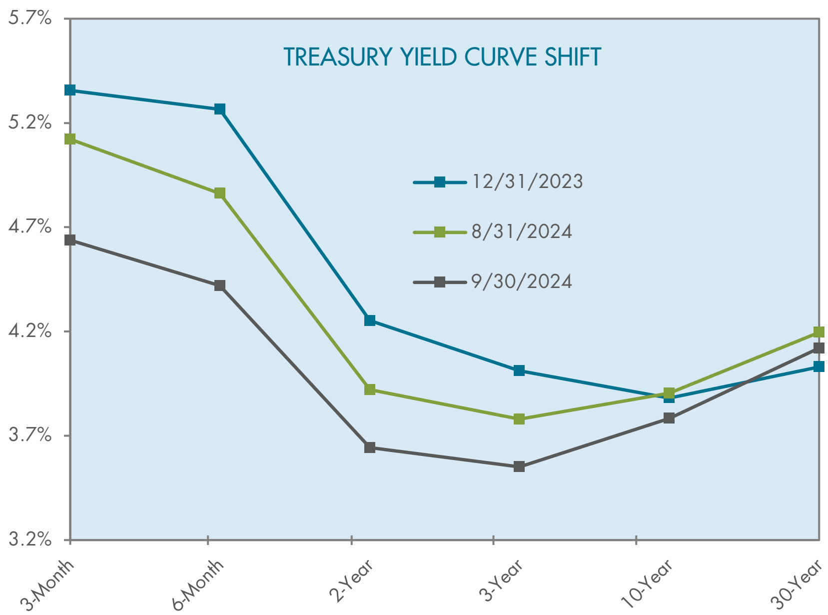
GW&K INVESTMENT MANAGEMENT

TAXABLE BOND
MARKET REVIEW & OUTLOOK

KEY TAKEAWAYS

- Citing greater confidence that the risks to achieving its employment and inflation goals were roughly in balance, the Fed cut rates by 50 basis points (bps) at the September FOMC meeting and indicated another 50 bps of cuts by year end.
- The Fed's preferred measure on inflation at the headline level continued to moderate, while core inflation paints a picture of 2% on a 3-month annualized basis. Q3 GDP growth is tracking near 3%, even while employment growth has slowed.
- Rates rallied significantly on easier monetary policy and weaker employment data. All sectors of the taxable bond market generated positive total returns.

TAXABLE BOND MARKET UPDATE & OUTLOOK



US TREASURY YIELDS

	12/31/23	08/31/24	09/30/24	MTD Change (bps)	YTD Change (bps)
3-Month	5.36%	5.12%	4.64%	-48	-72
6-Month	5.27%	4.86%	4.42%	-44	-85
2-Year	4.25%	3.92%	3.64%	-28	-61
5-Year	3.85%	3.70%	3.56%	-14	-29
10-Year	3.88%	3.91%	3.78%	-12	-10
30-Year	4.03%	4.20%	4.12%	-7	9

FIXED INCOME SECTOR PERFORMANCE

	MTD	YTD
Bloomberg Aggregate Index	1.34%	4.45%
US Treasuries	1.20%	3.84%
Investment Grade Corporates	1.77%	5.32%
Mortgage-Backed Securities	1.19%	4.50%
Asset-Backed Securities	0.98%	5.07%
Taxable Municipal Bonds	1.61%	4.68%
High Yield Corporate Bonds	1.62%	8.00%

- The 2s-10s yield curve continued to steepen, turning positive for the first time in two years.
- Risk assets broadly outperformed on better-than-expected economic data and a recalibration of Fed policy.
- Investment grade corporate bonds had the strongest return, led by the higher-quality single-A segment of the market.
- High yield spreads tightened 10 bps to sub-300 option-adjusted spread (OAS), just 5 bps off the tights of the year. Lower-quality idiosyncratic stories in CCC-rated securities drove spreads 122 bps tighter, handily outperforming higher-quality BBs, which saw modest spread widening.
- The MBS sector widened marginally on an OAS basis. The slight underperformance was driven entirely by 30-year 2% coupons that were impacted by ongoing bank balance sheet restructuring activity.
- While the risks to the economy have undoubtedly risen, a soft-landing scenario remains our base case.
- Cooling inflation and dovish monetary policy are supportive of all risk products. Stay with the carry!

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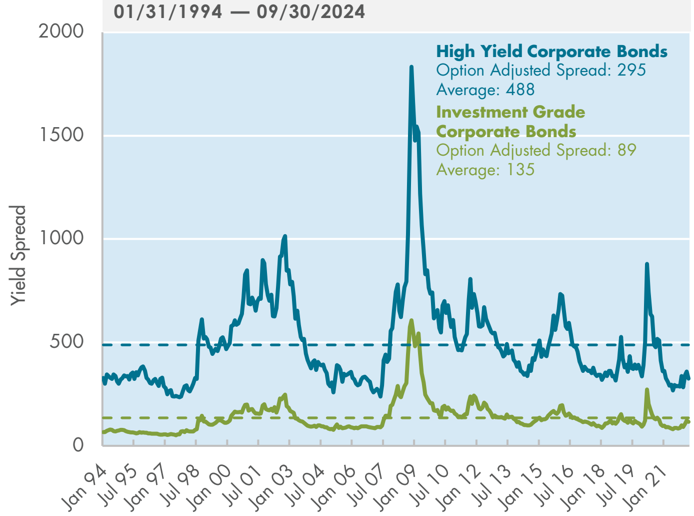
SECTOR ALLOCATION	POSITIONING
DURATION & YIELD CURVE	We are neutral duration. Futures have fully discounted the Fed's projected easing policy path to be realized by early 2026, making it difficult for front-end maturities to rally meaningfully. Conversely, with the Fed recalibrating before declaring total victory on inflation, and with fiscal policy still aggressively stimulative, the yield curve could see longer rates sell off. We are focused on the intermediate part of the yield curve where we find the best risk-adjusted value in the spread sectors.
TREASURIES	We favor spread product over Treasuries in this attractive carry environment. Rates have slipped off recent peaks, but they remain attractive relative to post-GFC history, and any significant weakness is likely to be capped by investors seeking compelling absolute yields.
GOVERNMENT RELATED	We are overweight taxable municipal bonds given strong fundamentals and the recession-resistant characteristics offered by the asset class.
CORPORATE BONDS	We continue to overweight the corporate bond sector. A soft-landing and the return of the so-called Fed put is a supportive setup for risk assets and their positive carry. However, tighter valuations, a slowing economy, and concerns around the downside risks warrant an up-in-quality bias and defensive positioning within the spread sectors.
SECURITIZED	We are overweight the securitized sector. Spreads remain attractive from a historical standpoint and offer appealing risk-adjusted returns relative to many lower-quality areas of the corporate market. Specified pool valuations stand to benefit from the concern around higher prepayment activity as investors seek call protection. Asset-backed securities continue to offer an attractive high-quality source of income in the front end of the yield curve.

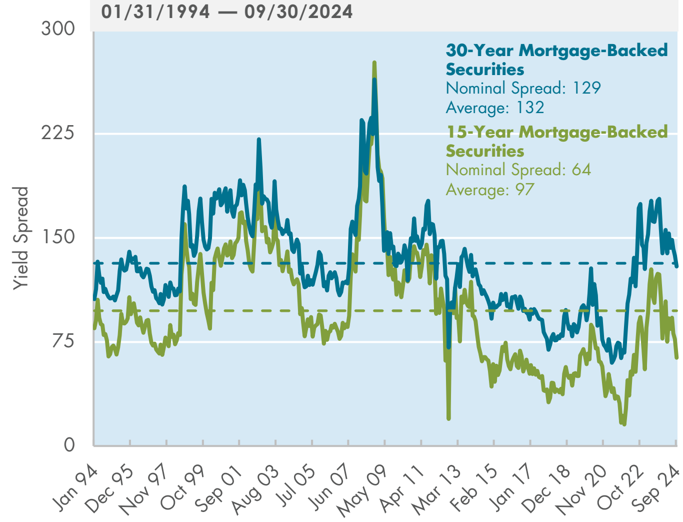
HIGH YIELD & INVESTMENT GRADE CORPORATE BOND SPREADS

01/31/1994 — 09/30/2024



15- & 30-YEAR MORTGAGE-BACKED SPREADS

01/31/1994 — 09/30/2024



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