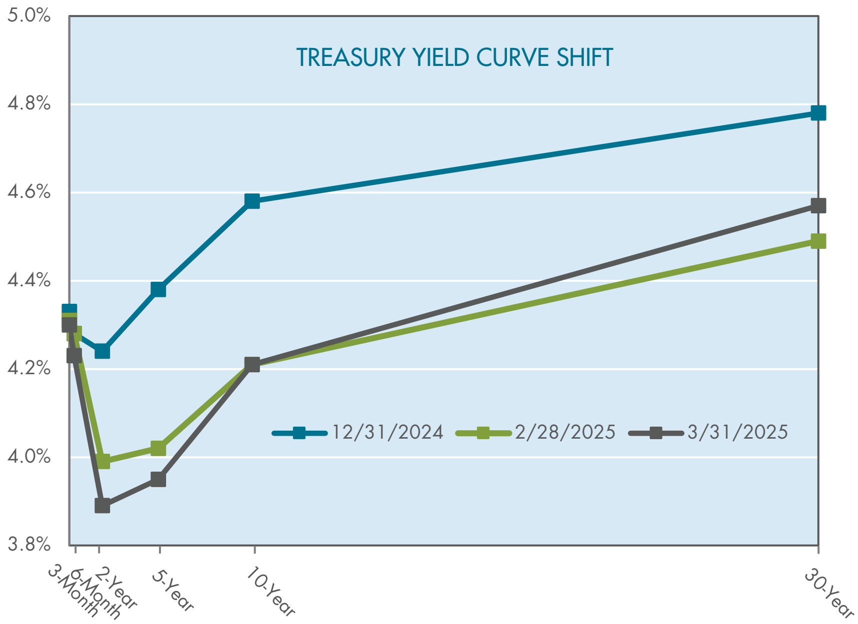
GW&K INVESTMENT MANAGEMENT

TAXABLE BOND
MARKET REVIEW & OUTLOOK

KEY TAKEAWAYS

- Significant trade and tariff announcements coupled with weakening consumer sentiment and rising inflation expectations magnified market volatility, leaving investors with a heightened sense of apprehension around the US growth outlook.
- The Federal Open Market Committee (FOMC) held rates steady as expected and kept placeholders for two additional rate cuts this year. The FOMC downgraded the growth outlook, while projecting higher core inflation — a stagflation-light outcome. The Fed move created the impression that within the dual mandate the central bank would move first to protect growth.
- The US Aggregate Bond Index posted a slight positive return. Treasuries were the best-performing asset class, as the risk-off environment drove all major spread sectors wider. The short-to-intermediate part of the curve rallied, while the 10-year Treasury yield was unchanged.

TAXABLE BOND MARKET UPDATE & OUTLOOK



Sources: FactSet and Bloomberg

US TREASURY YIELDS

	12/31/24	2/28/25	3/31/25	MTD Change (bps)	YTD Change (bps)
3-Month	4.33%	4.31%	4.30%	-1	-3
6-Month	4.28%	4.28%	4.23%	-5	-5
2-Year	4.24%	3.99%	3.89%	-10	-35
5-Year	4.38%	4.02%	3.95%	-7	-43
10-Year	4.58%	4.21%	4.21%	0	-37
30-Year	4.78%	4.49%	4.57%	+8	-21

FIXED INCOME SECTOR PERFORMANCE

	MTD	YTD	Yield to Worst
Bloomberg Aggregate Index	0.04%	2.78%	4.60%
US Treasuries	0.23%	2.92%	4.11%
Investment Grade Corporates	-0.29%	2.31%	5.15%
Mortgage-Backed Securities	-0.02%	3.06%	4.92%
Asset-Backed Securities	0.23%	1.53%	4.58%
Taxable Municipal Bonds	-0.71%	2.83%	5.23%
High Yield Corporate Bonds	-1.02%	1.00%	7.73%

- Evidence continued to accumulate that sweeping policy initiatives around trade and DOGE weighed heavily on consumer confidence and spending patterns.
- The Fed's preferred measure of inflation inched higher in February by a slightly more-than-expected 0.4% month over month (MoM). The 2.8% year-over-year (YoY) increase is still well above the Fed's 2% target.
- The labor market remains solid enough to keep the Fed on the sidelines, as it waits to assess the impact of tariffs on inflation and growth.
- Amid escalating uncertainty around the dual mandate, Fed Chair Jerome Powell struck a more optimistic tone around the temporary nature of tariff-related inflation pressure and dismissed concerns from survey-based inflation expectations.
- The yield curve steepened considerably following the FOMC meeting due to the growing belief that the Fed will respond faster to growth weakness. The 2-year/30-year segment finished at 68 bps, the steepest in three years.
- The futures market exited the month pricing in three Fed rate cuts for 2025, with the first full cut coming around June/July.
- As risk sentiment shifted, the outlook for growth drove investment grade (IG) and high yield (HY) spreads wider.
- The securitized sector underperformed relative to comparable-duration Treasuries, primarily due to challenges faced by agency mortgage-backed securities (MBS) amid concerns over government-sponsored enterprise (GSE) reform. Despite this, the sector appears attractive, supported by lower-rate volatility, a positive technical environment, and more favorable valuations.
- Asset-backed securities (ABS) underperformed, driven by ongoing pressure in the utility sector due to the California wildfires.

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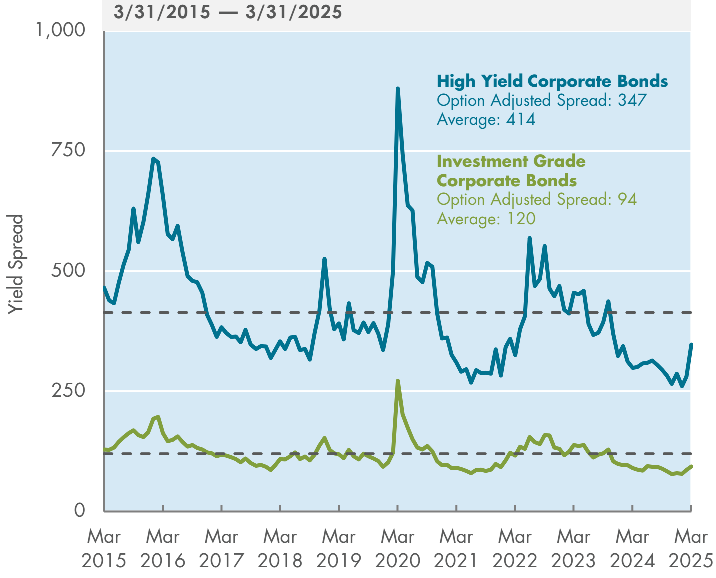
SECTOR ALLOCATION	POSITIONING
DURATION & YIELD CURVE	Our duration stance is neutral, as the upward pressure of rising inflation expectations is offset by emerging evidence of some real growth concerns in the data. We believe rates should remain relatively rangebound until the market gains clearer direction from either the hard or soft economic data, and clarity around trade and tariff policies are fully understood.
TREASURIES	We favor spread product over Treasuries in this attractive carry environment. Despite the recent rally, rates remain attractive relative to post global financial crisis (GFC) history.
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 are somewhat more cautious around spread sectors in this risk-off environment. Toward that end, we maintain our higher-quality bias within corporates, favoring more defensive sectors while avoiding lower-rated cyclicals.
SECURITIZED	High quality securitized holdings, including Agency MBS and ABS, continue to represent an important part of our overall allocation. The MBS sector appears attractive, supported by lower-rate volatility, a positive technical environment, and more favorable valuations. ABS remain a good source of income in low-duration, high-quality bonds.

HIGH YIELD & INVESTMENT GRADE CORPORATE BOND SPREADS

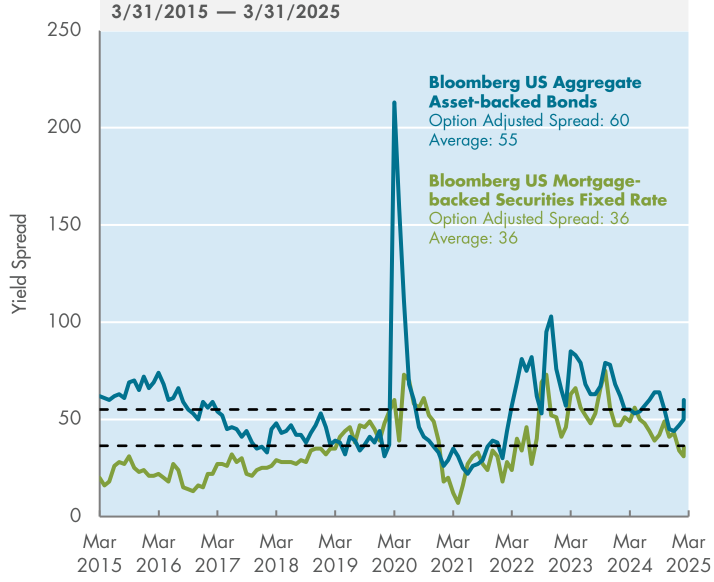
3/31/2015 — 3/31/2025



Source: Bloomberg

ASSET- & MORTGAGE-BACKED SPREADS

3/31/2015 — 3/31/2025



Source: Bloomberg