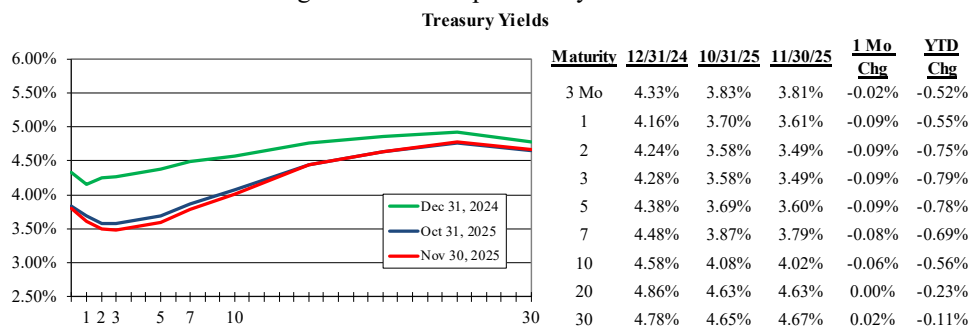


Baird Advisors Fixed Income Market Commentary November 2025

Treasury Curve Steepens as Expectations Shifted Back to a December Fed Rate Cut

Short and intermediate Treasury yields declined in November while long-term rates rose modestly. Specifically, 2yr yields fell 9 bps, the 10yr declined 6 bps (to 4.02%) and the 30yr yield rose 2 bps, leading to a steeper curve. On November 12, Congress signed a continuing resolution to reopen the Federal Government, ending the record 43-day closure. This included reinstating and repaying furloughed Federal workers, funding select agencies (FDA, Veteran's Affairs, Congress) through 2026 and providing food assistance (SNAP) through September. Omitted from this resolution, however, was an extension of the Affordable Care Act subsidies; a debate that is expected to resume when the resolution expires on January 30, 2026. The reopening of the government also served as a catalyst for the release of some backlogged economic data, including a mixed picture in the September payrolls. While the +119k new jobs exceeded the +51k consensus estimate, prior month data was revised lower, to -4k from +22k, and the unemployment rate rose to 4.4% from 4.3%. The next labor report for October, covering the core period of the Federal Government closure, is delayed until December 16th, after the FOMC meeting on December 10th. The Fed showed divisions amid its last rate cut in October as voting members expressed differing views of the dual mandates on inflation and labor. Market expectations for a 25-bps cut in December fell to just 30% probability mid-November before coalescing toward a 95% probability at month end.



Spreads Modestly Widen in November, AI-Debt Issuance Continues

Spreads widened across IG save Non-Agy CMBS (-2 bps). Agency RMBS (+1 bps), ABS (unch) and US IG Corporate (+2 bps) all finished November near where they began the month. IG Corporate spreads reside at +80, exactly where they began 2025. AI hyperscaler borrowing, like October, was elevated again in November and comprised ~25% of the +\$129B IG Corporate issuance. US High Yield was a notable outlier for the month, tightening -12 bps, leaving the sector -18 bps tighter YTD.

Positive Total Returns, Mixed Excess Returns for the Month

The Agg Index total return in November of 0.62% exactly matched its return in October. While total returns were positive across all subsectors, excess returns were subdued and mixed. Agy RMBS excess returns of -0.05% and EM Debt of -0.22% reflected a cooling for two sectors that have outperformed in recent months. IG Corporate (-0.02%) and Taxable Municipals (-0.23%) also had modestly negative monthly excess returns. CMBS (+0.06%) and ABS (+0.05%) excess returns were both modestly positive.

Option-Adjusted Spreads (in bps)

	12/31/24	10/31/25	11/30/25	1 Mo Chg	YTD Chg
U.S. Aggregate Index*	32	28	30	2	-2
U.S. Agency (non-mortgage)	12	9	8	-1	-4
Mortgage and ABS Sectors					
U.S. Agency RMBS (Pass-throughs)*	34	28	29	1	-5
U.S. Agency CMBS	35	31	33	2	-2
U.S. Non-Agency CMBS	127	124	122	-2	-5
Asset-Backed Securities	44	55	55	0	11
Corporate Sectors					
U.S. Investment Grade	80	78	80	2	0
Industrial	78	78	79	1	1
Utility	82	84	88	4	6
Financial Institutions	82	78	80	2	-2
Non-Corporate Credit	55	42	46	4	-9
U.S. High Yield Corporates	287	281	269	-12	-18
Emerging Market Debt	393	338	342	4	-51

Source: Bloomberg Indices

*U.S. Aggregate Index and U.S. Agency RMBS spreads in 2024 have been adjusted to incorporate Bloomberg's most recent prepayment model, which was updated on 1/24/2025

(Bloomberg updates the prepayment model on an annual basis which impacts the sector OAS).

Total Returns of Selected Bloomberg Indices and Subsectors

	MTD Total	MTD Excess	3 Mo Total	3 Mo Excess	YTD Total	YTD Excess	Effective Duration
U.S. Aggregate Index	0.62%	-0.03%	2.35%	0.19%	7.46%	0.58%	6.03
U.S. Gov't/Credit Index	0.62%	-0.02%	2.25%	0.07%	7.17%	0.37%	6.23
U.S. Intermediate Gov't/Credit Index	0.67%	-0.01%	1.53%	0.09%	6.87%	0.37%	3.76
U.S. 1-3 Yr. Gov't/Credit Index	0.47%	0.01%	1.14%	0.03%	4.98%	0.19%	1.87
U.S. Treasury	0.62%	0.00%	2.10%	0.00%	6.67%	0.00%	5.95
U.S. Agency (Non-Mortgage)	0.61%	0.04%	1.61%	0.12%	6.05%	0.33%	3.35
U.S. Agency RMBS (Pass-Throughs)	0.62%	-0.05%	2.72%	0.56%	8.35%	1.20%	5.61
CMBS (Commercial Mortgage Backed Securities)	0.75%	0.06%	1.62%	0.19%	7.62%	0.95%	3.87
ABS (Asset-Backed Securities)	0.56%	0.05%	1.50%	0.15%	5.61%	0.42%	2.87
U.S. Corporate Investment Grade	0.65%	-0.02%	2.56%	0.17%	7.99%	0.92%	6.91
U.S. High Yield Corporates	0.58%	0.00%	1.56%	0.25%	8.01%	2.17%	2.76
Emerging Market Debt	0.45%	-0.22%	3.75%	1.90%	12.22%	5.55%	5.01
Municipal Bond Index	0.23%	N/A	3.82%	N/A	4.15%	N/A	6.64
Taxable Municipal Bond: Agg Eligible	0.50%	-0.23%	3.52%	0.44%	8.36%	0.50%	9.18
TIPS (Treasury Inflation Protected Securities)	0.18%	0.00%	0.98%	0.00%	7.44%	0.00%	6.66

*Excess return represents the return of a spread sector versus a like-duration U.S. Treasury.

Disclosures

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Fixed income is generally considered to be a more conservative investment than stocks, but bonds and other fixed income investments still carry a variety of risks such as interest rate risk, credit risk, inflation risk, and liquidity risk. In a rising interest rate environment, the value of fixed-income securities generally decline and conversely, in a falling interest rate environment, the value of fixed-income securities generally increase. High yield securities may be subject to heightened market, interest rate or credit risk and should not be purchased solely because of the stated yield.

Treasury yields are the interest rates that the U.S. government pays to borrow money for varying periods of time.

Option-adjusted spread is the difference between the yield of a security that pays fixed interest payments and the current U.S. Treasury rates, which represents the rate of return on a risk-free investment.

The Bloomberg U.S. Aggregate Bond Index is an index comprised of approximately 6000 publicly traded bonds including U.S. Government, mortgage-backed, corporate, and Yankee bonds with an average maturity of approximately 10 years.

The Bloomberg Government/Credit Index is a combination of the Government Index which measures government-bond general and Treasury funds, and the Credit Bond Index, which is a market value-weighted index which tracks the returns of all publicly issued, fixed-rate, nonconvertible, dollar-denominated, SEC registered, investment grade Corporate Debt.

The Bloomberg Intermediate U.S. Government/Credit Bond Index is a combination of the Government Index which measures government-bond general and Treasury funds, and the Credit Bond Index, which is a market value-weighted index which tracks the returns of all publicly issued, fixed-rate, nonconvertible, dollar-denominated, SEC registered, investment grade Corporate Debt with maturities between one and ten years.

The Bloomberg 1-3 Year U.S. Government/Credit Bond Index is a combination of the Government Index which measures government-bond general and Treasury funds, and the Credit Bond Index, which is a market value-weighted index which tracks the returns of all publicly issued, fixed-rate, nonconvertible, dollar-denominated, SEC registered, investment grade Corporate Debt with maturities between zero and three years.

The Bloomberg U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint of at least one year but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting. Securities in the Index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices. The U.S. Treasury Index was launched on January 1, 1973.

U.S. Agency: This index is the U.S. Agency component of the U.S. Government/Credit index. Publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government (such as USAID securities). The largest issues are Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System (FHLB). The index includes both callable and non-callable agency securities.

U.S. Corporate – Investment Grade: This index is the Corporate component of the U.S. Credit index. It includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

CMBS (Commercial Mortgage-Backed Securities): This index is the CMBS component of the U.S. Aggregate index. The Bloomberg CMBS ERISA-Eligible Index is the ERISA-eligible component of the Bloomberg CMBS Index. This index, which includes investment grade securities that are ERISA eligible under the underwriter's exemption, is the only CMBS sector that is included in the U.S. Aggregate Index.

MBS (Mortgage-Backed Securities): This index is the U.S. MBS component of the U.S. Aggregate index. The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The MBS Index is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates.

ABS (Asset-Backed Securities): This index is the ABS component of the U.S. Aggregate index. The ABS index has three subsectors: credit and charge cards, autos, and utility. The index includes pass-through, bullet, and controlled amortization structures. The ABS Index includes only the senior class of each ABS issue and the ERISA-eligible B and C tranche. The Manufactured Housing sector was removed as of January 1, 2008, and the Home Equity Loan sector was removed as of October 1, 2009.

Corporate High Yield: The Bloomberg U.S. High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

Emerging Market: Bloomberg uses a fixed list of countries defined as emerging markets countries for index inclusion purposes that is based on World Bank Income group definitions (Low/Middle), IMF country classifications (Non-Advanced Economies), and other advanced economies that may be less accessible or investable for global debt investors.

The Bloomberg Municipal Bond Index is a broad-based, total-return index. The bonds are all investment-grade, tax-exempt, and fixed-rate securities with long-term maturities (greater than 2 years). They are selected from issues larger than \$50 million.

The Bloomberg TIPS Index consists of Treasury Inflation Protected Securities (TIPS). TIPS are securities whose principal is tied to the Consumer Price Index. TIPS pay interest semi-annually, based on the fixed rate applied to the adjusted principal.

Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest). Investment grade investments are those rated from highest down to BBB- or Baa3.

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