BENJAMIN F. EDWARDS®

Investment Insights Monthly

From the desk of Bill Hornbarger, Chief Investment Officer

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Bond Market Signals: Inflation, the Fed and Growth

Global bond markets have been in full retreat, with many long sovereign yields at their highest levels in decades. The Japanese 10-year note recently crossed 3% for the first time since September 1996, while the U.S. 30-year Treasury bond sits at or near its highest yield levels since 2007. Germany, Australia and the United Kingdom are other countries where yields are at multiyear highs. Recently, the U.K. government paid a 5.82% yield on its £4.25 billion bond issuance, the highest on record for that country and tenor.

U.S. yields have moved steadily higher this year, with the 10-year note recently trading at 5.00% versus a 2026 low of 3.94% and the 30-year bond firmly above 5%, recently trading at a 5.25% yield. In addition to higher yields, we have also seen the yield curve between two- and 10-year maturities flatten and the yield between the two-year note and federal funds futures widen.

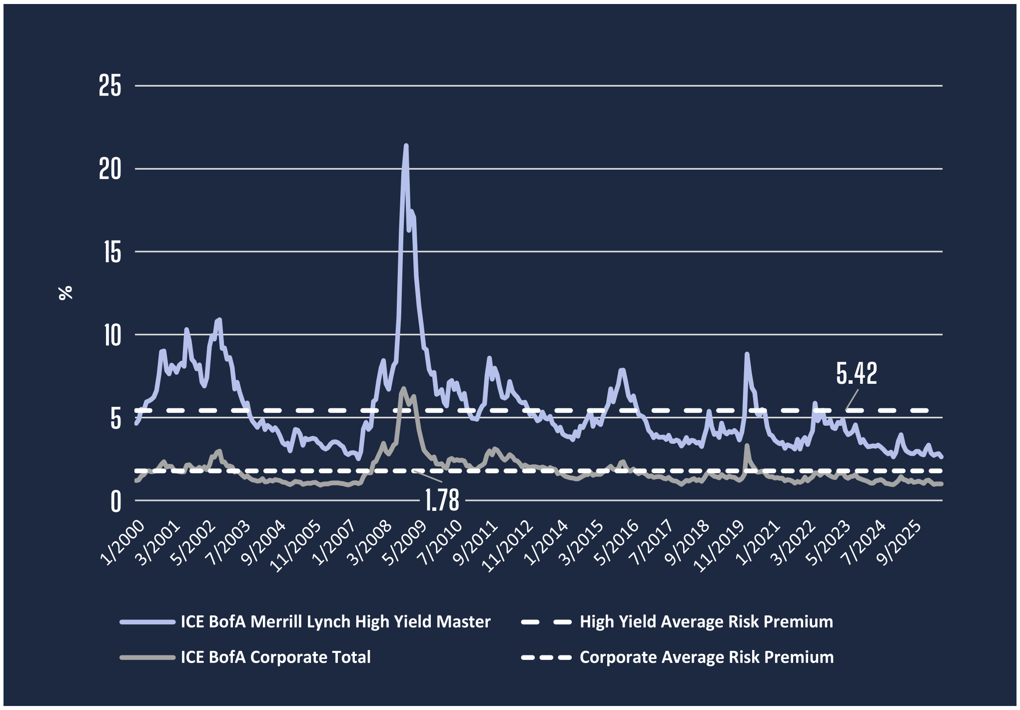
We have always considered the bond market and the yield curve among the world's greatest economists, reflecting the views of global portfolio managers and traders with real capital at risk. We think they are currently relaying three distinct and important messages to investors:

1. **Deficits and inflation matter and are a concern.** Bond market fundamentals are poor, particularly domestically, where there are concerns that the U.S. Federal Reserve (the Fed) is behind the inflation curve as a result of a resilient economy and energy supply risk. Additionally, the Treasury needs to fund an ever-increasing government budget deficit at a time when private-sector borrowing is ramping up to fund capital expenditures related to the artificial intelligence boom. Barring an economic downturn and/or significant progress on inflation, the current path of least resistance for yields appears to be higher. Rates don't appear yet to be at a level that could lead to a downturn in the global economy, but 5% looms as an important level, at least from a psychological perspective.

2. **The Fed will raise rates further.** The one- and three-month Treasury bills currently yield 3.76% and 3.86%, respectively, a positive spread to the fed funds lower bound target range of 3.5%. That positive spread is near the widest level of the year and has been slowly widening since its inversion last fall. The positive and widening spread reflects a belief that the Fed needs to and will increase the overnight rate, a view that is confirmed by fed funds futures, which are currently priced for two to three quarter-point increases over the next 12 months.

3. **The economy is on solid footing, and there is ample liquidity.** Credit spreads on both investment-grade and high-yield bonds remain narrow relative to history and have tightened this calendar year (see chart). Tighter credit spreads are an indication and result of robust liquidity and demand, as well as a strong equity market and confidence in the economy.

Investment Grade and High Yield Credit Spreads



As of August 31, 2026
Source: Haver

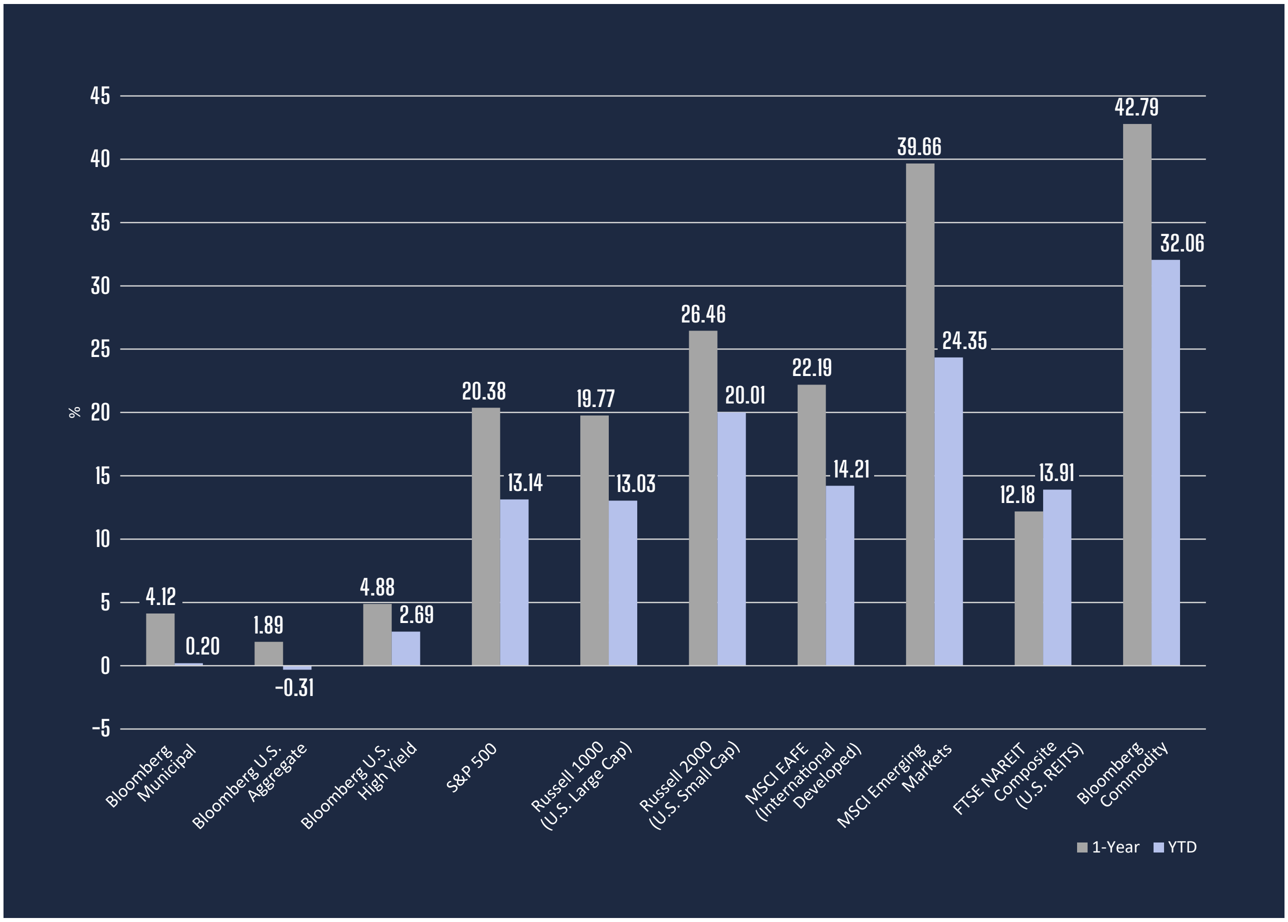
How much higher can yields go? There is no way of knowing, but we would suggest that there is value in bonds at current levels and would be in favor of extending duration slightly. Real yields are positive, and nominal yields appear low relative to what would be expected based on the combination of the term premium and real yields (see chart).

10-Year Treasury Yield vs. 'Model Fair Value'

As of August 31, 2026
Sources: Haver, BFE calculations

If and when the Fed increases the overnight rate and shows it has concerns about tamping down inflation, bonds will take notice. One of our favorite recent quotes is “The bond market will stop panicking when the Fed starts panicking.” While panic is a strong word, we agree with the sentiment: The bond market will settle down when the Fed sends the clear signal that inflation is too high and needs to be addressed more aggressively.

Asset Class Returns
Comparing Recent 1-Year and Year-to-Date Total Returns



As of August 31, 2026
Source: Conway Investment Research

Fixed Income

- After surging higher in July, interest rates were generally rangebound in August.
- Core fixed income posted modest gains last month, but municipals ended the month negative due to unfavorable technicals.
- Credit featured another month of largely clipping coupons while bonds outside the United States got an added boost from the weaker U.S. dollar.

Equities

- U.S. equities gained ground across the board in August, led by the rebound in growth/tech stocks.
- Large caps outpaced small caps and growth beat value across all market caps.
- 2026 is the fourth straight year of strong equity market gains, and a pullback seems long overdue. Ultimately, much will depend on geopolitical developments and future earnings growth.
- Equities outside the United States posted positive returns in August, driven by emerging markets and growth/tech stocks.
- Small caps beat large caps outside the United States, and growth stocks outperformed value stocks.
- Emerging markets were driven by Eastern Europe and Asia ex-China.
- The weaker U.S. dollar added 57 basis points (bps) to Europe, Australasia and Far East returns and 152 bps to emerging-market returns.

August 31, 2026	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year
FIXED INCOME INDICES							
Bloomberg U.S. Treasury Bill 1-3 Month	0.29%	0.63%	2.45%	3.84%	4.64%	3.74%	2.41%
Bloomberg Municipal	-0.23%	-2.08%	0.20%	4.12%	3.40%	0.54%	1.91%
Bloomberg US Govt/Credit Intermediate	0.26%	0.41%	1.18%	2.69%	4.52%	2.17%	2.05%
Bloomberg U.S. Aggregate	0.39%	-0.92%	-0.31%	1.89%	4.08%	-0.29%	1.40%
Bloomberg U.S. High Yield	0.97%	0.72%	2.69%	4.88%	8.52%	4.13%	5.39%
Bloomberg Global Aggregate	0.45%	-0.08%	-0.30%	0.60%	3.62%	-1.74%	0.34%
U.S. EQUITY INDICES							
DJ Industrial Average	1.47%	1.85%	11.79%	18.62%	17.29%	10.56%	13.53%
S&P 500	2.72%	2.66%	13.14%	20.38%	21.04%	12.79%	15.37%
NASDAQ Composite (Price)	3.93%	0.60%	13.46%	22.91%	23.40%	11.56%	17.60%
Russell 1000	2.82%	2.46%	13.03%	19.77%	20.79%	12.10%	15.13%
Russell 1000 Growth	3.73%	-1.21%	4.06%	10.82%	21.10%	11.88%	17.95%
Russell 1000 Value	2.03%	5.93%	23.12%	29.72%	19.77%	11.84%	11.76%
Russell Mid Cap	1.86%	1.23%	16.72%	17.94%	16.85%	8.05%	11.67%
Russell 2500	1.14%	-1.49%	20.88%	25.54%	17.48%	7.87%	11.42%
Russell 2000	0.98%	-2.08%	20.01%	26.46%	17.46%	6.85%	10.55%
Russell 2000 Growth	1.64%	-4.31%	16.91%	23.25%	17.01%	5.04%	10.66%
Russell 2000 Value	0.30%	0.31%	23.38%	29.95%	17.93%	8.52%	10.08%
Russell 3000	2.74%	2.26%	13.37%	20.10%	20.62%	11.80%	14.84%
NON-U.S. EQUITY INDICES							
MSCI World	2.60%	3.15%	13.40%	20.83%	20.62%	11.71%	13.56%
MSCI ACWI	2.70%	2.80%	14.61%	22.81%	21.00%	11.39%	13.12%
MSCI ACWI Ex-U.S.	2.59%	2.97%	17.39%	27.89%	20.83%	9.93%	10.18%
MSCI EAFE	2.00%	4.01%	14.24%	22.19%	18.84%	9.91%	10.07%
MSCI EAFE Growth	2.56%	0.82%	10.29%	15.24%	13.18%	4.53%	8.70%
MSCI EAFE Value	1.46%	7.31%	18.21%	29.30%	24.64%	15.35%	11.19%
MSCI Europe	1.44%	3.08%	11.67%	21.04%	18.48%	10.12%	10.43%
MSCI AC Asia	3.32%	1.40%	24.63%	36.51%	23.55%	9.58%	10.20%
MSCI EAFE Small Cap	3.83%	5.87%	14.33%	19.40%	18.12%	6.10%	9.13%
MSCI ACWI Ex-U.S. Small Cap	5.99%	5.03%	14.89%	20.96%	18.03%	7.19%	9.53%
MSCI Emerging Markets	3.40%	0.27%	24.35%	39.66%	23.82%	8.67%	9.73%
MSCI EM Asia	3.37%	-0.93%	27.17%	42.95%	25.57%	9.16%	10.73%
MSCI China	-0.34%	8.67%	-7.53%	-5.96%	10.65%	-2.02%	4.27%
MSCI EM Eastern Europe	4.13%	12.59%	29.05%	50.17%	38.42%	-10.36%	1.40%
MSCI EM Latin America	-0.59%	4.31%	15.53%	33.42%	15.26%	11.22%	7.68%
MSCI EM Small Cap	9.50%	2.21%	15.59%	19.92%	15.66%	8.15%	9.50%
MSCI Frontier Markets	3.78%	4.29%	15.16%	24.27%	23.18%	9.56%	9.85%
REAL ASSETS INDICES							
FTSE NAREIT Composite	-2.58%	-0.37%	13.91%	12.18%	10.31%	2.20%	5.69%
Alerian MLP	3.30%	11.11%	31.65%	31.59%	24.90%	25.27%	10.44%
Bloomberg Commodity	7.39%	15.48%	32.06%	42.79%	15.13%	12.22%	8.12%
OTHER							
Oil Price Brent Crude	0.41%	24.09%	48.71%	32.84%	1.37%	4.39%	6.76%
CBOE Market Volitility (VIX)	-6.69%	-9.30%	-0.20%	-2.86%	3.21%	-1.97%	1.07%

Source: Morningstar

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