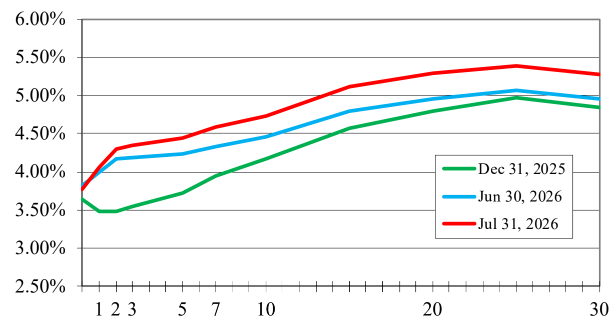
Baird Advisors
Fixed Income Market Commentary
July 2026

Treasury Yields and Volatility Rise as Fed Holds, Chair Warsh Provides No Forward Guidance

The 10yr Treasury yield rose 27 bps in July to finish the month at 4.74%, up 57 bps YTD, its highest level in 18 months. The 30yr Treasury closed July at its highest level since 2007. While market participants were divided, though leaning hold, on the Fed's next policy move prior to the July meeting, below-consensus readings for both June payrolls (+57k vs. +113k estimate) and June Core CPI inflation (2.6% vs. 2.8% estimate) provided cover for "no change." Ultimately, the Fed voted 9–3 to maintain the 3.50%–3.75% federal funds range. Warsh addressed the "family fight" behind the vote but downplayed divisions, offered essentially no forward guidance on policy, and reiterated the Fed's commitment to "deliver price stability" with a 2% inflation target despite the Fed's preferred measure, Core PCE, at 3.3%. Nonetheless, upward pressure on market yields and heightened volatility were evident all month. Despite a negotiated Memorandum of Understanding (MOU) between the U.S. and Iran, Brent crude oil prices rose from $73/bbl at the start to $100/bbl intra-month on renewed conflict, before ending at $90/bbl. The persistent U.S. deficit (boosted by Iran conflict spending), elevated inflation, and continued solid economic growth combined to lift Treasury yields and boosted prospects for future Fed tightening.

Treasury Yields



Maturity	12/31/25	3/31/26	5/31/26	6/30/26	7/31/26	1 Mo Chg	YTD Chg
3 Mo	3.64%	3.68%	3.68%	3.82%	3.77%	-0.05%	0.13%
1	3.48%	3.67%	3.78%	3.99%	4.05%	0.06%	0.57%
2	3.48%	3.80%	4.01%	4.18%	4.29%	0.11%	0.81%
3	3.54%	3.82%	4.05%	4.18%	4.36%	0.18%	0.82%
5	3.73%	3.94%	4.14%	4.23%	4.45%	0.22%	0.72%
7	3.94%	4.13%	4.28%	4.34%	4.59%	0.25%	0.65%
10	4.17%	4.32%	4.44%	4.47%	4.74%	0.27%	0.57%
20	4.80%	4.92%	4.97%	4.96%	5.29%	0.33%	0.49%
30	4.85%	4.91%	4.98%	4.96%	5.28%	0.32%	0.43%

IG Corporates Widen, Led by Hyperscalers

IG Corporate spreads widened 4 bps in July, bringing them to +78 bps, exactly where they started 2026. Within IG Corporate, AI-related debt notably widened not only on outsized issuance, which comprised a record percentage of overall IG Corporate issuance, but also prospects for additional issuance and growing uncertainty regarding competition for AI dominance with China.

Negative Excess Returns for Agy RMBS

The Agg Index declined 1.30% in July as Treasury yields and rate volatility rose. That backdrop contributed to negative excess returns for Agy RMBS (-0.44%). Excess returns were also negative for IG Corporates (-0.26%). Tax-exempt municipals lagged Treasuries.

Option-Adjusted Spreads (in bps)

	12/31/25	3/31/26	5/31/26	6/30/26	7/31/26	1 Mo Chg	YTD Chg
U.S. Agency (non-mortgage)	11	6	7	8	9	1	-2
U.S. Agency RMBS (Pass-throughs)*	28	24	22	24	31	7	3
U.S. Agency CMBS	33	28	27	26	27	1	-6
U.S. Non-Agency CMBS	120	118	107	109	110	1	-10
Asset-Backed Securities	52	53	47	44	42	-2	-10
U.S. Investment Grade Corporate	78	89	72	74	78	4	0
Industrial	76	85	69	73	78	5	2
Utility	85	93	77	78	81	3	-4
Financial Institutions	78	94	76	75	78	3	0
Investment Grade Non-Corporate Credit	45	47	39	40	41	1	-4
U.S. High Yield Corporates	266	317	257	270	279	9	13
Emerging Market Debt (High Yield)	326	370	296	288	292	4	-34

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	5.83	-1.30%	-0.17%	-0.76%	-0.06%	-0.69%	0.13%
	U.S. Universal Index	5.64	-1.22%	-0.16%	-0.62%	0.03%	-0.46%	0.29%
	U.S. Intermediate Gov't/Credit Index	3.70	-0.43%	-0.04%	-0.21%	0.06%	-0.02%	0.17%
	U.S. 1-3 Yr. Gov't/Credit Index	1.85	0.14%	-0.01%	0.39%	0.05%	0.91%	0.09%
	U.S. Short-Term Gov't/Corp Index	0.53	0.34%	0.00%	0.88%	0.03%	2.02%	0.06%
	Tax-Exempt Municipal Bond Index	6.68	-1.85%	N/A	-0.54%	N/A	0.43%	N/A
Subsector Indices	U.S. Treasury	5.67	-1.11%	N/A	-0.72%	N/A	-0.84%	N/A
	U.S. Agency (Non-Mortgage)	3.37	-0.36%	-0.05%	-0.13%	-0.10%	0.25%	0.01%
	U.S. Agency RMBS (Pass-Throughs)	5.67	-1.42%	-0.44%	-0.92%	-0.38%	-0.45%	0.01%
	CMBS (Commercial Mortgage Backed Securities)	3.69	-0.38%	-0.02%	-0.11%	0.14%	0.38%	0.67%
	ABS (Asset-Backed Securities)	3.00	-0.11%	0.05%	0.35%	0.21%	0.95%	0.52%
	U.S. Corporate Investment Grade	6.60	-1.67%	-0.26%	-0.75%	0.12%	-0.83%	0.39%
	Taxable Municipal Bond: Agg Eligible	8.80	-2.12%	0.01%	-0.91%	0.42%	-0.88%	1.11%
	U.S. High Yield Corporates	2.98	-0.25%	-0.08%	0.51%	0.48%	1.71%	1.38%
	Emerging Market Debt (High Yield)	4.85	-0.75%	0.06%	1.52%	1.97%	3.41%	3.93%
	TIPS (Treasury Inflation Protected Securities)	6.47	-0.68%	N/A	-0.94%	N/A	0.46%	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.

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.