# Monthly Fixed Income Market Update

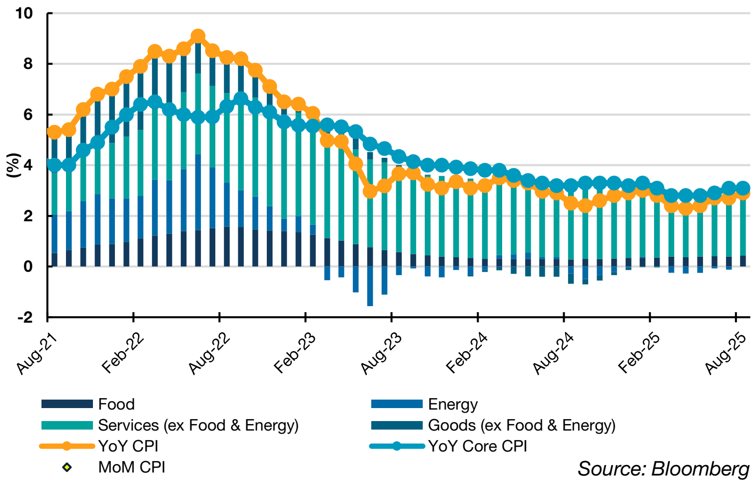
As of September 30, 2025

### Key Takeaways

1. The Federal Reserve cut interest rates as expected by 25 basis points in September given downside risks to the labor market. The 10-year yield declined and ended the month at 4.15%, down from August's 4.23%.
2. Fixed income experienced positive performance in September, driven largely by yield decreases across the Treasury curve. Corporate credit spreads continue to hover below long-term averages.
3. What is the state of the bond market? We review why investors may want to consider fixed income in the current environment.

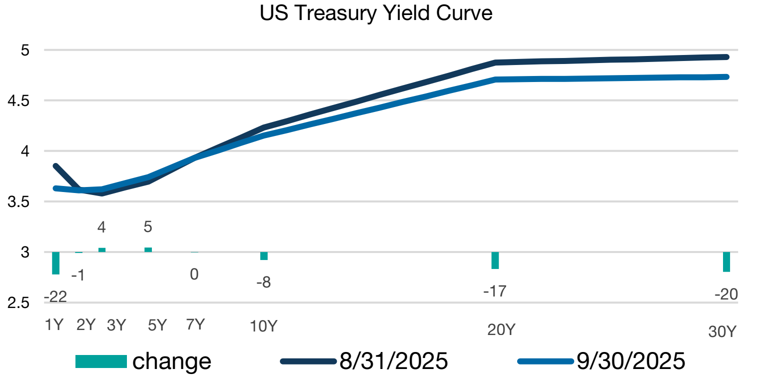
## The Month in Charts

August CPI, reported in September, rose to 2.9% year-over-year and Core CPI remained at 3.1% year-over-year. In September the Federal Reserve (the Fed) cut rates, meeting market expectations. The rate cut came as the Fed is facing a unique set of challenges: elevated inflation, weaker but not terrible labor data, and a high degree of uncertainty. The Fed has shown increased sensitivity to downside risks to full employment, indicating that they will be focused on future jobs reports. Markets are pricing in two more interest rate cuts through 2025 at the October and December meeting, increasing expectations month over month.




*Source: Bloomberg*

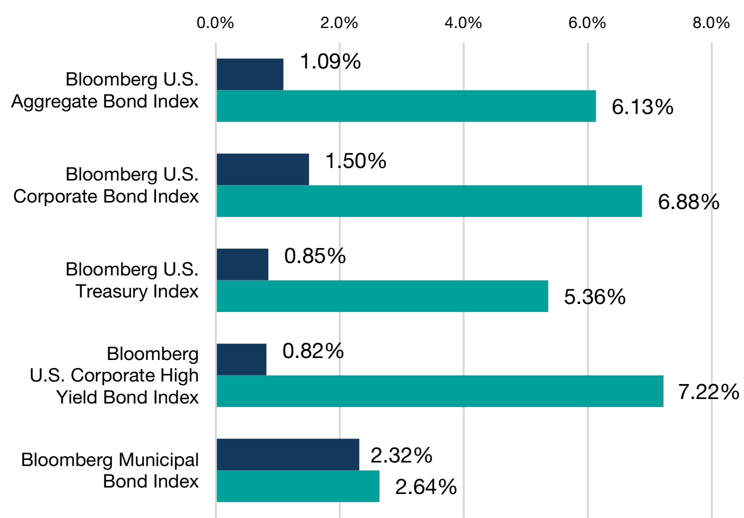
The Treasury yield curve steepened throughout September, and is overall, at lower levels month-over-month. Shorter-term yields fell more than longer-term yields throughout the month following the Fed's rate cut, while longer-maturity yields declined but remained elevated. Yields rose slightly toward the end of September given stronger than expected labor and growth data.




*Source: Bloomberg*

Performance was positive across fixed income in September. Corporates continued to deliver strong returns month to date but were beat out by municipal bonds.

### Returns (%) for Fixed Income Indices




Performance as of 09/30/2025

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

Credit spreads tightened month-over-month as the economy shows resilience, despite the dissonance between labor market uncertainty and GDP growth that exceeded market expectations. Investment grade spreads widened 3 bps and high yield spreads tightened 9 bps.

| | | | | Quarter | | Change | | | Trailing 10 yr avg |
|---|---|---|---|---|---|---|---|---|---|
| Asset Class | Yield | Spread | Trend | Tight | Wide | MoM | QoQ | YoY | |
| U.S. Treasury | 3.94 | | | | | | | | |
| U.S. MBS | 4.74 | 31 | | 25 | 40 | -4 | -6 | -12 | 38 |
| U.S. Corporate | 4.82 | 73 | | 71 | 80 | -5 | -11 | -15 | 118 |
| U.S. Corporate High Yield | 7.06 | 270 | | 263 | 302 | -1 | -21 | -29 | 405 |
| CMBS | 4.51 | 76 | | 76 | 84 | -2 | -9 | -18 | 90 |
| ABS | 4.18 | 47 | | 47 | 55 | -4 | -10 | -16 | 55 |
| A | 4.70 | 62 | | 61 | 70 | -5 | -9 | -13 | 96 |
| BBB | 5.02 | 93 | | 91 | 102 | -7 | -14 | -19 | 152 |
| BB | 5.94 | 167 | | 157 | 190 | -3 | -1 | -13 | 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 09/30/2025

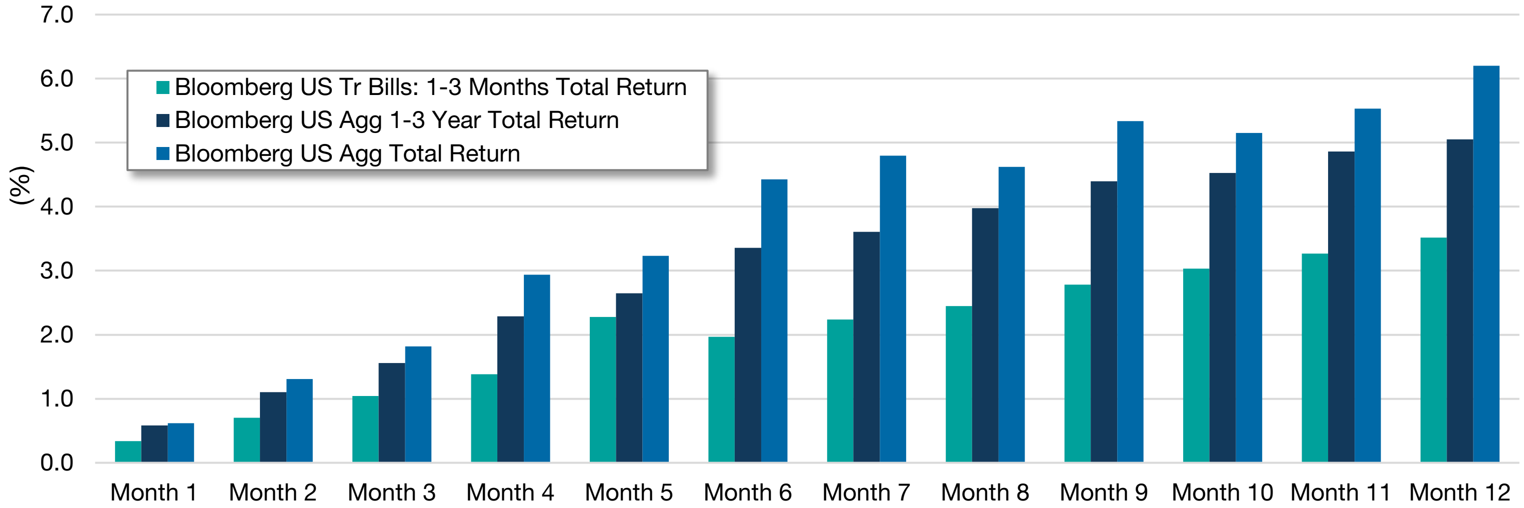
## Frequently Asked Questions

Reflecting on this past quarter we have seen a continuation of past federal funds rate forecasting trends – markets pricing in rate cuts aggressively, backing off slightly, then reacting to new data and gaining conviction one way or another. However, the circumstances have changed and this past month the Fed and markets have aligned on the path forward.

Growing downside risks to the labor market and weaker jobs reports alongside stubborn inflation have changed the landscape in which the Fed is voting. As noted by Chair Powell, their goals of full employment and price stability are in tension and there is no “risk-free” path forward. Our investment philosophy does not place weight on forecasting rates and as much as we would like it, we do not have a secret crystal ball that shows us the future. However, we thought it prudent to remind investors how fixed income has performed during rate reduction cycles.

Performance Following the First Rate Cut (Monthly)

Average Historical Returns on a Monthly Basis for the Past Seven Rate-Cutting Cycles 1984-2023




The above chart highlights the average performance for cash (Treasury Bills), short-term fixed income (Bloomberg US Agg 1-3 Year) and intermediate-term fixed income (Bloomberg US Agg) after the first rate cut in past cutting cycles from the 1980s to now. Historically, fixed income has performed well during rate reduction cycles. Something else we find noteworthy is that intermediate-term fixed income has historically outperformed short-term debt and Treasury bills. As anticipation for additional rate cuts grows it is our view that investors seeking to benefit from rate reductions may want to consider the interest rate exposure of their fixed-income allocation.

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

We will be watching the economic health indicators, inflation, and the following in the month to come:

- **TBD, the next Change in Nonfarm Payrolls:** This report will provide insight into the health of the labor market, which the Fed has placed emphasis on in their decision making. The publication of this report is TBD due to the government shutdown.
- **October 15th, the next CPI report will be released:** This report will tell us whether inflation is moderating or continuing to be somewhat stubborn and will be a factor in monetary policy decisions.
- **October 29th, the next FOMC rate decision will be released:** The market has begun pricing in an additional 25 basis point cut at this meeting, expecting the federal funds rate to lower to 3.75%-4.00%.

**All investments carry a certain degree of risk including the possible loss of principal,** and 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.

Index performance includes reinvestment of dividends and other income but does not reflect management fees, transaction costs or expenses. One cannot 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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