

Taxable Fixed Income Commentary

3Q 2026

Economic Overview

Volatility surged in fixed-income markets during the third quarter, as investor concerns expanded beyond the Middle East conflict to include resilient above-trend economic growth, years of sticky inflation, the Federal Reserve's first rate hike in three years, and swelling developed-world fiscal deficits. U.S. Treasury yields moved incrementally higher in the first two months of the quarter, before rocketing higher in September, as the combination of sharply higher diesel prices and an unexpected increase in the U.S. Treasury buyback program, which rattled market confidence in U.S. fiscal authorities, pressured yields meaningfully higher. Concurrently, other developed-market sovereign bonds experienced similar weakness, as growing concerns of fiscal stress and central bank tightening weighed on sovereign yields. For the quarter, the 2-year, 10-year, and 30-year Treasury yields rose 72 basis points, 82 basis points, and 68 basis points, respectively.

On the economic front, incoming data reinforced familiar themes, specifically, that the economy is healthy, activity is broadening out in the manufacturing sector while the service sector remains strong, the labor market is stable in a low turnover environment, and inflation is still too high. 2Q26 real gross domestic product (GDP) growth was revised up to 2.2%, while the ISM Manufacturing and Services indices both remain comfortably in expansionary territory. The labor market maintained the status quo of a slower pace of hiring yet without sign of labor demand deterioration. The economy added an average of 51,000 jobs per month during the quarter, a modest downtick from the pace seen in Q1 and Q2. However, jobless claims averaged just 200,000 over a rolling four-week period by quarter end. For context, over the prior 50 years, the only time the rolling four-week average of initial jobless claims was below 200,000 was during the extreme labor supply shortage in 2022 as the economy reopened from the pandemic. Finally, inflation remained stubbornly high, with the core Personal Consumption Expenditures Index over 3% during the quarter.

Meanwhile, the Federal Reserve reasserted its inflation-fighting credentials, as it raised the federal funds rate at its September meeting while forecasting further tightening this year. The Fed's hawkish shift included removing from its meeting statement a nod to supply shocks as partly driving the rise in prices. Simply stating that "inflation remains elevated" without providing rationale for what is driving inflation underscored that the Fed has work to do to bring price gains back to target. The Fed also provided an update to its outlook, largely reflecting the ongoing strength in the economy. Forecasted real GDP for 2026 and 2027 was revised up 0.1% to 2.3% and 2.4%, respectively, while the unemployment rate outlook was lowered to 4.1% from 4.3% for both time periods. Further, core inflation was not expected to fall below 2.5% until 2028. As a result, the Fed expected one more rate hike this year, bringing the federal funds rate to 4.00-4.25% and holding policy rates unchanged through 2027.

Quarterly Change in U.S. Treasury Yields

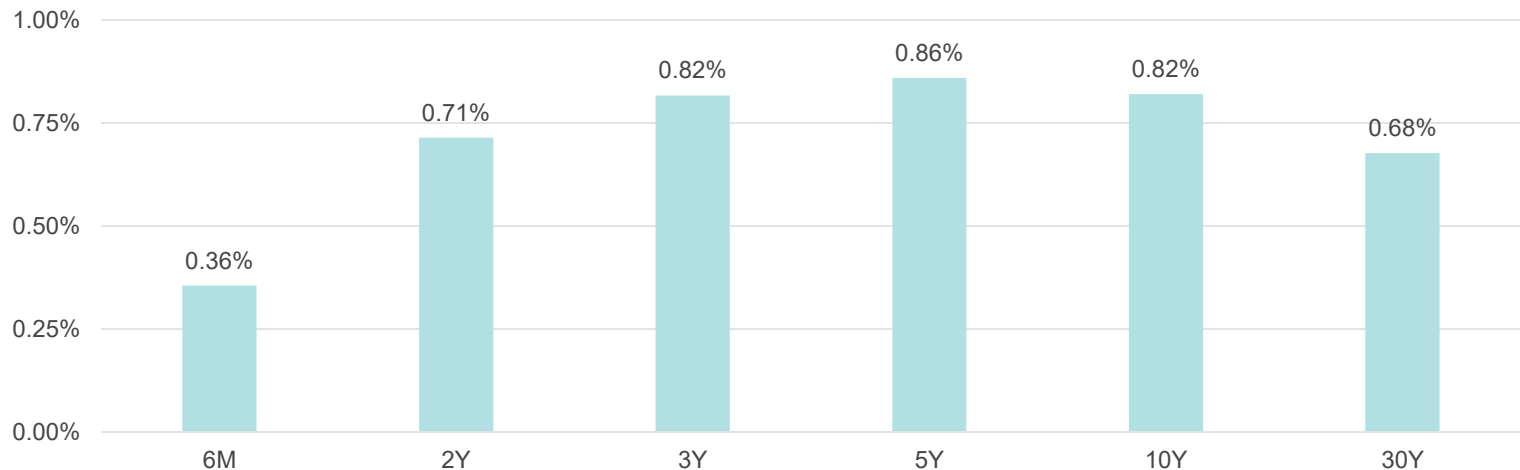


Chart sources: Bloomberg L.P., Sterling Capital Management Analytics. All data referenced herein is as of 09.30.2026 unless otherwise noted. Yields are subject to market conditions and are therefore expected to fluctuate. Textual data source: Bloomberg L.P. ISM = Institute for Supply Management; AI = artificial intelligence; Fed = Federal Reserve. This information must be read in conjunction with the important disclosures and definitions on the last two pages.

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Outlook

The U.S. economy is firing on all cylinders, and we expect more growth and more inflation in the coming quarters. We anticipate real economic growth may finish 2026 in the mid-2% range, with risks skewed to the upside. The combination of robust corporate and household fundamentals, an accommodative Federal Reserve, and a persistent fiscal impulse has been a powerful driver of economic activity. Underlying growth this year has been stronger than real GDP indicates. Real final domestic sales, a core GDP metric that looks to underlying trend growth by stripping out volatile GDP components such as trade and inventory change, accelerated to 2.8% year-over-year from 2.4% y-o-y in 1Q26, marking the highest level in a year. Meanwhile, with inflation persistently above 3%, nominal GDP growth accelerated to 6.3% year-over-year in 2Q, its highest level since 2023. Rapidly rising nominal growth reflects the ability of households and businesses to service debt and expand consumption, which may further boost corporate profits and labor demand. And with the U.S. government persistently running \$2 trillion budget deficits, liquidity is pushed to the private sector.

At the September Federal Reserve meeting, Chairman Kevin Warsh acknowledged that the rate hike “removed a dose of accommodation.” The economy is running hot and implicitly acknowledging that the Fed has not restricted economic activity was an important step in the evolution of monetary policy. Based on economic strength, we expect the Fed to remove the remaining insurance cuts from 2025 by hiking two more times, with the risk for additional tightening from there subject to economic performance. Inflation remains far too high for the Warsh-led Fed, and based on our assessment of the economy, they have work to do. Labor markets may remain in balance, albeit in their low turnover environment, thus keeping the Fed squarely focused on inflation.

The outlook is not without risks, in our opinion; however, as ongoing supply shocks and geopolitical uncertainty serve as a counterbalance to the strong growth narrative. The recent spike in diesel pricing is worrisome to us, as diesel is a vital input for transportation of many goods. Meanwhile, the U.S. finds itself in an intractable situation with Iran over the Strait of Hormuz. We are not optimistic about the prospects for a near-term resolution and expect oil prices to remain high for some time. Persistently high energy costs have the potential to weigh on consumption over time, while higher interest rates may have a similar effect on investment and growth in non-AI focused parts of the economy.

Contributions to US GDP Quarter-over-Quarter (QoQ) %

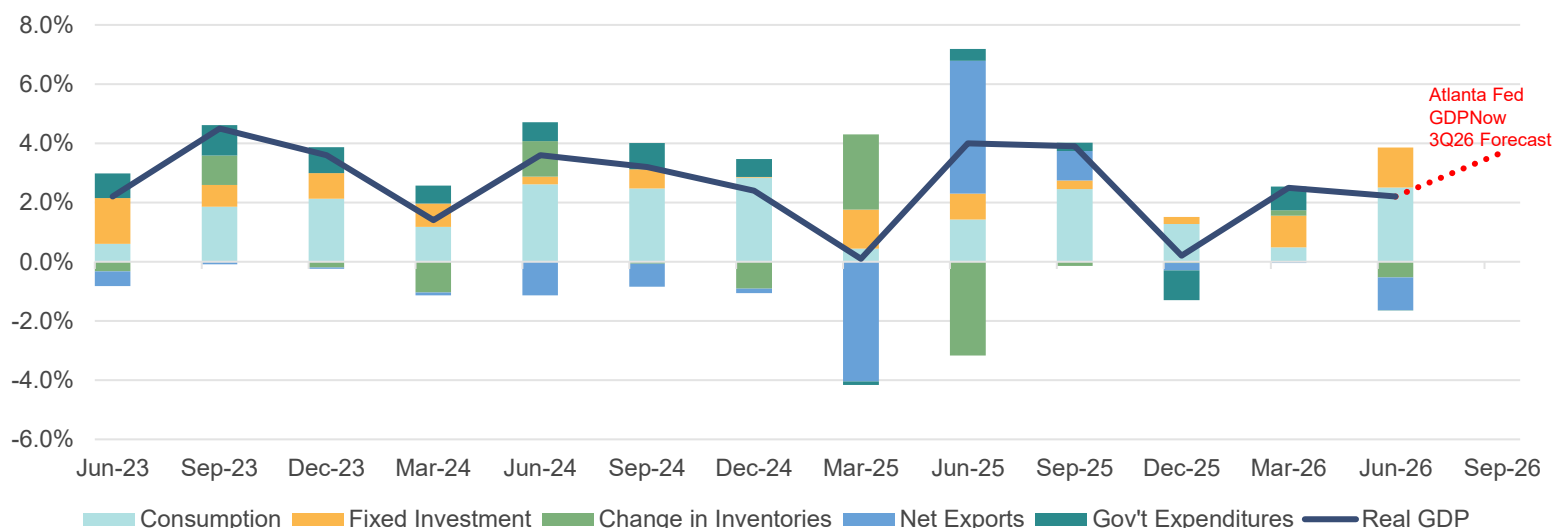


Chart source: Bloomberg L.P. All data referenced herein is as of 09.30.2026 unless otherwise noted. Yields are subject to market conditions and are therefore expected to fluctuate. Textual data source: Bloomberg L.P. GDP = gross domestic product. This information must be read in conjunction with the important disclosures and definitions on the last two pages.



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Corporate Credit

Geopolitics and the hawkish shift at the FOMC played a major role in the performance of corporate bonds during the third quarter but supply and demand technicals exerted an equally important influence. The option-adjusted spread on the Bloomberg U.S. Corporate Index began the quarter at 74 basis points, just three basis points from the post-financial crisis low, but moved wider in July as the U.S.-Iran ceasefire unraveled and issuance ramped up to record levels. While the hawkish shift from the FOMC did not initially elicit much of a reaction in the investment grade market – spreads moved lower in the two weeks following Jackson Hole – the sharp move higher in interest rates and rate volatility at the end of September coupled with a large, messy issuance from Paramount Skydance wiped out most of the sector's excess return for the quarter. All told, investment grade spreads widened six basis points for the quarter for an excess return of -0.14%.

The AI capital expenditure boom again explains much of the sector performance across the investment grade universe this quarter. The hyperscaler cohort widened approximately 27 basis points in July as the market worked to digest SpaceX's inaugural \$25B issuance from the previous month and Amazon brought a \$25B new issue. Meanwhile, investment grade spreads excluding those issuers were only about 5 bps wider. For the quarter, sectors levered to the consumer, higher commodity prices and a strengthening manufacturing backdrop outperformed. Energy names benefited from higher oil prices as WTI moved above \$100 per barrel and the energy sector generated 0.48% in excess return, the highest performance in the investment grade index. Basic industries, healthcare and finance companies also outperformed, while technology and communications trailed duration matched Treasuries by 0.43% and 0.60%, respectively.

Fundamentals remained a bright spot for issuers this quarter. Per Bank of America, during Q2 earnings season, median EBITDA growth for investment grade issuers rose to 10.7% year-over-year, the highest since 2021, while revenue growth accelerated to 7.5%, the fastest since Q3 2022, and median gross leverage fell to 2.52x, the lowest since 2022. Upgrades have outpaced downgrades by roughly 6-to-1 year-to-date. Higher yields kept buyers engaged. By quarter-end, the investment grade index yield sat near 6%, a level it has closed above on just 42 trading days over the past 15 years. That demand was needed to absorb supply. July issuance of \$141B was the busiest July on record, August set another monthly record, and year-to-date issuance reached \$1.676 trillion, already surpassing the full year total from 2025. The quarter closed with Paramount pricing \$30bln of investment grade debt to fund its purchase of Warner Bros. The communications and technology sectors underperformed the broader index in the days prior to issuance and the poor post-pricing performance of this deal threatened to start the fourth quarter in a similar fashion.

The option-adjusted spread (OAS) for the Bloomberg US Corporate High Yield Index traded at tight levels for much of the quarter, supported by a very positive second quarter earnings season and favorable technicals. However, the asset class succumbed to the sharp increase in Treasury yields late in the quarter, driving the OAS on the index almost 42 basis points wider to 311 bps, while yield to worst on the index increased by 1.19 percent to 8.35%. Excess return for the quarter was -0.68 percent, with September alone posting excess return of -1.34 percent. Weakness was broad-based across industry sectors, with the exception of Energy which outperformed on the continuing conflict in the Middle East. Communications performed poorly, partly reflecting weakness in newly-issued Paramount Skydance high yield bonds as well as weakness in interest rate-sensitive sectors including Housing, Insurance and REITs. Transportation also lagged, reflecting the impact of high energy input costs.

High yield credit fundamentals also remain positive; JP Morgan reported second quarter revenue and EBITDA growth that was the strongest in four years, with all industries except Transportation, Housing, Telecom and Cable posting year-over-year EBITDA growth. Leverage declined for the first time in six quarters and coverage metrics improved to a two-year high, although leverage and coverage remain 0.17x and 0.26x worse than long-term averages at 4.51x and 4.12x respectively. Capital expenditures increased at the highest year-over-year rate since the fourth quarter of 2023, driven by spending in the technology sector.

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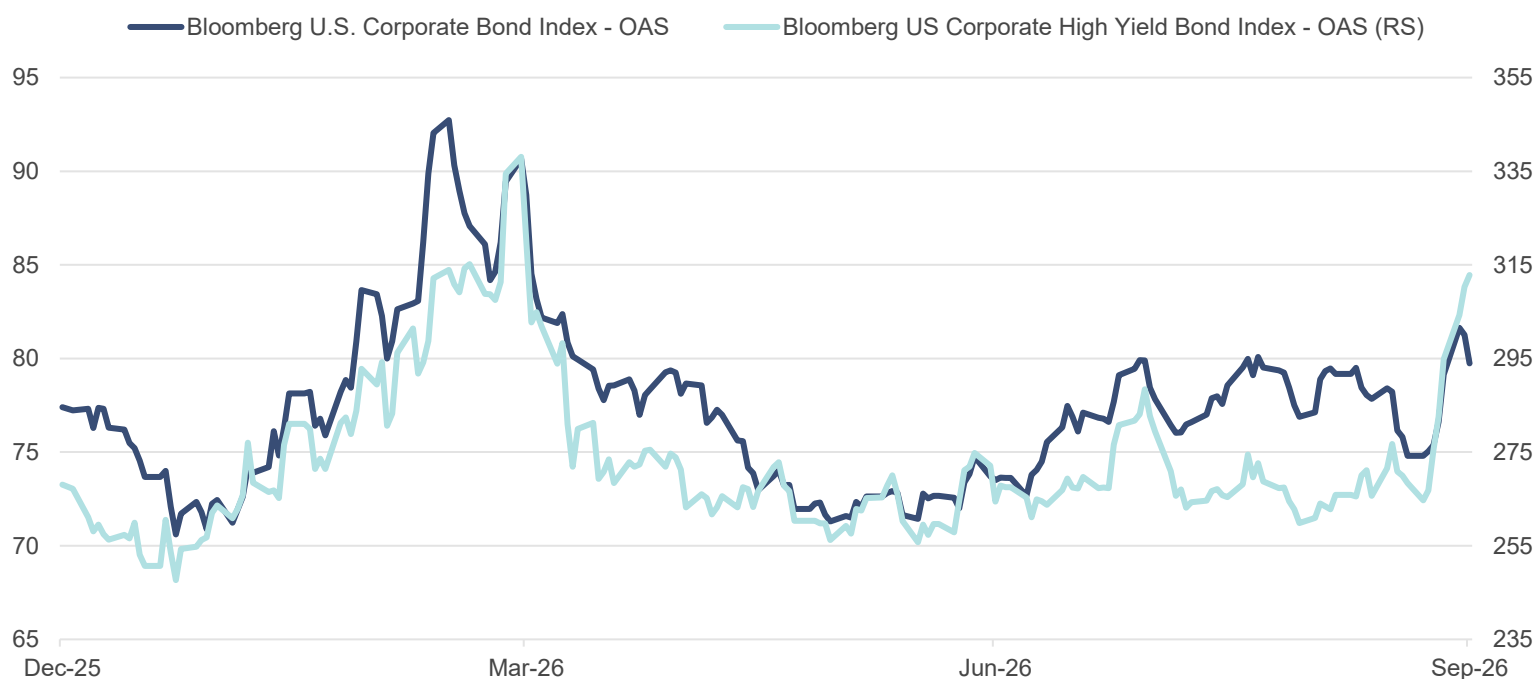
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Outlook

While we continue to expect corporate fundamentals to be supported by strong U.S. economic growth, this fundamental strength is largely reflected in the tight valuations across most corporate sectors. We have therefore maintained a relatively small overweight to investment grade corporates and have modestly increased or decreased exposure at the extremes of the relatively tight range the sector has traded in for most of the last year. We reduced high yield and investment grade exposure in mid-September as spreads returned to cyclical lows despite accelerating interest rate volatility. While we believe that higher rates may lead to tighter spreads due to increased demand for fixed income, we believe that most investors want to see some stability in rates before increasing their exposure. While there are plenty of potential issues for investors to worry about heading into year-end including U.S. and developed country fiscal health, the U.S. midterm elections, tighter global monetary policy and ongoing heavy corporate issuance, we expect U.S. growth to remain quite healthy in the near term. This should continue to support demand for risky assets and corporate bonds may benefit from strong demand for yield if and when interest rates stabilize. From a sector perspective, we favor areas that will continue to benefit from the datacenter buildout including datacenter bonds themselves, select capital goods issuers, and technology suppliers as well as financial issuers that could benefit from higher interest rates like insurance companies.

Corporate Bond Option-Adjusted Spreads (OAS)



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Securitized Products

Securitized performance was mixed during the third quarter, as agency MBS lagged duration-matched Treasuries significantly, while the non-agency sectors like consumer ABS, CMBS, and CLOs all outperformed. The agency MBS market was volatile, with the sector lagging in July, recovering in August, but ultimately underperforming in September as the rate selloff intensified. According to the Mortgage Bankers Association, 30-year mortgage rates surged nearly 75 basis points to finish the quarter at 7.3 percent. As rates moved up, MBS duration extended and spreads widened, as the market priced slower prepayment rates and investors demanded additional spread to hold the securities amid the elevated rate volatility. Option adjusted spread for the Bloomberg MBS index increased by 19 basis points to end the quarter at 43 basis points, which resulted in the sector underperforming duration-matched Treasuries by 1.16 percent.

Conversely, ABS spreads tightened three basis points to finish with an OAS of 42 basis points, allowing the sector to outperform duration-matched Treasuries by 0.14 percent. Senior bonds from on-the-run prime auto and credit card sectors outperformed esoteric senior bonds. Subordinated bonds underperformed during the quarter as the market repriced credit and liquidity risks. ABS outperformed high-quality shorter duration corporate bonds as the basis between those two sectors narrowed by eight basis points based on roughly equal parts ABS spreads tightening and corporate spreads widening. Despite a record supply pace this year, demand for the asset class outpaced issuance and kept new issue spreads tight, particularly given attractive all-in yields on the front-end of the yield curve. Third quarter 2026 ABS new issue volume reached \$93 billion, and \$307 billion for the year-to-date, which is 11 percent ahead of last year's record pace. Much of the rise in primary market activity was from esoteric segments of the market such as data centers and fiber deals, each accounting for nearly 4% of issuance, though autos and equipment still dominated the market in the third quarter at 54% of issuance.

Non-agency CMBS performed well for most of the quarter but weakened toward quarter end as interest rates moved sharply higher. Despite the late-quarter weakness, the sector still outperformed similar-duration Treasuries by 0.14 percent for the quarter and held up better than competing sectors such as corporate bonds and agency passthroughs as broader fixed-income markets came under pressure. Favorable supply conditions were the main driver of the relative outperformance. Index-eligible conduit issuance was down 37 percent from the same quarter last year, while secondary selling remained limited for most of the quarter. The fundamental picture was more mixed. Commercial real estate prices remained broadly stable, with the RCA Commercial Property Price Index up 0.3% over the three months ending in August and 0.1% from a year earlier. However, according to Trepp, a CMBS data provider, the CMBS delinquency rate rose to 8.02% in September from 7.35% in June. The increase was driven largely by maturing loans that had difficulty refinancing and paying off their remaining balances in the higher-rate environment.

AAA CLOs delivered 0.24 percent of excess return during the quarter, outpacing duration-matched Treasuries. AAA spreads closed slightly wider versus the start of the quarter, though followed a circuitous path on the way. As expectations for more restrictive Federal Reserve policy grew throughout the quarter and culminated with a unanimous FOMC rate hike in mid-September, spreads tightened as much as seven basis points, demonstrative of the high demand for the floating rate asset class as prospective modeled yields (based on the forward SOFR curve) continue to improve. However, an unrelenting sell-off in the Treasury market to close out the final two weeks of the quarter unwound the entire favorable move and then some, with CLO spreads widening 13 basis points, as a risk-off tone swept through fixed income markets. Favorably, software loans outperformed during the quarter, reflecting better refinancing outcomes for short-dated maturities than feared. In the primary market, a challenging arbitrage between loan spread levels and CLO liabilities continued to constrain volumes, with broadly syndicated loan (BSL) new issuance totaling \$35 billion in the third quarter, about 9 percent lower than the third quarter of 2025, leaving year-to-date BSL issuance tracking just under 20 percent behind last year's elevated pace.

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Outlook

Following the September rate volatility and underperformance of agency MBS, valuations in the sector have meaningfully improved. We took advantage of the recent weakness and added to our MBS allocation. While the sector is still exposed to continued rate volatility, we find current spreads are attractive enough to compensate for these risks over a medium time horizon. Within the sector, we are focused on middle to upper coupons as we view these as offering a favorable combination of spread, stable prepayments, and moderate convexity risk.

Relative value in the ABS market continues to be characterized by tighter spreads and narrow tiering among names and across sectors. As a result, we continue to favor subsectors that offer additional spread without taking undue credit risk or veering into less liquid esoteric sectors. Examples of these include fleet lease and timeshare ABS, although some of the additional spread has been squeezed out of those sectors by strong demand. Meanwhile, rental car and private student loan ABS are two sectors where wider spreads can still be found. Non-traditional ABS sectors, such as data centers, which are not part of the Bloomberg index, have been responsible for much of the growth in the ABS market over the past few years, and are likely to do so again this year. We are adding selectively in the technology/data center space. However, we believe it is important to consider the totality of related risk exposures in a portfolio given that ABS, CMBS, unsecured debt, and newer corporate debt arrangements are all being used to fund rapid expansion.

ABS credit performance remains well-behaved, in our opinion, reflecting the underlying strength of the economy for the consumer and businesses. Nevertheless, we are watching for signs that higher interest rates are creating new headwinds that could change the direction of the economy. Households have, so far, navigated stress from higher food and gasoline prices. Recent estimates for the rest of the year by the Federal Reserve and some private forecasters have upgraded the outlook for economic growth along with elevated inflation rates and stable expectations for the unemployment rate.

We maintained our overweight to non-agency CMBS during the quarter. While higher rates remain a challenge, most of our holdings were originated after the Fed raised rates during the last hiking cycle, rather than during the earlier period of exceptionally low interest rates. As a result, the underlying loans were underwritten with higher borrowing costs already considered. Our holdings are also generally positioned higher in the capital structure, which we believe may provide additional protection. Given the sector's recent outperformance relative to competing sectors, we will continue to evaluate its relative attractiveness as market conditions evolve, but at this point, we do not expect to significantly reduce our exposure.

We continue to find CLOs well positioned, with a modest tightening bias firmly in place from the Federal Reserve and solid credit fundamentals supporting the asset class, as evidenced by low net leveraged loan downgrades to CCC on a year-to-date basis. Particularly in an environment with persistent Treasury rate volatility, we believe a CLO allocation provides a compelling risk-adjusted carry profile. Given tight valuations with AAA spreads ending in the 22nd percentile, we expect to maintain our defensive posture both in higher coupons and structurally shorter paper that would likely outperform in a spread-widening scenario. In addition, while software loans have traded better in recent months, we continue to closely monitor our exposures and eschew CLO managers with sizable concentration in that subsector, given the market provides little to no additional spread compensation for it.

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Taxable Municipals

Taxable municipal securities underperformed duration-matched Treasuries by 0.29 percent during the quarter, as spreads widened 9 bps amid a more turbulent quarter for risk assets. Issuance was again muted, with total taxable issuance coming in at \$7.1 billion, marking a slowdown compared to 2Q25 issuance. Municipal credit fundamentals remained broadly firm during the quarter, though rating trends pointed to an increasingly differentiated credit environment. Moody's reported that downgrades outpaced upgrades in 2Q26, ending five consecutive quarters of positive rating migration. The shift was largely driven by K-12 public school districts, which face increased charter school competition and declining school age populations. Moody's also revised its outlook for U.S. cities and counties to negative in July, citing expectations that inflation will outpace local revenue growth. Even so, underlying fundamentals were supported by stable employment, resilient tax collections, and conservative fiscal management. The U.S. Census Bureau's most recent release showed state and local government tax revenue totaling \$1.14 trillion in the first half of 2026, up 5.8% year over year. Growth was led by individual and corporate income tax collections, which rose 8.6% and 9.5%, respectively. Sales tax revenue grew 4.0%, while property tax revenue, the primary revenue source for local governments, rose a more modest 3.7%. Public pension funding also continued to improve, with S&P Global Ratings estimating that average U.S. public pension funded ratios reached 89% in fiscal 2026. Investment returns of roughly 14% doubled the typical 7% return assumption and marked the fourth consecutive year of results exceeding expectations. Consistent with these trends, issuers with improving pension positions and demonstrated financial flexibility, including the states of Illinois and New Jersey, and the cities of Austin, Houston, and Savannah, received positive rating actions during the quarter. Illinois was upgraded by both Moody's and S&P, and its Moody's rating is now the highest in 15 years.

Outlook

We believe taxable municipal bonds continue to be a fundamentally solid asset class, offering diversification to portfolios. However, an increasingly fragmented market and falling issuance leave us focused on other asset classes. While we do not expect substantial upside at these levels, we continue to view them as a strategic component, particularly for accounts with limited access to alternatives such as corporates or securitized credit.



Important Information & Disclosures

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.

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Technical Terms: the technical terms below are sourced from Corporate Finance Institute, the Bureau of Economic Analysis (BEA), and MSCI.

The **coupon rate** is the amount of annual interest income paid to a bondholder, based on the face value of the bond.

The **fed funds rate** refers to the interest rate that depository institutions (such as banks and credit unions) charge other depository institutions for overnight lending of capital from their reserve balances on an uncollateralized basis.

Mortgage-backed security (MBS) investing means purchasing a bond-like investment that represents a share in a pool of mortgages. When you invest in an MBS, you receive regular payments of interest and principal from the homeowners' loans, providing a steady stream of income.

CMBS (Commercial Mortgage-Backed Securities) investing involves buying bonds backed by pools of loans on income-producing commercial properties, such as office buildings, hotels, and retail centers. Investors receive regular income from these bonds through the principal and interest paid by the property owners on the underlying mortgages.

Asset-Backed Security (ABS): It is a type of bond whose payments are generated by a specific pool of underlying assets, such as auto loans, credit card debt, student loans, or leases. Investors buy these securities to earn reliable income streams derived from regular debt repayments.

Collateralized Loan Obligation (CLO) in finance, it is a single security backed by a pool of debt, typically corporate loans with below-investment-grade ratings.

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.

A local government's general fund financial reserves or "**rainy day**" fund is a safeguard against risks like recessions that blow a hole in the budget or extreme events that demand a quick and decisive public safety response.

Real **gross domestic product (GDP)** is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices.

The **Trepp CMBS delinquency rate** refers to the percentage of loans within a financial institution's loan portfolio whose payments are delinquent.

Important Information & Disclosures

A Note on Indices: The volatility of an index varies greatly. All indices are unmanaged and investments cannot be made directly in an index.

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The **Bloomberg U.S. Corporate High Yield Index** is an unmanaged, U.S. dollar-denominated, nonconvertible, non-investment-grade debt index. The index consists of domestic and corporate bonds rated Ba and below with a minimum outstanding amount of \$150 million.

The **Bloomberg U.S. Corporate Investment Grade Bond Index** measures the investment-grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

The **ISM Manufacturing Index**, also known as the Purchasing Managers' Index (PMI), is a key monthly economic indicator that measures the health of the U.S. manufacturing sector. It is compiled by the Institute for Supply Management (ISM) based on surveys from over 400 purchasing executives across 20 industries.

The **ISM Non-Manufacturing Index** (Services PMI) measures business activity for the overall economy; above 50 indicating growth, while below 50 indicating contraction.

Brent Crude is the benchmark used for the light oil market in Europe, the Middle East, and Africa (EMEA). Originating primarily from North Sea oil fields, the benchmark was expanded in 2023 to include crude from the Permian Basin in Midland, TX.

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. Indexes are available for the U.S. and various geographic areas. Average price data for select utility, automotive fuel, and food items are also available.

The **Core Personal Consumption Expenditure (core PCE) Index** is a measure of prices that people living in the U.S., or those buying on their behalf, pay for goods and services.

The **Bloomberg U.S. MBS Index** covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). It is formed by grouping the universe of individual fixed rate MBS pools into generic aggregates.

The **RCA Commercial Property Price Index (RCA CPPI)** is a widely used benchmark that tracks transaction-based price movements in commercial real estate. Published by MSCI, it measures changes in actual sales prices using a repeat-sales regression methodology, providing insights into the market's health and asset valuation trends.

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.