

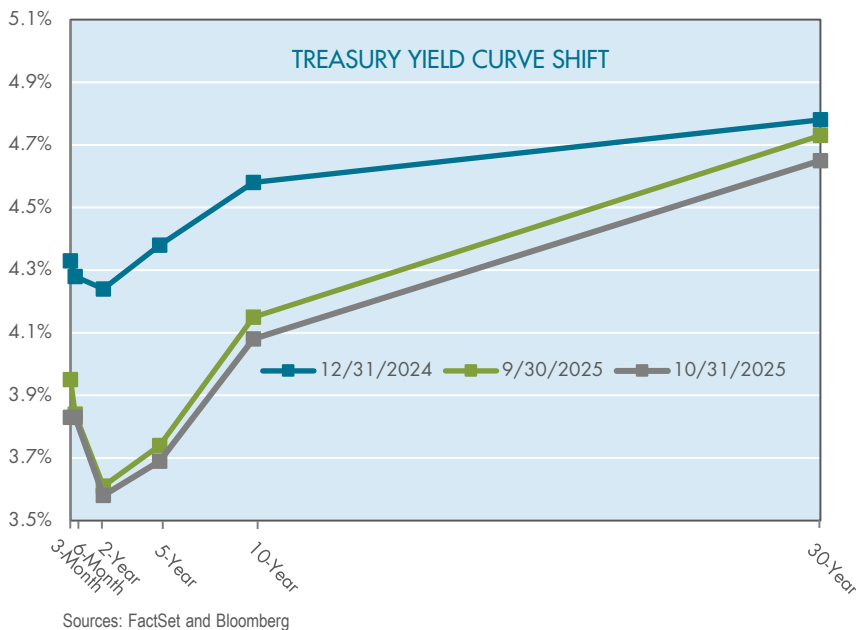
TAXABLE BOND SNAPSHOT

OCTOBER 2025

KEY TAKEAWAYS

- The US Aggregate Bond Index returned 0.62% for the month of October. Yields fell modestly across the curve, while spreads for the overall index were unchanged. The year-to-date (YTD) gain climbed to 6.80%.
- Despite the government shutdown, investors continued to bid up assets and both stock and bond markets were unphased. The positive economic backdrop remained in place while the US Federal Reserve (Fed) cut rates for the second straight meeting.
- Rate volatility declined to a level not seen in four years, while stocks notched fresh record highs, buoyed by strong earnings and an easing central bank.

TAXABLE BOND MARKET UPDATE & OUTLOOK



US TREASURY YIELDS

	12/31/24	9/30/25	10/31/25	MTD Change (bps)	YTD Change (bps)
3-Month	4.33%	3.95%	3.83%	-12	-50
6-Month	4.28%	3.84%	3.83%	-1	-45
2-Year	4.24%	3.61%	3.58%	-3	-66
5-Year	4.38%	3.74%	3.69%	-5	-69
10-Year	4.58%	4.15%	4.08%	-7	-50
30-Year	4.78%	4.73%	4.65%	-8	-13

FIXED INCOME SECTOR PERFORMANCE

	MTD	YTD	Yield to Worst
Bloomberg Aggregate Index	0.62%	6.80%	4.33%
US Treasuries	0.62%	6.01%	3.91%
Investment Grade Corporates	0.38%	7.29%	4.82%
Mortgage-Backed Securities	0.86%	7.68%	4.66%
Asset-Backed Securities	0.38%	5.02%	4.22%
Preferred Securities	0.01%	5.47%	5.64%
Taxable Municipal Bonds	1.32%	7.82%	5.02%
High Yield Corporate Bonds	0.16%	7.39%	6.78%

- With the government closed for the entire month of October and counting, we've entered the longest shutdown in US history. Investors showed little concern during the month, instead taking solace in an earnings season where companies have handily beaten estimates and are on track to report a fourth consecutive quarter of double-digit profit growth.
- The Fed's decision to add another 25-basis-point (bps) rate cut was another key market driver. Fed Chair Jerome Powell, however, cautioned that a decrease in December was "far from" assured, marking a hawkish shift relative to market expectations.
- Treasury yields declined overall but moved higher following the Federal Open Market Committee (FOMC) meeting. Mid-month, the 2-year note reached its lowest yield since September 2022. The yield curve narrowed marginally and has remained relatively rangebound over the past six months.
- Investment-grade (IG) corporates lagged Treasuries due to a moderate widening in spreads. Option-adjusted spreads (OAS) reached 72 bps early in the month, the tightest level since 1998, before widening as a surge of new supply hit the market in the final week. The \$132 billion in issuance set a new October record, while investors also repriced expectations for a less accommodative Fed.
- High-yield (HY) bonds underperformed, even as they posted a sixth straight month of positive returns. The sector's lower duration limited its benefit from falling rates, while spreads rose modestly.
- The securitized sector outperformed duration-matched Treasuries. The technical backdrop for Agency mortgage-based securities (MBS) remains constructive: spreads tightened as rate volatility declined, mortgage REIT (real estate investment trusts) demand increased, and government-sponsored enterprise (GSE) portfolios expanded. The Fed also announced that quantitative tightening will conclude in December, with MBS runoff proceeds to be reinvested into Treasury bills.
- Asset-backed securities (ABS) softened amid uncertainty following a handful of reports of alleged fraudulent activity. While widely viewed as an isolated event, spreads widened in sympathy with a broader risk-off tone in subprime auto. Nevertheless, the primary market remained active, with several new deals upsized into month-end.
- The preferred market produced flat returns for the month, as the positive effects from a move lower in rates were offset by a modest move wider in spreads amidst a risk-off tone. Fundamental strength was reinforced, however, on the back of strong 3Q25 bank earnings, while supply technicals remain supportive.

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SECTOR ALLOCATION

GW&K STRATEGY POSITIONING

DURATION & YIELD CURVE

Our duration stance remains neutral. The Fed has signaled that a further rate decrease in December is not a foregone conclusion, reflecting the tension between a potentially cooling labor market and inflation still above target. Assessing data remains challenging amid the government shutdown, uncertainty around the Fed's reaction function, and ongoing political pressures on its independence.

TREASURIES

We favor spread product over Treasuries in what remains an attractive carry environment.

GOVERNMENT RELATED

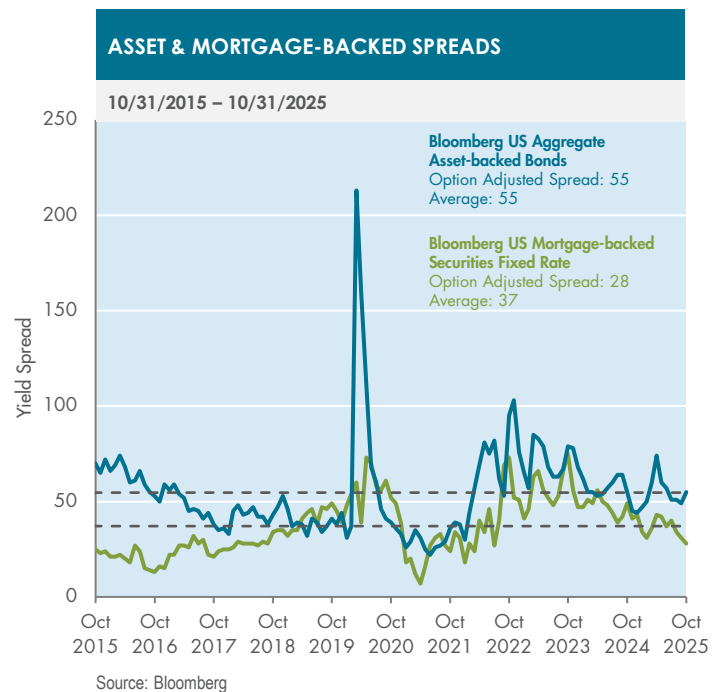
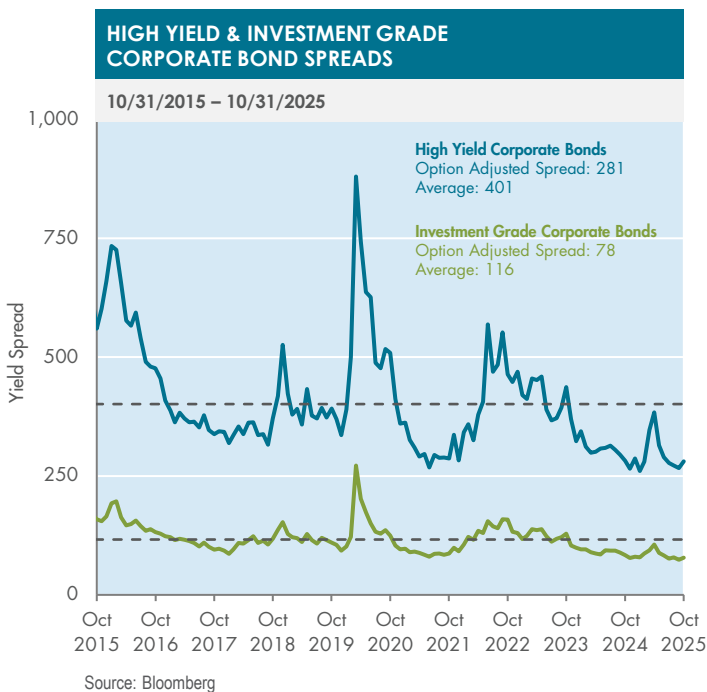
We are overweight taxable municipal bonds, supported by strong fundamentals and the relatively recession-resistant characteristics of the asset class.

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 and while spreads have recently tightened, the sector still offers attractive relative value and favorable risk-adjusted return potential in the current environment.



Disclosures

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