CHIEF INVESTMENT OFFICE

The FIX

Fixed Income Market Update

All data, projections and opinions are as of January 14, 2026 and subject to change.

TAX-EXEMPT

Performance and Technicals

- Munis are leading Fixed Income year-to-date: +0.7% through January 9 vs. flat Treasurys and +0.1% Investment-grade Corporates—extending their second half 2025 strength.
- Technicals look strong into February with negative net issuance, although full-year supply should top 2025's record $580B on infrastructure and refunding activity.
- Fund flows remain broadly positive since April 2025; expect that trend to hold, despite typical seasonal softness in March to April.

Themes and Trends

- Muni credit quality remains strong even as pandemic-era federal stimulus fades; tax revenue growth is slowing but still positive.
- Modestly rising unemployment is a key area to watch.
- Multi-state federal funding freezes for childcare and social services, and looming freezes for sanctuary cities, are unlikely to materially pressure state/city credits.

Watchlist

- Tax-backed/essential-service revenue bond sectors should continue to perform well thanks to resilient U.S. economy.
- Hospitals: Credit trends improving despite 2025 return lag. Policy headlines may still weigh on investor sentiment, but legislative risk should ease in 2026. We favor large, multi-site systems over small, single-site, rural hospitals vulnerable to funding cuts.
- Higher Education: Enrollment and policy pressures keep sector vulnerable, especially small, regional, less-selective schools with low financial flexibility. For stronger institutions, headline risk could create selective buying opportunities.

Relative Value

- Value in A/BBB sector, with prudent credit selection. While Muni-to-Treasury yield ratios inside 10 years look rich-to-very rich, we still see value in longer maturities.

TAXABLE

Performance and Technicals

- Investment-grade spreads tightened 2 basis points (bps) in December 2025, driven by lower supply ($32 billion (B)) following the $473B issuance surge from September to November.
- January kicked off with a bang: Over $90B priced in the first week—the fourth-busiest on record—and was well-absorbed by the market, echoing recent quarters.
- Strong inflows into Investment-grade funds in December 2025 and early January underscore solid demand.

Themes and Trends

- Mortgage-backed Securities (MBS) spreads ripped tighter, rallying around 10 bps to the mid-teens level—the lowest since May 2021—after the Trump administration directed Fannie Mae and Freddie Mac to buy $200B in Agency MBS.

Watchlist

- Expect more Artificial Intelligence- and mergers & acquisition-driven issuance as hyperscalers ramp up infrastructure spend, and deal activity accelerates. These themes, already in motion last year, are well-telegraphed; we see only modest widening pressure on Investment-grade spreads.
- Q4 2025 earnings: FactSet consensus calls for 8% earnings growth for the S&P 500 Index, before accelerating to low-teens percentage growth in the first half of 2026.

Relative Value

- Investment-grade Corporate valuations are still leaning on the rich side, with spreads trending in the 70 to 80 bps range, near multidecade lows. In our view, spreads could remain range-bound, supported by strong fundamentals, positive gross domestic product growth, easing financial conditions, and still-attractive all-in yields.
- Agency MBS spreads and yields now screen richer versus Investment-grade Corporates: Tight starting spreads could cap forward excess returns if spread-sensitive MBS buyers (i.e., money managers) reduce overweight positioning.

8712913 1/2026

Index Definitions

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Indexes are all based in U.S. dollars.

S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

Bloomberg Municipal Bond Index is a flagship measure of the US municipal tax-exempt investment grade bond market. It includes general obligation and revenue bonds, which both can be pre-refunded years later and get reclassified as such.

Bloomberg U.S. Corporate Investment Grade Index measures the investment grade, fixed-rate, taxable corporate bond market.

Important Disclosures

Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results.

Bank of America, Merrill, their affiliates, and advisors do not provide legal, tax, or accounting advice. Clients should consult their legal and/or tax advisors before making any financial decisions.

This information should not be construed as investment advice and is subject to change. It is provided for informational purposes only and is not intended to be either a specific offer by Bank of America, Merrill or any affiliate to sell or provide, or a specific invitation for a consumer to apply for, any particular retail financial product or service that may be available.

The Chief Investment Office (CIO) provides thought leadership on wealth management, investment strategy and global markets; portfolio management solutions; due diligence; and solutions oversight and data analytics. CIO viewpoints are developed for Bank of America Private Bank, a division of Bank of America, N.A., ("Bank of America") and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S" or "Merrill"), a registered broker-dealer, registered investment adviser and a wholly owned subsidiary of BofA Corp.

All recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and share price fluctuations due to changes in interest rates. When interest rates go up, bond prices typically drop, and vice versa. Income from investing in municipal bonds is generally exempt from Federal and state taxes for residents of the issuing state. While the interest income is tax-exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the Federal Alternative Minimum Tax (AMT). Tax-exempt investing offers current tax-exempt income, but it also involves special risks. Single-state municipal bonds pose additional risks due to limited geographical diversification. Interest income from certain tax-exempt bonds may be subject to certain state and local taxes and, if applicable, the alternative minimum tax. Any capital gains distributed are taxable to the investor. Investments in high-yield bonds (sometimes referred to as "junk bonds") offer the potential for high current income and attractive total return but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a junk bond issuer's ability to make principal and interest payments. Treasury bills are less volatile than longer-term fixed income securities and are guaranteed as to timely payment of principal and interest by the U.S. government. For investments in Agency Mortgage-backed Securities (AMBS) and Mortgage-backed Securities (MBS), generally, when interest rates decline, prepayments accelerate beyond the initial pricing assumptions, which could cause the average life and expected maturity of the securities to shorten. Conversely, when interest rates rise, prepayments slow down beyond the initial pricing assumptions, and could cause the average life and expected maturity of the securities to extend, and the market value to decline. Most senior/leveraged loans are made to corporations with below investment-grade credit ratings and are subject to significant credit, valuation and liquidity risk. The value of the collateral securing a loan may not be sufficient to cover the amount owed, may be found invalid or may be used to pay other outstanding obligations of the borrower under applicable law. There is also the risk that the collateral may be difficult to liquidate, or that a majority of the collateral may be illiquid. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration.