Monthly Fixed Income Market Update

VICTORY income investors®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

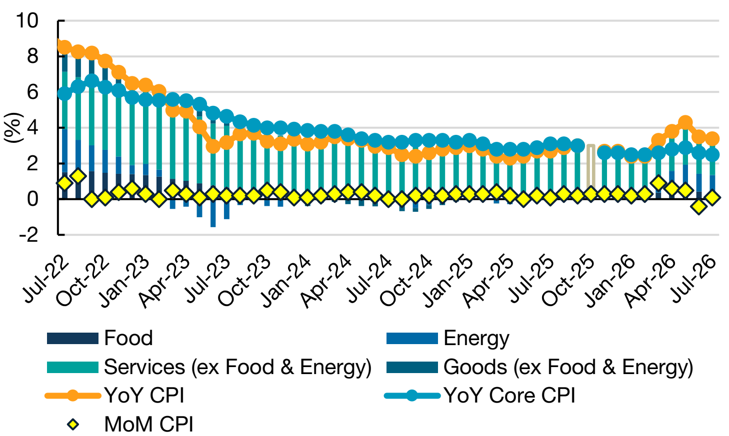
As of August 31, 2026

Key Takeaways

1. Short-term yields rose in August, reflecting the more hawkish tone from FOMC speakers. The 10-year yield ended the month at 4.75%, close to July's 4.74%.
2. The Federal Reserve did not meet in August, but there was still plenty of monetary policy speculation. Chair Warsh reaffirmed his commitment to bringing inflation back to the FOMC's 2% target.
3. Is higher for longer the most accurate description of current conditions? Or are markets simply returning to a normal rate regime? We take a closer look.

The Month in Charts

July's CPI report, published in August, showed a slight decline in inflation though it remains above the Federal Reserve's (the Fed) 2% target. Headline CPI fell to 3.4% year-over-year and Core CPI to 2.5% year-over-year. The Fed did not meet in August, but the headlines continued, focusing on the annual Jackson Hole Symposium. Chair Warsh took the opportunity to course correct from his previous press conferences and offer markets some clarity. While markets would be hard pressed to consider any of his comments as true 'forward guidance', Warsh's reiteration that current policy is not very restrictive and that the Fed must address elevated inflation resulted in markets pricing in increased odds of a rate hike at the Fed's September meeting.



Source: Bloomberg

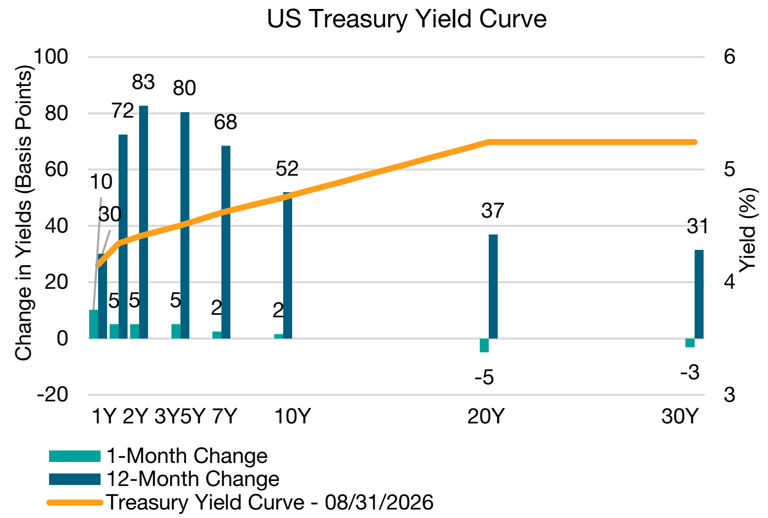
Credit spreads were mostly tighter month over month. Investment grade corporate credit spreads continue to hover around multi decade lows, while high yield corporates tightened 18bps month over month. Both highlight the general risk-on sentiment in markets as positive earnings continue alongside a lighter issuance calendar in high yield.

Asset Class	Yield	Spread	Trend	Quarter Tight	Quarter Wide	Change MoM	Change QoQ	Change YoY	Trailing 10 yr avg
U.S. Treasury	4.61								
U.S. MBS	5.29	29		20	31	-2	7	-5	37
U.S. Corporate	5.49	77		71	80	-1	6	-1	112
U.S. Corporate High Yield	7.61	261		256	288	-18	5	-11	381
CMBS	5.13	66		63	66	0	0	-12	87
ABS	4.85	44		41	46	2	-3	-7	54
A	5.37	66		61	68	0	5	-1	92
BBB	5.67	95		90	99	-2	5	-4	143
BB	6.36	147		146	171	-17	-3	-23	249

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 08/31/2026

Source: Bloomberg

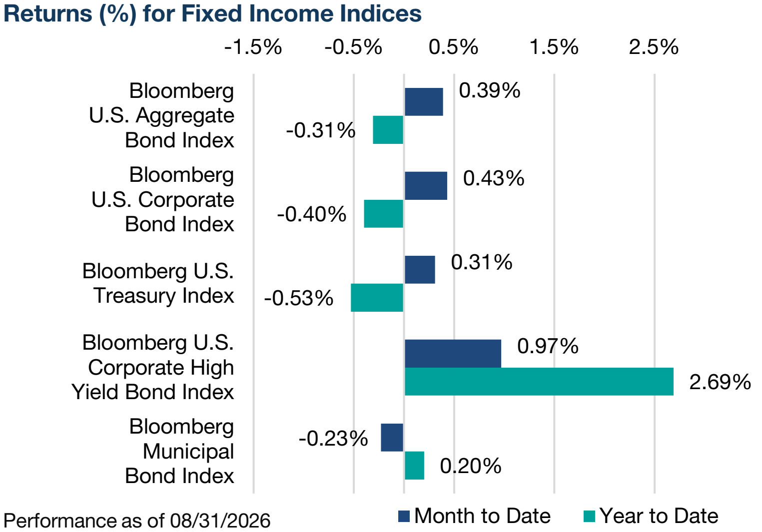
Short-term yields concluded the month higher, pricing in the more hawkish policy stance presented at Jackson Hole. Long-term yields declined slightly but remain elevated despite the newly announced Treasury buyback program.



Source: Bloomberg

Performance was positive in August for major fixed income asset classes, driven by positive earnings and resilient credit spreads.

Returns (%) for Fixed Income Indices



Performance as of 08/31/2026

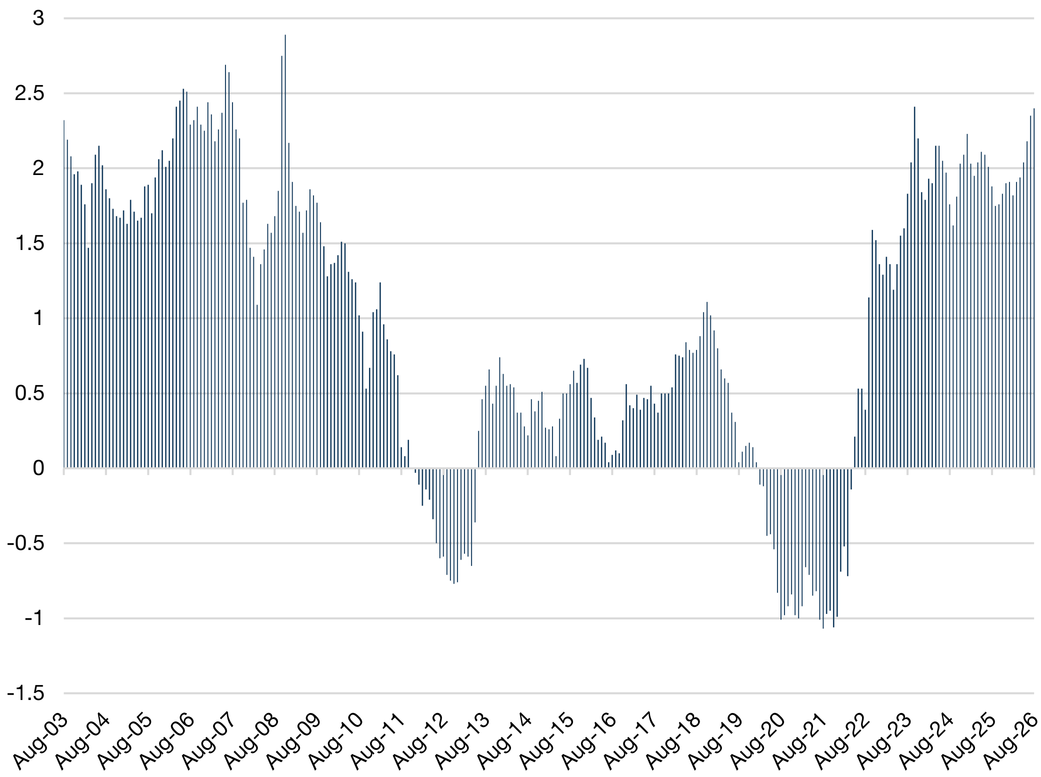
Past performance is no guarantee of future results.

Source: Bloomberg

Frequently Asked Questions

In our view, the "higher for longer" narrative dominating fixed income commentary may be mislabeled. What markets are experiencing looks less like a persistent anomaly and more like a reversion to historical norms. From the mid-1980s through the early 2000s, 10-year Treasury yields routinely traded in the 5% to 8% range; the near-zero rate era that followed the 2008 financial crisis, extended by pandemic-era stimulus, was itself the true historical outlier. Viewed through that longer lens, yields hovering near 4.75% to 5% aren't necessarily evidence of a broken system, but markets recalibrating to a world with structurally higher government deficits, persistent term premiums, and inflation that has proven stickier than the low-rates investors have become used to over the past few decades. This reframing matters for fixed income investors because it shifts the conversation from when will rates come down to how to position for a durable income regime. A normalized yield environment means bonds can once again generate meaningful income without overly relying on price appreciation or duration bets, a dynamic largely absent for much of the 2010s. For income-oriented investors, that translates into higher starting yields across the curve, more attractive real (inflation-adjusted) returns, and a broader opportunity set across credit quality and maturity. Rather than a temporary dislocation to be waited out, we believe today's rate environment may represent income opportunities that fixed income markets haven't offered in nearly two decades.

Attractive Inflation Adjusted Yields Are Back
10-Year Real Yield (%)



Source: Bloomberg

What We'll Be Watching in the Month Ahead

- **September 11th, the next CPI Report:** This report will provide further insight into whether or not the downward move in June's report indicates a trend of softening inflation.
- **September 15-16th, the next FOMC Rate Decision:** At the end of August markets were pricing in a 68% chance that the Fed raises rates.
- **September 30th, the next PCE Report:** This report will provide additional insight on the inflation picture. Chair Warsh expressed a focus on PCE at his Jackson Hole speech.

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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