CAMBRIDGE ASSOCIATES

Tactical CA House Views

September 2026

Tactical CA House Views as of August 31, 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	
California Carbon Allowance Futures (S&P Carbon Credit CCA Index)	**Global Equities** (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
Developed Markets ex US Small-Cap Equities (MSCI World ex US Small Cap Index)	**Developed Markets ex US Equities** (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
US Small-Cap Equities (S&P 600 Small Cap Index)	**US Equities** (MSCI US Index)	Recommended since Expected tracking error Suggested active risk target Implied portfolio size	Apr 30, 2022 14.2% 25 bps 180 bps
Global ex US Equities (MSCI ACWI ex US Index)	**US Equities** (MSCI US Index)	Recommended since Expected tracking error Suggested active risk target Implied portfolio size	May 31, 2025 11.5% 15 bps 130 bps
Global Equity Long/Short (ELS) Hedge Funds (Basket of Global ELS Hedge Funds)	**40% Equities/60% Bonds** (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
Global ex US Treasuries (FTSE WGBI ex US Index)	**US Treasuries** (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

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 August 31, 2026 (cont.)

Overweight	Underweight	Key details	
US Short-Term TIPS (Bloomberg 1-5 Year US TIPS Index)	**US Short-Term Treasuries** (Bloomberg 1-5 Year US Treasury Index)	Recommended since Expected tracking error Suggested active risk target Implied portfolio size	July 31, 2026 3.0% 12.5 bps 400 bps
UK Gilts (Bloomberg Sterling Gilts Index)	**World Government Bonds** (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
Current Coupon Agency MBS (ICE BofA US Current Coupon UMBS Index)	**Investment-Grade Corporates** (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

Recently Closed Position

Overweight	Underweight	Closed On
Latin American Equities (MSCI Latin America Index)	**EM Equities** (MSCI Emerging Markets Index)	August 31, 2026

This month we closed the overweight to Latin American Equities versus Emerging Markets Equities, which was initiated in June 2025. While the trade was originally based on the regions historically depressed relative valuations and prospective support from US dollar weakness and central bank easing cycles, the trade dynamics changed materially in 2026. Trade performance had become primarily driven by a high concentration of Asian AI hardware companies—TSMC, Samsung, and SK Hynix—within the MSCI Emerging Markets Index, making the position less about the broad Latin America versus EM valuation opportunity and more about a narrower underweight to a concentrated part of the EM benchmark. The macro outlook has also become more mixed: EM Asia is benefiting from AI-related investment inflows, stronger growth momentum, and supportive reforms, while Latin America faces weaker relative corporate fundamentals and elevated fiscal and currency risks. Brazil's October election also introduces additional political uncertainty and event risk.

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. Regulated entities are allotted free allowances for a portion of their emissions and must purchase additional credits to satisfy remaining obligations.

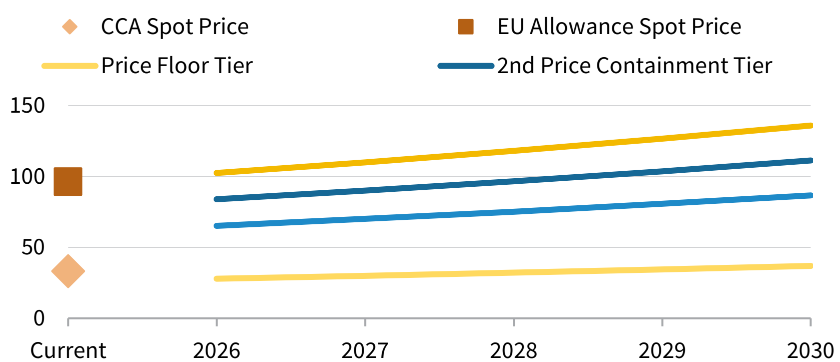
Key support 1: On August 31, California's Office of Administrative Law approved the long-awaited overhaul of the state's Cap-and-Invest regulation, resulting in a reduction of 118M CCAs between 2027 and 2030. The package includes a Manufacturing Decarbonization Incentive that has potential to reduce some of the supply tightening to the degree emitters commit to investments in eligible decarbonization projects. These changes will increase expected CCA deficits, which in more mature carbon markets have typically led to price increases. Prices will receive an additional boost once it is joined with Washington state's program, which is expected by 2027.

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 1.5% annually, while options for owning physical allowances are limited.

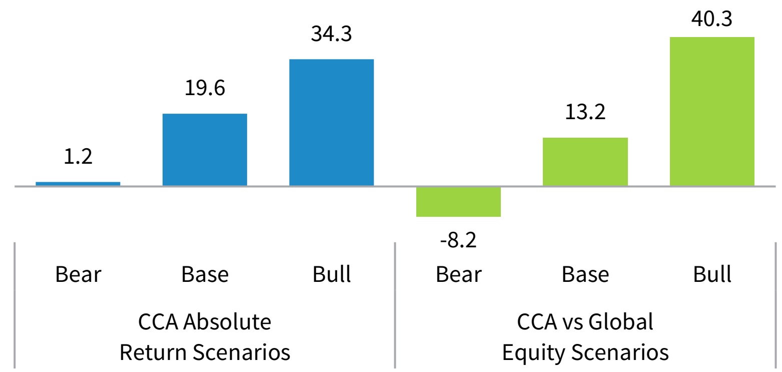
CCA price compared to EU and price containment tiers

As of August 31, 2026 • US dollars



Return projection scenarios

As of August 31, 2026 • 3-yr annualized average compound return (%)



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: Bear Scenario = 2029 price floor; Base Scenario = halfway to 2029 1st containment tier; Bull Scenario = 2029 1st containment tier. For CCAs vs Global Equity: Bear Scenario = Bear Scenario for CCAs minus Global Equity Bull Scenario where cyclically normalized P/E rises by a decile (or to all-time max if >90th %ile), 6% annual nominal earnings growth. Base Scenario = CCA Base Scenario minus Global Equity Base Scenario where P/E is unchanged, growth reflects recent averages. Bull Scenario: CCA Base Scenario minus Global Equity Bear in a Deflationary Bust where P/E drops 50%, earnings growth averages -2%.

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. As a result, they have recently underperformed amid a supply side–driven rise in energy prices and interest rates, after outperforming in 2025 and early 2026 due to their domestic orientation during concerns over US tariff policy.

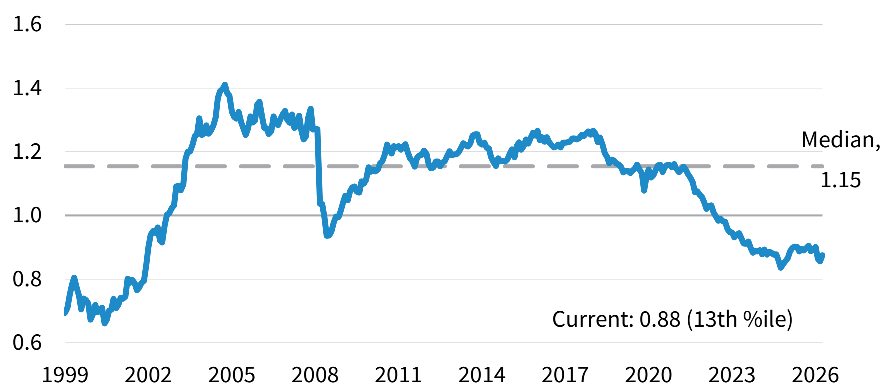
Key support 1: DM ex US small-cap equities trade at a 12% discount to their mid-/large-cap peers, according to our preferred normalized earnings multiple, compared to their typical 15% premium. Small caps have consistently outperformed mid-/large caps over subsequent three-year periods when starting valuations traded at a discount. The more modest valuation profile of small caps should limit downside risk were a slowdown to eventuate and support outperformance on a subsequent economic rebound. The recent reversal in momentum suggests positioning should not be a headwind to further appreciation.

Key support 2: The fundamental outlook should support performance. While US tariff policy and the Iran War have increased uncertainty, non-US economic growth is expected to rebound in the coming years, which typically supports small caps. Further, small caps are more domestically oriented than large caps, providing a buffer from further trade disruptions. On earnings, analysts expect EPS growth of 19% in the next 12 months, compared to about 12% 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.

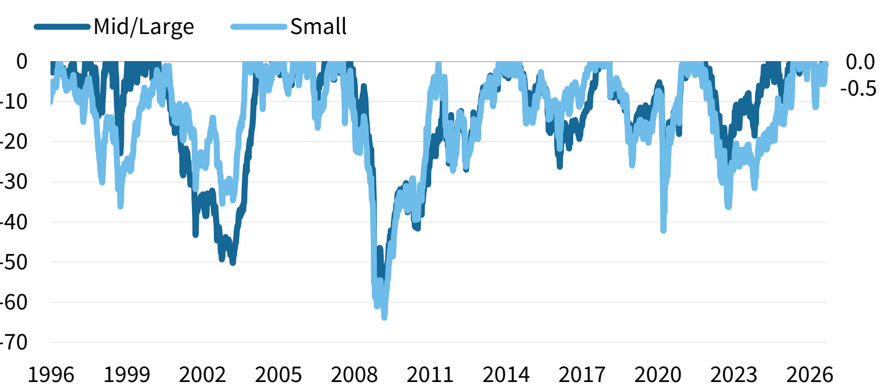
Relative normalized valuations: DM ex US small vs large/mid cap

May 31, 1999 – August 31, 2026



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

January 1, 1993 – August 31, 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 interest rates rise. However, as recent performance suggests, there could also be more upside for small caps as investors seek to diversify portfolios away from heavily concentrated large-cap indexes.

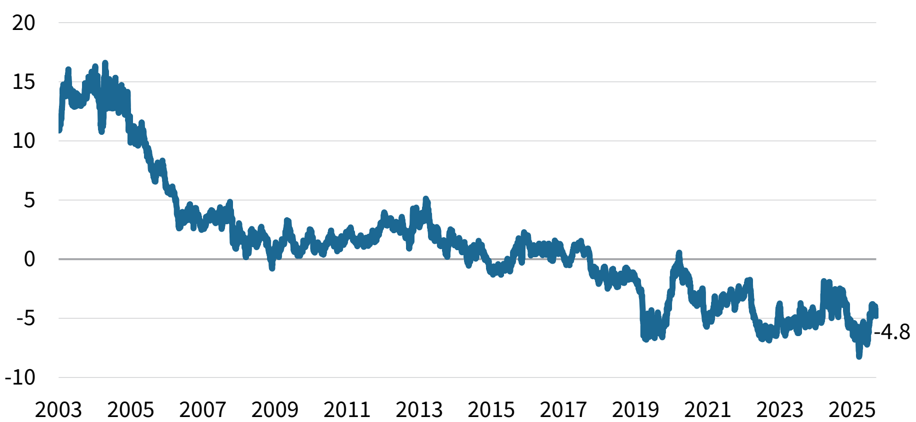
Key support 1: US small-cap valuations are steeply discounted relative to US large-cap equities. The S&P 600® Index trades near a 50% discount to the MSCI US Index using normalized price-to-cash earnings multiples. Small caps also trade at more than a 20% discount using forward P/E ratios whereas historically they traded at a premium.

Key support 2: Small-cap earnings have been weak in recent years, hurting relative performance, but are rebounding. Forecasted full-year 2026 earnings growth for the S&P 600® Index is around 19% and should see similar profit growth next year.

Key risks: Small-cap companies have lower margins and higher debt levels than larger-cap stocks. This makes them more vulnerable both to economic slowdowns, as well as inflationary pressures, which could cause the Federal Reserve to hike rates and raise borrowing costs. Large-cap stocks, while more expensive, have higher weightings to technology companies benefiting from the AI-investment boom, which in turn has generated stronger earnings growth and could continue to underpin investor demand.

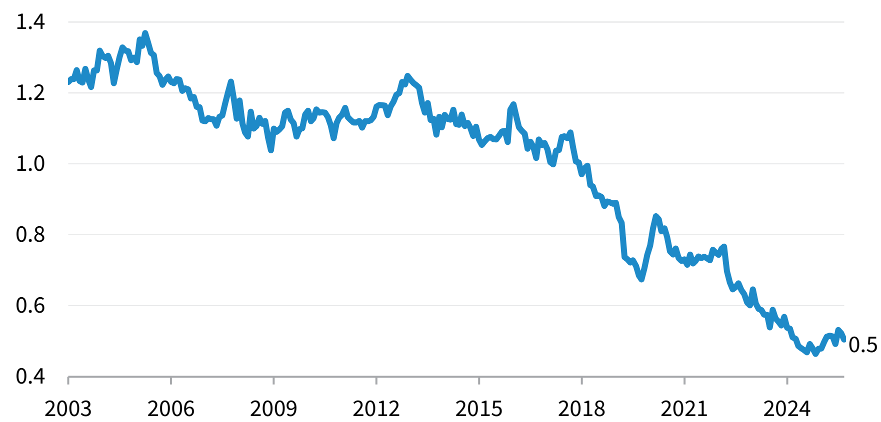
5-yr excess return S&P 600® vs MSCI US

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



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

December 31, 2003 – August 31, 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 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 rise in oil prices resulting from the Iran War has seen the US dollar and US equities outperform, we believe this is temporary.

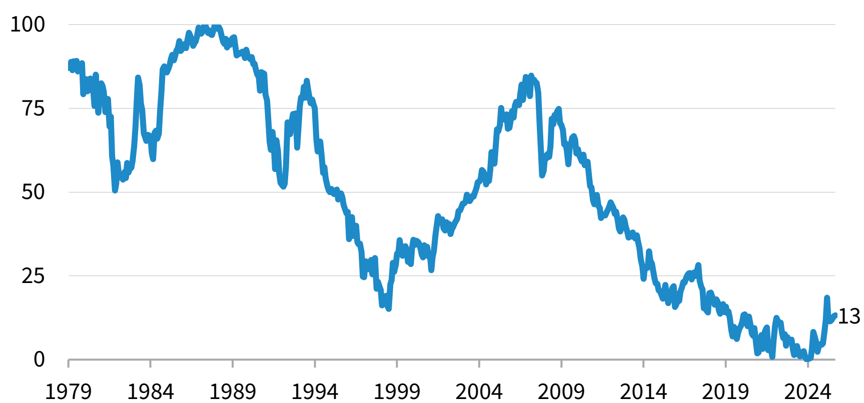
Key support 1: Global ex US equities have historically outperformed US equities in weak dollar cycles as non-US currencies strengthen. We expect the dollar to continue to weaken over our tactical horizon as slowing growth, asset overvaluation, and US policy uncertainty continue to weigh on the demand 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 the rally in 2025 left global ex US equities stretched on a momentum basis, the sell-off and underperformance since February has removed this overbought condition. 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: Elevated 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. 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.

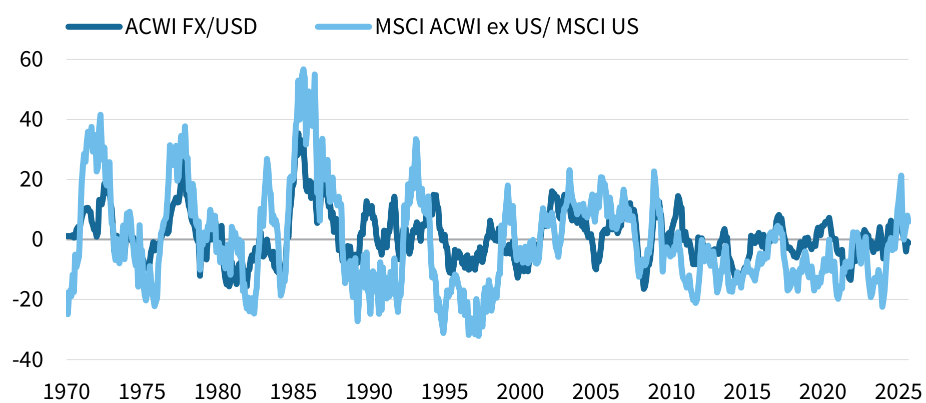
Relative CAPCE: MSCI ACWI ex US/MSCI US

December 31, 1979 – August 31, 2026 • Percentile (%)



Relative 12-month momentum

December 31, 1970 – August 31, 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 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, blockbuster tech IPOs, and heightened geopolitical risks—should create 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.

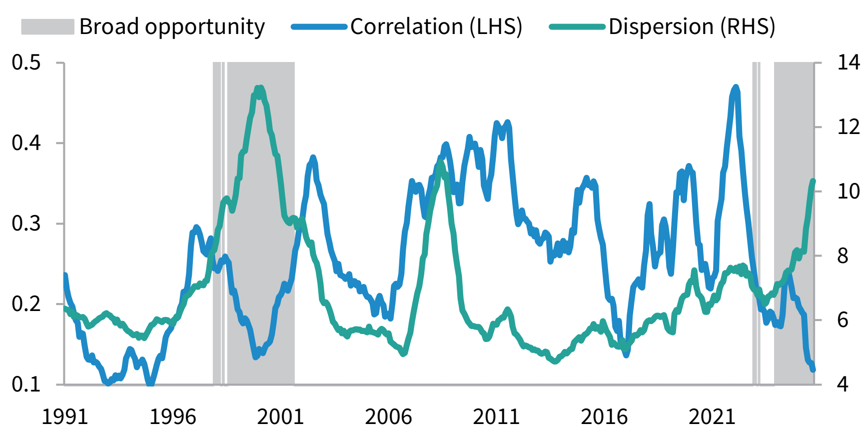
Key support 1: Elevated dispersion in stock returns creates a more favorable environment for stock-pickers like ELS hedge funds, offering greater potential for differentiated performance on both long and short trades. While periods of higher dispersion and lower correlations have historically coincided with stronger ELS results—such as 1.2% 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.

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 uptick in inflation 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 economic growth weakens and prompts central banks to cut rates, ELS hedge funds could underperform both equity and bond markets during a policy-driven rebound, as their short exposures may constrain upside participation.

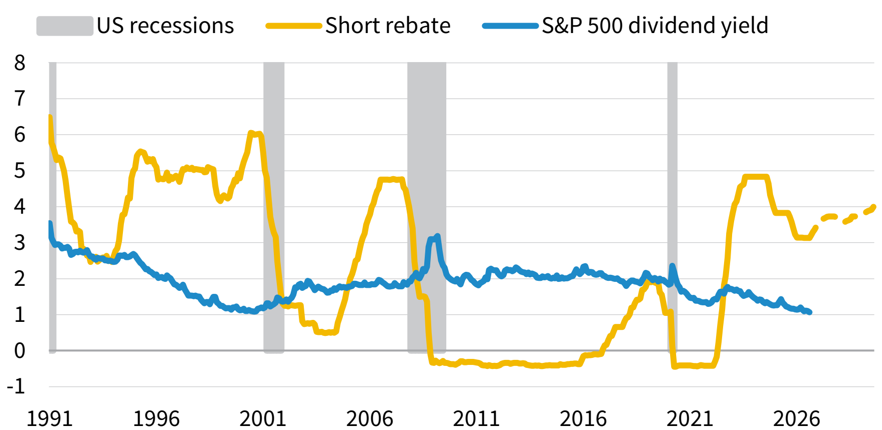
Rolling 12-month S&P 500 correlation & dispersion

December 31, 1991 – August 31, 2026



Short rebate versus dividend yield

January 31, 1991 – August 31, 2029 • Percent (%)



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.

Overweight Unhedged World ex US Treasuries/Underweight US Treasuries

Recommended since May 31, 2025

Investment thesis: Unhedged world ex US Treasuries outperform US Treasuries when the dollar declines. We view the USD as expensive and expect it to weaken as the US advantages fade and foreign demand for US assets moderates 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.

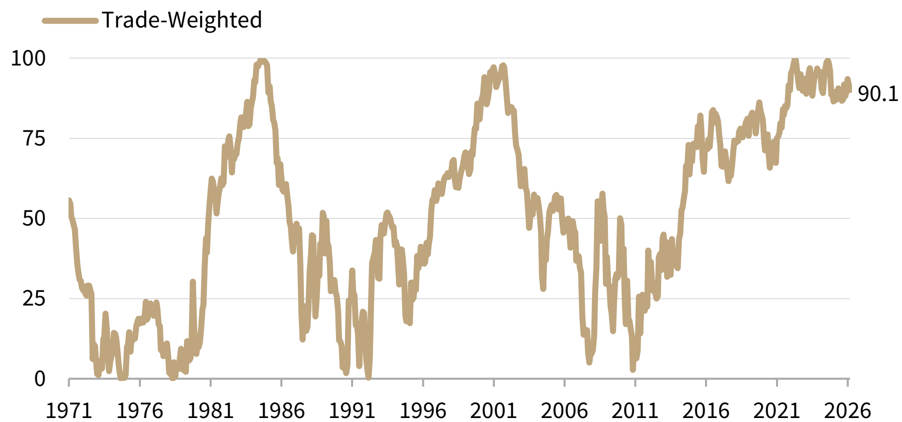
Key support 1: The USD's trade-weighted real effective exchange rate (REER) is elevated. Historically, such valuation levels have preceded multi-year dollar declines, favoring unhedged world ex US Treasuries over US Treasuries. When the USD's REER rises above the 90th percentile, subsequent three-year annualized returns have ranged from -2% to 19%, averaging 6.2%.

Key support 2: Near-term forces could still support the dollar, including the Iran War and US AI leadership, which have lifted growth and rate expectations and attracted capital inflows. But these supports are unlikely to be durable, and we continue to expect a medium-term weakening trend. The dollar remains expensive by historical standards. Relative growth and yield differentials should narrow over time, while foreign investors are increasing currency hedges and may slow record-high purchases of US assets amid elevated valuations, policy uncertainty, and rising investment needs at home. Recent dollar weakness may also provide a release valve for Treasury efforts to manage the yield curve.

Key risks: Advances in AI and productivity could sustain US growth and continue to attract foreign capital, keeping the dollar stronger for longer, and the fragility of peace in the Middle East also remains a near-term risk. Lastly, implementation comes at a cost; US Treasuries yield approximately 140 bps more than global ex US Treasuries.

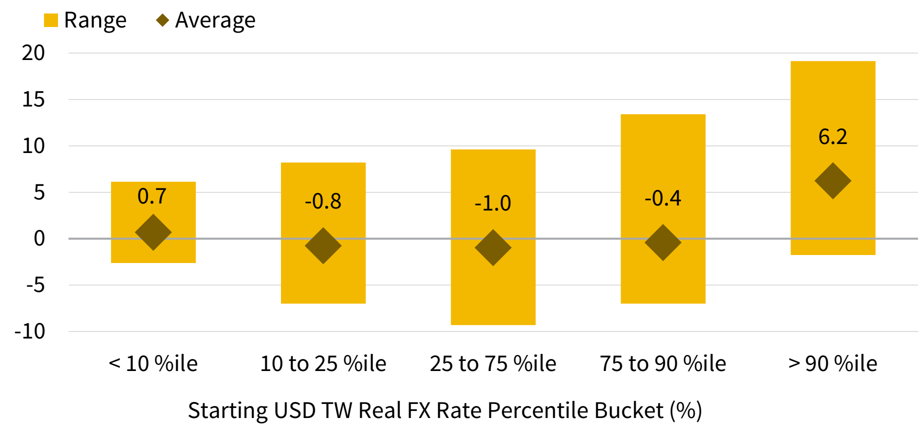
USD basket trade-weighted real effective exchange rate

June 30, 1971 – August 31, 2026 • Percentile (%)



Relative unhedged world ex US vs US treasury bond returns

January 31, 1985 – August 31, 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 July 31, 2026.

Overweight Short-Term US TIPS/Underweight Short-Term US Treasuries

Recommended since July 31, 2026

Investment thesis: We expect short-term US TIPS will outperform short-term US Treasuries, given elevated real yields and short-term breakeven inflation rates that appear too low for the current macro and geopolitical environment. Whether the current expansion continues or the environment becomes more stagflationary, low short-term breakeven levels leave room for the position to perform well.

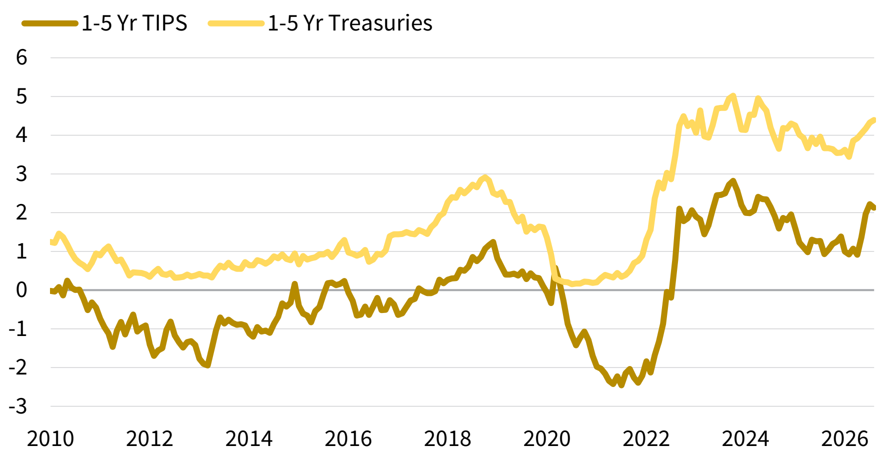
Key support 1: Short-term real yields have risen sharply this year, climbing from below 1.0% in early 2026 to above 2%—back in the top decile of observations since 2010. The spread between nominal and real yields (i.e., breakeven inflation spreads) has also compressed, as the recent rise in yields largely reflects a repricing of policy rate expectations rather than inflation expectations. Excluding the negative real rate era, periods with similarly compressed breakeven inflation spreads have been followed by TIPS outperformance over subsequent three-year horizons 100% of the time, averaging approximately 200 basis points of annualized excess return.

Key support 2: Breakeven inflation spreads appear too low for the current environment, given ongoing uncertainty over the Iran War and oil prices, leaving breakevens compressed even as inflation risks remain skewed to the upside. TIPS typically produce the best excess returns relative to Treasuries when real growth is positive and/or inflation is high or rising. More broadly, the increased frequency of supply shocks since COVID-19 has reduced the diversification role of nominal bonds and increased the appeal of inflation-sensitive assets like TIPS, particularly at current real yield levels..

Key risks: The primary risks are a rapid unwinding of inflationary pressures or a growth shock that sharply lowers inflation expectations—both outcomes we view as less likely. Additional risks include a widening TIPS liquidity premium—the TIPS market is smaller and less actively traded than nominal Treasuries—or a faster-than-expected rise in real yields if the Federal Reserve tightens more than expected.

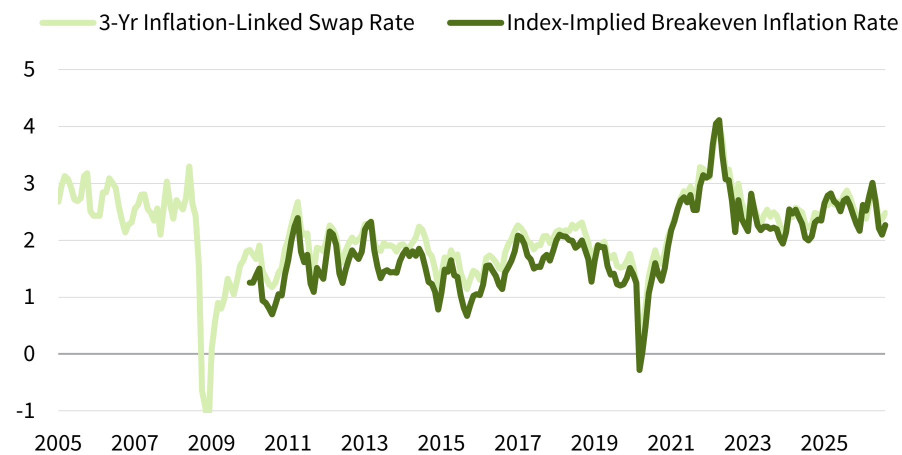
Absolute yields: 1-5 yr US TIPS and 1-5 yr US Treasuries

January 31, 2010 – August 31, 2026 • Percent (%)



Inflation expectations

January 31, 2005 – August 31, 2026 • Percent (%)



Sources: Bloomberg Index Services Limited, ICAP, Standard & Poor's, and Thomson Reuters Datastream. Third-party data provided "as is" without any express or implied warranties.
Note: The index-implied breakeven inflation rate is the difference of the 1–5-year US Treasury Index yield and the 1–5-year US TIPS Index yield.

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 domestic growth 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 ongoing developments in the Middle East.

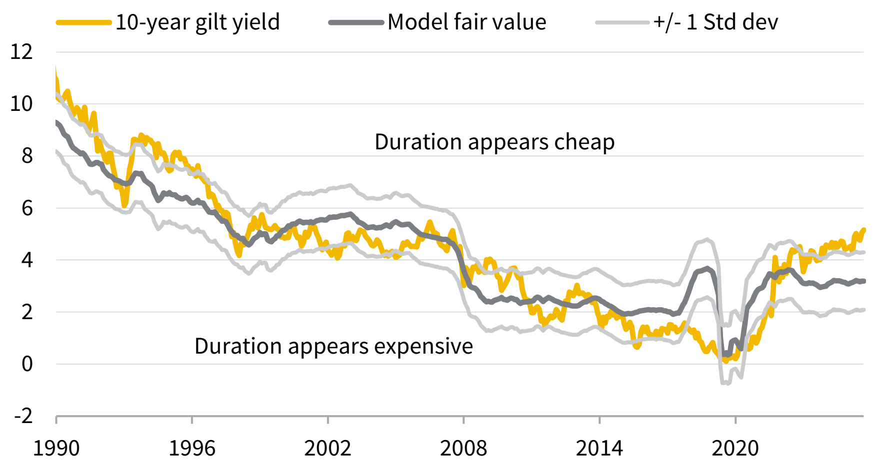
Key support 1: Gilts yields are trading more than 1 standard deviation above their model implied fair value level (model based on trailing growth and inflation data). Gilts have outperformed in previous episodes when they exhibit this level of "cheapness" and move lower toward the fair value range. Gilts 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 1.26 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 that of many DM peers, with no clear catalyst for renewed momentum and signs of increased economic slack emerging. In our view, the supply-side shock from the Iran War is more likely to further dampen demand than to lead to a protracted, broad inflation spiral from here, which should ensure the Bank of England tightens monetary policy by less than markets currently expect. Fiscal concerns are priced to a greater extent than other DMs due to self-imposed fiscal rules and market-imposed discipline.

Key risks: The Iran War is a scenario in which gilts could underperform, especially if the war leads to a protracted inflationary impact, although domestic growth and inflation momentum had been waning prior to the war. The change in UK political leadership could increase focus on government borrowing, but the impact should be limited given the new prime minister has explicitly said the government will maintain the existing fiscal rules.

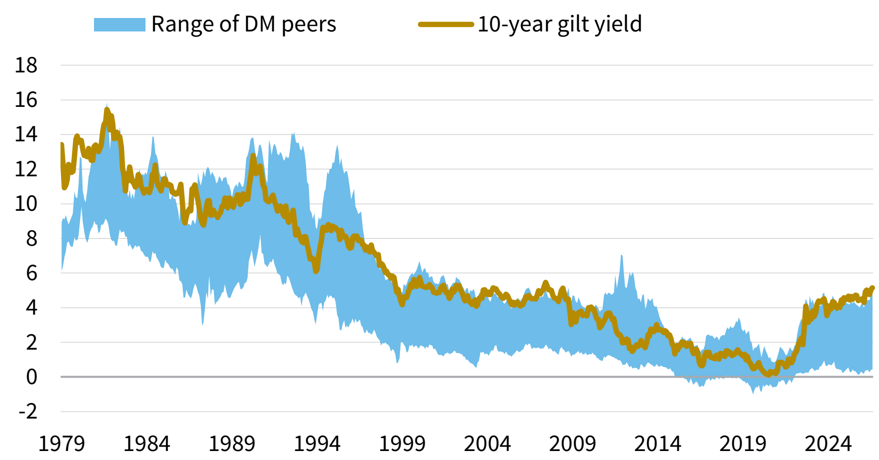
Valuations: 10-year gilts

December 31, 1990 – August 31, 2026 • Percent (%)



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

January 31, 1979 – August 31, 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 July 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 currently 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.

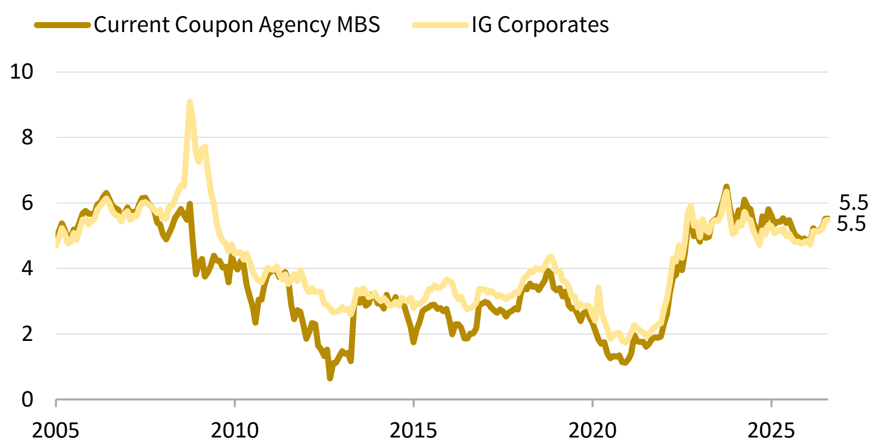
Key support 1: For the first time since 2007–08, current coupon yields have routinely matched or exceeded those of corporates. Historically, from these levels, current coupons have outperformed corporates 62% of the time over the next two years, with excess returns ranging from -3% to 11%. As a AAA-rated sector, agency MBS provide better protection against risk asset sell-offs that pressure credit spreads. Corporate spreads remain historically tight and appear vulnerable to widening amid increased issuance and elevated geopolitical risk.

Key support 2: While corporate spreads are near historical tights, current coupon MBS spreads to Treasuries are less extreme—currently in the 35th percentile over the past 20 years. Spreads have tightened over the last year driven by Fed easing, lower rate 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 likely now more 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. 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.

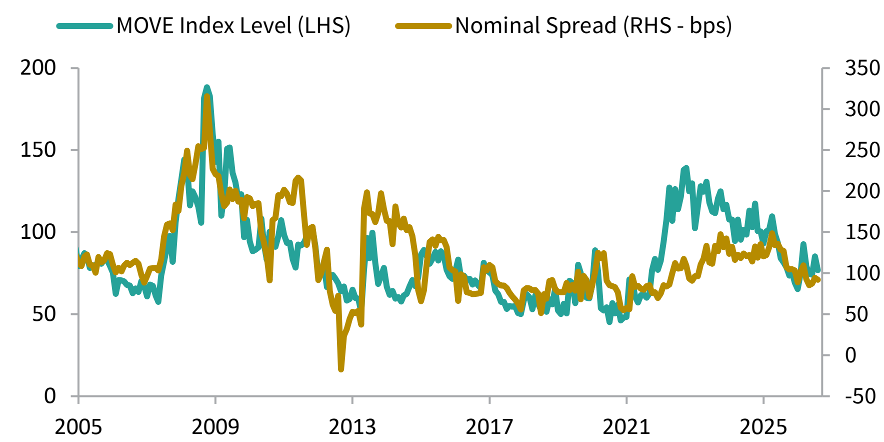
US bond yields

January 31, 2005 – August 31, 2026 • Percent (%)



Rate volatility and CC Agency MBS vs Treasury nominal yield spread

January 31, 2005 – August 31, 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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