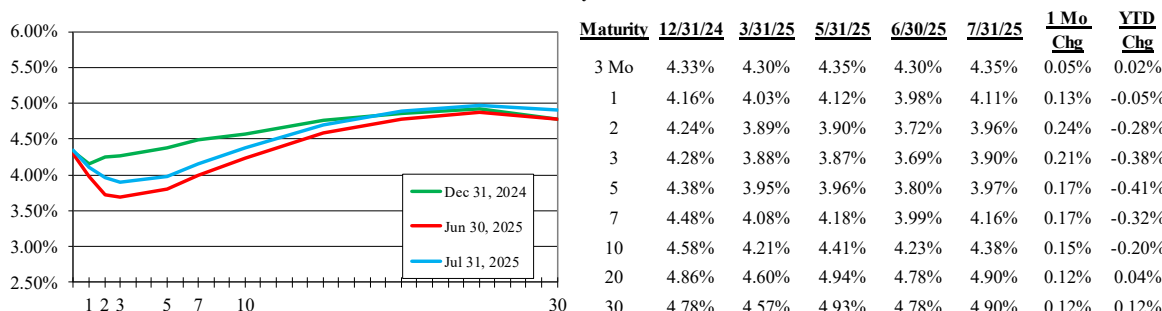


Baird Advisors Fixed Income Market Commentary July 2025

Treasury Yields Rise on Solid Economic Data and Additional Fiscal Stimulus

Yields rose across the Treasury curve, led by a 24 bps increase in the 2yr maturity (3.96%) and 15 bps rise in the 10yr (4.38%), flattening the 2s10s curve slope by 9 bps (to +42 bps). The 10yr Treasury ended the month at 4.38%, just 2 bps below its YTD average despite covering an 80-bps range thus far in 2025. Catalysts for higher yields included a stronger than expected June payrolls (+147k vs +106k estimates) and above consensus Core PCE inflation (2.8% YoY vs 2.7% estimates). Deficit and borrowing concerns also weighed on yields as the Congressional Budget Office projected that the One Big Beautiful Bill Act will boost the federal deficit by \$3.4 trillion through 2034. To help contain borrowing costs, the US Treasury announced plans for a greater focus on T-Bill issuance, above historical targets (24% of current issuance vs < 20% historical) and President Trump openly discussed removing the Fed Chair for his reluctance to cut rates. Yet, the FOMC held rates steady (4.25-4.5%) at the July meeting. However, for the first time since 1993 there were two dissenting Fed Governors who preferred lower rates. While the Fed acknowledged that growth “moderated” in 1H ’25, Powell noted we “have a long way” to go to understand tariff impacts on inflation and labor. New trade deals emerged during the month with several countries leading to an average effective tariff rate now in the high teens versus 2.5% to start the year.

Treasury Yields



Spreads Grind Tighter in July

IG Corporate spreads tightened (-7 bps) in July to finish at their tightest level in 2025 (+76) and just 2 bps above the tight of the trailing 25 years. Lighter issuance, resilient fundamentals and demand for income supported valuations. Non-Agy CMBS (-5 bps) and ABS (-6 bps) also tightened.

Soft Total Returns but Positive Excess Returns in July

The Agg Index total return declined -0.26% for the month given the rise in rates but remained solidly positive at 3.75% YTD. Agy RMBS had the lowest total return among IG sectors in July (-0.40%) while Tax-exempt Municipals have the lowest return YTD (-0.55%). Looking at MTD excess returns, IG Corporates led IG sectors (+0.56%) and was followed by Taxable Municipal (+0.51%), ABS (+0.23%) and CMBS (+0.21%). Excess returns were strongest in HY Corporate and EM Debt in July and YTD.

Option-Adjusted Spreads (in bps)

	12/31/24	3/31/25	5/31/25	6/30/25	7/31/25	1 Mo Chg	YTD Chg
U.S. Aggregate Index*	34	35	34	32	31	-1	-1*
U.S. Agency (non-mortgage)	12	11	9	10	11	1	-1
Mortgage and ABS Sectors							
U.S. Agency RMBS (Pass-throughs)*	43	36	42	37	40	3	6*
U.S. Agency CMBS	35	37	37	37	35	-2	0
U.S. Non-Agency CMBS	127	139	138	132	127	-5	0
Asset-Backed Securities	44	60	60	57	51	-6	7
Corporate Sectors							
U.S. Investment Grade	80	94	88	83	76	-7	-4
Industrial	78	92	85	81	74	-7	-4
Utility	82	103	97	93	84	-9	2
Financial Institutions	82	95	90	85	77	-8	-5
Non-Corporate Credit	55	57	52	51	47	-4	-8
U.S. High Yield Corporates	287	347	315	290	278	-12	-9
Emerging Market Debt	393	433	407	393	355	-38	-38

Source: Bloomberg Indices

*Bloomberg updated U.S. Agency RMBS (Pass-Throughs) prepayment model effective 1/24/25.

Adjusting to the new model, U.S. Aggregate Index 12/31/24 OAS would be 32 and U.S. Agency RMBS (Pass-Throughs) would be 34. 2025 spread changes reflect the adjusted 12/31/24 OAS.

Total Returns of Selected Bloomberg Indices and Subsectors

	MTD Total Return	MTD Excess Return	3 Mo Total Return	3 Mo Excess Return	YTD Total Return	YTD Excess Return	Effective Duration (years)
U.S. Aggregate Index	-0.26%	0.16%	0.54%	0.73%	3.75%	0.26%	6.03
U.S. Gov't/Credit Index	-0.22%	0.20%	0.57%	0.79%	3.72%	0.31%	6.10
U.S. Intermediate Gov't/Credit Index	-0.14%	0.14%	0.60%	0.51%	3.99%	0.29%	3.74
U.S. 1-3 Yr. Gov't/Credit Index	-0.02%	0.03%	0.49%	0.16%	2.90%	0.15%	1.86
U.S. Treasury	-0.39%	0.00%	-0.18%	0.00%	3.39%	0.00%	5.81
U.S. Agency (Non-Mortgage)	-0.11%	0.03%	0.48%	0.22%	3.33%	0.16%	3.20
U.S. Agency RMBS (Pass-Throughs)	-0.40%	0.00%	0.44%	0.55%	3.81%	0.10%	6.01
CMBS (Commercial Mortgage Backed Securities)	-0.12%	0.21%	0.85%	0.84%	4.37%	0.55%	3.91
ABS (Asset-Backed Securities)	0.13%	0.23%	1.02%	0.73%	3.06%	0.21%	2.69
U.S. Corporate Investment Grade	0.07%	0.56%	1.92%	2.23%	4.24%	0.79%	6.79
U.S. High Yield Corporates	0.45%	0.59%	4.02%	3.78%	5.04%	1.66%	2.89
Emerging Market Debt	1.33%	1.66%	5.35%	5.36%	6.72%	3.16%	4.88
Municipal Bond Index	-0.20%	N/A	0.48%	N/A	-0.55%	N/A	7.03
Taxable Municipal Bond: Agg Eligible	-0.16%	0.51%	0.76%	1.34%	3.40%	-0.12%	9.05
TIPS (Treasury Inflation Protected Securities)	0.12%	0.00%	0.48%	0.00%	4.79%	0.00%	6.59

*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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