

Cash Flow and Carey



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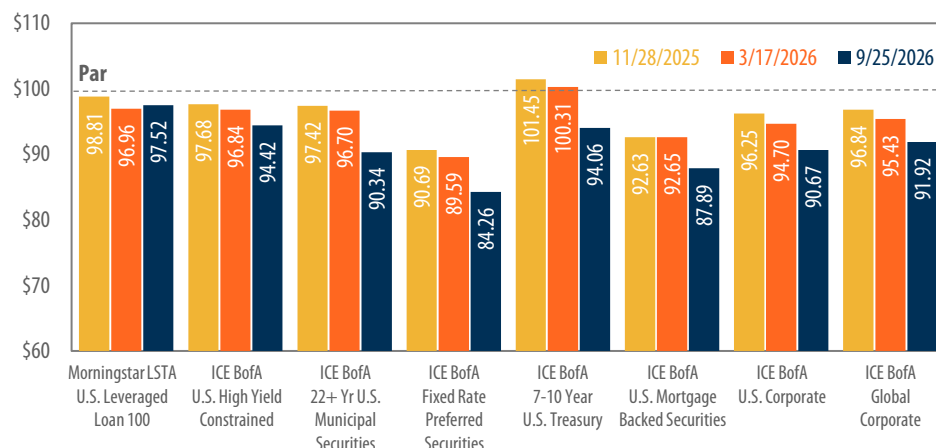
9/29/26

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 Morningstar LSTA U.S. Leveraged Loan 100 Index is a market value-weighted index designed to measure the performance of the largest segment of the U.S. syndicated leveraged loan market. 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 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 Fixed Rate Preferred Securities Index tracks the performance of investment grade fixed rate U.S. dollar denominated preferred securities issued in the U.S. domestic market. 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 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 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 Global Corporate Index tracks the performance of investment grade corporate debt publicly issued in the major domestic and Eurobond markets.

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Chasing Par in a Rising-Rate World

Par Weighted Price of Bond/Income Indices



Source: Bloomberg, Bank of America. **Past Performance is no guarantee of future results.**

View from the Observation Deck

Today's post is intended to provide insight into the movement of bond prices amidst the current investment climate and prevailing interest rate policy. Aside from the most recent data, other dates in the chart are from prior times we've written on this topic. [Click here](#) to view our last update to this series.

Since our last update in March 2026, prices have declined for all but one of the indices in today's chart.

We also note that price observations for seven of the eight indices now sit at time series lows, reflecting surging yields and rising interest rates. By contrast, the Morningstar U.S. Leveraged Loan Index increased since our last update, rising from 96.96 to 97.52.

High oil prices pushed inflation further from the Federal Reserve's ("Fed") stated goal of 2.0%.

Inflation, as measured by the trailing 12-month rate of change in the Consumer Price Index (CPI), was 3.4% in August 2026, down from its most recent high of 4.2% in May 2026, but up from its most recent low of 2.3% in April 2025. This marks the sixth consecutive month the CPI has exceeded its 25-year average of 2.6%.

Takeaway

In a widely anticipated decision, the Fed increased interest rates by 25 basis points (bps) this month, bringing its target rate to 4.00% (upper bound) for the first time since December 2025. More rate hikes are expected in the near term. The 2026 year-end market implied federal funds rate was 4.26% on September 28, 2026, up from 3.05% at the start of the year. The decision for tighter monetary policy comes amid persistent geopolitical risk, surging oil prices (higher inflation), and surprisingly strong job growth. Nonfarm payrolls increased by 162,000 in August 2026, while gains for June and July were revised upward by a total of 55,000. As we see it, today's chart reflects these developments, with prices for all but one of the Indices we track declining since our last update (fixed income prices and yields typically move in opposite directions). By contrast, the Morningstar U.S. Leveraged Loan Index increased since our observation in March 2026, amid increasing likelihood of further interest rate hikes over the near term. We will keep a close watch on the data and report back as necessary.