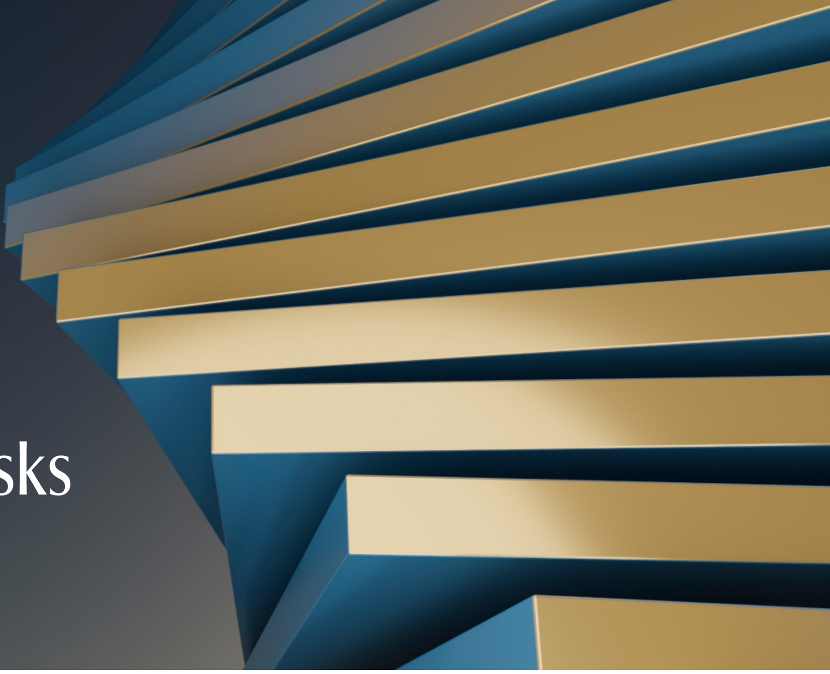


FIXED INCOME OUTLOOK 4Q2025

The Evolving Balance of Risks

Kay Haigh
Co-CIO and Co-Head, Fixed Income and Liquidity Solutions

Whitney Watson
Co-CIO and Co-Head, Fixed Income and Liquidity Solutions

"We continue to view fixed income as an attractive opportunity set, supported by Fed easing and balanced fundamentals. We favor a mix of strategies in developed markets, focusing on active curve positions that take advantage of divergent central bank policies and carry. Lower interest rates, a weaker dollar and global flows continue to support our bullish emerging markets stance."

"The balance of risks has shifted as we enter the fourth quarter, with attention now on the health of the US labor market and the Federal Reserve's easing trajectory. We are also focused on tariff passthrough effects and the pace of AI spending. Spreads remain tight, however we still see value through active security selection in areas such as high yield and securitized credit."

CIO Perspectives

The third quarter of 2025 saw a marked shift in the balance of pitfalls and opportunities fixed income investors face. Concerns rose over the state of the US labor sector, with data prints and backward revisions revealing a much weaker employment picture than expected. Markets also grew cautious on what the erosion of credibility of US institutions could mean for policymaking, while longer-dated rates have risen in markets such as the UK, France and Japan on both political and fiscal uncertainty. Simultaneously however, we have seen AI-driven capital expenditure (capex) continue at breakneck speed, boosting growth expectations, while the ongoing soft-US dollar environment has provided support for many local-currency asset classes, particularly in emerging markets. The Fed's recent restarting of its easing cycle, assuming a recession is off the table, could also indicate good news ahead for markets. Yet with this delicate and potentially fragile new balance of risks, is it reasonable to expect markets to continue as is, or does the setup mean something could break?

Maximizing risk-adjusted returns in such febrile environments requires an active approach, in our view, that can express convictions concretely across curves and markets, but react with speed and conviction to events when necessary. For example, we remain neutral to the US Treasury curve. However, risks skew to further easing should the labor market worsen, in our view, and we stand ready to buy back in should our conviction grow. Curve positioning is also key to capturing additional value, and we continue to hold steepening biases to the US and eurozone considering long-term structural trends. Elsewhere, we continue to see opportunities in emerging markets, which could benefit further from more Fed cuts down the line. Spread sectors continue trading at historically tight levels, however we see pockets of value in some areas, including high yield and securitized credit, which offer attractive carry. We look to dynamically manage our credit exposure in this tight-spread environment, pairing them with select duration exposures to high-quality government bond markets to try and mitigate downside risk.

Heading toward the new year, we are mindful of several factors that could shape our views. US labor market weakness has become the major focus for the Fed, and further deterioration in the employment rate and jobs numbers could accelerate the easing cycle. The health of the US consumer is also up for debate with tariff cost passthrough expected to continue, potentially raising questions over US growth. Promised German fiscal expansion, meanwhile, faces execution risks, while the trajectory of AI capex spending and its sustainability is also top of mind. We prefer a flexible stance to managing our portfolios when navigating our systematic and discretionary investment views through these headwinds, giving us the chance to generate additional risk-adjusted returns for clients and the ability to adjust quickly when necessary.

Summary of Investment Views

	Underweight	Neutral	Overweight	Investment Perspectives
Sovereign Bonds				
US		●		Upcoming Fed easing is now well priced. Our bias is to continue tactically trading from the long side, however, and we would consider buying any backup.
Euro Area			●	Positioned for a steeper yield curve. The market is underestimating the potential for renewed ECB easing on inflation undershoot.
Japan	●			Positioned for a flatter yield curve. BoJ rate hikes are likely to exceed market expectations given robust underlying inflation and resilient growth.
UK			●	Inflation pressures are much weaker than high headline numbers would suggest, while the labor market is loosening rapidly.
Other G10			●	Overweight Canada, New Zealand, Sweden and Norway; domestic macro dynamics and global growth risks from trade tensions will result in extended easing cycles.
Currencies				
US Dollar		●		Positive factors such as tariff-related inflationary impact, strong US equity market outperformance offset by dovish Fed reaction function and US institutional strength concerns.
Euro		●		Neutral responding to our currency signals.
Japanese Yen		●		Expectations for BoJ rate hikes offset by political uncertainty.
British Pound	●			Underweight given our currency signals and increasing fiscal sustainability concerns
Chinese Yuan		●		In alignment with our currency signals.
EM (ELMI)		●		Overweight Asia versus underweight high beta emerging markets.
Fixed Income Spread Sectors				
IG Credit	●			Fundamentals and technicals remain supportive but we will need to seek better valuations to re-engage.
HY Credit			●	Valuations are tight but offer better risk-adjusted carry than IG. Fundamentals remain supportive, especially in the BB and B cohorts.
Bank Loans			●	Modestly overweight given attractive income potential, but selective given potential stress among issuers with significant short-dated and low free cash cushion.
Agency MBS			●	Moderately overweight due to the potential for renewed investor demand given wide spreads relative to other sectors, but alert to headwinds from higher rates volatility.
Securitized Credit			●	Overweight given attractive risk-adjusted carry and potential for spread tightening in select segments. Key overweights remain senior tranches of CMBS and CLOs.
External EMD			●	Fundamental backdrop is improving with positive ratings momentum in sovereigns and corporates. Weaker US dollar also remains a tailwind, but valuations are tight.
Local EMD			●	We expect EM local currency yields to continue grinding lower, helped by lower US treasury yields but also easing cycles from EM central banks.

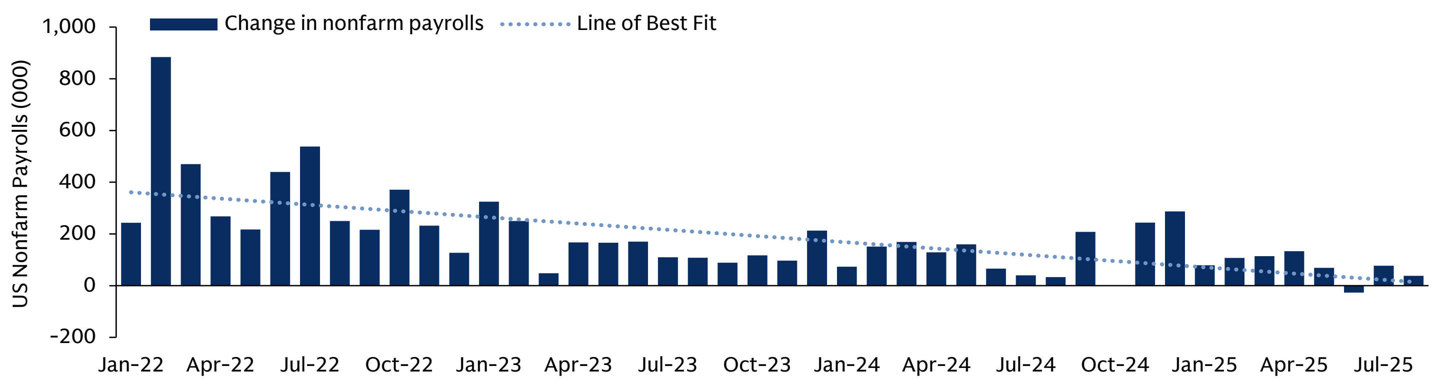
Source: Goldman Sachs Asset Management. As of October 1 Based on representative exposures in a global multi-sector fixed income portfolio. Currency Signals: We systematically derive investment signals based on analysis of carry prospects, macro fundamentals, and market sentiment. Our portfolio managers then exercise discretion to adjust or override these signals based on fundamental economic research, market intelligence and risk analysis, ensuring a risk-aware approach to optimizing returns.

Macro at a Glance

Growth: Labor Market Worries Cloud US Outlook

US growth soon is likely to be soft rather than recessionary, in our view. We expect already-weak consumer spending to remain suppressed for the rest of the year given slower income growth, while the housing market is also likely to remain subdued with interest rates remaining relatively high. However, business and investment activity remains strong, and we believe this can continue as peak uncertainty over the effect of tariffs recedes. The ongoing theme of strong AI capex investment is also a likely tailwind, supported by accommodative financing conditions. The fresh weakness seen in the US labor market over the past three months however is a notable downside risk. After showing signs of cooling earlier in the year, jobs growth has slowed, with a persistent pattern of downward revisions also emphasizing the trend. This is exacerbated by the labor market's low demand, low supply equilibrium, with new entrants finding it harder to obtain employment. How this fragile balance develops over the coming months will be key to informing growth forecasts.

Exhibit 1: US Jobs Growth Has Been in Steady Decline



Source: Goldman Sachs Asset Management, Bureau of Labor Statistics. As of October 1, 2025.

Elsewhere, we have also seen resilience in Europe in terms of growth, and is underpinned by a relative sanguine labor market picture. Early-year gains from front-loading exports to the US are easing, however a relatively friendly US trade deal, supportive credit conditions and the prospect of increased German fiscal spending on the horizon–amounting to around €1 trillion over the next 10 to 12 years–should generate positive momentum for economic expansion. The delay in passing Germany's 2025 budget however highlights the risk some of the promised spending increases could be delayed until next year.

Meanwhile, the Chinese economy is showing signs of slowing down. Manufacturing PMIs have been mostly anchored in contraction territory for the past two quarters. For example, data for July-August point to a real growth rate of around 4.5%-4.8% for the third quarter, compared with 5.4% and 5.3% for 1Q and 2Q, respectively. Given the 60% tariffs imposed on China these levels still appear healthy, however we would anticipate the People's Bank of China would act if the data continued to lag target in the fourth quarter.

Inflation: Mixed Bag

The inflation picture remains dynamic, despite attention having shifted to the health of the US labor market. Tariff passthrough in the US has been slower and weaker than expected, and disinflation is also helping to offset price pressures. The passthrough is likely just delayed rather than cancelled, however, and we can anticipate prices building up in the coming months. Anchored inflation expectations and the loosening labor market mitigate the risk of second-round inflation effects. Outside of the US, we believe eurozone inflation will undershoot target significantly in 2026, aided by ongoing euro strength and falling commodity costs, before rising back to the 2.0% target in 2027. Deflationary pressures continue to also persist in China given ongoing overcapacity issues and muted domestic spending. UK inflation is proving sticky, by contrast, with headline inflation still at double the target. A contractionary budget, however, in November could bring in disinflationary pressures. Elsewhere, Japan inflation still remains above target, buoyed by loose financing conditions and solid domestic activity.

Policy Picture

Different Stages of the Cycle

We believe the Fed will cut rates by 25 basis points in both October and December following them up with two more cuts in 2026. The Fed has delivered on its prior indications of not tolerating labor market weakness, and the material fall in nonfarm payrolls and downward revisions of previous numbers we believe puts it on the path for further easing.

Outside the US, many central banks have reined back on easing following the tariff shock, and instead are focusing on the balance between inflation and growth as we look toward the new year. We anticipate both the European Central Bank (ECB) and Bank of England (BoE) to hold rates steady for the remainder of 2025 but believe that risks skew towards both cutting early next year if inflation undershoots expectations. A contractionary Autumn Budget could even convince the BoE to cut in December.

Elsewhere in the G10, we believe New Zealand still has room to cut given ongoing poor data, while soft growth in Canada informs our view that the Bank of Canada will cut by 25bps at its October meeting, with risks skewed to more easing ahead. By contrast domestic pressures continue to build in Japan regarding high inflation and robust growth, which we think should give the Bank of Japan (BoJ) license to hike in the fourth quarter. We expect easing to continue across several EM economies, helped by continued subdued US dollar and oil prices reducing inflation risks.

What We're Watching

Fiscal Risks in Both Directions

Rising political uncertainty has exacerbated worries about government spending over the past quarter. This includes leadership changes in France and Japan, which have cast doubt on their governments' paths forward in terms of fiscal consolidation, and broader uncertainty over economies such as the UK having weak growth, sticky inflation and rising deficits. However, we also think that the much-heralded German fiscal expansion announced earlier this year could disappoint to the downside, potentially weighing on eurozone growth. The new budget was only approved in September, and the execution risks around it in both timing and delivery could result in disappointment. Looking ahead, we will be closely watching the French and Japanese political developments, the UK Budget in November, as well as monitoring progress on spending in Germany.

A Fragile Balance in the US Labor Market

The marked deterioration in payroll and employment figures, including sizeable downward revisions of nonfarm payrolls data, led to a sharp re-evaluation of the overall strength of the US economy during the quarter. The Fed's return to easing is framed as "risk management" against this slowdown, with two further cuts penciled in before the end of the year. However, the makeup of the labor market is notably fragile, with fewer people leaving work and fewer people able to find jobs. This "low hiring, low firing" dynamic could be much more sensitive to economic shocks. How the labor market plays out in the near term will likely dictate the course of Fed easing.

The Consumer in the Face of Tariff Passthrough

The AI capex cycle, tariff frontloading and the weaker US dollar helped drive the resilience seen over the past quarter. However, we recognize that some of these factors may not last and are paying particular attention to the health of the US consumer. Companies may start to pass costs through to customers as tariffs become normalized, however the extent to which they can do this is questionable given the considerable weakness shown by the labor market. Similarly, although the AI capex boom has shown significant momentum and acceleration, it remains to be seen whether this will be sustained if the economic backdrop remains febrile. Our view is that the US consumer appears to be bending rather than breaking, and that the status quo can continue with the Fed in risk-management mode. However, we remain cognizant of the downside risks to this view, particularly if the labor market continues to trend downwards.

Asset Class Views

Interest Rates

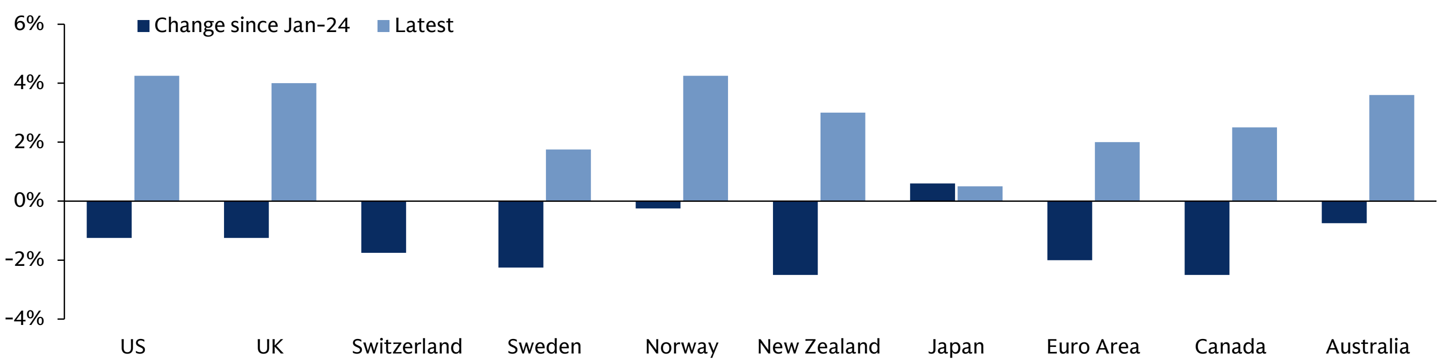
Outlook

The Fed is currently in risk management mode, in our view, putting emphasis on trying to stabilize signs of labor market weakness. The September dot plot indicated that the Fed's base case was also for two more cuts this year, but with a narrow 10-9 split among the committee. We believe this baseline is firmer than the split suggests however, assuming Powell and other core Federal Open Market Committee (FOMC) members were among those backing two cuts. The Fed could in theory "skip" a cut if the labor market shows signs of stabilization, however this would be more likely to occur in December than October to allow for evidence to accumulate.

In Europe, we expect the ECB to remain on hold for the foreseeable future. Growth has remained resilient despite external headwinds, and the central bank's tendency to tolerate medium-term deviations from inflation targets means the bar is high for policy action. Near-term risks skew to easing in early 2026 if German fiscal support proves underwhelming, untethering inflation expectations. We also expect no more cuts this year from the Bank of England, with stubborn inflation and high inflation expectations, coupled with a stabilizing labor market, likely to keep policymakers on hold. A rate cut this coming December is not entirely off the table, however, if November's Autumn Budget proves contractionary and wage data proves subdued. However, we think it more likely that the BoE will resume rate cuts at a quarterly pace in February 2026, assuming inflation softens.

In other G10 economies, easing cycles are also at differing stages. Sweden's easing cycle, for example, is likely over following its latest 25bp cut to 1.75%, assuming the economy improves as expected. Norway's easing pace meanwhile is likely to slow following its 25bp cut in September, while upside surprises on inflation could also encourage the Reserve Bank of Australia to halt its cutting cycle. The Swiss National Bank is keeping its policy rate at 0%, but a return to negative seems less likely for now. By contrast, we believe there is further room for rates to fall in New Zealand given recent GDP data showing a sharp contraction. The Bank of Japan (BoJ), meanwhile, could be poised to hike rates later this year given strong domestic data, assuming US economic indicators remain tolerable.

Exhibit 2: Current G10 Policy Rates and Amount of Change Since 2024



Source: Goldman Sachs Asset Management. As of October 1, 2025.

Opportunities

Continued policymaker divergence provides investors with the opportunity to express views in different sovereigns across the curve and diversify their duration exposures. We hold overweight exposures to both the UK and the eurozone, where we think concerns over inflation have been overplayed by the market. We prefer a steepening bias to the eurozone yield curve however, as Dutch pension fund selling may continue to weigh on the long end. There are also select overweight opportunities in the G10, such as in Canada and New Zealand, where soft growth in both countries could indicate further policy easing ahead than anticipated. By contrast we remain underweight duration to Japan and positioned for a flatter curve, with above-target inflation and a secured trade deal potentially setting up the BoJ for further rate hikes. In the US meanwhile we are relatively neutral, viewing market pricing as currently fair, but prefer to dynamically manage our exposure given the Fed's sensitivity to labor market weakness. In this capacity we are positioned for the Treasury curve to steepen, reflecting expectations for higher term premium and uncertainty over fiscal consolidation.

Currencies

Outlook

While we have entered a Fed easing cycle, there is reason to believe that this will not be structurally bearish for the US dollar. Sticky inflation and bullish US equity markets can provide support and offset falling currency yields the Fed's dovish reaction function. Historically, the dollar also tends to rally or remain level after an initial Fed cut that isn't followed by a recession, and we do not expect a significant downturn ahead. Upcoming labor market data and inflation releases remain critical to the dollar's path looking forward.

Opportunities

We are flat to the US dollar, reflecting the competing pressures it is under. Tariff-related inflationary effects and AI-driven equity market performance are positive factors for the dollar; however these are counterbalanced by the Fed easing policy. Overall though we still feel the dollar can rally in risk-off environments, particularly ex-US, and express this view through currency options to position for potential dollar-positive macro environments.

Elsewhere concerns over the UK's fiscal situation informs our sterling underweight, while we favor the Australian dollar given its correlation with commodities. In emerging markets we hold overweights in select Asian currencies and are underweight more-volatile currencies.

Investment Grade

Outlook

Despite historically tight US IG spreads, elevated all-in yields support attractive carry and potential for positive excess returns as growth cools due to tariff effects. Our base case sees spreads rangebound with modest skew wider, anchored by broadly healthy fundamentals across IG cohorts. We expect selective downgrade pressure but fallen angel volumes to remain below prior cycle peaks. We maintain a focus on the effect of tariffs as companies have different measures to mitigate higher tariff-driven input costs, such as through pricing, cost reductions, and supply chain diversification. Companies continue to be financially conservative, particularly US BBB-rated firms, which continue to act conservatively with their operating cash flow allocation to capex, dividends, and share repurchases.

Opportunities

We continue to run a modest overweight to credit beta, albeit balanced with hedges where appropriate given the asymmetric return profile between tighter and wider spreads. We also prefer the front and intermediate parts of the curve which offer additional carry and roll relative to the long end. Among US issuers we favor BBB-rated companies where there is an attractive spread pick up, though we emphasize the need to be selective given the potential for a pickup in fallen angels even if still muted relative to prior cycle peaks. Within Europe we have rotated into As from BBBs, reflecting the relative spread compression between them. From a sector perspective we are overweight banks. Net interest margins are likely to be close to the bottom, while capital levels should be sufficient to absorb normalizing asset quality. They also offer higher carry compared with the broader IG market. We are also overweight healthcare, primarily through health maintenance organizations which can recover from poor 2024 underwriting as management teams refocus on their balance sheets. The auto sector is facing secular headwinds given the transition to electric vehicles; however, we have started to see valuations adjust and find opportune positions in shorter maturity bonds though remain cautious on the sector. We are also underweighting electric utilities in the US. We expect material spending needs in the sector will need funding, at least in part, through increased debt where supply has grown materially and we see scope for rating downgrades within IG.

High Yield Credit and Bank Loans

Outlook

Momentum for the leveraged credit market remains intact. Year-to-date returns for high yield bonds and leveraged loans are pointing towards the mid- to high-single-digit levels we have been expecting this year. Fundamentally, leveraged credit remains in a good place. Second-quarter numbers defied tariff-related fears, with around 75% of leveraged credit issuers meeting or exceeding revenue and EBITDA expectations. Overall default rates, especially for high yield, are at manageable levels and trending in a constructive direction.

Leveraged loan default rates moved 48 bps lower to 3.37% last month, largely because of a recent moderation in distressed exchange activity. For US high yield, trailing twelve-month default rates, also including distressed exchanges, were effectively flat at 1.45%. Over the next year, we expect default rates to remain at or near current levels.

Opportunities

With strong market technicals and relatively tight credit spreads, we believe that the primary issuance world has become a credit pickers market – but in an inverse fashion. In other words, our detailed underwriting process has been successful in avoiding primary issuers that turned out to be problematic - which has contributed to performance YTD. Primary issuers we avoided include Saks, New Fortress Energy, Liberty Puerto Rico Outbrain and Brightline – all of which traded down substantially in the months post issuance. By contrast, we see opportunities in the AI and energy space, where the focus for leveraged credit issuers has been on financing the infrastructure necessary to support AI and macro growth.

We also see opportunities from the overall increase in M&A activity which has positively affected leveraged credit issuers as of late. M&A activity has been historically viewed as a net negative in the leveraged credit market; issuers would often use incremental leverage available in the high yield or loan markets to finance acquisitions, often with a negative effect on credit spreads. We have seen a sea change in this pattern over the past 18 months, with strategic buyers often making transactions with credit-friendly financing structures. Some of these deals have driven significant price appreciation for the high-yield issuers. We believe the activity will continue to trend, creating opportunities to drive alpha for investors.

Agency MBS

Outlook

We expect the agency MBS sector to benefit from macro tailwinds in 4Q25–a decline in interest rate volatility, a lower rate environment, and a steeper yield curve should provide technical support to the sector. We anticipate increased demand from overseas investors and US banks in the fourth quarter. Overseas investors tend to be levered buyers who borrow from the repo market to fund their MBS portfolios. They will likely find MBS investments more attractive as the yield curve continues to steepen, which lowers funding costs. In the domestic market, demand from US banks was lacklustre in 1H25. We expect bank participation to pick up in 4Q25 as lower money market rates and seasonals support deposit growth, putting more capital onto bank balance sheets. We are mindful of a potential pickup in refinancing activities as rates continue to trend lower, but the fact that we are heading into seasonally slower months should moderate housing activity and help limit agency MBS supply.

Opportunities

We remain constructive on the agency MBS sector in the medium term, though we think valuations look stretched after the recent rate rally and spread tightening. We currently hold small overweight positions to the sector and look for opportunities to add exposure when spread levels become more attractive. Within the sector, we maintain a positive view on Ginne Mae MBS compared with conventional MBS as we expect foreign investor demand to flow into Ginne Mae given the explicit government guarantee. We have reduced our higher coupon exposure, rotated into intermediate- and lower-coupon MBS given better prepayment protection profile.

Securitized Credit

Outlook

We view the securitized credit sector as well-positioned into the Fed's rate-cutting cycle, especially high-quality CLO and CMBS investments. A lower rate environment should provide fundamental support to the asset class in 4Q given less loan coverage pressure and lower interest expenses on the underlying assets. Within CLOs, we expect call activities to remain robust as lower spreads should lead to stronger loan refinancing and repricing activities. We also expect continued inflows into CLO ETFs on top of the record demand we have seen year-to-date. CMBS has performed well so far this year across the capital structure. We continue to hold a positive view on the sector despite near-term concerns on growth expectations.

Opportunities

We are positive on the securitized credit sector because of attractive carry, strong relative value, and robust technicals that the sector offers. We see opportunities in CLOs and CMBS, particularly the senior parts of the capital structure. Within CLOs, we continue to favor the AAA tranche given strong structural advantage and attractive carry. We also like the BBB tranche given attractive valuations. Within CMBS, we prefer senior tranches on sufficient credit protection, while remaining cautious on mezzanine tranches due to valuation pressures. We see opportunities in fixed-rate new issue single asset, single borrow CMBS given their protection over floaters and spread pickup versus conduit CMBS.

Emerging Market Debt

Outlook

We anticipate emerging markets will continue their strong performance this year based on several tailwinds for the asset class. The potential for more US dollar weakness and the prospect of lower US interest rates, for instance, could support local rates and currencies as well as improve debt servicing for sovereigns and corporates. The ongoing easing cycle has also driven a significant easing of financial conditions globally, and historically US rate-cutting cycles have often led to outperformance for the asset class. Further cuts and ongoing US dollar weakness could further ease conditions, providing a positive impulse to growth. Faster-growing EMs can offer investors an opportunity to diversify their portfolios away from slower-growing developed markets. We project the growth differential of emerging markets versus developed markets (DMs) to expand to over 2.4% for the full year 2025, up from 2.2% in 2024.

This dispersion in economic paths renders the global bond opportunity set richer than it has been in a long time. Stability in emerging market foreign exchange (FX) also provides space for their central banks to cut without concerns around FX stability, which eases domestic financial conditions. High real rates and FX stability/appreciation provide room for EM central banks to cut rates. Both sovereign and corporate issuers in emerging markets also stand on solid financial footings, which we believe positions them to capitalize on the favorable macroeconomic backdrop. Flows momentum in the asset class has also turned positive in recent months after a period of overall outflows for the asset class since the pandemic. The latter means that positioning in emerging market debt is still light.

Despite the positive backdrop, we remain vigilant to risks that could disrupt the trajectory for emerging markets, including a rebound in US dollar strength. Yet we believe several factors could mitigate this. For instance, many emerging market companies are well insulated from the effects of dollar swings, with 29% of external currency EM corporate bonds from issuers located in countries with currencies that are set at a fixed rate against the dollar.

Opportunities

We view emerging market debt as an attractive source of income and potential alpha, driven by high differentiation within the asset class. Carry in EM, the historical strength of the asset class, could become more central with yields in many developed markets expected to decline. Local-currency bonds carry additional FX risk, but we see more potential for US dollar weakness which could support returns further. Emerging market corporates also offer opportunities for investors, as they have healthy balance sheets characterized by low debt levels and strategically hedged FX exposure. Net leverage for investment grade global EM corporates is also becoming better, falling to around 1.0x in 2024 from more than 1.5x in 2013. By contrast, European and US investment grade corporate net leverage has increased from the same level to almost 3.0x over the same period.

Fundamental improvements, robust growth stories and structural reforms among sovereigns, meanwhile, are helping improve the asset class's overall creditworthiness. The sovereign ratings landscape for EMs positively shifted in late 2023 following three challenging years during and immediately after the pandemic. This positive momentum includes several rising stars in the emerging market debt universe. In 2024, Paraguay, Azerbaijan, Oman, and Serbia all earned an IG rating, and in 2025 Oman and Azerbaijan obtained their second IG rating. Looking ahead, we believe this positive trend will continue, with further Fed rate cuts as a potential catalyst, which would give emerging market issuers a chance to manage liabilities, potentially easing their debt burdens and boosting debt-to-GDP ratios.

Municipal Bonds

Outlook

The headwinds that affected municipal performance through the first half of the year have largely abated for the near term, as witnessed by the asset class's strong returns towards the end of the third quarter. The pace of new issue volume has slowed, tax policy concerns are in the rearview mirror and investor concerns regarding an upcoming Fed cutting cycle has dollars moving out the curve. As a result, municipal yields are lower quarter-over-quarter, and valuations versus Treasuries are rich across the curve. While these have been predictable, the continued spread widening has been perplexing. With issuers on a relatively strong footing, idiosyncratic credits events and periodic fund outflows have pushed high yield spreads to their widest since the first quarter of 2024. We continue to believe municipal credit will do well in the next year and investors could be rewarded with additional carry and potential price return in portfolios. At this point, macro factors will principally drive the municipal curve, which may cause volatility during the next quarter, but long-term performance prospects for owning duration are favorable.

Exhibit 3: Widening Spreads in the Municipals Space Could Provide an Attractive Entry Point

Source: Goldman Sachs Asset Management, Bloomberg. Line shows the spread between the Bloomberg US Municipal High Yield Bonds Index (I22329US) and the Bloomberg Municipal Index (LMBITR). As of September 30, 2025.

Opportunities

We continue to see attractive income potential across the investment universe, especially when compared with historical averages. Intermediate maturity valuations remain fair relative to both their taxable counterparts, and long-term averages, but with solid AA issuers still yielding more than 3% in the 10-year area, investors will likely continue to find extending out the curve compelling. Long-end maturities have been the best performing part of the curve over the past quarter, and absent a macro shock to the market, there is potential for that to continue. As with last quarter, we are still constructive on municipal credit but given the wide dispersion of opportunities within the high-yield market, active credit selection is crucial. Our outlook anticipates that income will be the primary driver of returns in the near term, with credit spreads expected to remain rangebound. Therefore, incorporating high-yield exposure has potential to enhance overall portfolio performance for the year.

Responsible Investing

Outlook

We project new green bond issuance to reach approximately $500 billion by year-end, a similar level to 2024. We primarily attribute this slight downward adjustment of our forecast to fewer expected issuances from US issuers. Conversely, we anticipate emerging market bond issuers to remain key drivers of growth, particularly when compared with developed non-US markets. Issuance of corporate green bonds has continued to bring down duration, which is now -0.5 years versus conventional bonds. As a result, corporate green bonds are likely to be less sensitive to changes in monetary policy and spreads.

Opportunities

Within specific sectors, active management focused on income generation and defensiveness will continue to be critical for green, social, and sustainability (GSS) bonds. We maintain an overweight position in financials, particularly in banks and senior preferred debt, due to their inherent defensive characteristics. Furthermore, we expect our overweight allocation to REITs to benefit from a favorable domestic regulatory environment. Should economic growth decelerate, an overweight position in industrials, specifically communication, along with European-focused transportation, is anticipated to contribute positively to performance.

In terms of credit ratings, we favor A-rated bonds over BBB-rated bonds, a preference that aligns with the predominantly investment-grade nature of most GSS bonds. Corporate green bonds have demonstrated a superior return profile compared with conventional euro corporate bonds in recent months, often having a "greenium" where issuers price them with a lower yield than their conventional bonds. As stock–bond correlations move into positive territory, it will become increasingly important for investors to diversify into non-traditional asset classes. Given the rigorous assessment required to ascertain the true environmental and social impact of GSS bonds, active selection based on both ESG attributes and performance remains central to capturing value and continues to play a vital role in accessing attractive risk-adjusted returns.

Liquidity Solutions

Outlook

Monetary policy adjustments remain a central focus for global money markets. The FOMC's re-initiated its easing cycle in September 2025 with a 25bps interest rate reduction, bringing the target range to 4.00%-4.25%. The Committee's Summary of Economic Projections (SEP) suggests a trajectory for USD money markets anticipating two additional 25bps cuts by end-2025. Should economic data continue to support this outlook and the FOMC align with its forecast and market expectations, the Federal Funds Target Range is projected to conclude the year in the 3.50-3.75% area, consistent with the September 2025 SEP median projection of 3.6% for the federal funds rate.

Dollar investors could benefit from increased Treasury Bill (T-Bill) supply following the reinstatement of the United States Debt Limit earlier this year. Historically, such resolutions lead to the Treasury augmenting T-Bill issuance to rebuild cash balances. Concurrently, we anticipate a continued decline in Reverse Repo Facility (RRP) balances, favoring non-Fed repo activity. RRP balances have significantly decreased throughout 2025, reaching as low as $13.707 billion by mid-September 2025, indicating a substantial draining of excess liquidity from the financial system. While this trend may stimulate private sector demand for Treasury securities, it is crucial to distinguish this from Fed policy. The Fed is actively engaged in quantitative tightening (QT), reducing its holdings of Treasuries, not increasing purchases, though it did announce a slowing of its QT pace in April 2025 by reducing the monthly cap on US Treasuries redemption.

Turning to euro and sterling markets, expectations for significant further easing from the ECB and BoE are more measured, given their earlier easing actions in 2025. The ECB commenced its easing cycle in June 2024, with subsequent adjustments in September and October 2024, and further cuts in 2025. The BoE reduced rates by 25 bps to 4% in August 2025, with a gradual pace of further cuts anticipated into 2026. Should additional policy measures become necessary in either market, further easing is deemed most probable for the remainder of the year and into 2026, albeit at a gradual pace.

The recent downgrade of France's sovereign credit rating by Fitch Ratings from AA- to A+ on September 12, 2025, marks a notable development. While the market had partially priced in such a move, the downgrade has amplified concerns regarding fiscal sustainability and political fragmentation. On the front end of the curve, this could translate to higher short-term funding costs for the French government. The pressure on the newly appointed Prime Minister to implement fiscal reforms is now intensified, and the market will closely monitor the government's ability to address its fiscal challenges.

Opportunities

Money market funds continue to present an attractive option for investors seeking to mitigate near-term volatility while prioritizing stability and liquidity. For those with the capacity to segment cash and extend duration further along the yield curve, short duration strategies offer a high-quality income generation source. This is particularly attractive as the Fed renews its easing cycle, allowing investors to lock in higher yields and capture income, as well as take advantage of diversification and active management benefits. These strategies complement traditional fixed income allocations by providing potentially lower levels of volatility and the opportunity to earn competitive income relative to traditional cash products, particularly in a falling rate environment, while maintaining essential liquidity.

Central Bank Snapshot

	INTEREST RATE POLICY	BALANCE SHEET POLICY	OUTLOOK	CUTS/HIKES EXPECTED TO END-OF 2026	OUR OUTLOOK VERSUS MARKET-IMPLIED PRICING
Fed	**Federal funds rate:** 4.00-4.25% **Last change:** September 2025 (-25bps) **Start of the cutting cycle:** September 2024 **Rate at the start of the cutting cycle:** 5.25-5.5%	At the March FOMC meeting, the Fed decided to slow the pace of QT, lowering the cap on Treasury runoff from $25bn/month to $5bn/month effective April, while keeping the MBS cap of $35bn/month unchanged.	Downside risks to the labor market are rising and inflation data so far is showing more gradual tariff passthrough. The Fed is likely therefore to deliver two further cuts this year, in line with dot plot. **Expected rate at end-2026:** 3.0-3.25% **Neutral rate estimate:** 3.0%-3.75%	**Our outlook:** 4 cuts **Market-implied pricing:** 4-5 cuts	Neutral
ECB	**Deposit facility rate:** 2.0% **Last change:** June 2025 (- 25bps) **Start of the cutting cycle:** June 2024 **Rate at the start of the cutting cycle:** 4.0%	The ECB started reducing its balance sheet in March 2023 and ceased reinvestments from its APP in July 2023. The reinvestment of proceeds from maturing securities under the PEPP decreased, which started in July 2024 and concluded in December 2024.	Resilient economy and hawkish ECB reaction function suggest the bank is likely to stay on hold for the foreseeable future. Risks are skewed toward further easing in H1 2026, as inflation is expected to fall well below 2% **Expected rate at end-2026:** 2.0% **Neutral rate estimate:** 1.75-2.25%	**Our outlook:** 0 **Market-implied pricing:** 0-1 cut	Neutral
BoE	**Bank Rate:** 4.0% **Last change:** August 2025 (-25bps) **Start of the cutting cycle:** July 2024 **Rate at the start of the cutting cycle:** 5.25%	The BoE has been reducing its balance sheet since November 2022. At the September 2025 meeting, the MPC voted to reduce the pace of gilt stock reduction to £70bn. Given lower redemptions, this implies a slight increase in the pace of active sales.	Sticky inflation and elevated inflation expectations suggest the BoE is likely to pause this year and resume cutting in early 2026. Risks are skewed toward a December cut, depending on a potentially deflationary Autumn Budget. **Expected rate at end-2026:** 3.25% **Neutral rate estimate:** 2.50-3.50%	**Our outlook:** 3 cuts **Market-implied pricing:** 2 cuts	Slightly Dovish
BoJ	**Policy deposit rate:** 0.5% **Last change:** January 2025 (+25bps) **Start of the hiking cycle:** March 2024 **Rate at start of the latest hiking cycle:** -0.1%	The gradual reduction plan for JGB purchases will be from around ¥6tn per month to around ¥3tn over 18 months. Reduced bond buying is focused on intermediate maturity bonds.	With above-target inflation, resilient activity, loose financial conditions and now a trade deal, the BoJ will resume hiking this year as long as US data holds up. **Expected rate at end-2026:** 1.25% **Neutral rate estimate:** 1.25-1.75%	**Our outlook:** 3 hikes **Market-implied pricing:** 2 hikes	Slightly Hawkish

Source: Goldman Sachs Asset Management, Bloomberg for market-implied pricing. As of October 1, 2025. Abbreviations: Quantitative Tightening (QT). The neutral rate estimates come with a degree of uncertainty. They are derived from a combination of fundamental, market, and model-based assessments. The ranges for the Fed, BoE and BoJ reflect the diversity of these estimates. For the ECB, the range represents the spectrum of policymakers' estimates, which has been adjusted based on our discretionary perspective. Estimated neutral rates by central banks are as follows: BoE 2.25%-3.75%, BoJ 1%-2.5%, Fed 2.6%-3.9%, ECB 1.75%-2.25%. The economic and market forecasts presented herein have been generated by Goldman Sachs Asset Management for informational purposes as of the date of this document. They are based on proprietary models and there can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document.

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