



CAPITAL
GROUP®

Fixed Income Perspectives

Q1 2026

Quarterly macro and market
insights from Capital Group's
fixed income team



FOR PROFESSIONAL INVESTORS ONLY

Marketing communication

Table of Contents

	<u>PORTFOLIO STRATEGY INSIGHTS</u>	>	The global economy could remain resilient in 2026	3
	<u>US INTEREST RATES</u>	>	A dovish-leaning Fed reinforces yield curve steepening	5
	<u>EUROPEAN INTEREST RATES</u>	>	ECB now taking more data-dependent stance	6
	<u>JAPANESE INTEREST RATES</u>	>	Relationship between rates and currency decouples	7
	<u>GLOBAL RELATIVE VALUE</u>	>	Policy divergence likely to dominate global rates landscape in 2026	8
	<u>GLOBAL CORPORATES BONDS</u>	>	Rising issuance matched by robust demand	9
	<u>US INVESTMENT-GRADE CORPORATES</u>	>	Strong yields and fundamentals bolster IG corporates	10
	<u>US HIGH-YIELD CORPORATES</u>	>	Outlook for corporate earnings supports high yield	11
	<u>EMERGING MARKETS DEBT</u>	>	Stable fundamentals and strong momentum, but risks remain	12
	<u>MUNICIPAL BONDS</u>	>	Long-end municipals continue to show value	13
	<u>US AGENCY MORTGAGE-BACKED SECURITIES</u>	>	Rally caps strong 2025, but valuations seem less compelling	14

The statements expressed represent perspectives from Capital Fixed Income Investors, as at 31 December 2025. The views of individual portfolio managers and analysts may differ. © 2026 Capital Group. All rights reserved. Data as at 31 December 2025 and attributed to Capital Group / Bloomberg Index Services Ltd, unless otherwise stated.

The global economy could remain resilient in 2026

- Resilience could be the overarching global economic theme in 2026, with possible convergence between the US and Europe growth trajectories.
- The Federal Reserve faces a complex economic environment and is likely to proceed cautiously going forward.
- Valuations across fixed income sectors appear tight relative to history, while yields are elevated. We are focused on building resilience and balance in our portfolios across excess return drivers.

In Q4 2025, policy shifts and AI-driven investments shaped global markets, while the US government shutdown created a data vacuum that delayed key indicators like employment and retail sales. Despite the lack of public data, the Federal Reserve (Fed) continued cutting interest rates, leading to positive returns for bond markets, a steeper yield curve and new all-time highs for stocks. For the year, the Bloomberg US Aggregate Index posted a gain of 7.3%, its strongest showing since 2020 and a sharp turnaround from losses inflicted by the Fed’s hiking cycle in 2022.

As we look ahead to 2026, resilience could be the overarching global economic theme. In our view, economic growth appears to have moderated in 2025, but it may reaccelerate in the second half of 2026 as the path of global trade comes into clearer focus. We expect positive US growth, close to long-term trend rates, though the range of potential outcomes is unusually wide. While the US has weathered tariff impacts better than anticipated – thanks to inventory pre-builds and policy pauses – structural risks such as labour market weakness, geopolitical tensions and further tariff pass-through effects remain on the horizon. Lower-end consumers have been hit harder than their

higher-earning peers, suggesting a K-shaped economy. However, spending on AI continues at a staggering pace and should support overall growth, helping not only the technology sector but also companies providing AI infrastructure and those adopting AI to enhance productivity. Policy priorities, including deregulation, fiscal stimulus and a generally supportive Fed should all spur economic growth.

US fiscal policy is set to remain expansionary and might be underpinned by additional stimulus, which could be introduced as the administration seeks to bolster the economy ahead of the midterm elections. The One Big Beautiful Bill Act (OBBBA) aims to supercharge US manufacturing, potentially helping the industrial and technology sectors. While these policies are supportive of growth and consumer spending, we believe they could also contribute to inflation and raise concerns about long-term debt sustainability.

On the monetary front, the Fed faces a complex environment: Inflation remains elevated (partly due to tariffs and fiscal stimulus), but the labour market has softened. While fiscal policies like the OBBBA could contribute to inflation, we expect a relatively benign inflationary backdrop helped by a sustained disinflationary trend in

Past results are not a guarantee of future results.

US unemployment has gradually moved higher

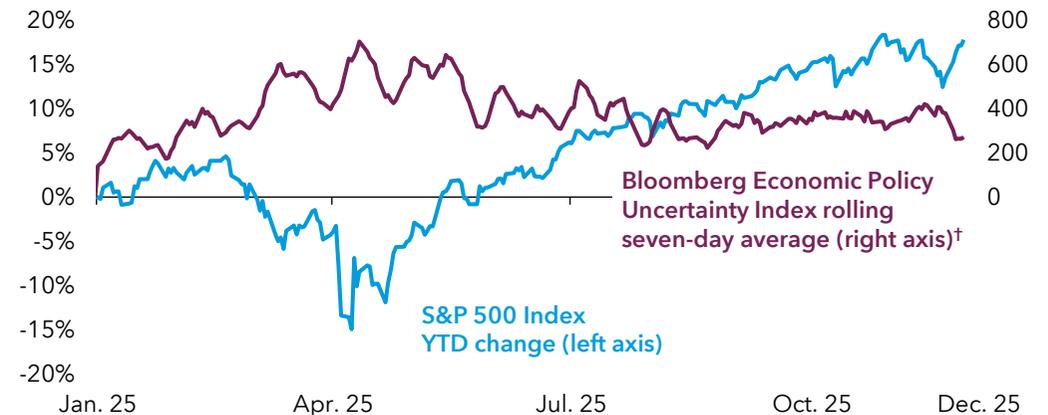
US unemployment rate (%)



As at 30 November 2025. Source: The Bureau of Labor Statistics and Bloomberg

Declining policy uncertainty boosted US stocks

US stocks vs. economic policy uncertainty



As at 31 December 2025. Sources: Capital Group, Bloomberg, RIMES, Standard & Poor’s
† See end notes for definition

segments like housing. This should allow the Fed to remain responsive to further deterioration in a softening labour market. In our view, market expectations for ~3% policy rates by year-end are reasonable.

Growth trajectories between the US and Europe could be converging, with Europe’s resurgence driven by higher defence budgets, currency tailwinds and robust fiscal spending, particularly Germany’s €500 billion fund for defense and infrastructure. Interestingly, monetary policy may diverge across regions, with the European Central Bank possibly poised to hike rates sooner than expected while the Fed and the Bank of England will likely continue to cut.

In Asia, China is showing signs of stabilising as it has introduced new stimulus measures, and we think Japan should be back on track

for sustained reflation in the second half of the year. Meanwhile, Japan is pushing corporate reform to unlock shareholder value, and Korea and China are following suit.

As the global economy navigates a complex transition, valuations across fixed income sectors appear tight relative to history, while yields are elevated. The bond market is riding into 2026 on powerful tailwinds: a resilient US economy, strong investments in AI and potential rate cuts from the Fed. In this environment, we’re focused on building resilience and balance in our portfolios across excess return drivers. We’ve taken a slightly defensive, up-in-quality stance with the potential to still earn additional income over Treasuries while allowing us to add risk if valuations become more attractive or market volatility increases.

Bloomberg US Aggregate Index

	Δ Q4	Δ 2025	As at 31 December 2025
Spreads	▼ 1 bps	▼ 7 bps	27 bps
Yields	▼ 5 bps	▼ 59 bps	4.32%
Returns	▲ 1.10%	▲ 7.30%	–

Data as at 31 December 2025. Figures reflect option-adjusted spreads and yield to worst. Sources: Bloomberg, Bloomberg Index Services, Ltd

Bloomberg Global Aggregate Index

	Δ Q4	Δ 2025	As at 31 December 2025
Yields	▲ 4 bps	▼ 16 bps	3.52%
Returns	▲ 0.24%	▲ 8.17%	–

Data as at 31 December 2025. Yields reflect yield to worst. Sources: Bloomberg, Bloomberg Index Services, Ltd

The fixed income investment group’s key convictions

 We seek diversified sources of carry and income as we balance positive economic fundamentals and supportive policy against historically rich valuations and continued geopolitical uncertainties. As such, investments in agency mortgage-backed securities and senior structured credit offer higher credit quality and attractive carry potential. We’re emphasising security selection in investment-grade and high-yield corporate credits as generic spreads are on the tight end of the range for this part of the cycle. We’re also finding attractive opportunities within emerging markets that can improve diversification.

 Positioning for a steeper yield curve remains a high-conviction view given attractive curve valuations, a dovish Fed and above-target inflation. The steeper position could also act as a risk-off hedge in our portfolios, helping buffer various economic scenarios, including growth challenges that cause front-end yields to fall or deficit concerns that drive higher term premiums via higher long-end yields. At current yield levels, we expect to be opportunistic in duration positioning as market pricing evolves. We view US duration as relatively attractive over the medium term, particularly in relation to rates in regions like Europe.

 We’re finding value across asset classes and sectors outside the US as real rates converge in part due to improving growth trajectories and increased deficit spending abroad.

These and other convictions were established by the Portfolio Strategy Group (PSG) in late September 2025 and remain in place given the 6–12-month guidance time horizon. The PSG analyses global macro and bond market dynamics and considers how differing portfolio positions could produce varying investment outcomes amid possible economic scenarios. The outcome of the group’s work provides a broad directional framework for guidance and is intended to be a package of positioning themes, rather than individual investment recommendations.

Past results are not a guarantee of future results. The information provided is not intended to be comprehensive or to provide advice.

A dovish-leaning Fed reinforces yield curve steepening

The Fed cut interest rates by 25 bps in October and December, citing ongoing labour market weakness. An example of this weakness is new college graduates, who represent a large part of the US labour market, have experienced an uptick in unemployment compared to recent history. Looking forward, the Fed's dot plot now reflects only one cut in 2026, alongside a higher projection for economic growth and a modestly lower inflation forecast. While there was no mention of AI, the Fed's forecast could signal their belief that a productivity increase may allow the economy to grow without inflation remaining a problem. Month-over-month inflation data for November and December are likely to be important inputs as Fed officials need to calibrate future rate cuts against these data given the disruption from the 2025 federal government shutdown.

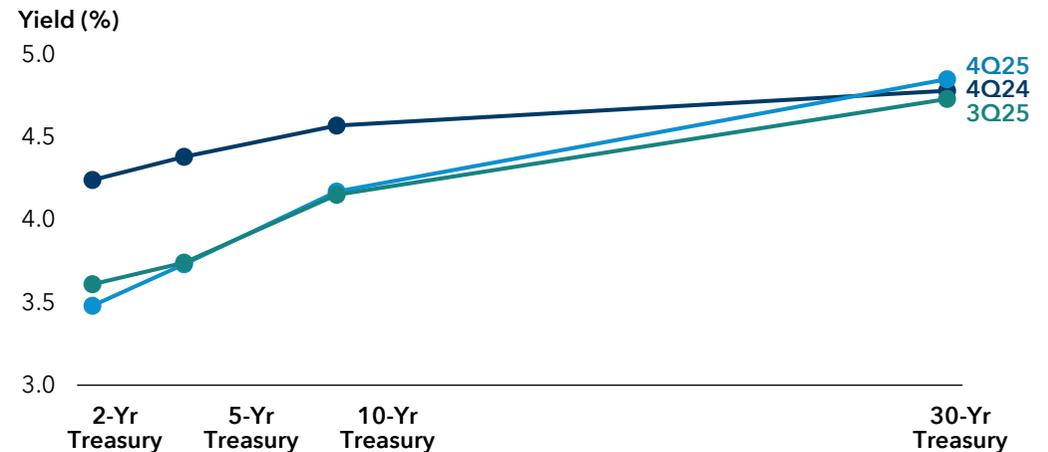
Markets broadly interpreted the Fed's tone as having moved from hawkish in October to more dovish in December, which could put downward pressure on policy rates. Meanwhile, a change in Fed composition in 2026 and concerns over higher deficits could also support a steeper curve. Accordingly, the rates team believes that positioning for a steeper curve can add value in multiple environments. A risk-off/recessionary environment could drive bull steepening (short-term rates falling faster than long-term rates), while continued

US economic growth could support bear steepening (long-term rates increasing faster than short-term rates).

The rates team continues to find pockets of value across the curve, with intermediate maturities appearing rich compared to short- and long-dated maturities. Post Liberation Day, term premiums have increased and have driven long-end yields notably higher as investors worry about rising deficits and debt sustainability. This trend of higher term premiums has not manifested in intermediate-term maturities, where yields have remained anchored near pre-Liberation Day levels. Strong demand for intermediate-term bonds may be driven by investors' desire to hedge labour market-driven recessionary risks while capturing a higher yield compared to short-term bonds. We believe the intermediate part of the curve will lag the short and long ends as the Fed concludes this easing cycle.

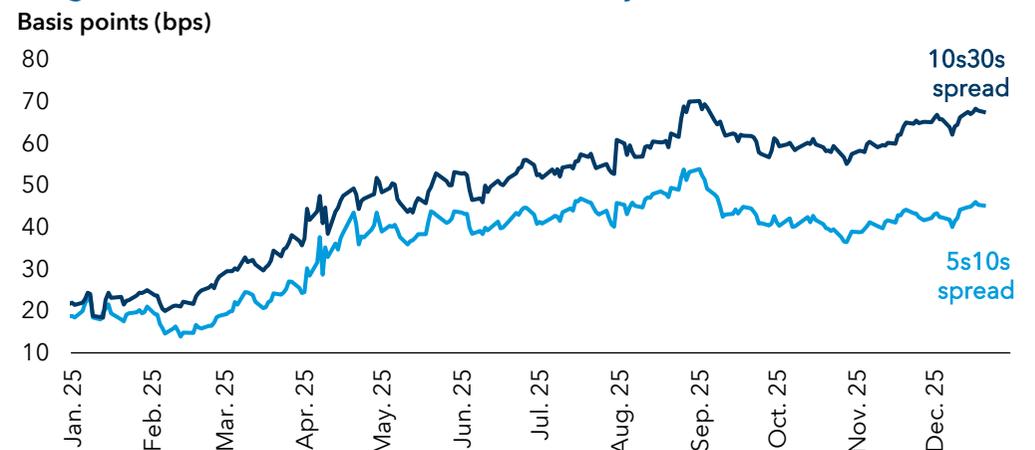
Fading inflationary pressures alongside a 10-year breakeven inflation rate near its long-term average make TIPS valuations appear modestly less compelling. That said, TIPS continue to provide value in an environment where a dovish-leaning Fed is inclined to continue to cut policy rates despite inflation remaining above its 2% target.

The Treasury curve steepened in Q4



Data at 31 December 2025. Sources: Bloomberg, Bloomberg Index Services, Ltd

Long-end selloff makes intermediate Treasury curve seem rich



As at 31 December 2025. See end notes for a definition of 10s30s spread and 5s10s spread. Source: Bloomberg

Past results are not a guarantee of future results. The information provided is not intended to be comprehensive or to provide advice.

ECB now taking more data-dependent stance

European yield curves steepened. The European Central Bank (ECB) signalled a pause in its cutting cycle and moved towards a more data-dependent stance as inflation came in close to target and in-line with expectations. Front-end yields rose moderately as growth continues to paint a constructive picture; longer-dated yields sold off in anticipation of higher issuance to fund Germany's expansionary fiscal policies. Economic data showed some tentative signs of improvement, and overall sentiment continues its cautious improvement across the Eurozone. France's political turmoil abated in the final quarter as headline noise died down, with the spread over German bunds narrowing.

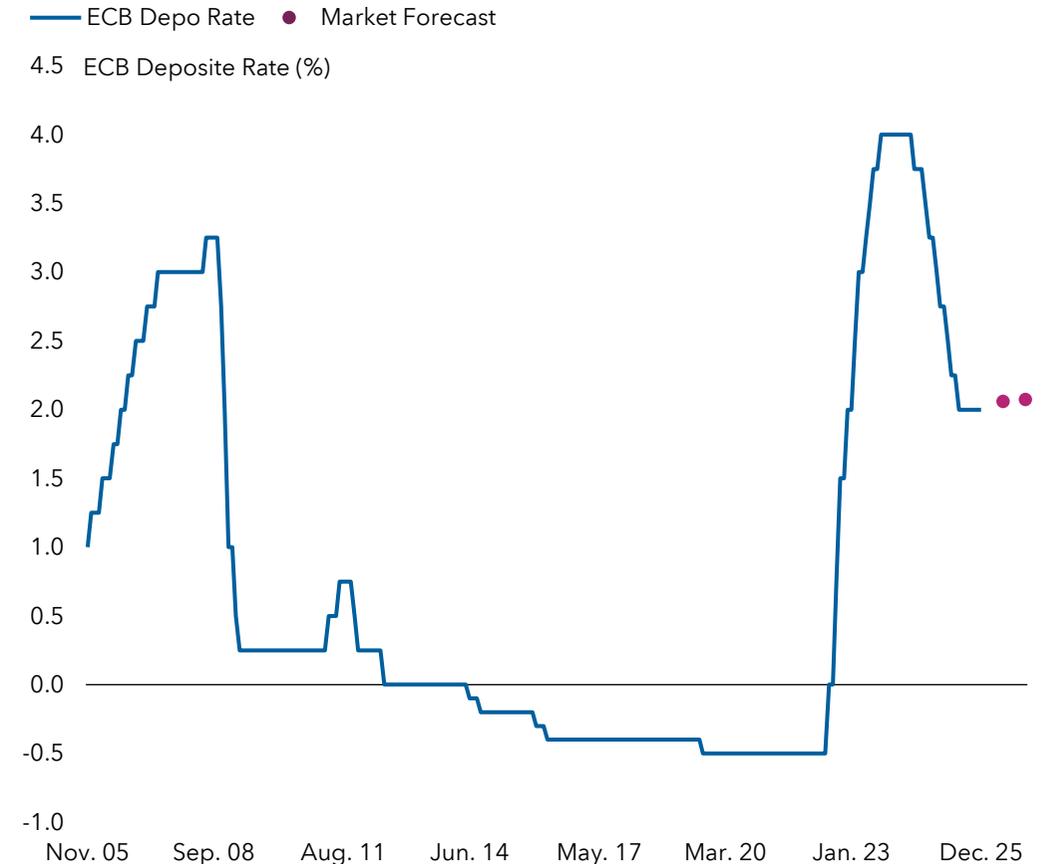
We remain short German bunds. Improving sentiment, supportive fiscal policy, fading trade-related headwinds and increased issuance are likely to lead to higher bond yields. We are starting to see signs of recovery in Germany's manufacturing data and expect to see increased growth momentum as supportive policies go into effect. The nascent recovery in domestic demand could broaden to other industries, driving a recovery in GDP and pressuring bond yields higher.

Peripheral European nations will likely continue their journey of fiscal discipline and are capitalising on cyclical tailwinds.

Spain should continue to benefit from low energy costs, while strong nominal growth should help reduce its debt trajectory. Italy's stable government is committed to fiscal discipline and, alongside ongoing EU recovery funding, is delivering on its fiscal targets. This could pave the way for a potential 'A' rating in the medium term. With Germany set to see increased issuance and higher yields, we expect that the spread between Germany and most other European countries will compress.

The ECB is expected to be on hold for much of 2026, with rate hikes not materialising until the back end of the year. The positive growth impulse from expansionary fiscal policies is taking longer to feed through into the real economy than we initially anticipated. Combined with an inflation outlook that looks relatively contained, we do not expect the ECB to move on rates unless there is a significant data surprise. We continue to expect further upward revisions to the growth data against a resilient economy. We favour curve steepeners in anticipation of increased issuance and the improving growth trajectory. We are cautious on France amid ongoing political instability, preferring exposure to Italy, Spain and Greece. We are long EURUSD but are mindful that there is decent upside already priced into the market.

ECB is forecast to hold rates steady in 2026, but upside surprises to growth and inflation could push the ECB to act faster



As at 31 December 2025. Source: Bloomberg

Past results are not a guarantee of future results. The information provided is not intended to be comprehensive or to provide advice.

Relationship between rates and currency decouples

The Bank of Japan (BoJ) unanimously decided to hike rates at its December Monetary Policy Meeting (MPM). The 25-basis-point hike took rates to 0.75%, the highest level in 30 years.

The Bank maintained its existing stance on the conduct of monetary policy, stating that it will “continue to raise the policy interest rates and adjust the degree of monetary accommodation in accordance with improvement in economic activity and prices”.

Japanese inflation is likely to accelerate in 2026, further boosting bond yields, as upside pressures mount from Japan’s i) excessively easy policy, ii) a weak yen (which impacts the price of imported food) and iii) consumer-oriented fiscal stimulus. Japan’s inflation remained elevated compared with other developed markets in 2025 and inflation expectations have shifted notably higher. While wage growth has lagged despite tight labour markets, it should eventually accelerate, further adding to inflationary pressures.

The Japanese yen has diverged from its historical relationship to interest rates.

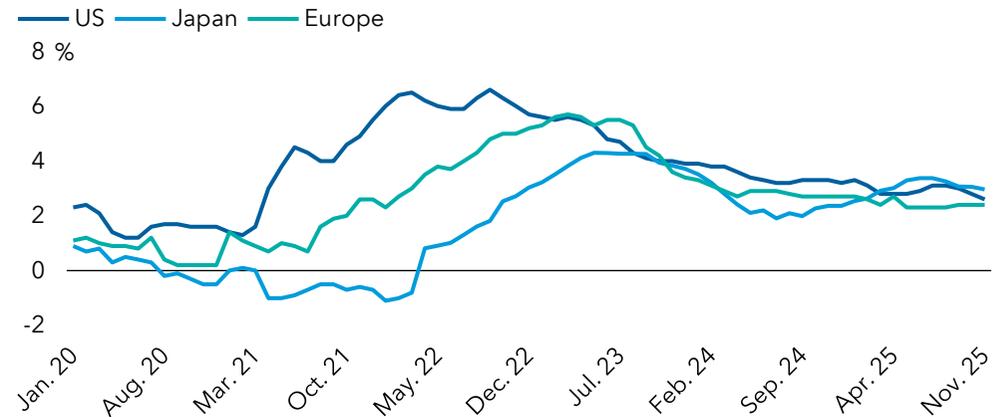
Notably, the yen weakened over the quarter, despite the rate hike and particularly after the December MPM. We believe that there is likely to be some continued decline in the value of the yen, as Japan has lost export market share over an extended period. Much of the depreciation, and the flip in correlations between FX and rate differentials (bond yields higher, yen

weaker), is likely a result of the erosion of the BoJ’s credibility along with the vicious cycle between inflationary pressures, pressures on fiscal subsidies and BoJ attempts to suppress interest rates.

We have moved towards a more neutral stance on duration, although real rates remain low. As the BoJ grapples with yen weakness, any sudden market moves will likely prompt risk reduction, but short Japanese duration is currently a crowded trade. Instead, we are positioned for the Japanese curve to flatten, particularly given the Ministry of Finance is reducing long-end issuance.

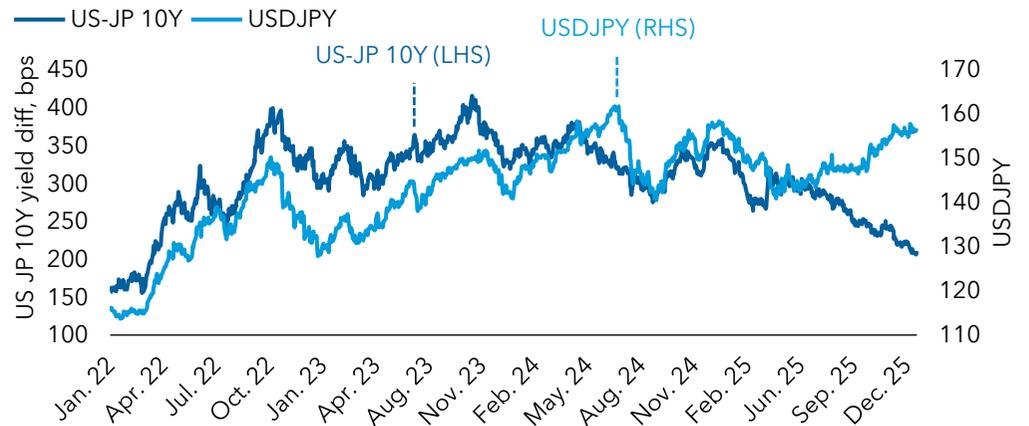
We expect that the yen to continue to slide and rates to continue increasing over the short term unless the BoJ turns more hawkish or the Takaichi government reins in spending. Over the longer term, we find the yen attractive as the Japanese currency has overshot the position indicated by interest rate differentials with the US and there is pressure on the BoJ to arrest the decline.

Core CPI



Data as at 30 November 2025. Source: LSEG Datastream

Yen weakens despite rising rate differentials



Data as at 31 December 2025. Source: LSEG Datastream

Past results are not a guarantee of future results. The information provided is not intended to be comprehensive or to provide advice.

Policy divergence likely to dominate global rates landscape in 2026

2025 saw a clear divergence across major developed bond markets. In the US, Treasury yields fell meaningfully, led by the front end of the curve, as a softening labour market reinforced expectations for policy easing. A similar dynamic played out in the UK, where front-end yields declined sharply as weak growth indicators pulled forward expectations of policy accommodation. In contrast, European front-end rates remained relatively anchored while yields at the long end rose. Improving economic sentiment, alongside announced fiscal expansion plans in Germany, supported a more resilient growth outlook. At the same time, the European Central Bank signalled a pause in its cutting cycle, reflecting greater confidence that growth dynamics are stabilising. Long-end Japanese yields also rose meaningfully amid expectations of policy normalisation and a more expansionary fiscal stance.

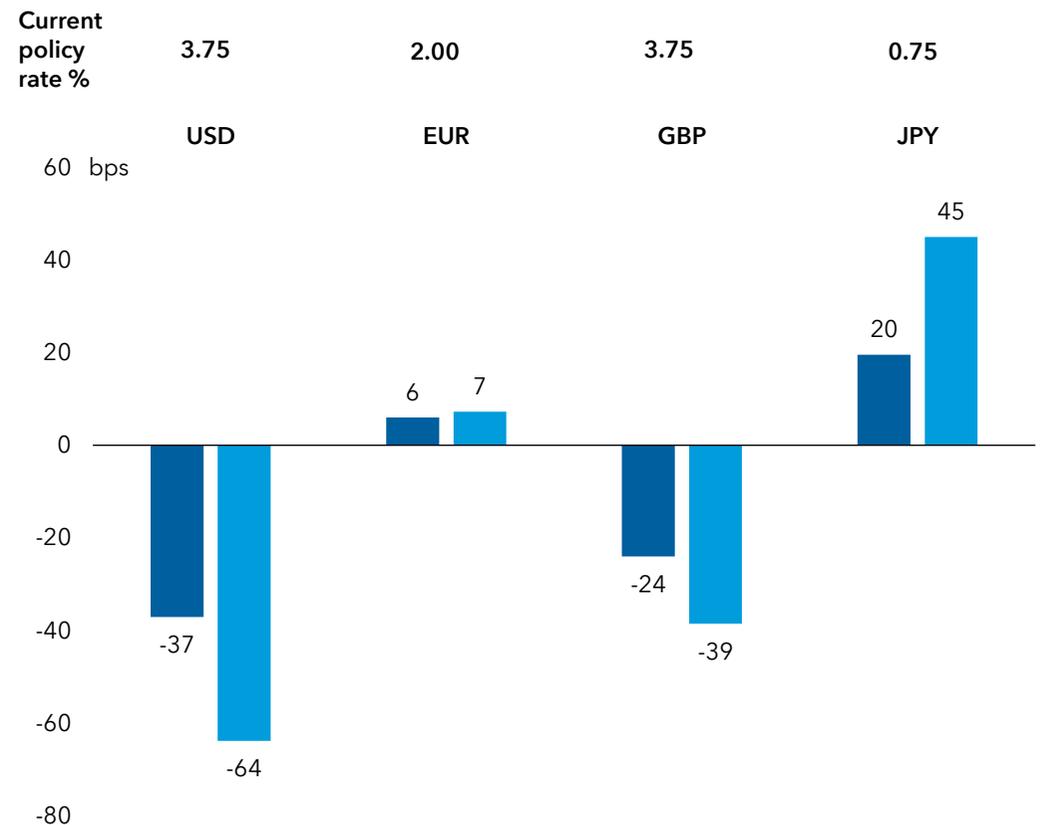
Expectations of softer labour market conditions are now priced into Fed policy rates, and we remain mindful that data might jeopardise these assumptions should employment conditions improve or growth be more resilient than anticipated. In Europe, we continue to hold a short duration stance as improving sentiment, supportive fiscal policy and increased issuance are likely to lead to higher bond yields. This also leads to a positive outlook for the Euro against the

US dollar. In Japan, the bond market sell-off towards the end of 2025 led to very attractive valuations, supporting the case to add long duration exposure. The weakness in the Japanese yen also appears to be stretched and the expected real rate compression vs. the US could lead to renewed yen strength. Within the dollar bloc, Australian rates offer attractive risk-reward potential compared with the US. While the market signals the possibility of rate hikes in 2026, inflationary pressures could ease further and there is the potential for the Reserve Bank of Australia to remain accommodative for longer.

We continue to favour yield curve steepeners, mainly in the US and Europe, against this macro backdrop. With global governments pursuing ongoing fiscal stimulus to drive growth, this position is likely to benefit from a range of potential economic scenarios, including one where the long end of curves rises more (or falls less) than the front end. In emerging markets, our preference remains for local rate opportunities, including Brazil and Malaysia. Real yields in these select markets are compelling and could additionally benefit from the tailwinds of still-resilient global growth.

The trend of global policy divergence is expected to continue as we head into 2026

- Expected change (bps) in effective policy rate in 6 months
- Expected change (bps) in effective policy rate in 1-year



As at 31 December 2025. Source: Bloomberg

Past results are not a guarantee of future results. The information provided is not intended to be comprehensive or to provide advice.

Rising issuance matched by robust demand

Investment-grade (IG) credit delivered positive returns for Q4 2025, with the Bloomberg Global Corporate Investment-Grade Index returning 0.9% (USD-hedged). High starting yields were the main driver of returns, more than compensating for a slight widening in credit spreads over the quarter. Strong corporate fundamentals, including solid revenue growth, margin expansion and effective cost management, helped companies navigate external challenges such as tariffs and economic headwinds.

Credit spreads ended 2025 at multi-decade lows, supported by robust demand. This was despite rising issuance. AI-driven capex needs have fuelled issuance since September 2025. This trend is expected to persist into 2026, with downstream sectors such as utilities, energy, construction and capital goods likely to follow. Supply is also expected to rise as M&A accelerates amid a more supportive regulatory backdrop and a resilient US economy. Markets are expected to welcome new issuance due to strong demand as all-in yields continue to remain attractive, but excessive volume may push spreads higher.

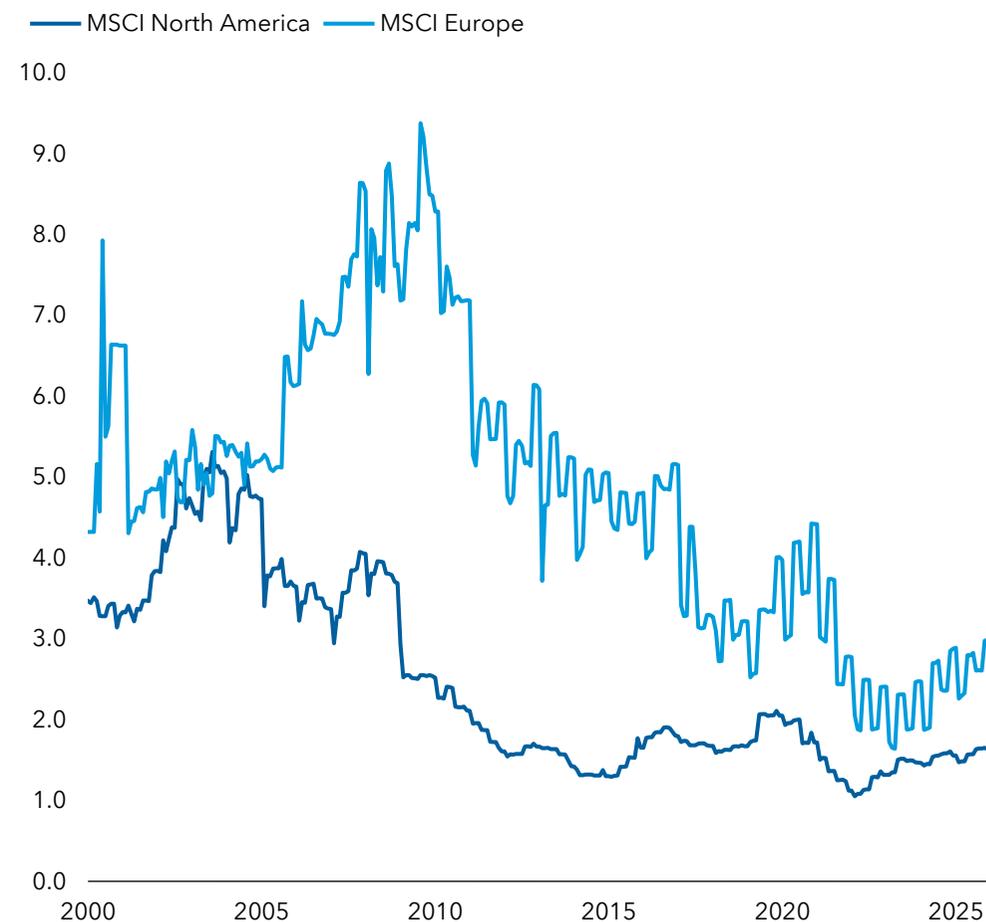
We believe IG credit continues to offer compelling opportunities, supported by favourable fundamentals and still elevated all-in yields. Our focus remains on disciplined, bottom-up security selection, monitoring valuations for attractive entry

points in high-conviction names. In banking, we continue to favour European issuers with strong idiosyncratic stories that offer insulation from tariff volatility. We also see opportunities in pharmaceuticals for their defensive qualities, in US electric utilities for their domestic focus, and continue to monitor AI-driven issuance closely. Conversely, we remain cautious on US energy names given a weak oil price outlook, preferring tactical exposure based on relative valuations.

The first quarter of 2026 is likely to be dominated by issuance dynamics and the outlook for AI-related companies. European spreads may also lag after recent strength versus US peers, with euro volumes and reverse Yankee issuance as key drivers. Uneven monetary policy, accelerating AI adoption and rising political polarisation are likely to shape markets. These factors, along with an evolving US policy agenda, will drive issuance trends and sector performance. We expect clarity on M&A in sectors like media, as well as a strong pipeline of primary deals, to create opportunities in high-conviction names. Against this backdrop, and with spreads tight, investors can find potential value by locking in yield and prioritising diversification and selectivity. For investors employing a bottom-up approach to identify opportunities, IG credit remains compelling, offering steady income, resilience and flexibility across macro scenarios.

Corporate fundamentals remain relatively robust

Net debt to EBITDA



As at 31 December 2025. Source: Bloomberg Indices: MSCI North America, MSCI Europe. EBITDA: Earnings before interest, tax, depreciation and amortisation.

Past results are not a guarantee of future results. The information provided is not intended to be comprehensive or to provide advice.

Strong yields and fundamentals bolster IG corporates

During the fourth quarter 2025, investment-grade corporate bond holders were sufficiently encouraged by positive US economic data to remain constructive on the sector. While the 43-day federal government shutdown created gaps in employment and inflation data, other bullish economic reports pushed corporate bond spreads to near-historic lows. The Atlanta Federal Reserve’s GDPNow forecast model consistently registered above 3.0% for the quarter, while the Citi Economic Surprise Index was also positive aside from one brief dip into negative territory.

New-issue supply set records in October and November 2025. This was partly due to an increase in the level of new issues from companies that are building data centres. For example, issuance in October and November included a US\$30 billion deal from Meta, a US\$17.5 billion deal from Alphabet and a US\$13 billion deal from Amazon. According to figures from JP Morgan, gross issuance for the year was US\$1.64 trillion, while issuance net of maturities was US\$617 billion. Issuance net of maturities and coupon income was US\$147 billion. Meanwhile, JP Morgan forecasts that gross issuance will be US\$1.8 trillion in 2026, with US\$326 billion in supply net of maturities and coupons.

In our view, investment-grade corporate fundamentals remain supportive. Index-

level data from JP Morgan show gross leverage holding at around 2.9 debt-to-EBITDA as at the third quarter of 2025, a level that has held relatively steady over the past three years. Still, according to IBES data, the market expects earnings growth for the S&P 500 to be 15% over the next 12 months, which should provide some support to overall credit metrics.

In recent quarters, yield has been an important driver of demand for investment-grade corporate bonds. In 2025, yields on the Bloomberg US Investment Grade Corporate Bond Index traded as high as 5.55% in April and reached a low of 4.64% in October, with the yield closing the year at 4.81%. In this context, the index’s option-adjusted spread began 2025 at 80 bps. It then traded as high as 119 bps after the Liberation Day tariff announcements and reached a low of 72 bps during the fourth quarter. In a benign economic scenario (which we expect for 2026), yields and spreads may continue to trade in this range. However, if corporate earnings growth were to surprise on the downside, we believe there’s a good chance that any spread widening in the sector would be at least partially offset by lower US Treasury yields.

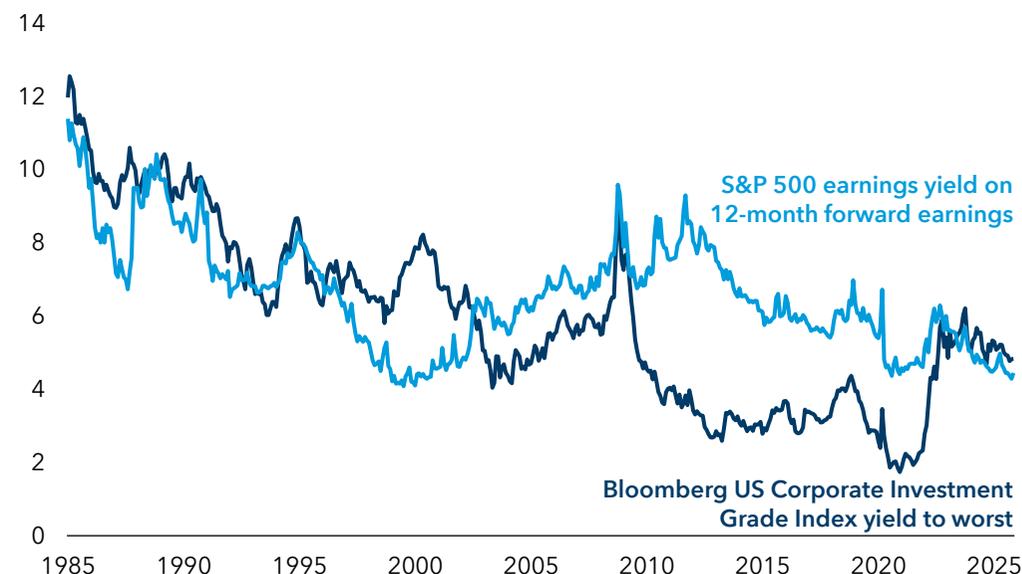
Bloomberg US Corporate Investment Grade Index

	Δ Q4	Δ 2025	As at 31 December 2025
Spreads	▲ 4 bps	▼ 2 bps	78 bps
Yields	UNCHANGED	▼ 52 bps	4.81%
Returns	▲ 0.84%	▲ 7.77%	–

Data as at 31 December 2025. Figures reflect option-adjusted spreads and yield to worst. Sources: Bloomberg, Bloomberg Index Services, Ltd

IG corporate yield exceeded the S&P 500 earnings yield in 2025

IG corporate yield vs. S&P 500 earnings yield (%)



As at 31 December 2025. Source: Bloomberg

Past results are not a guarantee of future results. The information provided is not intended to be comprehensive or to provide advice.

Outlook for corporate earnings supports high yield

The high-yield market returned 1.31% during the fourth quarter 2025 and 8.62% for the full year, based on the Bloomberg US High-Yield 2% Issuer Capped Index.

Spreads were range-bound during the quarter, touching a high of 304 bps before finishing at 266 bps.

Meanwhile, spread volatility picked up due to the federal government shutdown, a more hawkish tone from the Fed early in the quarter and concerns about a weakening labour market. While some of these risks eventually abated, the market apparently chose to look past others (as at quarter end).

We remain constructive on high yield based on strong fundamentals, modest leverage levels and our positive outlook for corporate earnings growth. While increased US tariffs may impact GDP growth, we believe corporate earnings will continue to increase, though perhaps at a modestly slower rate. And while high-yield fundamentals have remained strong, leverage levels may rise somewhat in the first half of 2026 due to rising corporate costs and broadly slower economic growth. Still, we anticipate that any impact on fundamentals will likely be a one-off event.

Given that spreads remain tight relative to other periods of economic growth, we continue to believe spreads will remain range-bound. Using Liberation Day as a starting point for increased market volatility, high-yield spreads widened to about

450 bps in early May 2025 before tightening and remaining range-bound between 250 and 300 bps from mid-May through the end of the year. With the exception of an exogenous market shock, we would expect this range of trading to continue over the coming year.

Within our high-yield exposure, positioning remains conservative given the backdrop of tight valuations. Cash levels are elevated, providing a source of liquidity during periods of spread volatility or in the event that new-issue supply picks up. Exposure to BBB-rated securities continues to offer attractive risk-adjusted yield, even though these bonds currently yield less than the benchmark. These BBB holdings have traded roughly 45 bps wide of the Bloomberg US Corporate BBB Index, creating potential for incremental capital appreciation if fundamentals continue to improve. We remain cautious in the consumer cyclical sector, which tends to trade tight of the Bloomberg US High Yield 2% Issuer Capped Index's option-adjusted spread.

Generally speaking, we continue to like high-yield coupons and fundamentals, and we remain constructive on US economic growth and corporate earnings over the near- to medium-term. Along with attractive carry and supportive technicals, we believe these factors continue to make high yield an attractive fixed income allocation.

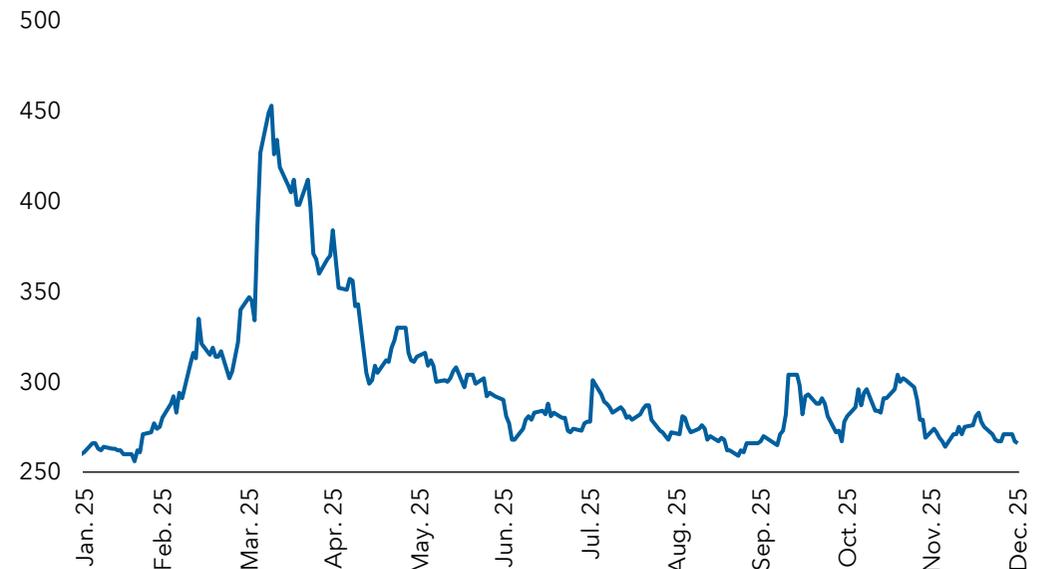
Bloomberg US Corporate High Yield 2% Issuer Capped Index

	Δ Q4	Δ 2025	As at 31 December 2025
Spreads	▼ 1 bps	▼ 20 bps	266 bps
Yields	▼ 17 bps	▼ 95 bps	6.53%
Returns	▲ 1.31%	▲ 8.62%	–

Data as at 31 December 2025. Figures reflect option-adjusted spreads and yield to worst. Sources: Bloomberg, Bloomberg Index Services, Ltd

High-yield spreads remained tight in Q4

High-yield spreads vs. Treasuries (bps)



Data as at 31 December 2025. Based on the Bloomberg US High Yield 2% Issuer Capped Index. Source: Bloomberg

Past results are not a guarantee of future results. The information provided is not intended to be comprehensive or to provide advice.

Stable fundamentals and strong momentum, but risks remain

Emerging markets debt (EMD) moved higher during the fourth quarter 2025, closing out an impressive year of gains.

Local-currency-denominated bonds produced positive returns across all regions, driven by contributions from interest rates, while currency and price returns were mixed. Hard-currency-denominated bonds also generated gains across all regions, led by high-yield issuers across parts of Latin America and Africa. Overall, investment-grade-rated hard currency bonds saw more muted gains relative to high-yield issuers.

Within local markets, South African bonds produced the most significant rally during the quarter as investors cheered the country's improving fiscal performance and its growth outlook, leading to an S&P ratings upgrade from BB- to BB. In Latin America, Brazilian local rates and the country's currency, the real, experienced a volatile quarter due to heightened political tensions ahead of the 2026 presidential election.

Standout contributors to hard currency gains included Ecuador, which rallied during the quarter despite an uptick in volatility. Elsewhere, Egyptian hard currency bonds moved meaningfully higher as the market maintained its favourable view of recent policy reforms and external financing commitments that provided much-needed funding relief.

Though valuations tightened meaningfully

in 2025, our managers remain reasonably constructive on their outlook for EMD. However, selectivity remains key, as the macro backdrop may be less certain in 2026. **Previous monetary tightening and resulting disinflation have given many EM central banks ample cushion to provide policy support should it prove necessary.** That said, a spike in commodity prices and/or global inflation could limit the scope of any easing measures, which in turn could challenge the economic resilience of some EMs.

High nominal and real yields support local currency debt, which may benefit from favourable technical factors as income-oriented investors continue to rebuild positions in these markets. We favour a mix of higher yielding Latin American and Central and Eastern European issuers alongside select Asian credits. EM currencies, particularly in parts of Latin America, appear well-positioned to continue to appreciate relative to the US dollar (USD) as many of the structural challenges that the USD experienced in 2025 appear likely to remain in 2026.

Valuations are tight across hard currency sovereign and corporate bonds. We find select value in frontier sovereign issuers that offer high carry and potential diversification benefits, though sizing is important given their limited liquidity. We also see opportunities in idiosyncratic Asian and Latin American corporate credits.

Notable emerging markets spreads, yields and currencies

	Δ Q4	Δ 2025	As at 31 December 2025
EMBI investment grade index spreads ¹	▼ 2 bps	▼ 28 bps	92 bps
EMBI high yield index spreads ²	▼ 69 bps	▼ 119 bps	440 bps
EMBI index returns ³	▲ 3.29%	▲ 14.30%	-
GBI-EM index yields ⁴	▼ 0.06%	▼ 0.52%	5.87%
EMFX versus USD ⁵	▲ 1.67%	▲ 13.11%	-
GBI-EM index returns ⁶	▲ 3.34%	▲ 19.26%	-

JP Morgan. Data as at 31 December 2025. Sources: Bloomberg

- EMBI investment grade (IG) spreads reflect levels on the IG component of the JP Morgan Emerging Markets Bond Index (EMBI) Global Diversified index.
- EMBI high yield (HY) spreads reflect levels on the HY component of the EMBI Global Diversified index.

3. EMBI returns reflect levels on the EMBI Global Diversified index.

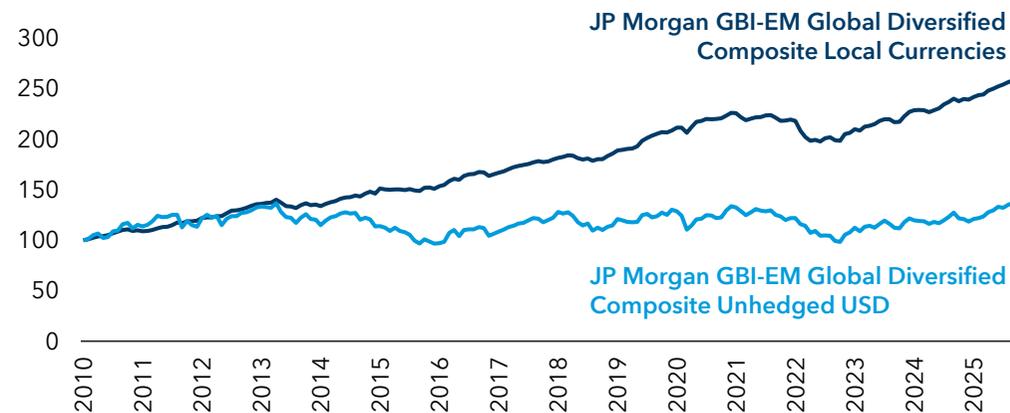
4. Yields on the GBI-EM index reflect yield to maturity on the JP Morgan EMBI Global Diversified Index.

5. EMFX reflects JP Morgan EMLI+ Index returns in US dollars.

6. GBI-EM returns reflect levels on the EMBI Global Diversified Index.

Reversal in USD strength may continue to benefit EM local returns

EMD local returns vs. EMD local returns in US dollars



As at 31 December 2025. Sources: Bloomberg, JP Morgan

Past results are not a guarantee of future results. The information provided is not intended to be comprehensive or to provide advice.

Long-end municipals continue to show value

In the fourth quarter 2025, the municipal yield curve flattened as yields in the one- to five-year segment increased by 8 to 19 bps, while longer maturities declined by 4 to 27 bps. Despite this flattening, the overall slope of the curve remained relatively steep. Conversely, the Treasury curve steepened over the same period, while the 10-year AAA municipal bond yield finished the quarter at 2.71%.

Despite the recent decline in long-end municipal yields, we still find value at the longer end of the curve. Notably, the slope of the municipal curve between two-year and 30-year maturities was 55 bps steeper than its five-year average as at 31 December 2025. As a result, where portfolios have exposure to municipals, we generally maintained a neutral-to-long duration posture with a tendency to extend further along the curve.

Supply within the municipal market remained considerable in 2025, with issuance rising by 13% year-over-year to reach \$580 billion. New money transactions remained strong, largely as a result of ongoing investments in infrastructure, education and public health initiatives. Refunding activity was limited during the year due to less advantageous interest rate conditions for refinancing. We anticipate that municipal issuance will remain elevated

going forward, primarily driven by increased construction costs over recent years.

Credit fundamentals for most municipal issuers remained strong during the quarter. States and local governments generally benefited from stable tax revenues and prudent fiscal management. Defaults stayed at historically low levels, and rating agencies maintained a broadly positive outlook for the sector. Subsectors such as essential services, education and transportation continued to show resilience, while some health care and senior living issuers faced ongoing challenges.

Investor demand for municipal bonds remained steady in Q4 2025. US retail investors continued to value municipals' tax-exempt income characteristics, while institutional buyers sought diversification and relative value opportunities. Mutual funds and exchange-traded funds experienced stable inflows, supporting secondary market liquidity.

With stable credit fundamentals within the municipal sector, and as the Fed remains likely to continue lowering the federal funds target rate, we believe credit selection and the ability to find idiosyncratic opportunities will continue to be critical for generating excess returns. We continue to find opportunities in the housing, transportation and tax-backed segments of the market.

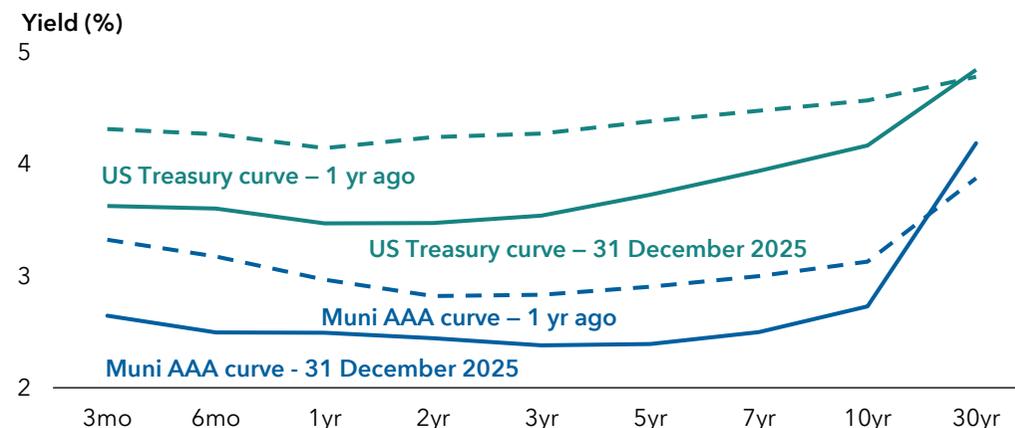
Notable municipal bond spreads, yields and returns

	Δ Q4	Δ 2025	As at 31 December 2025
Investment-grade muni spreads ¹	▼ 1 bps	▲ 16 bps	105 bps
High-yield muni spreads ²	▼ 3 bps	▲ 21 bps	199 bps
Yields ³	▼ 7 bps	▼ 14 bps	3.60%
Returns ³	▲ 1.56%	▲ 4.25%	–

Data as at 31 December 2025. Yields reflect yield to worst. Sources: Bloomberg, Bloomberg Index Services, Ltd

1. IG muni spreads reflect the difference in the yield-to-worst between the Bloomberg Municipal AAA Index and the Bloomberg Municipal BBB Index.
2. HY muni spreads reflect the difference in the yield-to-worst between the Bloomberg Muni High Yield Index and the Bloomberg Municipal Bond Index.
3. Figures reflect the Bloomberg Municipal Bond Index.

Muni curve positively sloped from five years onward in Q4



As at 31 December 2025. The muni curve is represented by the BVAL AAA Munis Benchmark. The Treasury curve is represented by the Bloomberg US Treasury Index. Source: Bloomberg

Past results are not a guarantee of future results. The information provided is not intended to be comprehensive or to provide advice.

Rally caps strong 2025, but valuations seem less compelling

Agency MBS surged in 2025, marking the best year for excess returns in 15 years and for total returns in 20 years. The fourth quarter was more mixed in most fixed income sectors, with interest rates relatively unchanged and corporate credit spreads little changed to modestly wider. Still, a combination of factors – including tighter spreads and declining interest rate volatility – helped spur agency MBS during the quarter and over the full year, with both total and excess returns exceeding those of investment-grade corporate bonds.

We believe fundamental factors are generally supportive. Pre-payments in select coupons within the mortgage market rose alongside lower interest rates earlier in the year – particularly as mortgage rates fell more than Treasury rates – but in our view, the pace has moderated. To the extent that interest rates stay relatively range-bound, we view pre-payment risk as better-contained. Meanwhile, demand factors may offer some support if policy priorities like deregulation incentivise purchases from banks. From our perspective, demand has been broadly less supportive for the past several years due to limited purchases by commercial banks and the Fed’s quantitative tightening.

We see agency MBS sector valuations as less compelling than in prior quarters, though cross-asset relative value persists. In our view, a combination of tighter spreads, diminished income/carry potential and

market-implied interest rate volatility reduce the overall appeal of the sector compared to the start of 2025. However, valuations in other market sectors like corporate credit remain elevated as well. With agency MBS offering higher quality, little to no credit risk, and generally strong liquidity, we believe the sector remains a compelling source of diversified income and return potential. We also expect the sector to offer resilience if volatility rises in a broader market downturn, in which case agency MBS may serve as a source of funding for assets like corporate bonds should cheaper entry points arise.

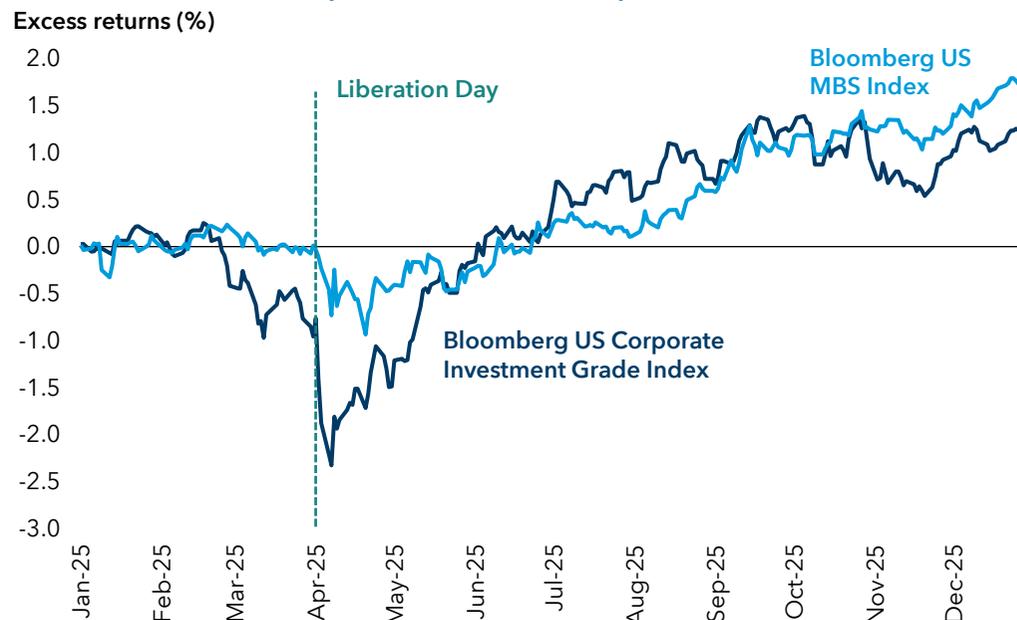
We believe active coupon selection within the sector should continue to offer relative value opportunities. The breadth of coupons available within the mortgage market has been much wider since the Fed’s dramatic hiking cycle in 2022. We’ve generally viewed low coupon mortgages as less appealing given extended interest rate and mortgage spread sensitivity coupled with relatively low compensation for risk. On that basis, we’ve favoured higher coupon mortgages for better risk/reward dynamics. While this appeal has diminished somewhat given the market rally in 2025, we still find more value in higher coupons than in low coupons.

Bloomberg US Mortgage Backed Securities Index

	Δ Q4	Δ YTD	As at 31 December 2025
Spreads	▼ 9 bps	▼ 21 bps	22 bps
Yields	▼ 11 bps	▼ 63 bps	4.63%
Returns	▲ 1.71%	▲ 8.58%	–

Data as at 31 December 2025. Figures reflect option-adjusted spreads and yield to worst. Sources: Bloomberg, Bloomberg Index Services, Ltd

MBS excess returns outpaced those of IG corporates in 2025



As at 31 December 2025. Excess returns are relative to comparable Treasury securities. Source: Bloomberg

Past results are not a guarantee of future results. The information provided is not intended to be comprehensive or to provide advice.

Important information

About Capital Group

 **Founded in 1931, managed fixed income assets since 1973**

 **Privately held**

 **US\$3.2 trillion in assets under management***

 **Manager of the American Funds® mutual funds, Capital Group institutional strategies and a broad range of ETFs**

*Assets under management data is as at 31 December 2025, and is preliminary. All values are in USD. Totals may not reconcile due to rounding.

The 10s30s spread equals the 30-year Treasury yield minus the 10-year Treasury yield. The 5s10s spread equals the 10-year Treasury yield minus the 5-year Treasury yield.

Yield spreads are generally defined as the yield difference between two fixed income securities or indexes.

Yield to worst is generally defined as the lowest yield that an investor would receive if all the issuers in a fixed income index fulfilled their payment obligations.

In the fixed income market, carry refers to the income earned from holding a bond or a group of bonds over time, excluding any gains or losses from price changes.

Option-adjusted spread is a measure used to evaluate the yield spread of a bond that contains embedded options relative to a risk-free benchmark, typically US Treasuries. It adjusts for the value of the embedded options to provide a more accurate comparison of yields across different securities.

Bloomberg US Economic Policy Uncertainty (EPU) Index data are calculated as a rolling seven-day average using daily index values. The index measures US economic policy uncertainty by counting newspaper articles on the topic.

In this context, duration is a measure of a fixed income portfolio's sensitivity to changes in interest rates.

Real yields are defined as nominal yields minus a core rate of inflation.

Capital Group manages equity assets through three investment groups.

These groups make investment and proxy voting decisions independently. Fixed income investment professionals provide fixed income research and investment management

© 2026 Capital Group. All rights reserved.

across the Capital organization; for securities with equity characteristics, they act solely on behalf of one of the three equity investment groups.

All Capital Group trademarks mentioned are owned by The Capital Group Companies, Inc., an affiliated company or fund. All other company and product names mentioned are the property of their respective companies.

This content, developed by Capital Group, home of American Funds, should not be used as a primary basis for investment decisions and is not intended to serve as impartial investment or fiduciary advice.

The statements expressed herein are as of the date published, are subject to change at any time based on market or other conditions and are based on information from sources believed to be reliable. This publication is intended merely to highlight issues and is not intended to be comprehensive or to provide advice. Permission is given for personal use only. Any reproduction, modification, distribution, transmission or republication of the content, in part or in full, is prohibited. Certain market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

Bond ratings, which typically range from AAA/Aaa (highest) to D (lowest), are assigned by credit rating agencies such as Standard & Poor's, Moody's and/or Fitch, as an indication of an issuer's creditworthiness.

The S&P 500 Index is a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by Capital Group. Copyright © 2026 S&P Dow Jones Indices LLC, a division of S&P Global, and/or its affiliates. All rights reserved. Redistribution or reproduction in whole or in part is prohibited without written permission of S&P Dow Jones Indices LLC.

BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg or Bloomberg's licensors own all proprietary rights in the Bloomberg Indices. Neither Bloomberg nor Bloomberg's licensors approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

This report, and any product, index or fund referred to herein, is not sponsored, endorsed or promoted in any way by JP Morgan or any of its affiliates who provide no warranties whatsoever, express or implied, and shall have no liability to any prospective investor, in connection with this report. JP Morgan disclaimer: <https://www.jpmm.com/research/disclosures>.

Risk factors you should consider before investing:

- **This material is not intended to provide investment advice or be considered a personal recommendation.**
- **The value of investments and income from them can go down as well as up and you may lose some or all of your initial investment.**
- **Past results are not a guarantee of future results.**
- **If the currency in which you invest strengthens against the currency in which the underlying investments of the fund are made, the value of your investment will decrease. Currency hedging seeks to limit this, but there is no guarantee that hedging will be totally successful.**
- **Some portfolios may invest in financial derivative instruments for investment purposes, hedging and/or efficient portfolio management.**
- **Depending on the strategy, risks may be associated with investing in fixed income, derivatives, emerging markets and/or high-yield securities; emerging markets are volatile and may suffer from liquidity problems.**

Statements attributed to an individual represent the opinions of that individual as of the date published and may not necessarily reflect the view of Capital Group or its affiliates. This communication is intended for the internal and confidential use of the recipient and not for onward transmission to any other third party. This communication is of a general nature, and not intended to provide investment, tax or other advice, or to be a solicitation to buy or sell any securities. All information is as at the date indicated and attributed to Capital Group unless otherwise stated. While Capital Group uses reasonable efforts to obtain information from third-party sources that it believes to be accurate, this cannot be guaranteed.

This communication is issued by Capital International Management Company Sàrl (CIMC), unless otherwise stated, which is regulated by the Luxembourg CSSF - Commission de Surveillance du Secteur Financier.

In Switzerland, this communication is issued by Capital International Sàrl, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

In the UK, this communication is issued by Capital International Limited, authorised and regulated by the UK Financial Conduct Authority.

In Australia, this communication is issued by Capital Group Investment Management Limited (ACN 164 174 501 AFSL No. 443 118), a member of Capital Group, located at Suite 4201, Level 42 Gateway, 1 Macquarie Place, Sydney, NSW 2000 Australia.

In Hong Kong, this communication has been prepared by Capital International, Inc. (CIInc), a member of Capital Group, a company incorporated in California, United States of America. The liability of members is limited. This advertisement or publication has not been reviewed by the Securities & Futures Commission of Hong Kong.

In Singapore, this communication has been prepared by Capital Group Investment Management Pte. Ltd. (CGIMPL), a member of Capital Group, a company incorporated in Singapore. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore. Neither has it been reviewed by any other regulator.

All Capital Group trademarks are owned by The Capital Group Companies, Inc. or an affiliated company. All other company names mentioned are the property of their respective companies.

© 2026 Capital Group. All rights reserved. **WF10020924 EAAUAXJ**