

Bond Market Outlook

Quarterly Publication

April 23, 2025

Piper Sandler Fixed Income Research

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- *President Trump's latest tariff initiative has intensified recession concerns, with declining consumer confidence reinforcing fears of a deteriorating labor market.*
- *While tariffs have fueled apprehension over near-term price increases, historical precedent and recent data suggest inflationary effects may be short-lived and insufficient to destabilize the broader economic landscape.*
- *Potentially sharp pullbacks in consumer spending and mounting financial stress among lower-income households underscores the risk of negative GDP growth.*
- *With long-term yields still high, there is a strategic opportunity to extend bond durations, particularly as the market tends to underestimate the potential for multiple rate cuts.*
- *We anticipate the Federal Reserve will lower rates by 150 basis points by year-end, with the 10-year Treasury yield likely approaching 3.5%.*

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- *The Treasury curve continued to steepen, while reciprocal tariffs and the potential for trade wars altered the outlook for short-term inflation, remaining Fed cuts, and economic growth.*
- *The un-inverting and steepening of the curve that started in the 2nd half of 2024 remains significant for mortgage performance as curve steepeners are typically associated with the higher levels of volatility which are presently unfolding.*
- *Trading themes continue to evolve in 2025, but the use of barbell strategies and hedged trades remains given the pickup in volatility.*
- *At current rates and spread levels, we find a strong case for adding both MBS (or CMOs) and Agy CMBS to the portfolio. Given current market stress, retaining liquidity while picking up higher yields and wider spreads even if it means selling some convexity is a great combination in our view.*

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- *IG gapped out to 109 bp Apr 4 and HY reached 427 bp on market concern about the scale of US tariffs and repercussions of retaliation. We concluded last month's commentary with a desire for up in quality in the context of a capitulation scenario brought on by uncertainty - early April has brought this dark scenario to fruition.*
- *The well-intentioned home-shoring ideal underlying our vast new tariff regime will take time to build and corporate management uncertainty about policy volatility could delay necessary investments to attain said well-intentioned home-shoring outcomes. In the meantime, near certain guide downs in operating results lie ahead of us for many sectors in the credit universe, initially on one-time higher cost structures to accommodate enlarged input costs. Once consumer consternation is factored in after prices reset upwards, the second-order effect upon operating results will weigh further. And as expected, major trading partner retaliation is a further exacerbating factor.*
- *As the potential for rate cuts rise while credit spreads flounder, our desire for up in quality remains even more applicable. We eschew do-nothing-ism and instead focus on the top-quality names in each sector we cover: JPM – US GSIB, PNC - US Super Regional, AXP – US Consumer Finance, HSBC, BNP, UBS – European majors, EPD – Energy MLPs, AER - Aircraft leasing. We acknowledge that recession fears are more credible now than any time in the last three years but the credit asset class, especially high-income credit, outperforms equities in market stress situations like these.*
- *Staring into the abyss, yet simultaneously engaging with the highest quality credits, has usually led to better credit investing outcomes than cowering under our security blanket*

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- Heavy municipal new issue supply faced a lack of investor interest during the 1st quarter which drove municipal yields relative to Treasuries to levels not seen since late 2023.
- Looking to the 2nd quarter, we expect a somewhat volatile period given the expected increase in new issuance as Issuers try to get ahead of the perceived risk to the tax-exemption while also addressing increased capital needs while facing an investor base that remains very cautious due to global turmoil from the Trump Administration's newly enacted tariffs.
- Though the threat to the tax-exemption continues, we believe this threat will be focused only on certain types of issuances and not a threat to the entire tax-exempt market.
- Credit concerns are heightened for certain municipal sectors due to the Trump Administration's efforts to reduce federal spending.

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- Sustained inflation, slowing economic growth, and aggressive tariff policy triggered significant volatility through the start of Q2 2025.
- Looking ahead, ongoing shifts in economic data, inflation trends, and President Trump's policies are likely to keep markets volatile.
- If yields continue to trend lower, an expected pickup in both redemptions and issuance of agency bonds may present pockets of relative value for investors.

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- Uncertainty around inflation and signs of slowing economic growth, in combination with aggressive tariff policy, have created a volatile backdrop for the Treasury market through early April 2025.
- Headline risk and weakening economic and corporate fundamentals, along with continued Fed involvement at the front end of the curve, support the technical case for a bear steepening trend to persist in the quarters ahead.
- While overbought signals in the 2s/10s spread suggest a near-term pause is possible, the broader setup points to higher long-term yields and a steeper curve if key resistance levels are broken.

Tariffs: Sparking Inflation Fears Amid Economic Weakness

President Trump's latest tariff initiative has intensified recession concerns, with declining consumer confidence reinforcing fears of a deteriorating labor market. While tariffs have fueled apprehension over near-term price increases, historical precedent and recent data suggest inflationary effects may be short-lived and insufficient to destabilize the broader economic landscape. Potentially sharp pullbacks in consumer spending and mounting financial stress among lower-income households underscores the risk of negative GDP growth. The Federal Reserve remains cautious in its policy stance but may be compelled to pursue deeper rate cuts in 2025 amid increasingly restrictive financial conditions. The drop in the 2-year Treasury yield, a crucial measure of market rate expectations, suggests the central bank might soon lower its target rate. With long-term yields still high, there is a strategic opportunity to extend bond durations, particularly as the market tends to underestimate the potential for multiple rate cuts. We anticipate the Federal Reserve will lower rates by 150 basis points by year-end, with the 10-year Treasury yield likely approaching 3.5%.

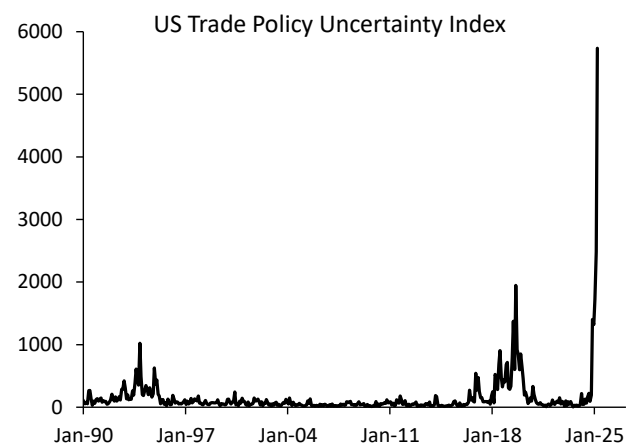
Universal tariff unleashed

- After weeks of intermittent trade war rhetoric that sent the U.S. Trade Policy Uncertainty Index to unprecedented levels (Figure 1), President Trump unveiled an aggressive tariff strategy on April 2. This policy imposed a universal 10% tariff on all imports and, in addition, set higher reciprocal tariffs on more than 60 countries with which the United States has significant trade deficits. But since then, each day brings news of the Trump administration's shifting trade policy, imposing tariffs one day, only to later delay or suspend them the next. This level of unpredictability erodes business confidence, disrupts production, and increases the risk of an economic slowdown. Coupled with declining consumer sentiment and other signs of economic distress, these tariff measures have heightened the odds of a recession. The situation is further compounded by a roughly 10% drop in equity markets during the first week of April following the tariff announcement. The latest University of Michigan survey shows consumer confidence has plunged to its second-lowest level on record, also a reflection of the mounting impact of tariff volatility.

Jobs loss fears mount

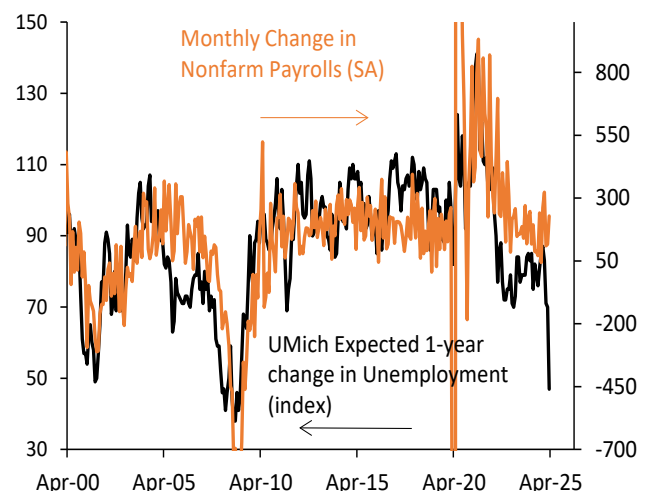
- Although the labor market has remained relatively resilient so far, it is about to come under pressure. The proportion of consumers expecting unemployment to rise over the coming year increased for the fifth consecutive month, reaching its highest level since 2009. As these "soft" survey indicators decline, it is increasingly likely these trends will soon be replicated in "hard" economic data. Indeed, given the strong correlation between labor market expectations and actual

Figure 1: Trade policy uncertainty soars to new record levels



Source: Baker, Bloom & Davis; Piper Sandler

Figure 2: Nonfarm payrolls may turn negative



Source: Bureau of Labor Statistics, University of Michigan, Piper Sandler

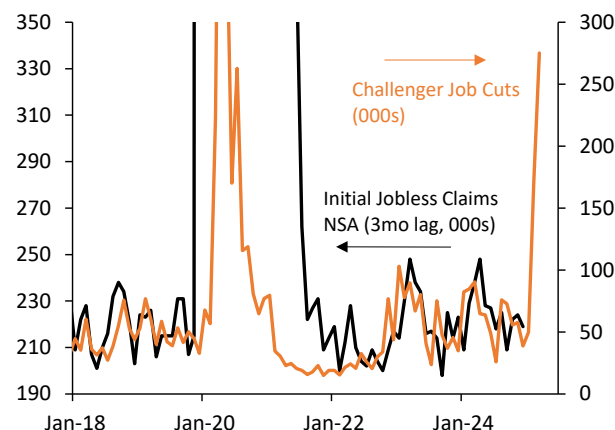
payroll figures, the prospect of imminent job losses becomes more pronounced, especially in an environment already strained by tariff-related fluctuations (Figure 2). Labor market weakness existed even before the tariff announcement, as nonfarm payroll growth steadily declined—from an average of 380k new jobs per month in 2022 to 216k in 2023, 166k in 2024, and only 150k in the first three months of 2025—and the current tariff volatility is likely to exacerbate this trend.

- Given these alarming trends, it is essential to monitor more timely job market indicators such as initial jobless claims. Weekly initial jobless claims spiked to 242k in late February, but subsequently fell to 219k, suggesting some market resilience. However, a significant increase in job cut announcements paints a different picture. In March 2025, U.S. employers reported 275k job cuts, the highest since June 2020, according to Challenger, Gray, & Christmas outplacement firm. This is a sharp increase from the 172k cuts in February and 49k in January. The government sector, significantly impacted by ongoing DOGE initiatives, was primarily responsible for some of these cuts. Nevertheless, this rise, along with the typical three-month lag between announced job cuts and initial jobless claims, implies that initial claims might soon approach 300k (Figure 3). Crossing this threshold often indicates deteriorating labor market conditions that are usually associated with recessions.

Tariffs talk fuels inflation fear

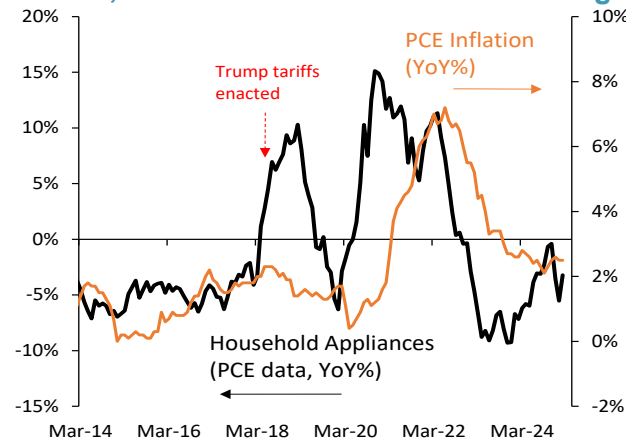
- Historical data show that tariffs typically increase prices and reduce the availability of goods for U.S. businesses and consumers, leading to lower income, less employment, and decreased economic output. However, while tariffs increase the prices of tariffed goods, they do not typically result in sustained broad inflation. For instance, during the 2018 tariffs, prices of intermediate and final goods rose in some sectors (i.e., household appliances such as washing machines, air conditioners...) affected by the tariffs, but on an aggregate basis there was no notable rise in inflation (Figure 4).
- Current inflation measures, based on surveys, show a significant uptick, which may be misleading. The U of Michigan survey recorded one-year-ahead inflation expectations at 6.7% in April—the highest level since 1981. However, Democrats forecast inflation at 7.9%, while Republicans estimate it to be only 0.9%, highlighting a stark partisan divide that implies the large jump in inflation expectations may be driven more by political

Figure 3: Job cut announcements point to sharply higher initial claims



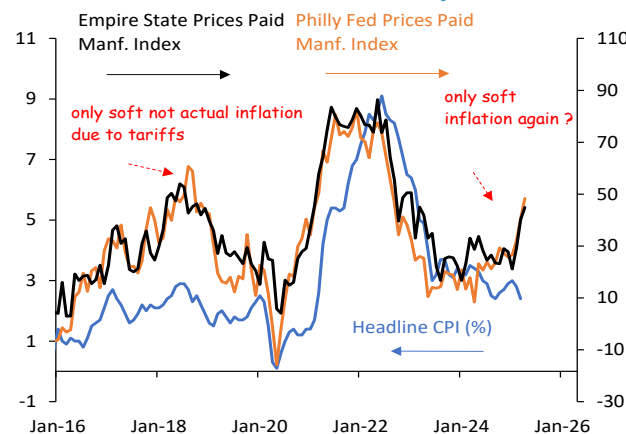
Source: Department of Labor; Challenger, Gray & Christmas; Piper Sandler

Figure 4: Prices of certain products climbed in 2018, but overall inflation remained benign



Source: Bureau of Economic Analysis, Piper Sandler

Figure 5: Inflation surveys have overestimated actual inflation outcomes in the past



Source: Philadelphia Fed, New York Fed, Piper Sandler

sentiment than economic fundamentals. Meanwhile, price indices from the New York and Philadelphia manufacturing surveys hit two-year highs, further stoking inflation concerns. However, similar trends during the 2018 tariff period did not lead to significant increases in headline or core CPI, suggesting that survey-based inflation measures, shaped largely by recent perceptions and news cycles, might not reliably indicate long-term inflation trends (Figure 5).

- But the newly applied tariffs this time are considerably higher than those imposed in 2018. The Tax Foundation projects that the average tariff rate on imports is set to rise from 2.5% in 2024 to nearly 12%—the highest average since 1943 (Figure 6). Some analysts predict the proposed increase in tariffs could push inflation up by 1% to 1.5% by year end, but we remain skeptical for several reasons. First, tariff-induced inflation predominantly affects goods—which contribute about 30% of overall inflation—while services, accounting for roughly 70%, play a larger role in the economy. Second, President Trump is frequently suspending or exempting specific items while expressing his intention to negotiate agreements with around 90 countries. We anticipate that he will eventually roll back many of these tariffs, which should help reduce the inflationary pressures associated with them.
- But more importantly, any inflationary pressures from tariffs are likely to be short lived. In line with this view, Fed Chair Powell recently reiterated that in his base case higher inflation from tariffs is transitory. This view is based on the following rationale. When tariffs raise the price of imported goods, consumers may respond by switching to substitute products, saving their money, or absorbing the higher costs. While paying more for tariffed items could lead to price increases for those specific goods, it also means that consumers will have less disposable income to spend on other items, potentially creating deflationary pressures elsewhere in the economy. Consequently, although tariffs may shift the demand for certain items within the inflation basket and alter their prices, they should not significantly impact the overall balance of aggregate supply and demand in the long term. Unless there is a direct injection of new money into consumers' hands, the risk of sustained inflation remains low.
- Also, any tariff related increase in inflation will be partially offset by falling housing costs. Declining shelter costs are anticipated to exert downward pressure on inflation throughout 2025. The New Tenant index, which measures real-time shelter costs,

Figure 6: The effective tariff rate may jump to its highest level in more than 80 years

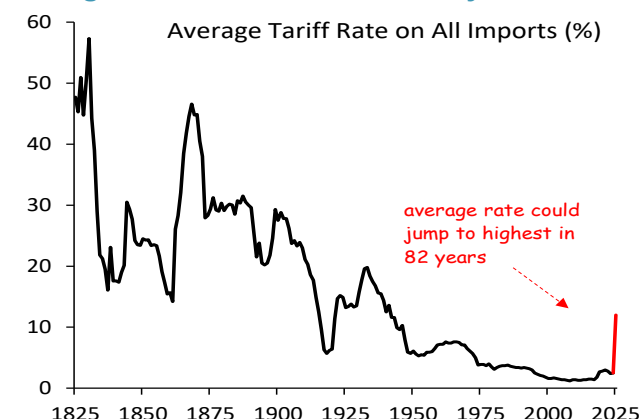


Figure 7: Growth in housing costs has been slowing and should continue to fall

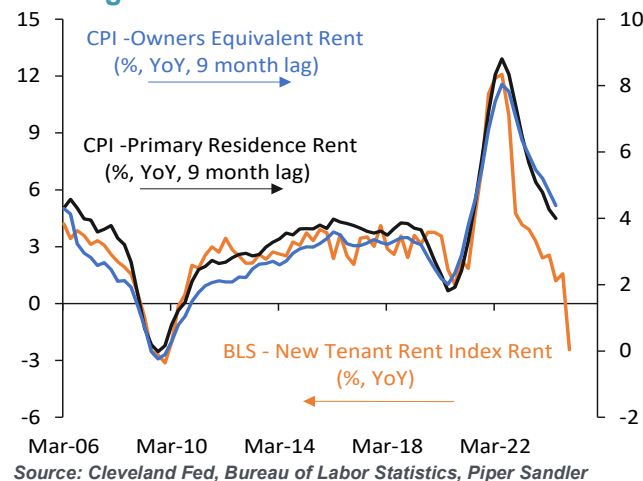
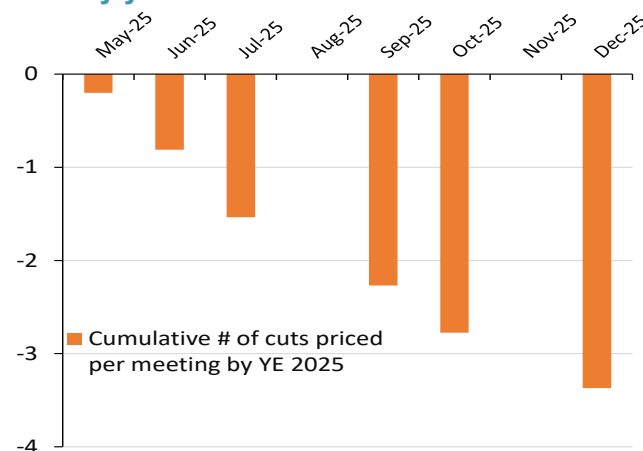


Figure 8: The market is pricing in at least 3 cuts by year end

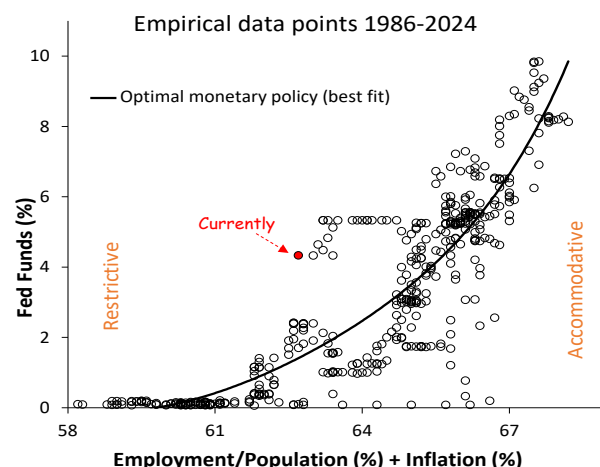


has been decreasing on a year-over-year basis. Historically, the CPI Index for shelter costs, which includes primary rent and owners' equivalent rent, tends to align with real-time data after a nine-month lag (Figure 7). This suggests that shelter costs, which constitute over 40% of core CPI and over 30% of core PCE inflation, are likely to reinforce a broader deflationary trend in the economy.

Restrictive policy calls for stronger easing

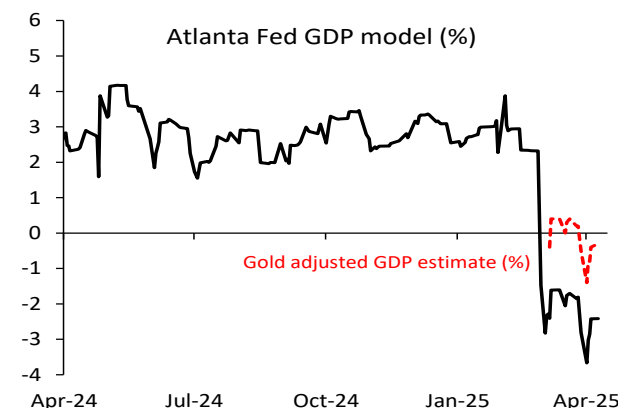
- The Fed will lower interest rates in 2025, although the number of potential rate cuts is still unclear. At its latest meeting in March 2025, the Fed chose to hold rates steady, despite highlighting significant economic uncertainties—stemming from President Trump's policies. In its updated projections, the Fed anticipates slower growth, revising the year-end 2025 GDP forecast down from 2.1% to 1.7%, while expecting core PCE inflation to rise from 2.5% to 2.8%. Despite these adjustments, the Fed's median projection for future interest rates remained unchanged, still reflecting an expectation of two quarter-point rate cuts.
- Market expectations suggest potential for slightly more aggressive action, predicting at least three rate cuts that would bring the rate down to 3.75% (Figure 8). But even three rate cuts might not capture the full scope of reductions by year-end. For example, in September, market forecasts placed the year-end 2025 Fed funds rate at around 2.75%, but surprisingly strong economic data quickly pushed that projection up to 4% within just a few months. With nine months still remaining, a two to three month period of weakness could just as swiftly bring expectations back down to the 2.75% target by year end.
- Also, empirical data indicate that the Fed may need to adopt a more aggressive approach to interest rate cuts in 2025, given the currently restrictive stance of monetary policy. Figure 9 highlights the correlation between the Fed's rate adjustments over the past 40 years and corresponding shifts in employment and inflation. Typically, strong economic growth, coupled with rising employment and inflation, prompt rate hikes. Conversely, rate cuts usually align with periods of weaker growth. The chart employs a black fitted line to differentiate between restrictive and accommodative monetary phases, with the degree of restrictiveness measured by the distance of data points from this line. Currently (indicated by the red dot), the Fed's monetary policy is highly restrictive, suggesting that a substantial easing—potentially up to 250 bp—might be required to reach a neutral policy stance.
- Amid ongoing trade policy uncertainties that threaten to dampen economic growth, it seems prudent for the Fed to consider lowering rates. However, the complex dynamics surrounding tariffs could cause initial inflationary pressures before any significant easing in the labor market is observed, potentially causing the Fed to remain on hold in the near term. Nonetheless,

Figure 9: Empirical data suggest Fed policy is still too restrictive



Source: New York Fed, Bureau of Labor Statistics, Piper Sandler

Figure 10: Q1 2025 GDP forecast is negative even after adjusting for gold imports



Source: Atlanta Fed, Piper Sandler

it is anticipated that any tariff-driven inflation will be short-lived, likely subsiding within 3-4 months. Meanwhile, increasing signs of consumer distress—evident from rising credit card and auto loan delinquencies—suggest that the Federal Reserve may need to commence rate reductions sooner rather than later to mitigate the risk of a deeper economic downturn.

US households under pressure

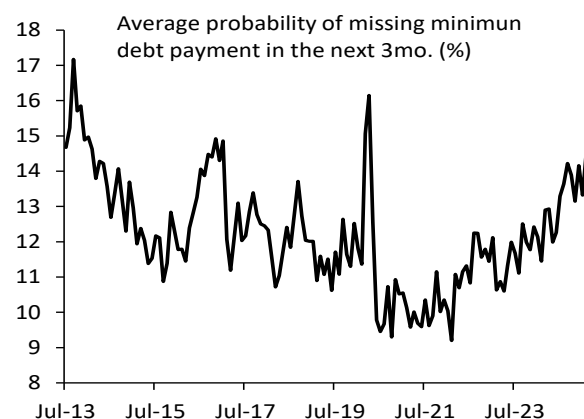
- While some economic data remain strong—likely due to frontrunning measures taken in anticipation of new tariffs—other key indicators, have begun to weaken. According to the Atlanta Fed's model, consumer spending is projected to contribute just 0.9% to Q1 2025 growth, a significant drop from 2.7% in the previous quarter and a stark contrast to the average contribution of 2% seen over the past two years. This has led the Atlanta Fed's model to project a significant contraction in Q1 growth, forecasting a GDP decline of -2.2%. A good portion of this decline is attributed to a surge in gold imports (i.e., frontrunning tariffs), but even after adjusting for these imports, the projected GDP remains negative at -0.3% (Figure 10). It is worth noting that two successive quarters of negative growth usually define a recession.
- Historically, recessions have often been triggered by specific shocks, such as oil price spikes or the collapse of financial bubbles within the housing or dotcom sectors. Currently, a decline in consumer spending may emerge as a likely precursor to an economic downturn. Indeed, pessimism about the future of the economy can lead consumers to pull back on spending significantly. Consumers' outlook of their household income decreased in April to a fresh record low, reflecting broader economic concerns about job security, elevated prices, and overall economic stability (Figure 11).
- On the surface, the household sector might appear financially healthy, but this does not fully reflect the underlying realities. Younger and lower-income consumers are disproportionately suffering from higher interest rates and ongoing inflation, impairing their spending power. The rising cost of living is also increasing the likelihood of missed debt payments. Over the next three months, 13.6% of those surveyed expect to miss a debt payment—near its highest level since April 2020 (Figure 12). Rising credit card and auto loan delinquencies further highlight the financial stress at the lower end of the income spectrum.
- Upper-income consumers are currently compensating for any lack in overall consumer spending. The top 10% of earners—

Figure 11: Consumers are increasingly pessimistic about their future financial situation



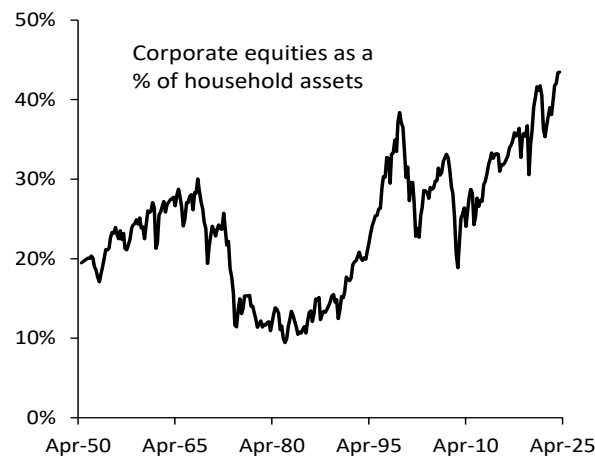
Source: University of Michigan, Piper Sandler

Figure 12: Personal loan defaults are climbing



Source: New York Fed, Piper Sandler

Figure 13: Americans are holding more equity in their portfolios than ever before



Source: St. Louis Fed, Piper Sandler

households making approximately \$250k annually or more—account for 49.7% of all spending, a record high in data dating back to 1989. The wealth effect has been a significant driver of economic growth, with high-income households showing robust spending behavior, bolstered by gains in equity markets over the past several years. However, a deep and prolonged equity market correction could pose a substantial risk to these households, affecting their willingness and ability to spend. Given that household equity allocations are at all-time highs, a market downturn could severely impact high-income households and, by extension, the broader economy (Figure 13).

Forces shaping short and long term Treasury yield trends

- While the Federal Reserve may proceed cautiously in determining its future monetary policy actions, the Treasury market has already begun to respond more decisively. Recently, the 2-year Treasury yield, a key indicator for market rate expectations, has declined, signaling an increased likelihood that the central bank will reduce its target rate. As of April 14, the 2-year yield stood at 3.85%, nearing its lowest point since October and substantially below the current Fed funds target range of 4.25% to 4.50% (Figure 14).
- The relatively strong correlation between the 2yr Treasury rate and the Atlanta Fed's GDP Nowcast, indicates that the 2yr Treasury rate might decrease further, possibly approaching 3.0% (Figure 15). Such a drop would suggest the possibility of more aggressive rate cuts by the Fed. Historically, the 2-year Treasury yield has been a reliable predictor of the Federal funds rate. Although, the volatile interplay of White House policies introduces additional uncertainty into this forecast, the overall trend is for short term rates to march lower in 2025.
- Meanwhile, it is crucial to recognize that long-term Treasury yields tend to move in tandem with Fed fund expectations. For example, back in September, market forecasts predicted a year-end 2025 Fed funds rate of about 2.75%, with the 10-year Treasury yield around 3.6%. Robust economic data then prompted a swift revision of that forecast upward to 4%, pushing the 10-year yield above 4.5%. This relationship is significant, as the 10-year yield has demonstrated a 95% correlation with Fed funds rate expectations over the past nine months (Figure 16). As the Federal Reserve considers easing monetary policy in

Figure 14: The 2-year saunters lower and the Fed Funds Rate should follow

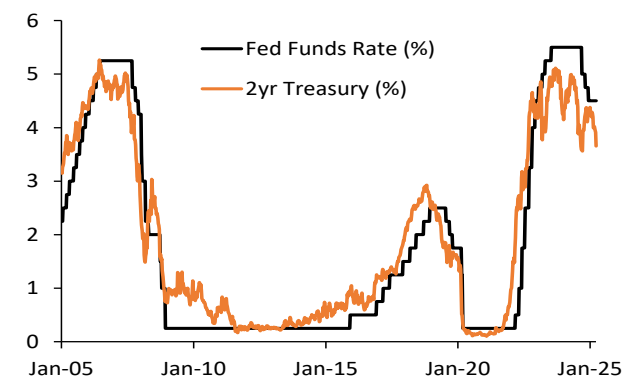


Figure 15: Short term rates are likely to fall with GDP estimates

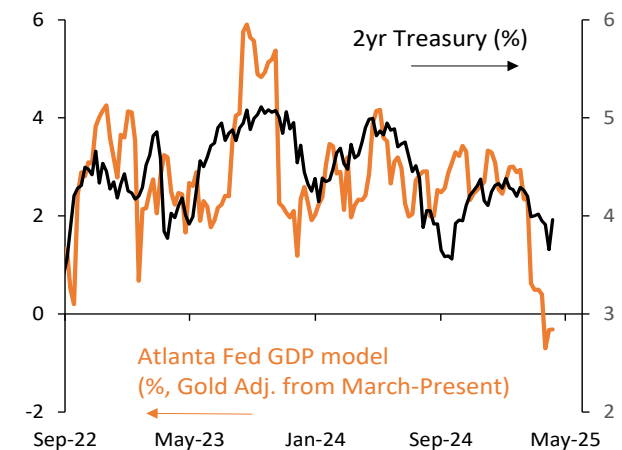
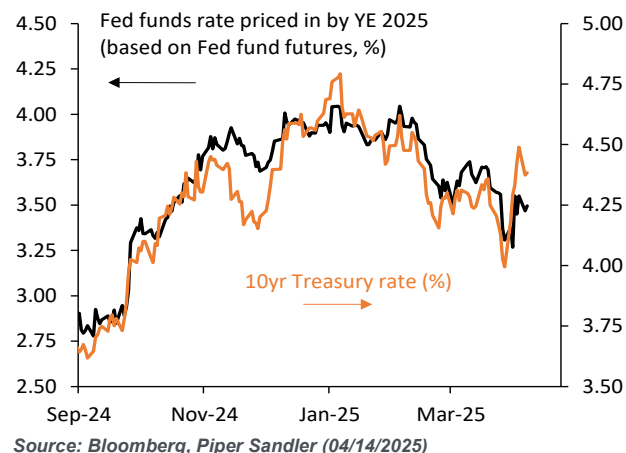


Figure 16: The 10yr Treasury rate is driven by Fed funds expectations



2025, the future trajectory of the 10-year yield will depend on the timing and magnitude of those rate cuts. (On a side note, currently the divergence between the two series suggests that the 10-year yield may be trading roughly 20 bp cheap).

- Nevertheless, to capitalize on this strong relationship, we have developed a regression model that estimates the 10-year Treasury yield based on market-projected Fed funds rates for the end of 2025 (Figure 17). Under a scenario of two to three rate cuts, we expect the 10-year yield to remain above 4.25%; however, if rates fall to 2.75%, the yield could drop to around 3.6%. In a more severe recession scenario, where rates might plummet to 1.75%, the 10-year yield could sink below 3%. Although a soft landing remains within the realm of possibility, our base case envisions a more challenging economic environment in 2025—pushing the Fed toward a target rate of 2.75% and driving the 10-year Treasury yield below 3.6%. With long-term yields still high, there is a strategic opportunity to extend bond durations, particularly as the market tends to underestimate the potential for multiple rate cuts.

Figure 17: Projecting long term rates based on varying expectations regarding the Fed's 2025 rate-cut cycle.

	# of rate cuts from 4.5%	YE 2025 Fed Funds rate	Predicted 10yr Treasury rate (%)	95% confidence level	
				Lower limit (%)	Upper limit (%)
Soft Landing	1	4.25	4.76	4.60	4.92
Soft Landing	2	4.00	4.57	4.41	4.73
Soft Landing	3	3.75	4.37	4.21	4.53
Landing with turbulence	4	3.50	4.18	4.02	4.34
Landing with turbulence	5	3.25	3.99	3.83	4.15
Landing with turbulence	6	3.00	3.79	3.63	3.95
Landing with turbulence	7	2.75	3.60	3.44	3.76
Hard Landing	8	2.50	3.41	3.25	3.57
Hard Landing	9	2.25	3.21	3.05	3.37
Hard Landing	10	2.00	3.02	2.86	3.18
Hard Landing	11	1.75	2.83	2.67	2.99
Hard Landing	12	1.50	2.63	2.47	2.79
Hard Landing	13	1.25	2.44	2.28	2.60
Hard Landing	14	1.00	2.25	2.09	2.41
Hard Landing	15	0.75	2.05	1.89	2.21
Hard Landing	16	0.50	1.86	1.70	2.02
Hard Landing	17	0.25	1.67	1.51	1.83

Source: Bloomberg, Piper Sandler

Josué López
Mackenzie Grzybek

Securitized Products – Quarterly Update

Those looking for fireworks in the first few months of 2025 were not disappointed. The Treasury curve continued to steepen (Figure 1), while reciprocal tariffs and the potential for trade wars altered the outlook for short-term inflation, remaining Fed cuts, and economic growth. The un-inverting and continued steepening of the curve that started in the 2nd half of 2024 remains significant for mortgage performance as curve steepeners are typically associated with the higher levels of volatility which are presently unfolding.

Mortgage spreads continue to trend directionally with rates - widening into sell-offs and tightening into rallies. This contrasts with more normal environments whereby mortgages underperform into rallies given increased optionality, or opportunities to refinance. In our view, the upending of this historical relationship was largely driven by MBS funding pressures and relative value concerns associated with an inverted curve. As the Fed has cut rates, these funding pressures have been reduced, but the curve will need to continue to steepen to bring the historical inverse relationship between mortgage spreads and rates back into place.

The recent sell-off in the 10yr Treasury yield (Figure 2) and associated +20bp widening in mortgage spreads (Figure 3) have created another attractive entry point into the securitized market. While higher-grade fixed income risk assets including mortgages, municipals, and corporates have all underperformed or widened to start the 2nd quarter, asset correlations typically rise in times of uncertainty. Agency mortgages, though, could eventually see strong demand, especially in recessionary environments whereby money flows out of credit-based instruments amidst weaker fundamentals. Additionally, as interest-rate volatility tends to be mean-reverting, the mortgage basis should be well-supported when volatility normalizes. Although stabilization will eventually be supportive of the basis, volatility is likely to remain elevated in the short-term given uncertainty surrounding the future path of fiscal and monetary policy. At this juncture, 30yr CC MBS spreads to Treasuries near +160bp provide relative value both versus competing sectors and the short-term historical trading range.

Figure 1



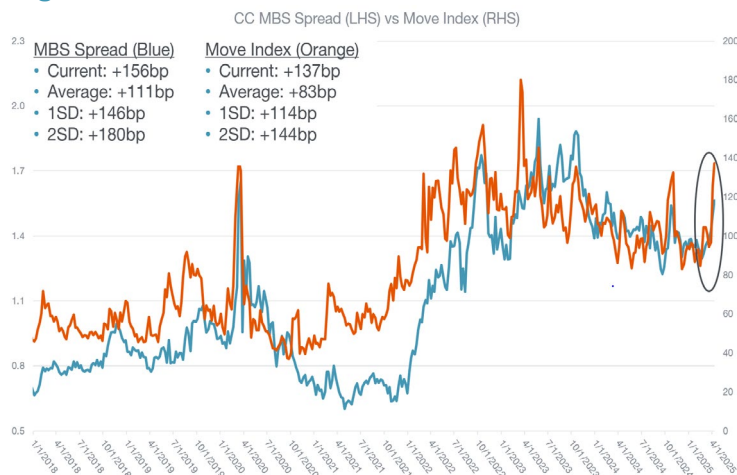
Source: Bloomberg, Piper Sandler

Figure 2



Source: Bloomberg, Piper Sandler

Figure 3



Source: Bloomberg, Piper Sandler

Trading themes continue to evolve in 2025, but the use of barbell strategies and hedged trades remains given the pickup in volatility. Barbell strategies remain popular with depositories and money-managers seeking more hedged exposure to rates. We continue to advocate for barbell strategies to optimize for current yield and convexity with a more tailored interest rate risk profile than just buying the target part of the curve. At present, pairing new production 30yr CC MBS with a 6.5cap CMO floater to replicate a 3-5yr duration can produce nearly a 5.65% yield to spot rates with a +170bp to +180bp spread to Treasuries.

On the front-end of the curve, floating-rate securitized products sectors continue to offer 4.80% to 5.90% yields to spot rates depending on cap structures, spread durations, credit risk, and liquidity (Figure 4). With Fed Funds in the 4.25%-4.50% range, front-sequential fixed-rate securitized products also continue to appeal to depositories looking to stay short at over an +80bp spread versus their marginal cost-of-funds. Spreads in front CMOs also remain wide relative to their recent trading averages given the cheapening in basis (Figure 4).

Figure 4: Securitized products spread monitor (4/11/25)

3yr to 5yr MBS/CMO & ACMBS I-Spreads							
	15yr MBS	3yr PAC	3yr SEQ	5yr PAC	5yr SEQ	5yr K A2	3.5yr GNPL
Current	102	110	110	115	115	46	135
Average	88	98	95	116	112	47	142
Z-Score	0.7	0.4	0.5	0.0	0.1	-0.1	-0.3
Min	43	40	40	55	55	29	80
Max	146	150	145	175	170	70	182
Est Yield	5.18	5.11	5.11	5.31	5.31	4.62	5.36

7yr to 10yr MBS/CMO & ACMBS I-Spreads							
	30yr MBS	10yr PAC	10yr SEQ	7yr K A2	10yr K A2	10/9.5 DUS	7/6.5 DUS
Current	155	140	140	49	53	62	55
Average	148	134	133	52	61	67	58
Z-Score	0.4	0.3	0.3	-0.3	-0.6	-0.4	-0.3
Min	107	92	92	35	38	43	39
Max	193	180	175	76	99	108	88
Est Yield	5.88	5.89	5.89	4.82	5.02	5.11	4.88

CMO Floater / FFELP ABS / BSL CLO / CRE CLO Floaters - Discount Margins							
	Agy CMO	3yr FFELP	5yr FFELP	AAA BSL	AA BSL	AAA CRE	AA CRE CLO
Current	140	90	100	138	200	223	283
Average	108	107	121	174	234	222	332
Z-Score	0.9	-0.9	-1.0	-1.1	-0.7	0.0	-1.2
Min	38	75	90	118	153	148	239
Max	190	150	175	235	330	335	436
Index	SOFR30A	SOFR30A	SOFR30A	3mo SOFR	3mo SOFR	1mo SOFR	1mo SOFR
Est Yield	5.74	5.24	5.34	5.63	6.26	6.56	7.15

AAA Non-Agency RMBS & Non-Agency CMBS I-Spreads						
	Prime PT	Prime FCF	Prime LCF	5yr CMBS	10yr CMBS	10yr jrAAA
Current	168	152	130	130	110	175
Average	151	143	135	140	120	176
Z-Score	0.9	0.3	-0.2	-0.4	-0.4	0.0
Min	94	67	87	85	68	96
Max	189	218	192	197	185	275
Est Yield	6.01	5.68	6.01	5.46	5.59	6.24

Source: Piper Sandler

At current rates and spread levels, we find a strong case for adding both MBS (or CMOs) and Agy CMBS to the portfolio. Current coupon Agy MBS, namely 5.50s, continue to offer the highest nominal yields and widest spreads under a par dollar price. Additionally, in an uncertain environment, low payup 5.5% coupon pools retain a very high degree of liquidity given TBA-deliverability. Given current market stress, retaining liquidity while picking up higher yields and wider spreads even if it means selling some convexity is a great combination in our view.

On the other side of the convexity coin, the recent cheapening in Agy CMBS spreads and higher rates have provided a more attractive entry point, though yields are still under 5.00%. Still, Agy CMBS has the potential to add total & excess returns vs MBS into more bullish rate scenarios. Moreover, the recent tightening in SOFR swap-spreads has meant that active ACMBS duration hedgers (via pay fixed swaps) are now picking up +5-10bps more incremental spread. Creating 5-10yr ACMBS uncapped synthetic floaters in the +90-100bp DM range also provides relative value versus other floating rate alternatives. Lastly, given the record widening in municipal bonds, tax-exempt Agy CMBS structures like Fannie TEBS or Freddie FRETEs/TEL PCs have widened +40-50bps and remain attractive across the curve as tax-equivalent yields are near local highs.

From a credit perspective, non-agency securitized products sectors have also cheapened amidst higher volatility and wider IG\HY corporate spreads. In NA RMBS, we find value in the AAA 5.5% coupon in prime jumbo or agency-eligible investor stories as they continue to trade ~1pt back of the agency counterpart whether it be PT, FCF, MCF, or LCF form. The prime sectors also offer the most favorable z-scores we track at the AAA level. In CLOs, bank demand persists for AAA/AA given the recent widening providing even higher yields and shorter spread durations versus uncapped agency products.

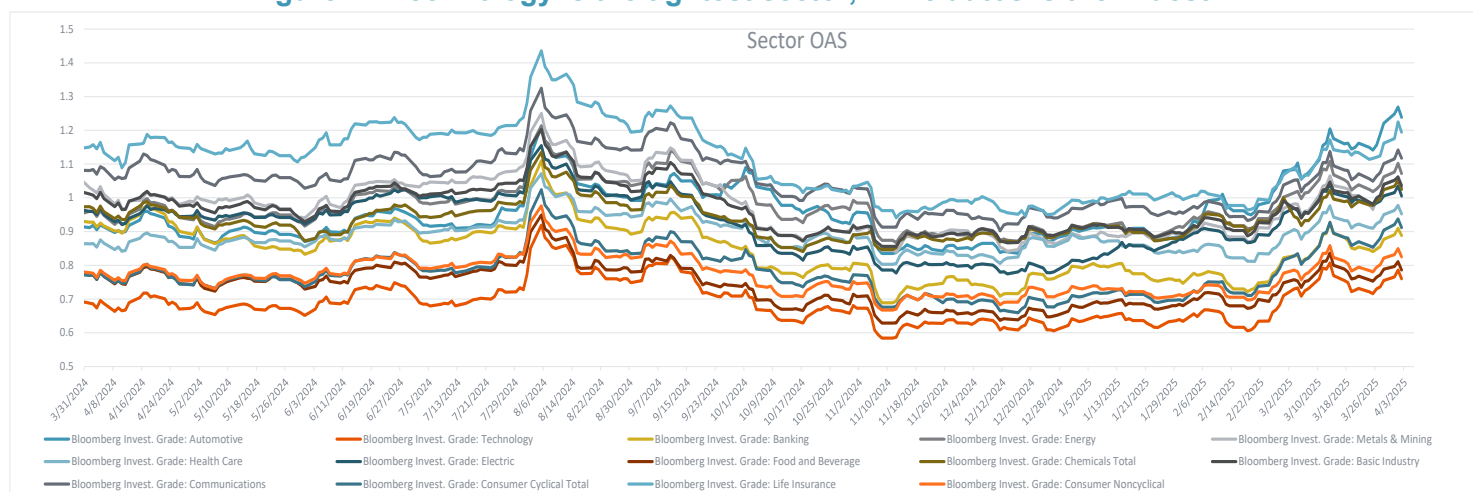
Credit Outlook – The Abyss Beckons

From Apr 4 2025: LUACSTAT (IG) OAS of 94 bp was seven wider MoM while LF98STAT (HY) was 67 bp wider at 347 bp. Post month end widening was severe in the wake of tariff announcements Apr 2. IG gapped out to 109 bp Apr 4 and HY reached 427 bp on market concern about the scale of US tariffs and repercussions of retaliation. We concluded last month's commentary with a desire for up in quality in the context of a capitulation scenario brought on by uncertainty - early April has brought this dark scenario to fruition. The well intentioned home-shoring ideal underlying our vast new tariff regime will take time to build and corporate management uncertainty about policy volatility could delay necessary investments to attain said well-intentioned home-shoring outcomes. In the meantime, near certain guide downs in operating results lie ahead of us for many sectors in the credit universe, initially on one-time higher cost structures to accommodate enlarged input costs. Once consumer consternation is factored in after prices reset upwards, the second-order effect upon operating results will weigh further. And as expected, major trading partner retaliation is a further exacerbating factor (China/EU/Canada to start). With the VIX up at 45 Apr 4 (vs only 17.5 on Mar 24), risk assets will struggle in the near term, absent a sharp policy reversal. As the potential for rate cuts rise while credit spreads flounder, our desire for up in quality remains even more applicable. We eschew do-nothing-ism and instead focus on the top quality names in each sector we cover: JPM – US GSIB, PNC - US Super Regional, AXP – US Consumer Finance, HSBC, BNP, UBS – European majors, EPD – Energy MLPs, AER - Aircraft leasing. We acknowledge that recession fears are more credible now than any time in the last three years but the credit asset class, especially high income credit, outperforms equities in market stress situations like these. Changing rates expectations will support dollar prices in paper that has a combination of duration, strong credit resilience and widened spreads, the latter providing enhanced carry. It is unclear when we bottom out (when is most new bad news priced in ?) or whether we attain a relief snap-back (policy reversal?). However, staring into the abyss, yet simultaneously engaging with the highest quality credits, has usually led to better credit investing outcomes than cowering under our security blankets.

Sector Spread Comparison

- Three widest sectors vs IG Index: Autos +32, Life insurance, + 24 bps; Communications, +18 bps
- Three tightest sectors vs IG Index: Tech, -17 bps; Food & Beverage, -14 bps; Consumer Non Cyclical, -10 bps

Figure 1: Technology is the tightest sector, while autos is the widest

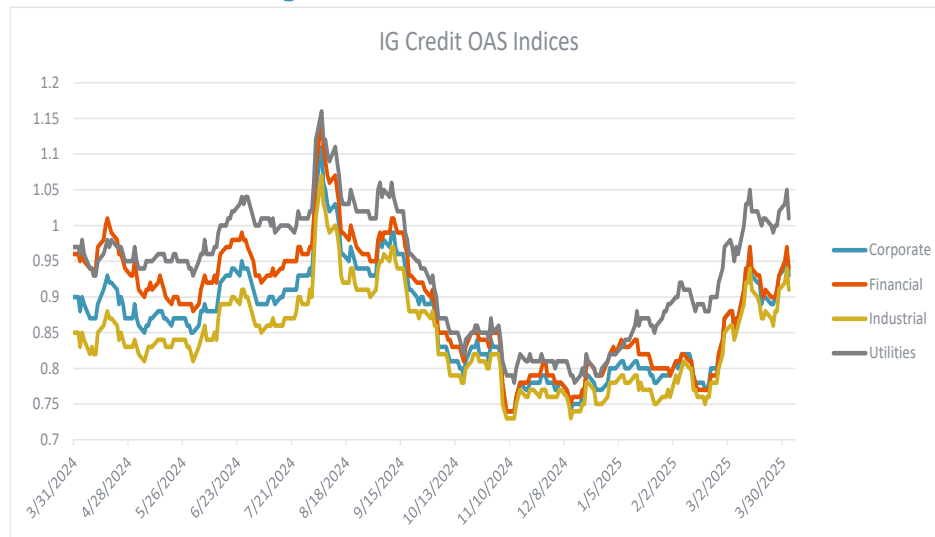


Source: Bloomberg, Piper Sandler

IG Index Segment Characteristics

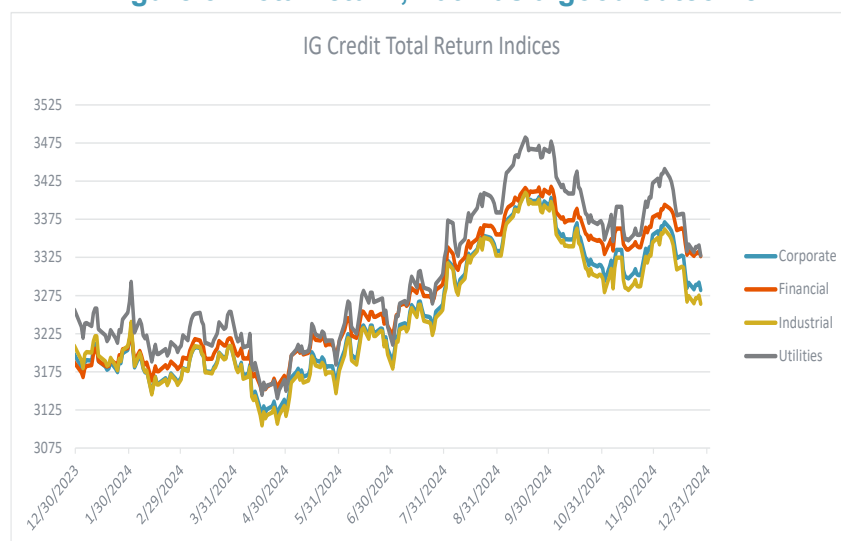
- OAS: all sectors widened but Utilities held in better (+ 5 bp), Industrials were (+7 bp) in the middle while Financials slightly underperformed (+8 bp).
- Total return: Financials did best (effectively flat for March), over taking Utilities (down 15 bp) during the month. As before, Industrials remained the lowest total return sector and fell 14 bp during the month.
- Financials shorter duration helped its TR withstand spread widening during the month while long duration utilities TR showed the most downside despite more modest spread widening than financials.
- Most resilient sectors (least spread widening) during Mar were Chemicals (+3), Food and Beverage (+5) and Consumer Non Cyclical (+5). Autos performed worst once again (+17).

Figure 2: OAS widened in March



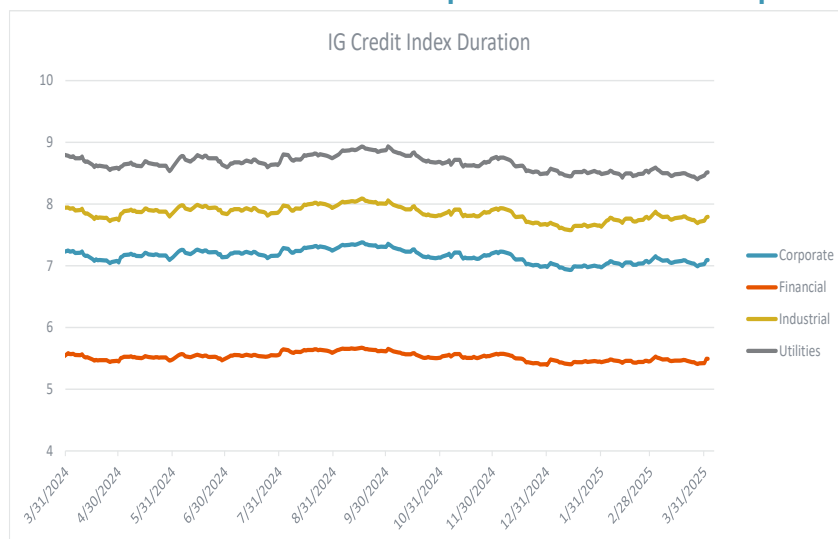
Source: Bloomberg, Piper Sandler

Figure 3: Total return; flat was a good outcome



Source: Bloomberg, Piper Sandler

Figure 4: Financials shorter duration helped its TR withstand spread widening



Source: Bloomberg, Piper Sandler

Preferred and Corporate Index Performance vs Stocks

- \$1000 par preferred stock (CIPS) outperformed IG (C0A0), HY (H0A0) and other preferred indices for March
- Stocks as measured by the S&P500 and the BKX underperformed all credit indices, reinforcing the view of credit as an asset class with downside protection in risk-off scenarios.
- Higher rated (P0P1, CIPS, C0A0) generally outperformed their lower rated counterparts (P0P4, HIPS, H0A0)
- COCOs and CIPS YTD performance were best among the preferred indices but trailed IG by 80 bps.

Figure 5: Mar 2025 and YTD returns – risk off weighs on performance

Index	1 Month Total Return (%)	YTD Total Return (%)	ENDING OAS BPS	1-MONTH CHANGE IN OAS BPS
POP1	-1.6	-0.1	134.0	37.0
POP4	-3.2	-1.2	136.0	55.0
SPPREF	-3.2	-1.6	NA	NA
CIPS	-0.1	1.6	189.0	15.0
HIPS	-0.5	0.9	250.0	24.0
COCO	-0.8	1.6	295.0	31.0
Non-preferred Benchmarks				
C0A0	-0.3	2.4	97.0	9.0
H0A0	-1.1	0.9	355.0	68.0
SPX	-5.6	-4.3	NA	NA
BKX	-9.2	-3.2	NA	NA
BEBANKS	-1.0	21.1	NA	NA

Source: Bloomberg, Piper Sandler

High Trading Flow Names/Securities In March**Global Energy**

BPLN 6.125% Perp: Early in March, an RIA executed the second leg of a large protective trade. They accumulated a medium sized position in BPLN QDI eligible perps as part of a re-allocation out of US autos into international/global energy. By exiting GM Fin Perps late last month, the RIA stepped up in quality to BPLN with an average ratings pick-up of 3 notches with the new purchase. Two other larger RIAs made outright buys in good size late in March. In each case, single A/triple B ratings at the preferred level helped, coupon steps in year 30 were mildly helpful and some prospect of BP's Rosneft stake revaluation (possibly better economic relations with Russia in the event of eventual peace in Ukraine) could also have influenced decisions.

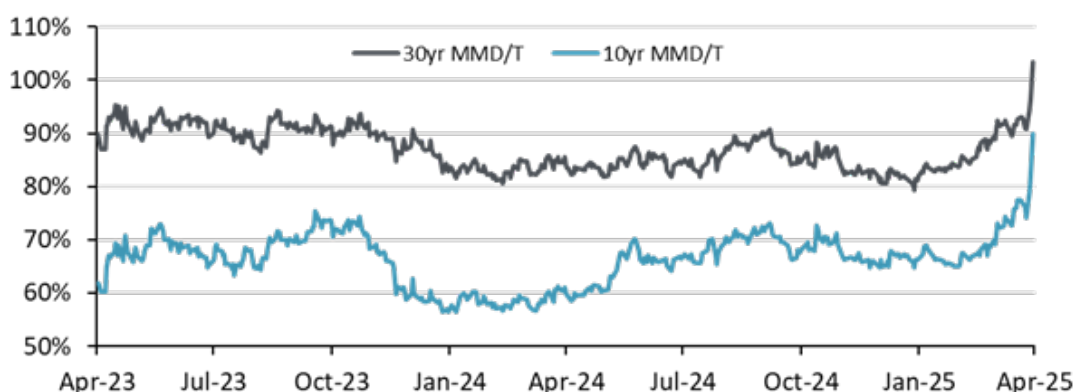
Super Regional Banks

PNC 6% Perp 27 (5 yr + 300): In mid March we sourced large blocks of PNC 6 from real money accounts together with some Street liquidity to meet good demand from insurance companies and two larger RIAs. Good IG mid triple B ratings, pricing at or close to par, full DRD/QDI distribution status together with a conservative up in quality bias drove the buy decisions. PNC's status as arguably the best super regional was also a factor.

Municipal Market Outlook

Heavy municipal bond supply thru the 1st quarter of 2025, up 15% from 1st quarter 2024, had many deals struggling as muted fund flows and declining bond redemptions at quarter-end along with various macro factors around tax and economic policy combined to limit municipal bond investor interest, especially during the month of March. As a result, municipal bond yields rose significantly across the curve, deviating from Treasury yields which declined by 35 bps thru the 1st quarter for the 10-year and 21bps for the 30-year. For municipals, yields (based on the benchmark AAA municipal index) increased by 31 bps and 41 bps for the 10- and 30-year maturities respectively by quarter-end. This led to Muni to Treasury ratios increasing to levels not seen since late 2023, with the 10-year ratio at 76% and the 30-year at 93% by quarter-end. At these levels, the municipal market began to attract cross-over buyers.

Figure 1: AAA MMD to Treasury Ratio



Source: MMD, Bloomberg, Piper Sandler

Monthly municipal bond market activity

- February had the largest market movement, with highest redemptions and new issuance. The 10-year treasury drop 33 basis points. The Municipal bond performance improved 0.99% and had 2.67 billion fund inflows.
- March saw strong new issuance but weak performance. 10yr AAA MMD/TSY increased 9.56%, signaling stronger relative value for Munis. Municipal bonds had negative 1.69 total return and negative 0.29 billion fund flows.
- January showed moderate activity. Mild 10yr Treasury yield decline (3bp) and slightly positive total returns (0.50%).

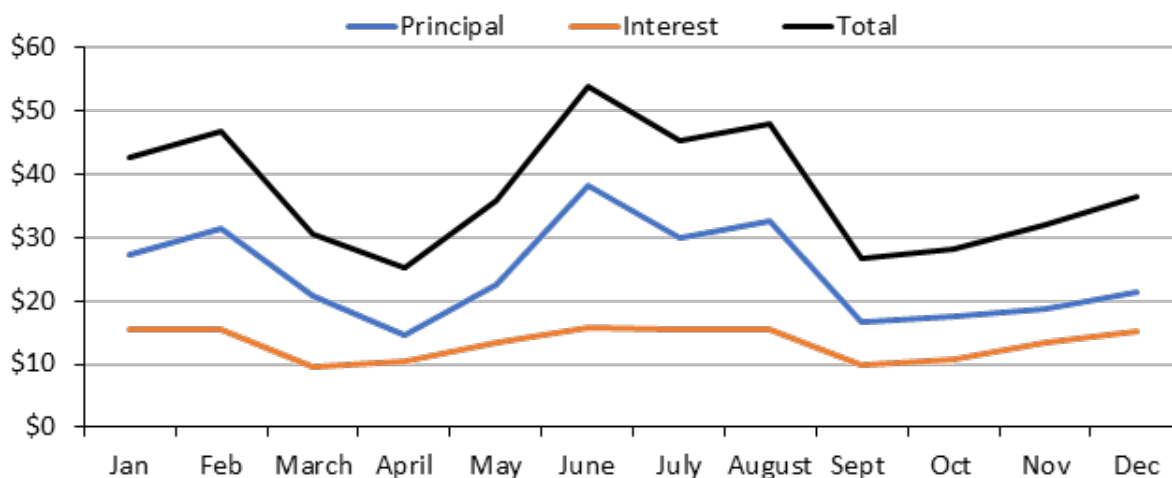
Figure 2: Technical Heatmap

	Jan-25	Feb-25	Mar-25
Redemption/Interest (\$bns)	42.98	46.99	30.96
New Issuance (\$bns)	37.14	41.91	44.25
10yr UST Yield Change (bps)	-3.03	-33.05	-0.29
Fund Flows (\$bns)	2.974	2.67	-0.29
10yr AAA MMD/T Ratio Change	-1.54%	2.53%	9.56%
Muni total Return	0.50%	0.99%	-1.69%

Source: Bloomberg, Lipper, TM3, Piper Sandler

2nd Quarter Expectations

- Going into 2nd quarter, we expect continued heavy supply as many municipal issuers try to get ahead of the perceived risk to the tax-exemption while also addressing increased capital needs.
- Against a heavy supply, demand will most likely remain muted given the lack of municipal redemptions expected in April and May along with concerns raised by the Trump administration's tariff policies which has caused an increase in overall volatility and a lack of interest by the buying community in nearly all asset classes including Municipals.
- Offsetting this a bit could be a flight to quality which will increase demand for municipal bonds if the equity markets continue to sell-off. Overall, we expect the muted interest will likely result in more attractive yields, wider spreads, and cheaper ratios to treasuries in the municipal space over the next quarter.

Figure 3: 2025 Municipal Bond Redemptions

Source: Bloomberg, Piper Sandler

Taxable Municipals

- The quarter opened with spreads remaining near all-time tights as lack of supply remained the biggest hinderance in our space.
- The market finally found some relief as spreads widened since January; 5-10 bps wider 5 years and in, 20-25 bps wider between 10 and 15 years and 25-30 bps wider beyond 15 years.
- Wider spreads were necessary, not due to an abundance of issuance, but rather to the lack of relative value in comparison to other sectors including tax exempts and corporates.
- Demand remained high for paper inside 5 years as there is a much broader target audience in that space with many municipalities having a 5-year cap.
- Great value was observed further out the curve with spread between AA 10yr paper vs AA 20yr paper at approximately 50-55 bps to start the year, increasing to 80-85 today by quarter end.

Market Trends

Overall Trade Volume

- The total trading volume of exempt municipal (including non-rated) was \$687,655 million in Q1 2025, up 7.79% from Q1 2024, down 5.96% from Q4 2024.
- Total investment grade had a strong 17.52% YoY growth (lead by A and AAA), but a -4.21% QoQ decline, with a stable 0.28% increase vs four quarter average, indicating overall resilience despite short term fluctuations.
- Total high yield saw a modest 4.09% YoY growth but a sharp -9.41% QoQ decline and -2.9% drop vs four quarter average.

Duration

- Investors were significantly shifting away from short-term bonds in favor of mid-to-long duration bonds (5-20 years).
- The strongest demand was in the 10-20yr range, due to expectations of falling interest rates, where longer-duration bonds benefit most.
- Intermediate-term bonds (5-10yr) were gaining traction, grew 30.68% YoY, a slight -5.56% QoQ dip suggested some repositioning but overall stability.
- Long-duration bonds (10-20yr) were in high demand, strongest growth at 34.49% YoY, a 42.87% QoQ surge.

Sector

- General obligation bonds grew 9.39% YoY but declined -5.97% QoQ and -5.47% vs four quarter average. The strongest demand was in the 10-20yr range, due to expectations of falling interest rates, where longer-duration bonds benefit most.
- Revenue bonds saw a YoY increase of 10.12%, but QoQ decrease of 5.63% and a slight decrease of 1.47% compared to four quarter average.
- Healthcare had the strongest YoY growth (57.53%), followed by public power (46.82%) and airport (44.72%).
- Industrial development revenue had the largest YoY and QoQ drop, and 35.83% below four quarter average, indicating sustained momentum.

Figure 4: Volume Heatmap

Credit Rating	Q1 2025	vs Q1 2024	vs Q4 2024	vs 4 QTR Avg
AAA	135,906	24.78%	-0.31%	1.92%
AA	379,448	13.50%	-5.52%	-2.10%
A	77,030	31.84%	-3.10%	11.84%
BBB	8,845	-2.10%	-5.68%	-3.28%
Total IG	601,230	17.52%	-4.21%	0.28%
Total HY	2,301	4.09%	-9.41%	-2.90%

Source: MSRB, Piper Sandler

Figure 5: Duration Heatmap

Eff Duration	Q1 2025	vs Q1 2024	vs Q4 2024	vs 4 QTR Avg
<1yr	187,824	-9.51%	-16.99%	-10.85%
1-5yr	116,337	-8.42%	-2.80%	-4.92%
5-10yr	157,578	30.68%	-5.56%	1.12%
10-20yr	122,306	34.49%	42.87%	26.23%
20yr+	2,561	-9.89%	5.41%	-9.40%

Source: MSRB, Piper Sandler

Figure 6: Sector Heatmap

Sector	Q1 2025	vs Q1 2024	vs Q4 2024	vs 4 QTR Avg
GO - Local	145,587	15.12%	-2.13%	-4.37%
GO - State	41,542	-6.82%	-17.33%	-9.14%
Total GO	187,129	9.39%	-5.97%	-5.47%
Revenue - Airport	5,265	44.72%	-21.04%	-16.43%
Revenue - Education	60,077	15.82%	7.15%	4.22%
Revenue - Health	3,964	57.53%	-13.72%	7.03%
Revenue - Hospitals	89,739	25.34%	2.30%	4.71%
Revenue - Industrial Development Revenue	9,711	-61.02%	-41.13%	-35.83%
Revenue - Leasing COPS & Appropriations	29,601	21.31%	-18.93%	-16.01%
Revenue - Misc	48,892	-12.11%	-7.32%	-7.96%
Revenue - Multi-Family Housing	10,550	-17.77%	-40.73%	-20.13%
Revenue - Pollution Control	2,884	-29.80%	45.57%	22.09%
Revenue - Power	38,252	46.82%	7.33%	17.87%
Revenue - Single Family Housing	10,073	-4.76%	-14.86%	-8.45%
Revenue - Tax	66,081	22.18%	-0.69%	7.56%
Revenue - Tobacco	4,201	15.56%	25.84%	0.64%
Revenue - Toll & Turnpike	18,769	-5.29%	-15.76%	-11.75%
Revenue - Transportation	16,417	12.61%	-19.16%	-7.24%
Revenue - Utilities - Other	16,052	-14.36%	-0.19%	-0.84%
Revenue - Water & Sewer	61,396	28.81%	-5.03%	-1.89%
Total Revenue	491,925	10.12%	-5.63%	-1.47%

Source: MSRB, Piper Sandler

Municipal Credit Commentary

Tax Exemption

We continue to believe that the full and complete elimination of the exemption is highly unlikely for a number of reasons:

- Overall impact to Federal revenues is relatively small, estimated at \$250 billion over 10 years versus yearly federal spending which totaled \$6.8 trillion in FY 2024 and is projected to reach nearly \$11 trillion by 2035.
- Elimination of the municipal tax exemption would increase borrowing costs by over \$800 billion over the 10-year period according to the GFOA. This increased cost will likely result in overall tax increases on residents, many of whom vote, creating a politically charged talking point for politicians who approve of the elimination.
- The majority of congress is made up of politicians who began their public service as state and local officials. As a result, most understand the importance of lower borrowing costs that tax-exempt borrowings provide.

We expect heightened risk to the tax exemption of certain types of municipal issuance, namely Private Activity Bonds where the proceeds have a high degree of benefit for private entities. Examples would include airports, private colleges, affordable housing, and hospital type financings. We note that there is some history to fall back on as President Trump tried but failed to eliminate the exemption of these types of bonds during his first term. In addition, we anticipate the Administration will eliminate certain federal subsidies that now support taxable municipal bonds authorized under the American Recovery and Reinvestment Act, namely Build America Bonds and Qualified School Construction Bonds.

Medicaid Cuts

Though President Trump has said he will protect Medicaid, that doesn't mean he will continue to fund the program at current levels. We note that according to the CBO, the budget goals outlined in the House GOP plan cannot be reached w/o reducing Medicaid spending. Per the GOP plan, the Energy and Commerce Committee, which oversees Medicaid, is tasked with finding \$880 billion in cuts over the next decade without impacting Medicare and Social Security.

- Medicaid is the largest healthplan in the US with over 72 million enrollees and a total cost estimated at \$880 billion in 2023. Of that total, the federal government covered \$606 billion of the costs, with states covering the remaining \$274 billion.
- Since 2010 the cost for Medicaid has increased rapidly by over 2x, due in part to the Affordable Care Act, enacted during the Obama Administration, which expanded Medicaid eligibility to 138% of the federal poverty level with the Federal Government picking up the majority of additional costs for those who qualified under the new eligibility requirements. To date, 41 states adopted the Medicaid expansion under the ACA.

Potential impacts if cuts are made to Medicaid include:

- Nine states will automatically reduce coverage given the trigger laws that would be enacted in those states (MT, UT, AZ, AR, IL, IN, VA, NC, NH) if the federal funding is reduced, impacting an estimated 3 million adults.
- State's will most likely be forced to appropriate more monies to the program and/or cut reimbursement rates paid to healthcare providers.

- Hospitals will most likely face lower reimbursement rates for Medicaid patents as States try to offset lower federal funding. This will impact bottom line performance for a payor class that is already unprofitable.

NIH Grant Funding

- Per guidance published on 02/07/2025, the National Institutes of Health (NIH) is setting indirect cost recovery (ICR) rates for NIH grants at 15%. ICR is the portion of NIH grants that cover overhead expenses like buildings, admin, utilities, and other expenses that help support overall research. In the past, ICR rates were negotiated with and average ICR rate at nearly 30% while some institutions reported ICR rates as high as 70%.
- NIH grants were awarded to nearly 1,000 institutions in the US last year, with total funding at nearly \$35 billion of which \$10.5 billion was awarded for indirect costs - reducing the rate to 15% will cost institutions a combined \$5 billion in NIH related grant funding.
- Reduced NIH funding could have implications to credit, the extent to which needs to be analyzed on a case-by-case basis. We note that ICR funding support operations that are basically a fixed cost to the institutions. Any reduction in ICR funding must be compensated for from other revenue sources of these institutions, which could put a strain on credit metrics.

Figure 7: Top 10% of Total NIH Funding

ORGANIZATION	FUNDING
JOHNS HOPKINS UNIVERSITY	\$842,956,584
UNIVERSITY OF CALIFORNIA, SAN FRANCISCO	\$789,196,651
UNIVERSITY OF PENNSYLVANIA	\$703,217,343
DUKE UNIVERSITY	\$701,993,599
UNIVERSITY OF MICHIGAN AT ANN ARBOR	\$698,264,076
MASSACHUSETTS GENERAL HOSPITAL	\$675,290,582
UNIVERSITY OF PITTSBURGH AT PITTSBURGH	\$658,312,303
WASHINGTON UNIVERSITY	\$633,343,121
COLUMBIA UNIVERSITY HEALTH SCIENCES	\$633,309,114
STANFORD UNIVERSITY	\$628,835,527

Source: NIH, Piper Sandler

Wei Min Li, CMT
Harshpreet Singh

Agency Bonds: Opportunity in a Volatile and Shifting Rate Environment

Sustained inflation, slowing economic growth, and aggressive tariff policy triggered significant volatility through the start of Q2 2025. In the bond market, treasuries have rallied and yields declined in Q1, rewarding investors who were active and opportunistic early in the first quarter with meaningful gains in fixed income. As of April 8, the 2-year Treasury yield had dropped more than 55bps, from 4.26% at the start of the year to 3.68%, while the 10-year yield fell from 4.57% to 4.23% over the same period. Looking ahead, ongoing shifts in economic data, inflation trends, and President Trump's policies are likely to keep markets volatile. If yields continue to trend lower, an expected pickup in both redemptions and issuance of agency bonds may present pockets of relative value for investors.

Redemption: Shift Toward Lower Coupon Calls

- Agency call redemptions picked up notably in Q1 as rates moved lower, with February marking the largest monthly call volume at \$46 billion in fixed rate bonds, the largest since September 2024. Called bonds in Q1 featured coupons ranging from 4.00% to 6.33%, with a noticeable shift lower in the average coupon compared to last year (Exhibit A).
- In 2024, calls were largely concentrated in the 5% - 6% range. That trend has shifted; Q1 activity was mostly focused on bonds with 4% - 5% coupons. The percentage of outstanding bonds with coupons above 5.5% has dropped to just 11%.
- If short-term yields continue to decline, we expect another wave of call activity in Q2. Redemptions are likely to concentrate in the 4.5% - 5% coupon range, as GSEs look to retire higher cost debt. Investors holding fixed rate callable agencies in that range should be on alert for early redemptions.

Exhibit A: GSEs Called Volume and Upcoming Callable Outstanding (unit in million)

Called Date (YYYYMM)	Coupon (%)					
	4	4.5	5	5.5	6	6.5+
202401	-	105	610	30,022	4,743	400
202402	-	40	2,165	71,582	3,323	50
202403	-	-	225	13,070	564	238
202404	-	-	3,565	28,120	1,254	210
202405	-	65	332	4,012	156	410
202406	-	140	393	8,685	1,328	75
202407	100	45	494	6,553	3,449	232
202408	25	585	1,895	15,560	7,591	504
202409	141	780	5,099	36,742	5,527	787
202410	-	133	14,934	13,495	3,528	640
202411	10	40	20,797	8,547	919	361
202412	25	9,622	7,758	3,175	718	22
202501	155	18,622	7,733	4,327	525	-
202502	10,020	12,681	15,206	7,958	445	-
202503	10	1,824	5,337	2,428	779	85

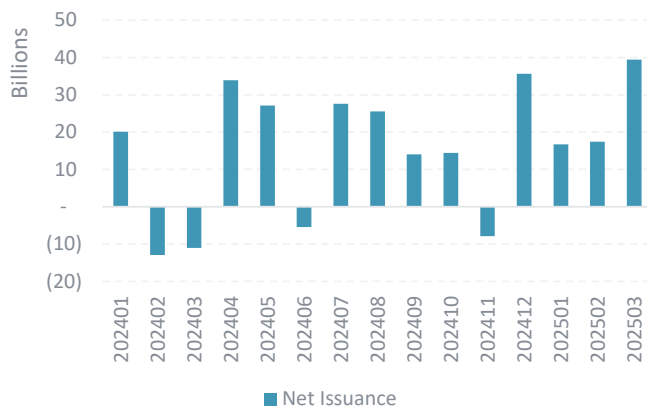
Next Call Date	Coupon (%)					
	4	4.5	5	5.5	6	6.5+
202504	16,538	19,933	13,844	8,020	3,463	345
202505	8,999	18,192	12,449	2,180	2,363	195
202506	3,344	16,203	6,442	2,293	1,374	15
202507	649	26,328	7,874	1,710	946	-
202508	697	17,638	5,746	1,929	620	-
202509	27,740	16,161	3,490	2,067	115	-

Source: Bloomberg, Piper Sandler

Issuance Trends: Short Duration and Callables Dominate

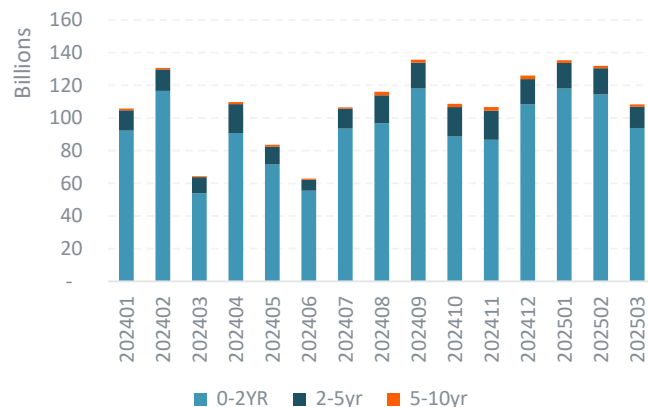
- GSEs net issuance jumped in March, reaching the highest monthly total since early 2024 (Chart 1). New issuance remains focused on the front end, as agencies continue to favor shorter durations given the uncertain rate environment (Chart 2).
- Callable issuance also increased sharply in March, driven by the surge in call redemptions (Chart 3). We expect that trend to continue, as callable supply tends to rise in falling rate environments.
- On the floating rate side, FRN supply is likely to slow given its strong correlation to rate direction. Notably, fixed rate issuance is now outpacing floaters for the first time in years (Chart 4).

Chart 1: GSEs Net Issuance Trend



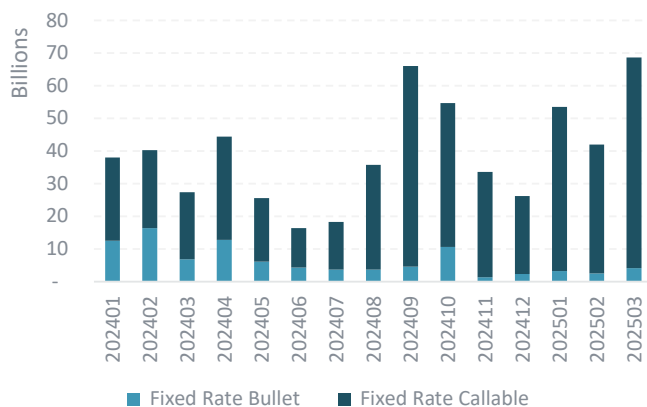
Source: Bloomberg, Piper Sandler

Chart 2: Short-Duration Issuance Remain in Focused



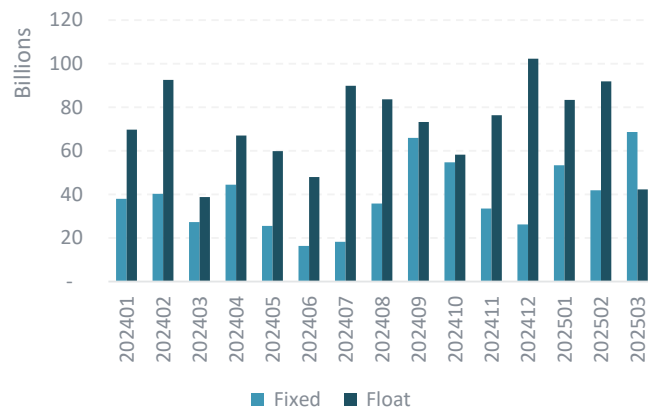
Source: Bloomberg, Piper Sandler

Chart 3: Uptick in Callable Issuance in Q1



Source: Bloomberg, Piper Sandler

Chart 4: Fixed Rate Issuance Outpaced Floaters in March

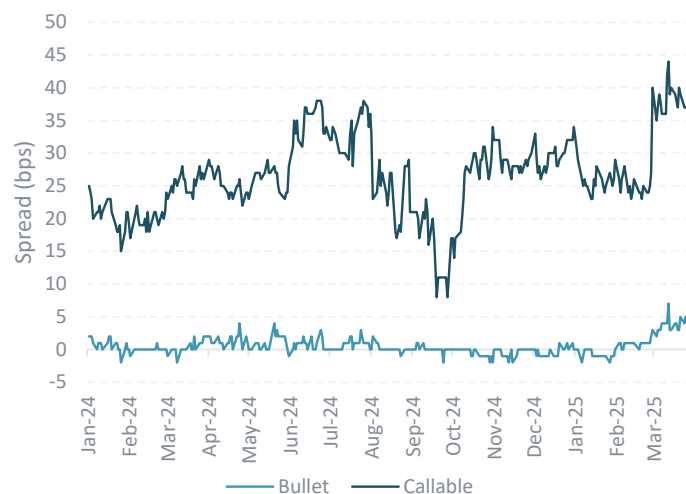


Source: Bloomberg, Piper Sandler

Callable Agencies

- Agency spreads widened in Q1, with the most notable uptick in March. The move was largely driven by softer demand due to political uncertainty and lack of clarity around rate policy. Bullet agency spreads widened from flat to roughly 5bps for 3yr duration bonds, while callable spreads rose as much as 20bps off their Q1 lows (Chart 5).
- Geopolitical tensions and elevated Treasury market volatility kept many investors on the sidelines, waiting for more clarity. But with expectations for lower rates and wider spreads, callable agencies are starting to look more attractive. These products are currently offering some of the highest yields among short-term products (Exhibit B).
- For investors focused on the front end, this may be the best opportunity to lock in yield.

Chart 5: Agency Spreads picked up in Q1



Source: ICE, Piper Sandler

2025 Q2 Treasury Technical Outlook

Ongoing uncertainty around inflation and signs of slowing economic growth, in combination with aggressive tariff policy, have created a volatile backdrop for the Treasury market through early April 2025. Headline risk and weakening economic and corporate fundamentals, along with continued Fed involvement at the front end of the curve, support the technical case for a bear steepening trend to persist in the quarters ahead. While overbought signals in the 2s/10s spread suggest a near-term pause is possible, the broader setup points to higher long-term yields and a steeper curve if key resistance levels are broken.

2-Year U.S. Treasury:

- Recent moves show that 2-year yields bounced quickly off the 50-week moving average, making the first attempt to break below the 3.55% support that has held since the 2023 low.
- The upward move may slow as yields approach the 50-week moving average around 4.20%.

Exhibit B: Short-Term Yield Table (as of 4/7/2025)

Maturity	UST	Bullet Agency	Callable Agency	Agency Discount Note	Commercial Paper (A1)	CD	Yankee CD	Corporate (AA)	Taxable Muni	ACMBS
3M	4.27			4.08	4.30	4.16	4.25			
6M	4.16			3.95	4.16	4.08	4.14			
9M	4.03			3.78	4.04	3.95	4.06			
1Y	3.91	3.97	4.54			3.83		4.32	3.96	
2Y	3.77	3.84	4.41			3.72		4.32	3.96	
3Y	3.76	3.87	4.71			3.75		4.40	4.01	4.24
4Y	3.82	3.94	5.00			3.87		4.49	4.12	4.33
5Y	3.87	4.00	4.89			3.96		4.60	4.17	4.40

*Callable agencies are maturity-matched and averaged across lockout periods

Source: Bloomberg, ICE, Piper Sandler

- RSI recently dipped into oversold territory, the second time since last September, and the yield bounced after hitting the 3.55% support, reacting to that signal. MACD is still in negative territory, with no clear sign of a bullish crossover.
- **Key Levels:**
 - **Resistance:** 4.60% - A downward trendline. A move above this level would suggest the start of a new uptrend and confirm a breakout from the wedge pattern.
 - **Support:** 3.50% - 3.55% - A drop below this zone, along with the 200-week moving average, would likely lead to a stronger move in bond prices and push yields lower.
- **Outlook:** Unless 4.60% is broken, the near-term path remains lower. A break below 3.55% would be an important shift toward a more bullish trend for price.

Figure 1: 2yr US Treasury (Weekly Chart)

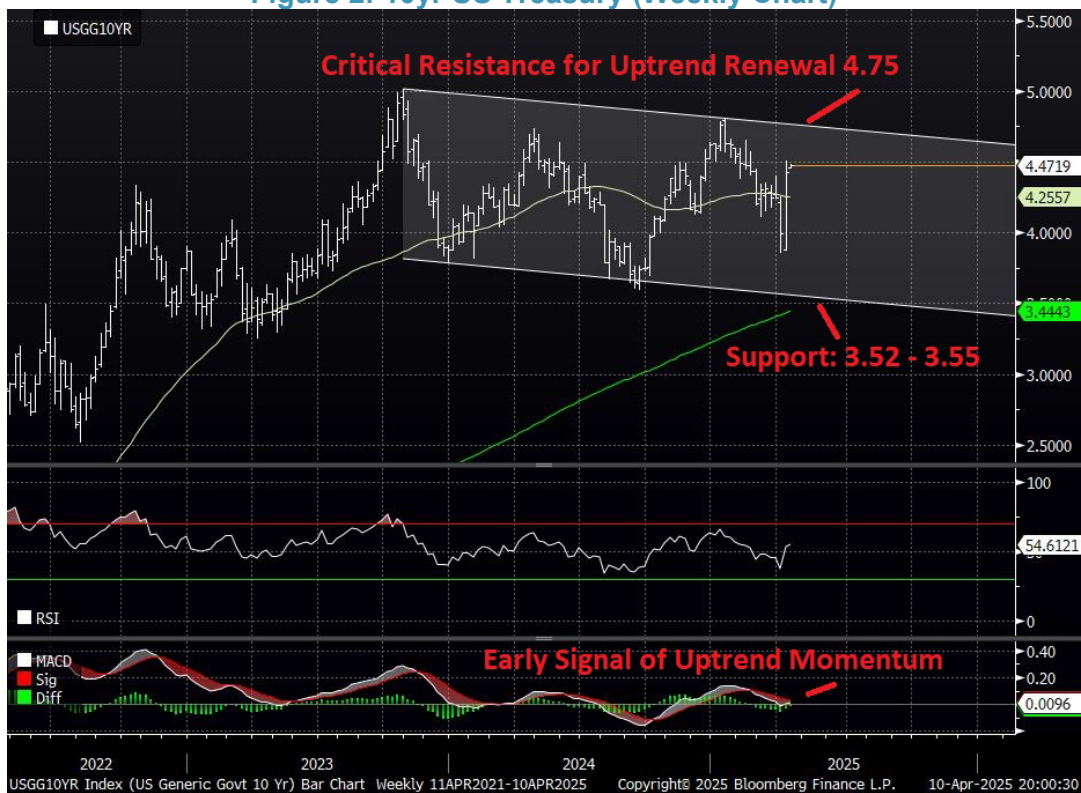


10-Year U.S. Treasury:

- The recent sell-off in the 10yr Treasury broke through its local head-and-shoulders reversal pattern, pushing yields back above the 50-week moving average.
- Despite the move, the 10yr yield is still trading inside the downward channel that has been in place since late 2023. The big picture remains unchanged for now.
- Yields are now pushing toward the top of the channel near 4.75%. A breakout here could send yields quickly toward or even above 5%.
- RSI at 54.6 is neutral but leaves room for further upside. MACD is turning higher, showing early signs of positive momentum.
- **Key Levels:**
 - **Resistance:** 4.75% - Channel top, a breakout would signal a new uptrend and confirm the end of the current downward move. The next levels to watch would be 4.80%–5.00%, the highs from Q4 2023.

- **Support:** 3.52–3.55% - Channel bottom, aligned with the 200-week moving average, this remains key long-term support.
- **Outlook:** Momentum is building for a potential breakout above 4.75%. A failure to break would keep the channel intact, but near-term momentum remains higher.

Figure 2: 10yr US Treasury (Weekly Chart)



Source: Bloomberg, Piper Sandler

2s/10s Yield Spread:

- The 2s/10s spread steepened sharply in Q1, pushing toward the top of its rising channel and now testing resistance near 77bps.
- RSI has moved into overbought territory above 75, signaling a possible reversal. MACD is still positive but showing signs of fading momentum.
- The recent steepening reflects a sharper drop in 2yr yields compared to the 10yr, driven by rising expectations of Fed rate cuts. But from a technical perspective, the move may be losing steam.
- **Key Levels:**
 - **Resistance:** 77bps - Channel top, a strong move above this level would suggest further steepening, but with momentum peaking, the odds of a breakout look low.
 - **Support:** 43bps - January's highs and a likely pullback area if the spread starts to reverse. The long-term support sits around 5bps, which is the channel bottom as well as its 50-week moving average.
- **Outlook:** After a fast rally, the technical setup leans toward a pause or short-term pullback, especially with overbought signals in place. A break above 77bps would challenge this view, but for now, the spread may need to cool off before steepening further.

Figure 3: 2s/10s US Treasury Spread (Weekly Chart)

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