GW&K INVESTMENT MANAGEMENT

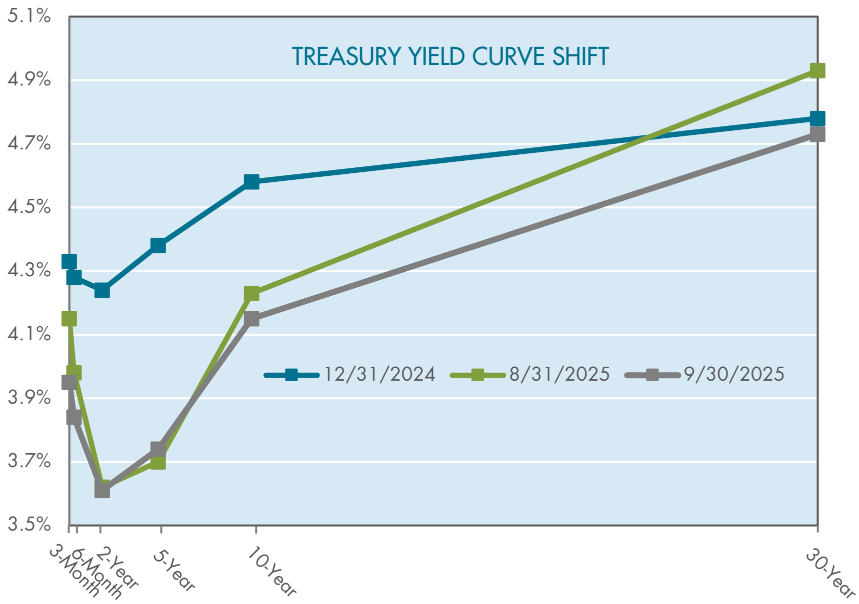
TAXABLE BOND SNAPSHOT

SEPTEMBER 2025

KEY TAKEAWAYS

- The positive market environment continued in September, underpinned by a constructive economic backdrop and the US Federal Reserve (Fed) cutting rates for the first time since the end of 2024.
- Along with stocks, corporate bonds set fresh record highs amidst low volatility. The MOVE Index, which measures rate volatility, continued its trend lower and touched levels last seen during December of 2021.
- The US Aggregate Bond Index returned 1.09%. Yields declined on the front and long ends of the yield curve, but were up modestly in some intermediate maturities. Spreads for the overall index narrowed. The YTD gain stands at 6.13%.

TAXABLE BOND MARKET UPDATE & OUTLOOK



Sources: FactSet and Bloomberg

US TREASURY YIELDS

	12/31/24	8/31/25	9/30/25	MTD Change (bps)	YTD Change (bps)
3-Month	4.33%	4.15%	3.95%	-20	-38
6-Month	4.28%	3.98%	3.84%	-14	-44
2-Year	4.24%	3.62%	3.61%	-1	-63
5-Year	4.38%	3.70%	3.74%	+4	-64
10-Year	4.58%	4.23%	4.15%	-8	-43
30-Year	4.78%	4.93%	4.73%	-20	-5

FIXED INCOME SECTOR PERFORMANCE

	MTD	YTD	Yield to Worst
Bloomberg Aggregate Index	1.09%	6.13%	4.37%
US Treasuries	0.85%	5.36%	3.94%
Investment Grade Corporates	1.50%	6.88%	4.81%
Mortgage-Backed Securities	1.22%	6.76%	4.74%
Asset-Backed Securities	0.55%	4.62%	4.18%
Preferred Securities	1.66%	5.46%	5.61%
Taxable Municipal Bonds	1.66%	6.42%	5.11%
High Yield Corporate Bonds	0.82%	7.22%	6.70%

- Markets were buoyed by the solid economy as well as inflation readings that matched estimates, even as the downward trajectory has stalled. GDP for Q2 was revised notably higher, and showed the economy growing at a 3.8% pace.
- The Fed's decision to ease rates by 25 basis points (bps) was another key driver to the upswing in markets. The central bank deemed it as a "risk management" rate cut to guard against a slippage in the labor market, but also acknowledged that inflation "remains somewhat elevated."
- Treasury yields declined on the very front end of the yield curve, reflecting the decrease in rates and anticipation of nearly two more cuts before year-end, and another two cuts in 2026. The long end experienced a dip in yields, while 3- and 5-year maturities at the belly saw modest upticks.
- Investment grade (IG) corporates handily outperformed Treasuries due to a decline in spreads. Option-adjusted spreads (OAS) got as narrow as 72 bps mid-month to mark the lowest point since 1998. Investors easily took down over $207 billion in IG issuance, the most ever for September and fifth busiest month on record.
- High yield (HY) bonds lagged but still logged their fifth straight month of gains on the back of modest spread tightening. Finishing at 267 OAS, spreads are not far from last November's low of 253 bps. September was the third busiest month of all time in the HY sector, as the primary market was ripe for refinance opportunities.
- Agency mortgage-backed securities (MBS) outperformance was driven by a supportive technical backdrop. The Fed rate cut boosted expectations of renewed demand from funding-sensitive buyers such as banks and mortgage REITs, coinciding with low supply. Rate volatility and MBS spreads declined to multi-year lows, with lower coupon MBS outperforming amid increased demand for duration exposure during the curve's bull flattening.
- Heavy ABS issuance, particularly in the auto sector, was well absorbed. Spreads tightened as consumer credit fundamentals remained resilient and high-quality ABS continued to offer attractive relative value versus other front-end spread products.
- The preferred market posted strong positive returns driven by a combination of spread tightening and the move lower in rates. Modest net issuance was well received by the market as the fundamental and technical picture remain well supported.

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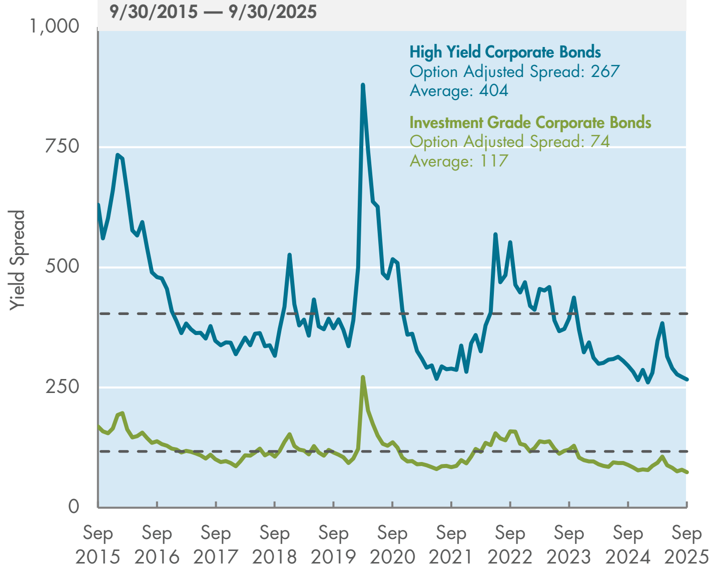
SECTOR ALLOCATION	GW&K STRATEGY POSITIONING
DURATION & YIELD CURVE	Our duration stance is neutral. The Fed has indicated a potentially more dovish stance as it weighs labor market weakness above unresolved tariff-related inflation pressures. It continues to be difficult to predict the volatile fundamental data, the Fed's reaction function, and continued pressures on its independence from our administration.
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 relatively 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 supportive, 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. Spreads have rallied recently, but the sector still offers attractive relative value and risk-adjusted return potential in the current environment.

HIGH YIELD & INVESTMENT GRADE CORPORATE BOND SPREADS

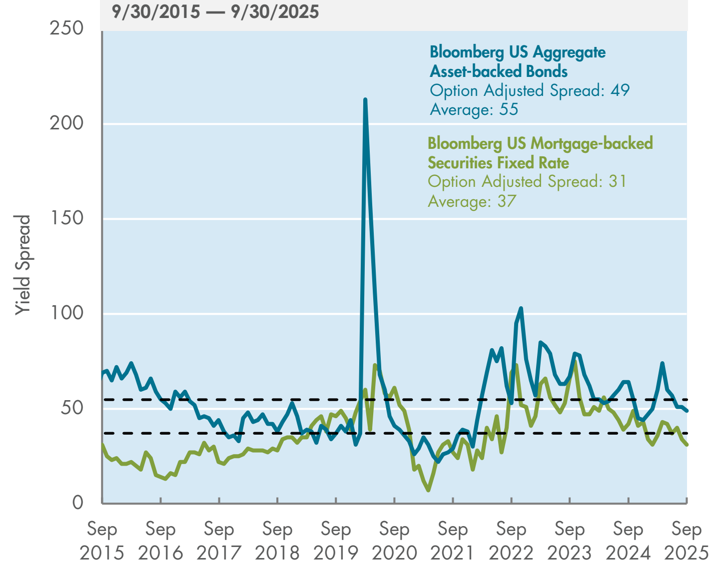
9/30/2015 — 9/30/2025



Source: Bloomberg

ASSET & MORTGAGE-BACKED SPREADS

9/30/2015 — 9/30/2025



Source: Bloomberg

Disclosures

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