

MACRO

Inflation readings were mixed in February; the headline consumer price index (CPI) only rose 2.4% year-over-year as energy prices fell and the core CPI eased to 2.5% — its lowest level since early 2021. However, December’s Personal Consumption Expenditures Index reading suggested a different story as the core index climbed back to 3.0% year-over-year. Amid soft income growth and a savings rate that dropped to 3.6%, households look increasingly stretched even as demand remains surprisingly resilient.

The U.S. Supreme Court struck down President Trump’s global tariffs that were instituted using the International Emergency Economic Powers Act (IEEPA), ruling that he exceeded his authority under emergency-powers law. The Court also left the issue of potential refunds — possibly up to \$170 billion — to be resolved by lower courts. The administration quickly moved to impose a temporary 15% global duty tax for up to 150 days, while pursuing a more permanent approach under Section 122 of the Trade Act of 1974. The ruling introduces additional uncertainty for businesses, and markets have viewed the loss of tariff revenue as a fiscal negative, likely to increase U.S. Treasury issuance and put upward pressure on yields.

On February 28, the United States and Israel launched coordinated operations against Iran, striking government buildings and security targets in Tehran. The initial market reaction was a noticeable uptick in Treasury yields, primarily influenced by surging oil prices that have renewed concerns on inflation.

CREDIT

February was an active month for new issuance. There was more than \$191 billion in new issuance of investment grade (IG) bonds and \$29 billion in high yield (HY) bonds, which was the busiest month of new-issue activity for HY since 2021. March was expected to kick off at a similarly busy pace, with \$65 billion in IG new issuance during the first week, but companies have been holding back in an abundance of caution while geopolitical turmoil rattles markets.

IG and HY spreads gradually widened during the month and generated -66 and -73 basis points (bps) in excess returns, respectively. February’s excess returns represented the worst individual month since September 2022. Duration underperformed across quality buckets; intermediate and long IG credit generated -29 and -151 bps, respectively.

STRUCTURED

The current coupon spreads for mortgage-backed securities widened and caused the sector to post -8 bps in excess returns. Government-sponsored enterprise purchases provided support for the sector but mainly served to help offset the Federal Reserve (Fed) runoff. Bank demand has improved amid optimism for less-stringent regulations.

Asset-backed securities posted 3 bps in excess returns, with steady income offsetting a risk-off flight to safety. Year-to-date, the sector is now outperforming 1–3-year IG credit by 6 bps on an excess return basis.

CHART OF THE MONTH

Cooling Labor Demand: Job Openings per Unemployed Workers Declines



- The decrease in vacancies pushed the ratio of openings to unemployed workers down to 0.87, which is the lowest since March 2021. This ratio is one of the Fed’s gauges for labor-market balance and indicates a shift toward an excess supply of workers.
- The labor market showed signs of cooling as December’s job openings decreased by 386,000 to 6.54 million and data for the prior month were revised lower.
- Thus far, announced corporate layoffs have been concentrated in a few sectors and companies, which suggests the “low firing/low hiring” theme persists. With less churn in the labor market, we believe wage pressures will likely remain suppressed.

As of 12/31/2025. Source: U.S. Bureau of Labor Statistics

MARKET DATA

Yields	YTM %	MTD Change	YTD Change
3-Mo UST	3.66	0.00	0.03
2-Yr UST	3.38	-0.15	-0.10
5-Yr UST	3.50	-0.29	-0.22
10-Yr UST	3.94	-0.30	-0.23
30-Yr UST	4.61	-0.26	-0.23

Risk Premia	OAS (Bps)	MTD Change	YTD Change
Investment Grade Credit	79	10	6
Asset-Backed Securities	49	1	-3
High Yield	291	26	25

As of 2/27/2026. Source: Bloomberg L.P.

BLOOMBERG SECTOR/INDEX PERFORMANCE (USD)

	Duration (yrs.)	MTD Excess Return (%)	YTD Excess Return (%)	MTD Total Return (%)	YTD Total Return (%)
Sector					
Investment Grade Credit	6.62	-0.66	-0.35	1.35	1.51
Mortgage-Backed Securities	4.94	-0.08	0.44	1.67	2.09
Asset-Backed Securities	2.80	0.03	0.18	0.87	1.12
High Yield	2.71	-0.73	-0.30	0.19	0.69
	Duration (yrs.)	MTD Excess Return (%)	YTD Excess Return (%)	MTD Total Return (%)	YTD Total Return (%)
Index					
1-3-Yr Government/Credit	1.78	-0.01	0.03	0.52	0.75
Intermediate Government/ Credit	3.67	-0.10	-0.01	1.13	1.21
U.S. Aggregate	5.79	-0.20	0.02	1.64	1.75

As of 2/27/2026. Source: Bloomberg L.P.

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