GW&K INVESTMENT MANAGEMENT

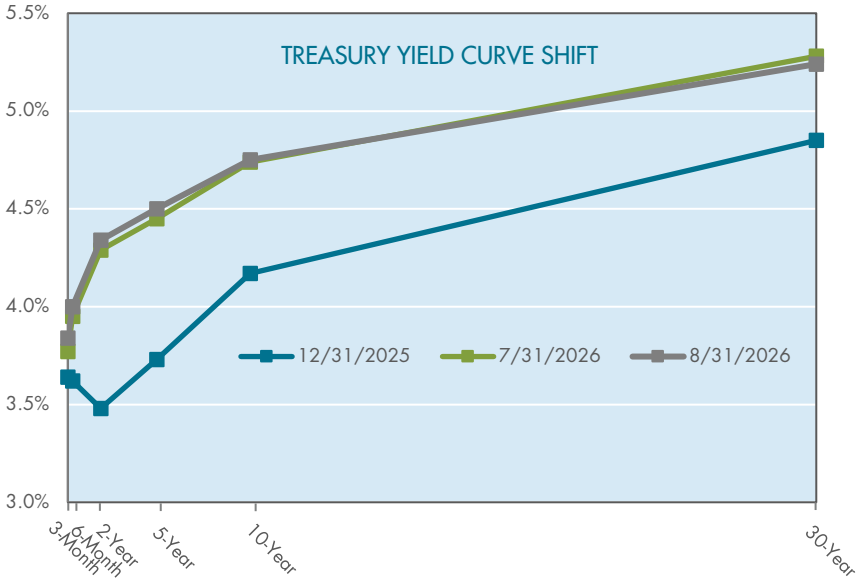
TAXABLE BOND SNAPSHOT

AUGUST 2026

KEY TAKEAWAYS

- During August, the yield on the 30-year Treasury Bond hit a post-Global Financial Crisis (GFC) high of 5.34%. Subsequently, Treasury Secretary Bessent surprised the market by announcing plans to increase the size of buybacks for longer-dated US Government Bonds, briefly pushing yields lower.
- Fed Chairman Warsh's speech at Jackson Hole was more hawkish than expected, causing the market to price in the increased likelihood of the Fed hiking rates in September. Coupled with rising oil prices due to an increase in tensions in the Middle East, this pushed short and intermediate rates higher.
- Spread product outperformed Treasuries, with most sectors generating positive excess returns. The Bloomberg Aggregate Index returned 0.39% in August.

TAXABLE BOND MARKET UPDATE & OUTLOOK



Sources: FactSet and Bloomberg

US TREASURY YIELDS

	12/31/25	7/31/26	8/31/26	MTD Change (bps)	YTD Change (bps)
3-Month	3.64%	3.77%	3.84%	+7	+20
6-Month	3.62%	3.95%	4.00%	+5	+38
2-Year	3.48%	4.29%	4.34%	+5	+86
5-Year	3.73%	4.45%	4.50%	+5	+77
10-Year	4.17%	4.74%	4.75%	+1	+58
30-Year	4.85%	5.28%	5.24%	-4	+39

FIXED INCOME SECTOR PERFORMANCE

	MTD	YTD	Yield to Worst
Bloomberg Aggregate Index	0.39%	-0.31%	5.01%
US Treasuries	0.31%	-0.53%	4.61%
Investment Grade Corporates	0.43%	-0.40%	5.49%
Mortgage-Backed Securities	0.52%	0.07%	5.29%
Asset-Backed Securities	0.28%	1.24%	4.85%
Preferred Securities	-0.67%	-0.90%	6.81%
Taxable Municipal Bonds	0.47%	-0.41%	5.58%
US Corporate High Yield Index	0.97%	2.69%	7.27%

- The Bloomberg Aggregate Index was up 0.39% in August. Tighter spreads for most spread sectors and lower long-term Treasury yields offset the impact of higher rates at the front-end of the curve.
- Economic data was benign, marked by an unexpectedly weak July employment report and inflation data that was in line with expectations. But Fed Chairman Warsh's hawkish Jackson Hole speech pushed the odds of a Fed rate hike in September from roughly 35% prior to over 65% by month end.
- The US Treasury curve flattened in August, with the front-end selling off and the long-end rallying. Yields for the 2- and 5-year Treasury notes backed up by 5 basis points (bps) and 10-year Treasuries sold off by 1 bp, while the yield on the 30-year bond fell by 3 bps.
- Spreads for investment-grade (IG) corporates remained in a tight trading range. The option-adjusted spread (OAS) of the Index closed August at 78 bps, unchanged on the month.
- High yield (HY) credit spreads tightened, with the OAS of the US Corporate HY Index closing the month at 261 bps, 18 bps tighter. The US Corporate HY Index outperformed the Bloomberg Aggregate Index, returning 0.97% for August, and is now outpacing the Bloomberg Aggregate Index by 3% year to date (YTD).
- Mortgages bounced back in August, outperforming Treasuries on a duration-adjusted basis. Despite the flatter Treasury curve, spreads for Agency mortgage-backed securities (MBS) narrowed on the month. The Index ended August at an OAS of 29 bps, tighter 2 bps.
- Asset-backed securities (ABS) lagged most other spread sectors. The ABS Index posted a flat excess return in August, versus 0.23% for MBS, 0.12% for IG corporates and 0.76% for the US Corporate High Yield Index.
- The preferred sector was the underperformer of the month, returning -0.67% in August despite relatively strong equity market returns.

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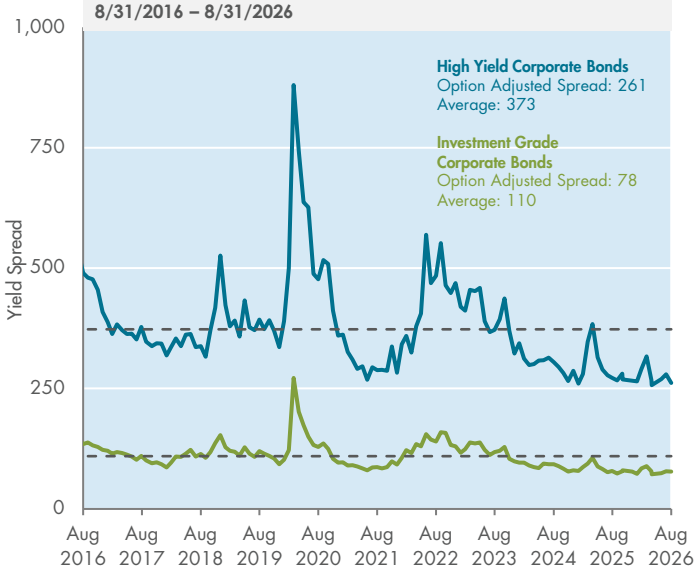
SECTOR ALLOCATION	GW&K STRATEGY POSITIONING
DURATION & YIELD CURVE	Fed Chairman Warsh's Jackson Hole speech has kept the door open for potential rate hikes this year and the conflict between the US and Iran is escalating again. Meanwhile, the Treasury is trying to tamp down longer-term yields by increasing Treasury buybacks. Given the uncertainty about the future direction of Treasury yields, we deem a neutral duration stance to be prudent until there is more clarity regarding these issues.
TREASURIES	We maintain our overweight to spread product versus Treasuries in what is an attractive carry environment, coupled with relatively muted volatility in spreads.
GOVERNMENT RELATED	We continue to be overweight taxable municipal bonds, supported by strong fundamentals and the relatively recession-resistant characteristics of the asset class.
CORPORATE BONDS	Tactically, we remain overweight corporates, where spreads have been stable despite the numerous uncertainties that are driving intraday moves in Treasury yields. The corporate credit story remains compelling for carry-focused investors as the US economy continues to be resilient. Corporate fundamentals remain solid, earnings continue to be strong, and technicals remain favorable given attractive all-in yields.
SECURITIZED	Agency MBS and ABS continue to be core components of our portfolio allocation. Spreads for MBS are slightly wide of their YTD average and technicals remain reasonably constructive. We feel that the securitized market offers attractive relative value and favorable risk-adjusted return potential in the current environment.

HIGH YIELD & INVESTMENT-GRADE CORPORATE BOND SPREADS

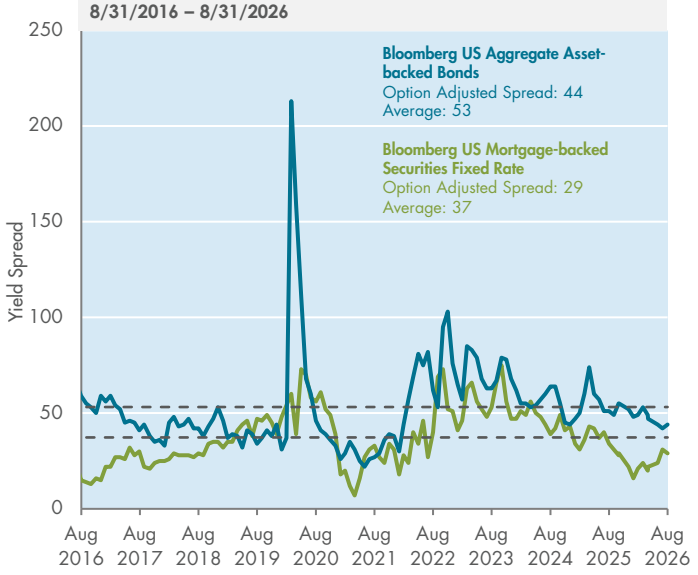
8/31/2016 – 8/31/2026



Source: Bloomberg

ASSET & MORTGAGE-BACKED SPREADS

8/31/2016 – 8/31/2026



Source: Bloomberg

Disclosures

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