

# Monthly Market Review

Fixed Income | February 2026

**pfm** asset  
management

## *A new Fed in town?*

### Economic Highlights

- The Federal Reserve (Fed) held the federal funds target range unchanged at 3.50% - 3.75% after cutting 25 basis points (bps) in each of its three prior meetings. Two Fed Governors dissented in favor of a 25 bp rate cut, underscoring the difference in opinion within the committee regarding downside risks to the labor market and upside risks to inflation.
- Chair Jerome Powell characterized the economy as “on a solid footing” with a “clear improvement in the outlook for growth.” He noted “some signs of stabilization” in the labor market but also “signs of continued cooling”. Inflation was characterized as “somewhat elevated” and expected to peak sometime “in the middle quarters of the year” assuming no new tariff announcements.
- Chair Powell described the conditions for additional rate cuts as either a weakening labor market or clear evidence that tariff pressures have peaked. The Fed also emphasized upcoming rate cuts will remain data driven as they “let the data light the way.”
- President Trump announced the nomination of Kevin Warsh to succeed Jerome Powell as Chair of the Federal Reserve when Powell’s Chair term expires in May 2026. Warsh served as a Fed Governor from 2006 to 2011 and is generally viewed by markets as a conventional policymaker with strong institutional credibility. In the past, Warsh has advocated for a smaller Fed balance sheet as a trade-off for a lower policy rates regime and has criticized the Fed for being too data dependent and providing excessive forward guidance.
- December inflation data, as measured by the Consumer Price Index (CPI), continued to show limited progress towards the Fed’s 2% target as headline CPI remained at 2.7% year-over-year. Labor market data continues to show limited layoffs but weak hiring in a continuation of the “no hire, no fire” trend.
- The final estimate of U.S. real gross domestic product (GDP) for 3Q25 affirmed strong momentum into year end with a quarterly annualized rate of 4.4%, the largest increase in two years. Leading the charge was consumption, which grew 3.5% over the quarter, coupled with continued positive impacts of net exports.

### Bond Markets

- The yield on 3-month, 2-year, and 10-year U.S. Treasuries ended the month at 3.65%, 3.52%, and 4.24% representing increases of +3 bps, +5 bps, and +7 bps, respectively.
- The ICE BofA 3-month, 2-year, and 10-year U.S. Treasury indices returned +0.29%, +0.19%, and -0.27%, respectively.
- The short end of the yield curve remains inverted with 3-month Treasury yields above 2-year yields. The intermediate- to long-end of the curve continues to steepen as the difference in yield between the 10- and 2-year U.S. Treasury notes reached its widest level since December 2021.

### Equity Markets

- Equity markets rebounded from mid-month bouts of volatility, triggered by new U.S. semiconductor tariffs, and ended the month just shy of all-time highs. For the month, the Dow Jones Industrial Average returned +1.8%, the S&P 500 was up +1.4%, and the Nasdaq generated +1.0%.
- International equities continued their superb run of outperformance relative to domestic markets, as the MSCI ACWI ex U.S. Net Index delivered a total return of 6.0% in January 2026. The U.S. Dollar Index declined 1.4%, serving as a tailwind to overseas performance.
- Gold and silver both reached all-time highs in January before selling off at the end of the month. For the month, spot prices increased 13% and 19%, respectively.

### PFMAM Strategy Recap & Outlook

- We will continue to hold portfolio durations near 100% of benchmarks given our view yields remain near fair value and our expectation for additional rate cuts in 2026.
- Investment-grade (IG) corporate bond spreads narrowed across almost all maturity bands and industries, keeping excess returns firmly positive. Despite historically tight valuations, we expect to maintain allocations as carry (incremental income) is expected to be the primary driver of excess returns over the next several quarters. Selectivity will remain a key focus.
- Asset-backed securities (ABS) generated strong excess returns during the month across both auto and credit card collateral. ABS continues to look cheap relative to equivalent-duration corporates, though this relationship has narrowed to start the year. We expect strong new issuance to continue and will look to add to the sector.
- Mortgage-backed securities (MBS) returns were mixed during the month with 15-year collateral flat while longer 30-year and agency-backed commercial MBS (CMBS) continued to outperform. The announcement directing Fannie Mae and Freddie Mac to purchase up to \$200 billion of mortgages caused spreads to narrow at the beginning of the month. Coupled with lower volatility, this has served as a tailwind to performance. However, given the richness of spreads and outperformance of the sector over the past few quarters, we will likely look for opportunities to trim allocations.
- Money market credit spreads fell during the month but still provide an attractive absolute yield level as a hedge against future rate cuts. Spreads on floating-rate securities have tightened but continue to be a popular option due to uncertainty around the timing and magnitude of future Fed rate cuts.

## U.S. Treasury Yields

Maturity	Jan 31, 2025	Dec 31, 2025	Jan 31, 2026	Monthly Change
3-Month	4.29%	3.63%	3.66%	0.03%
6-Month	4.30%	3.61%	3.63%	0.02%
2-Year	4.20%	3.48%	3.52%	0.04%
5-Year	4.33%	3.73%	3.79%	0.06%
10-Year	4.54%	4.17%	4.24%	0.07%
30-Year	4.79%	4.85%	4.87%	0.02%

## Yields by Sector and Maturity

Maturity	U.S. Treasury	Federal Agency	Corporates-AA-A Industrials	AAA Municipal
3-Month	3.66%	3.67%	3.81%	-
6-Month	3.63%	3.63%	3.81%	-
2-Year	3.52%	3.53%	3.82%	2.47%
5-Year	3.79%	3.80%	4.26%	2.47%
10-Year	4.24%	4.30%	4.84%	2.95%
30-Year	4.87%	-	5.63%	4.00%

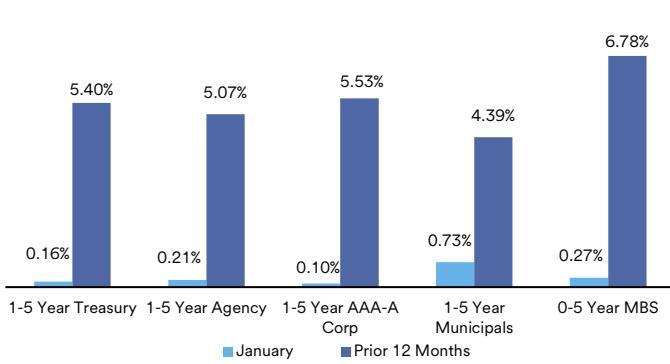
## Spot Prices and Benchmark Rates

Index	Jan 31, 2025	Dec 31, 2025	Jan 31, 2026	Monthly Change
1-Month SOFR	4.31%	3.69%	3.67%	-0.02%
3-Month SOFR	4.30%	3.65%	3.66%	0.01%
Effective Fed Funds Rate	4.33%	3.64%	3.64%	0.00%
Fed Funds Target Rate	4.50%	3.75%	3.75%	0.00%
Gold (\$/oz)	\$2,813	\$4,341	\$4,714	\$373
Crude Oil (\$/Barrel)	\$72.53	\$57.42	\$65.21	\$7.79
U.S. Dollars per Euro	\$1.04	\$1.17	\$1.19	\$0.02

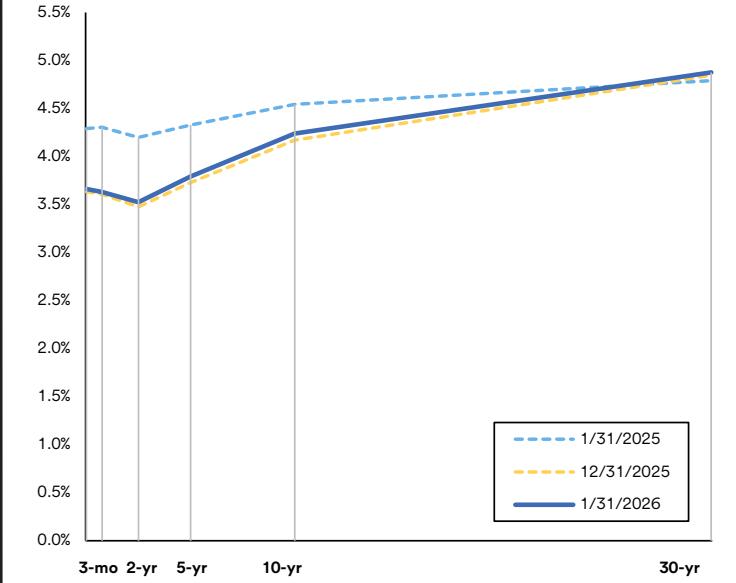
## Economic Indicators

Indicator	Release Date	Period	Actual	Survey (Median)
Change in Non-farm Payrolls	9-Jan	Dec	50K	70K
CPI YoY	13-Jan	Dec	2.70%	2.70%
Retail Sales Advance MoM	14-Jan	Nov	0.60%	0.50%
Existing Home Sales MoM	14-Jan	Dec	5.10%	2.80%
GDP Annualized QoQ	22-Jan	3Q T	4.40%	4.30%
U. of Mich. Consumer Sentiment	23-Jan	Jan F	56.4	54
FOMC Rate Decision	28-Jan	Jan	3.75%	3.75%

## ICE BofA Fixed Income Index Returns



## U.S. Treasury Yield Curve



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

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## 30-Day Money Market Yields

