

Monthly Market Review

Fixed Income | September 2026

Information provided by NCIP's Program Administrator PFM Asset Management, a division of U.S. Bancorp Asset Management, Inc.



**NORTH CAROLINA
INVESTMENT POOL**

Two 'paths' diverged in a yellow wood.

Economic Highlights

- On his 100th day as Federal Reserve (Fed) Chair, Kevin Warsh delivered his keynote speech at the annual Jackson Hole Economic Symposium in Wyoming on August 28, 2026. Chair Warsh firmly put a September rate hike back on the table, emphasizing the Fed "has work to do" if inflation fails to make sufficient progress toward the Fed's "firm, fixed" 2% target. He also reaffirmed the Fed's current focus is on the inflation side of its dual mandate as the data remains "more concerning."
- Reinforcing the hawkish tilt of his speech, Chair Warsh noted he would "be hard pressed to describe financial conditions as restrictive," noting labor markets remain consistent with full employment, and consumer spending and business investment are strong.
- The August jobs report exceeded expectations, with non-farm payrolls increasing by 162,000. The unemployment rate was unchanged at 4.1%, while the labor force participation rate edged up to 61.6%.
- Inflation as measured by the year-over-year change in Core PCE came in at 3.3%, well above the Fed's 2% target. Changes to the calculation methodology for certain imputed categories are expected to mechanically lower Core PCE next month, which may complicate the optics moving forward.
- The August CPI report, scheduled for release on September 11, will serve as a critical test ahead of the Fed's September 16 FOMC meeting. The Fed will be looking for evidence that inflationary pressures are moderating, and any indication to the contrary will further strengthen the case for a rate hike.
- The modest 1.5% GDP headline for 2Q26 masked stronger underlying demand, with consumer spending rising 3.4% and fixed investment increasing 7.0%, highlighting continued economic strength.
- The U.S. Treasury is slated to increase the cap on its long-dated Treasury buyback operations from \$2 billion to at least \$4 billion. Although the program is designed to support market liquidity, the announcement prompted an initial decline in long-term yields. However, buybacks do not address broader pressures on the long end of the curve, including higher overseas yields, growing fiscal deficits, and elevated AI-related corporate issuance.

Interest Rates

- Yields generally drifted higher as inflation concerns and a more hawkish Fed weighed on sentiment. The exceptions were the longest maturities on the U.S. Treasury curve, as 20- and 30-year yields declined slightly, in part due to Treasury buybacks. Yields on the long end remain near their 20-year highs.
- Yields on 3-month, 2-year, 10-year, and 30-year U.S. Treasuries ended the month at 3.83%, 4.34%, 4.75%, and 5.24%, representing changes of +7 bps, +5 bps, +2 bps, and -3 bps, respectively.

- The ICE BofA 3-month, 2-year, and 10-year U.S. Treasury indices returned +0.28%, +0.21%, and +0.15%, respectively.

Equity Markets

- Strong Q2 earnings demonstrated corporate resilience despite ongoing geopolitical uncertainty and elevated borrowing costs. The Nasdaq Index rebounded from a July sell-off, increasing +4.0%. The Dow Jones increased by +1.5%, while the S&P 500 Index was up +2.7%.
- International equities also rallied as the MSCI ACWI ex U.S. Net Index increased 2.6%. The U.S. Dollar declined 0.5%, while gold surged 9.7%.

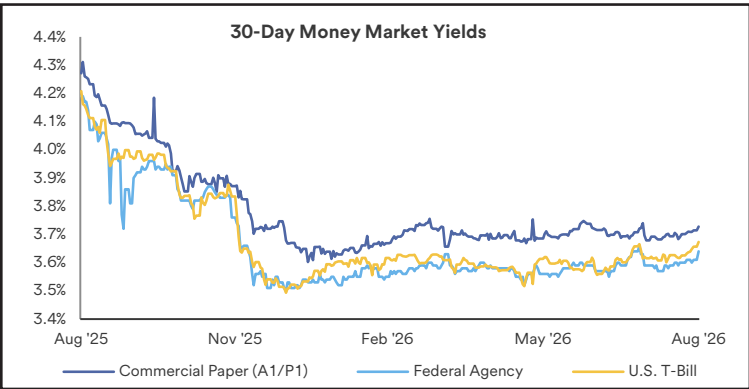
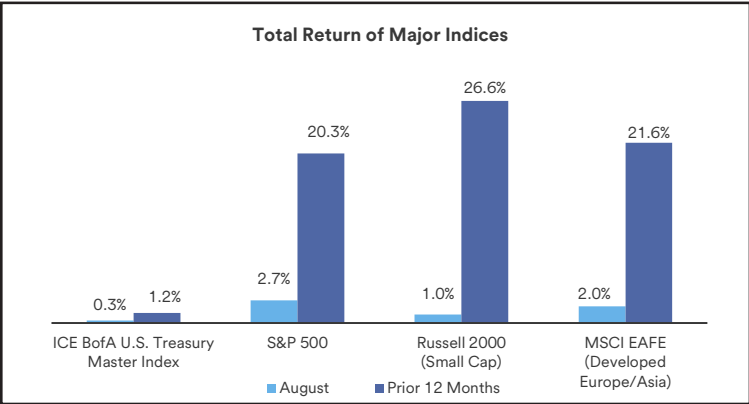
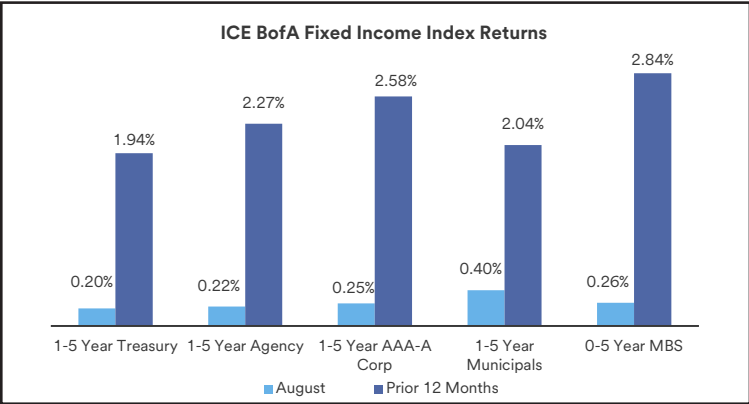
PFMAM Strategy Recap & Outlook

- Following Chair Warsh's comments at Jackson Hole, markets pushed the probability of a September rate hike to greater than 50%. While our base case is for the Fed to remain on hold, the hurdle for a hike is much lower today. Regardless of the Fed's ultimate decision, we believe the increase in Treasury yields over the past few months has presented a compelling buying opportunity; however, the risk of a renewed tightening cycle argues against aggressively extending duration. As such, we intend to maintain portfolio durations in shorter-term strategies at 101% to 105% of benchmarks.
- Investment-grade (IG) corporate bonds delivered modestly positive excess returns despite spreads inching wider. While AI-driven financing needs have contributed to higher issuance volumes, robust demand from income-oriented investors has helped the market digest elevated supply with only modest spread pressure. Solid corporate fundamentals continue to serve as a primary tailwind, and as a result, we will likely maintain current holdings while remaining selective. Carry and income remain the key drivers to performance over the foreseeable future.
- Following a strong rally in July, asset-backed securities (ABS) generated slightly negative excess returns in August as spreads widened off multi-year tightness. Valuations appear rich but fundamentals and strong investor demand support the sector. We will likely continue to hold positions while remaining selective.
- Mortgage-backed securities (MBS) generated positive excess returns across the coupon stack in August as the long end of the curve flattened modestly, in part due to the Treasury buyback announcement. We continue to favor a defensive stance due to rich valuations and the potential for volatility to rise from exceptionally low levels.
- Absent forward Fed guidance, fed funds pricing, and the money market yield curve have been volatile. While money market credit spreads have narrowed, they remain an attractive incremental income-producing alternative to similar U.S. Treasuries. Further, as the prospects for higher fed rates have increased, so too has the value in floating rate securities.

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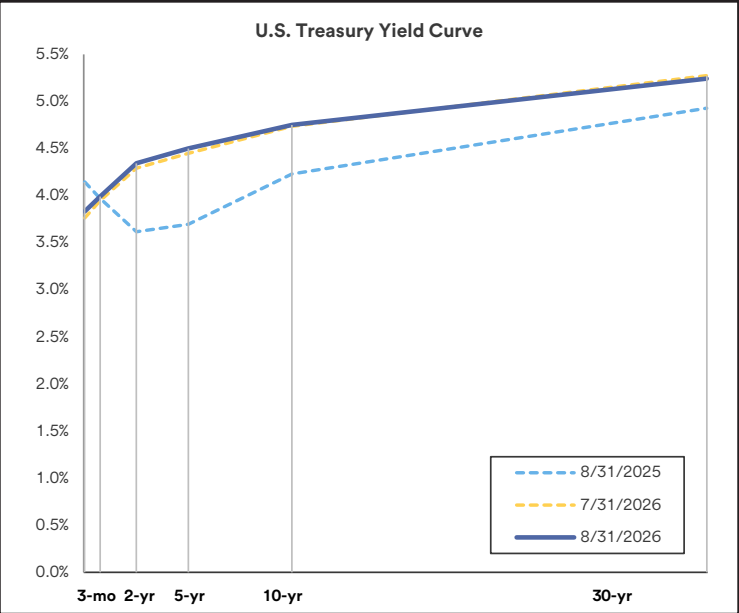
U.S. Treasury Yields				
Maturity	Aug 31, 2025	Jul 31, 2026	Aug 31, 2026	Monthly Change
3-Month	4.15%	3.76%	3.83%	0.07%
6-Month	3.97%	3.95%	3.99%	0.04%
2-Year	3.62%	4.29%	4.34%	0.05%
5-Year	3.70%	4.45%	4.50%	0.05%
10-Year	4.23%	4.74%	4.75%	0.01%
30-Year	4.93%	5.27%	5.24%	-0.03%

Spot Prices and Benchmark Rates				
Index	Aug 31, 2025	Jul 31, 2026	Aug 31, 2026	Monthly Change
1-Month SOFR	4.27%	3.66%	3.71%	0.05%
3-Month SOFR	4.17%	3.75%	3.80%	0.05%
Effective Fed Funds Rate	4.33%	3.63%	3.63%	0.00%
Fed Funds Target Rate	4.50%	3.75%	3.75%	0.00%
Gold (\$/oz)	\$3,487	\$4,049	\$4,447	\$398
Crude Oil (\$/Barrel)	\$64.01	\$84.67	\$85.76	\$1.09
U.S. Dollars per Euro	\$1.17	\$1.15	\$1.16	\$0.01



Yields by Sector and Maturity				
Maturity	U.S. Treasury	Federal Agency	Corporates-AA-A Industrials	AAA Municipals
3-Month	3.83%	3.84%	4.22%	-
6-Month	3.99%	3.99%	4.27%	-
2-Year	4.34%	4.35%	4.58%	2.60%
5-Year	4.50%	4.51%	5.02%	2.93%
10-Year	4.75%	4.81%	5.45%	3.52%
30-Year	5.24%	-	6.05%	4.21%

Economic Indicators				
Indicator	Release Date	Period	Actual	Survey (Median)
U. of Mich. Consumer Sentiment	31-Jul	Jul F	55.2	54
Existing Home Sales MoM	11-Aug	Jul	-1.69%	-1.00%
CPI YoY	12-Aug	Jul	3.40%	3.40%
Retail Sales Advance MoM	14-Aug	Jul	-0.60%	0.10%
FOMC Rate Decision	29-Jul	Jul	3.75%	3.75%
PCE YoY	26-Aug	Jul	3.70%	3.60%
Change in Nonfarm Payrolls	4-Sep	Aug	162k	55k



Source: Bloomberg. Data as of August 31, 2026, unless otherwise noted.

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