

December 31, 2025

Fourth Quarter Fixed Income Letter to Clients

The U.S. bond market finished the fourth quarter of 2025 on positive footing, with fixed-income indexes generating solid total returns driven by declining yields, supportive technical factors, and the Federal Reserve's move toward monetary easing. Tax-free municipal bonds contributed meaningfully and remain compelling from a taxable-equivalent yield perspective for strategic income portfolios.

During the fourth quarter, markets continued to price in an easing bias from the Federal Reserve following its September 2025 rate cut, with additional reductions expected into the early part of 2026. This shift supported the 10-year US treasury bond yield gravitating toward the lower end of the 4.00%– 4.50% range. Treasury yields generally moved lower through Q4, providing positive price moves for US government bonds. Though Treasury volatility persisted earlier in the year due to fiscal deficit concerns and credit rating uncertainty, the late-year repricing highlighted the resiliency of U.S. sovereign debt as a core portfolio anchor.

Investment-grade corporate bonds delivered positive returns amid tightening spreads and stable fundamentals, though event-driven and recession risk priced into spread levels remained watch points. High-yield sectors also reported positive annual outcomes, albeit with lower excess returns relative to high-quality credit due to spread compression.

Tax-free municipal bonds delivered good returns within the fixed-income sector, supported by the broader yield decline and strong demand. During the quarter, municipals outpaced many comparable duration sectors within the market, driven in part by attractive taxable-equivalent yields compared to Treasuries and investment-grade corporates. Overall, municipal bonds remained robust with state and local tax receipts and reserve positions at healthy levels. The municipal bond yield curve remained relatively steep compared to the Treasury curve, a dynamic that historically provides tactical deployment opportunities across intermediate to long maturities.

Tax-free municipal bonds remain attractive for high tax-bracket investors seeking enhanced after-tax income. As we focus on Q1 of 2026, our position is to implement a strategic allocation of investment- grade bonds across the yield curve — with a tilt toward intermediate maturities to manage duration risk. Continued monitoring of fiscal, monetary, and supply/demand trends will be key to maintaining disciplined outcomes in 2026.

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