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Special Update

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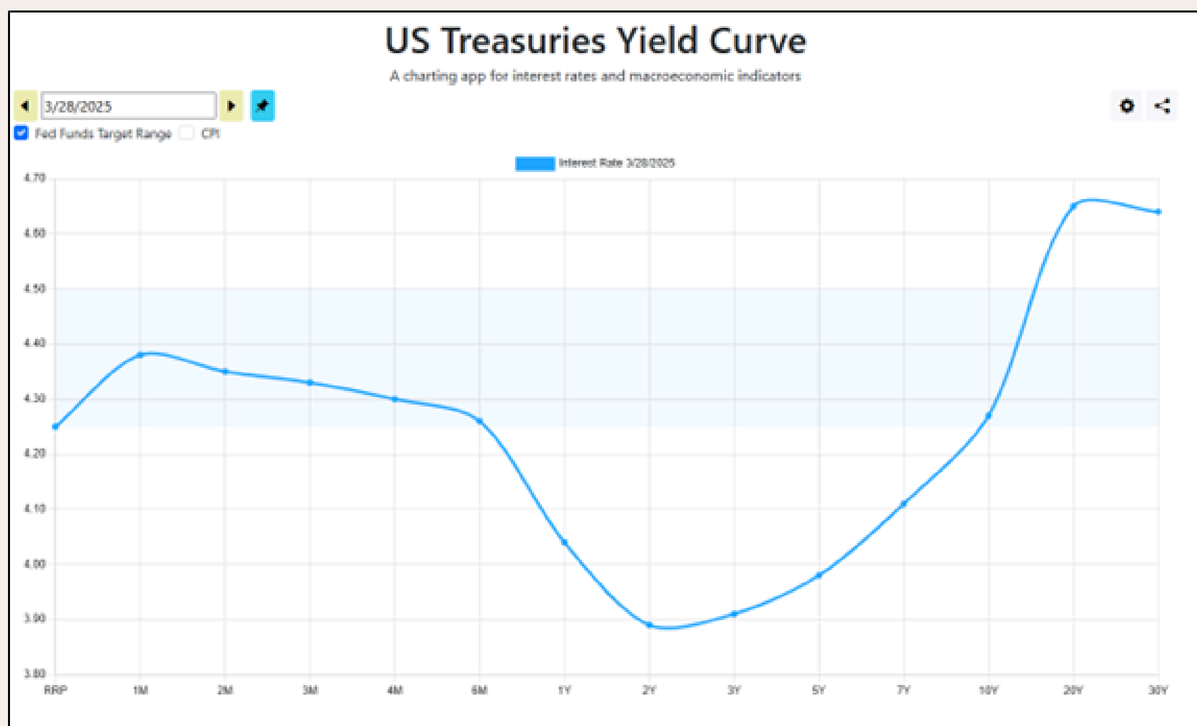
Bond Market Update

The U.S. bond market in 2025 has faced a challenging start, with yields climbing and prices falling amid inflationary pressures and policy uncertainty. As of March 25, the Bloomberg U.S. Aggregate Bond Index, a broad measure of investment-grade bonds, showed a YTD total return of approximately -1.2%, reflecting losses driven by rising Treasury yields (U.S. Bank, 2025). The 10-year Treasury yield, a key benchmark, rose from 4.6% at year-end 2024 to 4.24% by March 28, up from a September 2024 low of 3.6% (Morningstar, 2025a; Trading Economics, 2025). This climb erased early-year gains, with the iShares 20+ Year Treasury Bond ETF (TLT) down over 11% YTD, starkly underperforming the S&P 500's 23% gain in 2024 (CNBC, 2025). Shorter-term yields, like the 2-year Treasury at 3.99%, remained relatively stable, flattening the yield curve and signaling market focus on long-term growth concerns over short-term inflation (Schwab, 2025a).

The bond market's rocky performance stems from multiple factors. Post-election optimism in November 2024 faded as President Trump's tariff policies—25% on Canada and Mexico effective March 4, plus 10% on China—rekindled inflation fears, pushing yields higher (J.P. Morgan, 2025a). The Federal Reserve's cautious stance, holding the federal funds rate at 4.25%-4.50% since December 2024 after three 2024 cuts, has tempered expectations of near-term relief, with markets pricing in no cuts before June (U.S. Bank, 2025). Meanwhile, a robust economy—Q4 2024 GDP at 2.3%—and sticky inflation (core PCE at 2.6% in January) have kept bond investors on edge (Schwab, 2025b). High-grade corporate bonds have outperformed Treasuries slightly, with spreads compressing due to solid fundamentals, though absolute returns remain muted (Nuveen, 2025).

Looking to the week of March 31, several issues loom large. First, Trump's "Liberation Day" tariff rollout on April 2 threatens to escalate trade tensions, potentially lifting yields further as investors demand higher risk premiums (Reuters, 2025a). X posts suggest front-running of tariffs is fading, amplifying bond market stress (X Post, @amital13, 2025). Second, the March jobs report, due April 4, could sway sentiment; a weak report (below February's 151,000 jobs) might ease yields if growth fears dominate, while strong data could intensify inflation worries (Nasdaq, 2025). Finally, persistent inflation data—February's PCE expected at 2.5% year-over-year—due this week may reinforce Fed hawkishness, pressuring bond prices (Wells Fargo, 2025). With nearly $3 trillion in U.S. debt maturing in 2025, Treasury issuance pressures could exacerbate volatility if demand wanes (CNBC, 2025). Bonds face a pivotal week as these dynamics unfold.



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