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U.S. Bonds Gain Despite Volatile Quarter

July 26, 2025
— Categories: Finance

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U.S. investment-grade bonds delivered gains in Q2 2025, overcoming a turbulent three-month period marked by trade disruptions, rising fiscal concerns, and a shifting interest rate outlook. The Bloomberg U.S. Aggregate Bond Index rose 1.21% for the quarter, bringing its year-to-date return to 4.02%.

The quarter opened on April 2 with a sharp market reaction to President Trump’s announcement of sweeping new tariffs, framed as “reciprocal” measures against all major trade partners. Although the announcement initially spiked volatility, causing the 10-year

U.S. Treasury yield to jump from 4.01% to 4.48% within a week, the market stabilized after the White House issued a 90-day pause on most tariffs by April 9. Bond prices recovered, and April closed with the 10-year yield back at 4.17%. The index gained 0.39% for the month.

In May, however, investor confidence weakened due to growing fiscal uncertainty. The proposed One Big Beautiful Bill Act, which advanced through Congress, was projected by the Congressional Budget Office to increase the federal deficit by $2.4 trillion over the next decade. Concerns about long-term debt sustainability pushed 20- and 30-year Treasury yields above 5%. On May 16, Moody's downgraded U.S. government debt, aligning its rating with previous downgrades from S&P and Fitch, leaving all three major credit agencies assigning the U.S. its second-highest grade. As a result, the bond index fell 0.72% in May.

June brought a market rebound. Inflation readings remained stable, and stronger-than-expected jobs data raised hopes that the Federal Reserve might resume rate cuts in the second half of 2025. Bond yields fell across most maturities, especially in the intermediate range. The index gained 1.54% in June.

Risk assets outperformed during the quarter. Intermediate bonds (3–7 years) saw the strongest gains. By credit rating, BBB-rated securities outperformed higher-rated counterparts. Sectors such as commercial mortgage-backed securities (+1.88%), corporate bonds (+1.82%), and government-related debt (+1.70%) led the way, while Treasurys returned just +0.85%.

Outside the Aggregate Index, high-yield bonds (+3.53%) and emerging-market debt (+3.75%) saw strong inflows, while Treasury Inflation-Protected Securities lagged at +0.48%.

Looking ahead, the Fidelity Total Bond Fund remains positioned with a tilt toward intermediate-term investment-grade credit, high-yield debt, leveraged loans, and international bonds, while maintaining underweight positions in Treasurys and long-dated credit. The portfolio favors securities rated BBB or below and maintains a slightly longer-than-benchmark duration.

Despite market volatility, the fund continues to focus on security selection and risk management, aiming for strong long-term performance across full market cycles.