



National Investment Services

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FOURTH QUARTER, 2025

Investment Review

FIXED INCOME OVERVIEW

The bond market continued its upward trajectory, finishing the year on a high note. The Bloomberg U.S. Aggregate Index enjoyed strong performance from the Agency MBS market along with other areas of the structured market, namely ABS and CMBS, as these index sectors were all up over 1% in the quarter ending Dec. 31, 2025. The Bloomberg Intermediate U.S. Government/Credit Index finished up 1.20%, and the short-term Bloomberg 1-3 Year U.S. Gov./Credit Index finished up 1.16%.

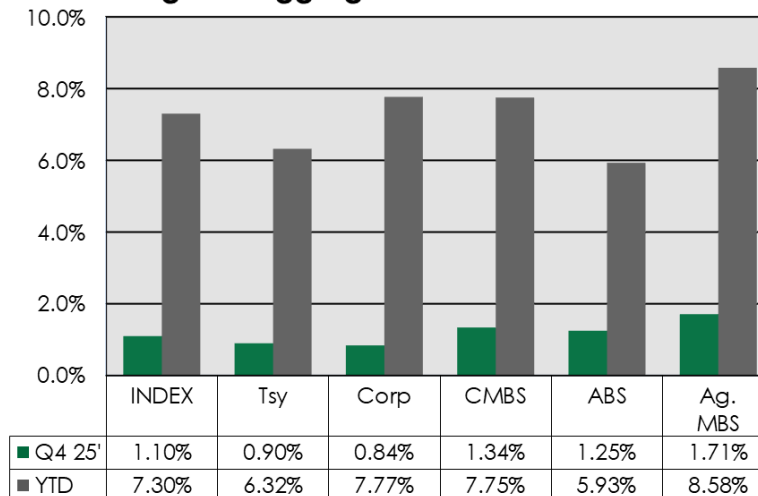
Bond Spreads

Corporate bond valuations remain stretched as both investment-grade and high-yield bond spreads ended the year near their post-pandemic tight levels, raising questions about potential overvaluation and future risk. Investors should consider the possibility of spread widening if market conditions change, which could impact returns.

Article Highlights

- Bonds Enjoyed Another Positive Quarter
- Inflation Trending Lower
- The Job Market in Focus
- Continued Cautious Positioning

Bloomberg U.S. Aggregate Index Sector Performance



Source: Bloomberg

For the latest on NIS happenings and firm updates



SCAN It & go

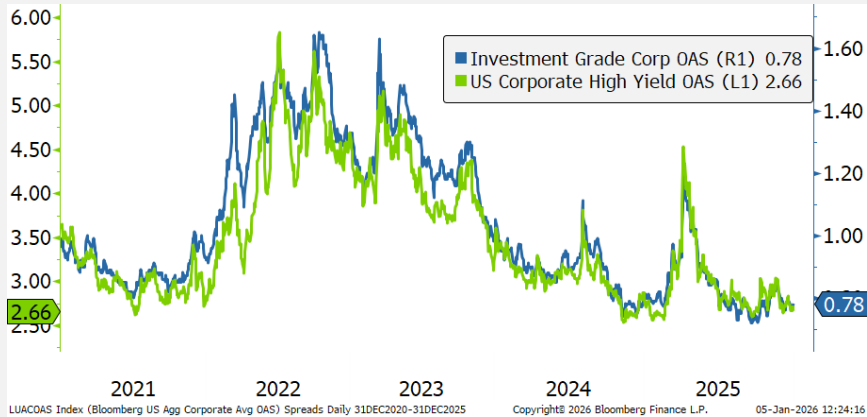


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Bond Spreads

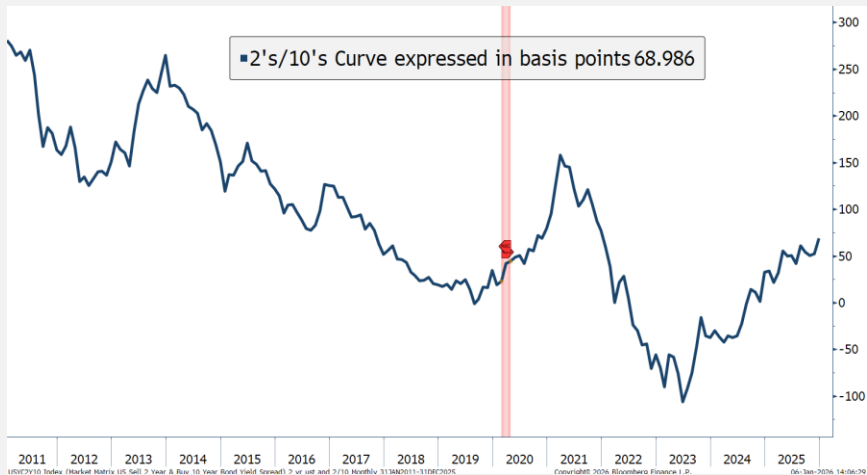


Source: Bloomberg

Interest Rates

Yields on the short end of the curve moved sharply lower as the Fed remained dovish amid signs of a slowing employment backdrop, while the long-end continued a steepening trend that was in place all year. We expect the near-term yield range for the benchmark 10-yr Treasury to be 3.95%-4.25%. And we will maintain a relatively neutral rate stance for now.

2's/10's Curve Steepened

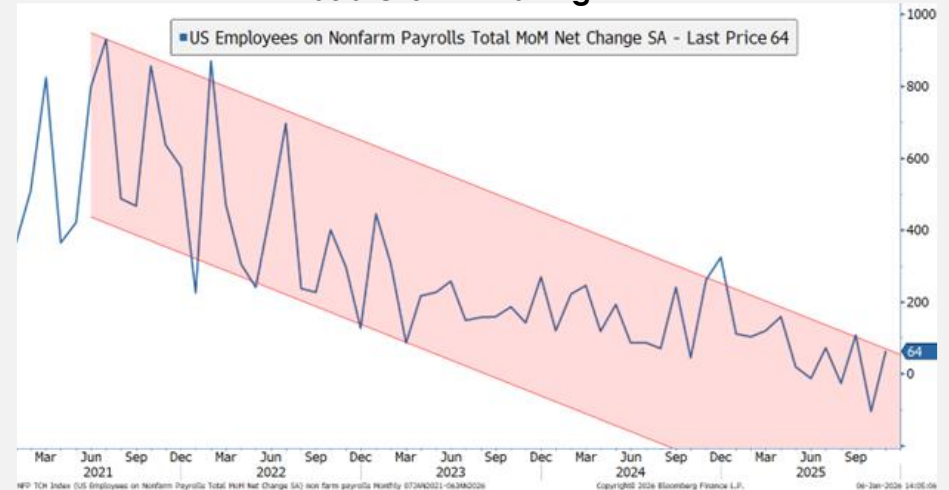


Source: Bloomberg

Employment & the Economy

The Fed, for its part, has been very concerned about the slowing domestic employment backdrop, as illustrated by the declining Nonfarm Payrolls chart below. We concede that the labor market is moderating, but it does not seem to be rolling over, as continuing jobless claims are well contained. Additionally, job openings per unemployed remain at 1 to 1, a signal of equilibrium.

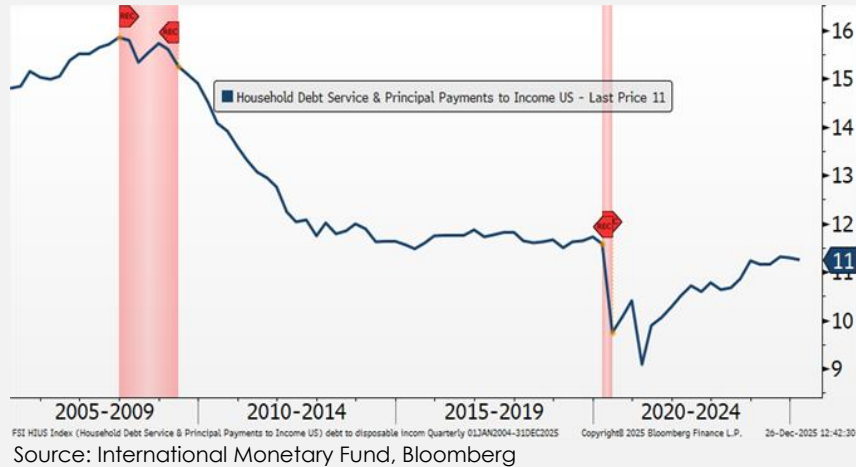
Job Growth Waning



Source: Bureau of Labor Statistics, Bloomberg

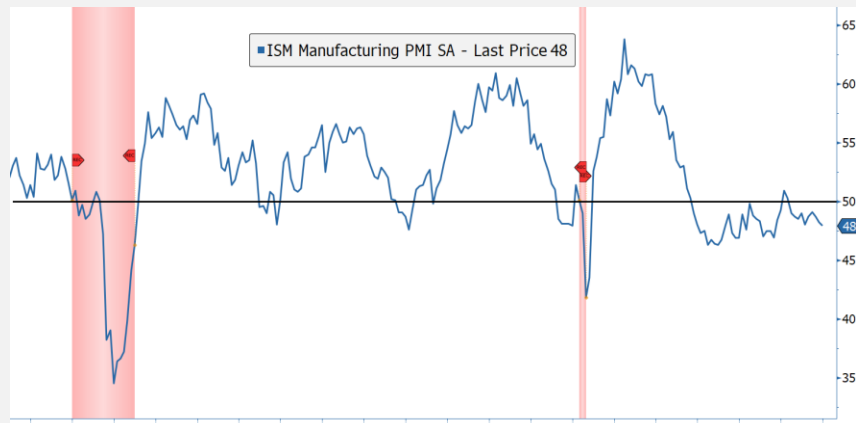
With inflation moderating, the consumer continues to spend, albeit at a slightly slower rate than earlier in 2025. Also, there is some excitement about expected GDP growth in the new year, driven by pro-growth provisions for businesses and individuals in the recent tax and budget law signed last summer. An examination of Household Debt-to-Income still shows that, in the aggregate, households are doing alright.

Consumer Remains Resilient



Unfortunately, we are still seeing pockets of weakness in manufacturing as New Orders and Employment outlooks in the ISM numbers remain in a slowing trend that has been in place for the better part of three years. A resurgence here could provide a nice tailwind in 2026, but it is too early to call the renaissance started.

Manufacturing Still Slow



Source: Institute for Supply Management, Bloomberg

First Quarter, 2026 STRATEGY

Cautious optimism best describes our bond market outlook for the year ahead, as the Fed has not quite tamed inflation, and current bond market spreads offer little room for error. Throw in the usual uncertainty emanating from Washington, D.C., and we must admit that duplicating last year's absolute fixed-income results might prove challenging. However, we still see opportunities to add value with yields in the mid-4% range and potential returns in that same ballpark.

During the quarter, we reduced our underweight in the Industrial credit sector. We added to the Technology and Non-cyclical sectors, but we remain relatively underweight. Supply for 2026 is expected to grow at another record pace, and we have room to add when opportunities arise, but spreads remain historically tight, and credit curves remain relatively flat. We also modestly reduced our overweight position in financials as the primary markets provided attractive alternatives in other areas. U.S. banks should continue to benefit from a favorable regulatory environment. There were several small banking acquisitions during 2025, and we expect the trend to continue.

In auto ABS, spreads for prime and subprime seniors are tight relative to historical levels but still offer some value relative to short-term corporate bonds. Within CMBS, we are sticking to bonds at or near the top of the stack. New issue last cash flows (LCFs) remain somewhat cheap to corporates. Last quarter, we noted that we preferred mezzanine AAAs at 40 bps back of LCFs; this basis has compressed to 35 bps, but mezzanine AAAs remain attractive.

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Chief Strategy Officer



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