

# Tactical CA House Views

March 2026

## Tactical CA House Views as of February 28, 2026

Our house views are aimed at generating value add over a three-year horizon. Differences in risk tolerance, time horizon, liquidity needs, currency exposure, and tax implications, as well as the potential for overlap with existing portfolio exposures, mean these views may not be suitable for all portfolios. Tactical positions should be sized modestly.

Overweight	Underweight	Key details	
<b>California Carbon Allowance Futures</b> (S&P Carbon Credit CCA Index)	<b>Global Equities</b> (MSCI All Country World Index)	Recommended since Expected tracking error Suggested active risk target Implied portfolio size	Oct 31, 2021 23.3% 25 bps 110 bps
<b>Developed Markets ex US Small-Cap Equities</b> (MSCI World ex US Small Cap Index)	<b>Developed Markets ex US Equities</b> (MSCI World ex US Index)	Recommended since Expected tracking error Suggested active risk target Implied portfolio size	Sep 30, 2023 6.9% 25 bps 360 bps
<b>US Small-Cap Equities</b> (S&P 600 Small Cap Index)	<b>US Equities</b> (MSCI US Index)	Recommended since Expected tracking error Suggested active risk target Implied portfolio size	Apr 30, 2022 14.2% 25 bps 180 bps
<b>Global ex US Equities</b> (MSCI ACWI ex US Index)	<b>US Equities</b> (MSCI US Index)	Recommended since Expected tracking error Suggested active risk target Implied portfolio size	May 31, 2025 11.5% 15 bps 130 bps
<b>Latin American Equities</b> (MSCI Latin America Index)	<b>EM Equities</b> (MSCI Emerging Markets Index)	Recommended since Expected tracking error Suggested active risk target Implied portfolio size	June 30, 2025 26.8% 25 bps 90 bps
<b>Global Equity Long/Short (ELS) Hedge Funds</b> (Basket of Global ELS Hedge Funds)	<b>40% Equities/60% Bonds</b> (40% MSCI ACWI [Net]/60% US Aggregate Bond Index)	Recommended since Expected tracking error Suggested active risk target Implied portfolio size	Sept 30, 2025 9.0% 25 bps 275 bps

Sources: Bloomberg Index Services Limited, Credit Suisse, IHS Markit, J.P. Morgan, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided as is without any express or implied warranties. Notes: All performance data reflect the weighted return of the overweight position minus the underweight position, with both expressed in US dollars and net of dividend withholding taxes where applicable. A suggested active risk target of 25 bps aligns with typical allocations for active public managers. Tactical positions should be sized to complement, not overwhelm, the potential value add from managers.

## Tactical CA House Views as of February 28, 2026 (cont.)

Our house views are aimed at generating value add over a three-year horizon. Differences in risk tolerance, time horizon, liquidity needs, currency exposure, and tax implications, as well as the potential for overlap with existing portfolio exposures, mean these views may not be suitable for all portfolios. Tactical positions should be sized modestly.

Overweight	Underweight	Key details	
<b>Global ex US Treasuries</b> (FTSE WGBI ex US Index)	<b>US Treasuries</b> (Bloomberg US Treasury Index)	Recommended since Expected tracking error Suggested active risk target Implied portfolio size	May 31, 2025 7.3% 15 bps 190 bps
<b>UK Gilts</b> (Bloomberg Sterling Gilts Index)	<b>World Government Bonds</b> (FTSE World Government Bond Index GBP Hedged Index)	Recommended since Expected tracking error Suggested active risk target Implied portfolio size	Feb 28, 2026 7.8% 20 bps 250 bps
<b>Current Coupon Agency MBS</b> (ICE BofA US Current Coupon UMBS Index)	<b>Investment-Grade Corporates</b> (Bloomberg US Investment-Grade Corporate Bond Index)	Recommended since Expected tracking error Suggested active risk target Implied portfolio size	Oct 31, 2025 12.0% 25 bps 200 bps

Sources: Bloomberg Index Services Limited, Credit Suisse, IHS Markit, J.P. Morgan, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided as is without any express or implied warranties. Notes: All performance data reflect the weighted return of the overweight position minus the underweight position, with both expressed in US dollars and net of dividend withholding taxes where applicable. A suggested active risk target of 25 bps aligns with typical allocations for active public managers. Tactical positions should be sized to complement, not overwhelm, the potential value add from managers.

# Overweight California Carbon Allowances/Underweight Global Equities

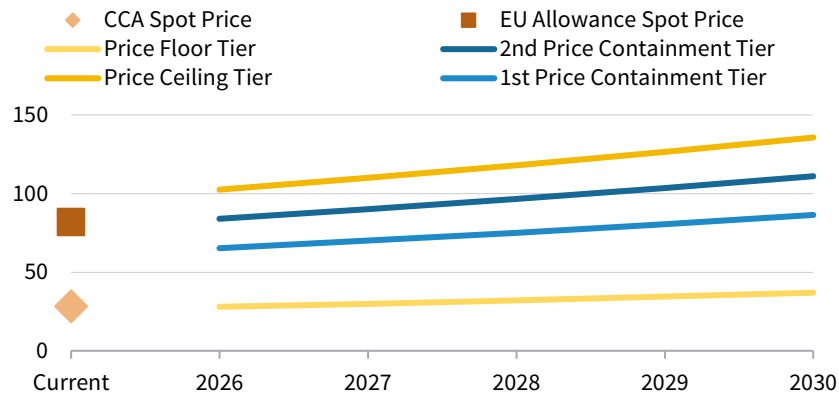
Recommended since October 31, 2021

**Investment thesis:** We believe California Carbon Allowances (CCAs) will outperform global equities, given our expectation that supply/demand fundamentals will drive CCA prices up toward their first price containment tier. With CCAs priced near the program's floor, they offer highly asymmetric return potential. We prefer owning physical allowances over futures implementation. Regulated entities are allotted free allowances for a portion of their emissions and must purchase additional credits to satisfy remaining obligations.

**Key support 1:** On January 13, the California Air Resources Board (CARB) released its preliminary rulemaking package, confirming a planned reduction of 118M CCAs between 2027 and 2030. The proposal also adjusts post-2030 allowance supply. If approved (vote planned for Q2 2026), total cumulative CCA supply from 2027 to 2045 would decline by approximately a third. These changes will increase expected CCA deficits, which in more mature carbon markets have typically led to price increases. CCA prices will receive an additional boost once it is joined with Washington state's program, which is expected by 2027.

## CCA price compared to EU and price containment tiers

As of February 28, 2026 • US dollars



Sources: Bloomberg L.P., MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

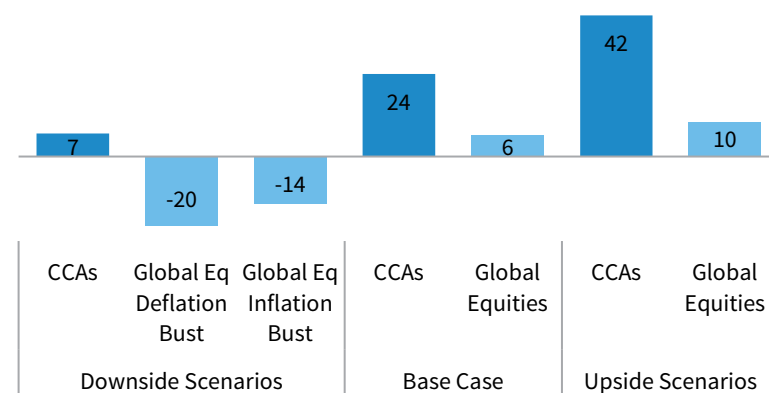
Notes: LHS - Spot prices use near-month futures. Price tiers rise 5% plus US TIPS 10-yr breakeven inflation annually. Price containment tiers trigger extra allowances to hedge higher costs. RHS - CCAs: Downside = 2029 price floor; Base case = halfway to 2029 1st containment tier; Upside scenario = 2029 1st containment tier. For Global Equities, Deflation bust: normalized P/E drops 50%, nominal normalized earnings growth averages -2% YOY. Inflation bust: Same P/E drop, 6% average growth. Base case: P/E unchanged, growth reflects recent averages. Upside: P/E rises by a decile (or to all-time max if >90th %ile), 6% average growth.

**Key support 2:** We anticipate that relative to equities, CCAs offer less downside risk with significantly more upside potential. The program includes a floor indexed by inflation plus 5% that limits downside risk, while reductions in supply relative to demand increase upside in contrast to global equities.

**Key risks:** Regulatory changes present the biggest risk to CCAs, although the program is well established and provides significant revenue to the state of California. Implementation delays and poor communication by CARB related to adoption of increased program stringency measures has put downward pressure on CCA prices. Therefore, we have extended the timeline by which prices are expected to increase in response to tightening supply as reflected in our return protections. CCAs can also experience short-term volatility related to technical issues in the options and futures markets. Finally, global equity performance may exceed our expectations. From an implementation perspective, rolling futures cost an estimated 3%–5% annually, while options for owning physical allowances are limited.

## Return projection scenarios: CCAs vs global equities

As of February 28, 2026 • 3-yr annualized average compound return (%)



# Overweight Developed Markets ex US Small Caps/Underweight Developed Markets ex US Equities

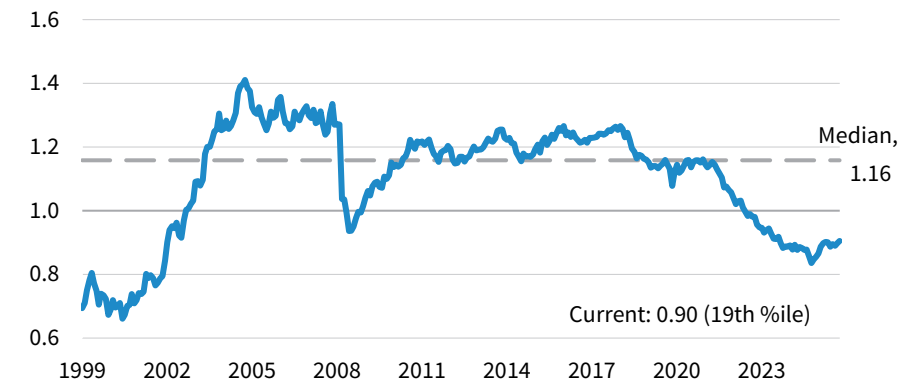
Recommended since September 30, 2023

**Investment thesis:** We expect developed markets (DM) ex US small-cap equities will outperform their mid-/large-cap counterparts, given their low relative valuations and favorable fundamental outlook. DM ex US small caps perform best during economic upswings and appear well-priced for a recessionary scenario. Small caps outperformed in 2025 and early 2026 given their domestic orientation amid concerns over US tariff policy.

**Key support 1:** DM ex US small-cap equities trade at a 10% discount to their mid-/large-cap peers, according to our preferred normalized earnings multiple, compared to their typical 16% premium. Small caps have consistently outperformed mid-/large caps over subsequent three-year periods when starting valuations traded at a discount. Small caps are adequately priced for an economic downturn scenario, which should limit downside risk and support outperformance on a subsequent economic rebound. While momentum rebounded in 2025, upside potential remains, supported by the current economic environment.

## Relative normalized valuations: DM ex US large/mid cap

May 31, 1999 – February 28, 2026

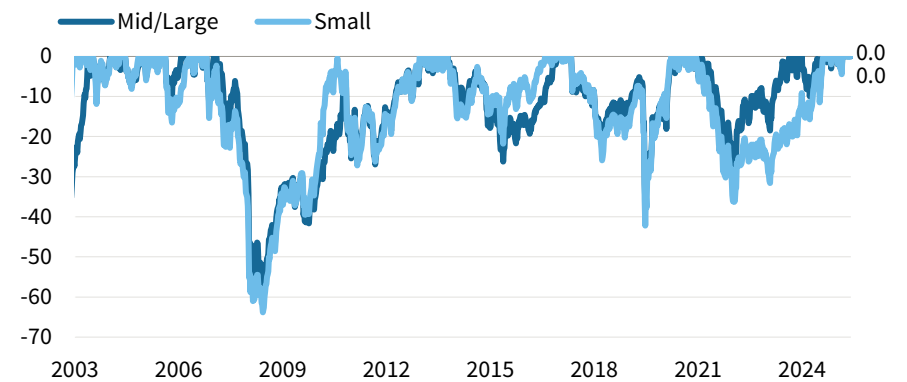


**Key support 2:** The fundamental outlook should support performance. While US tariff policy has increased uncertainty, non-US economic growth is expected to rebound over the next several years, which typically supports small-cap performance. Further, small caps are more domestically oriented than large caps, providing a buffer from further trade disruptions. On earnings, analysts expect EPS growth of nearly 21% in the next 12 months, compared to c. 11% for the mid- and large-cap universe. The expected earnings outperformance is broadly based across geographies and sectors.

**Key risks:** Global economic uncertainty and GDP growth downgrades would likely weigh on small caps, given they are cyclically oriented and have higher leverage, lower profitability, and usually underperform during broader equity market drawdowns. Beyond a cyclical slowdown, an exogenous shock, such as a protracted war in Iran, would also likely be a headwind. Alongside growth downgrades, the inflationary impact of energy price increases and currency drag from lower USD revenue exposure would weigh on relative performance, though a large materials overweight may provide mitigation.

## Drawdown from rolling 3-yr high: DM ex US equity

January 1, 1993 – February 28, 2026 • US dollars • Percent (%)



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Relative normalized P/E data are monthly and are based on an adjusted price-to-cash earnings ratio. The cyclically adjusted price-to-cash earnings (CAPCE) ratio is calculated by dividing the inflation-adjusted index price by trailing five-year average inflation-adjusted cash earnings. Cash earnings are defined as net income from continuing operations plus depreciation and amortization expense. MSCI does not publish cash earnings for banks and insurance companies and therefore excludes these two industry groups from index-level cash earnings. Drawdown data are weekly and based on index price levels.

# Overweight US Small-Cap Equities/Underweight US Equities

Recommended since April 30, 2022

**Investment thesis:** We expect small-cap equities will outperform their large-cap counterparts in the United States given their historically large valuation discount. Weak earnings growth in recent years had weighed on performance, but small caps have outperformed large-cap peers since second half 2025 as earnings have rebounded. Downside risk exists for small-cap equities should earnings disappoint or geopolitical stress rise. However, as recent performance suggests, there could also be more upside for small companies from Fed easing and for sectors like industrials if efforts to boost US manufacturing bear fruit.

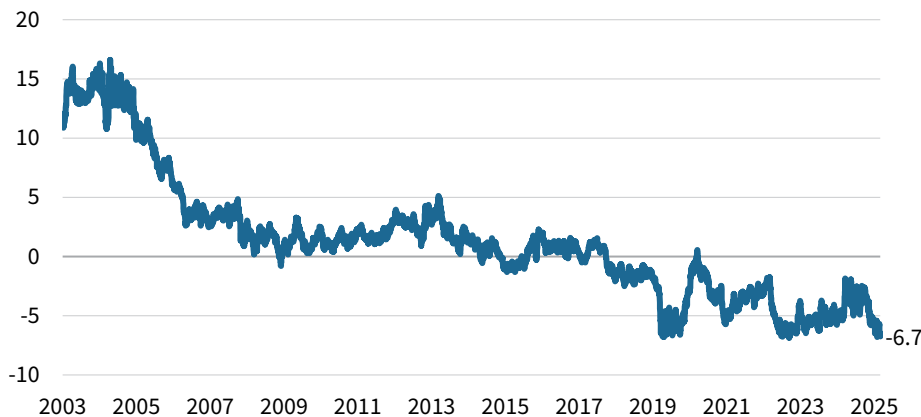
**Key support 1:** US small-cap valuations are steeply discounted relative to US mid- to large-cap equities. The S&P 600® Index trades near a 50% discount to the MSCI US Index using normalized price-to-cash earnings multiples. Small caps also trade near a 25% discount using forward P/E ratios whereas historically they traded at a premium.

**Key support 2:** Small-cap earnings have been weak in recent years, hurting relative performance, but are rebounding off a low base. The S&P 600® Index saw earnings grow 9% in 2025 and forecasted full-year 2026 growth (about 13%) is even higher though trails that for the S&P 500 Index. Tariffs are a headwind for certain small-cap sectors, but Fed easing should be an offset.

**Key risks:** Small-cap companies have lower margins and higher debt levels than larger-cap stocks, making them more vulnerable to an economic slowdown. Persistent inflationary pressures could slow Fed easing and spur renewed concern about debt affordability. Geopolitical shocks—such as the current Iran War—could both spur inflation (and thus slow Fed easing) as well as boost demand for higher quality large-cap stocks at the expense of small-cap peers, perpetuating the current valuation discount.

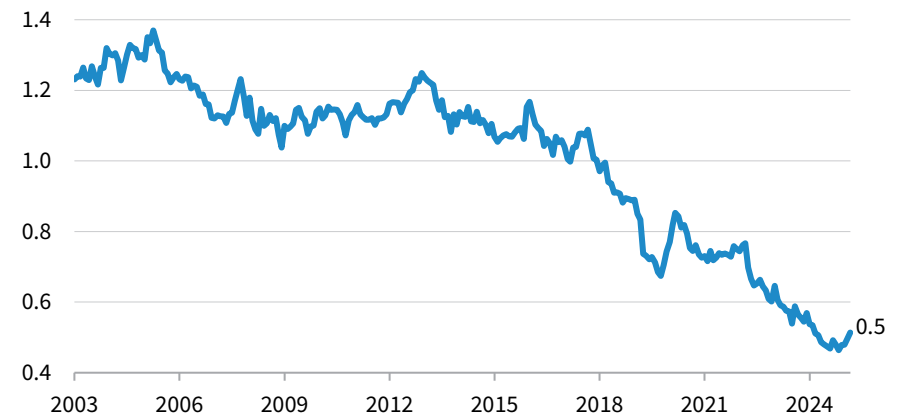
## 5-yr excess return S&P 600® vs MSCI US

December 31, 2003 – February 28, 2026 • Rolling 5-yr relative AACR (%)



## Relative normalized P/E ratio: S&P 600® vs MSCI US

December 31, 2003 – February 28, 2026



Sources: FactSet Research Systems, MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Excess return data are daily. The cyclically adjusted price-to-cash earnings (CAPCE) ratio is calculated by dividing the inflation-adjusted index price by trailing ten-year average inflation-adjusted cash earnings. Cash earnings are defined as net income from continuing operations plus depreciation and amortization expense. MSCI does not publish cash earnings for banks and insurance companies and therefore excludes these two industry groups from index-level cash earnings. S&P does not calculate a cash earnings metric; cash flow is used as a proxy.

# Overweight Global ex US Equities/Underweight US Equities

Recommended since May 31, 2025

**Investment thesis:** We expect global ex US equities will continue to outperform US equities amid resumed US dollar weakness. Relative valuations for global ex US equities remain very low, while relative performance and currency strength has more room to run as demonstrated in past episodes of USD weakness. While the recent surge in oil prices resulting from the Iran War has driven outperformance in the US dollar and US equities, we believe this is temporary.

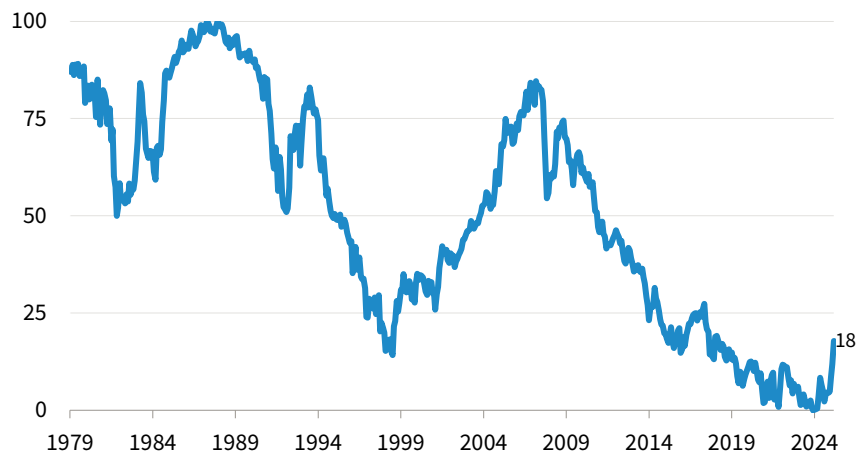
**Key support 1:** Global ex US equities have historically outperformed US equities in weak dollar cycles as non-US currencies strengthen. We expect the dollar to continue to weaken over our tactical horizon as slowing growth, asset overvaluation, and US policy uncertainty continue to weigh on the demand for US assets and place downward pressure on the dollar.

**Key support 2:** Valuations for both US equities and the US dollar have run up and remain near all-time highs. In contrast, relative valuations for global ex US equities and currencies remain low, which should help to mitigate some downside risks. While recent outperformance has left global ex US equities looking stretched from a 12-month momentum basis, history suggests non-US outperformance and currency strength have more room to run as demonstrated by past weak dollar cycles, such as between 1971–78, 1985–95, and 2002–11.

**Key risks:** Surging oil prices have hit non-US currencies harder than the US, given most countries are net oil importers. While this complicates the near-term outlook for non-US equities, we view this as temporary and likely to reverse once oil prices stabilize. Global ex US equities are also underweight the technology sector, which drove recent US equity outperformance. Any rebound in US tech leadership could see non-US equities underperform. Nevertheless, elevated valuations for these sectors imply they are more vulnerable to downside shocks and underperformance versus expectations.

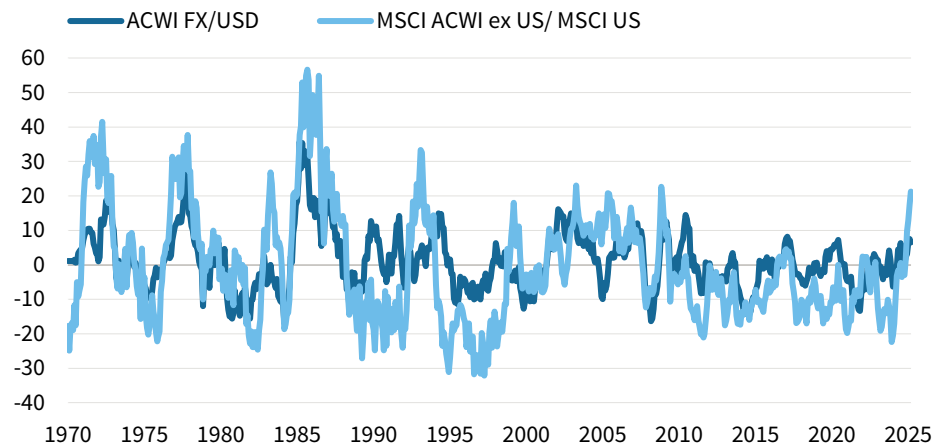
## Relative CAPCE: MSCI ACWI ex US/MSCI US

December 31, 1979 – February 28, 2026 • Percentile (%)



## Relative 12-month momentum

December 31, 1970 – February 28, 2026 • Percent (%)



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: MSCI ACWI valuations prior to November 30, 1995, and MSCI ACWI performance prior to December 31, 1987, are proxied by the MSCI World ex US Index.

# Overweight Latin American Equities/Underweight Emerging Markets Equities

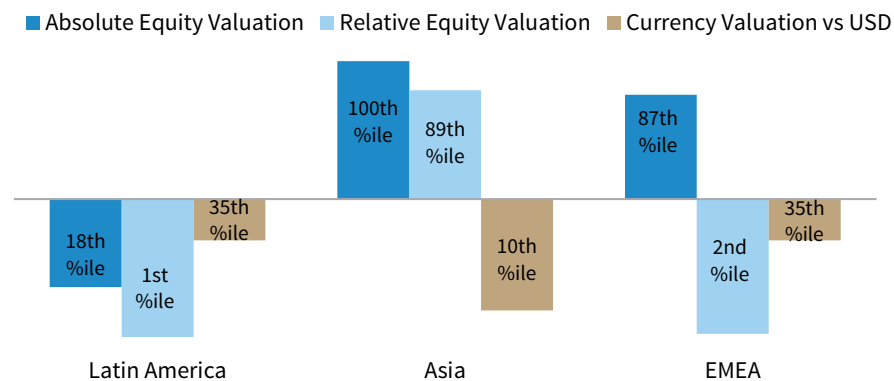
Recommended since June 30, 2025

**Investment thesis:** We expect Latin American (LatAm) equities to outperform broader emerging markets (EM), driven by attractive valuations, limited direct exposure to US trade policy disruptions, and strong structural tailwinds such as commodity demand and improving policy environments. While political risks in the region persist, the trade should benefit from more moderate exposure to recent Middle East developments than other EM regions. Ongoing reforms and significant capital inflows also support a constructive outlook for the region.

**Key support 1:** LatAm equities trade at a 54% discount to broader EM—one of the most attractive levels on record, partly due to richer valuations in Asia. Historically, such starting points have been associated with strong subsequent performance. Momentum has rebounded sharply from oversold conditions in 2024, and this combination of compelling valuations and renewed momentum supports the outlook for continued outperformance.

## Equity and currency valuations of major EM regions

As of February 28, 2026 • Percentile relative to trailing 20-yr history

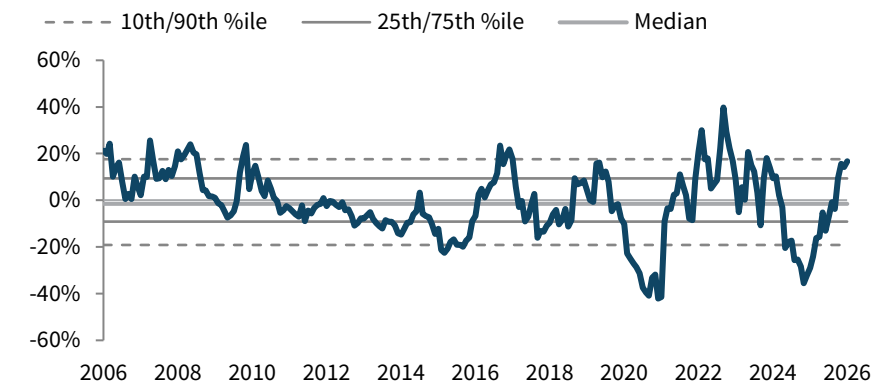


**Key support 2:** LatAm should be relatively insulated from geopolitical disruptions (e.g., US trade policy or the Iran War) and is well positioned to benefit from global structural themes. The region tends to run trade deficits or modest surpluses with the United States, in contrast to the export-heavy Asia region. LatAm equities are under-owned and attractively valued. In addition, LatAm's significant commodity wealth—particularly in copper, lithium, and nickel—positions the region to benefit from global trends, such as AI and electrification.

**Key risks:** Political and fiscal risks remain elevated. Upcoming major elections could provide market volatility, especially the October Brazilian election given the country's large weight within the LatAm index. Fiscal deficits, and elevated rates present additional challenges. Further US tariffs or intervention, particularly in Mexico potentially as part of USMCA review negotiations, could disrupt markets.

## 12-month relative price momentum: Lat Am vs EM

June 30, 2005 – February 28, 2026 • Percent (%)



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Equity valuations are based on the cyclically adjusted price-to-cash earnings ratio (CAPCE) using five-year trailing average real cash EPS. Relative equity valuations for the EM regions are compared to broader EM. Currency valuations are based on equal-weighted baskets of real exchange rates versus the US dollar for 20 of the 24 countries within the MSCI Emerging Markets Index. Greece (which uses the euro), Qatar, Saudi Arabia, and United Arab Emirates (which employ a fixed rate versus the US dollar) are excluded.

# Overweight Global Equity Long/Short Hedge Funds/Underweight 40% Equities/60% Bonds

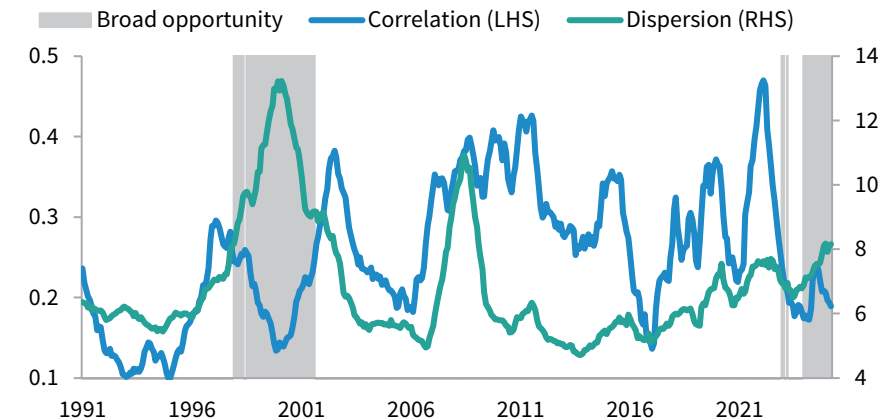
Recommended since September 30, 2025

**Investment thesis:** We expect equity long-short (ELS) hedge funds to outperform a 40/60 stock/bond blend, as increased equity dispersion—driven by rapid advances in AI and heightened geopolitical risks stemming from the Iran War. This backdrop creates more opportunities for ELS managers to generate differentiated returns. ELS funds also benefit from a positive short rebate, which should remain supportive and above previous low-rate levels.

**Key support 1:** Elevated dispersion in stock returns creates a more favorable environment for stock-pickers like ELS hedge funds, offering greater potential for differentiated performance on both long and short trades. While periods of higher dispersion and lower correlations have historically coincided with stronger ELS results—such as 1.4% average monthly returns versus 0.5% for a 40/60 stock/bond blend—research shows that dispersion, rather than correlation, is the meaningful driver of active manager opportunity.

## Rolling 12-month S&P 500 correlation & dispersion

December 31, 1991 – February 28, 2026



Sources: CBOT, Federal Reserve, Standard and Poor's, and Thomson Reuters Datastream.

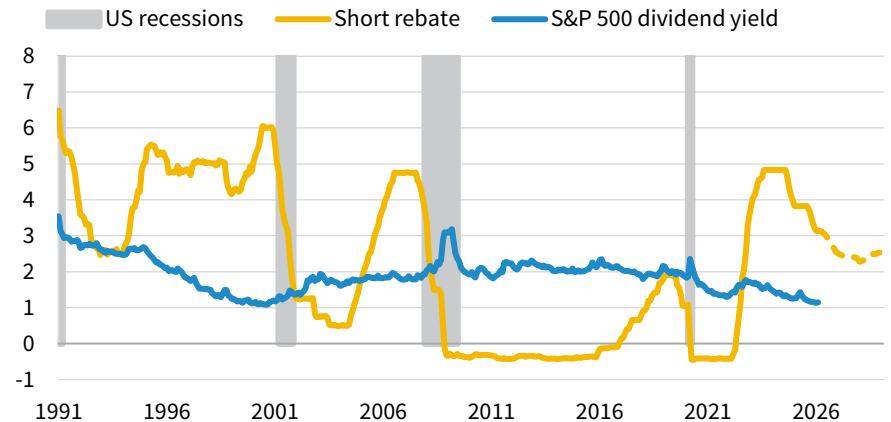
Notes: Correlation is calculated as the weighted average pairwise correlation across the stocks in the index over one month. Dispersion is calculated as the weighted cross-sectional standard deviation of the performance of stocks within the index for one month. Board opportunity reflects periods of above average dispersion and below average correlation. The short rebate is represented by the effective federal funds rate minus a 50-bp spread. Dashed line reflects short rebate expectations based on fed funds futures.

**Key support 2:** ELS hedge funds earn a short rebate—the interest on cash collateral from short sales, net of broker fees. From 2010–21, this rebate was minimal or even negative due to low rates. Today, it is much higher, boosting ELS baseline returns and supporting outperformance versus a 40/60 stock/bond blend. Moreover, the recent surge in commodity prices stemming from the Iran War supports rates and thus the short rebate.

**Key risks:** ELS hedge funds may underperform if equity markets transition to an environment characterized by lower dispersion and higher correlations, as this limits alpha opportunities and causes beta to dominate returns, while short positions become a broader drag on performance. Additionally, if central banks cut rates more aggressively than anticipated, ELS hedge funds could lag both equity and bond markets and face greater challenges in capturing upside due to their short exposures.

## Short rebate versus dividend yield

January 31, 1990 – February 28, 2029 • Percent (%)



# Overweight Unhedged World ex US Treasuries/Underweight US Treasuries

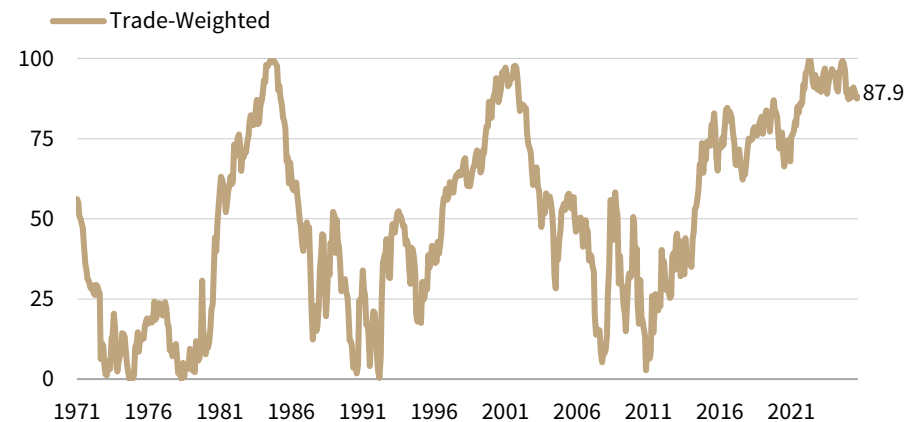
Recommended since May 31, 2025

**Investment thesis:** Unhedged global ex US Treasuries tend to outperform US Treasuries when the dollar declines. We view the USD as expensive and expect it to weaken as the US growth and interest rate advantage fades. Foreign demand for US assets may also diminish amid elevated US exposures, rich equity valuations, and recent policy shifts. This trade is intended for US-based investors and reflects our negative outlook on the dollar, not on the underlying bonds.

**Key support 1:** The USD's trade-weighted real effective exchange rate (REER) recently reached its fourth highest level since 1971. Historically, such elevated starting valuations have preceded multi-year dollar declines, favoring unhedged global ex US Treasuries over US Treasuries. When the USD's REER is above the 90th percentile, subsequent rolling three-year annualized returns have ranged from -2% to 19%, averaging 7.2%. Although the REER has since dipped below this threshold, past cycles suggest the dollar's current decline likely has further to run.

## USD basket trade-weighted real effective exchange rate

June 30, 1971 – February 28, 2026 • Percentile (%)

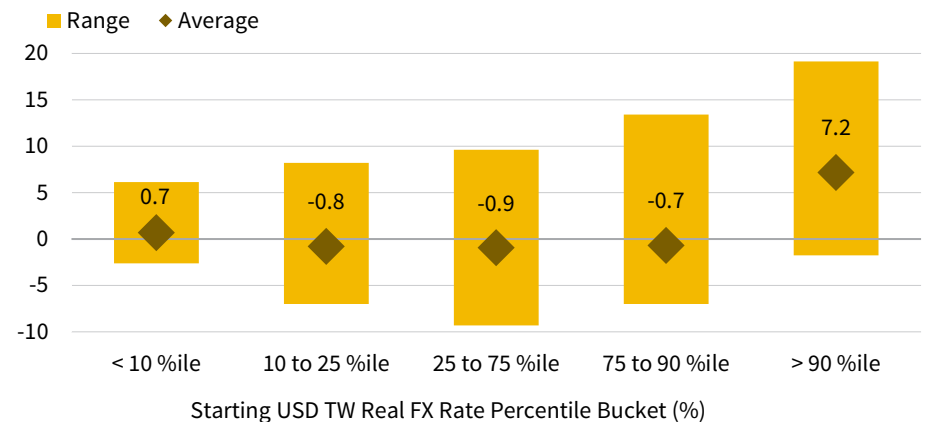


**Key support 2:** We expect USD weakness as secular US advantages diminish. The dollar's recent strength was driven by robust US growth and higher rates, but these tailwinds are set to fade. A more balanced US economy, increased fiscal support in Europe and Japan, and higher US tariffs should narrow growth and rate differentials. Additionally, foreign investors are already hedging dollar exposure and may further reduce US asset purchases amid elevated valuations, high allocations, and rising policy uncertainty, putting additional pressure on the dollar.

**Key risks:** Advances in AI could sustain the US growth advantage and attract capital, while a deeper global slowdown could trigger risk aversion and a flight to safety. The Iran war illustrates this risk. However, while the US dollar typically appreciates in geopolitical conflicts, we anticipate its recent appreciation will reverse once the war is resolved. Implementation comes at a cost, as US Treasuries currently yield 104 bps more than global ex US Treasuries.

## Relative unhedged world ex US vs US treasury bond returns

January 31, 1985 – February 28, 2026 • 3-yr annualized return (%)



Sources: Bloomberg Index Services Limited, FTSE Russell, MSCI Inc., National Sources, OECD, Refinitiv, Thomson Reuters Datastream, and US Federal Reserve. MSCI data provided "as is" without any express or implied warranties.

Note: Inflation data are as of December 31, 2025.

# Overweight UK Gilts/Underweight World Government Bonds

Recommended since February 28, 2026

**Investment thesis:** We expect UK gilts to outperform world government bonds (GBP hedged), driven by attractive valuations, a growth and inflation outlook that points to a relative fall in gilt yields, and positive yield carry. While fiscal risks remain, we believe they are captured in gilts to a greater extent than other government bonds and self-imposed fiscal rules should limit further repricing. The UK, though, is particularly exposed to external supply shocks, such as recent developments in Iran.

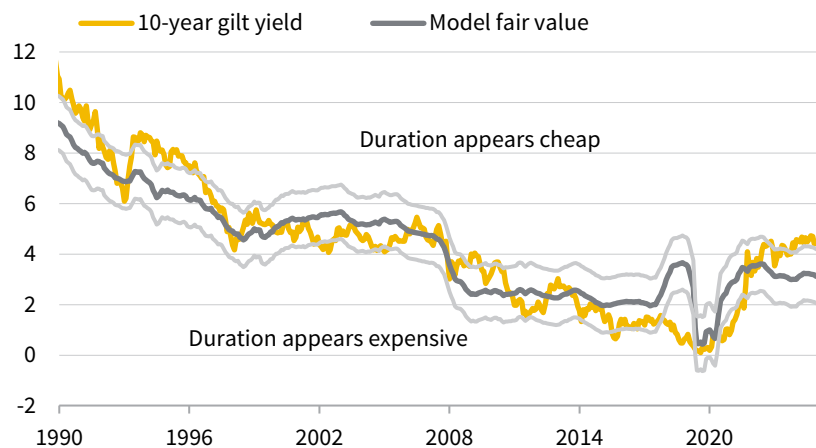
**Key support 1:** Gilts yields are trading more than 1 standard deviation above their model implied fair value level (model based on trailing growth and inflation data). Gilts have outperformed in previous episodes when they exhibit this level of 'cheapness' and move lower toward the fair value range. Gilts yields are also trading high relative to other developed markets (DM) fixed income. Even without a change in yields, gilts should outperform based on positive carry—the yield on gilts is 1.10 percentage points higher than the world government bond underweight.

**Key support 2:** The balance of risks points to lower relative gilt yields. UK growth is set to remain weak and below DM peers, with limited clear catalyst for renewed momentum, and signs of increased economic slack emerging. The BOE has been the most dovish DM central bank as policy cycles desynchronize, although Middle East developments heighten uncertainty on the policy rate path from here. Fiscal concerns are priced to a greater extent than other DMs. Self-imposed fiscal rules and market-imposed discipline should limit long-dated yields pushing comparatively higher.

**Key risks:** The UK is particularly vulnerable to external supply shocks. The Iran War is an example within which gilts could underperform, especially if the war leads to a protracted inflationary impact, although domestic growth and inflation momentum had been waning. A change in UK political leadership could increase focus on government borrowing, but the impact should be limited unless the new leader explicitly scraps the fiscal rules (seen as a tail risk).

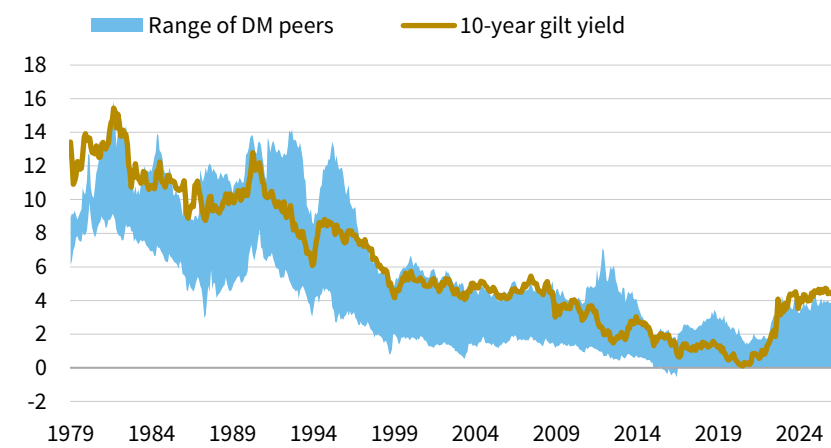
## Valuations: 10-year gilts

January 31, 1990 – February 28, 2026 • Percent (%)



## 10-year UK gilt yield compared to the range of DM peers

January 31, 1979 – February 28, 2026 • Percent (%)



Sources: National Sources and Thomson Reuters Datastream.

Notes: For LHS, the model fair value is the predicted range of ten-year yields based on a multiple linear regression model that includes trailing ten-year real GDP and RPI/CPI change. CPI data are as of January 2026. For RHS, DM peers include the 11 G10 countries.

# Overweight Current Coupon Agency MBS/Underweight Investment-Grade Corporates

Recommended since October 31, 2025

**Investment thesis:** US current coupon agency MBS—recently issued, higher-yielding securities—represent a high-quality, attractively valued segment of the investment-grade bond universe. With yields now competitive with US corporates, they offer compelling relative value and are well positioned to outperform, providing defensive characteristics without sacrificing yield if credit spreads widen from historically tight levels.

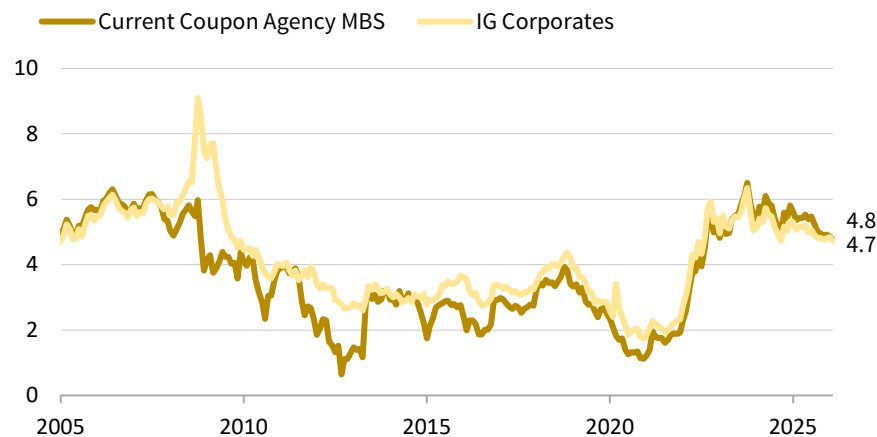
**Key support 1:** For the first time since 2007–08, current coupon yields have matched or exceeded those of corporates. Historically, from these levels, current coupons have outperformed corporates 61% of the time over the next two years, with returns ranging from -3% to 11%. As a AAA-rated sector, agency MBS provide better protection against risk asset sell-offs that pressure credit spreads. Corporate spreads remain unusually tight and appear vulnerable to widening amid increased issuance and signs of labor market and low-end consumer weakness.

**Key support 2:** While corporate spreads are near historical tight, current coupon MBS spreads to Treasuries are less extreme—currently in the 39th percentile over the past 20 years. Spreads have tightened in recent months driven by Fed easing, lower volatility, and the Trump Administration’s directive for Government-Sponsored Enterprises (GSEs) to purchase \$200B in MBS. Although further upside from declining spreads and volatility is now limited, ongoing GSE purchases may provide a backstop, supporting a more favorable risk/reward profile relative to corporates.

**Key risks:** While the Fed’s ongoing MBS portfolio reduction has been a headwind, it is likely priced in. However, higher rate volatility remains a risk given uncertainty around inflation and Fed policy with the war in Iran. Policy changes also introduce uncertainty, but measures to improve housing affordability have so far been net positive for agency MBS. Prepayment risk could rise if affordability boosts housing activity, though the overall impact should remain limited due to structural hurdles and elevated mortgage rates.

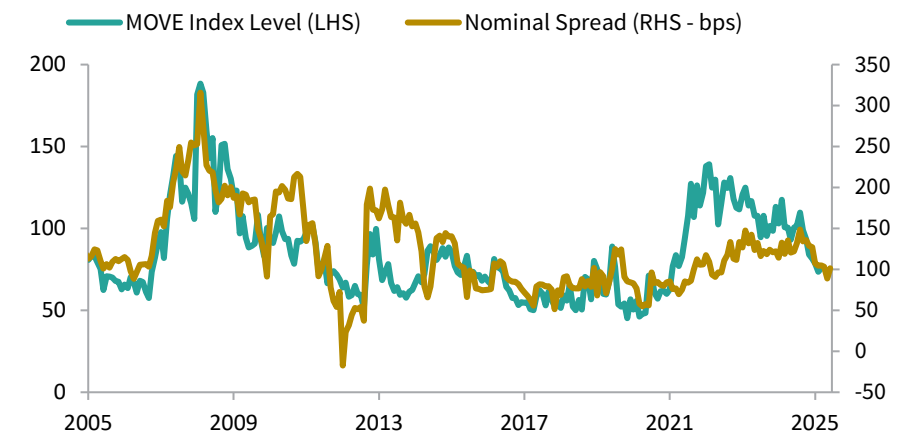
## US bond yields

January 31, 2005 – February 28, 2026 • Percent (%)



## Rate volatility and CC Agency MBS vs Treasury nominal yield spread

January 31, 2005 – February 28, 2026



Sources: Bloomberg Index Services Limited, Intercontinental Exchange Inc., and Thomson Reuters Datastream.

Notes: The MOVE Index is a key indicator of expected volatility in the US Treasury market. Yield spread is calculated versus the Bloomberg US Treasury Index.

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