCI ACWI ex U.S. Net Index, returned +0.4% for the month while the U.S. Dollar Index rallied from 3-year lows, and was up 3.3% for the month.

PFMAM Strategy Recap

- We expect to maintain portfolio durations at or slightly above 100% of benchmarks given the ongoing rate and policy uncertainty. We also maintain a curve steepening bias.
- Spreads on federal agencies and supranationals remain quite narrow. We do not anticipate any material changes to spreads or new issuance in the near-term and will continue to maintain low allocations in favor of other sectors. While no significant impact is expected over the foreseeable future, we will closely monitor progress around privatization efforts of Fannie Mae and Freddie Mac.
- Investment-grade (IG) corporate bond spreads narrowed in July, continuing the significant retracement following spread widening around Liberation Day. Risk-on sentiment remains strong as the economic outlook supports corporate fundamentals. Additionally, corporate bond technicals remain extremely strong given attractive overall yields and low net issuance. The strong pace of overall new issuance continues to create opportunities to selectively add allocations.
- Asset-backed securities (ABS) also narrowed over the month but seem to have stabilized for the short term. Credit metrics and consumer fundamentals remain strong while credit enhancements are robust. We expect spreads to remain volatile with a bias towards spread widening. New issuance continues to be met with robust demand, but supply forecasts have been revised downward from the start of the year.
- Agency-backed commercial MBS (CMBS) and Mortgage-backed securities (MBS) both posted positive excess returns in July. Longer-duration collateral (30-year mortgages) notably outperformed shorter-duration collateral (15-year mortgages). Waning bond volatility supported performance in mortgage-related sectors; however, we remain cautious as we expect heightened uncertainty to weigh on the sector over the near term.
- We expect the debt ceiling increase to put upward pressure on short-term Treasury yields as the Treasury increases issuance to replenish its cash account. This new issuance has generally been met with strong demand. Meanwhile, credit spreads on the short end of the curve have stabilized during the month, allowing selective attractive adds across tenors.

U.S. Treasury Yields

Maturity	Jul 31, 2024	Jun 30, 2025	Jul 31, 2025	Monthly Change
3-Month	5.29%	4.30%	4.34%	0.04%
6-Month	5.09%	4.25%	4.28%	0.03%
2-Year	4.26%	3.72%	3.96%	0.24%
5-Year	3.91%	3.80%	3.97%	0.17%
10-Year	4.03%	4.23%	4.37%	0.14%
30-Year	4.30%	4.78%	4.90%	0.12%

Yields by Sector and Maturity

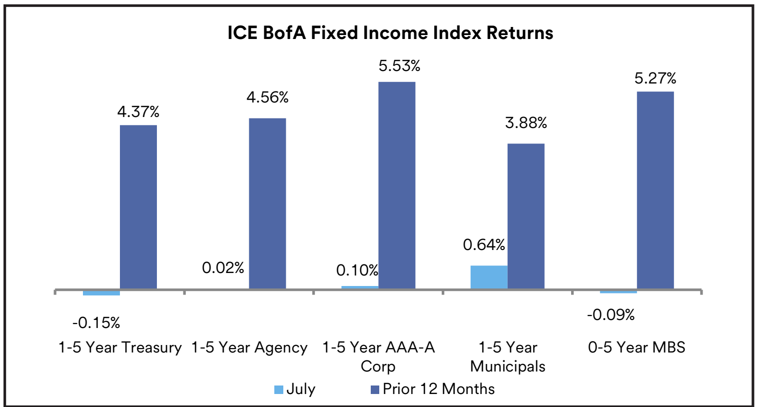
Maturity	U.S. Treasury	Federal Agency	Corporates-AA-A Industrials	AAA Municipals
3-Month	4.34%	4.35%	4.48%	-
6-Month	4.28%	4.28%	4.52%	-
2-Year	3.96%	3.97%	4.29%	2.44%
5-Year	3.97%	3.98%	4.50%	2.63%
10-Year	4.38%	4.44%	4.99%	3.46%
30-Year	4.90%	-	5.71%	4.46%

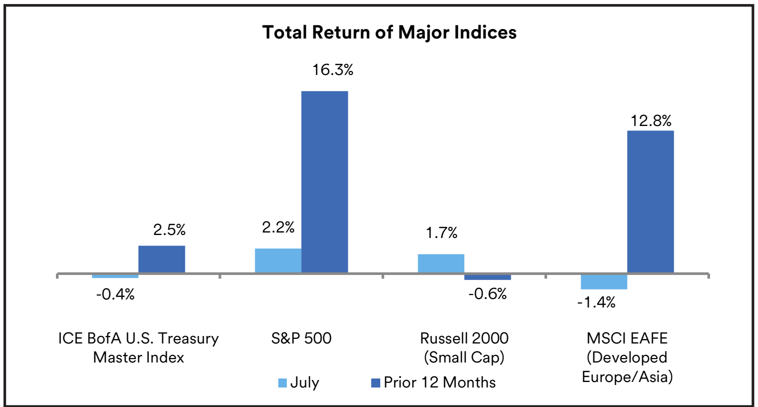
Spot Prices and Benchmark Rates

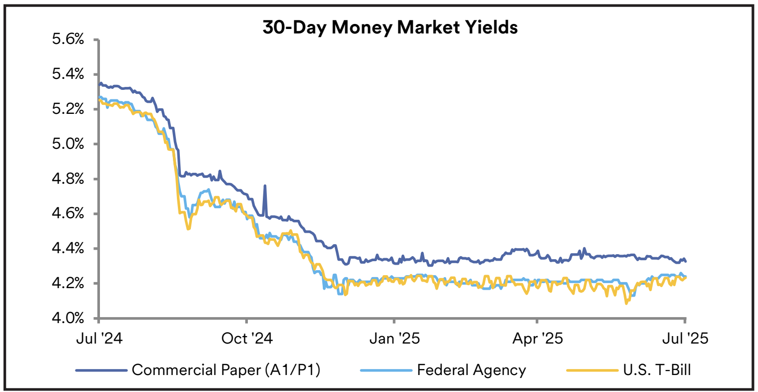
Index	Jul 31, 2024	Jun 30, 2025	Jul 31, 2025	Monthly Change
1-Month SOFR	5.34%	4.32%	4.35%	0.03%
3-Month SOFR	5.24%	4.29%	4.30%	0.01%
Effective Fed Funds Rate	5.33%	4.33%	4.33%	0.00%
Fed Funds Target Rate	5.50%	4.50%	4.50%	0.00%
Gold ($/oz)	$2,427	$3,308	$3,293	-$15
Crude Oil ($/Barrel)	$77.91	$65.11	$69.26	$4.15
U.S. Dollars per Euro	$1.08	$1.18	$1.14	-$0.04

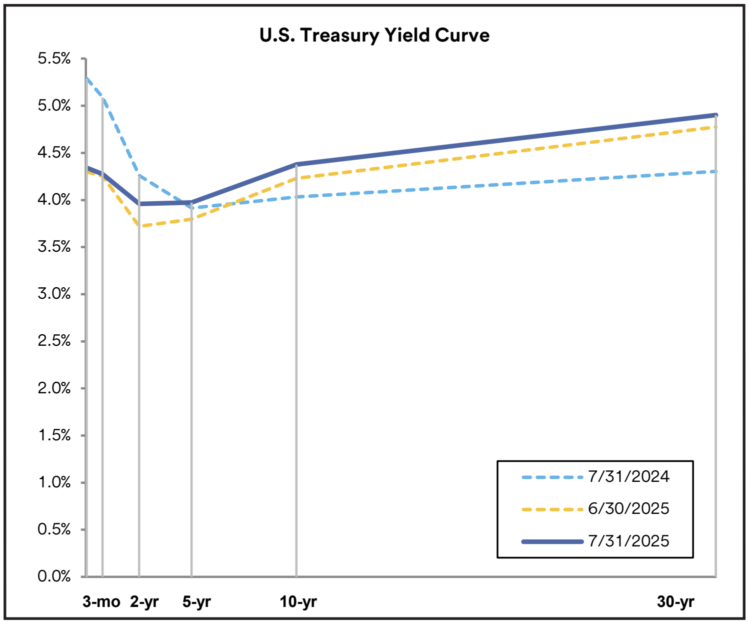
Economic Indicators

Indicator	Release Date	Period	Actual	Survey (Median)
Retail Sales Advance MoM	17-Jul	Jun	0.60%	0.10%
FOMC Rate Decision	30-Jul	Jul	4.50%	4.50%
GDP Annualized QoQ	30-Jul	2Q A	3.00%	2.50%
U. of Mich. Consumer Sentiment	31-Jul	Jul F	61.7	61.8
PCE YoY	1-Aug	Jun	2.60%	2.40%
ISM Manufacturing	1-Aug	Jul	48	49.5
Change in Non-farm Payrolls	1-Aug	Jul	83K	100K









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

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