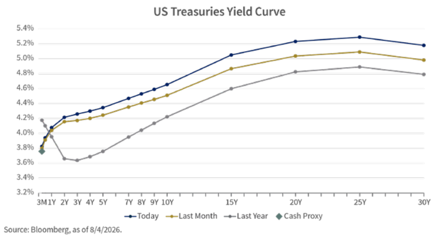
INCOME INSIGHTS

August 5, 2026

Info at a glance

Treasury curve



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Corporate spreads

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Muni-Treasury ratio

2-year AAA Muni vs. Tsy	61.09	63.43
5-year AAA Muni vs. Tsy	66.46	62.35
10-year AAA Muni vs. Tsy	71.04	67.43
30-year AAA Muni vs. Tsy	86.87	83.48

Source: Bloomberg, as of 8/4/2026.

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Key takeaways

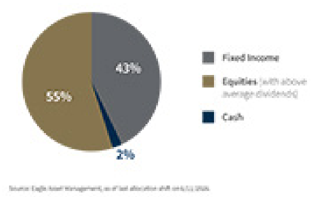
- The US Federal Reserve (Fed) held rates steady, but the bond market did not. Longer-term US Treasury yields moved sharply higher following the July Federal Open Market Committee (FOMC) meeting, resulting in a notable steepening of the yield curve. The move reinforces a key theme: While the Fed influences short-term rates, investors ultimately determine long-term borrowing costs. See the Featured insight below for additional perspective.
- The opportunity cost of remaining in cash has increased. Money market funds and short-term Certificates of Deposit (CDs) continue to offer attractive yields, but high-quality bonds allow investors to lock in all-in yields for longer, reduce reinvestment risk, and enhance long-term return potential.
- Markets continue to reprice long-term interest rates. Resilient economic growth, persistent inflation, elevated Treasury issuance, fiscal challenges, and geopolitical uncertainty have all contributed to upward pressure on longer-term yields. We believe that volatility is improving the opportunity set for disciplined income investors.

Macro/policy review and outlook

- The Fed left rates unchanged as expected, though three dissents for an immediate rate increase highlighted a broader range of views within the committee. Fed Chair Kevin Warsh provided limited forward guidance, leaving markets focused on incoming economic data.
- Growth remains resilient, supported by artificial intelligence (AI)-related capital investment and healthy corporate fundamentals. We still expect growth to moderate as several first-half tailwinds fade, including tax refund spending and favorable base effects.
- Investors continue to reassess the appropriate level of long-term rates as they weigh persistent inflation, Treasury supply, and fiscal deficits. Rather than expecting a smooth path lower, investors should anticipate continued rate volatility within the range of 4.25% to 5.00%.
- We continue to favor high-quality fixed income, where higher starting yields provide attractive income opportunities and a larger cushion against potential future volatility.

Not FDIC Insured | May Lose Value | No Bank Guarantee

Income asset allocation



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Sector performance

- Investment-grade and high-yield spreads remained resilient despite the repricing in Treasury rates, though certain sectors, such as hyperscalers, widened modestly. With spreads still relatively tight (76 bps and 266 bps for IG and HY, respectively), we favor higher-quality issuers and disciplined credit selection rather than reaching for additional yield.
- Structured products, including ABS, MBS, and CMBS widened slightly but continue to offer attractive relative value. We remain selective, focused on agency-backed securities and issuers with strong credit quality.
- After several months of outperformance, municipals retraced some gains. Although yields moved higher, summer reinvestment demand drove continued inflows and provided support for the market. Tax-equivalent yields remain attractive for tax-sensitive investors.
- The rotation continued away from concentrated market leadership toward quality, valuation, and income. Dividend-paying and value-oriented companies showed resilience amid volatility in rate-sensitive growth sectors. We continue to favor businesses with durable cash flows, strong balance sheets, and a history of consistent dividend growth.

Index	YTW	Spread	MTD	QTD	YTD	T12
FIXED INCOME						
Corporate Bond Index	5.37	0.76	0.76%	-0.93%	-0.08%	2.46%
High Yield Index	7.20	2.66	0.60%	0.35%	2.31%	5.67%
Agency CMBS Index	4.60	0.27	0.42%	-0.08%	0.49%	2.74%
MBS Index	5.16	0.25	0.87%	-0.56%	0.42%	3.93%
ABS Index	4.71	0.43	0.29%	0.18%	1.24%	3.46%
US Treasury Index	4.50	--	0.51%	-0.61%	-0.33%	1.52%
US Aggregate Bond Index	4.89	0.27	0.65%	-0.66%	-0.04%	2.41%
Municipal Bond Index	3.90		0.22%	-1.63%	0.65%	4.93%
EQUITIES						
S&P 500	1.05	--	3.30%	3.24%	13.77%	24.29%
Dividend Aristocrats	2.43	--	1.98%	3.60%	13.25%	16.88%

YTW: For Fixed Income, yield reflects the Yield To Worst of the given Index. For Equities, yield reflects the T 12 Dividend Yield of the given Index.
S&P 500 Dividend Aristocrats measure the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years.
Source: Eagle Research; Bloomberg. Data as of 8/4/26.

Featured insights

The Fed sets short rates. Investors set long rates.

The Fed left interest rates unchanged at last week's meeting. The widely expected decision nevertheless revealed a more active debate under Warsh. Three committee members dissented in favor of an immediate quarter-point increase, reflecting divisions that have surfaced throughout the year. Earlier meetings showed similar differences, with policymakers agreeing to keep rates steady while differing on the committee's policy bias and outlook. The evolution of these views emphasizes the growing uncertainty surrounding inflation, economic growth, and the future direction of monetary policy.

For bond investors, however, the most important development was the market's reaction. Longer-term Treasury yields moved sharply higher while short-term yields barely changed, resulting in a meaningful steepening of the yield curve.

The move reinforces a theme we've discussed for more than a year: While the Fed sets overnight interest rates, investors determine long-term borrowing costs. When many questioned why longer-term Treasury yields failed to decline alongside the Fed's rate cuts last year, we highlighted that fiscal deficits, elevated Treasury issuance, inflation uncertainty, and rising term premiums were becoming increasingly important drivers of the long end of the curve. Last week's market reaction served as another reminder. The Fed can influence the front end of the yield curve, but investors ultimately price the long end.

For investors, that is not simply a source of volatility. It is an opportunity. Higher yields do more than enhance current income; they also improve long-term return potential. Historically, starting yields have been one of the strongest predictors of future fixed income returns while the additional income provides a larger cushion against future rate volatility.

The opportunity extends beyond Treasuries. Corporate bond spreads have started to widen as investors are questioning whether they are being adequately compensated for the risks associated with hyperscalers and other companies driving the AI buildout and the surge in corporate bond new issuance. The result has been more attractive all-in yields across the corporate bond market, while also creating opportunities for active managers focused on dispersion among issuers.

Many investors remain in cash or short-term CDs yielding around 4.00%. While those investments can serve an important purpose, they also carry reinvestment risk. As a result, we believe the opportunity cost of remaining on the sidelines has increased. Today's bond market allows investors to lock in attractive all-in yields through high-quality fixed income while maintaining the potential for price appreciation should economic growth moderate or longer-term interest rates decline.

Ultimately, we believe today's environment rewards a disciplined focus on high-quality fixed income. Investors can lock in compelling yields and reduce reinvestment risk. As we have often said: Let bond math, not market timing, work in your favor.

EAGLE Asset Management

Additional insights

Adam Walton, CFA
reveals what's beneath the market rally.

Strategic Income Playbook
Watch the July update.

Let us help chart your course for income

Financial professional: 1.800.237.3101 | Investing public: contact your financial professional

Definitions

Corporate Bond Index - Tracks the performance of investment-grade corporate bonds issued by US companies. These bonds typically offer higher yields than government securities but carry credit risk.

High Yield Index - Measures the performance of below-investment-grade corporate bonds. These bonds provide higher yields due to greater credit risk and default probability.

Agency CMBS Index - Represents bonds backed by pools of commercial real estate mortgages, often associated with government-related entities. Reflects commercial real estate market conditions.

MBS Index - Tracks securities backed by residential mortgage pools, typically issued by entities like Fannie Mae and Freddie Mac. Performance is influenced by interest rates and prepayment behavior.

ABS Index - Measures securities backed by pools of debt such as auto loans, credit card receivables, or student loans. Returns depend on borrower credit quality.

US Treasury Index - Tracks US government-issued debt securities, including Treasury bills, notes, and bonds. Considered low-risk and influenced by interest rate movements.

US Aggregate Bond Index - A broad benchmark representing the US investment-grade bond market, including Treasuries, corporate bonds, MBS, ABS, and CMBS.

Municipal Bond Index - Measures bonds issued by state and local governments. Interest income is often tax-exempt, making them attractive to certain investors.

S&P 500 - A market-cap-weighted index of 500 leading US companies, widely used as a benchmark for the overall stock market.

Dividend Aristocrats - Includes companies in the S&P 500 that have increased dividends for at least 25 consecutive years, representing financial stability and consistent shareholder returns.

Disclosures

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