

Active Fixed Income Perspectives—Monthly Pulse

Key takeaways

- 1 In our base case, we continue to expect near-trend level U.S. GDP growth in 2026 backed by surging capex investment, resilient consumer demand, supportive fiscal policy, and less restrictive monetary policy.
- 2 We expect this firm growth environment will result in further strengthening in the labor market and will keep inflation modestly above target. We expect the Federal Reserve to remain cautious about further rate cuts.
- 3 The balance of risks around our base case are skewed toward stronger growth and softer inflation and labor market outcomes. AI's impact on productivity remains a key driver of uncertainty.
- 4 We remain constructive on risk assets but with an emphasis on valuation discipline and selective carry.

Outlook: Firm growth backdrop with the labor market in focus.

Our base case is for U.S. economic growth to remain near trend over the next year, supported by surging capex investment spending, resilient consumer demand, supportive fiscal policy, and less restrictive monetary policy. In this environment, inflation is likely to remain modestly elevated while the unemployment rate gradually falls. Against such a backdrop, we expect the Fed would proceed cautiously with further rate cuts.

AI capex investment and adoption are accelerating and are important contributors to our higher growth outlook. Nonetheless, AI's impact on productivity remains a key driver of uncertainty. Faster than expected productivity improvements could ease inflation pressures while softening labor demand, potentially creating more scope for policy easing and supporting risk assets. Conversely, a slowdown in AI investment or weaker than expected technological progress would likely weigh on growth and ultimately pressure the labor market and lower inflation—an outcome that could still prompt Fed cuts but with negative implications for risk assets.

The labor market continues to adjust. The labor market remains in focus as it continues its transition toward a new equilibrium characterized by lower supply and demand for labor. While the last two months of data showed slight declines in the unemployment rate, this balance remains fragile, and a lower breakeven rate of job growth increases the probability of multiple negative employment prints over the course of the year.

The balance of risks around our base case is modestly skewed to the upside for economic growth and to the downside for inflation and the labor market.

Our active positioning: Constructive on risk assets, with a focus on valuation discipline and selective carry.

Rates: Neutral U.S. duration while capitalizing on global dispersion. In U.S. rates, we are strategically neutral on duration and curve. In the mortgage-backed securities (MBS) sector, spreads have tightened materially since the announcement of government-sponsored enterprise (GSE) purchasing of MBS. We hold a slight overweight position in securities where we believe spreads still have room to compress. Across developed market economies, divergent economic trends and monetary policy have created relative value opportunities in global rates. We prefer to be overweight peripheral European sovereigns versus core sovereigns, and we have a short duration, curve-flattening bias in Japan.

Credit: Overweight but leaning into higher quality carry and selection. In credit, we expect corporate spreads to remain range-bound through the first half of 2026, supporting an overweight focused on selective carry. Trend-like growth, strong corporate fundamentals, and a neutral-to-supportive Fed underpin a constructive outlook for credit. Security selection remains key to alpha generation.

Municipals: Steep curve creates opportunity. The steepness of the muni curve offers compelling return potential, with carry and roll-down particularly attractive for bonds between 10 to 20 years to maturity. We continue to hold a long muni duration position as a hedge against our long credit exposure.

Active fixed income leadership team



Sara Devereux
CIO VCM, Global Head of Fixed Income Group
In industry since 1992



Chris Alwine, CFA
Global Head of Credit
In industry since 1990



Roger Hallam, CFA
Global Head of Rates
In industry since 2000



Paul Malloy, CFA
Head of U.S. Municipals
In industry since 2005

Connect with Vanguard®

[vanguard.com](https://www.vanguard.com)

For more information about Vanguard funds, visit [vanguard.com](https://www.vanguard.com) to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information are contained in the prospectus; read and consider it carefully before investing.

All investing is subject to risk including the possible loss of the money you invest. Diversification does not ensure a profit or protect against a loss. Past performance is no guarantee of future results.

Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments.

Investments in bonds issued by non-U.S. companies are subject to risks including country/regional risk and currency risk.

U.S. government backing of Treasury or agency securities applies only to the underlying securities and does not prevent share-price fluctuations. Unlike stocks and bonds, U.S. Treasury bills are guaranteed as to the timely payment of principal and interest.

Municipal bond fund distributions, including any market discount recognized by the Fund's investments, may be taxable as ordinary income or capital gains. A majority of the income dividends that you receive from the Fund are expected to be exempt from federal income taxes. However, a portion of the Fund's distributions may be subject to federal, state, or local income taxes or the federal alternative minimum tax. You should consult your own tax advisor with respect to any particular U.S. or non-U.S. tax consequences of your investment in the Fund.

CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.

Vanguard®

© 2026 The Vanguard Group, Inc.
All rights reserved. Vanguard Marketing Corporation, Distributor.

FAAFIPER 022026

Investment Products: Not a Deposit • Not FDIC Insured • Not Guaranteed by the Bank • May Lose Value • Not Insured by Any Federal Government Agency

Important Information

VIGM, S.A. de C.V. Asesor en Inversiones Independiente ("Vanguard Mexico") registration number: 30119-001-(14831)-19/09/2018. The registration of Vanguard Mexico before the Comisión Nacional Bancaria y de Valores ("CNBV") as an Asesor en Inversiones Independiente is not a certification of Vanguard Mexico's compliance with regulation applicable to Advisory Investment Services (Servicios de Inversión Asesorados) nor a certification on the accuracy of the information provided herein. The supervision scope of the CNBV is limited to Advisory Investment Services only and not all services provided by Vanguard Mexico.

This material is solely for informational purposes and does not constitute an offer or solicitation to sell or a solicitation of an offer to buy any security, nor shall any such securities be offered or sold to any person, in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities law of that jurisdiction. Reliance upon information in this material is at the sole discretion of the recipient.

Securities information provided in this document must be reviewed together with the offering information of each of the securities which may be found on Vanguard's website: <https://www.vanguardmexico.com/institutional/products/en/list/overview> or www.vanguard.com

Vanguard Mexico may recommend products of The Vanguard Group Inc. and its affiliates and such affiliates and their clients may maintain positions in the securities recommended by Vanguard Mexico.

ETFs can be bought and sold only through a broker and cannot be redeemed with the issuing fund other than in very large aggregations. Investing in ETFs entails stockbroker commission and a bid-offer spread which should be considered fully before investing. The market price of ETF Shares may be more or less than net asset value.

All investments are subject to risk, including the possible loss of the money you invest. Investments in bond funds are subject to interest rate, credit, and inflation risk. Governmental backing of securities applies only to the underlying securities and does not prevent share-price fluctuations. High-yield bonds generally have medium- and lower-range credit quality ratings and are therefore subject to a higher level of credit risk than bonds with higher credit quality ratings.

There is no guarantee that any forecasts made will come to pass. Past performance is no guarantee of future results.

Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks. Funds that concentrate on a relatively narrow market sector face the risk of higher share-price volatility. Stocks of companies are subject to national and regional political and economic risks and to the risk of currency fluctuations, these risks are especially high in emerging markets. Changes in exchange rates may have an adverse effect on the value, price or income of a fund.

The information contained in this material derived from third-party sources is deemed reliable, however Vanguard Mexico and The Vanguard Group Inc. are not responsible and do not guarantee the completeness or accuracy of such information.

This document should not be considered as an investment recommendation, a recommendation can only be provided by Vanguard Mexico upon completion of the relevant profiling and legal processes.

This document is for educational purposes only and does not take into consideration your background and specific circumstances nor any other investment profiling circumstances that could be material for taking an investment decision. We recommend getting professional advice based on your individual circumstances before taking an investment decision.

These materials are intended for institutional and sophisticated investors use only and not for public distribution.

Materials are provided only for the recipient's exclusive use and shall not be distributed to any other individual or entity. Broker-dealers, advisers, and other intermediaries must determine whether their clients are eligible for investment in the products discussed herein.

The information contained herein does not constitute an offer or solicitation and may not be treated as such in any jurisdiction where such an offer or solicitation is against the law, or to anyone for whom it is unlawful to make such an offer or solicitation, or if the person making the offer or solicitation is not qualified to do so.

THESE MATERIALS ARE PROVIDED FOR THE EXCLUSIVE USE OF RECIPIENT AND CONTAIN HIGHLY CONFIDENTIAL INFORMATION, WHICH SHALL NOT BE REPRODUCED OR TRANSMITTED TO ANY THIRD PARTIES WITHOUT VANGUARD'S PRIOR WRITTEN CONSENT. THE CONTENTS OF THESE MATERIALS SHALL NOT BE UNDERSTOOD AS AN OFFER OR SOLICITATION TO BUY OR SELL SECURITIES IN BRAZIL AND VANGUARD IS NOT MAKING ANY REPRESENTATION WITH RESPECT TO THE ELIGIBILITY OF ANY RECIPIENT OF THESE MATERIALS TO ACQUIRE THE INTERESTS IN THE SECURITIES DESCRIBED HEREIN UNDER THE LAWS OF BRAZIL. SUCH SECURITIES HAVE NOT BEEN REGISTERED IN BRAZIL AND NONE OF THE INTERESTS IN SUCH SECURITIES MAY BE OFFERED, SOLD, OR DELIVERED, DIRECTLY OR INDIRECTLY, IN BRAZIL OR TO ANY RESIDENT OF BRAZIL EXCEPT PURSUANT TO THE APPLICABLE LAWS AND REGULATIONS OF BRAZIL.

THIS DOCUMENT WAS SENT BY VANGUARD SPECIFICALLY TO ITS RECIPIENT AND CONTAINS HIGHLY CONFIDENTIAL INFORMATION, WHICH SHALL NOT BE REPRODUCED OR TRANSMITTED TO ANY THIRD PARTIES WITHOUT VANGUARD'S PRIOR AND WRITTEN CONSENT. THE CONTENTS OF THIS MESSAGE SHALL NOT BE UNDERSTOOD AS AN OFFER OR SOLICITATION TO BUY OR SELL SECURITIES IN BRAZIL.

This document is provided at the request of and for the exclusive use of the recipient and does not constitute, and is not intended to constitute, a public offer in the Republic of Colombia, or an unlawful promotion of financial/capital market products. The offer of the financial products described herein is addressed to fewer than one hundred specifically identified investors. The financial products described herein may not be promoted or marketed in Colombia or to Colombian residents, unless such promotion and marketing is made in compliance with Decree 2555/2010 and other applicable rules and regulations related to the promotion of foreign financial/capital market products in Colombia.

The financial products described herein are not and will not be registered before the Colombian National Registry of Securities and Issuers (Registro Nacional de Valores y Emisores - RNVE) maintained by the Colombian Financial Superintendency, or before the Colombian Stock Exchange. Accordingly, the distribution of any documentation in regard to the financial products described here in will not constitute a public offering of securities in Colombia.

The financial products described herein may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations; provided that, any authorized person of a firm authorized to offer foreign securities in Colombia must abide by the terms of Decree 2555/2010 to offer such products privately to its Colombian clients.

The distribution of this material and the offering of securities may be restricted in certain jurisdictions. The information contained in this material is for general guidance only, and it is the responsibility of any person or persons in possession of this material and wishing to make application for securities to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for securities should inform themselves of any applicable legal requirements, exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

This document and its content should not be considered as an offer, if it were the case the offer of the securities described herein would be made in accordance with general rule No. 336 of the Financial Market Commission (Comisión para el Mercado Financiero). The securities described herein are not registered under Securities Market Law, nor in the Securities Registry nor in the Foreign Securities Registry of the Chilean Financial Market Commission, and therefore such securities are not subject to its oversight. Since such securities are not registered in Chile, the issuer is not obligated to provide public information in Chile regarding the securities. The securities shall not be subject to public offering unless they are duly registered in the corresponding Securities Registry in Chile. The issuer of the securities is not registered in the Registries maintained by the Chilean Financial Market Commission, therefore it is not subject to the supervision of the Chilean Financial Market Commission or the obligations of continuous information.

El presente documento y su contenido no deberá considerarse como una oferta, en su caso la oferta de los valores aquí descritos se realizaría conforme a la norma de carácter general No. 336 de la Comisión para el Mercado Financiero. Los valores aquí descritos, al ser valores no inscritos bajo la Ley de Mercado de Valores en el Registro de Valores o en el Registro de Valores extranjeros que lleva la Comisión para el Mercado Financiero, no están sujetos a la fiscalización de ésta. Por tratarse de valores no inscritos, no existe la obligación por parte del emisor de entregar en Chile información pública respecto de esos valores. Los valores no podrán ser objeto de oferta pública mientras no sean inscritos en el Registro de Valores correspondiente. El emisor de los valores no se encuentra inscrito en los Registros que mantiene la Comisión para el Mercado Financiero, por lo que no se encuentra sometido a la fiscalización de la Comisión para el Mercado financiero ni a las obligaciones de información continua.

The securities described herein have not been registered under the Peruvian Securities Market Law (Decreto Supremo No 093-2002-EF) or before the Superintendencia del Mercado de Valores (the "SMV"). There will be no public offering of the securities in Peru and the securities may only be offered or sold to institutional investors (as defined in Appendix I of the Institutional Investors Market Regulation) in Peru by means of a private placement. The securities offered and sold in Peru may not be sold or transferred to any person other than an institutional investor unless such securities have been registered with the Registro Público del Mercado de Valores kept by the SMV. The SMV has not reviewed the information provided to the investor. This material is for the exclusive use of institutional investors in Peru and is not for public distribution.

The financial products described herein may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 of Bermuda. Additionally, non-Bermudian persons may not carry on or engage in any trade or business in Bermuda unless such persons are authorized to do so under applicable Bermuda legislation. Engaging in the activity of offering or marketing the financial products described herein in Bermuda to persons in Bermuda may be deemed to be carrying on business in Bermuda.

Vanguard Mexico does not intend, and is not licensed or registered, to conduct business in, from or within the Cayman Islands, and the interests in the financial products described herein shall not be offered to members of the public in the Cayman Islands.

The financial products described herein have not been and will not be registered with the Securities Commission of The Bahamas. The financial products described herein are offered to persons who are non-resident or otherwise deemed non-resident for Bahamian Exchange Control purposes. The financial products described herein are not intended for persons (natural persons or legal entities) for which an offer or purchase would contravene the laws of their state (on account of nationality or domicile/registered office of the person concerned or for other reasons). Further, the offer constitutes an exempt distribution for the purposes of the Securities Industry Act, 2011 and the Securities Industry Regulations, 2012 of the Commonwealth of The Bahamas.

This document is not, and is not intended as, a public offer or advertisement of, or solicitation in respect of, securities, investments, or other investment business in the British Virgin Islands ("BVI"), and is not an offer to sell, or a solicitation or invitation to make offers to purchase or subscribe for, any securities, other investments, or services constituting investment business in BVI. Neither the securities mentioned in this document nor any prospectus or other document relating to them have been or are intended to be registered or filed with the Financial Services Commission of BVI or any department thereof.

This document is not intended to be distributed to individuals that are members of the public in the BVI or otherwise to individuals in the BVI. The funds are only available to, and any invitation or offer to subscribe, purchase, or otherwise acquire such funds will be made only to, persons outside the BVI, with the exception of persons resident in the BVI solely by virtue of being a company incorporated in the BVI or persons who are not considered to be "members of the public" under the Securities and Investment Business Act, 2010 ("SIBA").

Any person who receives this document in the BVI (other than a person who is not considered a member of the public in the BVI for purposes of SIBA, or a person resident in the BVI solely by virtue of being a company incorporated in the BVI and this document is received at its registered office in the BVI) should not act or rely on this document or any of its contents.

Vanguard represents and agrees that it has not offered or sold, and will not offer or sell, any ETFs or Mutual Funds to the public in Uruguay, except in circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. Neither Vanguard ETFs or Mutual Funds nor issuer are or will be registered with the Superintendency of Financial Services of the Central Bank of Uruguay to be publicly offered in Uruguay.

Connect with Vanguard®

Vanguard®

© 2026 The Vanguard Group, Inc. All rights reserved.