

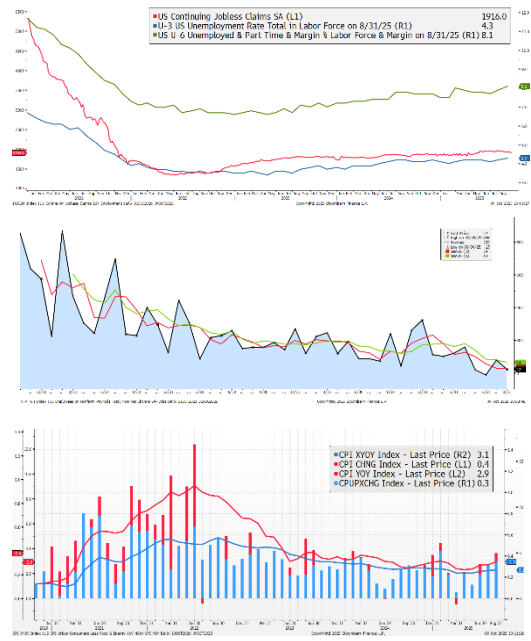
BOND MARKET UPDATE

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In the 3rd Quarter of 2025, total returns for both taxable and tax-free investments were positive. For taxable portfolios, the Barclays Aggregate generated a total return of 2.03% for the quarter, YTD total return is 6.13%. For tax-free portfolios, the Barclays 1-10yr Muni generated a total return of 2.33% for the quarter, YTD total return is 4.12%. The economy continues to show its resiliency as the AI economy percolates. Inflation appears to now be on a sideways pattern (slightly above the Fed’s target) and job growth continues to slow garnering greater attention from the Fed.

Economy

GDP in the 2nd Quarter of 2025 came in with a final Q/Q reading of 3.8%. GDP Q/Q projections for the 3rd Quarter of 2025 sit at 1.7% (this feels a little light and should get revised up). GDP growth for the first half of the year averaged 1.6%. AI capex dominated the first half of the year and should be the biggest contributor to GDP in the 3rd Quarter. Consumer spending is forecasted to grow 1.5% in the 3rd Quarter. US Unemployment and US Continuing Jobless Claims have elevated slightly this year as job growth shows signs of weakening. The unemployment rate is 4.3% (low from a historical perspective), but up from a low of 3.4% in early 2023. Continuing Claims have moved down slightly after a modest uptrend but remain elevated. Job growth, or lack thereof, has gotten the attention of the Fed. There was a massive negative revision to jobs created over the past year of roughly 900k and the 3-month moving average of jobs created has fallen to just 29k. Inflation has drifted lower over the past two years but has recently stalled. Tariffs appear to be slowly bleeding into the CPI, however, much less than originally anticipated.



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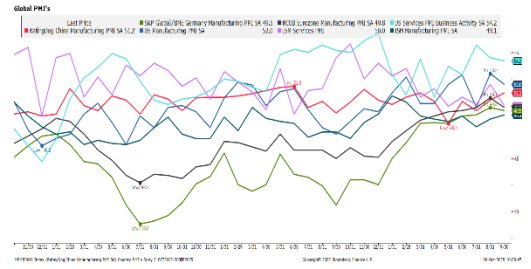
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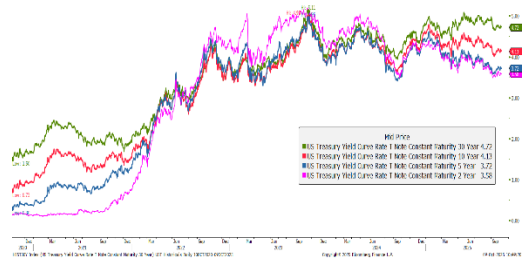
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Manufacturing (30% of the US economy) continues to be in the doldrums. ISM Manufacturing early in the year had some prints slightly in expansion territory but quickly regressed and continues to be a drag on the economy. Restrictive interest rate policy continues to weigh heavily on this segment of the economy. At some point, Manufacturing has the potential to be a contributor to GDP growth going forward. The Services ISM (70% of the US economy) is still expanding (reading above 50) but is showing signs of weakness as the last several prints have been at or just above the 50 level.

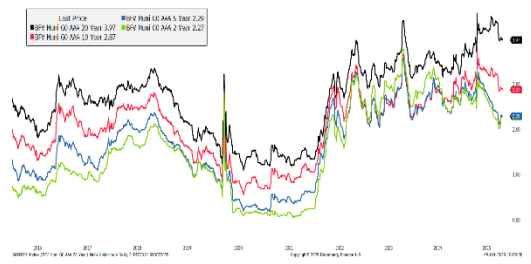


Rates

Taxable - YTD for 2025, 2yr, 5yr, and 10yr U.S. risk free rates (nominal) are down approximately 63bps, 64bps, and 42bps, respectively. The UST yield curve is now mostly upward sloping, unfortunately, some parts of the curve are below the current cash rate. The 10yr to 2yr UST spread currently resides at a positive 54bps. Real rates have risen substantially since 2022. Currently, 10yr TIPS are pricing at 1.78%. This rate has remained elevated for the past several years and shows that monetary policy is still somewhat restrictive. 30yr mortgage rates have moved down slightly and currently sit at 6.60%.



Tax-Free - YTD for 2025, 2yr, 10yr, and 20yr AAA tax-free rates are mixed, approximately -55bps, -20bps, and +38bps, respectively. The tax-free yield curve is nicely upward sloping, encouraging longer duration positioning. The 20yr to 2yr AAA tax-free spread currently resides at a positive 172bps. Tax-free rates on the longer part of the curve continue to be very attractive. **Currently, it is possible to buy excellent credits and get 7% Tax Equivalent Yields. It is highly recommended to lock in these rates now while this opportunity exists.**



The Fed

The Fed had two meetings in the 3rd Quarter, July and September. Nothing changed at the July meeting, however, at the September meeting the Fed did cut the cash rate by 25bps, taking the cash rate to a range of 4.00% to 4.25%. At the September press conference, the Fed communicated that the 25bps cut in the cash rate was a “risk management” move. While inflation continues to disappoint and remains above the Fed’s 2% target, the weakening in the job market now outweighs the slightly above target inflation conditions. The Fed would not commit to future moves down in the cash rate, but it is widely expected that the Fed will embark on a series of cuts as it is widely viewed that the currently monetary stance is still restrictive.

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Credit

Credit risk was positive versus risk free in the 3rd Quarter of 2025. Spreads are tighter for both Investment Grade (IG) and High Yield (HY). For the quarter, IG spreads tightened by roughly 6bps and HY spreads tightened by roughly 23bps. YTD, IG spreads are 6bps tighter and HY spreads are 20bps tighter. Risk premiums have reversed all the widening that happened early in the 2nd Quarter. Spreads for both IG and HY are at decade tights.



Looking Forward

The economy continues to remain resilient, however, its dependence on the Artificial Intelligence (AI) economy is increasing. YTD, capex mainly from the AI buildout has been a bigger contributor to GDP than consumer spending. Tariffs are causing prices to rise at a slow/moderate pace, and it appears that most consumers are stretched. It has been reported that the top 10% of households now account for roughly 50% of consumer spending. There has always been a circular correlation between stock performance and consumer spending. Thankfully, that correlation is currently to the positive side, but how much longer can/will the top 10% of households be able to support the spending side? And how dependent is the top 10% of households on stock performance? The Fed entered the equation in the 3rd quarter with its first cut in 2025. It is widely expected that this is the start of a series of cuts as the Fed has now determined that the lack of growth in jobs is a greater concern than sticky 3% inflation versus their goal of 2%. Per the Fed, current monetary policy is still restrictive. This will be the rational for future cuts until a neutral monetary stance is achieved. Views, of what is a neutral stance, vary, but center somewhere between 3.00% and 3.50%. The pace at which cuts happen is somewhat unclear, but we feel confident that cash rates will reach the neutral target over the next 9-12 months. We continue to be void of High Yield and continue to build up our US Treasury and Agency MBS/CMBS exposure in lieu of the excellent credit performance over the past several years. Forward returns continue to look attractive. 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.

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