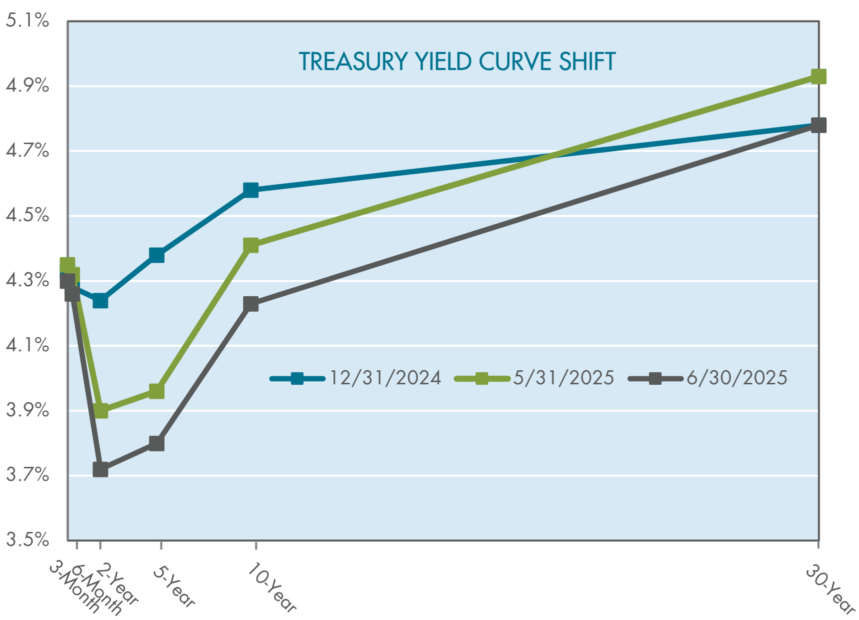
GW&K INVESTMENT MANAGEMENT

TAXABLE BOND
MARKET REVIEW & OUTLOOK

KEY TAKEAWAYS

- Markets looked past the turmoil in the Middle East as the conflict was short-lived, averted a wider regional war, and yet sidestepped a significant disruption in energy markets.
- The continued rally in credit markets and push to fresh highs in equities has reversed the notable consternation earlier in the year regarding tariffs and their implications for global trade.
- The US Aggregate Bond Index returned 1.54% for its fifth month of gains in 2025. Yields fell in a mostly parallel fashion across a majority of the curve, while spreads decreased. Year-to-date (YTD) returns have lifted to 4.02%, the highest of the year.

TAXABLE BOND MARKET UPDATE & OUTLOOK



Sources: FactSet and Bloomberg

US TREASURY YIELDS

	12/31/24	5/31/25	6/30/25	MTD Change (bps)	YTD Change (bps)
3-Month	4.33%	4.35%	4.30%	-5	-3
6-Month	4.28%	4.32%	4.26%	-6	-2
2-Year	4.24%	3.90%	3.72%	-18	-52
5-Year	4.38%	3.96%	3.80%	-16	-58
10-Year	4.58%	4.41%	4.23%	-18	-35
30-Year	4.78%	4.93%	4.78%	-15	0

FIXED INCOME SECTOR PERFORMANCE

	MTD	YTD	Yield to Worst
Bloomberg Aggregate Index	1.54%	4.02%	4.51%
US Treasuries	1.25%	3.79%	4.03%
Investment Grade Corporates	1.87%	4.17%	4.99%
Mortgage-Backed Securities	1.78%	4.23%	4.93%
Asset-Backed Securities	0.87%	2.93%	4.41%
Preferred Securities	1.65%	1.01%	6.07%
Taxable Municipal Bonds	2.43%	3.56%	5.26%
High Yield Corporate Bonds	1.84%	4.57%	7.06%

- Markets remained resilient, buoyed by corporate fundamentals and continued comfort that the US Federal Reserve (Fed) would implement rate cuts by year end. Investors looked past US-China and Middle East tensions, as well as growing concerns about deficit-related policy risks, encouraged by moderating inflation and a still-firm labor market.
- More specifically, Treasuries rallied on the back of somewhat soft economic data, including housing and lighter consumer activity. Yields fell in a mostly parallel fashion across a majority of the curve, save for the very front end, which experienced a smaller shift lower. The Fed maintained its cautious approach and held rates steady as they continued to assess the impact of recent policy changes to tariffs, and whether they leave a one-time or long-lasting impact on inflation.
- Within credit markets, investors were able to focus on the pillars that have been driving domestic credit such as good fundamentals, supportive technicals, and attractive all-in yields leading to solid monthly performance.
- Investment grade (IG) and high yield spreads are reflective of these positive dynamics. Spreads have trended notably lower since the brief tariff-induced spike in April. IG option-adjusted spreads (OAS) sit only 9 basis points (bps) above the multi-decade trough touched in November. High yield notched its best return since July of last year. OAS tightened markedly and are at their lows going back to March.
- Agency mortgage-backed securities (MBS) benefited from reduced interest-rate volatility and favorable regulatory developments. OAS on MBS tightened by 5 bps. The entire coupon stack outperformed, with excess returns skewed toward lower coupon pools. Specified pools delivered strong relative performance as investors sought call protection amid a broad-based rally across the yield curve.
- ABS spreads continued to tighten across most subsectors. Credit card, auto, and utility asset-backed securities (ABS) led the way in excess returns. Notably, spreads in high-quality ABS have fully reversed the widening experienced in April.
- The preferred market posted positive excess returns, benefiting from the broader risk-on environment and tightening of spreads. The long-awaited joint release of proposed changes to key bank leverage and capital ratios from the Fed, Office of the Comptroller of the Currency, and FDIC was warmly received. The positive supply technical of reduced preferred issuance is likely to persist under the initial proposal.

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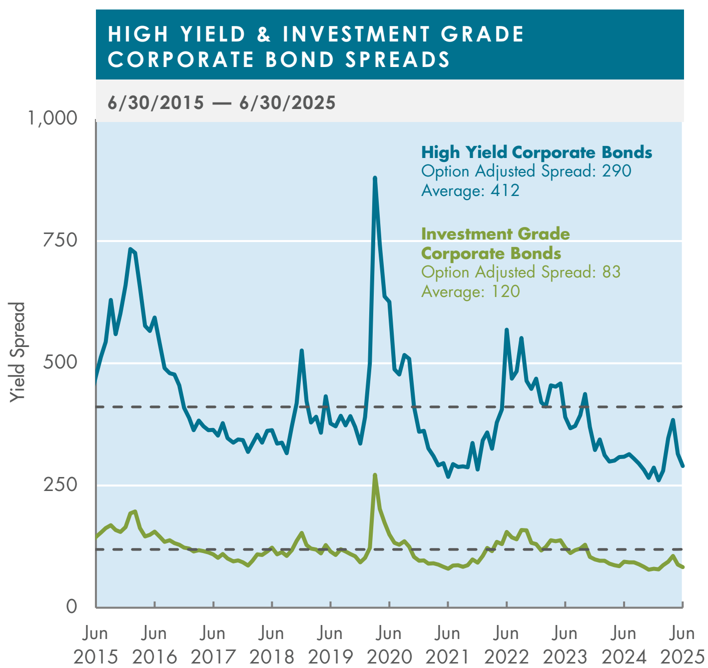
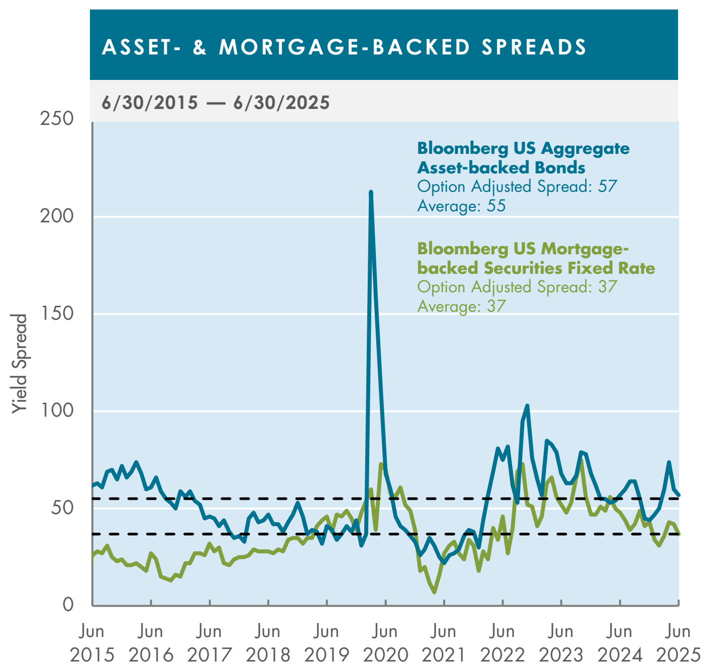
SECTOR ALLOCATION	POSITIONING
DURATION & YIELD CURVE	Our duration stance is neutral. The timing and approach of the Fed's response to potential tariff-related inflation remains unresolved, as it attempts to balance price stability with labor market support.
TREASURIES	We favor spread product over Treasuries 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 some caution lingers around the macroeconomic backdrop, the credit story remains compelling for carry-focused investors. Fundamentals are solid, the economic outlook is still benign, and technicals remain favorable amid attractive all-in yields and muted net supply.
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 compelling relative value and attractive risk-adjusted return potential in the current environment.



Source: Bloomberg



Source: Bloomberg

Disclosures

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