IR+M FIXED INCOME MARKET UPDATE

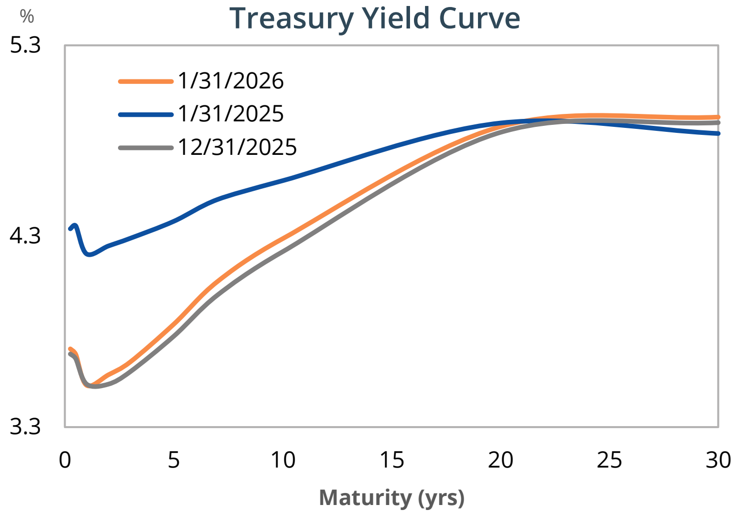
January 2026

February 2, 2026

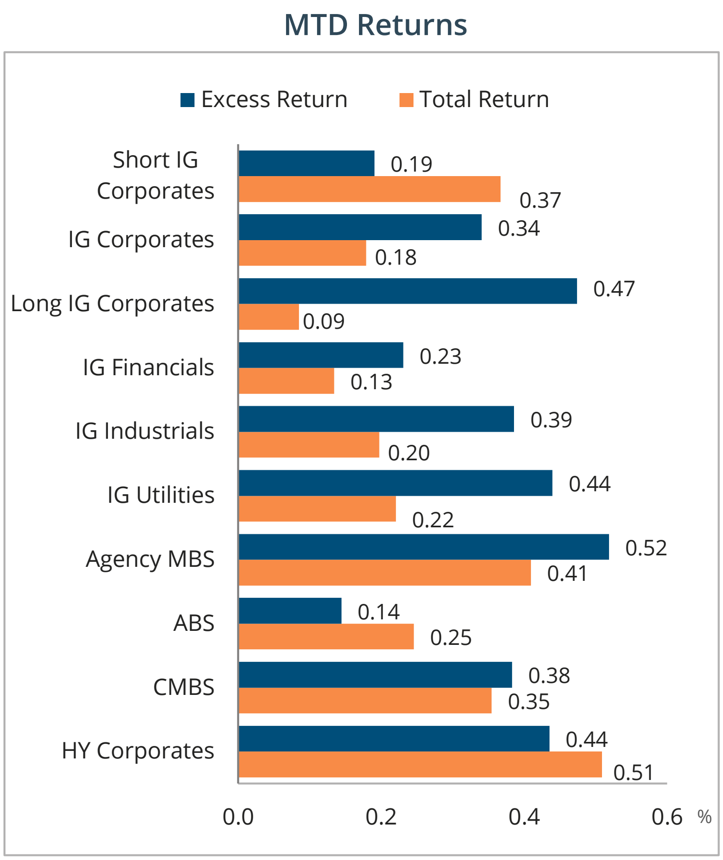
MARKET NEWS

- In January, investors navigated a wave of geopolitical shocks: the US strike on Venezuela and capture of then-President Nicolás Maduro, escalating tensions between the US and EU over Greenland, and Japan's fiscal concerns, which drove a global rates sell-off
- The Federal Reserve (Fed) kept the fed funds target range unchanged at 3.50% - 3.75%, citing a stabilizing labor market, resilient consumer spending, and easing, but elevated, inflation
  - President Trump nominated Kevin Warsh to be the next chair of the Fed, pending Senate confirmation
  - Warsh would replace Stephen Miran, giving Jerome Powell the ability to remain on the FOMC when his term as chair ends in May
- The Treasury curve flattened as investors lowered the probability of another rate cut during Powell's term; the spread between the 2- and 30-year rates tightened 2bps to 135bps
- Investment-grade (IG) issuance totaled just under $209 billion – the busiest January on record despite below dealer forecasts
- Investment-grade (IG) corporate spreads reached the lowest level since 1998 mid-month, before closing at 73bps – 5bps tighter month-over-month
  - Energy and Transportation were two of the best performing sectors, while Banking lagged other corporate sub-sectors
- High yield (HY) corporate spreads tightened to 250bps intra-month before widening on expectations that the Fed would keep rates steady for longer; spreads closed the month at 265bps, 1bp tighter month-over-month
  - Higher-quality issuers outperformed lower-quality issuers, with BBs outperforming CCCs by 27bps; BBs continued their strong performance by posting a 10th straight month of gains
  - HY borrowers capitalized on attractive funding levels with over $30 billion of supply – the second busiest January since the pandemic
- Policy headlines from President Trump – including proposals to ban institutional purchases of single-family homes, increased GSE mortgage buying, and a possible 10% cap credit-card rates – influenced sentiment within the securitized sector
  - Agency mortgage-backed securities (MBS) outperformed other securitized sectors; MBS spreads initially tightened to 14bps intra-month before closing at 16bps, 6bps tighter month-over-month
- Municipal bonds outperformed Treasuries as muni/Treasury ratios declined across the curve

MARKET STATISTICS



Maturity	2-year	5-year	10-year	20-year	30-year
1/31/26	3.52	3.79	4.24	4.82	4.87
MTD Change	0.05	0.06	0.07	0.03	0.03



As of 1/31/26. Sources: Bloomberg

Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries. This is not a recommendation to purchase or sell the securities mentioned above. The views contained in this report are those of Income Research + Management ("IR+M") and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M's views and opinions. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product.