

Cash Flow and Carey



Robert Carey, CFA
Chief Market Strategist



Peter Leonteos
Market Strategist

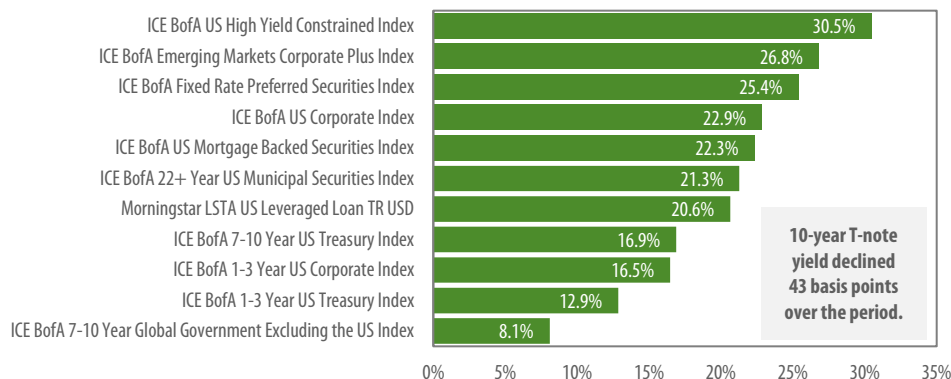
7/14/26

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The ICE BofA U.S. High Yield Constrained Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. The Morningstar LSTA U.S. Leveraged Loan Index is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market. The ICE BofA Emerging Markets Corporate Plus Index tracks the performance of U.S. dollar denominated preferred securities issued in the U.S. domestic market. The ICE BofA U.S. Mortgage Backed Securities Index tracks the performance of U.S. dollar denominated fixed rate and hybrid residential mortgage pass-through securities publicly issued by U.S. agencies in the U.S. domestic market. The ICE BofA 1-3 Year U.S. Corporate Index is a subset of the ICE BofA U.S. Corporate Index including all securities with a remaining term to maturity of less than 3 years. The ICE BofA 1-3 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government with a remaining term to maturity of less than 3 years. The ICE BofA 22+ Year U.S. Municipal Securities Index tracks the performance of U.S. dollar denominated investment grade tax-exempt debt publicly issued by U.S. states and territories, and their political subdivisions with a remaining term to maturity greater than or equal to 22 years. The ICE BofA U.S. Corporate Index tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market. The ICE BofA 7-10 Year Global Government (ex U.S.) Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency with a remaining term to maturity between 7 to 10 years, excluding those denominated in U.S. dollars. The ICE BofA 7-10 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government with a remaining term to maturity between 7 to 10 years.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

How Bonds Have Fared Since 10/19/23

Bond Index Total Returns (10/19/23 – 7/10/26)



Source: Bloomberg. **Past performance is no guarantee of future results.**

Index returns reflect the performance of ICE BofA Indices.

View from the Observation Deck

Today's post provides a snapshot of the total returns of 11 major bond indices since October 19, 2023. We chose this as the starting date because the yield on the 10-year Treasury note (T-note) closed at its most recent high of 4.99% that day, according to data from Bloomberg. The 10-year T-note's yield fluctuated over a broad range since then, falling to 3.62% on September 16, 2024 (most-recent low) before climbing to 4.56% on July 10, 2026. At its current observation, the 10-year T-note's yield represents a decline of 43 basis points (bps) from its recent high.

Each of the 11 debt categories presented in today's chart registered positive total returns over the period.

The top three performers were the U.S. High Yield Constrained, Emerging Market Corporate, and Fixed Rate Preferred Indices, with total returns of 30.5%, 26.8%, and 25.4%, respectively. By contrast, the 1-3 year U.S. Corporate Bond, 1-3 year U.S. T-note, and 7-10 year Global Government Bond Indices were the worst performers over the period, increasing by 16.5%, 12.9%, and 8.1%, respectively.

Investors expect the Federal Reserve ("Fed") could be hawkish over the near-term.

As of 12/31/25, the 2026 year-end interest rate implied by the federal funds rate futures market was 3.1%. Since then, surging energy prices pushed inflation to levels we haven't seen in several years, recalibrating year-end interest rate expectations. As revealed by the federal funds rate futures market on July 10, 2026, investors now expect the federal funds target rate could increase to 4.0% by year-end.

Let's get real.

Inflation, as measured by the trailing 12-month rate of change in the consumer price index (CPI), came in at 4.2% in May 2026, well above its most recent low of 2.4% in February 2026. Elevated tensions with Iran, including the dissolution of already tenuous peace talks and a re-blockade of the Strait of Hormuz, threaten near-term relief in the CPI. Notably, the real yield (yield minus inflation) offered by the 10-year T-note declined from 1.96% on March 24, 2026 (when we last discussed this topic) to just 0.36% on July 10, 2026.

Takeaway

The 10-year T-note yielded 4.56% on July 10, 2026, representing a decline of 43 bps from its most recent high of 4.99% in October 2023, but up 94 bps from its recent low of 3.62% in September 2024. Lower benchmark yields are reflected in the positive total returns in today's chart (fixed income prices and yields typically move in opposite directions). Energy prices remain elevated, underpinned by failed peace negotiations between the U.S. and Iran and the subsequent re-blockading of the Strait of Hormuz. Higher energy prices have had a notable impact on inflation, pushing the trailing 12-month rate of change in the CPI to a three-year high of 4.2% in May 2026 and eroding the real yield offered by the 10-Year U.S. T-note. Monetary policy expectations turned decidedly hawkish as a result. On July 10, 2026, the federal funds rate futures market revealed that investors believe the U.S. target rate could increase to 4.0% by December 2026. Will higher energy prices persist, or will a peace deal finally be reached? We will update this discussion as conditions warrant.