

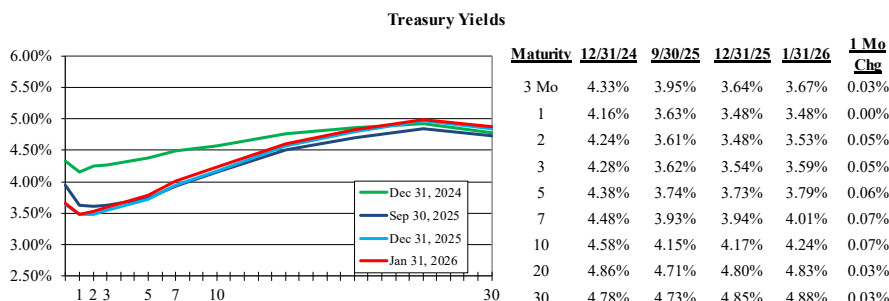
## Baird Advisors

### Fixed Income Market Commentary

#### January 2026

#### Treasury Yields Rise Modestly as Fed Holds Rates at 3.5-3.75%; Trump Selects Warsh as Next Fed Chair

Treasury yields rose modestly to begin the new year as 2yr yields climbed 5 bps and the 10yr rose 7 bps, slightly steepening the 2s10s slope. As expected, the Fed held its policy rate at 3.50-3.75% following three straight rate cuts. Two voting members (Waller and Miran) dissented in favor of another 25-bps cut. The rationale for pausing was based on “solid” economic expansion and unemployment showing “some signs of stabilization.” While January’s nonfarm payroll report of +50k jobs was below estimates (+70k) and featured downward revisions in the two prior months, it also included an unemployment rate of just 4.4%, down from 4.6%. Core CPI inflation of 2.6% (vs. 2.7% est.) and PCE inflation (the Fed’s preferred measure) of 2.8% also supported the Fed’s case to pause and wait for additional data. President Trump indicated his nomination for the next Fed Chair will be Kevin Warsh when Chair Powell’s term expires in May. While support for his nomination exists, Sen. Thom Tillis from the Senate Banking Committee has indicated he will not advance the nomination until the Department of Justice’s investigation into Chair Powell has been resolved. In Japan, the new Prime Minister Takaichi’s fiscal stimulus proposal of unfunded tax cuts contributed to a sharp rise in 30yr and 40yr Japanese yields. Surprisingly, global markets were little moved by other headlines, including when U.S. forces ousted Venezuelan President Maduro, the deadliest protests in Iran since the 1979 Revolution, and President Trump reiterated his strong interest to acquire Greenland.



#### Spreads Grind Tighter to Begin 2026

Spreads tightened across major sectors in January. Agy RMBS tightened -6 bps and other securitized sectors tightened in sympathy. IG Corporate debt reached +71 OAS intramonth, its tightest level since the 1990s before settling at +73, -5 bps tighter for the month. EM debt remained on a tightening trend and finished January -19 bps tighter.

#### Agy RMBS Excess Returns Tops in U.S. Bond Market for Month

The Agg Index total return was positive in January at 0.11%. Agy RMBS, driven by the Trump administration’s goal of \$200bn of mortgage purchases by the agencies to improve home affordability through lower mortgage rates, had an outsized month of excess return (+0.52%), continuing a recent stretch of strong outperformance. IG Corporate and HY Corporate excess returns were both positive, +0.34% and +0.44%, respectively. Spread compression also led to strong excess returns for EM debt (+1.12%). Municipals, which finished 2025 on a strong note, continued to outperform in January.

#### Option-Adjusted Spreads (in bps)

	12/31/24	9/30/25	12/31/25	1/31/26	1 Mo Chg
U.S. Agency (non-mortgage)	12	10	11	9	-2
U.S. Agency RMBS (Pass-throughs)*	34	31	22	16	-6
U.S. Agency CMBS	35	31	33	26	-7
U.S. Non-Agency CMBS	127	121	120	111	-9
Asset-Backed Securities	44	49	52	48	-4
U.S. Investment Grade Corporate	80	74	78	73	-5
Industrial	78	72	76	71	-5
Utility	82	81	85	79	-6
Financial Institutions	82	74	78	74	-4
Investment Grade Non-Corporate Credit	55	43	45	44	-1
U.S. High Yield Corporates	287	267	266	265	-1
Emerging Market Debt (High Yield)	393	380	326	307	-19

Source: Bloomberg Indices

\*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).

#### Returns of Selected Bloomberg Indices and Subsectors

	Effective Duration (years)	MTD Total Return	MTD Excess Return	3 Mo Total Return	3 Mo Excess Return
<b>Broad Indices</b>					
U.S. Universal Index	5.74	0.15%	0.25%	0.69%	0.44%
U.S. Aggregate Index	5.95	0.11%	0.22%	0.58%	0.38%
U.S. Intermediate Gov’t/Credit Index	3.73	0.08%	0.09%	0.84%	0.14%
U.S. 1-3 Yr. Gov’t/Credit Index	1.85	0.23%	0.05%	1.05%	0.06%
U.S. Short-Term Gov’t/Corp Index	0.55	0.30%	0.02%	1.01%	0.03%
Tax-Exempt Municipal Bond Index	6.77	0.94%	N/A	1.26%	N/A
<b>Subsector Indices</b>					
U.S. Treasury	5.83	-0.09%	N/A	0.19%	N/A
U.S. Agency (Non-Mortgage)	3.26	0.12%	0.08%	0.79%	0.10%
U.S. Agency RMBS (Pass-Throughs)	5.60	0.41%	0.52%	1.25%	0.95%
CMBS (Commercial Mortgage Backed Securities)	3.85	0.35%	0.38%	1.23%	0.52%
ABS (Asset-Backed Securities)	2.84	0.25%	0.14%	1.12%	0.32%
U.S. Corporate Investment Grade	6.81	0.18%	0.34%	0.63%	0.58%
Taxable Municipal Bond: Agg Eligible	9.02	-0.02%	0.28%	-0.08%	0.31%
U.S. High Yield Corporates	2.84	0.51%	0.44%	1.66%	0.84%
Emerging Market Debt (High Yield)	4.99	1.05%	1.12%	2.78%	2.36%
TIPS (Treasury Inflation Protected Securities)	6.65	0.31%	N/A	0.09%	N/A

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

## Disclosures

Information in this document regarding market or economic trends, or the factors influencing historical or future performance, reflects the opinions of management as of the date of this document. These statements should not be relied upon for any other purpose. This is not a complete analysis of every material fact regarding any company, industry or security. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy. *Past performance is not a guarantee of future results.*

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.

This is not a complete analysis of every material fact regarding any company, industry or security. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy. Indices are unmanaged and are not available for direct investment.