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THIRD QUARTER, 2026

Investment Review

FIXED INCOME OVERVIEW

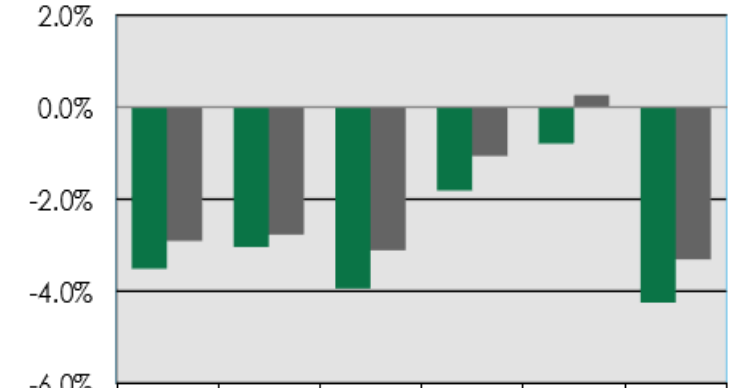
The economy remained resilient during the third quarter, and consumer spending and corporate investment sustained growth. Unfortunately, high energy prices and general cost pressures kept inflation near the top of market concerns. Bond yields rose noticeably as bond prices fell. The 10-yr. Treasury yield closed the quarter near 5.3%, a level not seen in over 20 years. Given the magnitude of the bond market selloff, few places offered cover.

The Bloomberg US Aggregate Index finished the quarter down 3.51% as investors wrestled with surging bond yields and rising uncertainty surrounding inflation. Corporate bonds finally succumbed to the heavy new-issue calendar, finishing down almost 4% while CMBS and ABS outperformed, but still finished in the red during the quarter. The Bloomberg Intermediate US Govt./Credit Index was down 1.88%, while the short-duration Bloomberg 1-3yr. US Govt./Credit Index almost broke even at -0.18% on the quarter.

Article Highlights

- Bond yields higher
- The broad economy remains resilient
- Credit spreads widen
- The Fed is acting on inflation

Bloomberg US Aggregate Index Sector Performance



	INDEX	Tsy	Corp	CMBS	ABS	Ag. MBS
Q3 26'	-3.51%	-3.04%	-3.94%	-1.81%	-0.79%	-4.25%
YTD	-2.91%	-2.77%	-3.11%	-1.06%	0.26%	-3.31%

Source: Bloomberg

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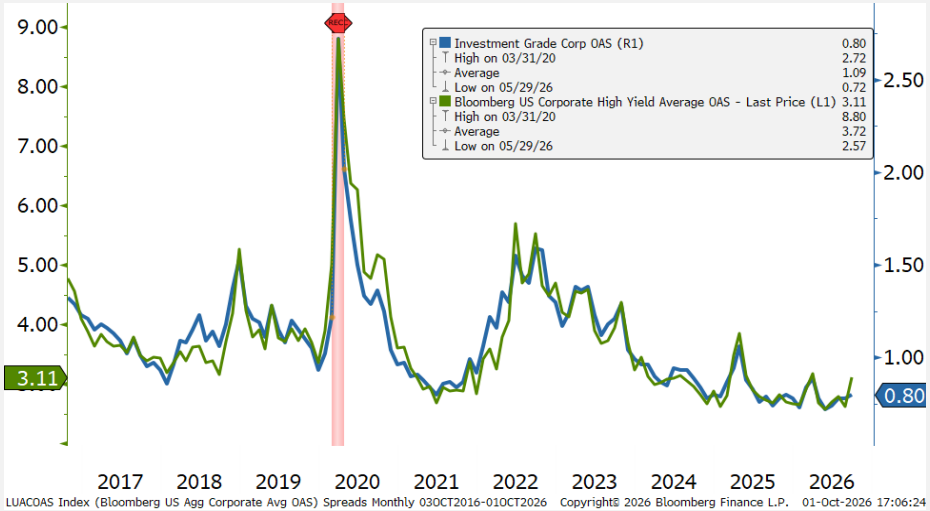
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Credit Spreads

Investment-grade (IG) corporate credit spreads (blue line) widened by about 8bps during the quarter as the market showed new-issue fatigue and general malaise given the rate backdrop. High-yield names widened 41bps to close at 311bps, but like IG names, they remain inside their long-term averages, still reflecting a constructive outlook for U.S. companies and the economy.

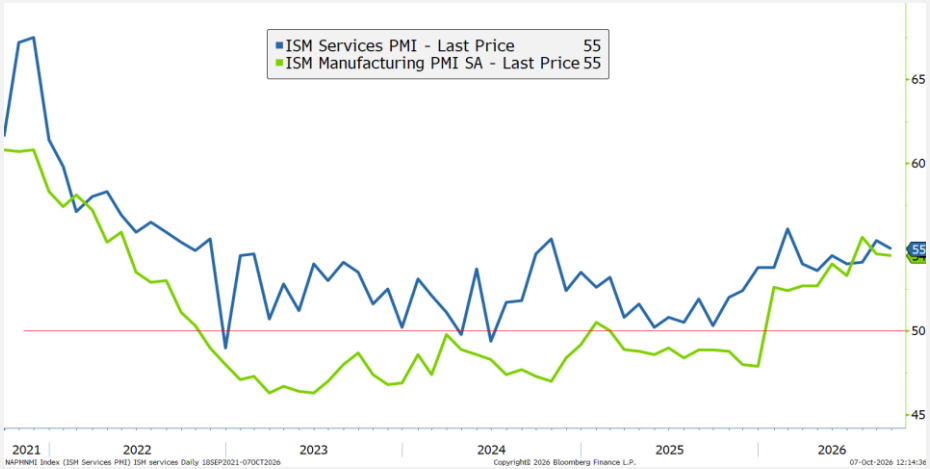
Credit Spreads



Source: Bloomberg

Both the service and manufacturing sectors appear to be running quite well despite the recent rise in input costs. Additionally, corporate earnings in the S&P 500 grew at least 10% in nine out of eleven sectors during Q2. (Financial Times)

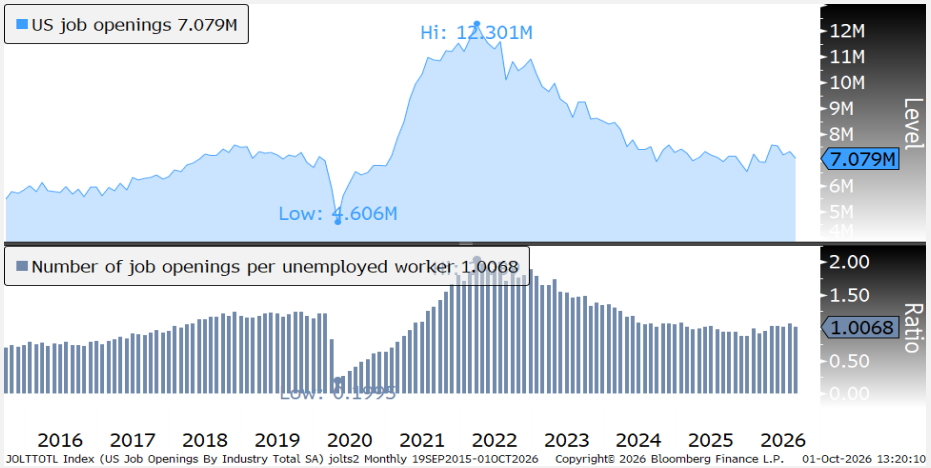
ISM Readings



Source: Institute for Supply Management, Bloomberg

The third quarter continued a decent trend in the employment market, as the economy added jobs while maintaining openings for available workers at nearly a one-for-one rate. Low hire, low fire is often quoted, but it has shifted the Fed's focus back to inflation.

Job Openings Hint at Equilibrium

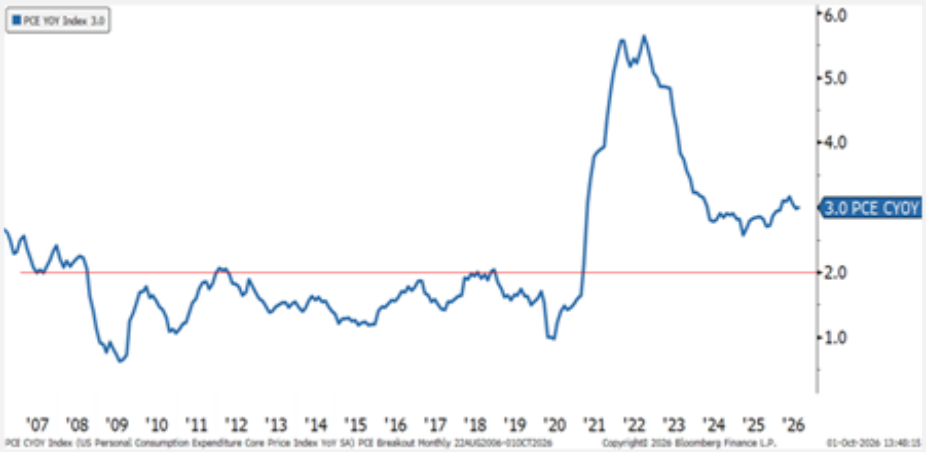


Source: Bureau of Labor Statistics, Bloomberg

The Fed Moves

The Federal Reserve had little choice but to raise rates at its September meeting, as input signals flagged a hot inflation engine. The unanimous decision was surprising, and it carried weight across our trading desk. We would note the move makes sense given just how long their preferred gauge (PCE) has been running above the 2% target.

Core PCE



Source: Bureau of Economic Analysis, Bloomberg

Interest rates and the yield curve responded accordingly, as the 2-yr. moved over 70bps higher over the quarter while the 10-yr. benchmark jumped 82bps to close at 5.29%, its highest level in about 20 years.

10-yr. Treasury Yield



Source: Bloomberg

Fourth Quarter, 2026 STRATEGY

Our strategy remained consistent during Q3, primarily maintaining an upward bias on credit quality. Supply remained heavy in Q3 with a heavy-looking calendar on the horizon. We added to the tech-heavy supply during the quarter, but we remain underweight overall due to supply concerns.

We remain cautious on CMBS, which typically underperforms during macro volatility. Year-to-date, excess returns have been strong. However, spreads are now near historical tights even after some widening in September, suggesting more downside than up. We will look to add to high-quality, newly issued last cash flows and select AAA-rated SASB if spreads widen further. In esoteric ABS, we are looking to add fiber ABS, capitalizing on the digital infrastructure boom without the heavy supply risk typically associated with data center ABS.

Mark R. Anderson, CFA
Chief Strategy Officer

NIS

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