

# Monthly Fixed Income Market Update

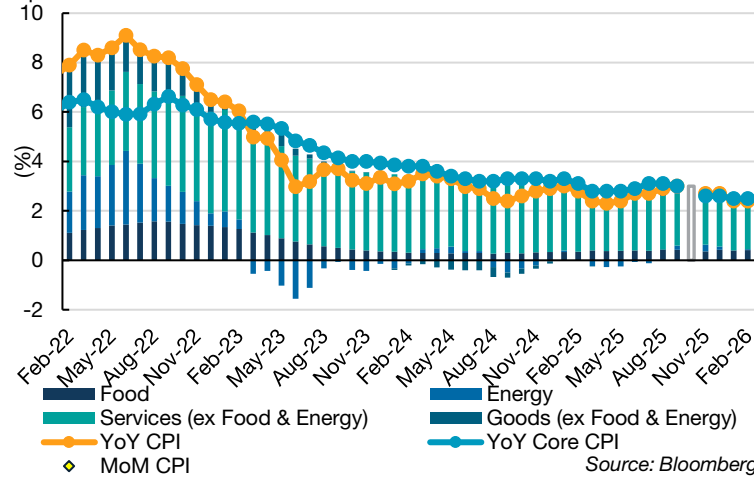
As of March 31, 2026

## Key Takeaways

1. The Federal Reserve held rates steady in March, noting unchanged unemployment, elevated inflation and references to the uncertain impacts of the war in Iran. The 10-year yield ended the month at 4.32%, up from February's 3.95%.
2. Fixed income experienced negative performance in March. Yields rose across all tenors as inflation worries driven by high oil prices forced investors to rethink monetary policy forecasts. Corporate credit spreads widened but remain below long-term averages.
3. Markets are torn between the impact of the war on inflation and the potential for slower, or possibly negative, growth should oil prices remain elevated. We explore how rapidly sentiment can change and what fixed income offers investors amidst uncertainty.

## The Month in Charts

February's CPI report, published in March, looks similar at face value to January's. However, the drivers have changed following the closure of the Strait of Hormuz and the rising cost of energy. Headline CPI remained at 2.4% year-over-year and Core CPI at 2.4% year-over-year, but energy is becoming a more volatile input. Persistently high oil prices have historically resulted in higher inflation, but the overall impacts may depend more on the length of the conflict and elevated prices. The Federal Reserve (the Fed) looked like it may still be on a strictly easing path earlier this year, but with a stable labor market and inflation elevated by tariffs and oil, this came into question in March. We explore this more in the FAQ section.

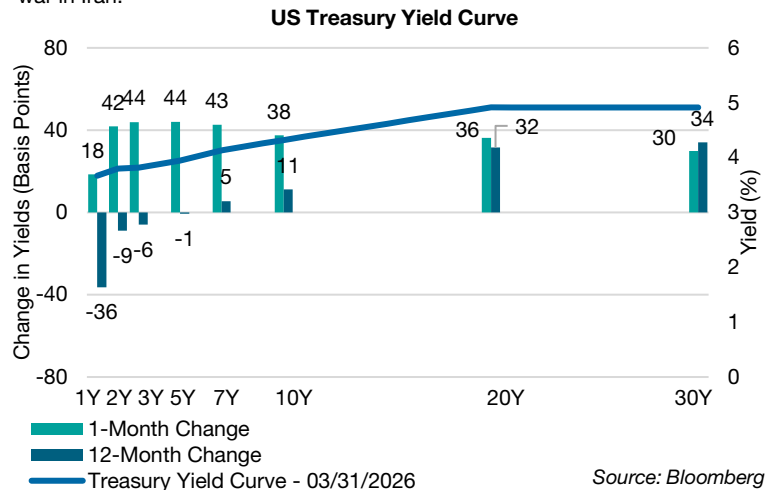


Credit spreads widened month-over-month though not as much as investors might have expected. Given the economic and geopolitical conditions that pushed yields and inflation expectations up, investment grade credit spreads were remarkably stable – only widening 5 basis points month-over-month. We continue to see industry specific widening but ultimately credit spreads concluded the month still below historical lows. High yield corporate credit spreads appear to have priced in more of the downside risk, widening 27 basis points in March.

Asset Class	Yield	Spread	Trend	Quarter		Change			Trailing 10 yr avg
				Tight	Wide	MoM	QoQ	YoY	
U.S. Treasury	4.14								
U.S. MBS	4.83	24		14	27	3	2	-12	38
U.S. Corporate	5.14	89		71	93	5	11	-4	114
U.S. Corporate High Yield	7.62	320		248	338	27	52	-25	405
CMBS	4.65	72		67	75	3	-3	-16	90
ABS	4.40	52		47	52	4	0	-7	55
A	5.00	75		59	79	4	10	-6	96
BBB	5.37	112		91	115	7	14	-4	152
BB	6.40	196		148	212	21	33	-21	265

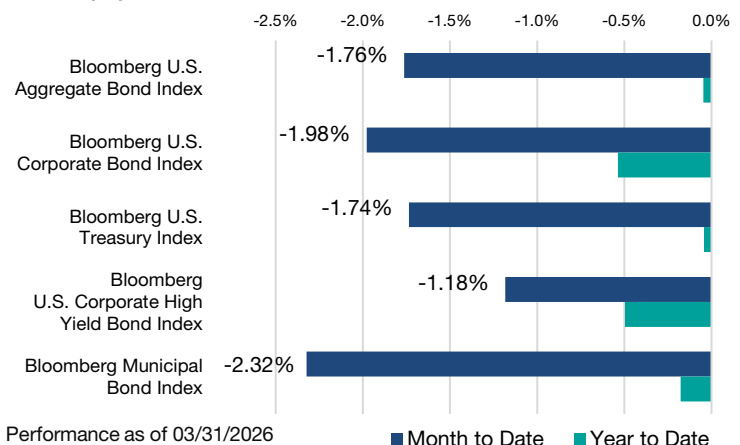
Source: Bloomberg; Asset Classes represented by: Bloomberg US Treasury Total Return Index, Bloomberg US MBS Total Return Index, Bloomberg US Agg Total Return Value Unhedged USD, Bloomberg US Corporate High Yield Index, Bloomberg CMBS: Erisa Eligible Index, Bloomberg US Agg ABS Total Return Index, Bloomberg 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 03/31/2026

Treasury yields concluded March higher month-over-month as rising oil prices and inflation expectations rapidly rose and caused bonds to sell off. As markets worked to price in the recent volatility, we saw yields react quickly, tracking changes in oil prices as the situation evolved. However, their paths diverged somewhat towards the end of the month and yields came down slightly as investors shifted focus to the economic growth implications of the war in Iran.



Performance was negative across fixed income in February, driven by the increase in yields. Treasuries rallied a bit at the end of the month, but insufficiently to bring performance back into the green. Municipal bonds experienced a tough month, largely due to the heavy supply and rising yields.

## Returns (%) for Fixed Income Indices



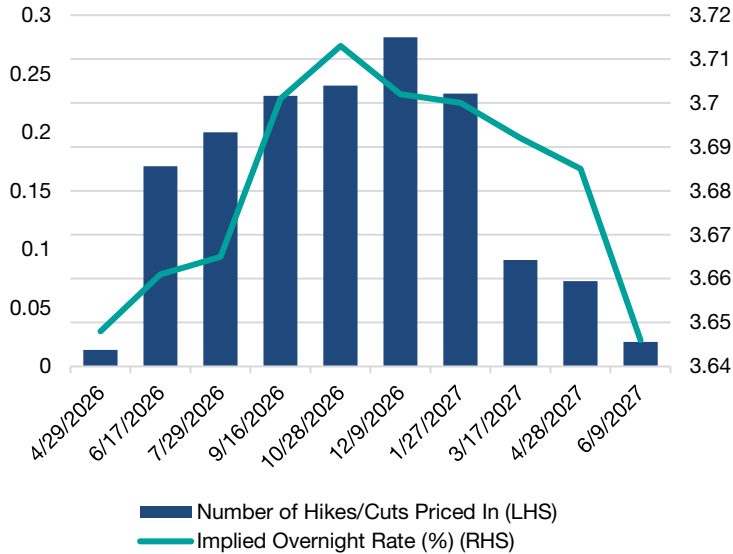
Past performance is no guarantee of future results.

Source: Bloomberg

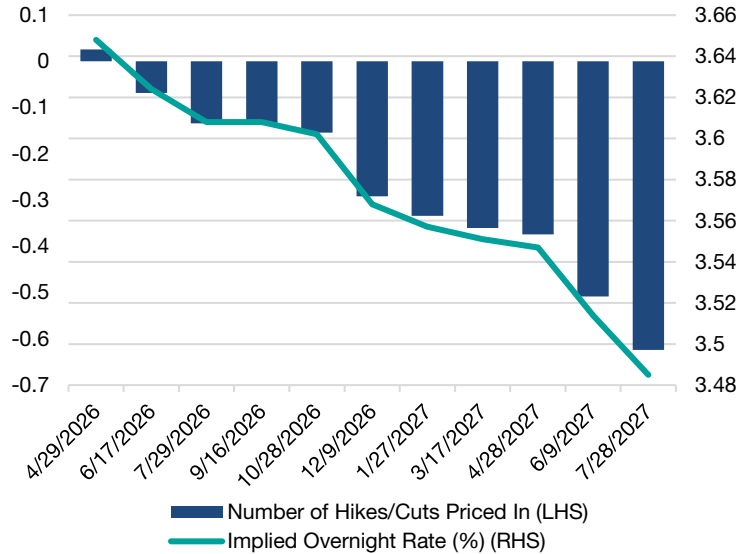
## Frequently Asked Questions

The war with Iran and its impact on oil prices spurred significant volatility in financial markets in March, driving negative performance for fixed income and equities for the month. Inflation expectations rose as oil prices advanced and market participants worried about the potential of persistently elevated inflation. The current environment is marred with short term uncertainty as it relates to the conclusion of the military conflict in the Middle East, which has extended into questions about the future of monetary policy.

Interest Rate Forecasts - 3/27/26



Interest Rate Forecasts - 3/31/26



In the last week of the month, we saw interest rate traders pricing in potential interest rate hikes, reflecting the mounting worries about sticky inflation above the Fed’s 2% target (left hand chart). However, as we tend to emphasize, accurately forecasting future monetary policy or the movement of interest rates poses an immense challenge. These forecasts flipped on a dime for the last few days of March as investors started pricing in cuts again – still driven by inflation worries, but now focusing on the possibility that steadily higher oil prices will have a negative impact on growth in the long term and thus the Fed is more likely to cut rates (right hand chart). This narrative was further encouraged by Chair Powell, noting that the Fed is carefully monitoring the situation but is likely to look past short term supply driven shocks as long as long term inflation expectations remain anchored. In environments of heightened uncertainty, a long-term investment discipline has historically provided a more stable framework than reactive positioning.

## What We’ll Be Watching in the Month Ahead

- **April 3rd, Change in Nonfarm Payrolls and Unemployment Rate:** These will provide insight into the status of the labor market, an important consideration for the FOMC heading into their March meeting.
- **April 10th, March’s CPI Report:** This report will provide insight into the impact of rising oil prices on inflation and whether it is still moderating toward the Fed’s 2% inflation target.
- **April 28-29th, the next FOMC Rate Decision:** The market largely does not expect a cut at this meeting given rising concerns about inflation. We expect April’s press conference to provide more insight into the future of monetary 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 views expressed are as of the date noted and are subject to change at any time based on market or other conditions. These views should not be relied upon as investment advice, as securities recommendations, or as an indication of trading intent on behalf of any portfolio.

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.

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