

OCTOBER 2025

Active Fixed Income Perspectives Q4 2025: Caught in the crosswinds

Big picture

Bonds bounce back: Bloomberg US Universal Index up 6.3%, year to date as of September 30. The Bloomberg Municipal Bond Index delivered 3.0% just this past quarter. Higher coupons plus price gains equaled strong returns across sectors.

- Outlook: Favorable conditions expected to continue.

Yield curve shifts: The U.S. Treasury Curve steepened as short-term yields fell more than long-term yields. Meanwhile, the 10-year U.S. Treasury settled between 4.0% and 4.25%. We are strategically neutral on U.S. duration and favor intermediate maturities.

Credit

Spreads tighten: Spreads at tightest since 1998; demand strong for credit exposure. We are selective in lower-quality credit; overweight investment-grade issuers with strong fundamentals.

Economy, policy, & outlook

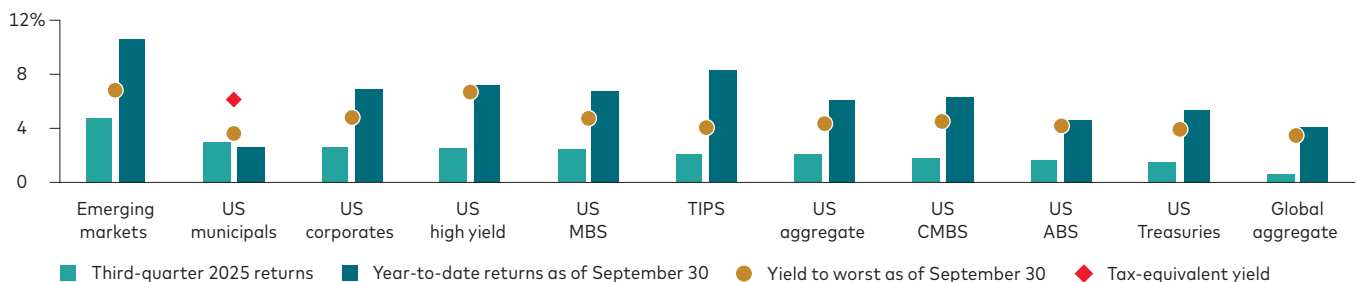
Fed gets proactive: Fed cut rates by 25 basis points in September after a 9-month pause. Two more rate cuts are likely by year-end but possibly fewer than markets expect in 2026.

Policy crosswinds: Tariffs are a drag, but tax cuts, deregulation and artificial intelligence investment are tailwinds. Pro-growth policies in "One Big Beautiful Bill" could boost 2026 GDP by 0.4%.

Takeaways to consider:

- **Lock in yields:** We believe now is a good time for investors who have been sitting with very short-term duration to lock in durable yields further out the curve.
- **Municipals:** A historically steep curve offers great value within intermediate-and-long strategies.
- **Lean on expertise:** Vanguard's deep fixed income team manages \$498B AUM.¹

Fixed income sector returns and yields



Notes: The municipal tax-equivalent yield is calculated using a 40.8% tax bracket, which includes a 37.0% top federal marginal income tax rate and the 3.8% net investment income tax to fund Medicare. Yield to worst represents the lowest yield possible for a security given the current price, taking into account both call dates and maturity.

Indexes used in chart: The following indexes are represented in the sector returns and yields chart: J.P. Morgan EMBI Global Diversified Index, Bloomberg US Municipal Index, Bloomberg US Corporate Index, Bloomberg US Corporate High Yield Index, Bloomberg US Mortgage Backed Securities Index, Bloomberg US Treasury Inflation-Linked Bond Index (Series-L), Bloomberg US Aggregate Index, Bloomberg CMBS: Erisa Eligible Index, Bloomberg US Asset-Backed Securities Index, Bloomberg US Treasury Index, and Bloomberg Global Aggregate Index.

Sources: Bloomberg indexes and JPMorgan, as of September 30, 2025.

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.

¹ As of September 30, 2025.

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.

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.

Vanguard®

© 2025 The Vanguard Group, Inc.
All rights reserved. Vanguard Marketing
Corporation, Distributor.

FAFIGPOP 102025