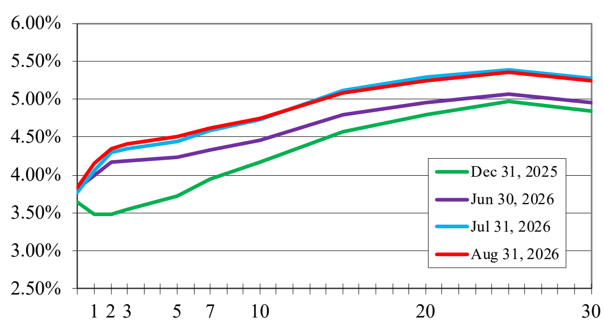
Baird Advisors
Fixed Income Market Commentary
August 2026

Policymakers in Focus: Treasury Secretary Increases Buybacks to Suppress Yields and Fed Chair Warsh Gives Hawkish Speech

The Treasury yield curve flattened in August as short yields rose, the 10yr was just 1 bp higher, and long yields declined. Yields across the curve reside at or near their 2026 highs with 10yr and 30yr yields back near levels not seen since 2007. Nonfarm payrolls (-23k vs. +80k estimate) supported bond prices as did YoY Core CPI inflation declining to 2.5%, matching estimates. However, this data was overshadowed by concerns about the growing federal deficit, which has been exacerbated by the Iran conflict. U.S. public debt surpassed $40 trillion in August after having crossed the $30 trillion mark in 2022. The deficit, above-target inflation, and above-trend economic growth have combined to weigh on the Treasury market. Mortgage rates have risen in sympathy to roughly 6.75% at month-end, up 55 bps YTD despite efforts by the Trump administration to improve affordability. In a rare update outside the normal quarterly refunding announcement, Treasury Secretary Bessent said Treasury would use bill issuance to double its biweekly 10yr to 30yr buybacks to $4B and may additionally draw on the Treasury General Account (TGA) to fund the purchases as he tries to limit further increases in 10yr to 30yr U.S. Treasury yields. Away from Washington, Fed Chair Warsh delivered a hawkish speech at the Jackson Hole Economic Policy Symposium underscoring the Fed's commitment to fight inflation and implying the Fed may need to hike rates in September if inflation data does not improve. Prospects for a September rate hike doubled to 70% probability following the speech.

Treasury Yields



Maturity	12/31/25	6/30/26	7/31/26	8/31/26	1 Mo Chg	YTD Chg
3 Mo	3.64%	3.82%	3.77%	3.84%	0.07%	0.20%
1	3.48%	3.99%	4.05%	4.15%	0.10%	0.67%
2	3.48%	4.18%	4.29%	4.34%	0.05%	0.86%
3	3.54%	4.18%	4.36%	4.41%	0.05%	0.87%
5	3.73%	4.23%	4.45%	4.50%	0.05%	0.77%
7	3.94%	4.34%	4.59%	4.62%	0.03%	0.68%
10	4.17%	4.47%	4.74%	4.75%	0.01%	0.58%
20	4.80%	4.96%	5.29%	5.24%	-0.05%	0.44%
30	4.85%	4.96%	5.28%	5.24%	-0.04%	0.39%

IG Spreads Little Changed, Outsized Corporate Issuance

IG Corporate spreads ended unchanged in August and resided in a narrow range of +76 to +81 bps. IG Corporate issuance set a record for the month of August at $163B, well above the $120B estimate, and continued a trend of higher supply in 2026 led by debt issued for the AI buildout. Issuance was met with solid demand as absolute yields sit near their YTD highs. Spreads tightened in U.S. HY and EM HY during August.

Total Returns Positive, Excess Returns Modest

The Agg Index returned 0.39% for the month as income buoyed total returns despite yields rising modestly. IG excess returns were led by Agy RMBS (+0.23%)—reversing some July underperformance—and IG Corporates (+0.12%). Tax-exempt municipals lagged Treasuries for the second straight month.

Option-Adjusted Spreads (in bps)

	12/31/25	6/30/26	7/31/26	8/31/26	1 Mo Chg	YTD Chg
U.S. Agency (non-mortgage)	11	8	9	12	3	1
U.S. Agency RMBS (Pass-throughs)*	28	24	31	29	-2	1
U.S. Agency CMBS	33	26	27	28	1	-5
U.S. Non-Agency CMBS	120	109	110	109	-1	-11
Asset-Backed Securities	52	44	42	44	2	-8
U.S. Investment Grade Corporate	78	74	78	78	0	0
Industrial	76	73	78	77	-1	1
Utility	85	78	81	82	1	-3
Financial Institutions	78	75	78	78	0	0
Investment Grade Non-Corporate Credit	45	40	41	40	-1	-5
U.S. High Yield Corporates	266	270	279	261	-18	-5
Emerging Market Debt (High Yield)	326	288	292	277	-15	-49

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 typically 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. Aggregate Index	5.85	0.39%	0.09%	-0.68%	-0.14%	-0.31%	0.22%
	U.S. Universal Index	5.64	0.43%	0.13%	-0.54%	-0.05%	-0.03%	0.43%
	U.S. Intermediate Gov't/Credit Index	3.70	0.20%	0.03%	-0.12%	0.00%	0.18%	0.20%
	U.S. 1-3 Yr. Gov't/Credit Index	1.85	0.26%	0.01%	0.49%	0.03%	1.18%	0.11%
	U.S. Short-Term Gov't/Corp Index	0.55	0.33%	0.01%	0.91%	0.02%	2.36%	0.06%
	Tax-Exempt Municipal Bond Index	6.87	-0.23%	N/A	-1.13%	N/A	0.20%	N/A
Subsector Indices	U.S. Treasury	5.71	0.31%	N/A	-0.53%	N/A	-0.53%	N/A
	U.S. Agency (Non-Mortgage)	3.39	0.20%	-0.05%	-0.03%	-0.10%	0.45%	-0.04%
	U.S. Agency RMBS (Pass-Throughs)	5.67	0.52%	0.23%	-0.69%	-0.28%	0.07%	0.24%
	CMBS (Commercial Mortgage Backed Securities)	3.65	0.22%	0.05%	-0.01%	0.11%	0.60%	0.72%
	ABS (Asset-Backed Securities)	2.95	0.28%	0.00%	0.38%	0.13%	1.24%	0.52%
	U.S. Corporate Investment Grade	6.59	0.43%	0.12%	-1.06%	-0.32%	-0.40%	0.51%
	Taxable Municipal Bond: Agg Eligible	8.72	0.47%	0.07%	-0.90%	0.31%	-0.41%	1.19%
	U.S. High Yield Corporates	2.92	0.97%	0.76%	0.99%	0.85%	2.69%	2.16%
	Emerging Market Debt (High Yield)	4.82	0.84%	0.59%	1.17%	1.50%	4.28%	4.55%
	TIPS (Treasury Inflation Protected Securities)	6.47	0.04%	N/A	-1.11%	N/A	0.51%	N/A

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

<u>Disclosures</u>

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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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