FIXED INCOME INSIGHTS / 1Q26

Tug of War

Weitz | INVESTMENT MANAGEMENT



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In a sequel to last year, markets got off to an exuberant start in 2026, driven by relatively strong economic growth, new fiscal stimulus, a stable labor market, and a Federal Reserve leaning toward more rate cuts. Risk assets performed well, with both stocks and bonds generating positive returns leading up to the Middle East conflict at the end of February. While risk assets wobbled, interest rate volatility reasserted itself as the dominant driver of bond returns in the first quarter, as the yield curve shifted higher. In U.S. fixed income markets, investment grade and high yield corporates led on the downside as both interest rate and credit-sensitive assets were most negatively impacted.

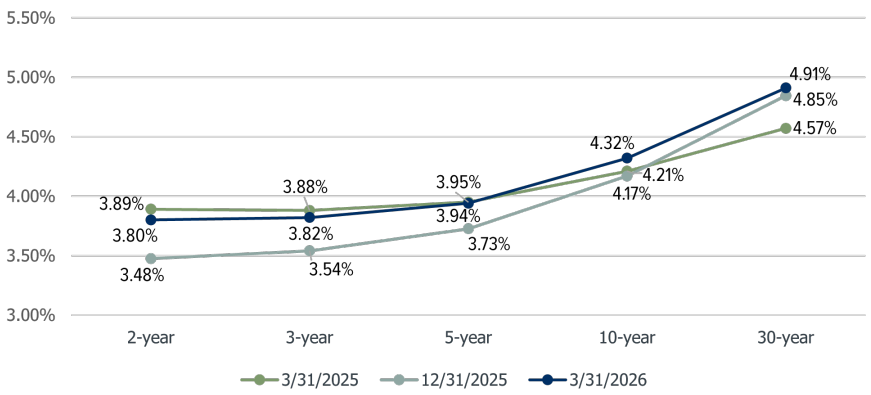
Q1 2026 | Fixed Income Returns
Bloomberg Indices

	Returns (%)	Duration (Years)
Bloomberg US T-Bill Index	0.86	0.23
Bloomberg US Aggregate Bond	-0.05	5.88
Bloomberg US Treasury	-0.04	5.82
Bloomberg US MBS (Mortgage-Backed)	0.40	5.36
Bloomberg US Corporate IG	-0.54	6.78
Bloomberg US Corporate High Yield	-0.50	3.02
Bloomberg US Securitized	0.40	5.23

Interest Rates

Renewed inflation fears, driven by a sharp surge in oil prices to over $110 per barrel, reignited interest rate volatility. After hitting its lowest levels since 2021, the MOVE index, a broad measure of U.S. interest rate volatility, more than doubled from the mid-50s in January to a peak of approximately 115 in late March. The spike in volatility was largely driven by uncertainty in the expected path of shorter-term interest rates, as further rate cuts by the Fed this year were temporarily replaced with fear of a potential rate hike. As illustrated in the chart to the right, the yield curve shifted higher late in the first quarter, led by the front end of the yield curve. Two-year and five-year Treasury rates increased 32 bps and 22 bps, respectively. Longer-term rates also increased, with 30-year yields climbing back toward 5%.

U.S. Treasury Yields

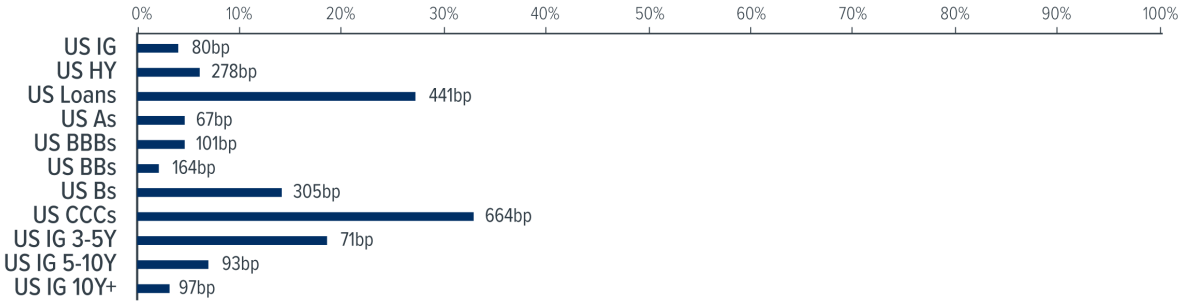


Despite the headlines, the Federal Reserve held policy steady in March, while updated economic projections reflected a somewhat firmer inflation path. While wars are never a positive development and the sudden spike in oil prices is a real concern, overall economic conditions remain favorable, and consumer spending remains resilient. The unemployment rate remained historically low at 4.3% as of March. Initial jobless claims, which measure the number of people filing for unemployment benefits for the first time, remained low at less than 210,000 through March. In addition, accelerating investment in artificial intelligence (AI) is a tailwind, and fiscal support from income and tax initiatives in the Big Beautiful Bill remains a catalyst as we move through the year.

Credit Markets

Despite some modest spread widening late in the first quarter, overall corporate credit spreads, along with their securitized brethren, remain historically low. As illustrated in the chart below, current spreads across most of the U.S. investment grade (IG) and high yield (HY) markets remain near the low end of their 20-year historical ranges.

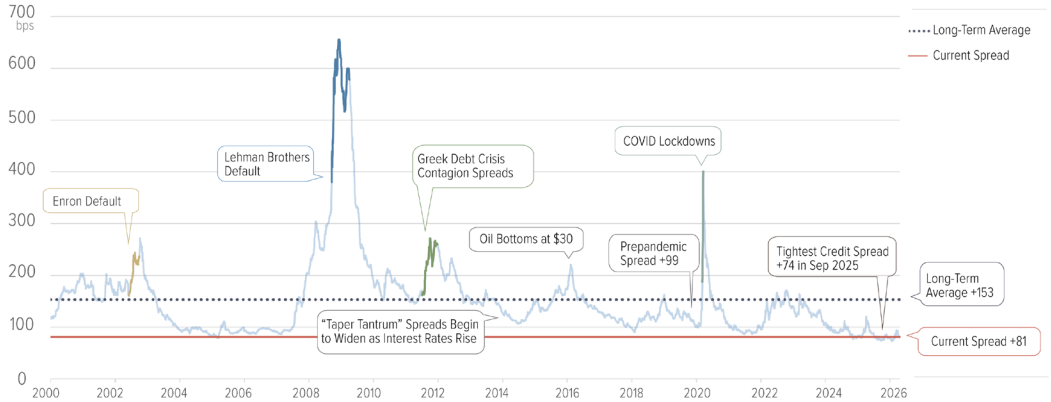
Current Credit Spreads vs. Past 20 Years



Source: Bloomberg, ICE BAML, Morgan Stanley Research (4/13/2026). Based on credit quality and maturity across U.S. fixed income sectors. Percentile (0% = lowest spreads, 100% = highest spreads).

In terms of investment grade spreads, the chart below illustrates how we are bumping along the bottom end of the historical credit spread range going back to 2000. As a result, we are finding few qualifying investment opportunities within the investment grade market.

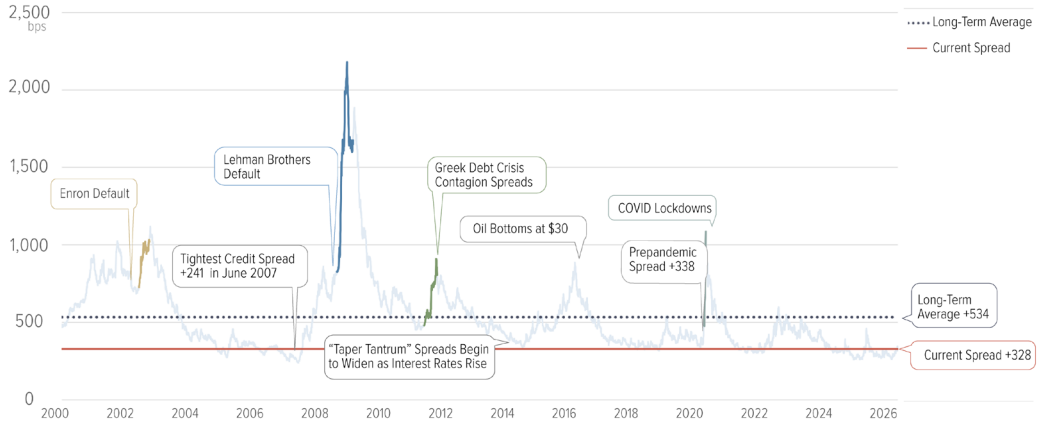
Long-Term Average Credit Spread for Investment-Grade Corporate Bond Market



Source: As of 3.31.2026; Ice Data Indices, LLC, ICE BofA US Corporate Index Option-Adjusted Spread [BAMLC0A0CM], retrieved from FRED, Federal Reserve Bank of St. Louis.

While overall high yield spreads also remain historically low, we are seeing more dispersion under the surface in the high yield market. Our increased focus on the high yield market, led by credit analysts Chris Allen and David Kratz, has enabled us to identify more qualifying risk-adjusted investment opportunities for our portfolios. Please see our Quarterly Commentaries for further information on opportunities we have added to our portfolios during the first quarter.

Long-Term Average Credit Spread for High-Yield Corporate Bond Market



Source: Data as of 3.31.2026; Ice Data Indices, LLC, ICE BofA US High Yield Index Option-Adjusted Spread [BAMLH0A0HYM2], retrieved from FRED, Federal Reserve Bank of St. Louis.

Private Credit

Given the rampant headlines around private credit and our long history of investing in non-benchmark areas, we offer the following perspective. Private credit broadly refers to lending by non-bank institutions to privately owned businesses and has been around for decades. It represents a significant portion of fixed income markets across a wide range of sectors, including asset-backed finance, direct lending, real estate debt, infrastructure, mezzanine debt, and venture capital. While recent headlines are centered on direct lending, particularly around perpetual, non-traded business development companies (BDCs)*, these represent only a portion of the broader private credit universe, and we do not believe there is systemic risk in private credit at large or within the direct lending ecosystem. We do not see a buildup of leverage in the system, particularly within BDCs, which remain disciplined with balance sheet leverage in a range of 0.50x–1.25x. In addition, the direct lending industry has continued to diversify its financing sources, which include unsecured corporate bonds and CLOs in addition to bank financing.

Our team covers roughly two dozen private credit firms specializing in direct lending that source and originate senior secured loans to companies, public and private, large and small, across dozens of industries throughout the U.S. economy. Many of them have been around for decades, with significant lending experience through multiple credit cycles. As the industry experienced rapid growth over the past few years, led by fundraising in the retail/high-net-worth channels via perpetual, non-traded BDCs, some lenders were forced to put billions of dollars to work in a short period of time.

As history would suggest, we believe this resulted in a loosening of underwriting standards, weaker documentation, and significantly tighter spreads. While this vintage of loans is still relatively new, it would not be surprising to see higher default rates and lower recoveries. We believe this is a classic example of too much capital chasing past performance, as direct lending achieved very attractive returns following COVID, with these floating-rate, senior secured loans generating double-digit returns. Given lower base rates and tighter spreads, forward-looking returns from direct lending may be lower than many retail/high-net-worth investors envisioned.

If that wasn't enough, headlines around AI and software risk added to concerns among private credit investors, increasing uncertainty and driving BDC redemption requests well above the typical 5% quarterly contractual limit. Based on our deep understanding of the industry, strong sponsor relationships, and experience investing across BDC-related securities* and middle-market CLOs, we expect the current environment will create divergence in credit performance among lenders. After remaining patient over the past two years as spreads tightened, we believe the current market is giving active managers the opportunity to find attractive risk-adjusted return opportunities within direct lending.

**Our fixed income strategies may invest in non-traded BDC vehicles as well as publicly traded securities issued by BDCs. Currently, none of our portfolios hold non-traded BDC vehicles.*

Outlook

For now, increased macro uncertainty and geopolitical risk is not fully reflected in risk assets at large, with overall credit spreads remaining at historically tight levels. However, underneath the surface, there are pockets of opportunity for active managers to take advantage of market dislocations. Overall, we maintain high quality portfolios with liquidity to deploy when the conditions become more suited for credit-sensitive investing.

IMPORTANT DISCLOSURES

The opinions expressed are those of Weitz Investment Management and are not meant as investment advice or to predict or project the future performance of any investment product. The opinions are current through 4/17/2026, they are subject to change at any time based on market and other current conditions, and no forecasts can be guaranteed. This commentary is being provided as a general source of information and is not intended as a recommendation to purchase, sell, or hold any specific security or to engage in any investment strategy. Investment decisions should always be made based on an investor's specific objectives, financial needs, risk tolerance and time horizon.