JANUARY 2026

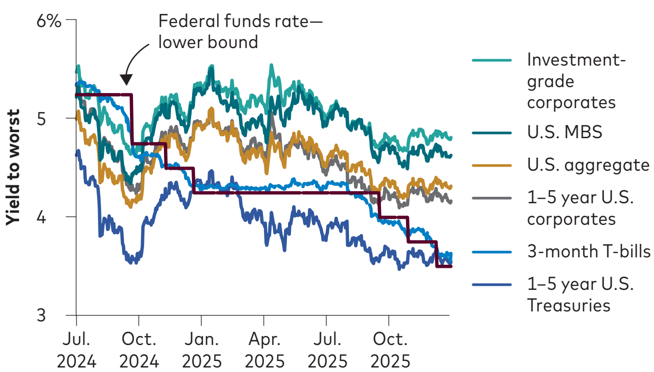
Active Fixed Income Perspectives Q1 2026: **Income in focus**

Big picture

Cash is no longer king: Yields remain compelling, and intermediate duration looks superior to cash. Carry—the return from income, roll down, and other factors—became king in 2025, and we expect its reign to continue in 2026.

Yield curve is stable: We expect 10-year Treasury yields to hold within a range around current levels. We see a tactical opportunity for some additional steepening in the curve.

Bond yields versus T-bills



Source: Bloomberg, as of December 31, 2025.

Indexes used in chart: The following indexes are represented: Bloomberg U.S. Corporate Index, Bloomberg U.S. Mortgage Backed Securities Index, Bloomberg U.S. Aggregate Bond Index, Bloomberg U.S. Corporate 1–5 Years Index, Bloomberg U.S. Treasury Bill 1–3 Month Index, Bloomberg U.S. Treasury 1–5 Years Index.

Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Credit

We expect credit to outperform government bonds again in 2026. Yields are attractive across sectors, and underlying fundamentals remain broadly healthy. Spreads are tight but justified.

Corporate supply to surge: Net supply, driven by AI-related capital expenditures, is expected to increase 23% to $800 billion. Strong investor demand should hold with yields near 5%.

High-yield defaults in check: Default rates remain low and relatively stable. Security selection offers the opportunity to outperform in this market with spreads at multi-decade lows.

Economy, policy, & outlook

Globally: Expansionary fiscal policy and less restrictive monetary policy will provide market support this year.

U.S.: We expect real GDP growth to push above 2%. We continue to monitor inflation and the labor market.

Takeaways to consider:

- **Move beyond cash:** Extend to intermediate duration to lock in durable income.
- **Build an all-weather portfolio:** Diversification can maintain upside while reducing potential downside.

For more information about active fixed income, speak with your financial advisor.

Connect with Vanguard® • vanguard.ca

This document is published by The Vanguard Group, Inc., the indirect parent company of Vanguard Investments Canada Inc. It is not a recommendation, offer or solicitation to buy or sell any security, including any security of any investment fund or any other financial instrument. The information contained in this material is not investment advice and is not tailored to the needs or circumstances of any investor, nor does the information constitute business, financial, tax, legal, regulatory, accounting or any other advice. Research published by The Vanguard Group, Inc., may not be specific to the context of the Canadian market and may contain data and analysis specific to non-Canadian markets and products. The information is for informational purposes only and should not be used as the basis of any investment recommendation. Investors should consult a financial, tax and/or other professional advisor for information applicable to their specific situation.

For more information about Vanguard funds or Vanguard ETFs, visit advisors.vanguard.ca to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

All investing is subject to risk, including possible loss of principal. Diversification does not ensure a profit or protect against a loss. Past performance is no guarantee of future results.

Bond funds are subject to interest rate risk, which is the chance bond prices overall will decline because of rising interest rates, and credit risk, which is the chance a bond issuer will fail to pay interest and principal in a timely manner or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline.

Investments in bonds issued by non-U.S. companies are subject to risks including country/regional risk and currency risk.

Although the income from a municipal bond fund is exempt from federal tax, you may owe taxes on any capital gains realized through the fund's trading or through your own redemption of shares. For some investors, a portion of the fund's income may be subject to state and local taxes, as well as to the federal Alternative Minimum Tax.

FAFIQPOP 012026