GW&K INVESTMENT MANAGEMENT

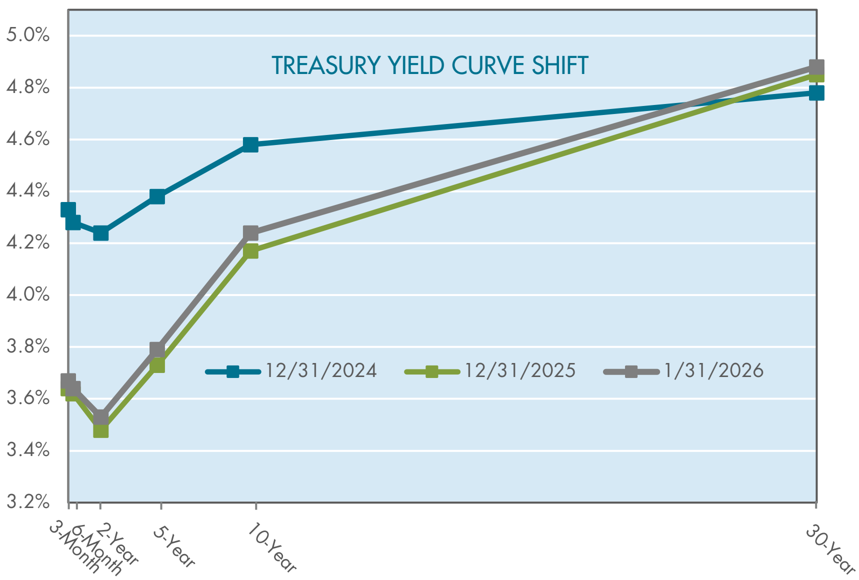
TAXABLE BOND SNAPSHOT

JANUARY 2026

KEY TAKEAWAYS

- The US Aggregate Bond Index delivered a modest 0.11% return in January, as spread tightening and carry in corporate bonds and mortgage-backed securities (MBS) more than offset a small increase in Treasury yields.
- The Federal Reserve (Fed) went on pause in January and Kevin Warsh was nominated as the new Federal Reserve Chairman by the administration. The Fed's messaging is for a relatively balanced labor market and slowly declining inflationary outlook to allow them to remain on pause for the foreseeable future.
- Fundamental market conditions remain constructive for risk assets. We are watching the current administration as it explores various options to lower 10-year interest rates and feel this could create some volatility. Additionally, headline risk within the AI community will likely create corporate credit risk and opportunities.

TAXABLE BOND MARKET UPDATE & OUTLOOK



Sources: FactSet and Bloomberg

US TREASURY YIELDS	12/31/25	1/31/26	MTD Change (bps)
3-Month	3.64%	3.67%	+3
6-Month	3.62%	3.64%	+2
2-Year	3.48%	3.53%	+5
5-Year	3.73%	3.79%	+6
10-Year	4.17%	4.24%	+7
30-Year	4.85%	4.88%	+3

FIXED INCOME SECTOR PERFORMANCE	MTD	Yield to Worst
Bloomberg Aggregate Index	0.11%	4.36%
US Treasuries	-0.09%	3.97%
Investment Grade Corporates	0.18%	4.84%
Mortgage-Backed Securities	0.41%	4.64%
Asset-Backed Securities	0.25%	4.12%
Preferred Securities	1.32%	5.94%
Taxable Municipal Bonds	-0.02%	5.14%
High Yield Corporate Bonds	0.51%	6.58%

- The fixed income market opened the year with a fairly muted total return of 0.11%. This performance did mask some volatility in a handful of corporate sectors and mortgages. Expectations for a pause in Fed policy, balanced labor market data, and attractive all-in yields created stability in most markets for the month.
- Core PCE inflation, announced in January for the prior October, fell slightly to 2.7%, remaining above the Fed's 2% goal. However, policymakers continue to believe short rates are not overly accommodative and won't initiate additional inflation. Market-based measures were more skeptical, with both 2- and 5-year breakeven inflation rates rising over the month.
- The Treasury curve ended the month with a small shift up in yields with 2-years through 30-years moving as much as 7 bps higher. The relatively narrow range of yields is being driven by the Fed awaiting more data before changing course and investors balancing a resilient economy with solid demand for all-in yields.
- Investment-grade corporate bonds outperformed, tightening spreads by 5 bps relative to duration-matched Treasuries. While January's large new issuance of $222 billion wasn't primarily AI related, the market is expecting AI to drive another robust year of supply and there are already projections of $200+ billion for February.
- High-yield bonds outperformed the broader investment-grade market once again, driven by a rally in lower-quality credit. Spreads tightened slightly over the month, supported by low default rates and solid net inflows while carry provided the rest. New issuance totaled $30 billion in January and is on track for another potentially record-issuance year.
- The securitized sector was one of the best-performing sectors. Gains were led by agency MBS as the current administration publicly directed Fannie Mae and Freddie Mac to purchase $200 billion of MBS. This was coupled with the Federal Reserve on pause, a resilient US consumer and economy, and interest-rate volatility declining.
- Asset-backed securities (ABS) also outperformed, with stable demand creating tighter spreads across subsectors. Robust primary market issuance was met with strong investor demand, leading to multiple deal upsizings.
- The preferred sector led broader fixed income for the month. Favorable supply technicals were bolstered by a strong earnings season for the bank-heavy sector. This led to tightening spreads and positive excess returns.

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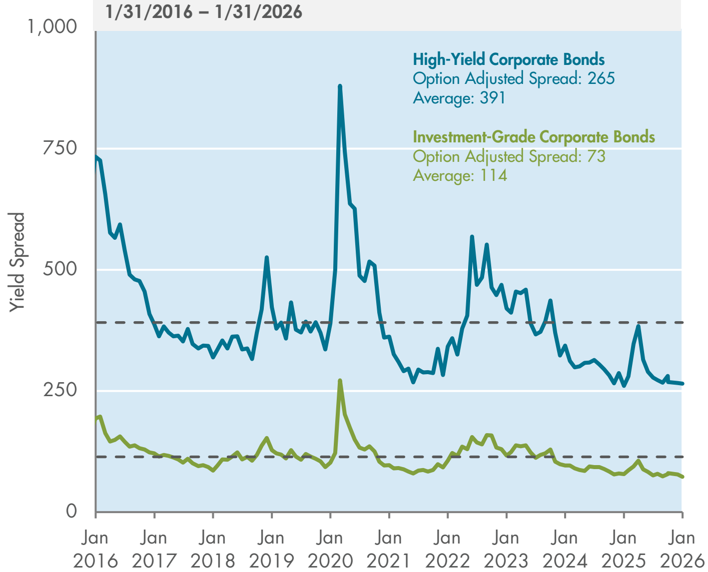
SECTOR ALLOCATION	GW&K STRATEGY POSITIONING
DURATION & YIELD CURVE	Our duration stance remains neutral. Recent Fed communications have emphasized policy flexibility and suggest that additional rate cuts are less certain and highly data dependent. Market pricing reflects this language, and we believe 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

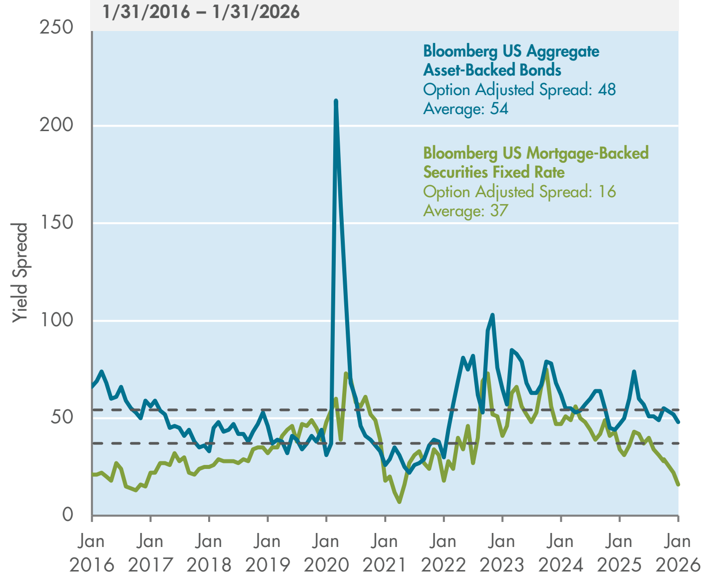
1/31/2016 – 1/31/2026



Source: Bloomberg

ASSET & MORTGAGE-BACKED SPREADS

1/31/2016 – 1/31/2026



Source: Bloomberg