

# Monthly Market Review

Fixed Income | September 2025

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



**NORTH CAROLINA**  
**INVESTMENT POOL**

***Fed mines for rate cuts at Jackson Hole on rocky labor terrain.***

## Economic Highlights

- At the annual Jackson Hole symposium, Federal Reserve (Fed) Chair Jerome Powell opened the door to rate cuts at the Fed's September 16–17 meeting citing a "shifting balance of risks." He described the labor market as being in a "curious" equilibrium as weakening labor demand is offset by slowing labor supply growth due to reduced immigration.
- Chair Powell noted tariff-driven price pressures are likely to be temporary and result in a one-time upward shift in price levels, although the timing and impact may be uneven. Powell's comments suggest the Fed may be shifting its focus to the weakening labor market.
- The August jobs report once again surprised to the downside with 22,000 new jobs created. Meanwhile, the unemployment rate rose to 4.3%. Given the continued deterioration in employment data, the market now fully expects the Fed to cut rates in September.
- The likely confirmation of Stephen Miran to fill the vacant seat on the Fed Board of Governors is expected to provide a dovish tilt to the monetary policymaking body. Separately, President Trump announced the dismissal of Fed Governor Lisa Cook, which she has since appealed. If the dismissal is upheld, Trump-appointed nominees would hold a majority of seats on the seven-member Fed Board.
- A federal appeals court ruled tariffs implemented under the International Emergency Economic Powers Act (IEEPA) are illegal, though they remain in place pending an appeal to the Supreme Court.
- The market's reaction to tariff announcements has notably diminished as the progress on trade deals continues. The White House announced that monthly tariff revenues in August topped \$31 billion, which is the most on record.
- The Consumer Price Index (CPI) remained steady at 2.7% on a year-over-year basis. Goods prices continue to show uneven tariff passthroughs as inventory buffers are depleted while services inflation was driven by volatile categories such as airfares and dental services. The Fed remains focused on ensuring tariff-based goods inflation does not spill over into the broader economy.
- Second quarter gross domestic product (GDP) was revised higher to 3.3% on stronger consumer spending and business investment. While the data still points to a moderation in activity compared to last year, the slowdown may not be as severe as originally feared.

## Bond Markets

- Yields on 3-month, 2-year, and 10-year U.S. Treasuries fell across the curve and ended August at 4.15%, 3.62%, and 4.23%, representing decreases of 19 basis points (bps), 34 bps, and 15 bps, respectively. The yield curve steepened as the yield difference between 2- and 10-year maturities breached 60 bps for the first time since mid-April.
- While yields inside of 10 years fell over the month, the 30-year Treasury rose 3 bps and ended August at 4.93%, reflecting market concerns over inflation, the U.S. fiscal situation, and the potential loss of Fed independence.

- Fixed income indices produced strong returns for the month. The ICE BofA 3-month, 2-year, and 10-year U.S. Treasury indices returned +0.39%, +0.87%, and +1.55%, respectively.

## Equity Markets

- Equities ended the month just shy of all-time highs with the S&P 500 Index now up +10.8% year-to-date. For the month, the NASDAQ returned +1.7%, the S&P 500 Index +2.0%, and the Dow Jones Industrial Average +3.4%.
- Domestic small caps are currently leading the rally during the second half of 2025 with the Russell 2000 Index up 9.0% since June 30, besting the Russell 1000 Index's return of 4.4%.
- International equities continued to rally through August as the MSCI ACWI ex U.S. Net Index returned +3.5% for the month and it is now up over 22% for the year.

## PFMAM Strategy Recap

- We will continue to maintain portfolio durations at or near 100% of benchmarks with the next Fed rate cut quickly approaching.
- Spreads on federal agencies and supranationals remain quite narrow, and we do not anticipate any material changes to valuations. We continue to monitor the potential privatization of Fannie Mae and Freddie Mac, though no formal announcement has been made by the administration.
- Investment-grade (IG) corporate spreads ended August near 5-year highs. Demand remains quite strong with the stable economic outlook supporting fundamentals. Technicals also remain supportive given attractive overall yields and low net issuance. Valuations have made the new issue market more challenging as concessions are very small.
- Asset-backed securities (ABS) remained mostly unchanged over the month on low new issuance. Consumer fundamentals and credit metrics remain strong while credit enhancements are robust. Softening macroeconomic conditions and policy uncertainty remain key risks.
- Agency-backed commercial MBS (CMBS) and mortgage-backed securities (MBS) posted strong excess returns in August with the exception of current-coupon structures. Longer collateral (30-yr mortgages) notably outperformed shorter duration collateral (15-yr mortgages), while agency CMBS eked out a small positive gain. Waning bond volatility over the summer supported positive performance in mortgage-related sectors. Moving forward, we remain cautious as any notable uptick to volatility may apply pressure to the sector.
- Elevated U.S. Treasury issuance has been met by strong demand from investors on the short end of the curve. Credit spreads stabilized during the month, selectively creating attractive opportunities across maturities.

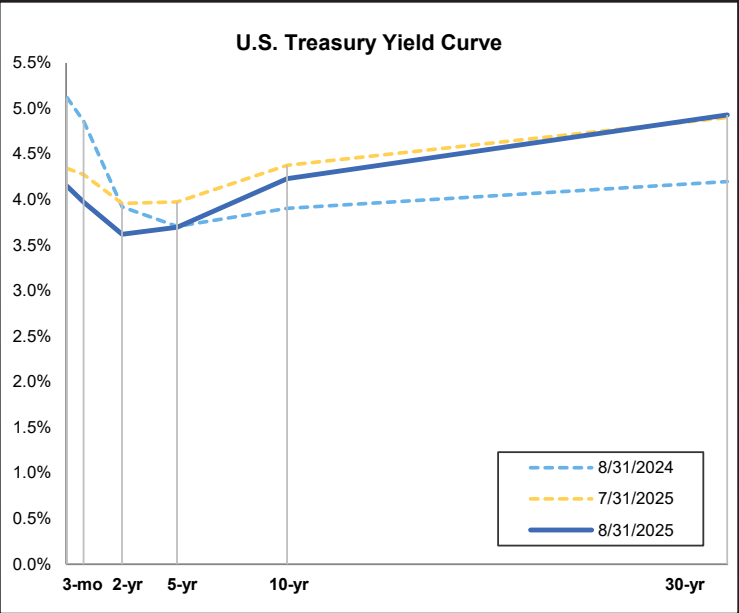
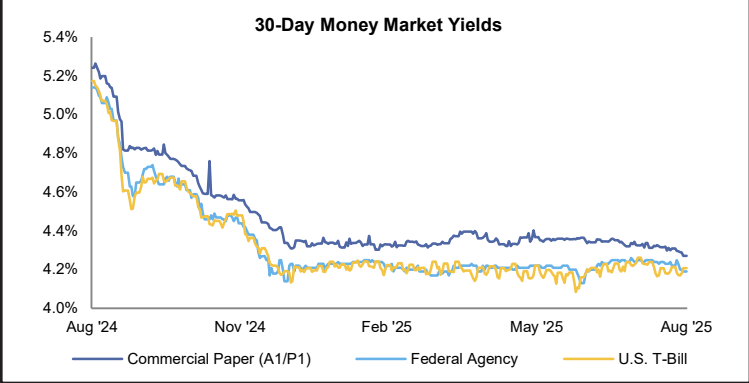
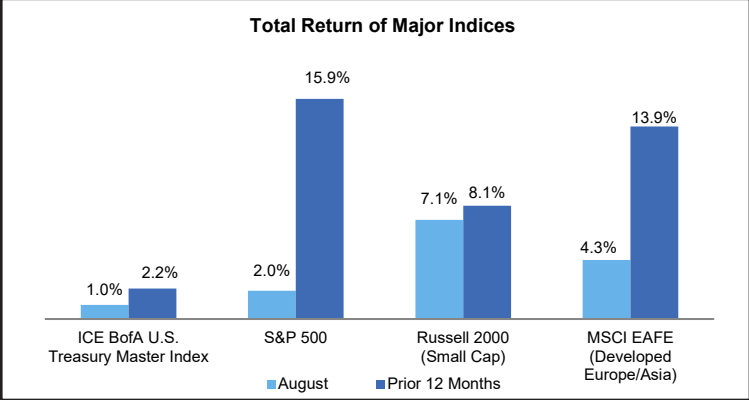
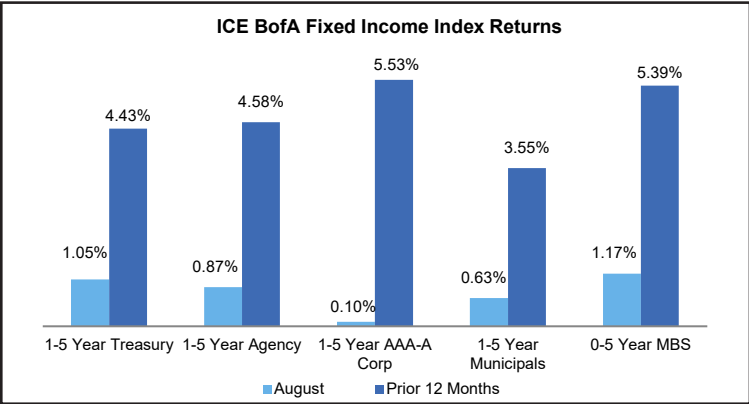
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U.S. Treasury Yields				
Maturity	Aug 31, 2024	Jul 31, 2025	Aug 31, 2025	Monthly Change
3-Month	5.12%	4.34%	4.15%	-0.19%
6-Month	4.86%	4.28%	3.97%	-0.31%
2-Year	3.92%	3.96%	3.62%	-0.34%
5-Year	3.70%	3.97%	3.70%	-0.27%
10-Year	3.90%	4.38%	4.23%	-0.15%
30-Year	4.20%	4.90%	4.93%	0.03%

Spot Prices and Benchmark Rates				
Index	Aug 31, 2024	Jul 31, 2025	Aug 31, 2025	Monthly Change
1-Month SOFR	5.20%	4.35%	4.27%	-0.08%
3-Month SOFR	5.02%	4.30%	4.17%	-0.13%
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)	\$2,505	\$3,293	\$3,487	\$194
Crude Oil (\$/Barrel)	\$73.55	\$69.26	\$64.01	-\$5.25
U.S. Dollars per Euro	\$1.10	\$1.14	\$1.17	\$0.03

Yields by Sector and Maturity				
Maturity	U.S. Treasury	Federal Agency	Corporates-AA-A Industrials	AAA Municipals
3-Month	4.15%	4.16%	4.30%	-
6-Month	3.97%	3.97%	4.30%	-
2-Year	3.62%	3.63%	4.01%	2.29%
5-Year	3.70%	3.71%	4.26%	2.52%
10-Year	4.23%	4.29%	4.86%	3.40%
30-Year	4.93%	-	5.71%	4.44%

Economic Indicators				
Indicator	Release Date	Period	Actual	Survey (Median)
Retail Sales Advance MoM	15-Aug	Jul	0.50%	0.60%
Existing Home Sales MoM	21-Aug	Jul	2.00%	-0.30%
GDP Annualized QoQ	28-Aug	2Q S	3.30%	3.10%
U. of Mich. Consumer Sentiment	29-Aug	Aug F	58.2	58.6
PCE YoY	29-Aug	Jul	2.60%	2.60%
ISM Manufacturing	2-Sep	Aug	48.7	49
Change in Nonfarm Payrolls	5-Sep	Aug	22K	75K



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

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