MARKET & STRATEGY PERSPECTIVES

GW&K INVESTMENT MANAGEMENT

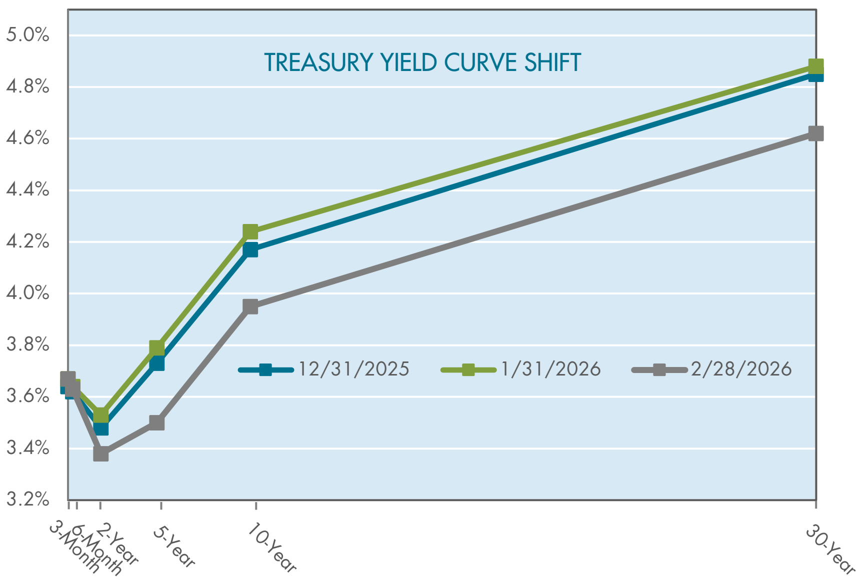
TAXABLE BOND SNAPSHOT

FEBRUARY 2026

KEY TAKEAWAYS

- The US Aggregate Bond Index delivered a strong 1.64% in February, with Treasury yields falling from -15 to -30 basis points (bps) across the curve. Spread sectors widened, with mortgage-backed securities (MBS) +5 bps wider and investment grade (IG) corporates +11 bps wider.
- The market's expectation of additional rate cuts by the Federal Open Market Committee (FOMC) were pushed further out in the year, due to more hawkish comments from Federal Reserve (Fed) speakers and economic data that continued to indicate strong elements of economic growth alongside inflation that remains stubbornly above the Fed's 2% target.
- Market volatility increased over the course of February, driven by both concerns about the impacts that AI could have on various sectors of the economy and heightened geopolitical tension. The US Supreme Court's decision to invalidate the International Emergency Economic Powers Act (IEEPA) tariffs added to market uncertainty.

TAXABLE BOND MARKET UPDATE & OUTLOOK



Sources: FactSet and Bloomberg

US TREASURY YIELDS

	12/31/25	1/31/26	2/28/26	MTD Change (bps)	YTD Change (bps)
3-Month	3.64%	3.67%	3.67%	0	+3
6-Month	3.62%	3.64%	3.63%	-1	+1
2-Year	3.48%	3.53%	3.38%	-15	-10
5-Year	3.73%	3.79%	3.50%	-29	-23
10-Year	4.17%	4.24%	3.95%	-29	-22
30-Year	4.85%	4.88%	4.62%	-26	-23

FIXED INCOME SECTOR PERFORMANCE

	MTD	YTD	Yield to Worst
Bloomberg Aggregate Index	1.64%	1.75%	4.16%
US Treasuries	1.82%	1.72%	3.75%
Investment Grade Corporates	1.29%	1.47%	4.73%
Mortgage-Backed Securities	1.67%	2.09%	4.38%
Asset-Backed Securities	0.87%	1.12%	3.98%
Preferred Securities	0.49%	1.82%	5.79%
Taxable Municipal Bonds	2.98%	2.96%	4.88%
High Yield Corporate Bonds	0.19%	0.69%	6.71%

- The US Aggregate Bond Index posted a solid return in February, up 1.64%. Performance was driven by the sharp move lower in Treasury yields, as volatility increased in February given macro economic and geopolitical factors.
- The Fed's preferred inflation measure, Personal Consumption Expenditures (PCE), came out higher-than-expected for December, with both the headline and core indexes increasing +0.4% month-over-month. They now sit at 2.9% and 3.0%, respectively, year-over-year, above the Fed's 2.0% target. Meanwhile, the US economy grew at only 1.4% in the fourth quarter of 2025, below the market's expectation of 2.8% growth.
- Treasury yields were lower across the maturity spectrum, led by the 7- and 10-year Treasuries, where rates fell -30 bps. Front-end rates were lower by 0 – 20 bps, while the yields further out of the curve fell -25 bps. Rates are now at the lower end of the range that they have traded in for the past six months, reflecting heightened macro economic and geopolitical risks.
- IG corporate credit lagged Treasuries, with spreads wider by +11 bps, but the sector still posted a return of 1.29% given the move lower in yields. On a positive note, while IG supply continued to be robust at over $190 billion in February, demand for new issuance remains strong with new deals typically oversubscribed and new issue concessions well below average.
- High yield (HY) credit was able to eke out a monthly return of 0.19%, also lagging Treasuries. Spreads widened +26 bps on the month and the Index now trades at an option-adjusted spread (OAS) of 291 bps. Higher-quality bonds outperformed, as the BB index gained 0.53%, while single Bs lost -0.13% and CCCs were down -0.56%.
- The securitized sector also lagged Treasuries, but outperformed corporate credit. Agency MBS underperformed Treasuries, as the OAS on the MBS index widened by +5 bps on the month. Higher rate volatility, the flattening yield curve, and a softened technical outlook weighed on performance, as the market adjusted expectations of future demand from government-sponsored enterprises (GSEs).
- Asset-backed securities (ABS) outperformed other spread sectors, posting +3 bps of excess return, led by autos and credit cards. ABS offers good relative value in the front-end of the curve, trading at wider OAS than the agency MBS Index.
- The preferred sector posted a return of 0.49% for the month of February, slightly outperforming HY credit. Spreads for US bank preferreds continued to tighten as demand remains strong for this paper as an alternative to IG or HY corporates.

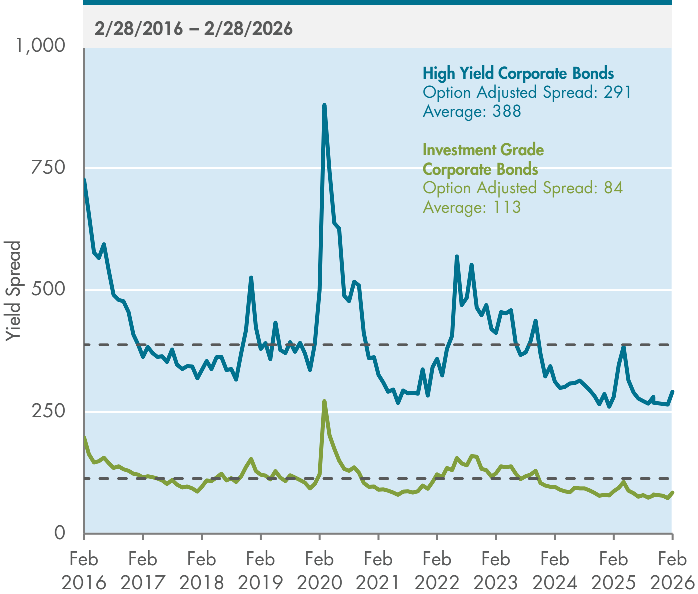
GW&K INVESTMENT MANAGEMENT

TAXABLE BOND SNAPSHOT

FEBRUARY 2026

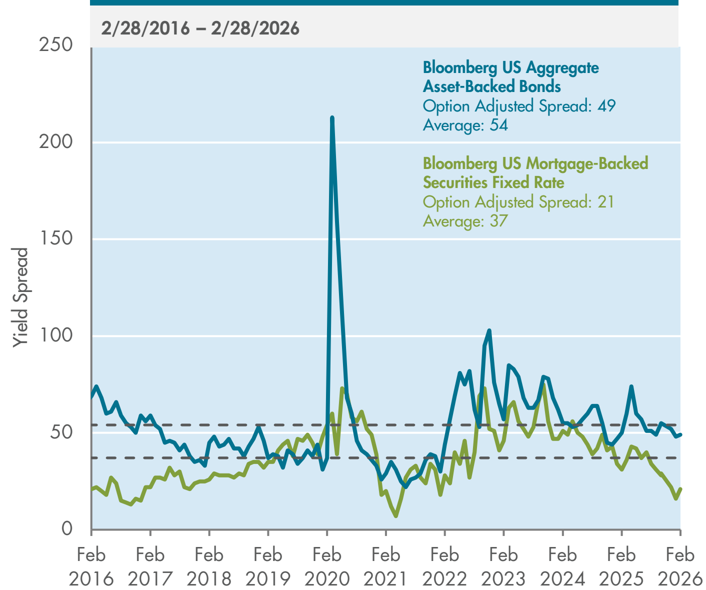
SECTOR ALLOCATION	GW&K STRATEGY POSITIONING
DURATION & YIELD CURVE	Our duration stance remains neutral. Recent Fed communications have emphasized policy flexibility and suggest that additional rate cuts are less certain and highly data dependent. Market pricing reflects this language, and we believe the tension between a potentially cooling labor market, inflation still above target, and solid economic growth will persist in the near term.
TREASURIES	We favor spread product over Treasuries in what remains an attractive carry environment.
GOVERNMENT RELATED	We are 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. While valuations and macro risks warrant some caution, the credit story remains compelling for carry-focused investors. Overall, corporate fundamentals are solid, earnings remain supportive, and technicals are favorable amid attractive all-in yields.
SECURITIZED	Agency MBS and ABS continue to be core components of our portfolio allocation. The securitized sector is supported by strong collateral performance. Although spreads have tightened, the sector still offers attractive relative value and favorable risk-adjusted return potential in the current environment.

HIGH-YIELD & INVESTMENT-GRADE CORPORATE BOND SPREADS



Source: Bloomberg

ASSET & MORTGAGE-BACKED SPREADS



Source: Bloomberg