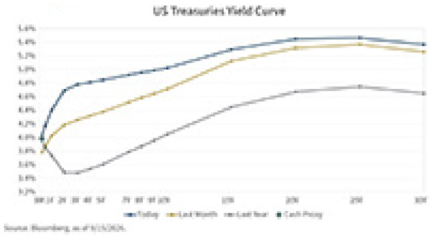
INCOME INSIGHTS

September 16, 2026

EAGLE | Asset Management

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	60.90	62.33
5-year AAA Muni vs. Tsy	66.47	62.59
10-year AAA Muni vs. Tsy	74.60	67.59
30-year AAA Muni vs. Tsy	92.19	88.22

Source: Bloomberg, as of 9/15/2026.

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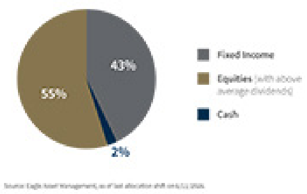
Key takeaways

- US Federal Reserve (Fed) expectations have shifted sharply. The likelihood of a 25-basis point hike is now priced at more than 90%, and recent data shows elevated inflation and resilient growth.
- Long-term yields continue to move higher. The 10-year US Treasury yield briefly touched 5% – its highest level since 2023 – while abundant Treasury supply competes with a strong demand for private-sector capital.
- Higher yields are creating better opportunities in fixed income. Municipal valuations have become particularly attractive, and higher all-in yields support the movement of excess cash into high-quality bonds.

Macro/policy review and outlook

- Over the past two weeks, momentum has built steadily toward a September hike. Strong payroll data and persistent inflation pushed expectations meaningfully higher ahead of the Fed's decision, though there is still considerable uncertainty.
- We had previously written that a December rate move could be a singular maintenance adjustment, compared to a September move that could signal the beginning of a short tightening sequence with multiple hikes. Either case puts us in a structurally higher interest-rate regime that is beneficial for income investors.
- Iran has re-emerged as an inflation risk. Renewed attacks on shipping have pushed oil above $100 per barrel, adding to near-term inflation pressure and complicating the Fed's decision.
- Growth is moderating, not deteriorating. The labor market and corporate fundamentals remain resilient even as economic momentum slows from its strong first-half pace.
- Long rates remain pressured by fiscal deficits, inflation, and capital demand. In the near term, we expect rates to remain elevated and volatile.

Income asset allocation



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Sector performance

- In corporate credit, fundamentals have remained sound and spreads actually tightened over the last two weeks. Higher Treasury yields have improved all-in yields, which reinforces our preference for quality.
- High-quality structured credit has continued to see attractive income opportunities created by higher rates. Spreads tightened in some areas, and we remain selective while watching extension and prepayment risk.
- Relative value has improved significantly in municipal credit, with higher tax-exempt yields and cheaper valuations creating attractive entry points for tax-sensitive investors. Municipal-to-Treasury ratios have risen to roughly 66% at 5 years, 75% at 10 years, and 92% at 30 years.
- 10-year US Treasury yields hitting 5% raises the hurdle rate for risk assets and reinforces the importance of valuation discipline even as equities remain resilient. Technology-heavy index leadership has broadly been a headwind for dividend-focused investors, but dividend-paying companies – and particularly companies with the capacity to grow their dividends – have outperformed non-payers so far this year. This highlights the benefit of balancing current income with earnings and dividend growth rather than simply reaching for either the highest yield or growth at any price.

Index	YTW	Spread	MTD	QTD	YTD	T12
FIXED INCOME						
Corporate Bond Index	5.77	0.79	-1.23%	-2.46%	-1.63%	-1.06%
High Yield Index	7.76	2.76	-1.02%	-0.31%	1.64%	3.20%
Agency CMBS Index	5.08	0.27	-1.01%	-1.36%	-0.80%	0.39%
MBS Index	5.60	0.35	-1.53%	-2.43%	-1.46%	-0.10%
ABS Index	5.14	0.42	-0.54%	-0.37%	0.70%	2.02%
US Treasury Index	4.91	--	-1.11%	-1.91%	-1.64%	-0.97%
US Aggregate Bond Index	5.30	--	-1.23%	-2.14%	-1.54%	-0.70%
Municipal Bond Index	4.34		-2.00%	-4.03%	-1.81%	-0.33%
EQUITIES						
S&P 500	1.08	--	-1.23%	1.39%	11.74%	16.01%
Dividend Aristocrats	2.50	--	-2.62%	0.36%	9.70%	11.65%

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 9/15/26.

Featured insights

The cost of maturity [1]

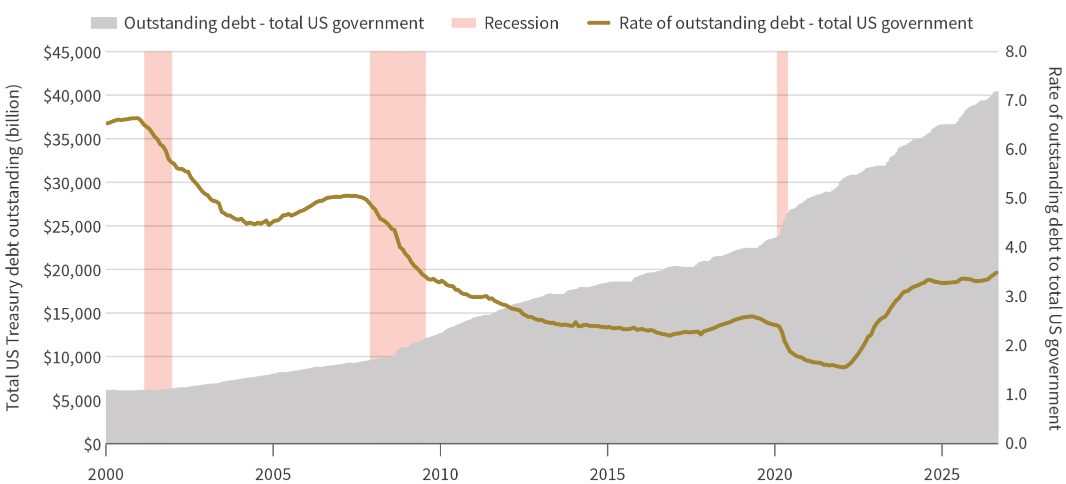
Oil and inflation clearly pose market risks, but a deeper risk is rising. The US government's debt maturity ladder and servicing costs resemble what homeowners saw during the adjustable-rate mortgage resets in 2008: previously inexpensive financing becoming considerably more costly.

Debt servicing costs grew alongside government debt during the post-Global Financial Crisis (GFC) era, but declining financing costs masked their true scale. During the COVID-19 pandemic, fiscal stimulus turbocharged the US government's outstanding obligations, and spending has increased since then. Now the interest rate piper is at the door expecting to be paid.

To quantify the risk, we must understand the maturity ladder and this "new" yield market:

- For existing scheduled maturities replaced with equal balances under the new rates, the annualized interest cost on short-term (under 12 months) debt increases from around $380 billion to around $407 billion.
- Around 32% of the government's total outstanding debt, regardless of when it originated, is scheduled to mature inside of one year.
- 64% of the debt maturing inside of one year has originated within the last 12 months, which reflects a heavy T-bill component and a substantial front-end rollover funding requirement.

Rising US debt only gets worse with higher interest rates



Source: Bloomberg, as of 9/14/2026.

Refinancing risk is no longer a one-time event; it has become a recurring expense. Even with a somewhat longer portfolio duration profile, the combination of debt and large, persistent fiscal deficits in a materially higher rate environment could pose a significant impediment to growth.

The Fed faces a difficult tradeoff: additional tightening may be warranted to contain inflation, but higher short-term rates accelerate the government's refinancing burden. For example, if a Fed tightening produced a "twisting" flattener – a case in which the yield curve flattened overall, but with the long and short ends moving in opposite directions – the Treasury's short-term annualized costs could rise from $380 billion to $424 billion.

The question now is: How much will fiscal flexibility, economic growth, and the ability to manage borrowing costs be constrained by the progressive repricing of (previously) low-cost debt? The market wants to see either the Fed or the US Treasury Department signal that it is willing to address this elephant in the room, even if the solution ultimately resides with Congress.

For fixed income investors, this reinforces the case for active duration management, because the government's financing needs are likely to drive rate volatility higher than its post-GFC norm.

[1] Portfolio Manager and Senior Research Analyst Dale Stover is a Managing Advisor for Eagle's Strategic Investment Management Services team as well as a member of the research team for the broader Eagle Income franchise.

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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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