Great Lakes Water Authority

Investment Performance Report – March 2026

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Executive Summary

PORTFOLIO RECAP

- Safety – The aggregate portfolio is diversified amongst cash, bank deposits, U.S. Treasuries, commercial paper, SEC-registered money market funds, and a local government investment pool. The total credit profile of the portfolio is strong with over 99% of the assets invested in bank deposits or securities that are rated within the two highest short and long-term rating classifications as established by Standard & Poor's rating agency.

- Liquidity – Great Lakes Water Authority ("GLWA") has continued to monitor its portfolio with the goal of limiting the allocation to cash and bank deposit accounts and maximizing the use of short-term investments to meet cash requirements. As of March 31, 2026, approximately 48% of the funds were held in cash and money market accounts maturing overnight. The percentage is lower than what has been seen in prior quarters.

- Return – The overall yield at market decreased to 3.69% as of March 31, 2026, versus 3.74% as of December 31, 2025. The lower yield is reflective of the Federal Reserve cutting interest rates and reducing borrowing costs in the beginning of fiscal year 2026. GLWA earned over $38.0 million (unaudited) in investment income for the first nine months of fiscal year 2026 on a book value basis. Investment income includes earnings on all fund types, including restricted and unrestricted funds combined as well as construction and bond proceeds. It should be noted that investment income for GLWA for FY 2026 is projected to be less than what was seen in the previous fiscal year.

- Year-end planning strategy – The outcome of our approach will be dependent on the positive arbitrage that is earned on the bond proceeds funds and the rebate liability that may need to be paid back to the IRS.

AVAILABLE FUNDS (Unaudited)

Type	Book Value	Market Value	Yield @ Cost *(as of 3/31/26)*	Yield @ Market *(as of 3/31/26)*
Deposit Accounts	$17,587,772	$17,587,772	1.63%	1.63%
Trust Money Market Fund	$327,186,051	$327,186,051	3.54%	3.54%
Money Market Fund	$6,711,348	$6,711,348	3.55%	3.55%
Local Government Investment Pool	$291,919,403	$291,919,403	3.73%	3.73%
Managed Funds	$695,226,519	$694,962,676	3.84%	3.79%
MARCH 2026 TOTALS:	***$1,338,631,094***	***$1,338,367,251***	***3.71%***	***3.69%***
PREVIOUS QUARTER TOTALS:	*$1,379,133,177*	*$1,380,402,301*	*3.79%*	*3.74%*

Accounts like the Retainage accounts which are not owned by GLWA are not included in this report.

Investment Strategy

OVERALL STRATEGY

- All investment activity is conducted subject to GLWA's investment policy and state statutes while meeting the primary objectives of safety and liquidity. The portfolio is managed to a disciplined investment plan to provide improved safety and diversification while putting every dollar to work.
- GLWA, working with its investment advisor PFM Asset Management ("PFMAM"), has continued to invest its funds in a mixture of short and intermediate-term individual investment securities to ensure adequate liquidity to cover upcoming debt, pension payments, and operational requirements.
- PFMAM will continue to actively manage long-term portfolios with full discretion and align short-term balances with expected liabilities and identify strategies to maximize future investment income in the current interest rate environment, subject to GLWA's investment policy and state statutes.

PORTFOLIO PERFORMANCE – CURRENT PERIOD*

- The overall portfolio's original yield at cost went from 3.79% as of 12/31/2025 to 3.71% as of 3/31/2026.
- The total portfolio had a market yield of 3.69% at the end of March, compared to 3.74% as of December 31, 2025. Yield at market represents what the market would provide in return if the portfolio was purchased on March 31, 2026 (versus purchased in prior months / years); the lower yield is a result of the expectation of Fed policy to cut overnight rates in the future.
  - We utilize a variety of investment sectors, and because of that, this 3.69% yield at market as of 3/31/2026 is lower than in the prior quarter due to the decrease in overnight and short-term yields.

PORTFOLIO PERFORMANCE – PROJECTIONS

- GLWA earned over $38.0 million (unaudited) in investment interest income for fiscal year-to-date 2026 (as of March 31, 2026) on a book value basis.
- The fiscal year 2026 period earnings are expected to be slightly lower than the 2025 fiscal year earnings, as expectations are for lower interest income for the entire 2026 fiscal year mainly due to the expectation of the Federal Reserve moving monetary policy to a neutral level.

** Yield at cost is based on the original cost of the individual investments from the purchase date to maturity. On the other hand, yield at market is calculated on a specific day (in this case, December 31, 2025) and assumes that all the securities in the portfolio are purchased given the market price/yield on that particular day. If one is to generally hold their investments to the stated maturity date, then the yield at cost would be the better number to use to gauge how the portfolio is performing.*

Summary Market Overview and Outlook

ECONOMIC HIGHLIGHTS UPDATE

- Geopolitics dominated markets in March amid the escalating Middle East conflict and near-closure of the Strait of Hormuz, a critical energy checkpoint which handles roughly 20% of global seaborne oil trade. Brent crude ended March at $118 per barrel, up more than 60% for the month. Volatility also spiked across energy, fixed-income, and global equity markets.
- The initial market reaction focused on the potential inflationary impact of higher energy prices. While still too early to assess the full economic impact, sustained energy cost pressures could weigh on consumer sentiment and discretionary spending if the conflict persists.
- The Federal Open Market Committee ("Fed" or "FOMC") met in March and held the target rate unchanged at 3.50% – 3.75% as expected. Policymakers acknowledged heightened uncertainty stemming from the conflict and communicated a patient, data-dependent approach. The "dot plot" showed several individual projections shifting toward fewer or no rate cuts, though the median expectation remained for one additional 25 basis point cut in 2026.
- Market expectations for Fed policy fluctuated wildly in March. The month began with markets pricing in two or three cuts in 2026 but ended the month pushing the next expected rate cut into 2027. Fed Chair Jerome Powell's measured "wait and see" commentary tempered these hawkish expectations, leaving the market priced for a prolonged hold.
- While too early to reflect the cascading impact of higher oil prices, consumer price inflation data for February was broadly in line with recent readings. Notably, producer prices jumped significantly more than expected, rising by 0.7% month-over-month and highlighting renewed upstream price pressures.
- The labor market showed renewed resilience in March with payrolls rebounding after contracting in February. Other labor indicators such as initial jobless claims held near historically low levels and continuing claims declined. The jobless rate edged down to 4.3%, reinforcing the persistence of a "low-hire, low-fire" environment. However, elevated energy prices pose potential risks to hiring momentum ahead.

ECONOMIC IMPACT ON PORTFOLIO

- U.S. Treasury yields increased and the yield curve steepened as investors repriced their Fed policy outlook driven by geopolitical turmoil and renewed inflation concerns. The yield on 3-month, 2-year, and 1-year U.S. Treasuries ended March at 3.67%, 3.79%, and 4.32%, respectively.
- Longer duration bond indices bore the brunt of rising yields as higher rates pressured market values.
- Portfolio Impact: While future Fed policy remains uncertain amid the ongoing conflict, the market vies the meaningful rise in interest rates and the steeper curve as an opportunity, particularly for strategies inside five years. As a result, we will look to target portfolio durations at 101% to 105% of benchmarks. Spreads on Federal Agencies remain narrow, although callable spreads have widened modestly due to increased market volatility. New supply is expected to be focused on the money market space and likely to remain limited beyond one year. Credit spreads on the short end of the curve widened significantly over the past month. In response to geopolitical tensions, heightened issuance, and concerns over private debt capital, credit spreads widened noticeably. Maturities in the 9 – 12-month range offer attractive all-in yields, particularly for investors anticipating the next Federal Reserve policy move will be a rate cut.

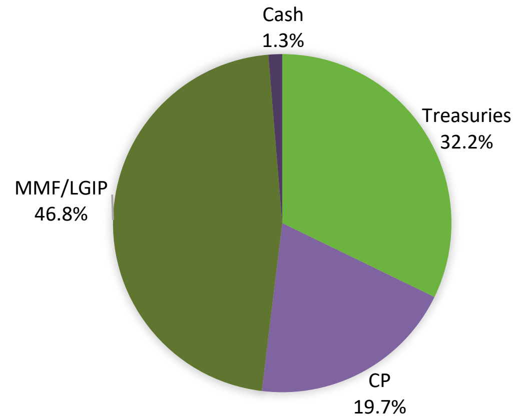
Portfolio Snapshot

Overall Portfolio Composition Summary

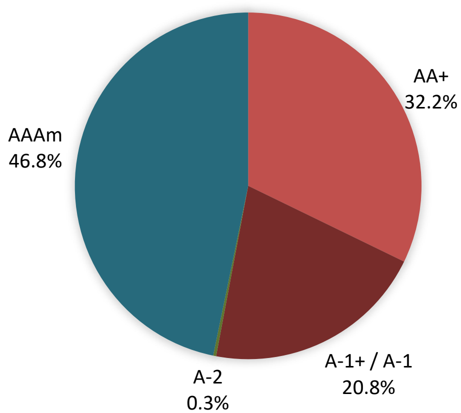
PORTFOLIO STATISTICS

Invested Amount	$1.338 Billion
Duration	0.33 Years
Yield at Cost	3.71%
Yield at Market	3.69%

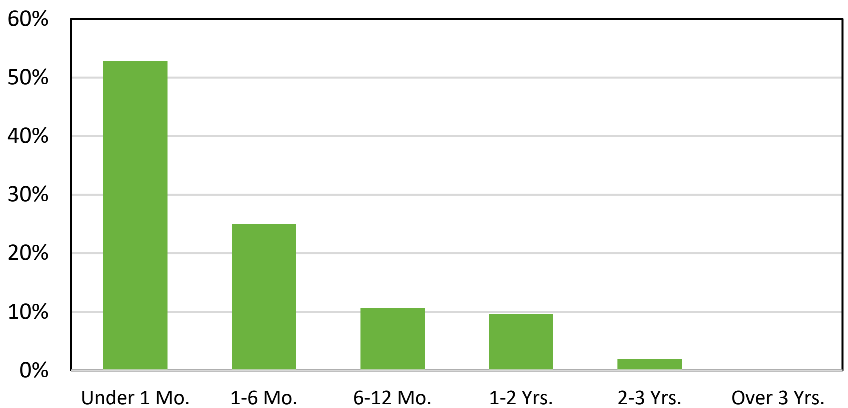
SECTOR ALLOCATION



CREDIT QUALITY



MATURITY DISTRIBUTION



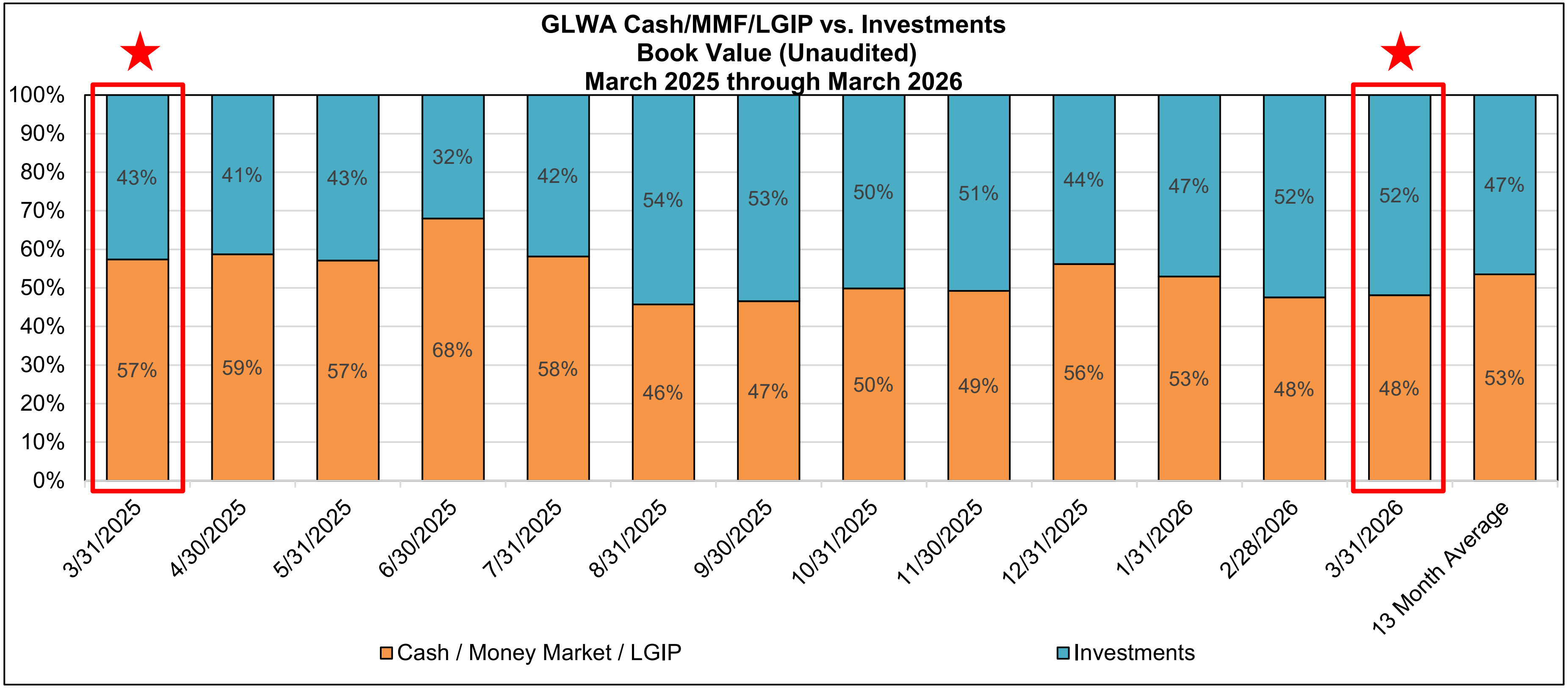
Accounts like the Retainage accounts which are not owned by GLWA are not included in this report.

Portfolio Snapshot

Portfolio Mix – Cash / Money Market vs. Investments

- GLWA's liquidity requirements fluctuate each month based on operational requirements, capital funding, and debt payments. Based on a review of historical activity and refinement of cash flow projections, GLWA has continually tried to balance the allocation of the portfolio's holdings to cash & money market accounts versus the allocation to investments for the portfolio holdings.

- The chart below compares the monthly allocation of the portfolio holdings to the 13-month average. The allocation between cash and investments will vary each month based on liquidity requirements. For March of 2026, about 48% of the overall portfolio was invested in cash, LGIP, and/or overnight money market fund accounts. This is slightly lower than the level seen in previous months and is reflective of the neutral monetary policy by the Fed.



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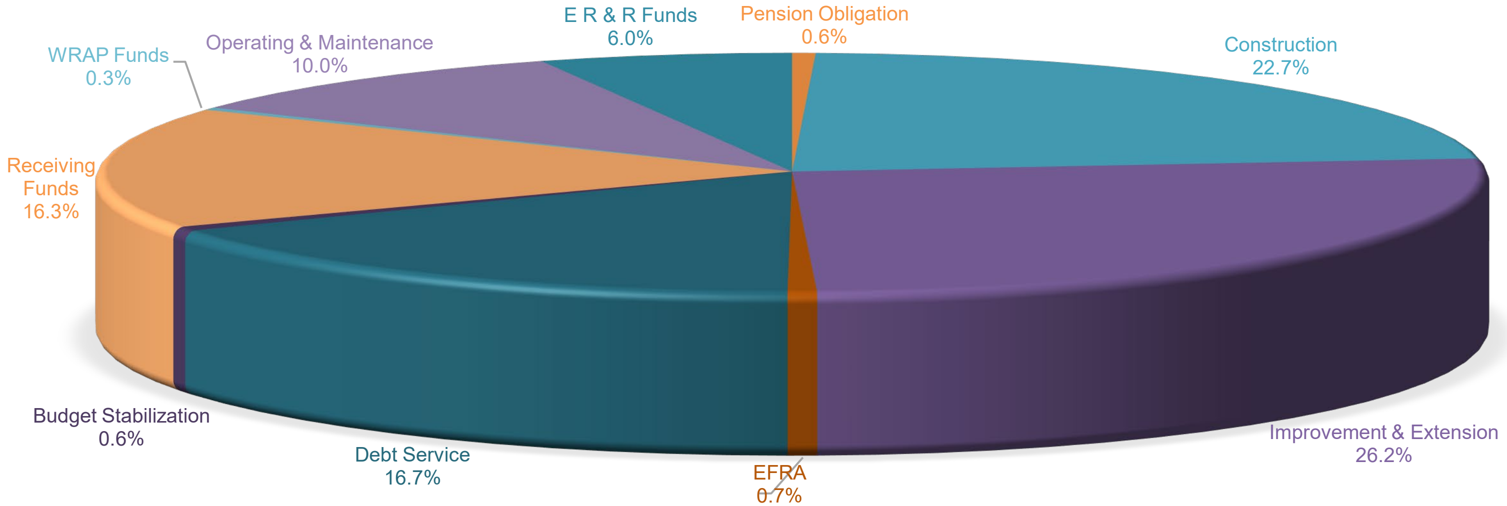
Portfolio Snapshot
Investments – By Account Purpose



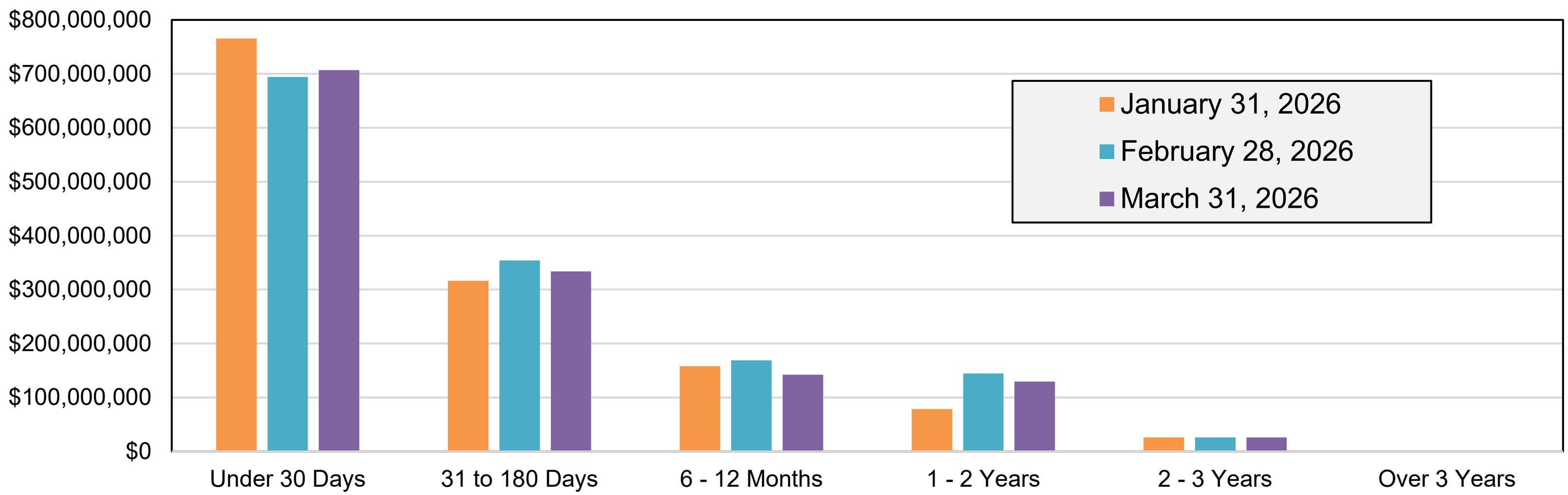
Account Purpose		Market Value	Allocation %	Cost Yield at	Market Yield at	Duration	Strategy
Improvement & Extension	$	350,284,996	26.2%	3.63%	3.71%	0.619 Years	Cash Flow Driven
Construction Bond Funds	$	303,844,682	22.7%	3.89%	3.72%	0.121 Years	Cash Flow Driven
Debt Service	$	223,219,175	16.7%	3.78%	3.85%	0.316 Years	Short-Term
Receiving Funds (includes lockbox account)	$	218,704,289	16.3%	3.53%	3.53%	0.003 Years	Short-Term
Operating & Maintenance	$	133,893,420	10.0%	3.55%	3.55%	0.003 Years	Short-Term
Extraordinary Repair & Replacement Funds	$	79,911,968	6.0%	4.08%	3.79%	1.271 Years	Long-Term
Evergreen Farmington Regional Account	$	9,073,380	0.7%	2.45%	2.45%	0.003 Years	Short-Term
Budget Stabilization Funds	$	7,577,942	0.6%	4.09%	3.78%	1.119 Years	Long-Term
Pension Obligation Funds	$	7,373,169	0.6%	3.77%	3.80%	0.156 Years	Short-Term
WRAP Funds	$	4,484,231	0.3%	3.54%	3.54%	0.003 Years	Short-Term
Total	**$**	**1,338,367,251**	**100.0%**	**3.71%**	**3.69%**	**0.326 Years**	

Accounts like Retainage accounts which are not owned by GLWA are not included in this report.

Portfolio Snapshot

Investments – By Maturity

Maturity Distribution		January 31, 2026	%		February 28, 2026	%		March 31, 2026	%
Under 30 Days	$	765,367,407	56.9%	$	694,532,652	50.0%	$	706,796,601	52.8%
31 to 180 Days		316,285,687	23.5%		354,146,164	25.5%		333,938,664	25.0%
6 - 12 Months		158,136,215	11.8%		168,975,654	12.2%		142,472,316	10.6%
1 - 2 Years		78,906,601	5.9%		144,494,104	10.4%		129,380,726	9.7%
2 - 3 Years		25,840,328	1.9%		25,994,063	1.9%		25,778,945	1.9%
Over 3 Years		-	0.0%		-	0.0%		-	0.0%
Totals	**$**	**1,344,536,238**	**100.0%**	**$**	**1,388,142,636**	**100.0%**	**$**	**1,338,367,251**	**100.0%**



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Portfolio Snapshot

Investment Accounts – Yield at Cost & Market

	As of March 31, 2026		As of December 31, 2025	
	YTM @ Cost	YTM @ Market	YTM @ Cost	YTM @ Market
Bank Deposits				
Bank A	0.01%	0.01%	0.01%	0.01%
Bank C	2.07%	2.07%	2.15%	2.15%
Sub-Total Bank Deposits	**1.63%**	**1.63%**	**1.69%**	**1.69%**
Money Market Funds / LGIPs				
Local Government Investment Pool	3.73%	3.73%	3.86%	3.86%
Trust Money Market Fund	3.54%	3.54%	3.63%	3.63%
Money Market Fund	3.55%	3.55%	3.65%	3.65%
Sub-Total MMF / LGIPs	**3.63%**	**3.63%**	**3.74%**	**3.74%**
Investment Portfolios				
Sewage - Construction Bond 2023	0.00%	0.00%	4.30%	4.10%
Sewage SR Debt Serv 5403	3.80%	3.84%	3.86%	3.79%
Sew 2nd Debt Serv 5403	3.77%	3.87%	3.83%	3.80%
Sew SRF Debt Serv 5410	3.69%	3.88%	3.96%	4.13%
Sewage ER & R	4.07%	3.79%	4.15%	3.63%
Sewer Improvement & Extension	3.64%	3.78%	3.73%	3.80%
Sewer Pension Obligation	3.73%	3.81%	4.00%	4.27%
Sewer Budget Stabilization Fund	4.10%	3.79%	4.25%	3.68%
Sewer Bond Fund Series 2025	4.24%	3.64%	4.21%	4.01%
Water SR Debt Ser 5503	3.79%	3.85%	3.85%	3.80%
Water 2nd Debt Serv 5503	3.76%	3.86%	3.82%	3.79%
Water SRF Debt Serv 5575	3.67%	3.86%	3.94%	4.11%
Water ER & R	4.10%	3.79%	4.16%	3.62%
Water Improvement & Extension	3.70%	3.78%	3.74%	3.77%
Water Pension Obligation	3.84%	3.81%	4.04%	4.20%
Water Budget Stabilization Fund	4.09%	3.79%	4.24%	3.68%
Water Bond Fund Series 2025	4.12%	3.73%	4.17%	3.95%
Sub-Total Investment Portfolios	**3.84%**	**3.79%**	**3.91%**	**3.81%**
Grand Total	***3.71%***	***3.69%***	***3.79%***	***3.74%***

YTM @ Cost is the expected return, based on the original cost, the annual interest receipts, maturity value and the time period from purchase date to maturity, stated as a percentage, on an annualized basis. YTM @ Market is the rate of return, based on the current market value, the annual interest receipts, maturity value and time period remaining until maturity, stated as a percentage, on an annualized basis.

Portfolio Snapshot

Peer Analysis Comparison

- The comparison agencies included in the list below were selected based on type and/or other non-performance-based criteria to show a broad range of water entities/utilities; this peer group list does not represent an endorsement of any of the public agencies or their services.
- The overall yield of GLWA's aggregate portfolio compares somewhat similarly to those of other short-term market indices (i.e., the S&P LGIP index and the 3-month U.S. Treasury index), despite the volatility of short-term interest rates and the limited ability in managing assets to a longer-term strategy.
- GLWA does have some limitations and unique constraints related to its ordinance and covenants that restricts the potential for a longer duration portfolio when compared to other similar water agencies.

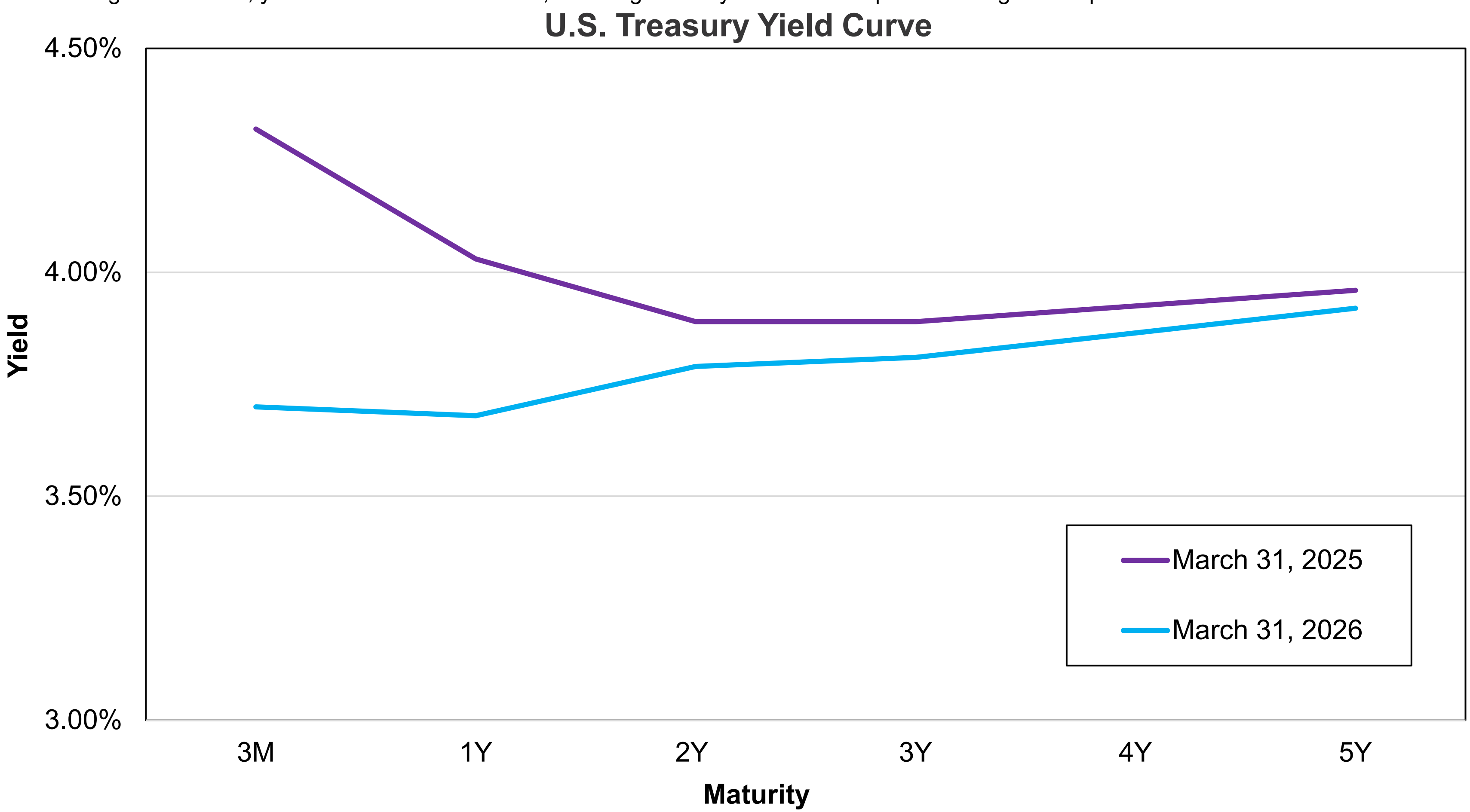
	As of March 31, 2026			
	Market Value	*YTM @ Market*	*Effective Duration*	*Weighted Average Maturity*
GLWA				
Great Lakes Water Authority	$1,338,367,251	3.69%	0.33 Years	119 Days
Short/Intermediate-Term Indices				
S&P Rated Government Investment Pool Index		3.67%	0.08 Years	30 Days
BoA / ML 3-Month Treasury Index		3.71%	0.15 Years	55 Days
BoA / ML 6-Month Treasury Index		3.70%	0.40 Years	146 Days
BoA / ML 1-Year Treasury Index		3.75%	0.88 Years	321 Days
BoA / ML 1-3 Year Treasury Index		3.81%	1.76 Years	642 Days
BoA / ML 1-5 Year Treasury Index		3.84%	2.47 Years	902 Days
Peer Analysis (Water Entities / Utilities)				
District of Columbia Water & Sewer Authority, DC	$360,261,256	3.80%	1.07 Years	431 Days
DuPage Water Commission, IL	$218,057,455	3.98%	1.61 Years	783 Days
Fairfax County Water Authority, VA	$247,386,886	3.86%	1.85 Years	731 Days
Metro Wastewater Reclamation District, CO	$170,629,909	3.93%	2.54 Years	1,019 Days
Metropolitan Water District of Southern California, CA	$1,026,779,725	4.00%	1.71 Years	792 Days
Philadelphia Water Department, PA	$278,119,557	3.87%	0.95 Years	362 Days
San Bernardino Valley Municipal Water District, CA	$381,757,843	3.95%	1.73 Years	693 Days
Tohopekaliga Water Authority, FL	$156,194,317	4.05%	1.79 Years	887 Days
Truckee Meadows Water Authority, NV	$30,134,314	3.83%	2.07 Years	820 Days

The BoA / ML indexes are unmanaged indexes tracking on-the-run Treasuries. These indexes are produced and maintained by Bank of America / Merrill Lynch & Co. Yield to maturity is the rate of return, based on the current market value, the annual interest receipts, maturity value and time period remaining until maturity, stated as a percentage, on an annualized basis.

Portfolio Snapshot - Market Overview and Outlook

Overnight U.S. Treasury Yields Lower

- U.S. Treasury yields were volatile in the last quarter. Yields initially declined through the first two months as soft economic data and improving inflation data increased consensus that the Federal Reserve would cut rates sooner than expected. The trend reversed quickly in Mrach following the conflict in Iran, which changed market expectations that higher energy price inflation could delay Federal Reserve easing. As a result, yields rose across the curve, and long maturity Treasuries experienced significant price declines.



Treasury Yields Remain Above Historical Averages

Source: Bloomberg Finance L.P., as of March 31, 2026.

Portfolio Snapshot

Monthly Investment Income

(Book Value in 000's)

FY 2026 INVESTMENT INCOME BY MONTH (Unaudited)

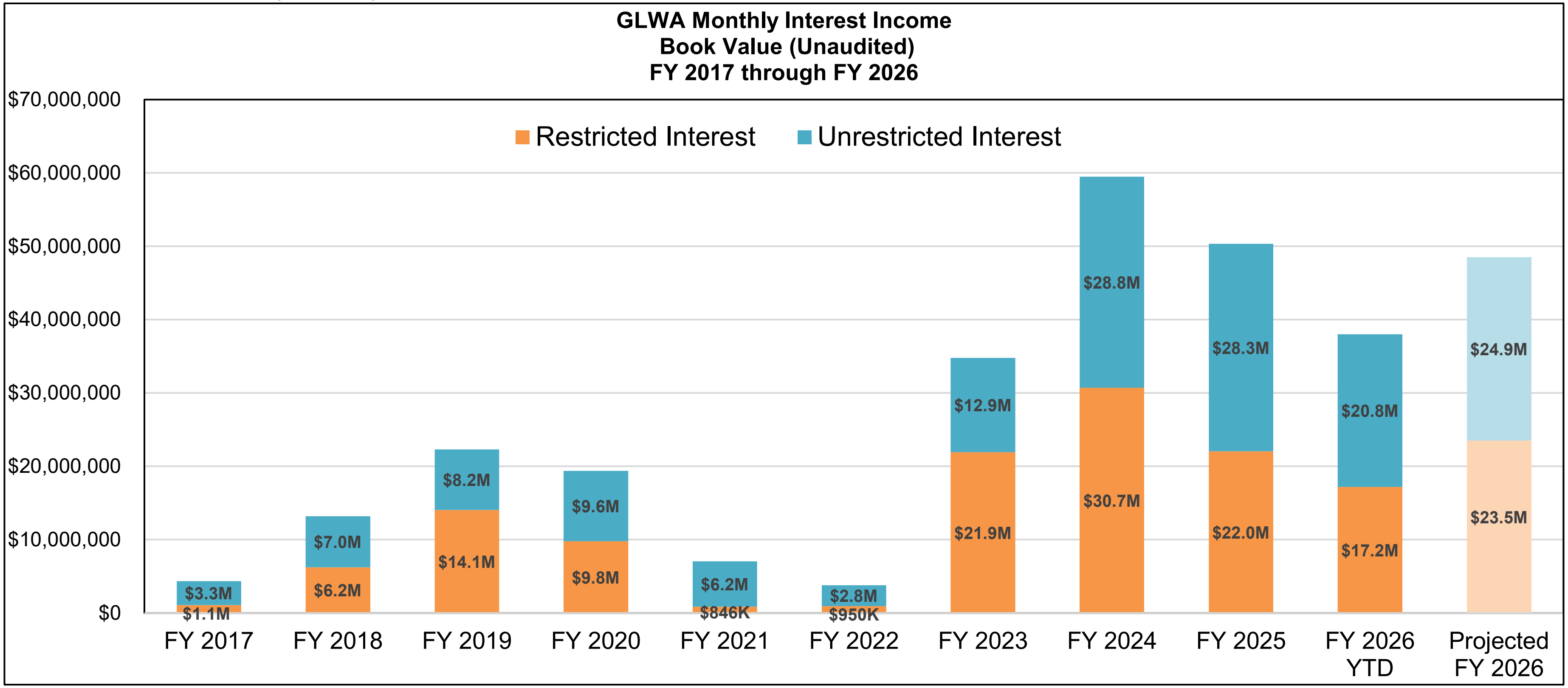
Month	Interest Earned During Period *(in thousands)*	Realized Gain / Loss *(in thousands)*	Investment Income *(in thousands)*
July 2025	$4,277.5	$0.0	$4,277.5
August 2025	$4,476.1	$0.0	$4,476.1
September 2025	$4,330.4	$0.0	$4,330.4
October 2025	$4,333.0	$0.0	$4,333.0
November 2025	$4,177.7	$0.0	$4,177.7
December 2025	$4,318.1	$0.0	$4,318.1
January 2026	$4,059.8	$0.0	$4,059.8
February 2026	$3,929.0	$0.0	$3,929.0
March 2026	$4,122.1	$0.0	$4,122.1
FY 2026 Y-T-D	***$38,023.6***	***$0.0***	***$38,023.6***

These figures are based upon actual interest earned and posted to the Authority's various accounts via book value and does not include any earnings credit rate tied to the Authority's bank deposits.

Portfolio Snapshot

Year-Over-Year Investment Income

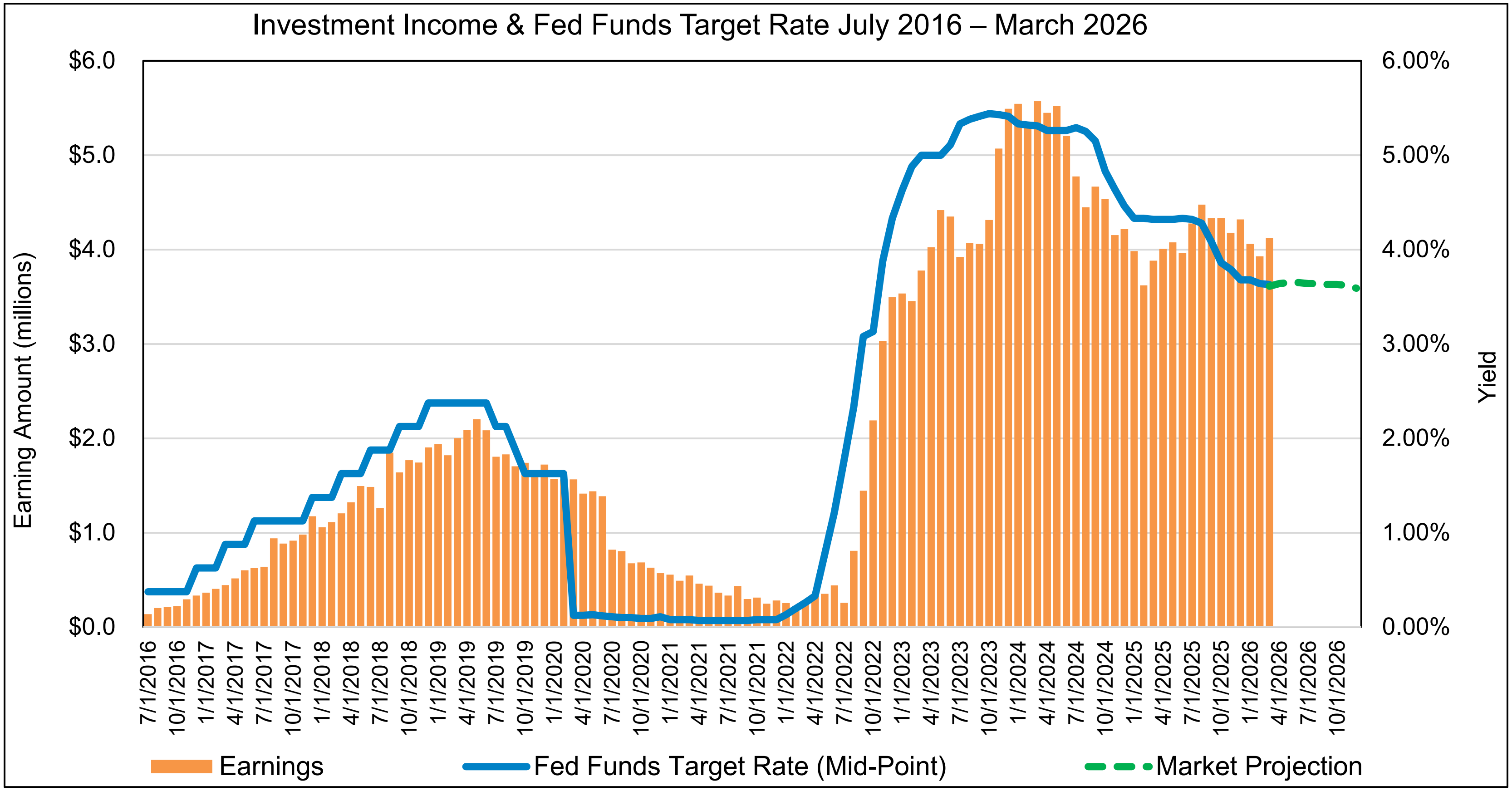
- GLWA earned $38,023,615 in investment income for the first nine months of fiscal year 2026 on a book value basis compared to $38,282,704 for the first nine months of fiscal year 2025.
- Based on current market assumptions, projected total investment income for fiscal year 2026 is forecasted to be somewhat in line with what was earned in FY 2025 (for both restricted fund income and unrestricted fund income combined) as the market expects the Federal Reserve to remain on hold over the next several months.
- Year-end planning strategy – The outcome of our approach will be dependent on the positive arbitrage that is earned on the bond proceeds funds and the rebate liability that may need to be paid back to the IRS.



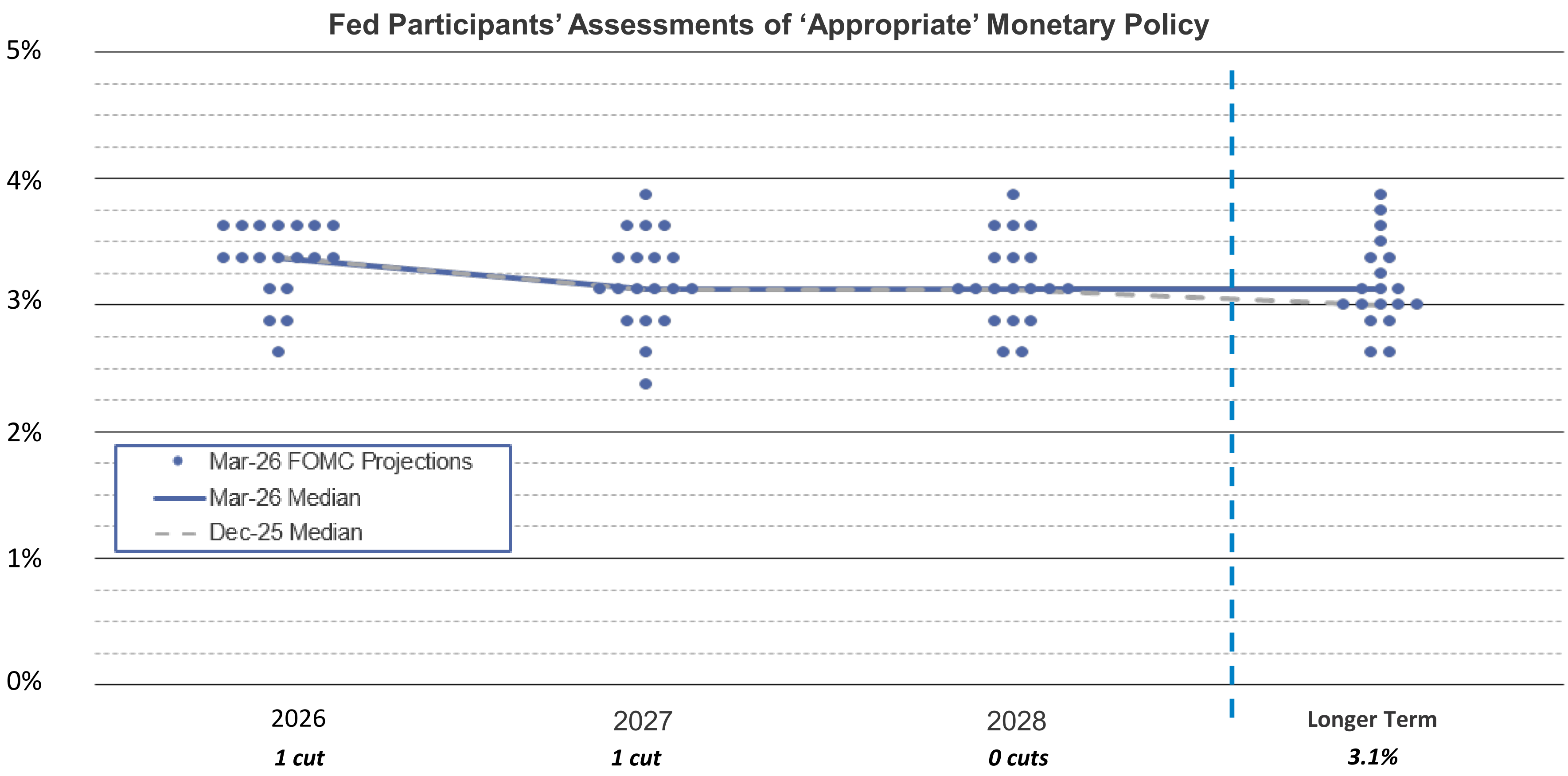
Portfolio Snapshot

Monthly Investment Income Compared to Fed Funds Rate

- At least 50% of the GLWA portfolio is designated for obligations that are 12 months or less. As a result of the short-term duration of GLWA's portfolio, it is heavily impacted by changes in the Fed Funds rate; the chart below shows that GLWA's income has consistently followed the trend of the Fed Funds rate.
- The Federal Reserve held rates steady in the last quarter amid persistent inflation pressures and limited net job creation. The "dot plot" projects one 25 basis point rate cut in both 2026 and 2027; however, this is predicated on inflation progress Nevertheless, the outlook has become more uncertain as geopolitical developments add complexity to the inflation path. The markets will continue to assess the likelihood of additional Fed policy action in the months ahead.



The March Fed “Dot Plot”

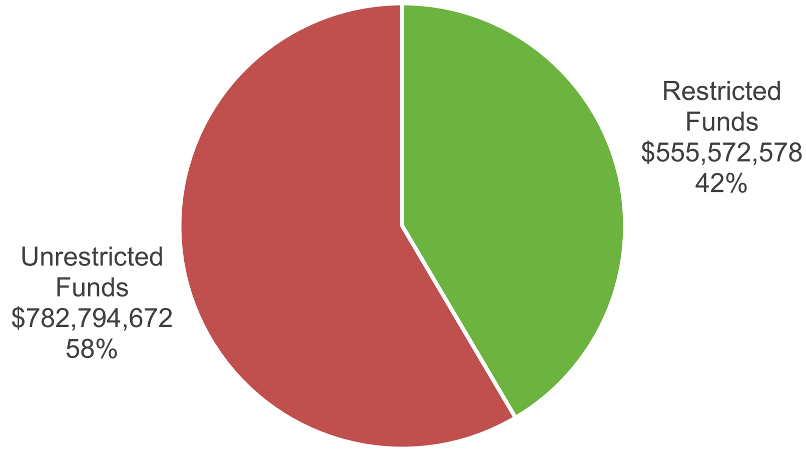


Source: : FOMC Chair Jerome Powell Press Conference, March 18, 2026. Federal Reserve; Bloomberg Finance L.P.. Individual dots represent each Fed members’ judgement of the midpoint of the appropriate target range for the Federal Funds rate at each year-end. As of March 2026.

Portfolio Snapshot

Allocation and Income by Fund Type

Bank Balance as of March 31, 2026



July 2025 – March 2026 Interest Earnings

Restricted Principal and Restricted Interest
Construction Bond Funds
Debt Reserves
Debt Service
Evergreen Farmington Regional Account

Unrestricted Principal Unrestricted Interest
Extraordinary Repair & Replacement Funds
Improvement & Extension
Operating & Maintenance
Receiving Funds (includes lockbox account)

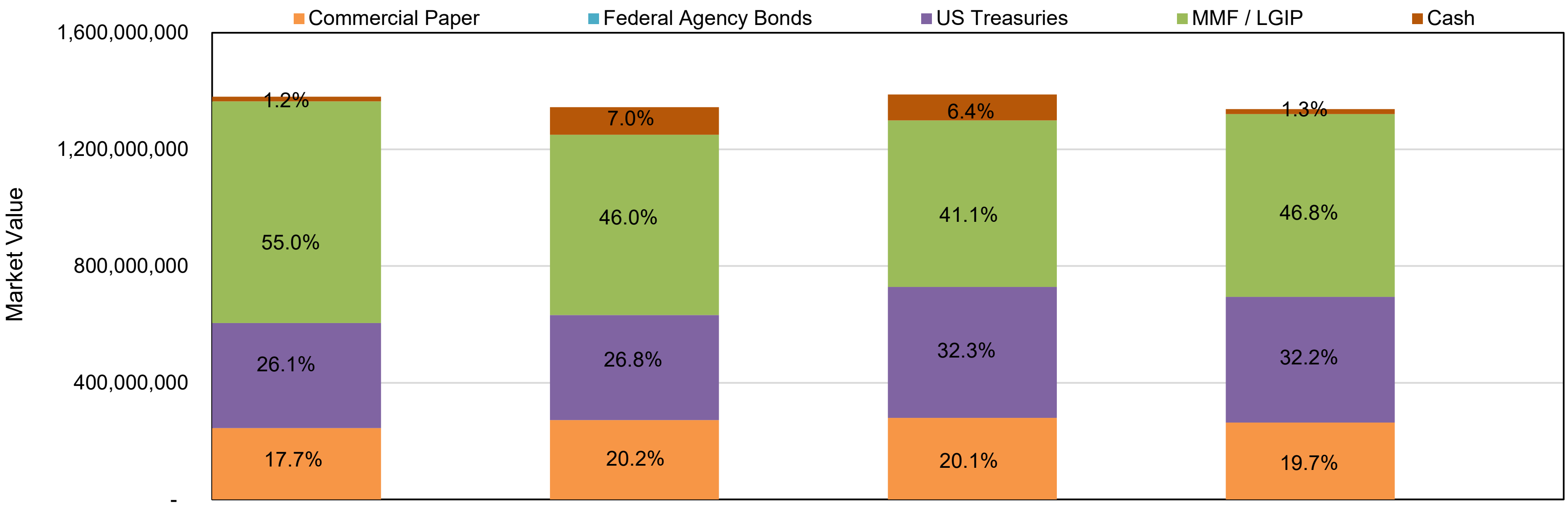
Note: Interest in I&E accounts is sent to the Receiving Funds and can be used for operations; DWSD's portion of the Receiving Funds is restricted and held in trust.

Restricted Principal Unrestricted Interest
Budget Stabilization Funds
Pension Obligation Funds
WRAP Funds

Note: Interest is sent to the Receiving Funds and can be used for operations

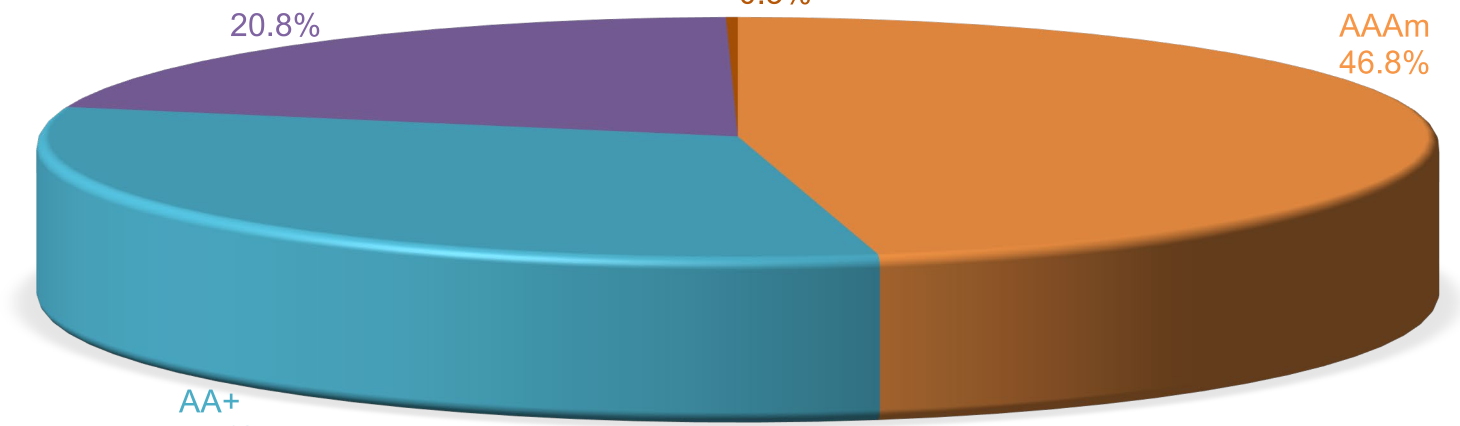
Portfolio Snapshot

Investments – By Security Type



	December		January		February		March	
Security Type	**Market Value**	**Asset Allocation**	**Market Value**	**Asset Allocation**	**Market Value**	**Asset Allocation**	**Market Value**	**Asset Allocation**
Commercial Paper	244,519,501	17.7%	272,244,618	20.2%	279,232,839	20.1%	264,044,346	19.7%
Federal Agencies	-	0.0%	-	0.0%	-	0.0%	-	0.0%
U.S. Treasuries	360,282,165	26.1%	360,057,750	26.8%	449,041,772	32.3%	430,940,284	32.2%
MMF / LGIP	759,652,289	55.0%	618,474,963	46.0%	570,990,336	41.1%	625,816,802	46.8%
Cash	15,948,346	1.2%	93,758,907	7.0%	88,877,690	6.4%	17,565,818	1.3%
Total	**1,380,402,301**	**100.0%**	**1,344,536,238**	**100.0%**	**1,388,142,636**	**100.0%**	**1,338,367,251**	**100.0%**

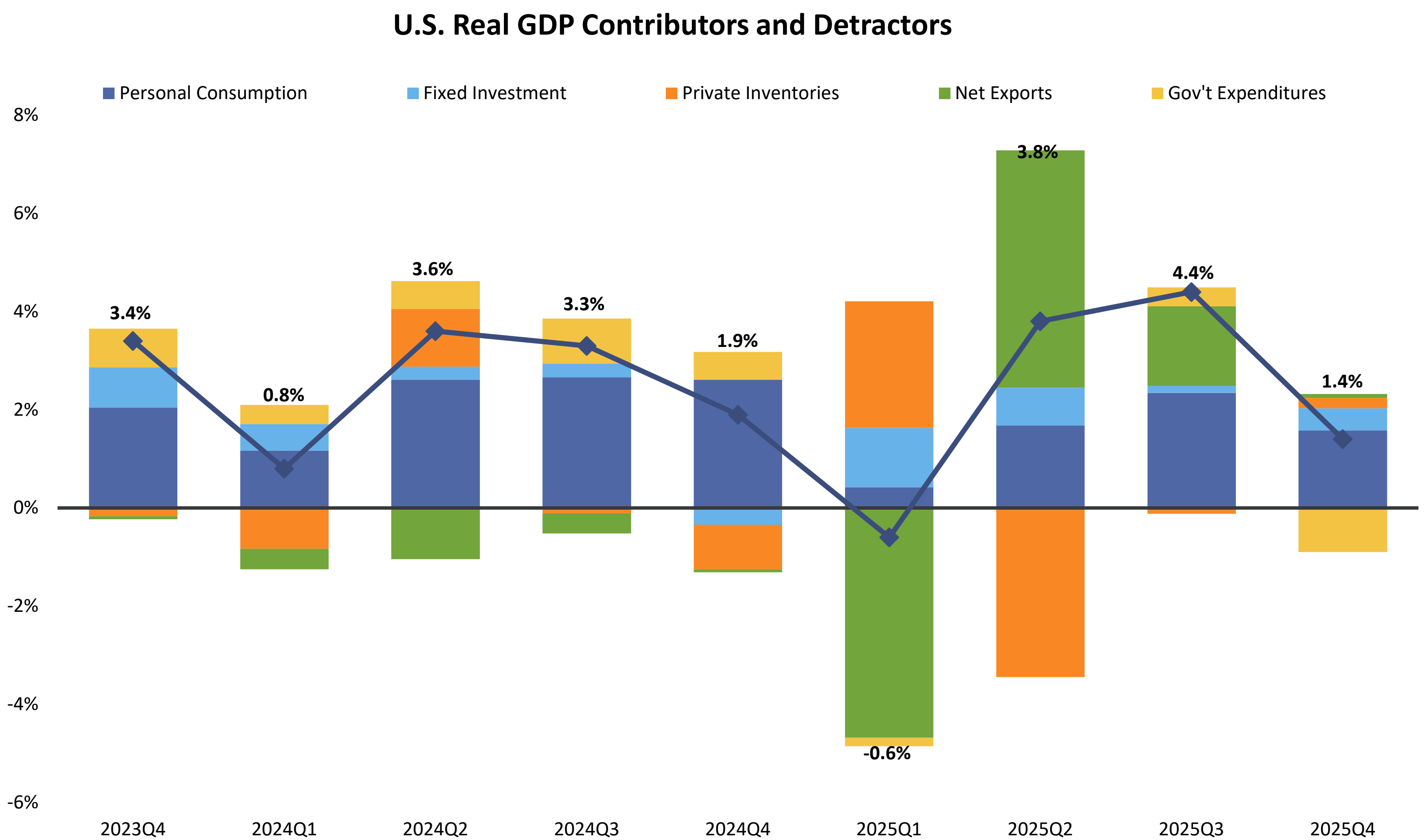
Portfolio Snapshot
Investments – By Credit Quality



Credit Quality	Market Value	Asset Allocation
Ratings		
AAAm	625,816,802	46.8%
AA+	430,940,574	32.2%
A-1 + / A-1	277,891,122	20.8%
A-2	3,718,752	0.3%
NR	-	0.0%
Totals	**1,338,367,251**	**100.0%**

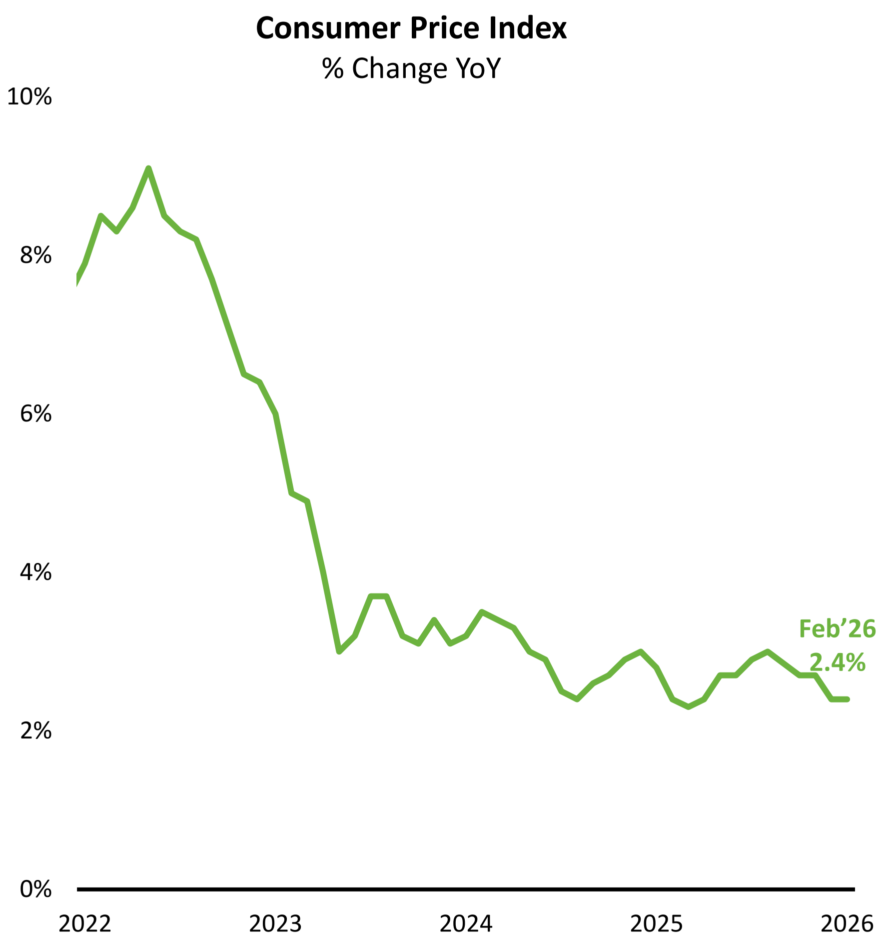
Appendix I:
Economic Update

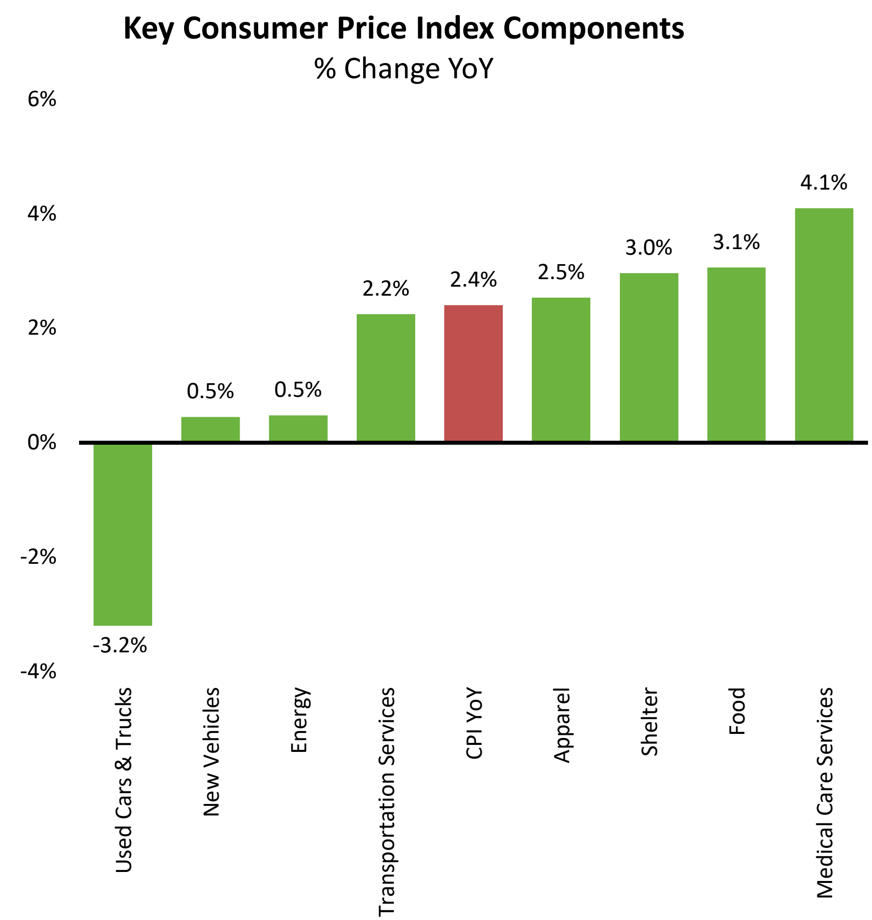
Gross Domestic Product



Source: Bloomberg Finance L.P., Bureau of Economic Analysis, as of December 2025.

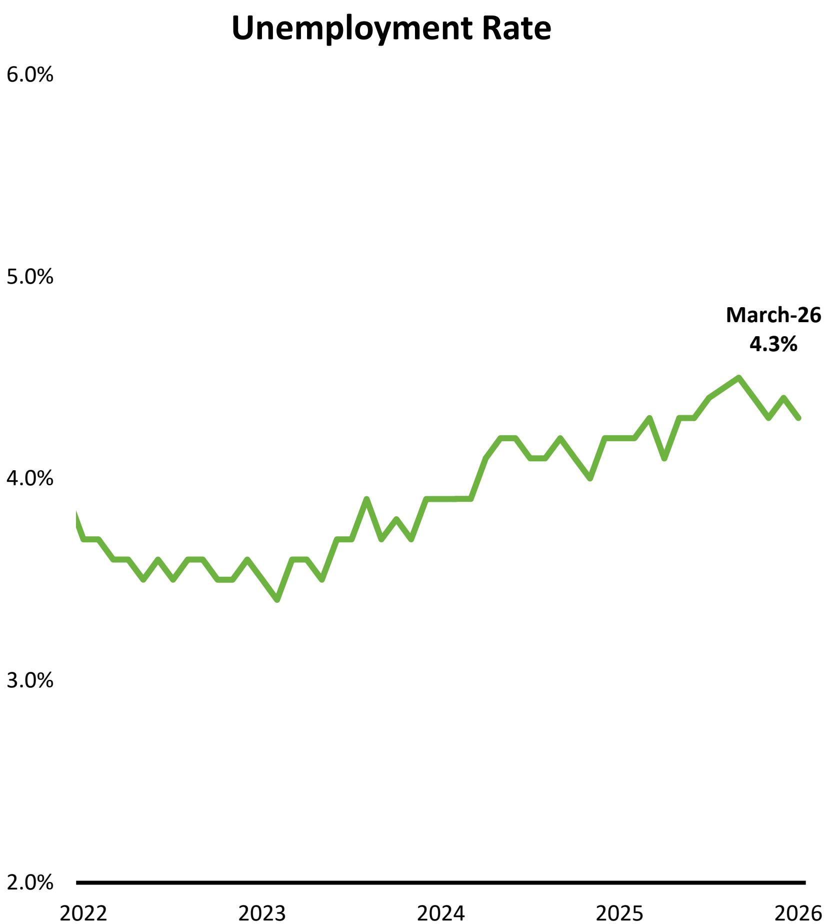
Consumer Price Index

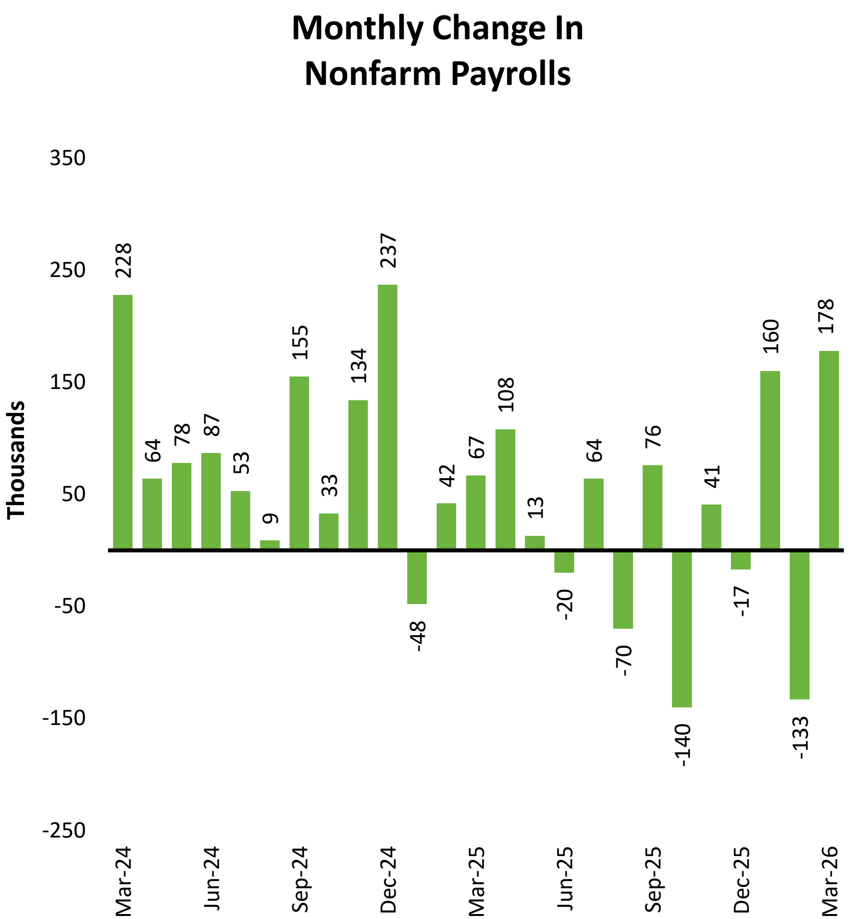




Source: Bloomberg Finance L.P., as of February 2026.

Labor Market Sends Mixed Signals

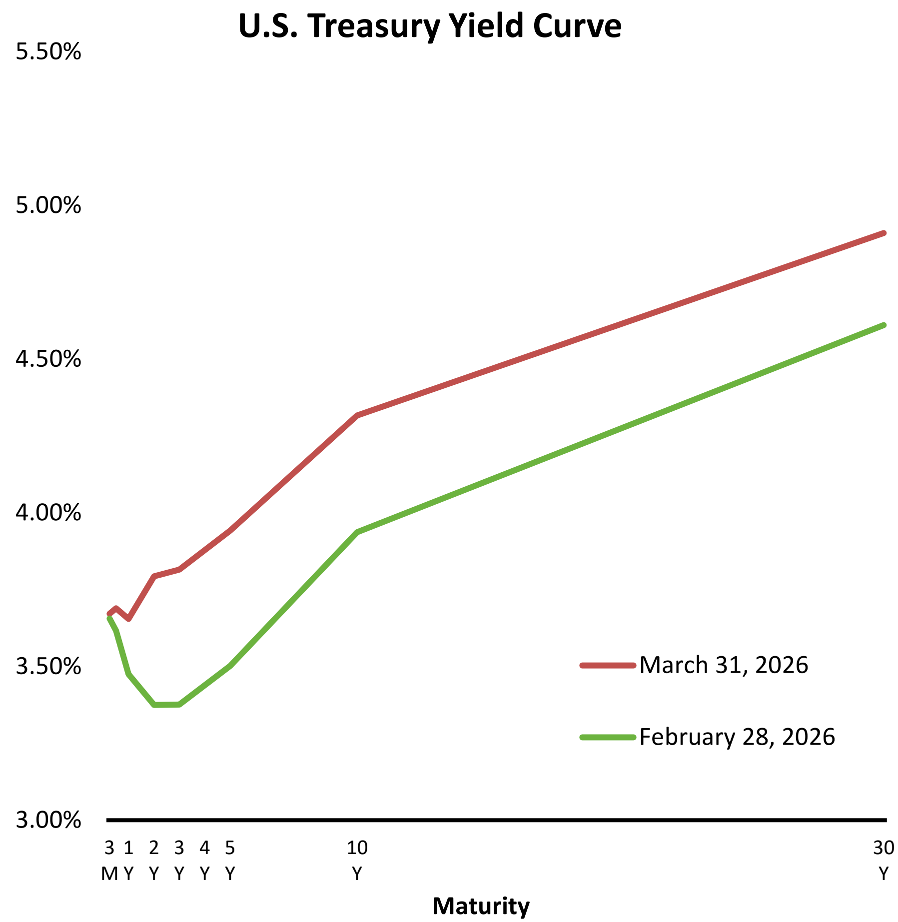




Source: Bureau of Labor Statistics. Bloomberg Finance L.P., as of March 2026. Monthly change in nonfarm payrolls as of March 2026. Data is seasonally adjusted.

Treasury Yield Curve

	3/31/2026	2/28/2026	Change
3 month	**3.67%**	3.66%	0.01%
1 year	**3.65%**	3.47%	0.18%
2 year	**3.79%**	3.37%	0.42%
3 year	**3.82%**	3.38%	0.44%
5 year	**3.94%**	3.50%	0.44%
10 year	**4.32%**	3.94%	0.38%
30 year	**4.91%**	4.61%	0.30%



Source: Bloomberg Finance L.P., as of 3/31/2026 and 2/28/2026, as indicated.

Fixed Income
Market Overview and Outlook

FIXED INCOME MARKET – ECONOMIC HIGHLIGHTS

- The first quarter of 2026 began with familiar themes: a data-dependent Federal Reserve ("Fed") and a constructive risk sentiment across asset classes
  - The backdrop shifted on February 28th when the conflict in Iran began, shifting investor sentiment and significantly repricing markets through the balance of the quarter
- The primary source of market disruption was the effective halt of traffic through the Strait of Hormuz, a critical artery for global oil shipments
  - As a result, crude oil prices increased by over 60% in March alone
  - Market volatility indices jumped to 12-month highs, equity markets sold off sharply, and interest rates increased as the implications of rising energy prices pushed up near term inflation expectations
- Seemingly overshadowed by geopolitical headlines, the Federal Open Market Committee ("FOMC") met in March and held its target range unchanged at 3.50% to 3.75%, as expected
  - The FOMC maintained its "dot plot" projection for one 25 basis point rate cut in 2026
  - Fed Chair Jerome Powell also acknowledged the path forward is complicated by the Middle Eastern conflict, making it more challenging for the Fed to balance its dual mandate of price stability and maximum employment
- Economic growth in the fourth quarter of calendar year 2025 remained resilient despite temporary headwinds from the U.S. government shutdown, as stable consumer and business spending helped offset the drag of government spending on real gross domestic product ("GDP")
  - Household balance sheets and labor income exceeding inflation continued to support consumption, while business investment showed pockets of strength, particularly in technology and productivity-enhancing initiatives

Fixed Income
Market Overview and Outlook

FIXED INCOME MARKET – ECONOMIC HIGHLIGHTS

- Inflation remained stubborn during the first quarter of calendar year 2026, with limited progress in core services and continued upward pressure from tariff passthroughs
  - Looking ahead, the inflation outlook has become increasingly dependent on the duration of the Middle East conflict and the extent to which sustained energy price increases feed into core goods and services
  - A broader and more persistent passthrough would pose upside risks to inflation and complicate Fed policy
- Labor market data remained steady with unemployment at 4.3% in March
  - Monthly payroll employment remained subdued and averaged 68,000 new jobs per month over the quarter
  - Initial jobless claims held near historically low levels and continuing claims declined, reinforcing the persistence of a "low-hire, low-fire" environment
- U.S. Treasury yields increased over the quarter as investors repriced their Fed policy outlook driven by geopolitical turmoil and renewed inflation concerns
  - Yield increases were led higher by the 2-year maturity reflecting market repricing of Fed interest rate policy over the next several quarters
  - The 3-month U.S. Treasury ended the quarter at 3.67% and the 2, 5, and 10-year Treasuries ended the quarter at 3.79%, 3.94%, and 4.32%, respectively
  - Longer duration bond indices experienced the greatest pressure from rising yields, with higher rates adversely impacting valuations
  - As bond yields remain firmly above multi-year averages, income remains a key component of total returns
- Excess returns were a mixed bag during the quarter
  - Federal Agency issuance remained limited, keeping spreads narrow and excess returns muted; the expectation for new issuance over the foreseeable future remains quite light

Disclosure

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