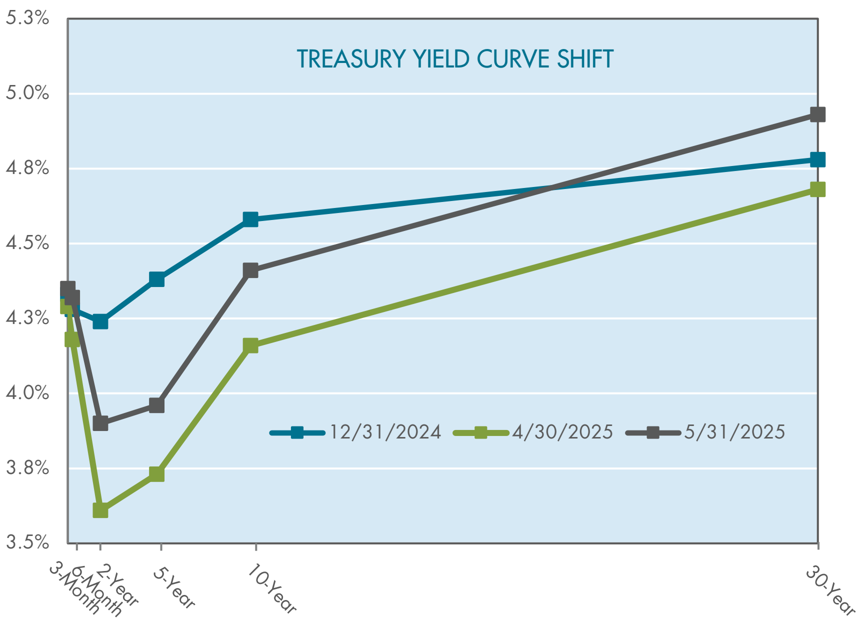
GW&K INVESTMENT MANAGEMENT

TAXABLE BOND
MARKET REVIEW & OUTLOOK

KEY TAKEAWAYS

- Yields rose markedly amid intensifying fiscal concerns, a downgrade to the US sovereign debt rating, and rising yields overseas.
- Risk assets rallied on better-than-expected economic data and a perceived de-escalation in trade tensions with our major trading partners.
- The US Aggregate Bond Index returned -0.72%, breaking a four-month streak of gains. Rates sold off while spreads tightened. The fixed income market is up 2.45% year-to-date as of May 31, 2025.

TAXABLE BOND MARKET UPDATE & OUTLOOK



Sources: FactSet and Bloomberg

US TREASURY YIELDS

	12/31/24	4/30/25	5/31/25	MTD Change (bps)	YTD Change (bps)
3-Month	4.33%	4.29%	4.35%	+6	+2
6-Month	4.28%	4.18%	4.32%	+14	+4
2-Year	4.24%	3.61%	3.90%	+29	-34
5-Year	4.38%	3.73%	3.96%	+23	-42
10-Year	4.58%	4.16%	4.41%	+25	-17
30-Year	4.78%	4.68%	4.93%	+25	+15

FIXED INCOME SECTOR PERFORMANCE

	MTD	YTD	Yield to Worst
Bloomberg Aggregate Index	-0.72%	2.45%	4.71%
US Treasuries	-1.03%	2.51%	4.19%
Investment Grade Corporates	-0.01%	2.26%	5.21%
Mortgage-Backed Securities	-0.91%	2.41%	5.15%
Asset-Backed Securities	0.02%	2.05%	4.62%
Taxable Municipal Bonds	-1.48%	1.11%	5.46%
High Yield Corporate Bonds	1.68%	2.68%	7.46%

- Uncertainty stemming from the administration's tariff policy decisions lessened, as evidenced by the latest Conference Board and University of Michigan surveys showing better results. Consumers continue to be resilient, indicated by recent spending data and retailer earnings reports. A job market that remains in solid shape has been an important bulwark. All led to an overall easing of economic growth concerns.
- Investors, nevertheless, have a lot to digest and the One Big Beautiful Bill Act that Republicans and the White House are attempting to pass is expected to persist in blazing a path of large deficits that the government will need to fund by selling more debt.
- Investment grade corporates outperformed on the back of the largest decline in spreads since November 2023. The move almost offset the effect rising yields had on the longer-duration sector. The economic tone has improved and spreads have reacted accordingly. Lower-rated credits outperformed throughout the credit stack.
- High yield performed better than the broad bond market, with October of 2022 being the last month spreads declined this significantly. The sector also benefited from its lower sensitivity to interest-rate changes. May's return was the best return since July of last year.
- While agency mortgage-backed securities (MBS) remain highly sensitive to interest-rate volatility, even as volatility declined throughout May, spreads stayed elevated due to renewed attention on the privatization of government-sponsored enterprises (GSEs). Initial market jitters were tempered but not removed by assurances that the implicit government guarantee would remain intact.
- Asset-backed securities (ABS) continued to recover from April's spread widening despite elevated issuance levels that had been delayed by prior volatility. In a shift from recent trends, utility and other ABS subsectors led performance.
- The preferreds market participated in the risk-on rally returning 0.69%, while spreads tightened 26 bps. The more interest-rate sensitive fixed-for-life preferreds meaningfully underperformed their fixed-floating counterparts given the move higher in rates across the curve.

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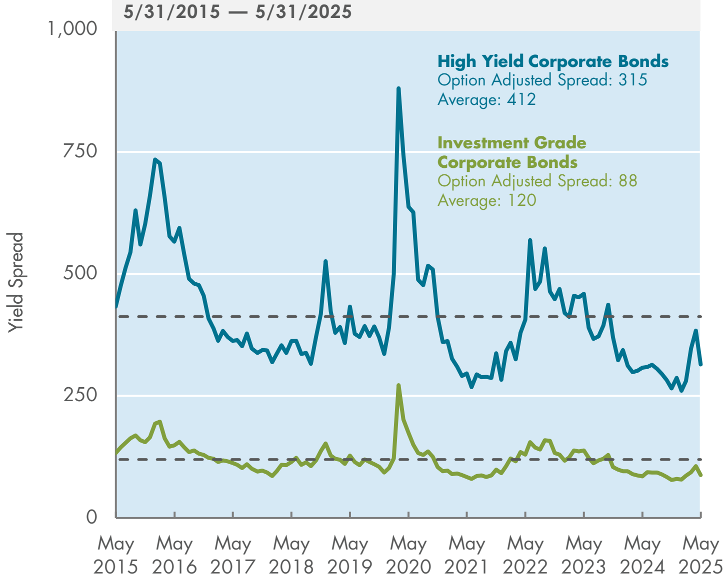
SECTOR ALLOCATION	POSITIONING
DURATION & YIELD CURVE	Our duration stance is neutral, as expectations for rising inflation from tariff polices are offset by evidence of growth concerns in the soft data. We believe rates should remain relatively rangebound until the market gains greater clarity around mounting deficits and trade/tariff policies.
TREASURIES	We favor spread products 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. Yields are in a sweet spot while the fundamentals and technicals remain robust. That said, we maintain our higher-quality bias within corporates, favoring more defensive sectors, while avoiding lower-rated cyclicals.
SECURITIZED	Agency MBS and ABS remain a key component of our overall portfolio allocation. The MBS sector offers attractive value, with nominal spreads near the wider end of their long-term range; however, the sector remains highly sensitive to interest-rate volatility and there has been renewed attention on GSE privatization. Valuations remain compelling for ABS — a front-end, high-quality asset class — with spreads still well above their late-2024 lows.

HIGH YIELD & INVESTMENT GRADE CORPORATE BOND SPREADS

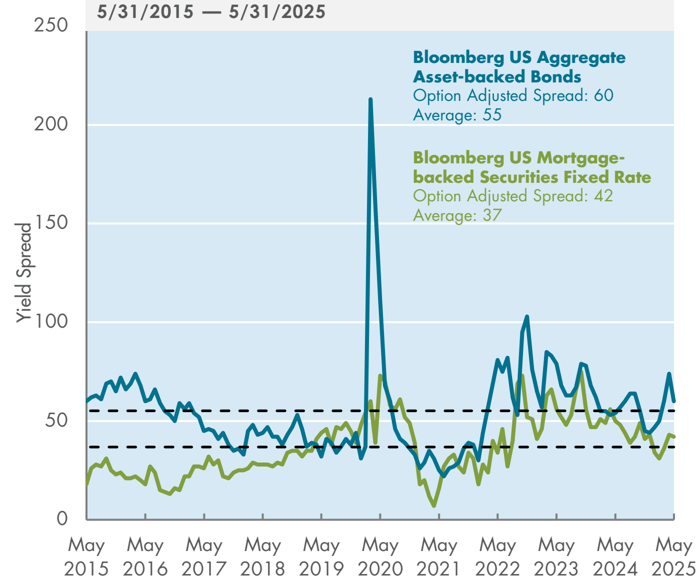
5/31/2015 — 5/31/2025



Source: Bloomberg

ASSET- & MORTGAGE-BACKED SPREADS

5/31/2015 — 5/31/2025



Source: Bloomberg