Monthly Fixed Income Market Update

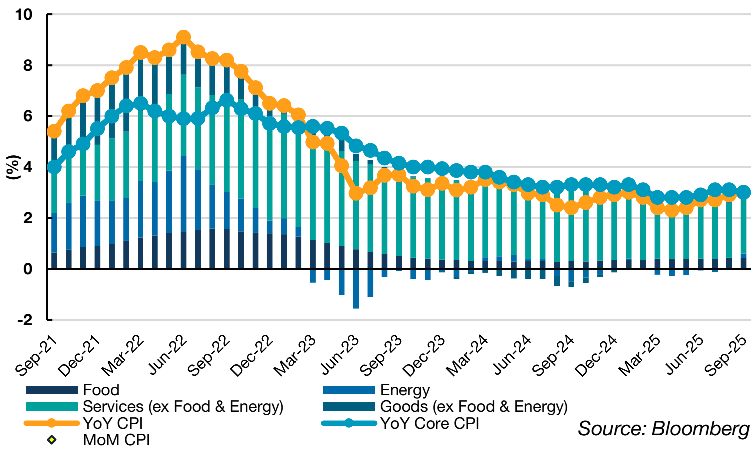
As of October 31, 2025

Key Takeaways

1. The Federal Reserve cut interest rates as expected by 25 basis points in October, again citing potential risk to the labor market. The 10-year yield declined and ended the month at 4.08%, down from September's 4.15%.
2. Fixed income experienced positive performance in October, driven by yield decreases across the Treasury curve. Corporate credit spreads have continued to hold below long-term averages.
3. The government is shut down and the Federal Reserve is divided on the future of monetary policy, now what? We review past government shutdowns and potential implications for fixed income.

The Month in Charts

September CPI, reported in October, rose to 3.0% year-over-year and Core CPI declined to 3.0% year-over-year. In October the Federal Reserve (the Fed) cut rates, meeting market expectations. The rate cut came as the Fed is facing the additional challenge of less available data due to the government shutdown. September inflation was tamer than expectations but Chairman Powell's press conference following the rate decision had a more hawkish than expected tone, highlighting that there are still concerns about inflation within the FOMC (Federal Open Market Committee). We saw two committee members dissent at October's meeting, in opposite directions, making this the third time this has occurred since 1990. Markets are still pricing in one more cut for 2025 but have reduced the number expected in 2026 from 4.5 to 3 in response to Powell's comments.



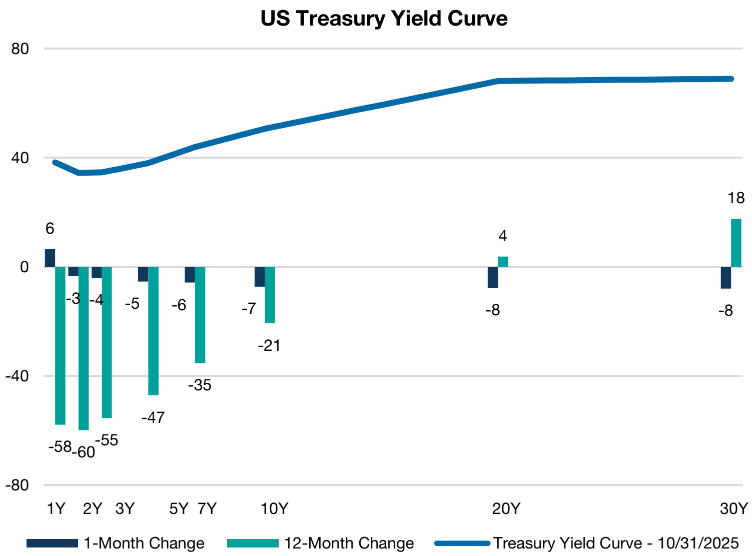
Source: Bloomberg

Credit spreads widened slightly month-over-month due to mild concerns on US-China relations and potentially weaker labor data. Overall spread levels are still well below long-term averages. Investment grade spreads widened 5 bps and high yield spreads tightened 9 bps.

Asset Class	Yield	Spread	Trend	Quarter Tight	Quarter Wide	Change MoM	Change QoQ	Change YoY	Trailing 10 yr avg
U.S. Treasury	3.91								
U.S. MBS	4.66	28		23	38	-3	-12	-21	38
U.S. Corporate	4.82	78		71	80	5	2	-5	118
U.S. Corporate High Yield	7.16	280		263	302	9	-1	-3	405
CMBS	4.50	77		75	81	1	-4	-15	90
ABS	4.22	54		47	54	8	4	0	55
A	4.69	65		61	69	3	1	-6	96
BBB	5.03	99		91	102	6	2	-6	152
BB	5.94	172		158	195	5	3	-2	265

Source: Bloomberg; Asset Classes represented by: ICE BofA US Treasury & Agency Index, Bloomberg US MBS Index, Bloomberg US Agg Total Return Value Unhedged USD, ICE BofA US High Yield Index, ICE BofA US Fixed Rate CMBS Index, ICE BofA US Fixed Rate Asset Backed Securities 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 10/31/2025

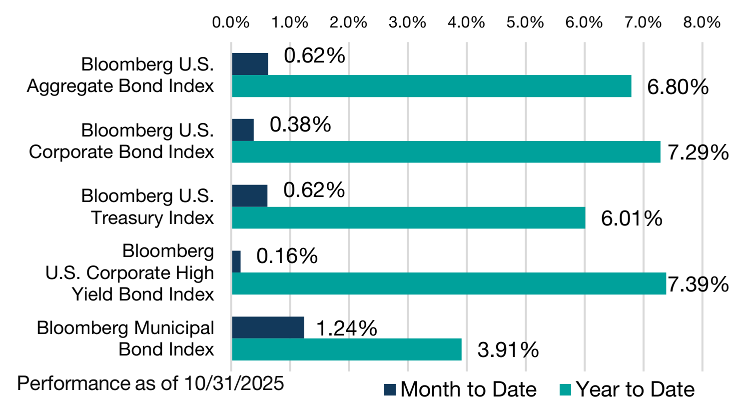
The Treasury yield curve fell across most tenors in October but rose towards the end of the month in response to the Fed cutting rates and the uncertainty driven by the shutdown's impact on data availability. Overall, the curve flattened, and yields concluded October at lower levels month-over-month.



Source: Bloomberg

Performance was positive across fixed income in October. Municipal bonds beat out taxable bonds once again, closely followed by the Bloomberg Aggregate and Treasuries.

Returns (%) for Fixed Income Indices



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

Frequently Asked Questions

Flying blind, driving in fog, navigating no man's land, solving a puzzle blindfolded – Chair Powell could have chosen any number of vivid analogies to capture the Fed's current predicament. With critical economic data delayed by the government shutdown, both policymakers and markets find themselves making decisions with incomplete information, underscoring why proceeding with caution has become the watchword for monetary policy.

The data drought extends beyond just inconvenience. Key economic indicators like CPI and Nonfarm Payrolls provide the Fed's compass for rate decisions, and their absence amplifies uncertainty about the path forward. While alternative data sources exist, they cannot fully substitute for these benchmark reports that markets and policymakers rely upon.

This raises a crucial question: How long might this information blackout continue, and what does history tell us about market resilience during extended shutdowns?

Historical precedent offers reassuring context. Government shutdowns exceeding three days have typically produced limited lasting impacts on risk assets, as the table below demonstrates. Investors consistently look past immediate political disruptions to focus on underlying macroeconomic trends:

Fiscal Year	Date Funding Ended	Duration of Funding Gap (in Days)	Date Funding Restored	Shutdown Procedures Followed*	Political Party in Power		Market Returns	
					President	Congress	Bonds	Equities
2025	30-Sep-25	34	TBD	Yes	Republican	Republican	0.62%	2.34%
2019	21-Dec-18	34	25-Jan-19	Yes	Republican	Split Congress	0.74%	10.43%
1996	15-Dec-95	21	6-Jan-96	Yes	Democrat	Split Congress	0.71%	0.16%
2014	30-Sep-13	16	17-Oct-13	Yes	Democrat	Split Congress	0.50%	3.17%
1996	13-Nov-95	5	19-Nov-95	Yes	Democrat	Republican	0.23%	1.36%
1991	5-Oct-90	3	9-Oct-90	Yes	Republican	Democrat	-0.75%	-2.05%

* "Shutdown Procedures Followed" column is marked "yes" if agencies were closed and their employees furloughed because of the funding gap. This includes both full and partial shutdowns.

The pattern reveals market pragmatism in action. Even the 2018-2019 shutdown's 34-day duration coincided with a robust 10.43% equity rally – though this reflected broader year-end dynamics rather than shutdown-related optimism. More telling is how bond and equity markets maintained stability during funding gaps, suggesting investors understand these disruptions' temporary nature.

Current circumstances reinforce this historical resilience. Unlike debt ceiling crises that threaten Treasury market stability, this shutdown stems from appropriations disputes with more contained implications. The guarantee of federal employee back-pay further limits economic scarring, as GDP impacts typically reverse once normal operations resume.

For investors, this historical lens suggests a clear strategic approach: maintaining long-term focus despite short-term noise. While the Fed's December meeting may face additional uncertainty if data delays persist, numerous variables beyond shutdown duration will ultimately shape monetary policy. The market's historical ability to see through political theater to underlying economic fundamentals argues for staying the course rather than making reactive portfolio adjustments.

The Fed may be flying blind temporarily, but markets have navigated this fog before – and emerged with their long-term trajectory intact.

What We'll Be Watching in the Month Ahead

- **November 11th, the next Change in Nonfarm Payrolls:** This report will provide insight into the health of the labor market, which the Fed has placed emphasis on in their decision making. The publication of this report is scheduled but may be delayed due to the government shutdown.
- **November 13th, the next CPI report will be released:** This report will tell us whether inflation is moderating or continuing to be somewhat stubborn and will be a factor in monetary policy decisions.
- **November 21st, the next University of Michigan Inflation Expectations will be released:** This will provide us insight into how the country is feeling about the future of inflation, which is valuable as inflation expectations directly influence monetary policy and can often affect real inflation outcomes.

All investing involves risk, including the possible loss of principal. An investment should be made with an understanding of the risks involved with owning a particular security or asset class. Interested parties are strongly encouraged to seek advice regarding the best options for their particular circumstances from qualified tax and financial experts.

The opinions are as of the date noted and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

Indexes are unmanaged; their returns include reinvestment of dividends and other income but do not reflect management fees, transaction costs or expenses. It is not possible to invest directly in an index. **Past performance does not guarantee future results.**

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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