GOELZER INVESTMENT MANAGEMENT

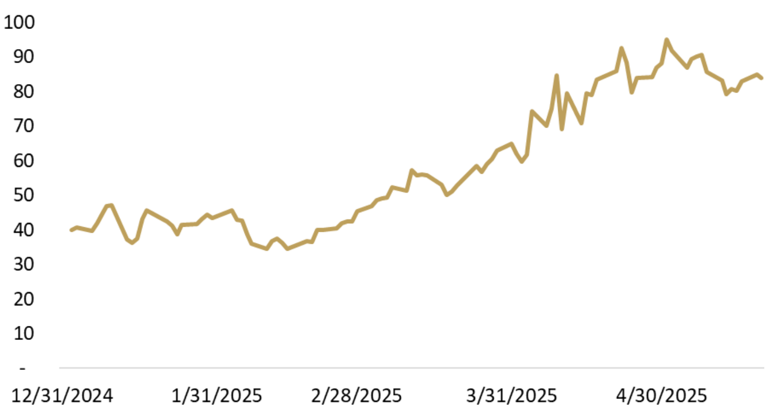
Mounting Deficits Fuel Steepening of Treasury Yield Curve

All eyes are on Washington this month as Treasury yields continue to climb. Moody's recent downgrade of US debt to Aa1 has added pressure across the curve, and remarks from Treasury Secretary Bessent failed to calm markets. Mounting budget deficits and increased long-term issuance will keep long yields elevated regardless of Fed policy at the short end.

The chart below illustrates the widening gap between 5- and 30-year Treasury yields as markets move into a more normal curve environment. While 5-year yields remain rangebound, the 30-year yield has continued to move higher, signaling further steepening.

With additional steepening expected, we maintain our preference for the intermediate part of the curve. Intermediate bond indexes have outperformed the broad Aggregate index by about 0.50% this year. Maturities in this part of the curve offer attractive income with lower interest-rate sensitivity compared to longer bonds. We also prefer a modest barbell tilt that allows us capture yield at both ends of the curve while managing duration risk. We expect this balanced approach to continue generating value as policy developments, economic data, and Fed policy drive further yield moves.

5-Year to 30-Year Treasury Yield (bps)



Bloomberg, as of May 19, 2025.

Economy

Last Week	*This Week*
- ***NFIB Small Business Optimism (Apr):*** *95.8 vs. 97.4 one month prior*	- ***Leading Economic Indicators (Apr):*** *5/19*
- ***Consumer Price Index (Apr.):*** *0.2% HL / 0.2% Core (MoM) 2.3% HL / 2.8% Core (YoY)*	- ***S&P Flash PMIs (May):*** *5/22*
- ***Retail Sales (Apr.):*** *0.1% HL / -0.2% Control vs. 1.4% HL / 0.4% Control one month prior*	- ***Existing Home Sales (Apr.):*** *5/22*
- ***Producer Price Index (Apr.):*** *-0.5% HL /- 0.1% Core (MoM) 2.4% HL / 2.9% Core (YoY)*	- ***New Home Sales & Building Permits (Apr.):*** *5/23*

Equities

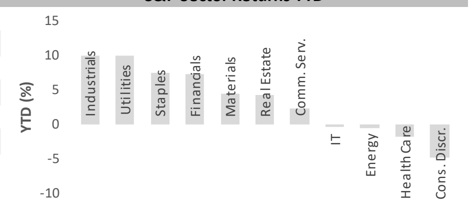
Returns (%)

Index	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
S&P 500	5964	2.10	6.47	1.91	13.94	16.78	16.60
Russell 1000 Growth	4041	2.77	11.32	0.22	17.91	22.44	18.12
Russell 1000 Value	1880	1.24	1.74	3.92	9.07	10.33	14.09
FTSE High Dividend Yield*	466	1.19	1.03	2.80	10.43	10.58	14.50
S&P Small and Mid Cap	16882	0.79	4.83	-2.52	2.41	9.10	13.97
MSCI EAFE	2571	2.46	8.22	15.85	11.58	12.98	12.48
MSCI EM	1167	0.52	6.44	9.62	9.21	7.31	7.61

Characteristics

Index	NTM P/E	NTM P/E (20Y med)	Div Yield
S&P 500	20.2	15.3	1.4
Russell 1000 Growth	25.6	17.8	0.6
Russell 1000 Value	15.9	13.4	2.3
FTSE High Dividend Yield*	12.6	13.0	4.1
S&P Small and Mid Cap	14.1	15.5	2.0
MSCI EAFE	14.4	13.4	3.1
MSCI EM	11.6	11.1	2.8

S&P Sector Returns YTD



** Bloomberg U.S Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.*

Fixed Income

Returns (%)

Index	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
U.S. Aggregate	4.77	0.19	-0.76	2.00	4.75	1.44	-0.93
U.S. Int. Gov/Credit	4.37	0.26	0.13	2.56	5.93	2.75	0.53
U.S. Corporates	5.28	0.39	-0.60	1.69	4.85	2.94	0.24
High Yield	7.51	0.09	1.37	2.39	8.77	7.84	6.22
Municipals (1-10)	3.54	0.10	-0.15	0.55	2.16	2.71	0.92

Levels (%)

Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago	5 Yrs Ago
2-yr Treasury	3.98	4.00	3.89	4.24	4.83	2.58	0.17
10-yr Treasury	4.45	4.47	4.21	4.57	4.41	2.78	0.68
30-yr Treasury	4.90	4.91	4.57	4.78	4.55	2.99	1.40
SOFR	4.29	4.30	4.41	4.49	5.31	0.78	0.01
6-mo. CD rate	4.36	4.42	4.25	4.33	5.39	2.15	0.47
Prime Rate	7.50	7.50	7.50	7.50	8.50	4.00	3.25
30-yr fixed mortgage	6.91	6.84	6.77	7.28	7.27	5.39	3.54