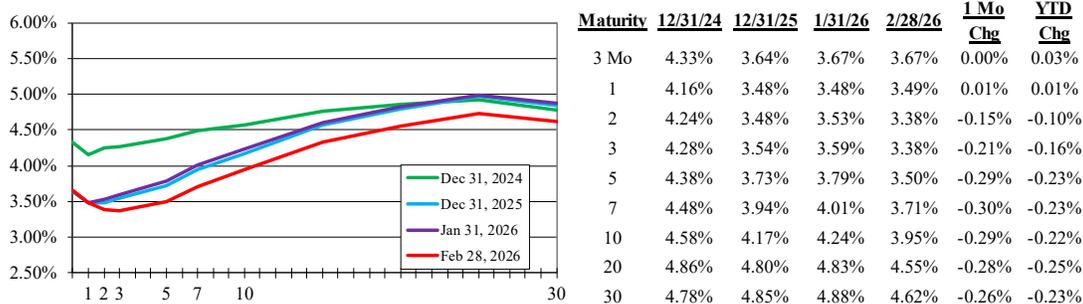


## Baird Advisors Fixed Income Market Commentary February 2026

### Treasury Yields Decline, Curve Flattens on Concerns Over AI Impact on Economy

Treasury yields declined across most of the curve in February as the 10yr fell 29 bps (to 3.95%) and the 2yr eased 15 bps (to 3.38%), flattening the 2s10s slope by 14 bps to +57 bps. The labor market exhibited conflicting signals. Surprising strength emerged in the January nonfarm payroll report, with net new hiring of 130k (vs. 65k expected), and the unemployment rate slipping to 4.3% from 4.4%. Countering this, the financial services firm Block announced it would cut 4,000 jobs, or roughly 40% of its workforce, citing productivity gains from AI-driven automation, following Amazon's late-January announcement of 16,000 planned layoffs. A Citrini "thought exercise" report describing a scenario where AI adoption fuels a white-collar job loss cycle — leading to more cost cutting and layoffs — added to equity declines and spread widening. Minutes from the January FOMC meeting indicated several participants favored a two-sided policy approach, leaving open the possibility for either a rate hike or an ease depending upon upcoming inflation data. Trade and geopolitics also shaped the month. The U.S. Supreme Court (6-3) struck down the President's use of IEEPA to levy sweeping tariffs. The administration pledged to find alternatives to continue levying tariffs. As February ended, the U.S. and Israel began joint military actions in Iran, seeking to destroy both conventional and nuclear weapons capabilities and encourage a leadership change in government.

Treasury Yields



### IG Corporate Spreads Widen in February

Spreads for IG Corporates steadily widened to finish the month at +84 bps, 11 bps wider. Similarly, U.S. High Yield widened by 26 bps to finish at +291 bps. EM Debt, which has been on a multi-year trend of spread tightening, also widened in February by 24 bps, rising from its cycle-tight spread achieved in January.

### Excess Returns Mixed in February

The decline in Treasury yields buoyed the Agg Index total return to 1.64% for the month. Excess returns, influenced by spread change, were mixed. U.S. IG corporate excess returns were -0.77% while Agy RMBS fared slightly better with -0.08% excess returns. Conversely, excess returns were positive for Taxable Municipals (+0.26%), CMBS (+0.06%), and ABS (+0.03%).

Option-Adjusted Spreads (in bps)

	12/31/24	12/31/25	1/31/26	2/28/26	1 Mo Chg	YTD Chg
U.S. Agency (non-mortgage)	12	11	9	5	-4	-6
U.S. Agency RMBS (Pass-throughs)*	34	28	22	21	-1	-7
U.S. Agency CMBS	35	33	26	27	1	-6
U.S. Non-Agency CMBS	127	120	111	111	0	-9
Asset-Backed Securities	44	52	48	49	1	-3
U.S. Investment Grade Corporate	80	78	73	84	11	6
Industrial	78	76	71	82	11	6
Utility	82	85	79	89	10	4
Financial Institutions	82	78	74	87	13	9
Investment Grade Non-Corporate Credit	55	45	44	44	0	-1
U.S. High Yield Corporates	287	266	265	291	26	25
Emerging Market Debt (High Yield)	393	326	307	331	24	5

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
<b>Broad Indices</b>							
U.S. Universal Index	5.69	1.52%	-0.26%	1.60%	0.23%	1.67%	0.00%
U.S. Aggregate Index	5.88	1.64%	-0.20%	1.60%	0.20%	1.75%	0.02%
U.S. Intermediate Gov't/Credit Index	3.76	1.13%	-0.10%	1.30%	0.05%	1.21%	-0.01%
U.S. 1-3 Yr. Gov't/Credit Index	1.87	0.52%	-0.01%	1.10%	0.04%	0.75%	0.03%
U.S. Short-Term Gov't/Corp Index	0.54	0.28%	0.00%	0.96%	0.02%	0.58%	0.02%
Tax-Exempt Municipal Bond Index	6.66	1.25%	N/A	2.29%	N/A	2.20%	N/A
<b>Subsector Indices</b>							
U.S. Treasury	5.97	1.82%	N/A	1.39%	N/A	1.72%	N/A
U.S. Agency (Non-Mortgage)	3.25	1.11%	0.08%	1.29%	0.13%	1.23%	0.15%
U.S. Agency RMBS (Pass-Throughs)	4.98	1.67%	-0.08%	2.30%	0.92%	2.09%	0.44%
CMBS (Commercial Mortgage Backed Securities)	3.84	1.28%	0.06%	1.76%	0.53%	1.64%	0.45%
ABS (Asset-Backed Securities)	2.89	0.87%	0.03%	1.42%	0.30%	1.12%	0.18%
U.S. Corporate Investment Grade	6.87	1.29%	-0.77%	1.27%	-0.16%	1.47%	-0.42%
Taxable Municipal Bond: Agg Eligible	9.11	2.98%	0.26%	2.38%	0.80%	2.96%	0.55%
U.S. High Yield Corporates	2.80	0.19%	-0.73%	1.27%	0.10%	0.69%	-0.30%
Emerging Market Debt (High Yield)	5.01	0.71%	-0.87%	3.05%	1.72%	1.77%	0.26%
TIPS (Treasury Inflation Protected Securities)	6.75	1.31%	N/A	1.21%	N/A	1.62%	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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