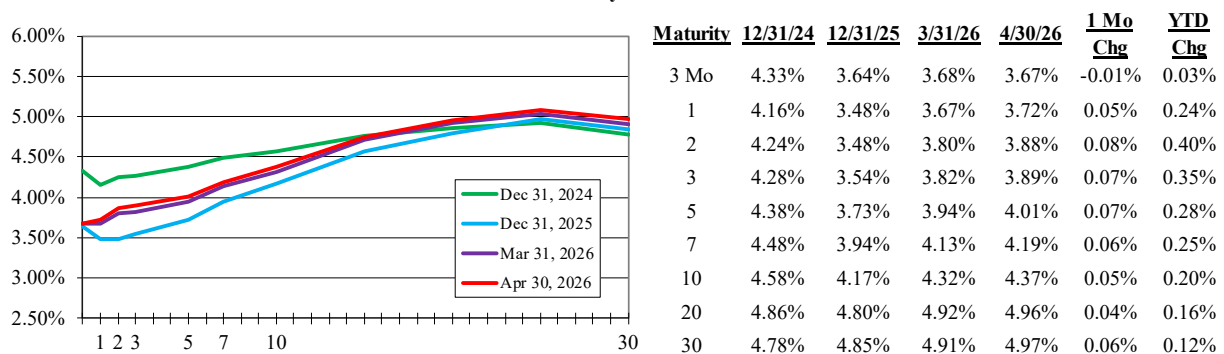


Baird Advisors Fixed Income Market Commentary April 2026

Rise in Treasury Yields Continues as Fed Holds Amid Resilient Economy and Uncertainty from Higher Oil Prices

Treasury yields rose modestly in April with the 10yr Treasury yield up 5 bps to 4.37%, 20 bps higher YTD. The 2yr maturity moved more, up 8 bps for the month and 40 bps YTD, flattening the curve. Over the past month, market expectations shifted from anticipating rate cuts in 2027 to increasingly pricing in the possibility of Fed tightening. Iran's continued closure of the Strait of Hormuz and the corresponding U.S. naval blockade have lifted average gasoline prices in the U.S. from just under \$3/gal to nearly \$4.40/gal over the past two months, clouding the outlook for inflation and growth. Positively, low jobless claims, high CAPEX spending on AI, and strong nominal retail sales were indicative of a resilient economy. As expected, the Fed held its Fed Funds rate at 3.5-3.75%. However, the hold featured underlying dissent. One member favored a 25-bps cut. Conversely, three members favored removing dovish language in the Fed statement given low unemployment at 4.3% and Core PCE inflation of 3.2%, which is above the Fed's 2% target and nearly 60 bps higher than last April. Kevin Warsh is positioned to take over as Fed Chair in May after his nomination was approved by the Senate Banking Committee. In an unprecedented move, Chair Powell intends to remain on the Board as a non-chair voting member of the FOMC until the DOJ probe is "well and truly over."

Treasury Yields



Spreads Tighter Across the Board in April

Spreads rebounded from March weakness to end tighter during the month of April. IG Corporate led IG sectors tighter for the month (-11 bps) on lighter issuance MoM to finish April at +78 bps, unchanged YTD. Issuance is up notably YoY. The move tighter was greatest for U.S. HY and EM HY, which tightened -49 and -61 bps, respectively, in April.

Excess Returns Positive in April, Led by IG Corporate

Agg Index total returned 0.11% in April to turn the YTD return positive at 0.07%. While the total return for IG corporate debt remains negative YTD (-0.09%), its excess return is again positive YTD (+0.28%) after a robust excess return of 0.77% in April. U.S. HY Corporates and EM HY also had strong April excess returns, further boosting their YTD outperformance.

Option-Adjusted Spreads (in bps)

	12/31/24	12/31/25	3/31/26	4/30/26	1 Mo Chg	YTD Chg
U.S. Agency (non-mortgage)	12	11	6	5	-1	-6
U.S. Agency RMBS (Pass-throughs)*	34	28	24	20	-4	-8
U.S. Agency CMBS	35	33	28	27	-1	-6
U.S. Non-Agency CMBS	127	120	118	112	-6	-8
Asset-Backed Securities	44	52	53	49	-4	-3
U.S. Investment Grade Corporate	80	78	89	78	-11	0
Industrial	78	76	85	76	-9	0
Utility	82	85	93	83	-10	-2
Financial Institutions	82	78	94	82	-12	4
Investment Grade Non-Corporate Credit	55	45	47	39	-8	-6
U.S. High Yield Corporates	287	266	317	268	-49	2
Emerging Market Debt (High Yield)	393	326	370	309	-61	-17

Source: Bloomberg Indices
*U.S. Agency RMBS 12/31/25 and 1/31/26 spreads are adjusted to incorporate Bloomberg's prepayment model update on 2/20/26 (Bloomberg updates the model annually, which impacts projected OAS).

Returns of Selected Bloomberg Indices and Subsectors

	Effective Duration (years)	MTD Total Return	MTD Excess Return	3 Mo Total Return	3 Mo Excess Return	YTD Total Return	YTD
							Excess Return
Broad Indices							
U.S. Universal Index	5.66	0.31%	0.45%	0.01%	0.02%	0.16%	0.27%
U.S. Aggregate Index	5.86	0.11%	0.27%	-0.04%	-0.03%	0.07%	0.19%
U.S. Intermediate Gov't/Credit Index	3.74	0.21%	0.17%	0.11%	0.02%	0.19%	0.11%
U.S. 1-3 Yr. Gov't/Credit Index	1.87	0.24%	0.04%	0.29%	0.00%	0.52%	0.05%
U.S. Short-Term Gov't/Corp Index	0.54	0.34%	0.02%	0.84%	0.01%	1.13%	0.03%
Tax-Exempt Municipal Bond Index	6.65	1.15%	N/A	0.03%	N/A	0.97%	N/A
Subsector Indices							
U.S. Treasury	5.78	-0.07%	N/A	-0.02%	N/A	-0.12%	N/A
U.S. Agency (Non-Mortgage)	3.39	0.15%	0.13%	0.26%	0.03%	0.38%	0.11%
U.S. Agency RMBS (Pass-Throughs)	5.37	0.07%	0.24%	0.06%	-0.13%	0.47%	0.39%
CMBS (Commercial Mortgage Backed Securities)	3.77	0.18%	0.20%	0.14%	0.15%	0.49%	0.53%
ABS (Asset-Backed Securities)	2.80	0.29%	0.21%	0.36%	0.16%	0.61%	0.31%
U.S. Corporate Investment Grade	6.77	0.45%	0.77%	-0.27%	-0.06%	-0.09%	0.28%
Taxable Municipal Bond: Agg Eligible	8.86	-0.31%	0.22%	0.05%	0.42%	0.03%	0.71%
U.S. High Yield Corporates	2.93	1.69%	1.64%	0.68%	0.46%	1.19%	0.90%
Emerging Market Debt (High Yield)	4.87	3.19%	3.32%	0.80%	0.80%	1.85%	1.93%
TIPS (Treasury Inflation Protected Securities)	6.61	1.15%	N/A	1.11%	N/A	1.42%	N/A

*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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