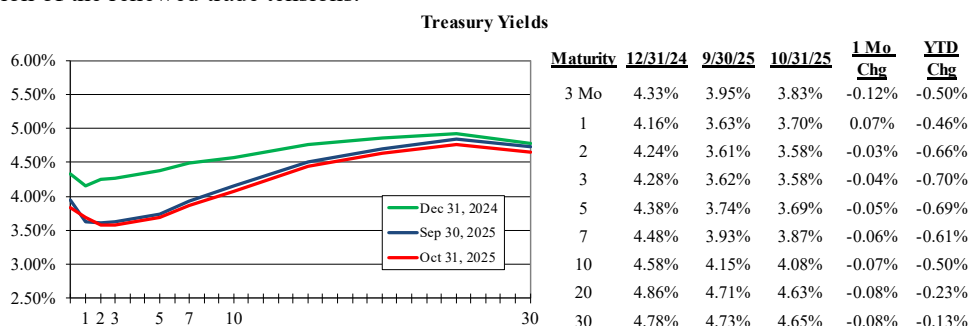


Baird Advisors Fixed Income Market Commentary October 2025

Treasury Yields Lower on Renewed China Trade Tension; Fed Eases but adds Hawkish Perspective

The 10yr Treasury ended October at 4.08%, down 7 bps for the month. Intra-month it fell to a YTD low of 3.95% on renewed trade tensions with China prior to the face-to-face meeting scheduled between President Trump and President Xi, before rising again on reduced expectations of a December rate cut. The Federal government remained closed all month making it the second longest shutdown after the 35-day closure in 2019. With the governmental economic data disseminations largely ceased, one of the few datapoints available was September's CPI which showed both headline and core inflation readings of 3.0% YoY, below the 3.1% consensus expectation. The Fed cut its policy rate at month-end, as expected, by 25 bps to 3.75-4.0%. Divisions remained within the Fed as two voting members dissented – Kansas City Fed President Schmid preferred no cut while President Trump's recent appointee, Governor Miran, favored a 50 bps cut. The Fed further eased by setting the end of quantitative tightening (QT) for 12/1 when all mortgage principal payments proceeds will be reinvested into T-Bills, ensuring adequate bank reserves and liquidity while fostering demand in this favored issuance tenor of the Treasury. In the press conference that followed the FOMC decision, Chair Powell lamented the lack of "available data" and noted that a December cut is not a "foregone conclusion, far from it." Also, Treasury Secretary Bessent presented President Trump with five candidates for Fed Chair and President Trump traveled to Asia to meet Chinese Premier Xi fostering a de-escalation of the renewed trade tensions.



Most Spreads Modestly Wider in October

Spreads widened across IG save Agy RMBS (-3 bps). US IG Corporate debt was +4 bps wider amid record issuance for the month of October and closed at +78, just above the +72 tightens YTD reached earlier in the month. AI infrastructure borrowing remains robust. Meta issued \$30bn for AI and data-center capex, the largest ever US Corporate bond issue not used for M&A.

Mixed Excess Returns for the Month

The Agg Index produced 0.62% of total return in October. Agy RMBS had another strong month, producing 0.26% of excess returns, bringing the trailing 3 mo excess return to 1.10%. IG Corporate provided -0.28% of excess returns, similar to HY Corporates (-0.24%). Municipals, both exempt and taxable, performed well in October, a continuation from September. EM debt led all bond sectors with 2.42% of excess returns.

Option-Adjusted Spreads (in bps)

	12/31/24	9/30/25	10/31/25	1 Mo Chg	YTD Chg
U.S. Aggregate Index*	32	28	28	0	-4
U.S. Agency (non-mortgage)	12	10	9	-1	-3
Mortgage and ABS Sectors					
U.S. Agency RMBS (Pass-throughs)*	34	31	28	-3	-6
U.S. Agency CMBS	35	31	31	0	-4
U.S. Non-Agency CMBS	127	121	124	3	-3
Asset-Backed Securities	44	49	55	6	11
Corporate Sectors					
U.S. Investment Grade	80	74	78	4	-2
Industrial	78	72	78	6	0
Utility	82	81	84	3	2
Financial Institutions	82	74	78	4	-4
Non-Corporate Credit	55	43	42	-1	-13
U.S. High Yield Corporates	287	267	281	14	-6
Emerging Market Debt	393	380	338	-42	-55

Source: Bloomberg Indices

*U.S. Aggregate Index and 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).

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	0.62%	0.00%	2.94%	0.33%	6.80%	0.61%	6.02
U.S. Gov't/Credit Index	0.55%	-0.08%	2.70%	0.08%	6.51%	0.39%	6.20
U.S. Intermediate Gov't/Credit Index	0.43%	-0.02%	2.08%	0.07%	6.16%	0.37%	3.75
U.S. 1-3 Yr. Gov't/Credit Index	0.34%	0.00%	1.55%	0.03%	4.49%	0.18%	1.86
U.S. Treasury	0.62%	0.00%	2.54%	0.00%	6.01%	0.00%	5.91
U.S. Agency (Non-Mortgage)	0.50%	0.06%	2.01%	0.12%	5.41%	0.29%	3.36
U.S. Agency RMBS (Pass-Throughs)	0.86%	0.26%	3.73%	1.10%	7.68%	1.25%	5.65
CMBS (Commercial Mortgage Backed Securities)	0.46%	0.03%	2.34%	0.31%	6.82%	0.88%	3.87
ABS (Asset-Backed Securities)	0.38%	-0.02%	1.90%	0.14%	5.02%	0.36%	2.75
U.S. Corporate Investment Grade	0.38%	-0.28%	2.92%	0.12%	7.29%	0.94%	6.89
U.S. High Yield Corporates	0.16%	-0.24%	2.24%	0.45%	7.39%	2.16%	2.85
Emerging Market Debt	2.95%	2.42%	4.69%	2.37%	11.72%	5.76%	5.01
Municipal Bond Index	1.24%	N/A	4.49%	N/A	3.91%	N/A	6.65
Taxable Municipal Bond: Agg Eligible	1.32%	0.48%	4.28%	0.83%	7.82%	0.73%	9.21
TIPS (Treasury Inflation Protected Securities)	0.35%	0.00%	2.34%	0.00%	7.25%	0.00%	6.71

*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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