FIXED INCOME INSIGHTS / 4Q 2025

A Strong Foundation for the Year Ahead

Weitz | INVESTMENT MANAGEMENT



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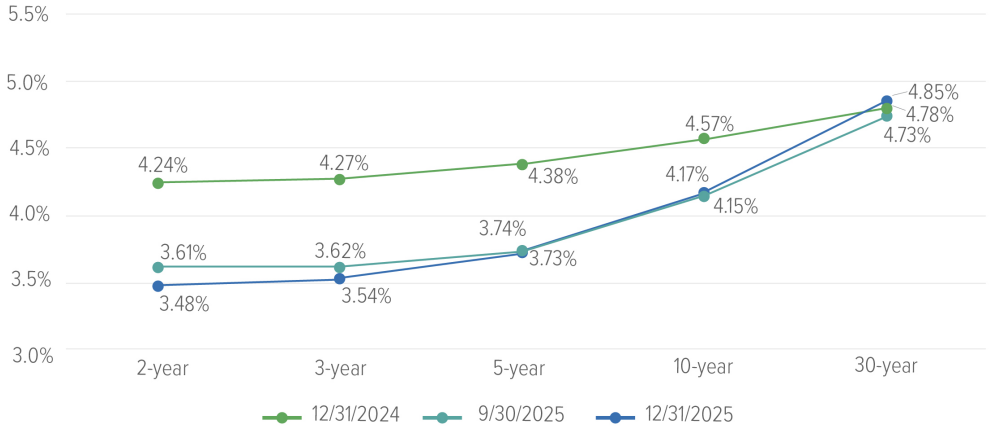
2025 was a resilient year for financial markets, marked by strong gains across major asset classes despite significant volatility from geopolitical tensions, tariff announcements (particularly in April), a prolonged U.S. government shutdown, and ongoing debates about AI (artificial intelligence) valuations.

The year featured a continuation of the AI-driven rally in equities, Federal Reserve rate cuts to support a softening labor market, and a near-"everything rally" that delivered positive returns for both stocks and bonds, the first such broad positive year since the pandemic era.

Bonds delivered a strong rebound, benefiting from Fed easing [three 25 basis point (bps) rate cuts in the second half, totaling 75 bps for the year] and attractive starting yields. This provided both income and capital appreciation as the yield curve shifted lower. The yield curve steepened (short rates fell more than long), reflecting Fed cuts amid sticky longer-term inflation/fiscal concerns. Credit spreads tightened overall, supporting outperformance in riskier fixed income segments. Fixed income acted as a ballast, with positive returns across most categories—providing diversification benefits in a year when stocks and bonds moved more in tandem positively.

The chart below provides a view of U.S. Treasury interest rates over time (fourth quarter and year-over-year) across the yield curve.

U.S. Treasury Yields (%)



Source: Bloomberg as of 12.31.2025

A broad gauge of the U.S. Treasury market posted the best return last year since 2020, principally driven by declining interest rates in ten-year and less maturities (see following table).

U.S. Treasury Securities

Maturity	12/31/2024 Rate %	12/31/2025 Rate %	Change
2-year	4.24	3.48	(0.76)
5-year	4.38	3.73	(0.65)
10-year	4.58	4.17	(0.41)
20-year	4.86	4.80	(0.07)
30-year	4.78	4.85	0.07

Source: Bloomberg

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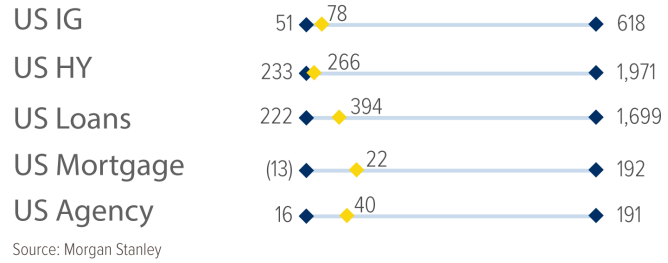
Key benchmarks for 2025:

- **Bloomberg U.S. Aggregate Bond Index (core investment-grade):** Up ~7-8% (strongest since 2020).
- **U.S. Treasuries:** Solid gains ~6%, with the 10-year yield ending approximately 40 basis points lower than where it began 2025.
- **Investment-grade corporates:** ~7-8%, outperforming Treasuries slightly due to tight spreads and strong corporate balance sheets.
- **High-yield corporates:** 8%+.
- **Mortgage-backed securities (MBS):** 8%+, marking the second consecutive year MBS has outperformed investment-grade corporates.

In summary, 2025 rewarded risk-taking in a volatile but ultimately bullish environment, with AI as the dominant equity theme and Fed policy supporting bonds. Markets climbed a "wall of worry" to end on a high note, possibly setting the stage for continued (though potentially more muted) optimism into 2026.

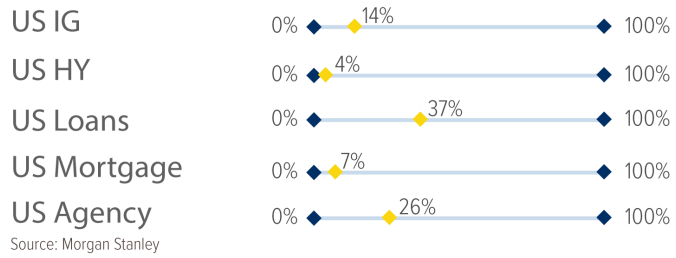
As we embark on yet another new year, here are some observations that we will use to inform our investment decisions The first two charts highlight the current dilemma for investors. Namely, investment spreads (the extra return received for taking credit risk), particularly in US investment grade (IG) and high yield (HY), are near three-decade lows.

Spread Ranges*
(Min, Current, Max)



Source: Morgan Stanley

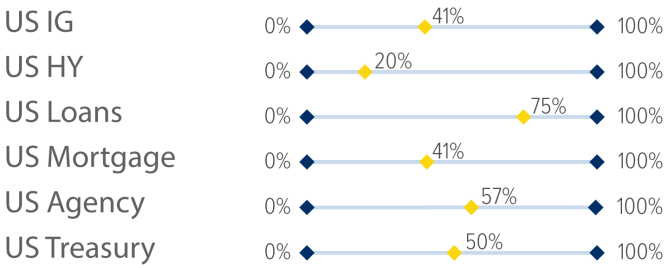
Spread Ranges - Percentile Rank*
(Current vs History)



Source: Morgan Stanley

Counterbalancing the dour charts above is the one below that portrays historical yield ranges over a similar time period (three-plus decades). Despite very low investment spreads, overall investment yields, outside of high yield and loans, enter 2026 in a middling historical range, which could continue to provide reasonable forward returns for investors.

Yield Ranges - Percentile Rank*
(Current vs History)



Source: Morgan Stanley

*Historical ranges are based on the longest available data for each market and metric. As a result, the starting dates for spread and yield histories may differ for certain sectors, though the majority share comparable multi-decade histories.

Historical Data
US IG: Spreads & Yields since 1990
US Mortgage: Spreads & Yields since 1990
US Treasury: Yields since 1990
US Agency: Spreads & Yields since 1993
US HY: Yields since 1990; Spreads since 1994
US Loans: Spreads since 1997; Yields since 2002

There are plenty of predictions for what may/may not happen in 2026 and beyond—and we are not immune to friendly internal wagers. But our overall investment compass is to observe and react to investment opportunities using a fundamental, valuation-oriented approach that seeks to identify the most favorable risk/reward opportunities.

While large areas of the credit markets are at or near historic low spread ranges, there will invariably be select areas of investment opportunity, particularly given our ability to seek out the most attractive risk-adjusted opportunities both within and outside of benchmark categories.

Casting a wider net across the fixed income landscape (i.e., outside of benchmark categories)—particularly across securitized products that have meaningful structural enhancements and where higher income relative to bond indexes is available – also remains a meaningful advantage in today's environment.

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In our view, maintaining a liquid (e.g., Treasuries and agency MBS) and overall, up-in-quality portfolio positioning that can generate higher income returns than respective indexes positions us well as we begin a new year. A year that could get messy in so many unpredictable ways, as happened in 2025. But also, one that will particularly allow us to lean into and be liquidity providers if/when more favorable risk/reward opportunities present themselves.

Caution and a decent respect for a phrase attributed to Mark Twain, "history doesn't repeat itself, but it often rhymes," are always an important mindset for investors, particularly fixed-income investors, to have. It's invariably difficult to identify a market bubble while it's occurring, like Tulip mania in the 1600s; or Japan in the 1980s; or US housing that resulted in the Great Financial Crisis (GFC). Today's environment might rightly be described as a 'complacency bubble', penned by an organic chemist at Cornell University. We will always be on guard against complacency, especially where a 'cheery consensus' and 'high prices' are present.

We are thankful for the trust and partnership many have placed in our firm and its investment process. 2026—a new year…a new blank page…and renewed commitment to keep earning our investment partners' trust.

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 1/12/2026, 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.

Basis Points (bps) refers to a unit of measurement that is equal to 1/100th of 1%, or 0.01%.