Baird Advisors
Fixed Income Market Commentary
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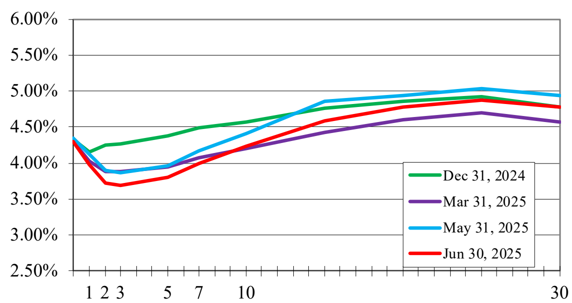
Treasury Yields Decline in June but Mixed in Q2, Fed Remains on Hold, US Fiscal and Trade Policies Take Center Stage

Treasury yields uniformly declined across the curve in June. For the quarter, yields declined among shorter tenors (1-7 yrs) but finished higher from 10-30yrs, steepening 2s10s by 19 bps (and 2s30s by 38 bps) in Q2. The 10yr, which rose just 2 bps for Q2 to finish at 4.23%, moved in a 4.60% to 4.00% range during the quarter amid the tariff rollout, the tax-bill debate and Middle East conflict. As expected, the Fed held its policy rate steady at 4.25-4.5% where it has resided since December. The Fed's unanimous decision was supported by "solid data" and the desire to "wait and see" the impacts of various US policy decisions. Core PCE inflation of 2.7%, which remains above the Fed's 2% target, combined with a robust May nonfarm payrolls of +144k, above estimates, were cited by the Fed as rationale for patience. Nonetheless, the Fed's Summary of Economic Projections (SEP) did lower the year-end forecast for real GDP (1.4% from 1.7%) and increase the forecast for Core PCE inflation (3.1% from 2.8%) and unemployment (4.5% from 4.4%). The debate on the One Big Beautiful Bill Act continued as legislators aim to make select 2017 tax cuts permanent while minimizing the deficit growth that Moody's cited in their Treasury downgrade to Aa1 during the quarter. Trade negotiations continued with select new deals finalized, but the US effective tariff rate of 13.5% remains at its highest level since 1938. Geopolitical tension added to uncertainty during the month and quarter as Iran and Israel entered war and US planes bombed Iranian nuclear facilities.

Treasury Yields



Maturity	12/31/24	3/31/25	5/31/25	6/30/25	1 Mo Chg	Q2 Chg	YTD Chg
3 Mo	4.33%	4.30%	4.35%	4.30%	-0.05%	0.00%	-0.03%
1	4.16%	4.03%	4.12%	3.98%	-0.14%	-0.05%	-0.18%
2	4.24%	3.89%	3.90%	3.72%	-0.18%	-0.17%	-0.52%
3	4.28%	3.88%	3.87%	3.69%	-0.18%	-0.19%	-0.59%
5	4.38%	3.95%	3.96%	3.80%	-0.16%	-0.15%	-0.58%
7	4.48%	4.08%	4.18%	3.99%	-0.19%	-0.09%	-0.49%
10	4.58%	4.21%	4.41%	4.23%	-0.18%	0.02%	-0.35%
20	4.86%	4.60%	4.94%	4.78%	-0.16%	0.18%	-0.08%
30	4.78%	4.57%	4.93%	4.78%	-0.15%	0.21%	0.00%

Spreads Tighter in June and Q2 Despite April Widening

IG Corporate spreads finished tighter for the month (-5 bps) and quarter (-11 bps). Closing the quarter at +83 OAS represented a notable rally from the +119 wides experienced at the onset of new tariffs in April. Spreads also tightened in non-Agy CMBS and in ABS for both the month and the quarter. Spread tightening was greatest among the lower quality market sectors as US HY and EM Debt tightened by -57 bps and -40 bps respectively in Q2.

Strong June Bolsters Q2 Total and Excess Returns

The Agg Index total return was a robust 1.54% in June, more than reversing a negative May to produce 1.21% in Q2. Excess returns were also positive across the board. IG Corporate excess returns were strong in the month (+0.38%) and led all investment grade sectors for the quarter (+1.04%). Notable June Agency RMBS excess returns (+0.36%) helped turn Q2 excess returns positive.

Option-Adjusted Spreads (in bps)

	12/31/24	3/31/25	5/31/25	6/30/25	1 Mo Chg	Q2 Chg	YTD Chg
U.S. Aggregate Index*	34	35	34	32	-2	-3	*0
U.S. Agency (non-mortgage)	12	11	9	10	1	-1	-2
Mortgage and ABS Sectors							
U.S. Agency RMBS (Pass-throughs)*	43	36	42	37	-5	1	*3
U.S. Agency CMBS	35	37	37	37	0	0	2
U.S. Non-Agency CMBS	127	139	138	132	-6	-7	5
Asset-Backed Securities	44	60	60	57	-3	-3	13
Corporate Sectors							
U.S. Investment Grade	80	94	88	83	-5	-11	3
Industrial	78	92	85	81	-4	-11	3
Utility	82	103	97	93	-4	-10	11
Financial Institutions	82	95	90	85	-5	-10	3
Non-Corporate Credit	55	57	52	51	-1	-6	-4
U.S. High Yield Corporates	287	347	315	290	-25	-57	3
Emerging Market Debt	393	433	407	393	-14	-40	0

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	Q2 Total Return	Q2 Excess Return	YTD Total Return	YTD Excess Return	Effective Duration (years)
U.S. Aggregate Index	1.54%	0.19%	1.21%	0.33%	4.02%	0.10%	6.06
U.S. Gov't/Credit Index	1.47%	0.14%	1.22%	0.38%	3.95%	0.09%	6.15
U.S. Intermediate Gov't/Credit Index	1.07%	0.08%	1.67%	0.22%	4.13%	0.15%	3.76
U.S. 1-3 Yr. Gov't/Credit Index	0.64%	0.03%	1.27%	0.08%	2.92%	0.11%	1.87
U.S. Treasury	1.25%	0.00%	0.85%	0.00%	3.79%	0.00%	5.87
U.S. Agency (Non-Mortgage)	0.89%	0.00%	1.30%	0.12%	3.44%	0.12%	3.21
U.S. Agency RMBS (Pass-Throughs)	1.78%	0.36%	1.14%	0.17%	4.23%	0.10%	5.98
CMBS (Commercial Mortgage Backed Securities)	1.22%	0.16%	1.88%	0.39%	4.49%	0.33%	3.97
ABS (Asset-Backed Securities)	0.87%	0.12%	1.38%	0.27%	2.93%	-0.02%	2.65
U.S. Corporate Investment Grade	1.87%	0.38%	1.82%	1.04%	4.17%	0.21%	6.83
U.S. High Yield Corporates	1.84%	1.00%	3.53%	2.17%	4.57%	1.04%	2.81
Emerging Market Debt	2.19%	1.00%	3.67%	2.53%	5.32%	1.41%	4.89
Municipal Bond Index	0.62%	N/A	-0.12%	N/A	-0.35%	N/A	6.78
Taxable Municipal Bond: Agg Eligible	2.43%	0.55%	0.71%	0.32%	3.56%	-0.66%	9.13
TIPS (Treasury Inflation Protected Securities)	0.95%	0.00%	0.48%	0.00%	4.67%	0.00%	6.51

*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.