Shape of the Markets

THE GO-FORWARD OPPORTUNITY IN BONDS | JULY 2025

In March 2020, the Covid-19 pandemic led to mass quarantines, travel bans, and business shutdowns. Fears of deflation and a global recession, or even depression, led to market panic. The S&P 500 fell 34%.[1] The VIX spiked to record levels.[1] There was a sprint to cash, causing U.S. dollar funding stress.

The 30-year Treasury hit its all-time trough in March 2020 at 0.997% - closing below 1% for the first and only time in its history.[1] Investors wondered if the U.S. would reach the negative interest rate levels that were present across Europe and Japan.

Over 5 years later, we have the complete opposite environment. The S&P 500 hit new levels to end the first half of 2025.[1]The VIX is below its 25-year average.[1] Tariffs and geopolitical risk in the Middle East are evoking concerns around inflation. The 30-year U.S. Treasury, below the 1% threshold just over 5 years ago, surpassed the 5% level in the first half of 2025.[1]

What can we learn from the last 5 years?

One of the founding principles of our math-based, macro-agnostic approach, Shape Management, is that yield is not a good proxy for total return. In other words, yield is not what you get.

However, while yield is an incomplete measure of total return, starting yields have historically been correlated with go-forward returns. Put differently, yield and total return are not the same, but starting yields can still hint at the direction of future return potential. Here's what I mean.

In August 2020, the Bloomberg US Aggregate hit its all-time low yield.[1] What followed was (and is) the longest bear market in bond history, at 58 months and counting. What preceded this unprecedented drawdown? Unprecedented low yields. Even though yields had reached all-time lows, investors added more than $445 billion to bond funds in 2020.[2]

Today, the picture for fixed income looks completely different, which should be understood as a very good thing for investors. While yields are not at unprecedented levels, yields across some of our favorite asset classes – long U.S. Treasuries, Tax-Exempt Municipal bonds, and Taxable Municipal bonds – are at levels rarely seen over the past few decades. We believe this presents a go-forward opportunity rarely available over the same period.

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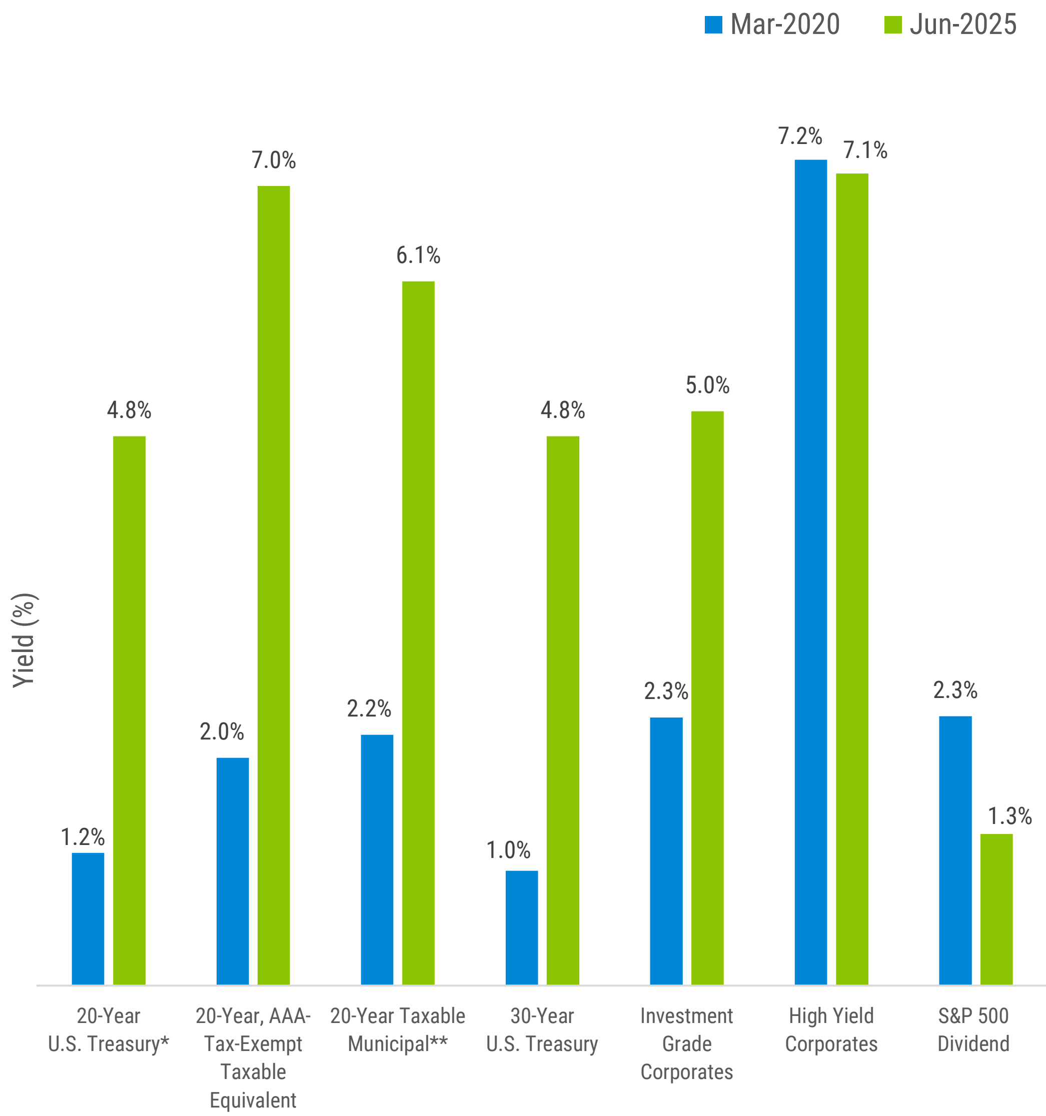
Taylor acts as PTAM's Client Portfolio Manager, serving as a liaison between investments, marketing, and sales. She is responsible for investment strategy updates and portfolio communications for all PTAM's products. Taylor additionally leads production of various portfolio and market commentary as well as dedicated strategy content.

Taylor received a Bachelor of Arts from the Princeton School of Public and International Affairs from Princeton University. She is also a CFA® charter holder.

1- Source: Bloomberg (accessed 07/01/2025)
2- Source: Wall Street Journal (www.wsj.com)

Starting Yields March 2020 vs. June 2025



We tend to favor opportunities present in 20-year Treasuries, 20-year Tax-Exempt Munis, and select 20-year Taxable Municipal bonds.

Sources: Bloomberg, PTAM as of 6/30/2025.

*The 20-year Treasury was reintroduced on 5/21/2020. Data represents earliest available for the 3/09/2020 data set.

**Yields for the 20-year Taxable Municipal bond are represented by an individual CUSIP held in two PTAM advised mutual funds. We are targeting a niche portion of Taxable Municipal bonds that is not reflected in any available index. Therefore, we believe choosing an individual bond reflective of what we are targeting within the sector best represents the opportunity set.

It must be repeated that our belief is that yield is not a good proxy for total return. However, today's starting yields represent the relative opportunity at hand for investors. Yield increases over the past 5 years have been painful for investors along the way but represent a benefit to current and future bondholders going forward. **With a forward-looking focus, we believe investors are primed for some of the most attractive return potential in recent history.**

Sources: Bloomberg (accessed 07/01/2025), JP Morgan, RBC, Wall Street Journal, Reuters, AP News and Liberty Street Economics.

Glossary

Yield Curve refers to the U.S. Treasury yield curve rates.

Risks and Other Important Considerations

Investing involves risk; principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in asset-backed and mortgage-backed securities include risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. For a complete list of disclosures, please visit www.ptam.com.

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