Third Quarter 2026

Bond Market Commentary

The third quarter delivered meaningful repricing across global fixed income. Driven by prolonged geopolitical conflict, intensifying competition for capital, and a Federal Reserve that has turned back to restrictive policy as inflation persists. Seven months into the conflict in the Middle East, oil remains volatile and inflation expectations elevated, with every major inflation gauge still above target. Meanwhile, expanding deficits and heavy issuance, including record financing for AI infrastructure, have raised the cost of capital worldwide.

On September 16, the FOMC unanimously raised the policy rate 25 basis points to 3.75% – 4.00%, and its median projection calls for one more increase this year. Beyond that, the Committee has offered little forward guidance. It has largely left price discovery to the market, and the market has responded by demanding more compensation for uncertainty.

That compensation showed up in the term premium. The 10-year Treasury yield rose more than 80 basis points to 5.28%, its highest level since 2007 and one of the sharpest quarterly moves in decades. The 5-year closed at 5.09%, also a level not seen since 2007, and the 30-year reached 5.63%, it's highest since 2002. The long end led the move, steepening the curve as investors demanded greater compensation for duration risk. The selloff was uncomfortable but orderly, and we have seen no broader dislocation to date.

Higher yields meant lower prices, and price declines drove the quarter's returns. Over short horizons, yield changes dominate performance. Over longer horizons, income does the heavy lifting. Unlike 2022, when the repricing began from historically low yields, this one started from a much higher base. Coupon income cushioned the drawdown, and today's higher yields will continue to absorb the adjustment over time. Fixed income is, first and foremost, income.

In corporate credit, investment grade spreads widened only modestly from historically tight levels, so sector returns came almost entirely from rates. We remain cautious as spreads continue to offer little compensation for the asymmetric risk of widening.

Index Returns (%) As of 9/30/2026	Performance Period		
Index	3 Month	6 Month	1 Year
Bloomberg U.S. Treasury Intermediate	-1.69	-1.51	-0.33
Bloomberg Govt/Credit Intermediate	-1.88	-1.46	-0.31
Bloomberg Intermediate Aggregate	-2.56	-2.09	-0.66
Bloomberg U.S. Treasury	-3.04	-2.72	-1.89
Bloomberg Govt/Credit	-3.32	-2.65	-1.98
Bloomberg Aggregate	-3.51	-2.87	-1.84
Bloomberg U.S. Treasury 20+ Year	-8.86	-8.06	-8.78
Bloomberg Corporate	-3.94	-2.59	-2.30
Bloomberg Corporate Intermediate	-2.31	-1.35	-0.30
Bloomberg Corporate High Yield	-1.82	0.60	1.41
Bloomberg Credit AAA	-6.05	-5.34	-5.93
Bloomberg Credit AA	-4.80	-4.10	-4.15
Bloomberg Credit A	-3.93	-2.71	-2.35
Bloomberg Credit BAA	-3.71	-2.10	-1.81
Bloomberg MBS	-4.25	-3.70	-1.65
Bloomberg TIPS	-3.24	-2.37	-1.99
Bloomberg Inter-Short Muni	-3.71	-2.53	-1.92

Data Source: Bloomberg

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Tax-exempt municipals fared worse. Rate volatility, compounded by heavy seasonal supply, produced one of the sector's weakest quarters in decades, with yields rising 120 to 150 basis points. We believe dislocations like this have historically rewarded patient buyers, and we view current tax-adjusted yields as among the most attractive in years for investors who can benefit from the exemption.

Against this backdrop, we remain conservative and risk-aware. We are overweight U.S. Treasuries and extending into intermediate maturities, where we see better risk-adjusted value than at the long end given the steepening. Corporate allocations remain below benchmark and deliberately shorter in duration.

In historical context, the opportunity is compelling. With yields near two-decade highs, investors are once again being paid meaningful income to own high-quality bonds. If rates hold, current yield drives return. If yields rise further, reinvestment at higher rates lifts forward income. If yields fall, rising prices recover much of the third quarter's decline. In our view the market has built a risk premium into fixed income, and that reset has shifted the opportunity set decisively in the asset class's favor.

Daily Generic Municipal Bond Yields (%) as of 9/30/2026

Term	Maturity	AAA	AA	A	BAA
1 Yr.	2027	3.49	3.77	3.74	4.22
2 Yr.	2028	3.53	3.81	3.76	4.28
3 Yr.	2029	3.58	3.85	3.79	4.35
4 Yr.	2030	3.65	3.91	3.84	4.45
5 Yr.	2031	3.71	3.98	3.91	4.54
7 Yr.	2033	3.85	4.12	4.06	4.70
9 Yr.	2035	4.02	4.31	4.26	4.84
10 Yr.	2036	4.11	4.41	4.37	4.92
12 Yr.	2038	4.33	4.64	4.60	5.10
14 Yr.	2040	4.50	4.84	4.82	5.27
15 Yr.	2041	4.56	4.94	4.92	5.35
17 Yr.	2043	4.69	5.04	5.04	5.43
19 Yr.	2045	4.80	5.14	5.16	5.52
20 Yr.	2046	4.86	5.19	5.22	5.56
25 Yr.	2051	5.09	5.35	5.45	5.75
30 Yr.	2056	5.19	5.39	5.56	5.86

Data Source: Bloomberg

Index Descriptions:

Bloomberg U.S. Intermediate Treasury Index: Unmanaged index includes all domestic publicly issued, U.S. Treasury securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years, are rated investment grade, and have $250 million or more of outstanding face value.

Bloomberg Intermediate Government/Credit Index: Broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index with less than 10 years to maturity. The index includes investment grade, U.S. dollar-denominated, fixed-rate treasuries, government-related and corporate securities.

Bloomberg Intermediate Aggregate Index: Broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market with less than 10 years to maturity. The securitized sector is wholly included. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

Bloomberg U.S. Treasury Bond Index: Is part of the Bloomberg global family of domestic government bonds indices. The index measures the performance of the U.S. Treasury bond market, using market capitalization weighting and a standard rule-based inclusion methodology.

Bloomberg U.S. Government/Credit Bond Index: Broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index. The index includes investment grade, U.S. dollar-denominated, fixed-rate treasuries, government-related and corporate securities.

Bloomberg U.S. Aggregate Bond Index: Broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Index Descriptions (continued):

Bloomberg U.S. Treasury 20+ Year Index: Measures U.S. dollar-denominated, fixed-rate nominal debt issues by the U.S. Treasury with 20+ years to maturity. **Bloomberg U.S. Credit Index:** Composed of all domestic publicly issued, fixed-rate, nonconvertible, and investment-grade corporate debt. Issues are rated at least Baa by Moody's Investors Service or BBB by Standard & Poor's, if unrated by Moody's. Collateralized Mortgage Obligations (CMOs) are not included.

Bloomberg U.S. Intermediate Credit Index: Measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. The index only includes domestic securities with maturities between one and ten years. It is composed of the Bloomberg Barclays U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

Bloomberg U.S. Corporate High Yield Index: Unmanaged index that is comprised of domestic issues that meet the following criteria: at least $150 million par value outstanding, maximum credit rating of Ba1 (including defaulted issues) and at least one year to maturity.

Bloomberg Aaa Corporate Index: Measures the Aaa-rated, fixed-rate, taxable domestic corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg Aa Corporate Index: Measures the Aa-rated, fixed-rate, taxable domestic corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg Government/Credit A+ Bond Index: Unmanaged index that tracks the performance of U.S. Government and corporate domestic bonds rated investment grade or better, with maturities of at least one year with a security rating of A or better.

Bloomberg Baa Corporate Index: Measures the Baa-rated, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Mortgage-Backed Securities Index: Unmanaged index that tracks domestic agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by GNMA, FNMA, and FHLM.

Bloomberg U.S. Treasury Inflation-Protected Securities (TIPS) Index: Represents domestic securities that protect against adverse inflation and provide a minimum level of real return. To be included in this index, bonds must have cash flows linked to an inflation index, be sovereign issues denominated in U.S. currency, and have more than one year to maturity, and, as a portion of the index, total a minimum amount outstanding of 100 million U.S. dollars.

Bloomberg Municipal Bond Inter-Short 1-10 Year Index: Unmanaged index of municipal bonds traded in the U.S. with maturities ranging from 1-10 years.

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