Breckinridge
CAPITAL ADVISORS

INVESTING | **JANUARY 13, 2026**

DECEMBER 2025 MARKET COMMENTARY

Summary

- **U.S. Treasury Curve:** The U.S. Treasury curve bear steepened, with 2-year yields falling by 2 basis points (bps), while 10-year and 30-year yields rose by 15 and 18bps.
- **Municipal Markets:** Municipal bond returns were positive amid declining yields and stable Municipal/Treasury (M/T) ratios,[1] as issuance fell to $41 billion.
- **Corporate Markets:** The BBG Investment Grade (IG) Corporate Bond Index[2] (the Corporate Bond Index) option-adjusted spread (OAS) tightened, as corporate bond issuance totaled $28.1 billion, a significant drop from $143.9 billion in the prior month.
- **Securitized Markets:** Both mortgage-backed (MBS) and asset-backed securities (ABS) delivered positive total returns, capping off the MBS market's best year since 2010.
- **Equity Markets:** The S&P 500 Index[3] gained a modest 0.06 percent, with Financials, Materials, and Industrials outperforming Utilities, Real Estate and Consumer Staples.

The following commentary is a summary of discussions among members of the Breckinridge Capital Advisors Investment Committee as they reviewed monthly activity in the markets and investment returns. The members of the Investment Committee, under the leadership of Co-Chief Investment Officers Matthew Buscone and Jeffrey Glenn, CFA, are Co-Heads of Research, Nicholas Elfner and Adam Stern, J.D., M.P.A.; and Portfolio Manager and Director, Corporate Research, Josh Perez, CFA.

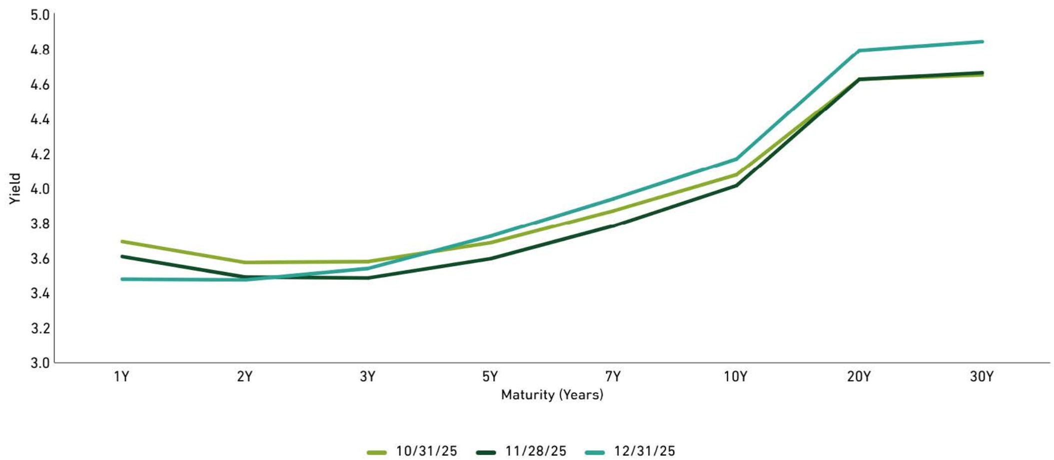
1. The Municipal/Treasury (M/T) ratio compares yields of municipal bonds with those of U.S. Treasury bonds of the same maturity. M/T ratios can show the relative value of municipal bonds compared with taxable bonds, by indicating when yields for municipal bonds exceed the after-tax yields on taxable bonds.
2. As of December 31, 2025, as measured by the BBG U.S. Corporate Investment Grade Bond Index, an unmanaged market-value-weighted index of investment grade corporate fixed-rate debt issues with maturities of one year or more. You cannot invest directly in an index.
3. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted index with each stock's weight in the index proportionate to its market value. Performance is as of December 31, 2025. You cannot invest directly in an index.

MARKET REVIEW

Economic growth remained robust in the fourth quarter, fueled by strong spending from high-income households and productivity gains linked to artificial intelligence (AI)-related investments. Third-quarter gross domestic product (GDP) expanded at an annual rate of 4.3 percent, marking the fastest pace in two years and significantly exceeding expectations. However, labor market signals were mixed: October payrolls pushed the unemployment rate to 4.6 percent, while November's data showed a slight rebound. The core consumer price index (CPI) came in lower than expected in November, though inconsistencies in data collection raised questions about the reliability of this reading.

Treasury yields concluded the month with a bear steepening of the curve. Shorter-term rates declined, while longer-term yields rose, reflecting shifting market expectations. Specifically, the 2-year yield fell by 2bps, while the 10-year and 30-year yields increased by 15 and 18bps, respectively (See Figure 1). This movement widened the 2s/10s spread, indicating a greater divergence between short and long-term borrowing costs.

FIGURE 1: TREASURY YIELD CHANGES SHOWED SHORT & LONG-TERM BORROWING COSTS DIVERGED

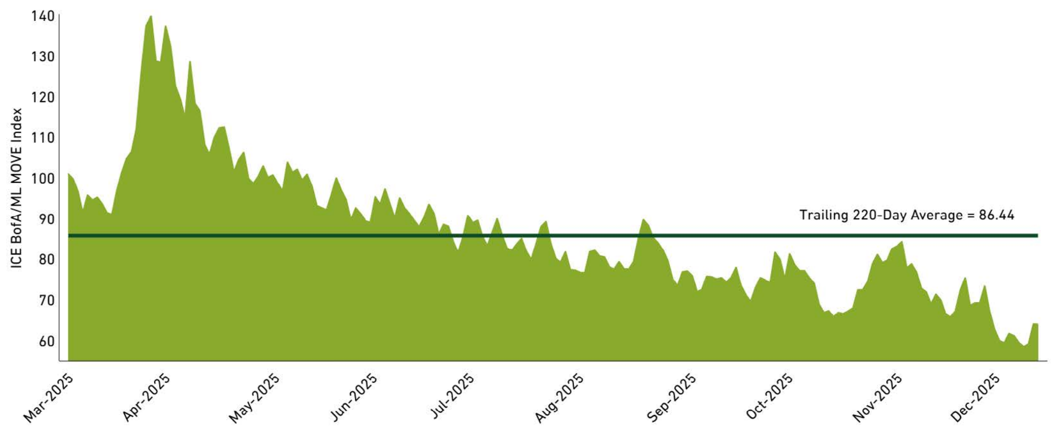


Source: U.S. Department of the Treasury, as of December 31, 2025. Past performance is not indicative of future results.

Bond market volatility, as measured by the ICE Bank of America/Merrill Lynch Option Volatility Estimate (MOVE) Index,[4] declined (See Figure 2). This suggests calmer conditions prevailed despite ongoing policy uncertainty. The Bloomberg (BBG) U.S. Treasury Index[5] posted a total return of negative 0.33 percent for the month, underscoring the challenging environment for Treasury investors.

4. As of December 31, 2025, based on the Intercontinental Exchange (ICE) Bank of America/Merrill Lynch Option Volatility Estimate (MOVE) Index, which tracks the movement in U.S. Treasury yield volatility implied by current prices of one-month over-the-counter options on 2-year, 5-year, 10-year, and 30-year Treasuries. Historically, the index rises as concerns grow that interest rates may be higher. You cannot invest directly in an index.
5. The Bloomberg U.S. Treasury Bond Index is an unmanaged index of prices of U.S. Treasury bonds with maturities of 1 to 30 years. You cannot invest directly in an index

FIGURE 2: MOVE INDEX SHOWED BOND VOLATILITY CONTINUED TO DECLINE



Source: Intercontinental Exchange, as of December 31, 2025. Past performance is not indicative of future results.

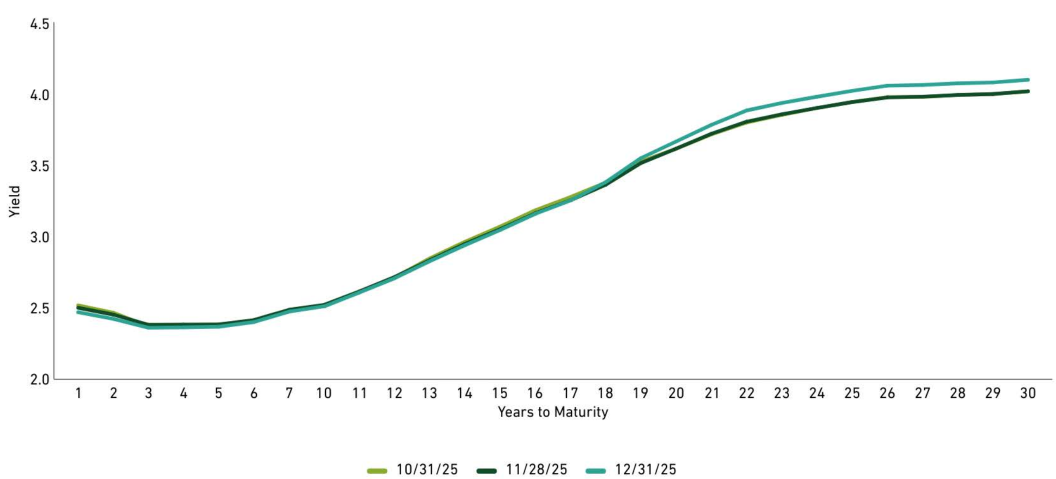
The Breckinridge Investment Committee (IC) anticipates the 10-year Treasury yield will remain within a range of 4.0 to 4.5 percent in the near term. It also foresees one additional Federal Reserve rate cut by mid-2026. Given expectations for moderate real growth, portfolio positioning remains defensive, favoring spread sectors over Treasuries despite their tight valuations. Above-average yields continue to attract strong investor demand, particularly within corporate and securitized credit markets, highlighting their relative attractiveness in the current landscape.

MUNICIPAL MARKET REVIEW

Municipal bond issuance totaled $41 billion in December, a decline from $44.66 billion in November and notably below the $58.3 billion issued in October. This downward trend in new supply contributed to a more balanced technical backdrop for the municipal market by month-end, helping to support bond prices.

The BBG Short/Intermediate Municipal Bond Index[6] posted a total return of 0.31 percent in December, reflecting modest price appreciation and income performance. Municipal yields fell by 3, 2, and 1bp at the 2-, 5-, and 10-year maturities, respectively (See Figure 3). In contrast, the 30-year yield rose by 8bps, indicating a slight bear steepening in the municipal curve.

FIGURE 3: MUNICIPAL YIELDS ROSE AT THE LONG END OF THE CURVE

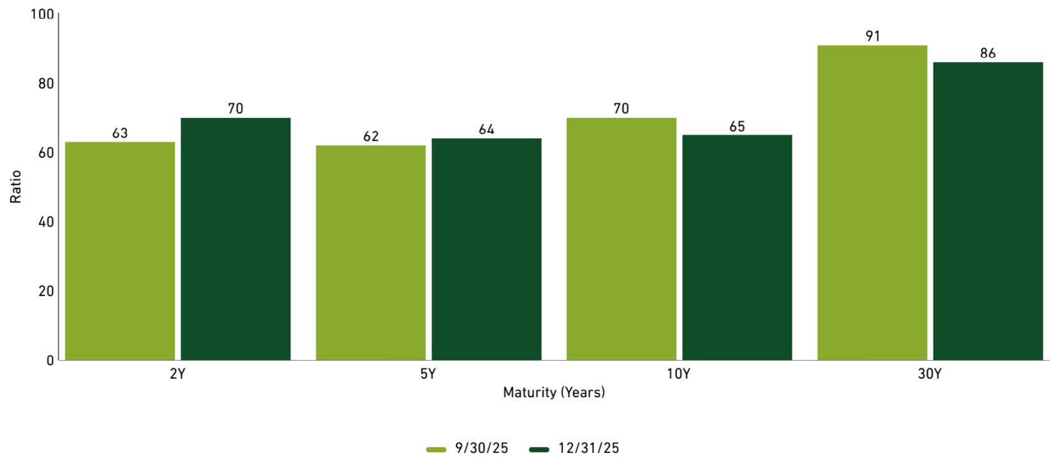


Source: Bloomberg, as of December 31, 2025. Past performance is not indicative of future results.

6. Municipal bond performance is as of December 31, 2025, as measured by the BBG Managed Money Short/Intermediate (1-10) Index, which measures the performance of the publicly traded municipal bonds that cover the USD-denominated short/intermediate term tax-exempt bond market, including state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. It is rules-based, and market-value weighted. You cannot invest directly in an index.

M/T ratios ended the month at 70 percent for 2-year, 64 percent for 5-year, 65 percent for 10-year, and 86 percent for 30-year maturities (See Figure 4). Shorter-dated ratios appeared relatively attractive compared to historical ranges, suggesting continued demand for tax-exempt paper, particularly in the shortest part of the curve.

FIGURE 4: M/T RATIOS DECLINED ABOVE 5 YEARS IN Q4



Source: Bloomberg, as of December 31, 2025. Past performance is not indicative of future results.

Investment Company Institute data showed municipal bond funds received $6.58 billion in net inflows during December, signaling sustained retail investor interest. In our view, demand remained supported by favorable after-tax yields and portfolio rebalancing activity, even as new issuance volumes moderated toward year-end.

CORPORATE MARKET REVIEW

The U.S. Corporate Bond Index OAS tightened by 3bps in December to 78bps, indicating improved credit conditions. Corporates posted a total return of negative 0.20 percent, with an excess return of 0.26 percent. Spreads remain tight at just the 2nd percentile when looking at the past 20 years. All-in yields remain attractive at the 66th percentile.

The best-performing corporate sectors were Life Insurance, Metals and Mining, and Gaming, demonstrating resilience and investor confidence. Conversely, the worst-performing sectors were Media Entertainment, Technology, and Supranationals, which faced headwinds during the month. The BBB sector tightened by 4bps in December outperforming AA's and A's which tightened by 1bps and 2bps, respectively.

In a typical seasonal pattern, corporate bond gross issuance was a modest $28.1 billion in December, a significant decrease from $143.9 billion in November, but in-line with the prior year's tally of $34.5 billion. With redemptions of $54.6 billion, net issuance was a negative $26.4 billion in December.

Mutual fund and ETF flows into corporate bond funds totaled $51 billion for the month. This substantial inflow reflects continued investor demand for taxable fixed income assets, underscoring their appeal in the current market.

SECURITIZED MARKET REVIEW

MONTH-TO-DATE (MTD) & YEAR-TO-DATE (YTD) RETURNS THROUGH DECEMBER 31, 2025:

BBG Index	MTD Total Return (%)	MTD Excess Return (%)	YTD Total Return (%)	YTD Excess Return (%)
BBG MBS Index[7]	0.21	0.47	8.58	1.71
BBG Agency CMBS Index[8]	0.03	0.03	7.74	0.80
BBG Non-Agency CMBS Index[8]	0.22	0.12	7.76	1.26
BBG ABS Auto Loan Index[9]	0.47	0.13	5.73	0.64
BBG ABS Credit Card Index[9]	0.32	0.07	6.02	0.63

Source: BBG Index data, as of December 31, 2025. Past Performance is not a guarantee of future results.

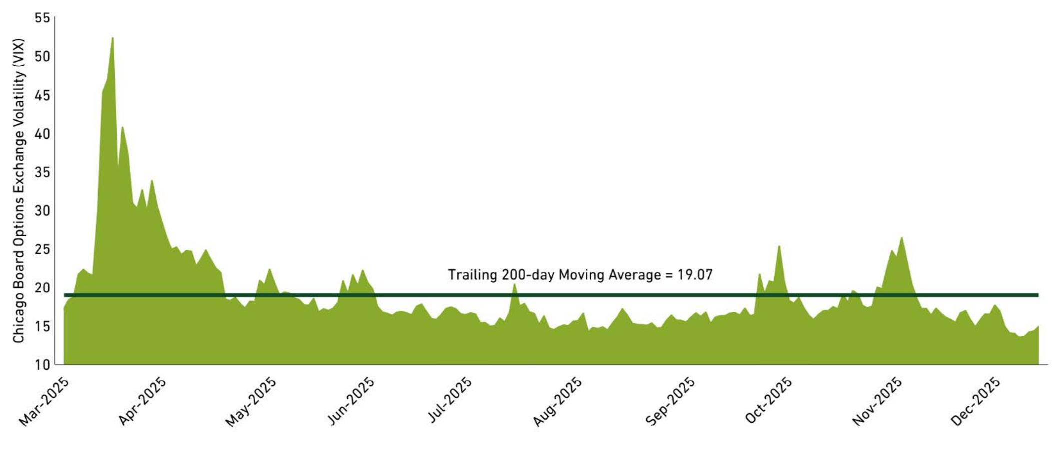
MBS delivered positive total returns and excess returns in December and full-year 2025. Spreads in the Agency MBS sector tightened significantly over the year, supported by lower rate volatility and strong demand across the coupon stack, indicating robust investor appetite. Agency CMBS, however, posted lower returns compared to Non-Agency CMBS, which generated stronger performance on both a total and excess return basis.

Asset-backed securities also recorded positive total returns, led by auto loan ABS, which outperformed credit card ABS in both total and excess return terms. Overall, subsector performance within ABS reflected a continued investor preference for shorter-duration, higher-quality structures, highlighting a cautious yet engaged approach to securitized assets.

EQUITY MARKET REVIEW

The S&P 500 Index recorded a total return of 0.06 percent for December 2025, indicating a largely flat month for equities. The Chicago Board Options Exchange (CBOE) Volatility Index[10] (VIX) had a trailing 200-day moving average of 19.07 at month-end, reflecting moderate volatility levels over the period, suggesting a relatively stable market environment (See Figure 5). In December, the VIX trended lower, averaging 15.6, indicating greater stability.

FIGURE 5: STOCK MARKET VOLATILITY ENDED 2025 BELOW AVERAGE



Source: Chicago Board Options Exchange, as of December 31, 2025. Past performance is not indicative of future results.

7. The Bloomberg MBS Index tracks agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by government-sponsored enterprises (GSEs) Government National Mortgage Association (Ginnie Mae) (GNMA), Federal National Mortgage Association (Fannie Mae) (FNMA), and Federal Home Loan Mortgage Corporation (Freddie Mac) (FHLMC). The index is constructed by grouping individual pools into aggregates or generics based on program, coupon, and vintage. You cannot invest directly in an index.
8. The Bloomberg U.S. CMBS Investment Grade Index measures the market of U.S. Agency (GNMA, FNMA, and (FHLMC) and U.S. Non-Agency conduit and fusion CMBS deals with a minimum current deal size of $300mn. You cannot invest directly in an index.
9. Bloomberg U.S. Asset-Backed Securities (ABS) Index is the ABS component of the Bloomberg U.S. Aggregate Bond Index, a flagship measure of the U.S. investment grade, fixed-rate bond market. The ABS index has three subsectors: credit and credit cards, autos, and utility. You cannot invest directly in an index.
10. The Chicago Board Options Exchange (OEX) Volatility (VIX) Index is the ticker symbol and name for the Chicago Board Options Exchange's (CBOE) Volatility Index, a measure of the stock market's expectation of volatility based on S&P 500 index options. You cannot invest directly in an index.

Financials, Materials, and Industrials were the best-performing sectors, with returns of 3.07 percent, 2.22 percent, and 1.25 percent, respectively, demonstrating strength in cyclical areas. Conversely, Utilities, Real Estate, and Consumer Staples were the worst-performing sectors, declining 5.11 percent, 2.19 percent, and 1.59 percent, respectively.

The Russell 1000 Value Index returned 0.68 percent, outperforming the Russell 1000 Growth Index, which declined 0.62 percent for the month. This suggests a preference for value-oriented stocks during December. High Beta and Value factors outperformed, while Momentum and Leverage underperformed within equity factor returns, further reinforcing the market's inclination towards value and higher-risk assets.