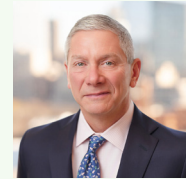


TAXABLE BONDS

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RETHINKING BONDS: BETTER YIELD, BETTER BALANCE



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Bonds may not have had a starring role in every portfolio recently — but that may be changing. After an unusually challenging stretch for fixed income, some investors and advisors shifted allocations toward cash, equities, or “bond alternatives,” leaving traditional bonds underrepresented. In this Q&A, GW&K’s Client Portfolio Manager on the Taxable Bond Team, Michael Wands, shares perspective on the role fixed income can play in a diversified portfolio — especially as interest rates have moved closer to a more “normal” range — and why bonds may again provide meaningful diversification, income potential, and volatility dampening for investors.

Q: What role should fixed income play in a diversified portfolio?

Michael: At its core, fixed income can help diversify equity risk, lower overall portfolio volatility, and provide a source of income and return that historically has exceeded cash over full market cycles. Bonds and stocks typically have a low correlation to one another (**Figure 1**), and because fixed income volatility is generally lower than equity volatility, an allocation to bonds has often helped smooth the ride for investors.

FIGURE 1

Stocks and Bonds: Low Correlation Over Time

12/31/1991 to 12/31/2025

INDEX CORRELATION

	1	2	3	4	5	
Bloomberg Aggregate Index	1	1.00				
Bloomberg High Yield Index	2	0.31	1.00			
S&P 500 Index	3	0.17	0.66	1.00		
Russell 2000 Total Return	4	0.09	0.66	0.82	1.00	
Dow Jones Industrial Average Total Return	5	0.13	0.60	0.94	0.76	1.00

Data as of 12/31/25. Source: Bloomberg. Index correlation measures how two or more indices or securities move together. It can help investors understand how different investments are related and how they might move in the future.

The correlation between equities and bonds is not static — it varies across economic regimes and can be positive or negative over shorter periods. However, over longer horizons, the correlation tends to be low, supporting the role of fixed income as a stabilizing force in diversified portfolios.

RETHINKING BONDS: BETTER YIELD, BETTER BALANCE *continued*

Q: Why do you think some financial advisors and investors have been underweight fixed income?

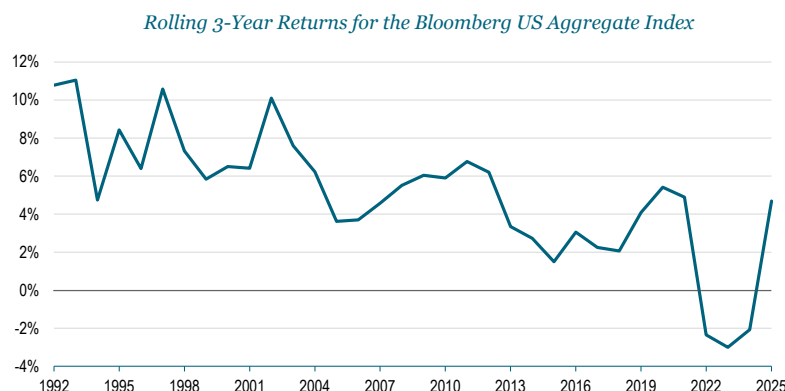
Michael: Recent experience matters. The last few years, particularly 2021 – 2022, were unusual for bond investors and may still be influencing positioning today. It’s important to remember that those drawdowns have been the exception, not the rule, relative to the longer history of the broad bond market.

Q: What can we learn from looking at the history of broad core bonds, for example the Bloomberg US Aggregate Bond Index?

Michael: Looking back prior to 2021, the Aggregate Index had relatively few down years since its 1986 inception. If you widen the lens to rolling three-year annualized returns from 1990 through 2013, returns were typically in the mid-single digits and did not fall below roughly the low-single-digit range, which helped fixed income serve as a stabilizer when equity markets were under pressure — such as during the 2000 – 2002 period. **Figure 2** summarizes this longer-run rolling three-year return pattern and helps illustrate why core bonds historically acted as “ballast” within a diversified portfolio.

FIGURE 2

The “Ballast” Bonds Have Historically Provided



Q: How did the post-GFC period change the fixed income landscape?

Michael: Following the Global Financial Crisis (GFC), the US Federal Reserve (Fed) cut policy rates to near zero for an extended period and expanded its balance sheet through quantitative easing. That combination kept yields historically low for several years and altered the risk/reward profile for many benchmark-oriented bond strategies. Periodic market shocks, like the 2013 “Taper Tantrum,” also reminded investors how sensitive bond prices can be when yields start from very low levels.

RETHINKING BONDS: BETTER YIELD, BETTER BALANCE continued

Q: What happened in 2022 — and why did bonds fail to provide their usual diversification?

Michael: Inflation surged as the economy reopened and supply chain constraints emerged, and the Fed responded with aggressive rate hikes. When yields rise quickly, bond prices fall, and 2022 marked a historically difficult year for core bonds. At the same time, equities also experienced meaningful drawdowns, which reduced the perceived diversification benefit of fixed income in that period.

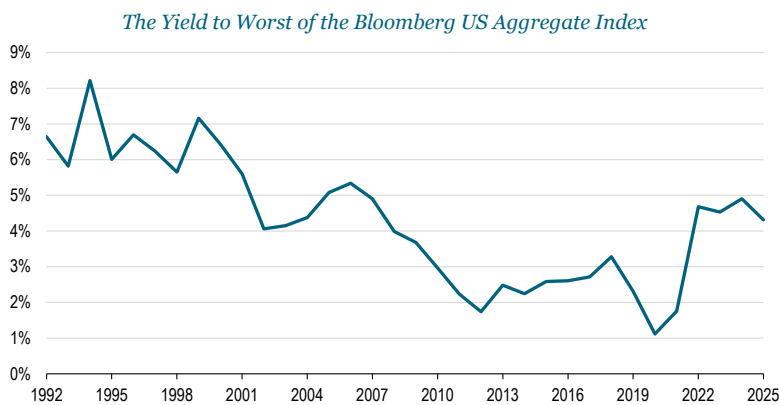
“Today, yields are meaningfully higher, leaving investors better protected against a rise in interest rates, which can improve the overall risk/reward profile for core bonds.”

Q: Why might the current environment be more favorable for fixed income than the post-GFC decade?

Michael: In the post-GFC and COVID-era periods, yields were extremely low, leaving investors with limited income to cushion price declines if rates rose, just like we saw in 2022. Today, yields are meaningfully higher, leaving investors better protected against a rise in interest rates, which can improve the overall risk/reward profile for core bonds. **Figure 3** highlights how yields in the market have normalized over time — from the low-yield backdrop of the last decade to a higher starting point today, leaving risks more balanced.

FIGURE 3

Yields Are Higher and Risks Are More Balanced: Why Core Bonds May Look More Compelling Today Than Post-GFC



Data as of 12/31/25. Source: Bloomberg.

Q: We’ve seen more use of “bond alternatives” like dividend equities or private credit. How should investors think about those versus traditional fixed income?

Michael: Some alternative or equity-income strategies can play a role in a broad portfolio, but they often come with additional risk exposures over high-quality core bonds — particularly equity risk, liquidity considerations, or credit-cycle sensitivity. Traditional fixed income has historically provided a distinct mix of liquidity, income, and diversification characteristics. The key is to understand what risks you’re taking and whether it truly replaces the role bonds are intended to play in a diversified allocation.

RETHINKING BONDS: BETTER YIELD, BETTER BALANCE *continued*

Q: What's the key takeaway for investors evaluating fixed income today?

Michael: The case for fixed income is not just about chasing yield — it's about the overall role bonds can play in a portfolio. With yields at higher levels than we saw for much of the last decade, the potential for income and total return is more consistent with long-term history, and the income cushion can provide better protection if rates rise than it did when yields were near generational lows.

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