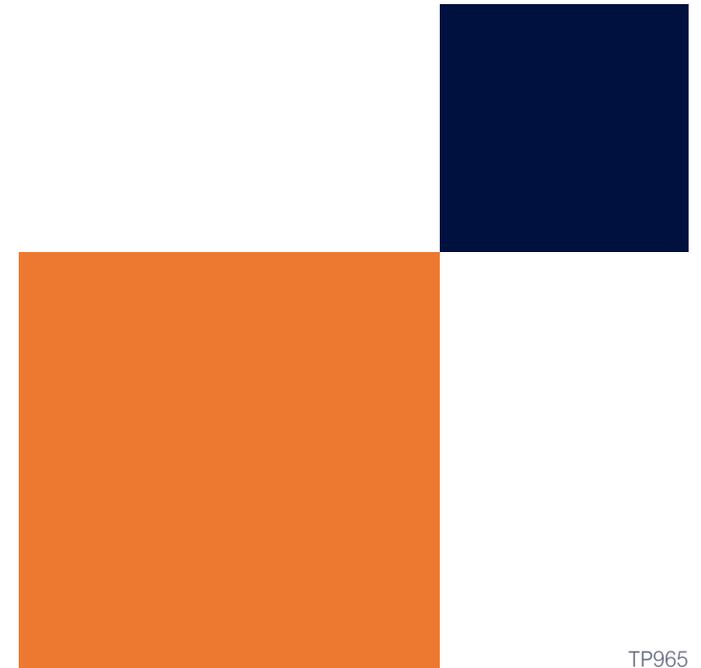




January 2026

# Observations in Fixed Income



# Observations in the Macro Landscape

Asset  
Valuations

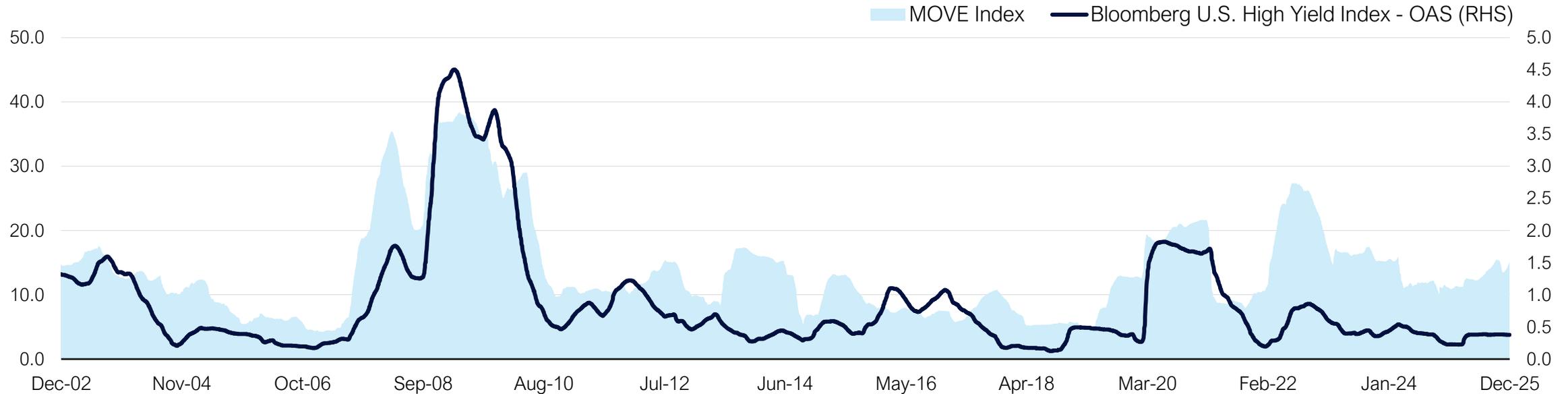
Monetary  
Policy

State of the  
Consumer

# Rate Volatility Greatly Exceeds Spread Volatility

Gap reveals credit spread pricing complacency

**ROLLING 1-YEAR STANDARD DEVIATION: RATE VOLATILITY VS. SPREAD VOLATILITY**



*Past performance does not guarantee future results.*

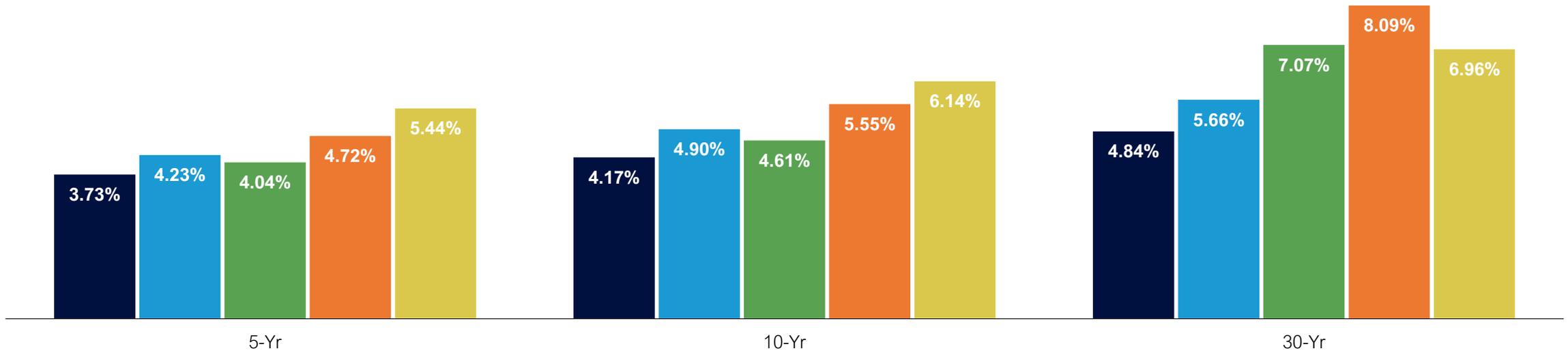
Source: Bloomberg, as of 31 December 2025

# Municipal Yields Continue to Look Attractive on Tax-Adjusted Basis

Investors interested in locking in attractive yields should look to longer-dated municipal bonds

## RELATIVE YIELDS (%)

■ U.S. Treasury Yield  
 ■ U.S. Corporate A Yield  
 ■ Muni AAA Tax-Adj. Yield\*  
 ■ Muni A Revenue Tax-Adj. Yield\*  
 ■ U.S. Corporate B Yield



*Past performance does not guarantee future results.*

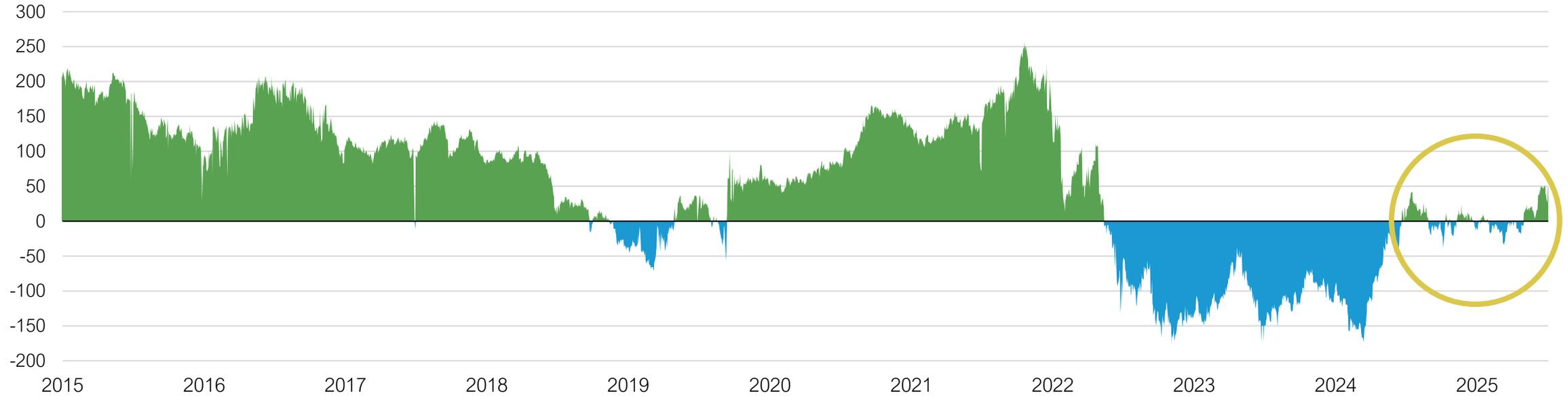
Source: Bloomberg, as of 31 December 2025

\*Top Federal marginal rate of 37% plus 3.8% Medicare surcharge.

# Time to Exit the Holding Pattern

Additional Fed cuts may impact the attractiveness of cash yields

## 10-YEAR U.S. TREASURY YIELD MINUS MONEY MARKET FUNDS YIELD (BPS)

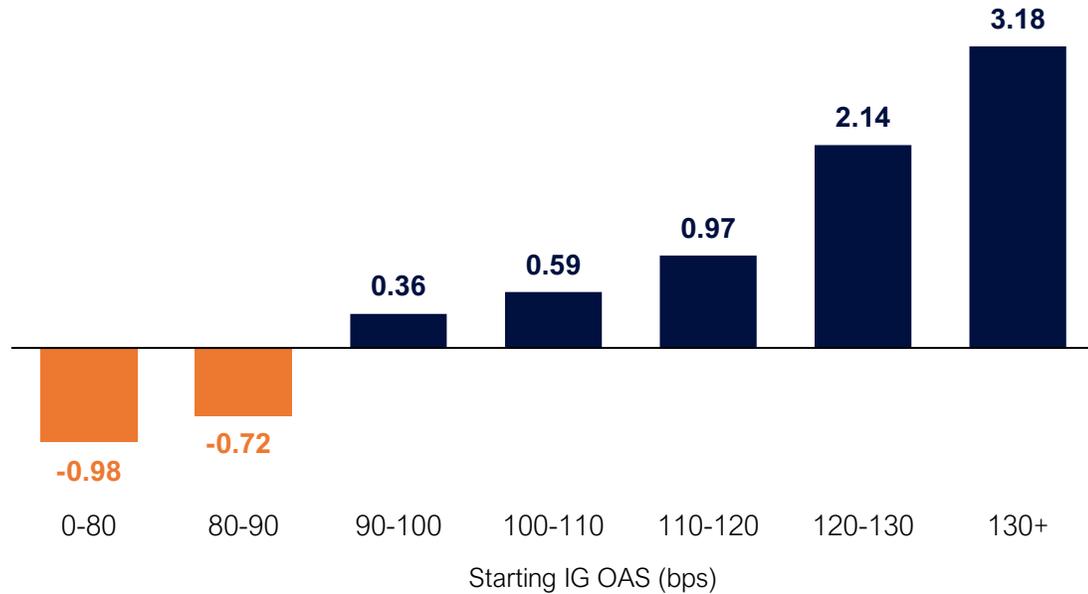


Source: Bloomberg, as of 31 December 2025

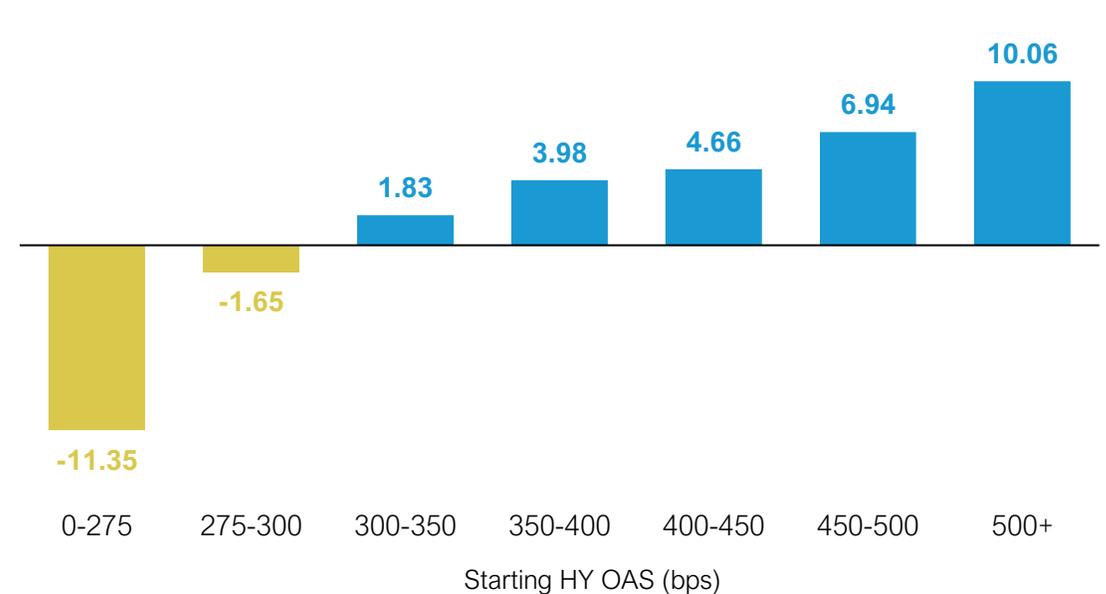
# Current Spread Levels Do Not Compensate Investors for Risk

Investment grade spreads under **90 bps** and high yield spreads under **300 bps** have historically translated into negative excess returns

**INVESTMENT GRADE: MEDIAN 12M FWD EXCESS RETURN (%)\***



**HIGH YIELD: MEDIAN 12M FWD EXCESS RETURN (%)\***



*Past performance does not guarantee future results.*

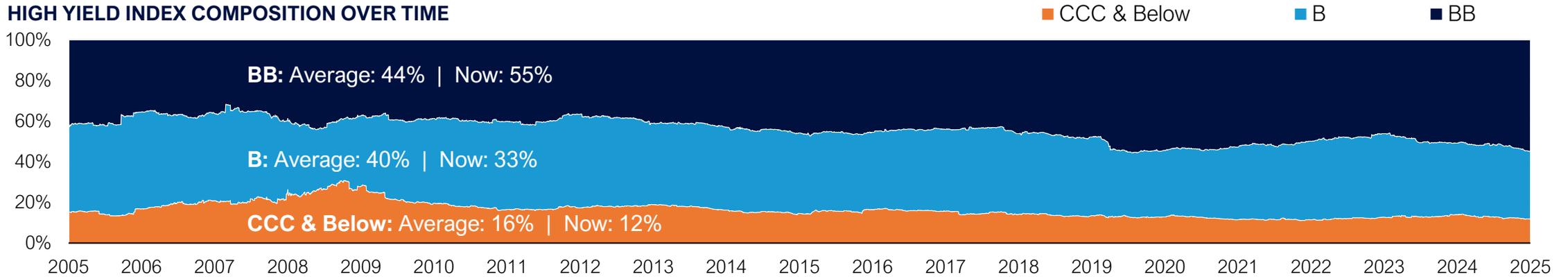
Source: Bloomberg, as of 31 December 2025

\*Note: Data represents median forward 12m excess returns for spreads daily back to 2000.

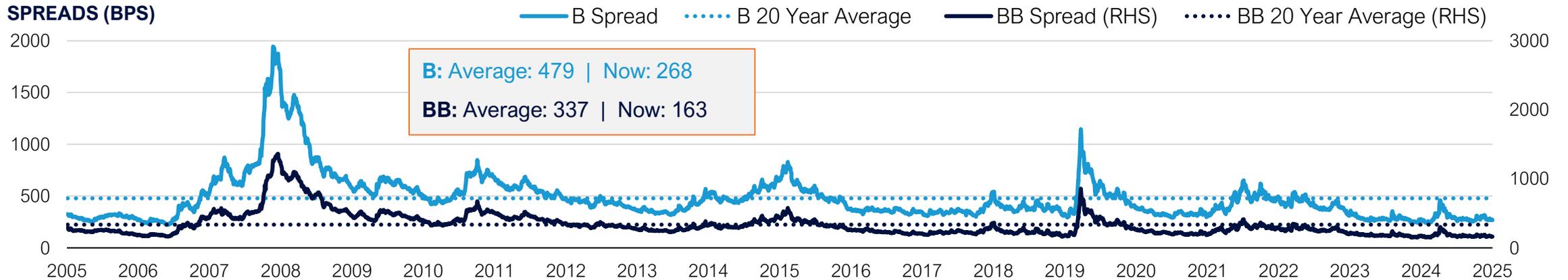
# High Yield Indices Have Become Higher Quality

However, compensation for credit risk remains low

## HIGH YIELD INDEX COMPOSITION OVER TIME



## SPREADS (BPS)



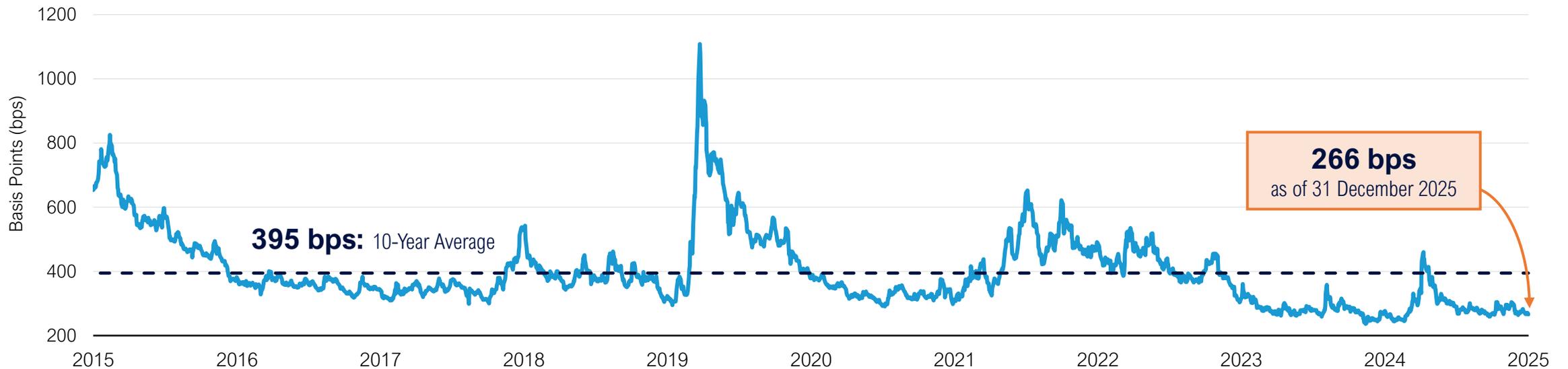
Past performance does not guarantee future results.

Source: Morningstar Direct, Bloomberg. as of 31 December 2025

# Risky Fixed Income Sector Spreads Are Tight Versus History

High yield corporate spreads are at levels that price in considerable optimism

## BLOOMBERG U.S. HIGH YIELD OPTION ADJUSTED SPREAD (OAS)



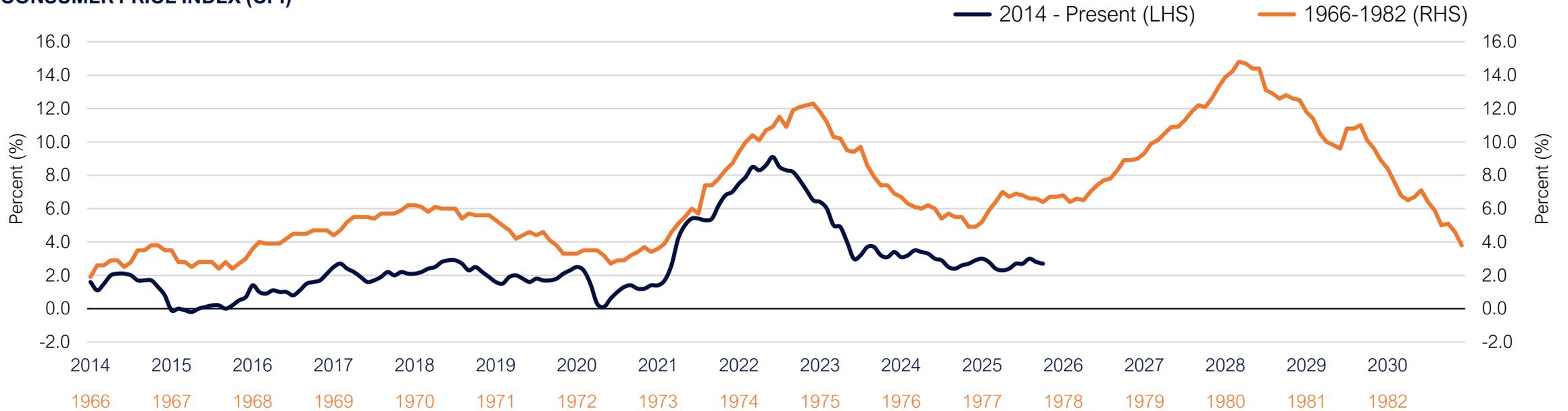
Past performance does not guarantee future results.

Source: Bloomberg, as of 31 December 2025

# Is the Inflation Fight Over?

In the 1970s, inflation rose again despite initial success

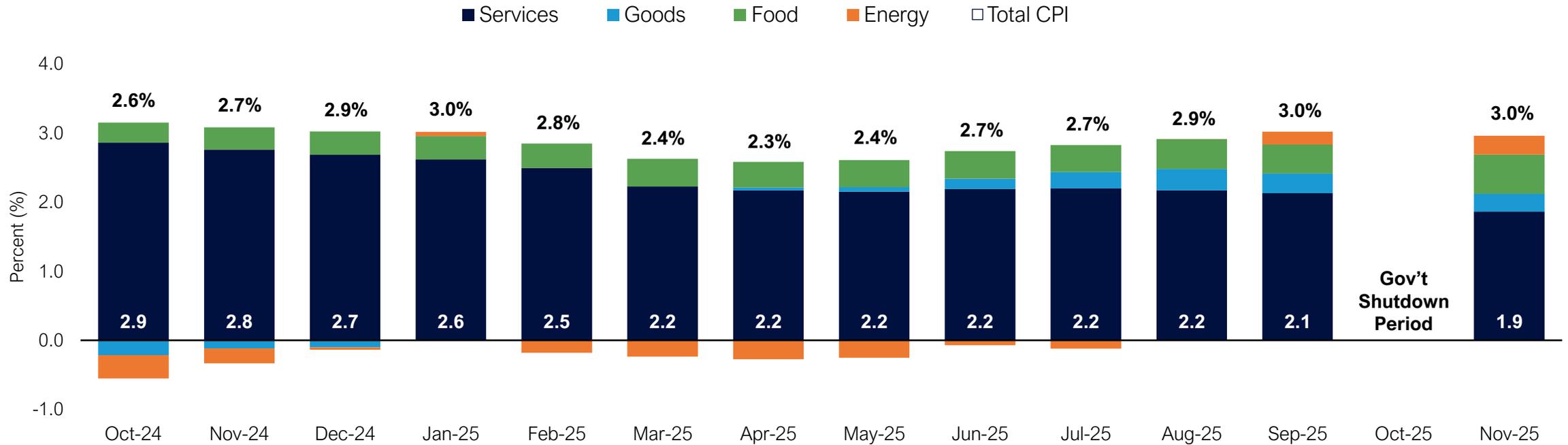
## CONSUMER PRICE INDEX (CPI)



Source: Bloomberg, as of 30 November 2025

# Services Moderate as Food and Energy Modestly Rise

A weaker labor market is needed to achieve the Fed's price stability goals

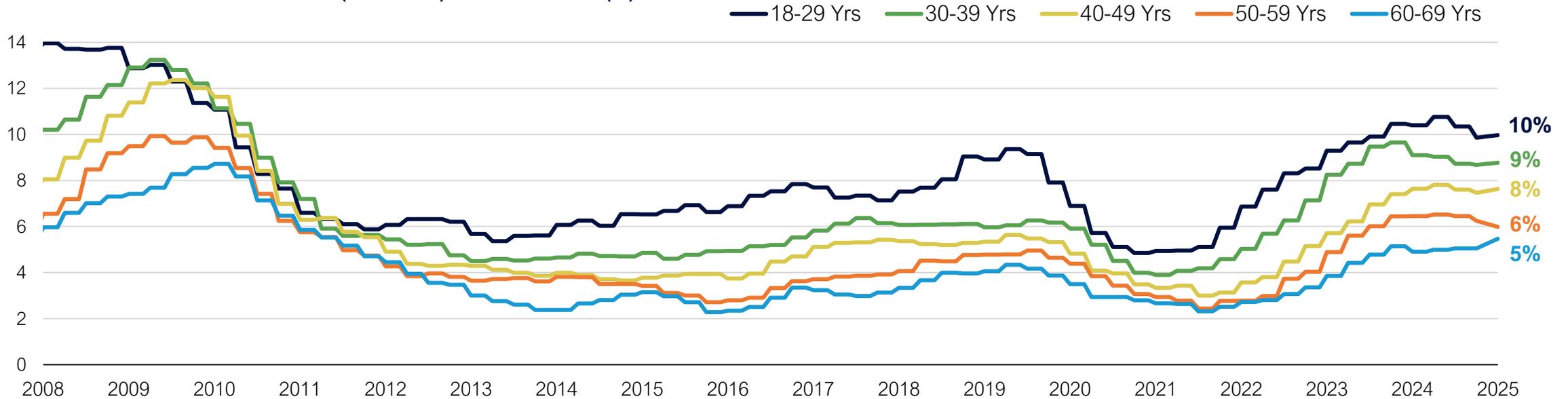


Source: Bloomberg, as of 30 November 2025  
Data represents U.S. Consumer Price Index.

# Consumer Delinquencies Have Risen, but Ticked Down QoQ

Delinquencies now at levels last seen in 2011-2012

**U.S. CREDIT CARD DELINQUENCIES (90+ DAYS) BY AGE GROUP (%)**

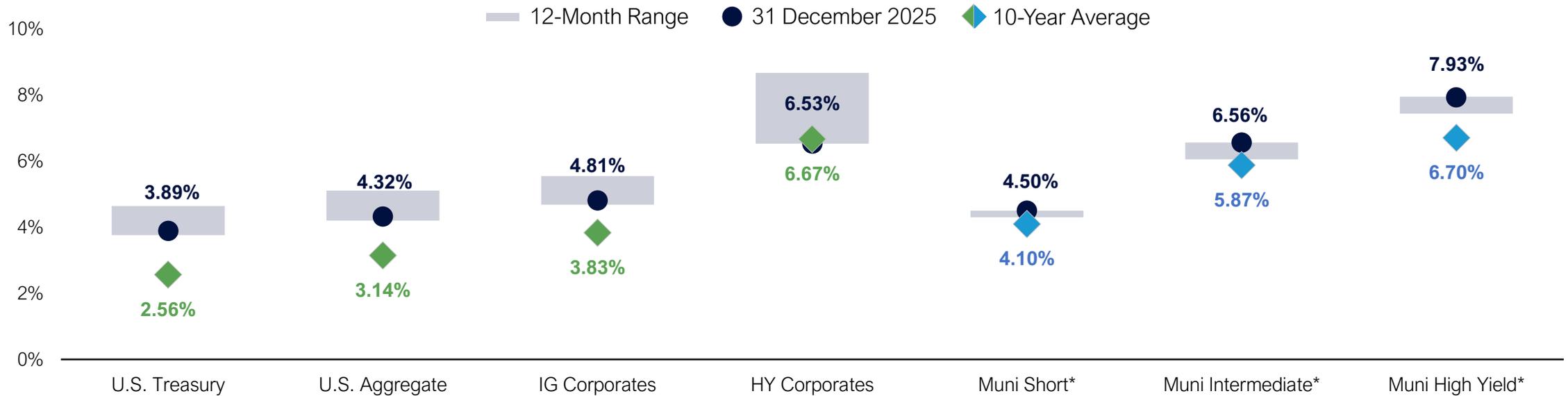


Source: Bloomberg, as of 30 September 2025  
Data represents U.S. Credit Card Quality Index.

# Higher Yields Provide Optimism for Fixed Income Market Returns Going Forward

Yields across fixed income are consistently above long-term averages

## FIXED INCOME YIELDS (%)



Past performance does not guarantee future results.

Source: Bloomberg, as of 31 December 2025

\*Municipal yields are tax adjusted. Assumes top marginal Federal bracket of 37% and Medicare surcharge of 3.8%.

# Observations in Global Fixed Income

Continuum of Global  
Investment Opportunities

Fundamentals  
& Valuations

Market  
Dynamics

# Continuum of Global Investment Opportunities

We see various investment opportunities in the current market to achieve attractive levels of income and total return

SECTOR	CURRENT VIEW	CURRENT OUTLOOK
Treasuries/TIPS	+	With many key rates setting YTD lows, investors who were overweight duration may consider taking some profits. Real yields still remain attractive relative to history, compensating investors for fiscal largesse, government dysfunction (and shutdowns), and persistent inflation. While nimbleness around duration positioning remains important, interest rate volatility has been trending lower—perhaps suppressed by reduced government data flow.
Investment Grade (IG) Corporates	–	Investors may consider selectively trimming tight corporates in the belly of the curve to reset some dry powder for the next bout of volatility—new issue concessions are fairly limited at present. Our credit analysts see limited attractiveness across IG rated debt in secondary markets.
High Yield (HY) Corporates	–	Cracks emerging in credit suggest some potential for deeper structural flaws. While the quality composition of the HY market is above average, we would note that BB and B credit spreads independently still look very rich relative to their own history. Higher quality yield-to-call preferred paper presently offers strong value relative to traditional high yield corporates.
Bank Loans	–	Waves of re-pricings are eroding spread from the asset class, increasing downside risk. While lower short-term rates ease the interest burden for the underlying borrowers, this is happening against a less favorable economic backdrop and note that default rates in loans continue to trend higher than high yield bonds.
Agency MBS	○	Lower coupon MBS while on the fairer side offer interesting relative value vs. IG corporates with upside, have found interesting opportunities in Agency CMOs which are an attractive place at the moment to take advantage of higher all-in rates.
ABS	○	Continue to remain cautious on the consumer, particularly subprime as delinquencies continue to climb and esoteric spread sectors appear rich. Shorter senior ABS bonds which offer reasonable yield and spread vs. comparable investment grade corporates look attractive while amortizing principal.
CMBS	○	While spreads have returned to the tigher end of fairly valued, the move has lagged similar moves in corporates and offers decent yield pickup versus comparable corporates. Additionally, select discount agency CMBS issues offer a corporate proxy with potential upside.
CMOs (Non-Agency)	+	Remain constructive on housing due to structural and demographic factors, non-QM has returned to fair value but still offers decent valuation vs. investment grade corporates. Our analysts view secondary reperforming loans as offering upside and low loan to values over non-performing loans which appear rich.
Emerging Markets	–	Despite geopolitical tensions, emerging market spreads have returned to pre-“Liberation Day” levels (in sympathy with risk assets broadly). Selective non-dollar positions have performed well given persistent USD weakness. Rapidly evolving trade and tariff policies create heightened uncertainty throughout emerging markets.

## CURRENT VIEW KEY

+ Positive   ○ Neutral   – Negative

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# Spread Levels Tight Versus Underlying Risks

We suggest that investors add risk opportunistically should spread levels widen

## OPTION ADJUSTED SPREADS FOR SUB-INDEXES



Past performance does not guarantee future results.

Source: Bloomberg, as of 31 December 2025

# Flexibility in Managing Portfolios Has Become Increasingly Important

Market sell-offs and recoveries have accelerated in the post-global financial crisis era

**HIGH YIELD INDEX OAS – LENGTH OF SELLOFFS** (TIME PERIOD WHERE SPREAD > 600 BPS)



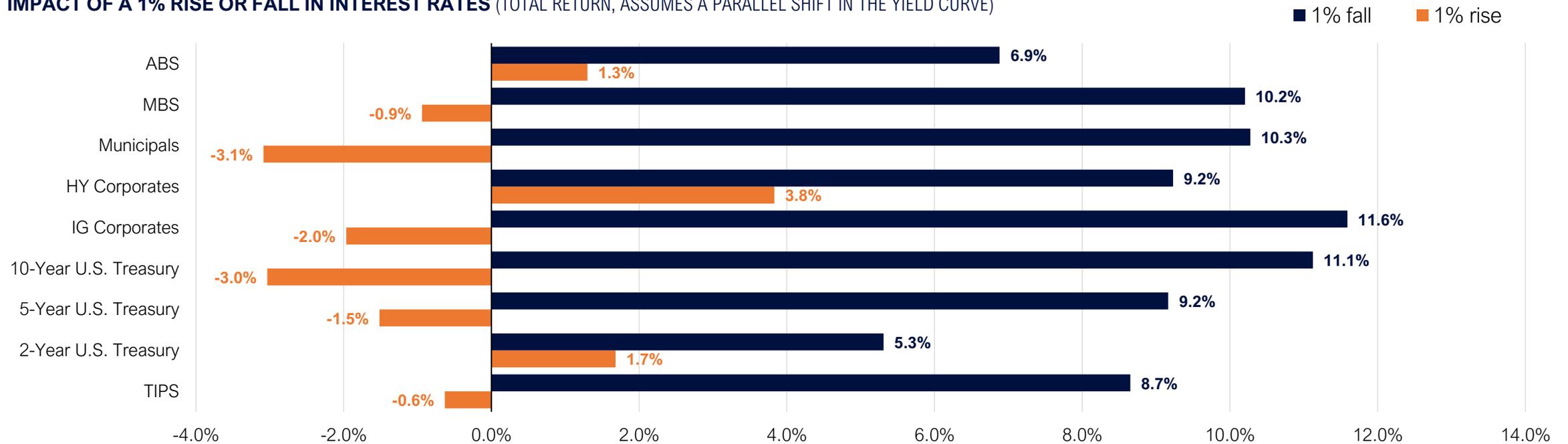
*Past performance does not guarantee future results.*

Source: Bloomberg, as of 31 December 2025

# Fixed Income Total Return Potential Is Skewed to the Upside

Higher coupons help protect against rising rates while providing tailwind for rate rallies

**IMPACT OF A 1% RISE OR FALL IN INTEREST RATES** (TOTAL RETURN, ASSUMES A PARALLEL SHIFT IN THE YIELD CURVE)



Past performance does not guarantee future results.

Source: Bloomberg, as of 31 December 2025

# Observations in Municipal Fixed Income

Municipal  
Credit Outlook

Fundamentals  
& Valuations

Market  
Dynamics

# Municipal Credit Outlooks Remain Stable for Most Sectors

U.S. public finance sector views for 2H 2025

SECTOR	CURRENT VIEW
Charter Schools	+
Health Care	-
Higher Education - Public	0
Higher Education - Private	-
Housing	0

SECTOR	CURRENT VIEW
Local Governments	0
State Governments	0
Mass Transit	-
Public Power	+
Transportation	0
Water & Sewer	+

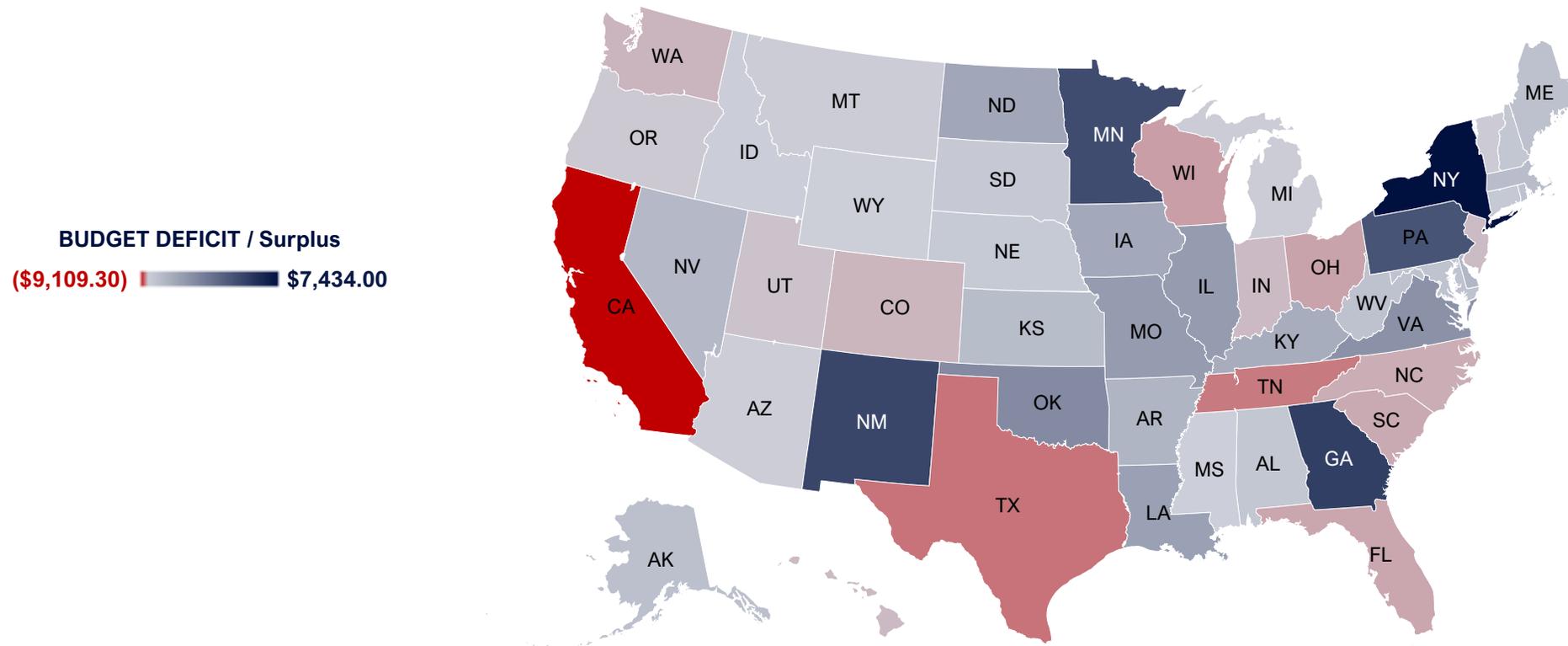
**CURRENT VIEW KEY**

+ Positive    0 Neutral    - Negative

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# State Revenues Have Remained Resilient

Most recent fiscal year data shows strong revenues, but downward trend

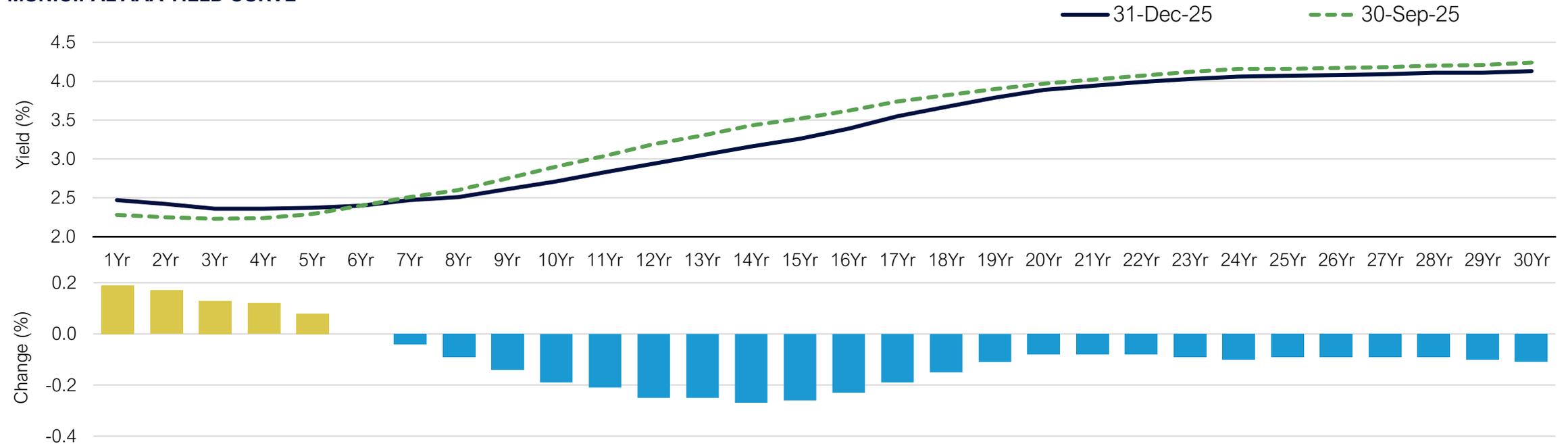


Source: Bloomberg, Municipal Issuer Fundamental Analysis  
As of fiscal year end 2020, 2021, 2022, 2023 & 2024 (most recently available)

# Municipal Yields Rose During the Quarter, Despite Fed Cuts

Growth and inflation expectations shrugged off Fed action and drove yields higher

## MUNICIPAL AAA YIELD CURVE



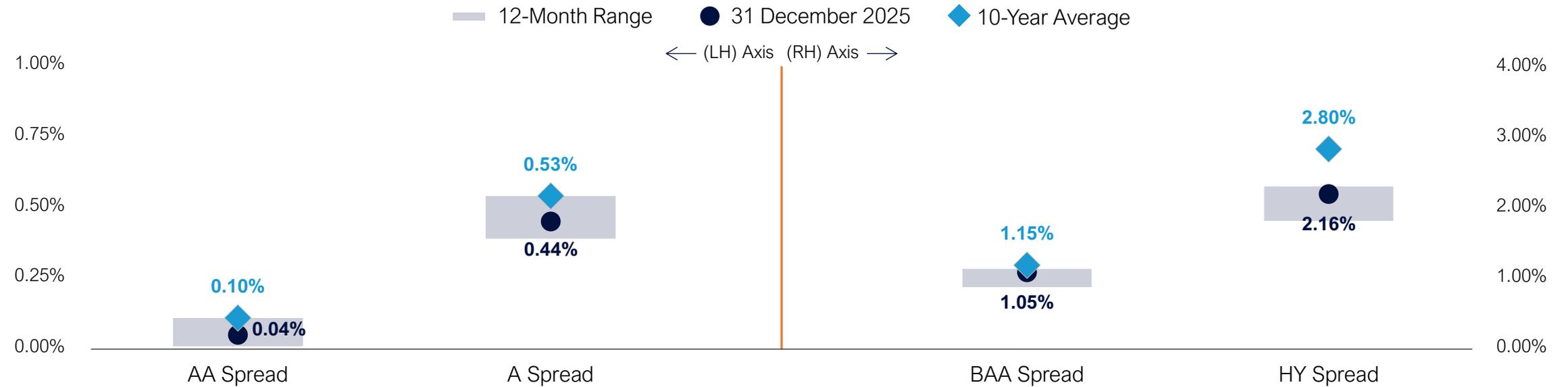
Past performance does not guarantee future results.

Source: Bloomberg, as of 31 December 2025

# Credit Spreads Remain Stubbornly Low

However, municipal credit spreads have widened to the 2<sup>nd</sup> quartile of their historic range

## CREDIT SPREADS BY QUALITY



Past performance does not guarantee future results.

Source: Bloomberg, as of 31 December 2025

# New Issuance in 2025 Set a New Decade High

Record supply was partially offset by strong investor demand

## NEW MUNICIPAL ISSUANCE (\$ BILLIONS)



Source: MSRB, EMMA, as of 31 December 2025

# Important Information



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