# BOND MARKET UPDATE

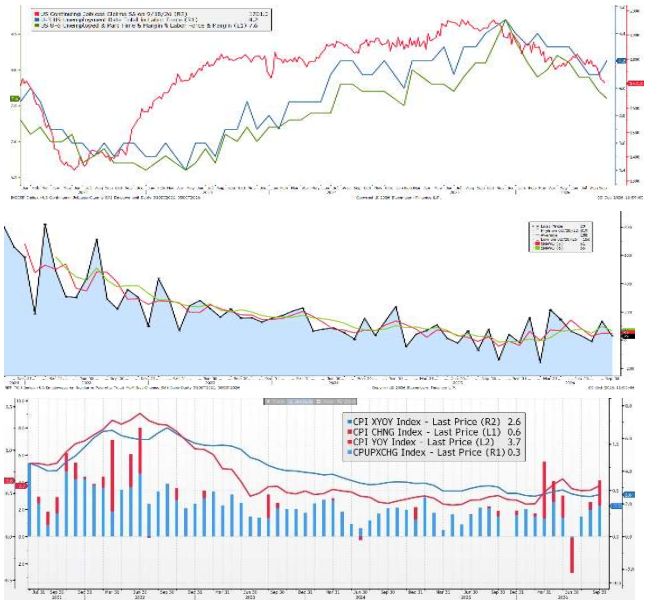
## As of September 30, 2026

Volume 15, Issue 3

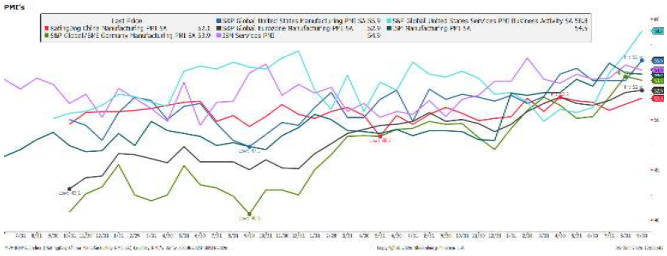
In the 3rd quarter of 2026, total returns for both taxable and tax-free investments were negative. For taxable portfolios, the Barclays Aggregate generated a total return of -3.51% for the quarter. For tax-free portfolios, the Barclays 1-10yr Muni generated a total return of -4.12% for the quarter. YTD returns are -2.91% and -3.06%, respectively. The economy continues to perform well, and inflation continues to remain elevated due to the ongoing SI capex cycle and the price of oil. With a stabilization of jobs, albeit at low levels, the Fed elected to raise rates by 25bps at its September meeting.

## Economy

GDP in the 2Q of 2026 came in with a final Q/Q reading of 2.2%. GDP Q/Q projections for the 3Q of 2026 currently reside at 2.8%. GDP Y/Y projections for 2026 currently reside at 2.2%, up slightly from projections earlier in the year of 2.1%. SI (formerly AI) infrastructure capex continues to be the primary tailwind to the economy. Consumer spending in the 2Q came in at 3.8%, much better than expected. Consumer spending in the 3Q is projected at 2.5%. US Unemployment and US Continuing Jobless Claims have trended lower over the course of this year. The unemployment rate is 4.2%. The 3- and 6-month payroll growth numbers have stabilized at +51k and +66K, respectively, still very low levels. Average Hourly Earnings YOY of 3.0% continues to show normal wage inflation. CPI Inflation continues to remain elevated due to the war with Iran and the SI infrastructure buildout.




The Manufacturing ISM (30% of the US economy) is showing life as it has had nine consecutive prints above 50 (expansion). The SI infrastructure buildout has created a lift off in manufacturing, the bottom is in. The Services ISM (70% of the US economy) is still expanding (reading above 50). All readings this year have come in better than 2025.



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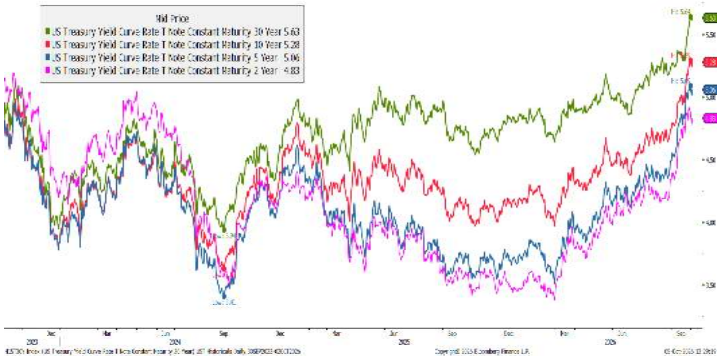
## As of September 30, 2026

Volume 15, Issue 3

## Rates

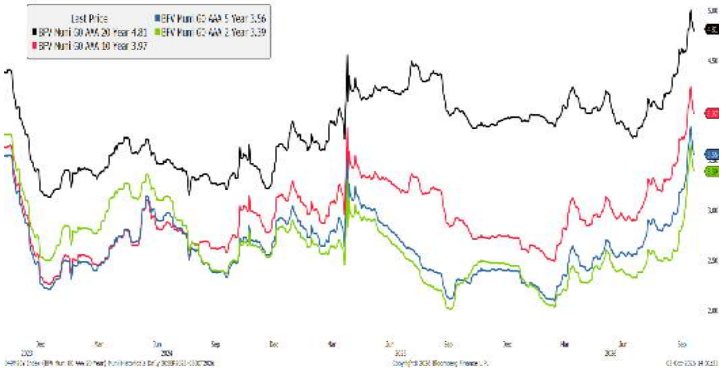
### TAXABLE

YTD for 2026, 2yr, 5yr, and 10yr U.S. risk free rates (nominal) are up approximately 137bps, 136bps, and 117bps, respectively. The UST yield curve continues to be upward sloping and has steepened in the 3Q. The 10yr to 2yr UST spread resides at a positive 48bps. 10yr TIPS are priced at 2.96%. 30yr mortgage rates have moved up from the end of 2Q and sit at 7.52%. **Taxable rates have become very attractive with the move up in rates; it is highly recommended to lock in these rates now.**




### TAX-FREE

YTD for 2026, 2yr, 10yr, and 20yr AAA tax-free rates are up approximately 96bps, 125bps, and 87bps, respectively. The tax-free yield curve has moved up significantly over the past quarter. The 20yr to 2yr AAA tax-free spread currently resides at a positive 141bps. Tax-free rates on the **intermediate and longer** part of the curve are extremely attractive. **Currently, it is possible to buy excellent credits and get 6.75% to 8.50% Tax Equivalent Yields for individuals in the highest tax brackets.**



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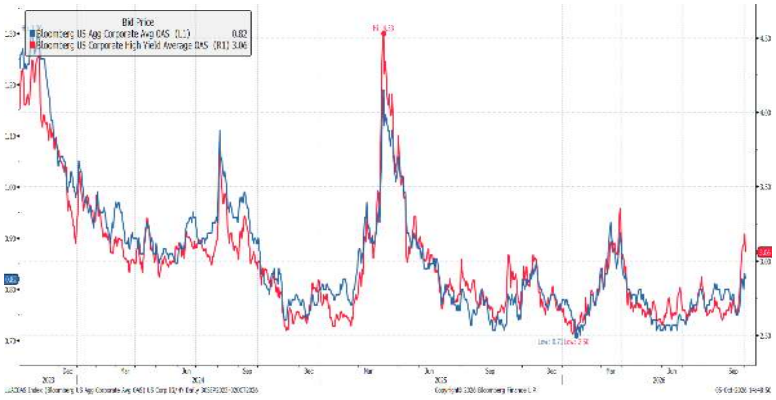
Volume 15, Issue 3

## The Fed

The Fed had two meetings in the 3rd quarter, July and September. At the September meeting, the Fed raised the cash rate by 25bps to a range of 3.75% to 4.00%. At the press conference, Chairman Warsh once again gave very little information, but what he did give was valuable. Warsh communicated that the raising of the cash rate was due to inflation continuing to remain above the Fed's 2% target and the job market appearing to have stabilized. Warsh communicated that the current interest rate environment was not restrictive for the "broader economy". This comment is important as the broader economy is inclusive of the SI infrastructure buildout. Currently, the SI buildout is not very interest rate sensitive, however, everything else is.

## Credit

Credit risk was slightly negative versus risk free in the 3rd quarter of 2026. For the quarter, IG spreads widened by roughly 6bps and HY spreads widened by roughly 41bps. YTD, IG is 2bps wider and HY is 45bps wider. The rise in credit risk premiums in the back half of September was driven by the sharp rise in risk-free yields. Credit will need to be watched closely as we are reaching levels in the risk-free market that could create more pressure in the credit markets.



# BOND MARKET UPDATE

## As of September 30, 2026

Volume 15, Issue 3

## Looking Forward

The economy continues to remain resilient. You could even say that it is accelerating in the face of elevated oil prices. SI capex continues to be a major contributor to growth and should increase as a contributor to GDP going forward. Projections for 2027 SI capex range from $1.2T to $1.6T (50-100% growth). The Fed is poised to raise rates again by 25bps in December, as the odds of any actions at the October 28th meeting are low, with it being a week before the midterm elections. Chairman Warsh's communication continues to be on the light side. This lack of communication is contributing to an increase in risk premiums, this includes term, credit, and option. For both taxable and tax-free markets, September was one of the worst months on record. For taxable portfolios, the Barclays Aggregate has a current market yield of 5.55%. For tax-free portfolios, the Barclays 1-10yr Muni Blend has a current market yield of 4.15% (6.97% TEY). These yields are attractive and the probability of positive forward returns is high. We still think credit will perform in 2026, but we have started reducing credit risk in financials as they are the highest levered sector. As always, we run a high-quality portfolio that looks to take advantage of opportunities as they present themselves. We have been active in seeking those opportunities and feel good about the changes that have been made.

**Bond Market Update**

Quarterly perspective on rates, credt, and the economy

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