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Special Update

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Bond Market Update

The US bond market experienced a rally during the week of April 28 to May 2, 2025, with Treasury yields declining and bond prices rising across various maturities. The 10-year Treasury yield fell by approximately 9 basis points to 4.24%, while the 2-year yield dropped 5 basis points, reflecting improved market sentiment (7). This followed a volatile period earlier in April, when yields spiked to 4.5% amid tariff-related uncertainties. High-yield corporates outperformed, returning 1.29%, and senior loans gained 0.73%, marking their best weekly performance since early 2023 (7). Municipal bond yields remained stable, with new issue supply at $11 billion, though outflows persisted at -$397 million (7). The rally was supported by strong demand at Treasury auctions, particularly for 10-year and 30-year bonds, signaling restored investor confidence (3). Several factors drove this performance. Optimism surrounding potential US-China trade negotiations, including reports of China considering tariff exemptions, reduced fears of economic disruption, boosting demand for Treasuries (5).

Additionally, the Treasury Department's steady auction strategy and a softening tone from President Trump's administration on tariffs alleviated concerns about fiscal discipline, stabilizing yields (1). A robust labor market report on May 2, showing 177,000 jobs added in April against expectations of 136,000, further supported market confidence, though prior months' revisions tempered enthusiasm (5). Looking ahead to May 5–9, 2025, several factors will influence the bond market. The Federal Open Market Committee (FOMC) meeting on May 7 is critical, with no rate changes expected but Chair Jerome Powell's comments on inflation and tariffs likely to drive yield movements (8). Markets are pricing a 70% chance of a rate cut by June, but a hawkish Fed stance could push yields higher (7). The ISM Services PMI, projected to decline to 49.8, may signal economic softening, potentially increasing demand for bonds as safe-haven assets (6). Ongoing trade developments, particularly US-China talks, will remain pivotal, with any setbacks likely to increase volatility (5). Finally, continued heavy outflows from Treasuries, driven by inflation concerns, could sustain elevated yields unless offset by positive economic data (2). Investors should brace for potential yield fluctuations amid these dynamics.

References:

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