

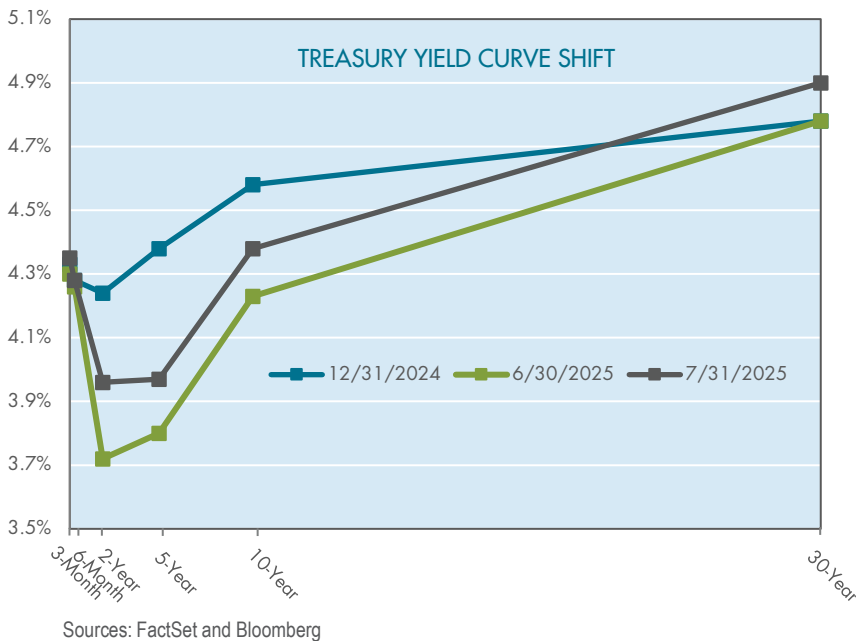
TAXABLE BOND SNAPSHOT

JULY 2025

KEY TAKEAWAYS

- Most of July was dominated by tariff headlines and progress on trade agreements. The Trump administration made headway on inking deals with key trading partners like the European Union and Japan. Overall, economic data were solid, although there were some still elevated inflation prints.
- The FOMC meeting toward month-end saw members hold interest rates steady, as investors had anticipated. While the Fed as a whole is in wait-and-see mode, there were two dissenters at the meeting who wanted to see rates lowered.
- The US Aggregate Bond Index returned -0.26%. Yields rose across the curve while most spreads narrowed only moderately. Year-to-date (YTD) returns for the Agg stand at 3.75%.

TAXABLE BOND MARKET UPDATE & OUTLOOK



US TREASURY YIELDS					
	12/31/24	6/30/25	7/31/25	MTD Change (bps)	YTD Change (bps)
3-Month	4.33%	4.30%	4.35%	+5	+2
6-Month	4.28%	4.26%	4.28%	+2	0
2-Year	4.24%	3.72%	3.96%	+24	-28
5-Year	4.38%	3.80%	3.97%	+17	-41
10-Year	4.58%	4.23%	4.38%	+15	-20
30-Year	4.78%	4.78%	4.90%	+12	+12

FIXED INCOME SECTOR PERFORMANCE			
	MTD	YTD	Yield to Worst
Bloomberg Aggregate Index	-0.26%	3.75%	4.64%
US Treasuries	-0.39%	3.39%	4.19%
Investment Grade Corporates	0.07%	4.24%	5.07%
Mortgage-Backed Securities	-0.40%	3.81%	5.07%
Asset-Backed Securities	0.13%	3.06%	4.53%
Preferred Securities	1.46%	2.47%	5.90%
Taxable Municipal Bonds	-0.16%	3.40%	5.33%
High Yield Corporate Bonds	0.45%	5.04%	7.08%

- The market remained in risk-on mode, supported by a better-than-anticipated earnings season and progress on trade deals that removed some of the uncertainty overhang.
- Fed Chair Jerome Powell and most other members of the FOMC are in wait-and-see mode regarding the inflationary impacts of tariffs and the overall tone leaned hawkish. Governors Michelle Bowman and Christopher Waller dissented, wanting to move rates lower by 25 basis points (bps) at the July meeting. It was the first meeting since 1993 where two governors dissented.
- Treasury prices fell, with the belly of the curve experiencing the largest uptick in yields, as investors positioned for a Fed that was in no rush to raise rates. As well, after three straight months of declines, breakevens rose, with the 2-year higher by 19 bps to 2.64%.
- Corporates outperformed duration-matched Treasuries, as spreads declined and experienced little volatility. In addition to positive technicals and good fundamentals, the credit market has been supported by better than anticipated earnings.
- Spreads are relatively narrow, as sentiment around the economy and tariffs improved. Investment grade (IG) option-adjusted spreads (OAS) sit only 2 bps above the multi-decade trough touched in November. High yield notched its third straight month of gains and OAS spent the full month below 300 bps.
- Despite a sharp decline in rate volatility to multi-year lows, agency MBS delivered zero excess return versus duration-matched Treasuries.
- ABS spreads continued to grind tighter in July, even amid a surge in supply. While YTD issuance remains slightly below 2024 levels — mainly due to an April slowdown — all ABS subsectors delivered positive excess returns. Utility and “other” ABS outperformed autos and credit card sectors.
- The preferreds market posted positive excess returns, outperforming most other fixed income asset classes. The financial sector heavy index benefitted from a strong 2Q reporting period from the banks. Technicals remain supportive with strong fund flows into the sector and a positive supply backdrop.

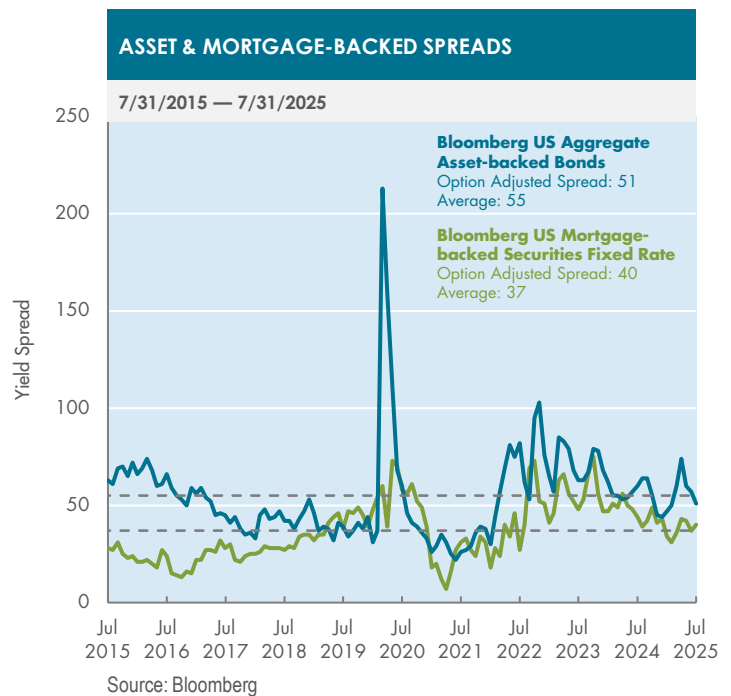
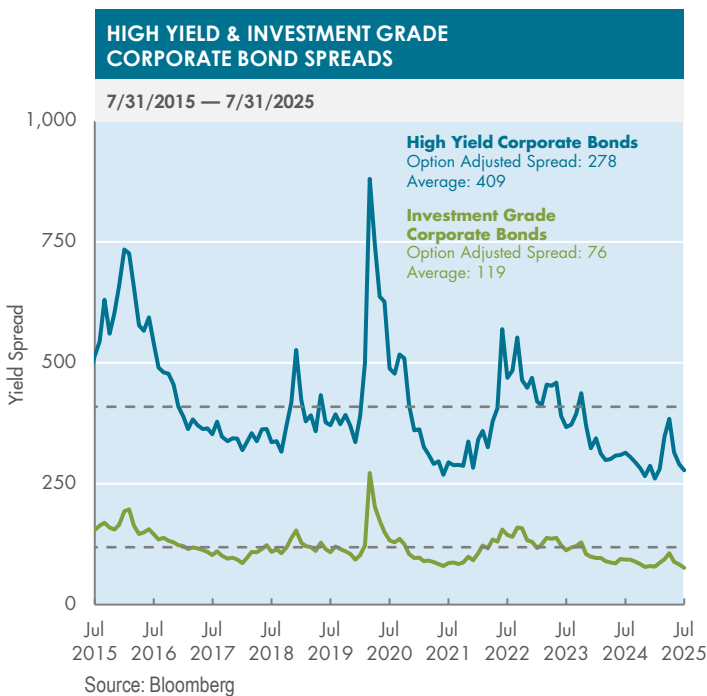
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SECTOR ALLOCATION

GW&K STRATEGY POSITIONING

DURATION & YIELD CURVE	Our duration stance is neutral. The timing and approach of the Fed's response to White House influences and tariff-related inflation remains unresolved, as it attempts to balance price stability with labor market support.
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 has been 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 attractive risk-adjusted return potential in the current environment.



Disclosures

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