Monthly Market Review

Fixed Income | January 2026

Information provided by NJARM's Program Administrator PFM Asset Management, a division of U.S. Bancorp Asset Management, Inc.

NJ/ARM

Silver and gold, silver and gold...

Economic Highlights

- The Federal Open Market Committee (FOMC) lowered the target range for the federal funds rate by 25 basis points (bps) during its last meeting of 2025, setting the new range at 3.50%–3.75%. The vote included three dissents with two members preferring to keep rates unchanged and one favoring a larger 50 bp cut.
- The median projection from the "dot plot" continues to show one 25 bp rate cut in 2026 and another in 2027, though the wide dispersion in underlying projections underscores the growing difference of opinion within the Federal Reserve (Fed). Assuming a more dovish Chair takes office in mid-2026 as expected, markets view policy risks as skewed towards additional easing.
- Also at the meeting, the FOMC announced it would begin Reserve Management Purchases (RMP) totaling $40 billion in U.S. Treasury Bills to maintain reserve balances and liquidity at currently sufficient levels.
- The first estimate of third quarter real gross domestic product (GDP) showed the economy grew at an annualized pace of 4.3%, its fastest in two years. Growth was driven by strong consumer and business spending and steadier trade dynamics. While the data is now several months old, it shows the economy was on solid footing heading into the government shutdown which began October 1.
- Official economic data released in December were "noisy" due to data collection issues caused by the government shutdown. Directionally, the data continues to show the labor market cooling and inflation remaining sticky with only modest progress towards the Fed's 2% target.

Bond Markets

- The yield on 3-month, 2-year, and 10-year U.S. Treasuries ended the month at 3.62%, 3.46%, and 4.11% representing changes of -17 bps, -3 bps, and +10 bps, respectively.
- As a result of the decrease in short yields and increase in longer tenors the slope of the curve (as measured by the difference in yield of 2- and 10-year notes) reached its highest level of the year. This also led shorter-duration indices to outperform longer counterparts. The ICE BofA 3-month, 2-year, and 10-year U.S. Treasury indexes returned +0.35%, +0.32%, and -0.95%, respectively.
- Calendar-year returns for longer-duration indices were higher than shorter ones in 2025 for the first time since 2020. The 3-month, 2-year, and 10-year U.S. Treasury indexes returned +4.18%, +4.85%, and +7.82%, respectively.

Equity Markets

- Equity market volatility (measured by the VIX Index) waned in December and was driven by the Fed rate cut. For the month, the Dow Jones Industrial Average rose +0.9%, the S&P 500 gained +0.06%, and the Nasdaq fell -0.5%. The S&P 500 ended the calendar year with a total return of +17.9%.
- International equities outperformed domestic markets and the U.S. dollar weakened over the year. The MSCI ACWI ex U.S. Net Index delivered a +33.2% total return for 2025, including a +3% return in December. The U.S. Dollar Index declined -9.4% on the year.
- Commodity prices finished the year strong as gold jumped nearly +65% in 2025 and silver more than doubled, finishing the year up +148%.

PFMAM Strategy Recap & Outlook

- We continue to maintain portfolio durations near 100% of benchmarks. For shorter duration strategies, we prefer a modestly longer duration stance as we expect Fed policy to have a more direct impact on front-end yields. For longer duration strategies, we will maintain a curve steepening bias by modestly underweighting the long end of the curve.
- We continue to underweight supranationals and federal agencies due to narrow spreads. The ongoing privatization efforts of Fannie Mae and Freddie Mac remain a focus, though no substantial progress has been shared publicly.
- Investment-grade (IG) corporate bond spreads narrowed across most maturity ranges during the month except for longer indices. We will remain selective in the sector due to historically tight valuations and expect income to be the primary driver of total returns over the near term.
- Yield spreads on asset-backed securities (ABS) were relatively unchanged for the month. ABS continue to offer more spread than equivalent-maturity corporates, presenting some opportunities. Credit metrics and the consumer remain stable as credit enhancements within structures are robust. We will look to take advantage of new issuance in 2026.
- Mortgage-backed securities (MBS) generated solid excess returns again in December and have been a consistent top performer for the past several months. Lower bond volatility after a volatile November provided a tailwind for the sector.
- Credit spreads on longer fixed-rate money market securities remained attractive, while floating rate securities also offered value given uncertainty around the Fed outlook for 2026. Overnight repo rates remained elevated and attractive.

U.S. Treasury Yields

Maturity	Dec 31, 2024	Nov 30, 2025	Dec 31, 2025	Monthly Change
3-Month	4.32%	3.80%	3.63%	-0.17%
6-Month	4.27%	3.77%	3.61%	-0.16%
2-Year	4.24%	3.49%	3.48%	-0.01%
5-Year	4.38%	3.60%	3.73%	0.13%
10-Year	4.57%	4.02%	4.17%	0.15%
30-Year	4.78%	4.66%	4.85%	0.19%

Yields by Sector and Maturity

Maturity	U.S. Treasury	Federal Agency	Corporates-AA-A Industrials	AAA Municipals
3-Month	3.63%	3.64%	3.91%	-
6-Month	3.61%	3.61%	3.90%	-
2-Year	3.48%	3.49%	3.84%	2.47%
5-Year	3.73%	3.74%	4.23%	2.47%
10-Year	4.17%	4.23%	4.79%	2.95%
30-Year	4.85%	-	5.61%	4.00%

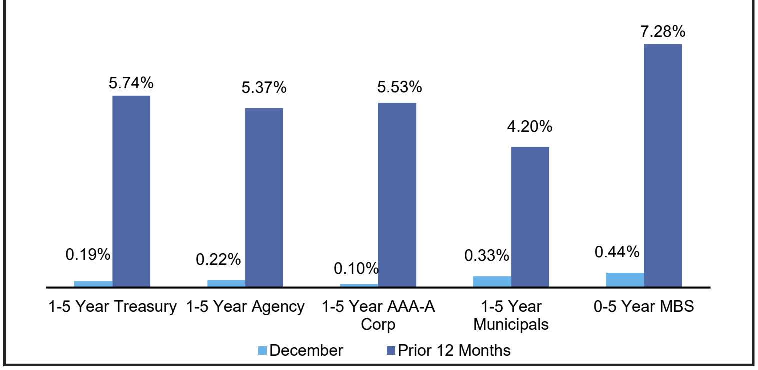
Spot Prices and Benchmark Rates

Index	Dec 31, 2024	Nov 30, 2025	Dec 31, 2025	Monthly Change
1-Month SOFR	4.33%	3.86%	3.69%	-0.17%
3-Month SOFR	4.31%	3.79%	3.65%	-0.14%
Effective Fed Funds Rate	4.33%	3.89%	3.64%	-0.25%
Fed Funds Target Rate	4.50%	4.00%	3.75%	-0.25%
Gold ($/oz)	$2,641	$4,218	$4,341	$123
Crude Oil ($/Barrel)	$71.72	$58.55	$57.42	-$1.13
U.S. Dollars per Euro	$1.04	$1.16	$1.17	$0.01

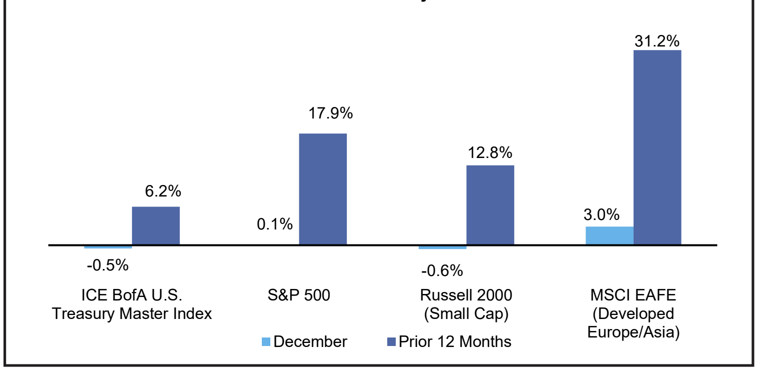
Economic Indicators

Indicator	Release Date	Period	Actual	Survey (Median)
FOMC Rate Decision	10-Dec	Dec	3.75%	3.75%
Change in Nonfarm Payrolls	16-Dec	Nov	64k	50k
Retail Sales Advance MoM	16-Dec	Oct	0.00%	0.10%
CPI YoY	18-Dec	Nov	2.70%	3.10%
Existing Home Sales MoM	19-Dec	Nov	0.50%	1.20%
U. of Mich. Consumer Sentiment	19-Dec	Dec F	52.9	53.5
GDP Annualized QoQ	23-Dec	3Q S	4.30%	3.30%

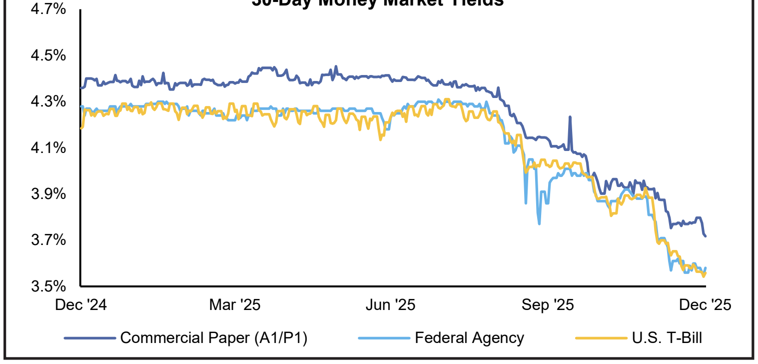
ICE BofA Fixed Income Index Returns



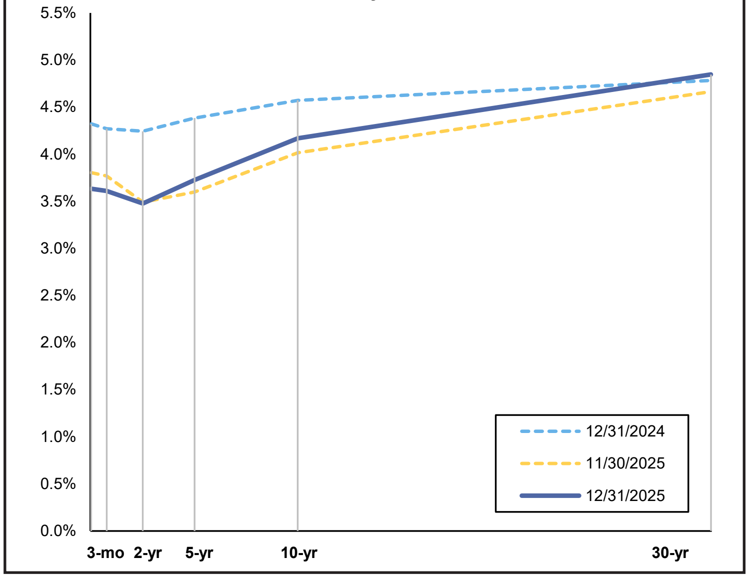
Total Return of Major Indices



30-Day Money Market Yields



U.S. Treasury Yield Curve



Source: Bloomberg. Data as of December 31, 2025, unless otherwise noted.

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