MARKET & STRATEGY PERSPECTIVES

GW&K INVESTMENT MANAGEMENT

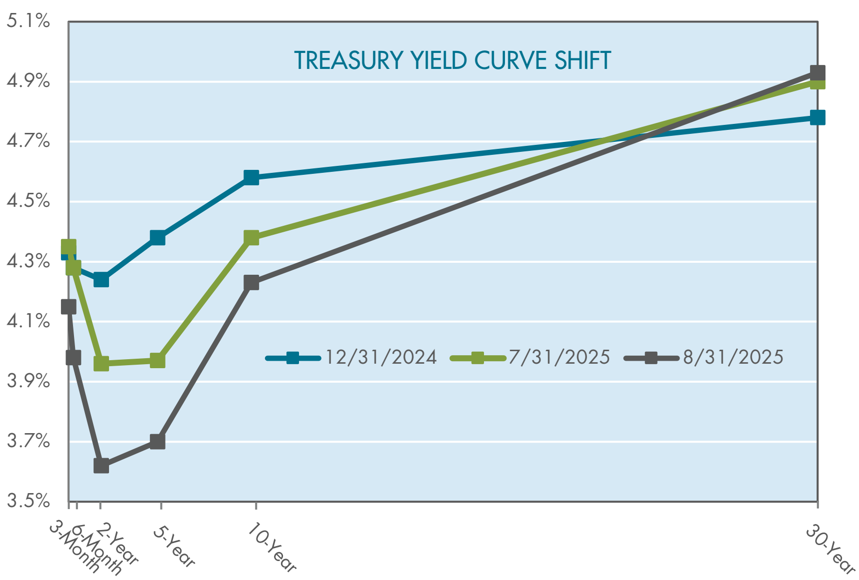
TAXABLE BOND SNAPSHOT

AUGUST 2025

KEY TAKEAWAYS

- Markets in August were driven by a solid earnings season, dovish Fed messaging from the Jackson Hole Symposium, and a supportive economic backdrop even as uncertainties remain.
- Risk assets performed well in an environment where volatility was subdued. The MOVE Index, which measures rate volatility, plumbed lows last seen in early 2022, while equities continued their trek higher, logging fresh record highs.
- The US Aggregate Bond Index returned 1.20%. Yields declined notably, while spreads for the overall index narrowed marginally. The YTD gain of 4.99% is just shy of its peak for 2025.

TAXABLE BOND MARKET UPDATE & OUTLOOK



Sources: FactSet and Bloomberg

US TREASURY YIELDS

	12/31/24	7/31/25	8/31/25	MTD Change (bps)	YTD Change (bps)
3-Month	4.33%	4.35%	4.15%	-20	-18
6-Month	4.28%	4.28%	3.98%	-30	-30
2-Year	4.24%	3.96%	3.62%	-34	-62
5-Year	4.38%	3.97%	3.70%	-27	-68
10-Year	4.58%	4.38%	4.23%	-15	-35
30-Year	4.78%	4.90%	4.93%	+3	+15

FIXED INCOME SECTOR PERFORMANCE

	MTD	YTD	Yield to Worst
Bloomberg Aggregate Index	1.20%	4.99%	4.44%
US Treasuries	1.06%	4.48%	3.97%
Investment Grade Corporates	1.01%	5.30%	4.91%
Mortgage-Backed Securities	1.61%	5.48%	4.86%
Asset-Backed Securities	0.96%	4.05%	4.23%
Preferred Securities	1.24%	3.74%	5.74%
Taxable Municipal Bonds	1.24%	4.68%	5.21%
High Yield Corporate Bonds	1.25%	6.35%	6.75%

- Investors gave high marks to earnings, which helped put a strong bid into risk assets. Companies were set to finish reporting season beating EPS and revenue estimates at an 81% clip. Further, Q2 will mark the third straight quarter of double-digit earnings growth. Looking ahead, analysts expect earnings expansion of 11% in 2025 and 13% in 2026.
- Another key driver was messaging out of the Fed's Jackson Hole conference. Chair Powell indicated in his speech that the central bank could lower interest rates at the September FOMC meeting, noting a "shifting balance of risks" that "may warrant adjusting our policy stance." Investors cheered the news that the Fed could ease for the first time since the end of 2024.
- Treasuries gained on hopes that the Fed would begin cutting rates in September, with the front end of the curve rallying the most. Less sensitive to the central bank, the decline in the 10-year yield was more restrained and the yield for the long bond actually experienced a small uptick.
- Investment grade corporates notched their third straight month of positive returns but marginally underperformed rates due to a minor uptick in spreads. OAS got as narrow as 73 bps mid-month, edging out the 74 bp trough hit in November, to mark the lowest point since 1998.
- High yield bonds enjoyed another solid month of positive returns and continue to lead YTD returns vs. the domestic high-grade market. Spreads jumped considerably to above 300bps on the first day of August, when uninspiring employment numbers were released. However, that quickly retraced as investors considered the risks of the speculative grade space to be manageable.
- A bull steepening of the yield curve and declining interest rate volatility created a favorable backdrop for agency mortgage-backed securities outperformance. Chair Powell's remarks bolstered confidence in the forward rate curve and further dampening rate volatility. As a result, mortgage option costs fell to their lowest levels since 2022.
- ABS spreads were largely stable over the month, but the sector still delivered positive excess returns. Performance was driven by strength in key subsectors, particularly auto loans and credit cards.
- The preferred market benefited mostly from the move to lower rates while spreads widened modestly. The sector continues to benefit from favorable new issue supply and fund flow technicals.

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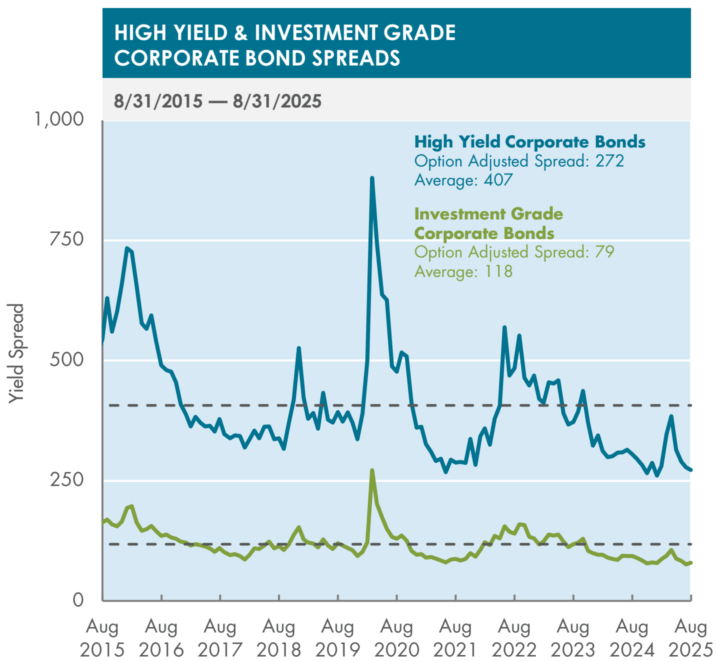
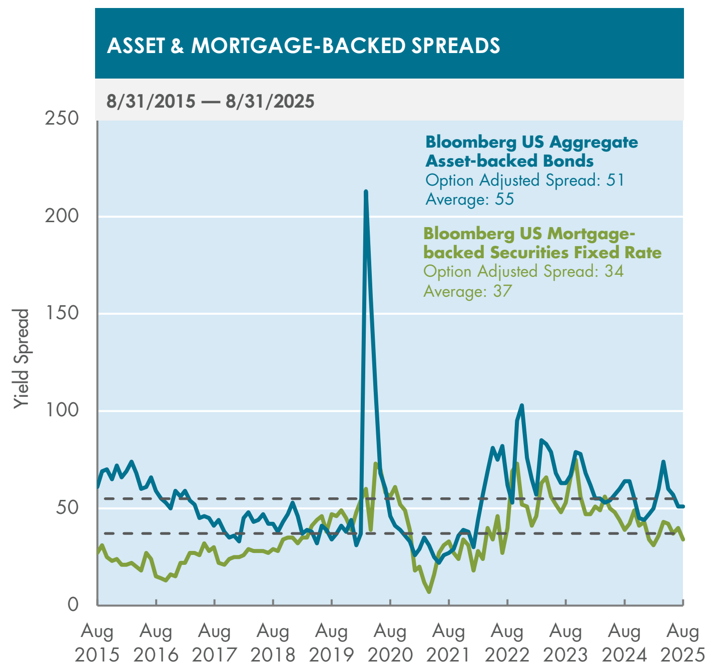
SECTOR ALLOCATION	GW&K STRATEGY POSITIONING
DURATION & YIELD CURVE	Our duration stance is neutral. The Fed has indicated a potentially more dovish stance as it weighs labor market weakness above unresolved tariff-related inflation pressures. However, it continues to be difficult to predict both the volatile fundamental data and the Fed's reaction function to it and other forces.
TREASURIES	We favor spread product over Treasuries in this attractive carry environment.
GOVERNMENT RELATED	We are overweight taxable municipal bonds given strong fundamentals and the recession-resistant characteristics offered by the asset class.
CORPORATE BONDS	Tactically, we remain overweight the sector. While valuations and economic risks warrant some caution, the credit story remains compelling for carry-focused investors. Generally, corporate fundamentals are solid, the economic outlook is still benign, earnings season was a bright spot, and technicals remain favorable amid attractive all-in yields.
SECURITIZED	Agency MBS and ABS remain a key component of our overall portfolio allocation. The securitized sector remains well supported by solid collateral performance and spreads near long-term averages, offering attractive relative value and risk-adjusted return potential in the current environment.



Source: Bloomberg



Source: Bloomberg