

# Main Yield Enhancement Moderate Strategy

## Third quarter 2026 commentary

The biggest news in the fixed income space in Q3 was the Fed's decision to raise rates by 25bps, bringing the Fed Funds Rate to 3.75% - 4.00%. According to the dot plot, the FOMC expects one more hike this year, and fed funds futures price that hike plus roughly three more by late 2027. In the wake of the rate hike, bond yields have moved sharply higher, dragging down the fixed income space in general. The 10yr U.S. Treasury yield ended the quarter at 5.29%, its highest close since 2002! We are seeing a similar picture around the globe, where government bond yields are hitting their highest levels since the Global Financial Crisis as central banks are in hiking mode in an effort to combat inflation. The Iran conflict's on/off nature has kept oil prices elevated, which has passed through to the headline inflation indices. The good news is that core inflation has been moderating, but consumers are acutely feeling the effects of high oil prices at the pump, especially for diesel customers who are paying record high prices. That's also a not insignificant hurdle to companies who need to move their goods around the globe using said diesel fuel. The good news is that the labor market (at least here in the U.S.) remains on solid footing, freeing the Fed to focus on inflation.

The result of the bond yield surge has been a broadly negative environment for fixed income, especially on the longer end of the curve. Against that backdrop, the Yield Moderate held up considerably better than the Agg, helped by the BuyWrite position, which continued to provide income without interest rate sensitivity. The strategy's shorter-duration positioning continues to help cushion the impact of rising rates. The maturity and duration remain below benchmark by design – in order to better balance interest-rate sensitivity while still maintaining solid credit quality. The yield currently stands at 4.9% versus 5.0% for the Bloomberg US Aggregate Bond Index, and the credit quality is AA.

We continue to see clients utilize the Yield Moderate as an option that may provide an interesting complement to fixed income benchmarks as we recognize that there may still be capital on the sidelines. It may also provide a risk-switching mechanism: as you move assets around, this strategy may be a good place to park funds as you look to dollar-cost average or time-cost average into other investments. Additionally, it may act as an option for income distributions as well.

Valuation metrics per FactSet Data.

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## Important disclosures

All metrics from Morningstar Direct, Macrobond, and FactSet Financial Data and Analytics.

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