Monthly Fixed Income Market Update

VICTORY income investors®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

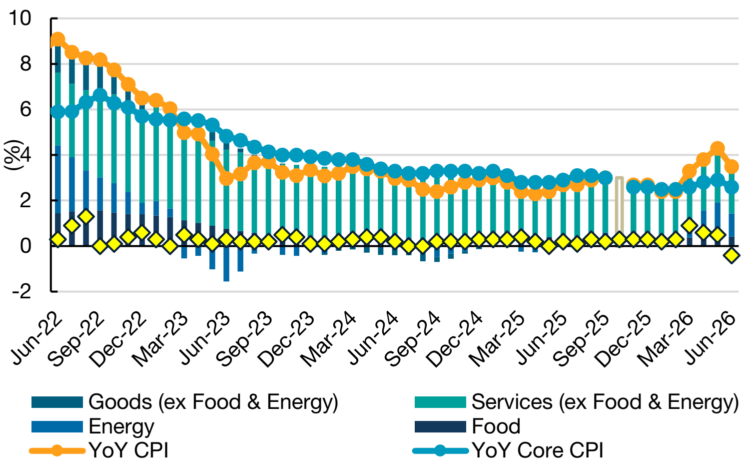
As of July 31, 2026

Key Takeaways

1. The Treasury yield curve steepened in July, long-term yields increased more than short-term yields as inflation management concerns grew. The 10-year yield ended the month at 4.74%, up from June's 4.47%.
2. The Federal Reserve held rates steady at their July meeting, an expected result. Fixed income experienced negative performance in July and credit spreads generally remained tight.
3. What does the boom of AI-related debt issuance mean for investors? We review potential implications and opportunities.

The Month in Charts

June's CPI report, published in July, offered some relief for investors concerned about recently rising inflation. Headline CPI fell to 3.5% year-over-year and Core CPI to 2.6% year-over-year, though this report is still firmly above the Federal Reserve's (the Fed) 2% target. The Fed voted to leave rates unchanged at their July meeting though three members dissented, preferring to hike. The press conference that followed did not provide satisfying answers for many market participants, fueling uncertainty about Chair Warsh's commitment to fighting inflation. Prior to the meeting investors were still pricing in a 30% chance the Fed might hike rates – this was historically atypical, as past Fed communications have provided markets clearer meeting expectations. The hold on rates in July has resulted in higher market expectations for a rate hike sometime in 2026.



Source: Bloomberg

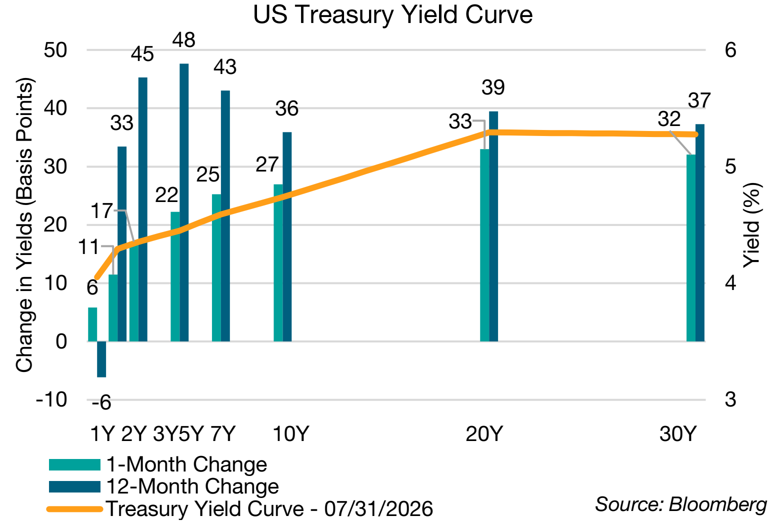
Credit spreads were mixed in July, corporate credit spreads remained low relative to historical averages but there was notable spread dispersion in sectors related to the AI-buildout.

Asset Class	Yield	Spread	Trend	Quarter Tight	Quarter Wide	Change MoM	Change QoQ	Change YoY	Trailing 10 yr avg
U.S. Treasury	4.57								
U.S. MBS	5.30	31		18	31	7	11	-9	37
U.S. Corporate	5.46	78		71	80	4	0	2	112
U.S. Corporate High Yield	7.68	279		256	288	15	8	-1	381
CMBS	5.07	66		63	67	1	-1	-15	87
ABS	4.78	41		41	49	-2	-7	-9	54
A	5.34	66		61	68	3	0	1	92
BBB	5.65	97		90	99	5	-1	0	143
BB	6.45	164		148	171	9	2	-5	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 07/31/2026

Source: Bloomberg

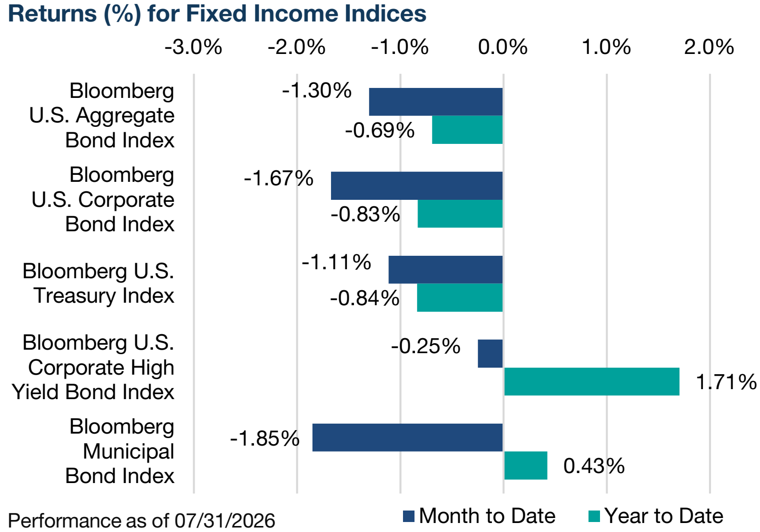
The Treasury yield curve steepened in July. Yield movements this month reflected diverging Fed expectations in the short end as oil price volatility continued, and longer-term inflation management worries in the rise of the long end yields. The 30-year concluded the month at 5.27%, up 32 bps from June.



Source: Bloomberg

Performance was negative in July for major fixed income asset classes, as energy price pressures and monetary policy uncertainty drove a bear-steepening of the Treasury curve.

Returns (%) for Fixed Income Indices



Performance as of 07/31/2026

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

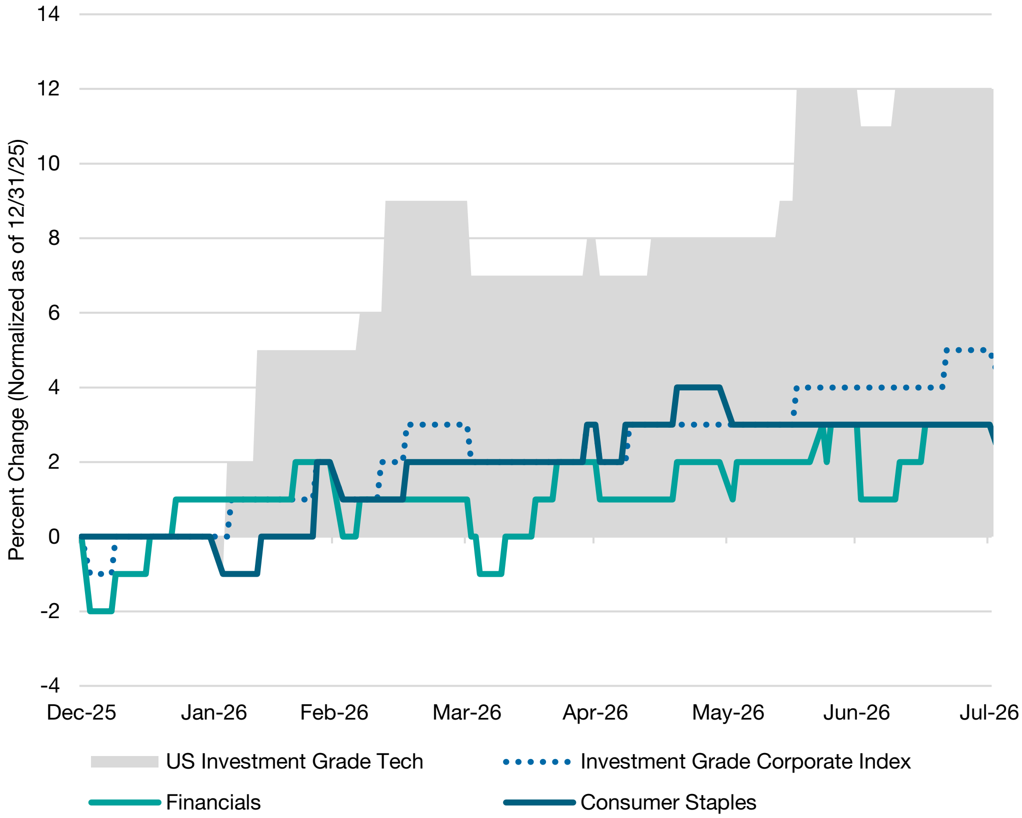
Frequently Asked Questions

The AI infrastructure buildout has moved from a headline story to a tangible force reshaping the composition of the investment-grade credit market. As the companies at the center of this buildout — the large cloud and technology platforms funding the next generation of AI infrastructure — have turned to the bond market to finance their ambitions, investors are right to ask what this means for their fixed income exposure.

The scale of issuance has been difficult to ignore. These companies have brought an unprecedented volume of new debt to market in 2025 and into 2026, at a pace that has materially outpaced historical norms. The chart to the right reflects the supply of new technology debt entering the market relative to the broader index and corporate sectors YTD. The result has been a notable divergence: credit spreads for these technology issuers have widened relative to the broader investment-grade index, even as overall corporate spreads have remained historically tight. Though all this widening does not necessarily reflect deteriorating credit quality, much of it is a supply-demand imbalance as the market absorbs an unusually large volume of bonds from a concentrated group of issuers.

While we remain attentive to the risks that elevated issuance and tight overall spreads present, we continue to see fixed income as an important source of income and increased stability. In our view, the current environment rewards selectivity, and we believe an experienced credit team is well-positioned to navigate it.

Technology Debt Issuance Continues to Grow YTD
Outstanding Bonds on US Credit Market, by Sector



Source: Bloomberg

What We'll Be Watching in the Month Ahead

- **August 12th, July's CPI Report:** This report will provide further insight whether or not the downward move in June's report indicates a trend of softening inflation.
- **August 14th, University of Michigan's Survey Results:** Surveys on consumer sentiment and inflation expectations serve as a helpful pulse check for the broader economic outlook.
- **August 26th, the next PCE Report:** This report will provide additional insight on the inflation picture, though upcoming changes to how this is calculated will begin in September.

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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