Monthly Fixed Income Market Update

VICTORY income investors®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

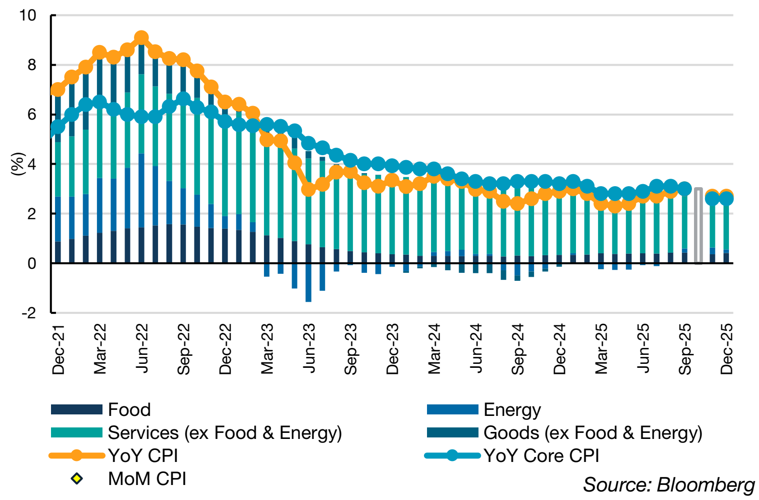
As of January 31, 2026

Key Takeaways

1. The Federal Reserve held rates steady in January, as expected. The 10-year yield rose and ended the month at 4.24%, up from December's 4.17%.
2. Aside from Treasuries, fixed income experienced positive performance in January. Yields rose slightly across all tenors in response to positive economic data. Corporate credit spreads tightened further below long-term averages, hitting the lowest levels seen since 1998 in January.
3. What does Kevin Warsh's nomination for Fed Chair mean? We discuss his historical views and potential implications.

The Month in Charts

December's CPI report, published in January prior to the Federal Reserve's (the Fed) rate setting meeting, showed minimally changed inflation numbers from November. December CPI held at 2.7% year-over-year, and Core CPI at 2.6% year-over-year. Prices rose less than expected for December, which reinforced market and consumer hopes that inflation will continue to trend closer to the Fed's 2% target. The Fed paused at its January meeting, which was largely expected. The drama, however, was less centered on the rate decision from the FOMC in January. Markets were eagerly awaiting news on the future of Fed leadership, and the decision was made public on January 30th with Kevin Warsh's nomination.



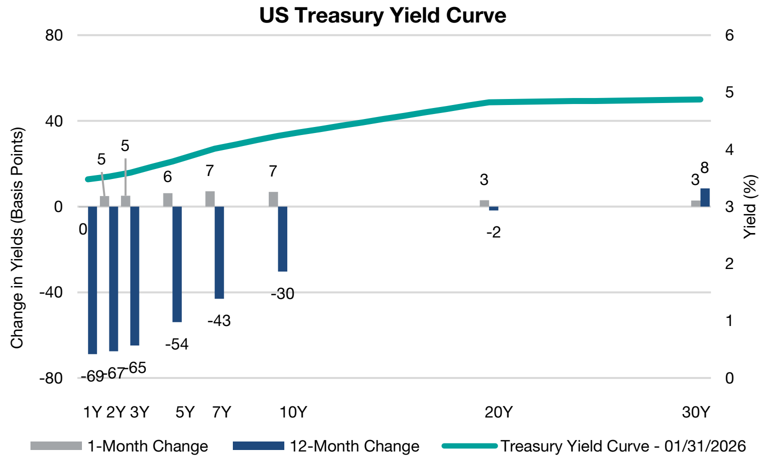
Source: Bloomberg

Credit spreads tightened slightly month-over-month as robust demand for credit continued. Investment grade corporate credit spreads tightened 5 basis points and high yield corporate credit spreads tightened 4 basis points. Investment grade credit spreads hit 71 bps in January, the lowest levels markets have experienced since 1998.

Asset Class	Yield	Spread	Trend	Quarter Tight	Quarter Wide	Change MoM	Change QoQ	Change YoY	Trailing 10 yr avg
U.S. Treasury	3.97								
U.S. MBS	4.64	16		14	31	-6	-12	-19	38
U.S. Corporate	4.85	72		71	85	-5	-6	-6	118
U.S. Corporate High Yield	7.05	264		248	306	-4	-16	3	405
CMBS	4.43	67		67	78	-8	-10	-10	90
ABS	4.12	48		48	55	-4	-6	3	55
A	4.72	61		59	71	-4	-5	-7	96
BBB	5.06	93		91	107	-6	-6	-6	152
BB	5.90	158		148	189	-5	-14	2	265

Source: Bloomberg; Asset Classes represented by: ICE BofA US Treasury & Agency Index, Bloomberg US MBS Index, Bloomberg US Agg Total Return Value Unhedged USD, ICE BofA US High Yield Index, ICE BofA US Fixed Rate CMBS Index, ICE BofA US Fixed Rate Asset Backed Securities Index, Bloomberg US Agg A Total Ret Index, Bloomberg US Agg Baa Total Ret Index, Bloomberg Ba US High Yield TR Index. MoM/QoQ/YoY as of 01/31/2026

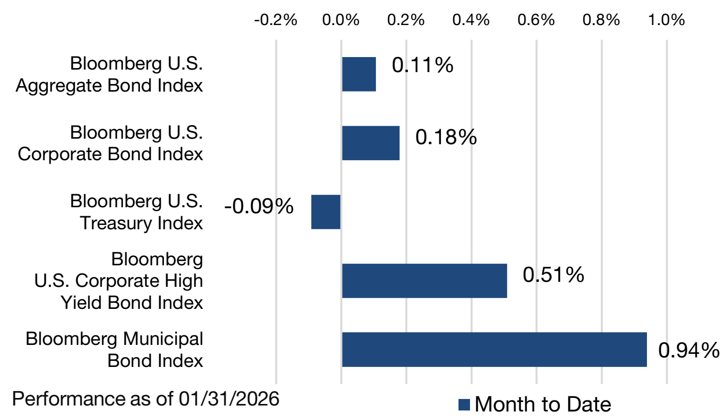
The Treasury yields concluded January higher month over month as strong economic data reinforced the Fed's "wait and see" approach. We saw long-term yields rise slightly as markets assessed what a Warsh nomination means for the Fed, given his historical opposition to quantitative easing and market speculation that he may move quickly to reduce the Fed's balance sheet holdings.



Source: Bloomberg

Performance was positive across most of fixed income in January aside from US Treasuries. Treasury yields rose, resulting in underperformance for the asset class. We saw credit spread levels decrease sufficiently throughout the month to offset any yield increases for spread products, resulting in positive performance. Municipal bonds experienced a notably positive January.

Returns (%) for Fixed Income Indices



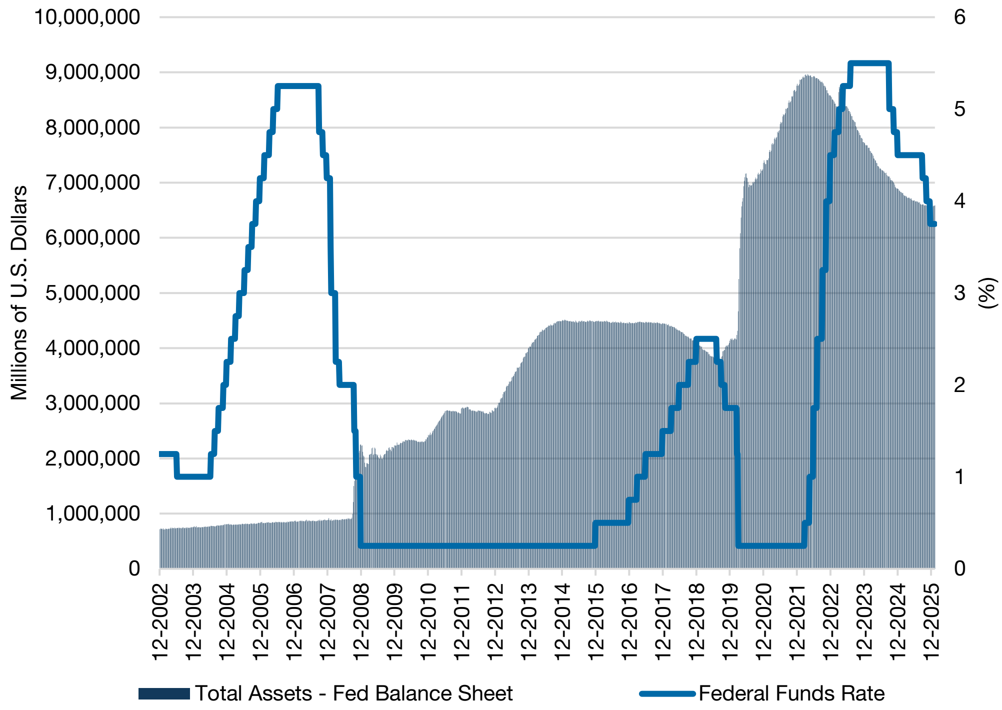
Performance as of 01/31/2026

Past performance is no guarantee of future results. *Source: Bloomberg*

Frequently Asked Questions

Who is Kevin Warsh? His name may be familiar to investors, since he served on the Federal Board of Governors from 2006-2011. This was a pivotal time for the Fed as it sought to manage and contain the Global Financial Crisis. However, he became known as a hawk due to his persistent inflation concerns despite the deep recession. A little more than a decade has passed, and Warsh is singing a slightly different tune – despite inflation above the Fed's 2% target he has publicly expressed openness to lower rates through balance sheet reduction and that AI-growth related productivity booms could bring down inflation. Markets generally view Warsh as a known quantity despite his more dovish comments in recent months. While his policy prescriptions during the GFC were considered by many to be the opposite of what was required, he never dissented from any votes.

Something to watch, however, is that Warsh has always been very clear on his dislike of the Fed's growing balance sheet and use of quantitative easing in moments of economic distress. He has also called for institutional reform at the Fed. Both positions give markets slightly more pause, since reducing the Fed's balance sheet is not only a significant logistical undertaking, it also comes with headaches for the American financial system. Additionally, shaking up the Fed could mean many things. As we look ahead there may be some speed bumps in his Senate confirmation process due to the ongoing criminal probe of Chairman Powell, but Warsh will have an opportunity to show commitment to central bank independence and lay out his views more clearly. We would largely expect Warsh to focus exclusively on the Fed's dual mandate and move away from quantitative easing, but certain contradictions in his views may take some time for markets to fully digest.



What We'll Be Watching in the Month Ahead

- **February 6th Change in Nonfarm Payrolls and Unemployment Rate:** These will provide insight into the status of the labor market, an important consideration for the FOMC. This report will be delayed due to the government shutdown.
- **February 11th, January's CPI Report:** This report will provide insight into past inflation and whether it is still moderating toward the Fed's 2% inflation target.
- **February 18th, the FOMC January Meeting Minutes:** The minutes from this meeting will provide additional information on the FOMC's assessment of the economy and potential policy.

All investing involves risk, including the possible loss of principal. An investment should be made with an understanding of the risks involved with owning a particular security or asset class. Interested parties are strongly encouraged to seek advice regarding the best options for their particular circumstances from qualified tax and financial experts.

The opinions are as of the date noted and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

Indexes are unmanaged; their returns include reinvestment of dividends and other income but do not reflect management fees, transaction costs or expenses. It is not possible to invest directly in an index. **Past performance does not guarantee future results.**

Basis point "bps" is 1/100th of a percentage point. **Credit spread** is the difference in yield between a U.S. Treasury bond and another debt security of the same maturity but different credit quality. Credit spreads are the additional compensation that investors require to hold securities that are not as safe and liquid as those issued by the US Treasury. **The Treasury Yield Curve** shows the relationship between the US bond yield and the time to maturity. Yield and price have an inverse relationship. As the yield curve lowers, the price of bonds increase. **Core CPI:** CPI excluding food and energy. **Consumer Price Index (CPI),** a popular measure of inflation and deflation calculated by the Bureau of Labor Statistics, measures the monthly change in prices paid by U.S. consumers. **Personal Consumption Expenditure Price Index** is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services and is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior. The **Bloomberg 1-3 Month U.S. Treasury Bill Index** is designed to measure the performance of US-dollar-denominated, fixed-rate, investment-grade public obligations of the U.S. Treasury that have a remaining maturity 1 month to 3 months. The Index is market capitalization weighted, with securities held in the Federal Reserve System Open Market Account deducted from the total amount outstanding. The **Bloomberg U.S. Aggregate 1-3 Year Index** measures the performance of investment grade, USD-denominated, fixed-rate taxable bond market securities with maturities of 1-3 years, including Treasuries, government-related and corporate securities, mortgage-backed securities (MBS; agency fixed-rate and hybrid ARM pass-throughs), asset backed securities, and commercial MBS. The **Bloomberg U.S. Aggregate Bond Index** measures the investment grade, USD-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

Advisory services offered by Victory Capital Management Inc., an SEC-registered investment adviser.

V21.047 // January 2026 VINC Fixed Income Monthly Update COM

VictoryCapital®