

Bond Market Review

October 27, 2025

Summary

- The September Consumer Price Index (CPI) report came in below expectations and likely paved the way for a 25 basis point rate cut at the Federal Open Market Committee (FOMC) meeting this week. We expect minimal changes to the Federal Reserve's (Fed's) economic or interest rate outlook, especially considering the lack of new economic data releases. However, the Fed could announce the end of its quantitative tightening program.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
3 Month	3.84	-0.09	-0.47
6 Month	3.76	-0.08	-0.51
1 Year	3.58	-0.03	-0.56
2 Year	3.48	-0.13	-0.76
5 Year	3.61	-0.14	-0.78
10 Year	4.00	-0.15	-0.57
30 Year	4.59	-0.14	-0.19

Taxable

Solid Earnings Boosts Corporates

- While the macro picture didn't change much last week, in our view the investment grade credit market felt relatively soft until Thursday when the increase in oil prices and bond yields seemed to boost the market. In addition, a succession of strong earnings reports from the auto sector, Dow Chemical, Intel, and others also helped spreads close the week slightly tighter.

High Yield Continues to Recover

- High yield posted decent performance last week based on market analysis as it continues to recover from the sell-off two weeks ago. Bank earnings were a big part of the story as they appeared to ease investor's concerns about deterioration in asset quality. Spreads were 8 bps tighter last week with the option-adjusted spreads at 296 bps, which is 22 bps tighter from two Fridays ago. There is still some nervousness in the market and a preference for higher quality bonds in our view, as evidenced by outperformance of BB-rated bonds, but overall the market seems to be recovering.

Municipal Yields								
Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Tax-Equivalent Spread (bps)	Muni/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	2.50	0.20	-0.47	3.85	26.78	69.86	6.20	-1.78
2 Year	2.45	0.18	-0.38	3.76	28.16	70.26	7.46	3.78
5 Year	2.36	0.05	-0.54	3.63	2.70	65.49	3.71	-0.74
10 Year	2.71	-0.21	-0.42	4.17	17.31	67.81	-2.59	-0.65
30 Year	4.09	-0.20	0.22	6.30	170.57	89.14	-1.64	8.11

Tax-Free

Flattening Continues

- The October flattening trend continued as short-term rates increased while long-term rates declined with the 6-year segment the pivot point of the yield curve. The selling pressure in the front-end is likely driven by investors extending duration to pick up higher yielding bonds. Muni-to-Treasury ratios are now around 70% inside 2-years and the 1-10 year curve slope has declined to 17 bps.

Pension Funding Ratios Projected to Rise

- The aggregate funded ratio for state and local pension plans is projected to rise for a third straight year to 83.1% in FY25 according to Equable Institute data covering 253 statewide and municipal retirement systems. The funding progress reflects increased contribution rates and government plans exceeding their assumed rates of return (aggregate averages of 8.6% vs. 6.9%). Despite this progress, funded ratios are expected to fall just shy of their 10-year peaks of 83.9% hit in 2021.

Bond Market Review

October 27, 2025

International Yields								
	Canada	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.38	1.97	0.95	3.80	2.20	2.2	2.07	1.88
5 Year	2.66	2.23	1.24	3.90	2.74	2.7	2.53	2.53
10 Year	3.09	2.63	1.67	4.43	3.43	3.42	3.16	3.28
30 Year	3.58	3.21	3.09	5.22	4.29	4.3	3.99	4.15

Sectors ¹							
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low	
Investment Grade Corporate	6.97	75	1	-5	119	72	
▪ Financial	5.42	77	3	-5	122	73	
▪ Industrial	7.62	73	1	-5	116	70	
▪ Utility	8.21	81	0	-1	119	78	
High Yield	2.82	281	14	-6	453	253	
Securitized	5.46	30	-3	-15	52	28	
▪ Commercial Mortgage-Backed Securities	3.88	77	2	-3	101	75	
▪ Asset-Backed Securities	2.76	54	5	10	75	42	
▪ Mortgage-Backed Securities	5.60	26	-5	-17	49	25	

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	47,207.12	809.23	4662.90
S&P 500	6,791.69	103.23	910.06
Nasdaq	23,204.87	544.86	3894.08

Volatility			
	Current	Δ MTD	Δ YTD
VIX	16.37	0.09	-0.98
MOVE	68.94	-8.99	-29.86

Commodities			
	Current	Δ MTD	Δ YTD
CRB	302.98	2.38	6.26
Gold	4137.80	264.60	1496.80
Oil	61.50	-0.87	-10.22
Gas	192.27	0.04	-8.65

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	98.95	1.18	-9.54
Euro	1.16	-0.01	0.13
Pound	1.33	-0.01	0.08
Yen	152.86	4.96	-4.38
Canadian Dollar	1.40	0.01	-0.04
Franc	0.80	0.00	-0.11

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	4.25	0.00	-0.25
Europe	2.15	0.00	-1.00
United Kingdom	4.00	0.00	-0.75
Japan	0.50	0.00	0.25
Canada	2.50	0.00	-0.75

Data is as of 10.24.2025. Source: Bloomberg L.P. Please refer to page 3 for important definitions and disclosures.

¹Sectors are represented by the following indices: Investment Grade Corporate = Bloomberg U.S. Corporate Bond; Financial = Bloomberg U.S. Aggregate Investment Grade Finance; Industrial = Bloomberg U.S. Aggregate Investment Grade Industrial; Utility = Bloomberg U.S. Investment Grade Utility; High Yield = Bloomberg U.S. Corporate High Yield; Securitized = Bloomberg U.S. Securitized; Commercial Mortgage-Backed Securities = Bloomberg U.S. Aggregate CMBS; Asset-Backed Securities = Bloomberg U.S. Aggregate ABS; Mortgage-Backed Securities = Bloomberg U.S. Aggregate MBS.



STERLING
CAPITAL

Important Information

Disclosures, Technical Terms & Indices

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Economic charts are provided for illustrative purposes only. The information provided herein is subject to market conditions and is therefore expected to fluctuate.

The opinions contained in this presentation reflect those of Sterling Capital Management LLC (SCM), are for general information only, and are educational in nature. The opinions expressed are as of the date of publication and are subject to change without notice. These opinions are not meant to be predictions and do not constitute an offer of individual or personalized investment advice. They are not intended as an offer or solicitation with respect to the purchase or sale of any security. This information and these opinions are subject to change without notice. All opinions and information herein have been obtained or derived from sources believed to be reliable. SCM does not assume liability for any loss which may result from the reliance by any person upon such information or opinions.

Investment advisory services are available through SCM (CRD# 135405), an investment adviser registered with the U.S. Securities & Exchange Commission (SEC) and an indirect, wholly-owned subsidiary of Guardian Capital Group Limited. SEC registration does not imply a certain level of skill or training, nor an endorsement by the SEC. SCM manages customized investment portfolios, provides asset allocation analysis, and offers other investment-related services to affluent individuals and businesses.

SCM does not provide tax or legal advice. You should consult with your individual tax or legal professional before taking any action that may have tax or legal implications.

Specific securities identified and described do not represent all of the securities purchased, sold or recommended to clients. There are no assurances that securities identified will be profitable investments. The securities described are neither a recommendation nor a solicitation. Security information is being obtained from resources the firm believes to be accurate, but no warrant is made as to the accuracy or completeness of the information.

Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied upon for, accounting, legal or tax advice. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

Technical Terms: **Duration:** a tool used in assessing the price volatility of a fixed-income security. **Gross Domestic Product (GDP)** A comprehensive measure of U.S. economic activity. GDP measures the value of the final goods and services produced in the United States (without double counting the intermediate goods and services used up to produce them). The **federal funds rate** is the interest rate at which depository institutions (mainly banks) lend reserve balances to other depository institutions overnight on an uncollateralized basis. In simpler terms, it's the rate banks charge each other for short-term loans to meet their reserve requirements. **Municipal/Treasury Ratio:** a comparison of the current yield of municipal bonds to U.S. Treasuries. **Non-farm payroll** refers to the number of jobs in the private sector and government agencies. It excludes farm workers, private household employees, proprietors, non-profit employees, and actively serving military. **Option-Adjusted Spread (OAS)** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is then adjusted to take into account an embedded option. Typically, an analyst uses Treasury yields for the risk-free rate. The spread is added to the fixed-income security price to make the risk-free bond price the same as the bond. **Personal consumption expenditures (PCE)** is the primary measure of consumer spending on goods and services in the U.S. economy. **Tax-Equivalent Spread** is the spread needed on a taxable bond to produce the same yield as a municipal bond. **Tax-Equivalent Yield:** the return that is required on a taxable investment to make it equal to the return on a tax-exempt investment. **Yield Spread:** the difference between the quoted rates of return between two different investment vehicles; also called the credit spread. **Yield-To-Worst:** Is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting. It is a type of yield that is referenced when a bond has provisions that would allow the issuer to close it out before it matures.

The volatility of an index varies greatly. All indices are unmanaged, and investments cannot be made directly in an index.

The **Commodity Research Bureau Index (CRB)** comprises a basket of 19 commodities, with 39% allocated to energy contracts, 41% to agriculture, 7% to precious metals, and 13% to industrial metals. The CRB is designed to isolate and reveal the directional movement of prices in overall commodity trades. **Dow Jones Industrial Average (DJIA)** an index that tracks 30 large, publicly-owned blue-chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. **The ICE BofA MOVE Index** is a well-recognized measure of U.S. interest rate volatility that tracks the movement in U.S. Treasury yield volatility implied by current prices of one-month over-the-counter options on 2-year, 5-year, 10-year and 30-year Treasuries. **The Nasdaq Composite Index** the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depository receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities. **The S&P 500® Index** is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization. **The Bloomberg U.S. Agg Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. **The Bloomberg U.S. Corporate Index** covers performance for United States corporate bonds. This index serves as an important benchmark for portfolios that include exposure to investment grade corporate bonds. **The Volatility Index (VIX)** is the annualized implied volatility of a hypothetical S&P 500 stock option with 30 days to expiration. **The Producer Price Index (PPI)** is a series of indexes from the U.S. Bureau of Labor Statistics (BLS) that measures the average change over time in the selling prices received by domestic producers for their output. The **Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. **The ICE BofA 1-10 Year Index** is a performance benchmark for a broad segment of the U.S. fixed-income market, encompassing U.S. government, corporate, and agency debt securities with remaining maturities between one and ten years. **Bloomberg L.P. Information:** "Bloomberg®" and the Bloomberg indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Sterling Capital Management LLC and its affiliates. Bloomberg is not affiliated with Sterling Capital Management LLC or its affiliates, and Bloomberg does not approve, endorse, review, or recommend the product(s) presented herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the product(s) presented herein.



STERLING
CAPITAL