INTEREST RATES

As of September 8, 2025

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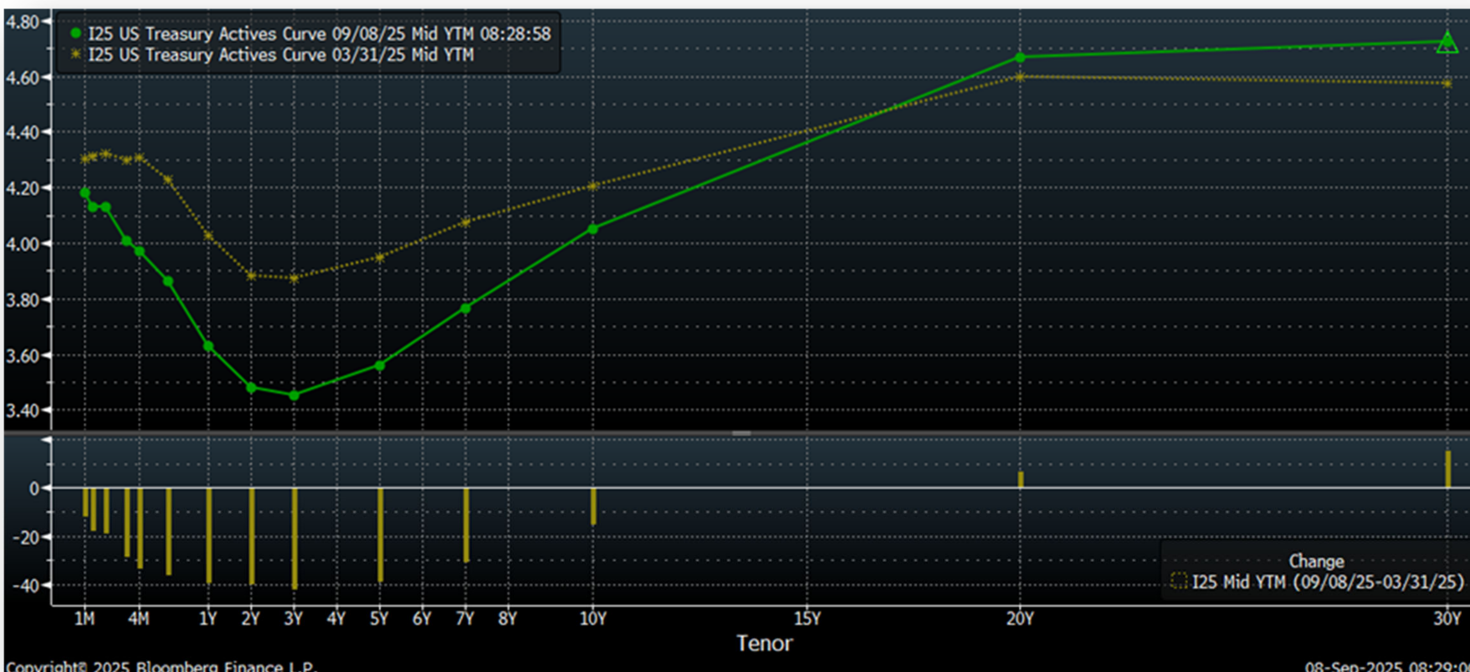
Summary: Recent jobs numbers make a Fed rate reduction more likely, pushing short-term interest rates lower (~0.40 percentage point in the 1–3 year area since 3/31/25). We're adding some longer-term bonds to lock in income without going all the way to the longest maturities. Because the extra yield for lower-quality bonds is thin, we continue to prefer higher-quality bonds. For added income, dividend stocks and a stock-and-income (covered-call) approach can help, but they aren't bond substitutes.

What's Happening with Rates

After a weaker jobs report (nonfarm payrolls +22,000 vs. 75,000 expected), investors expect the Fed to lower interest rates, which has pushed short-term Treasury yields (1–3 years) down by about 0.40 percentage point since the end of March. Unless inflation surprises, the path for short-term rates is likely lower.

Chart 1: U.S. Treasury Actives Curve, 09/08/25 vs. 03/31/25 mid YTM; short-term down ~0.40 percentage point.



How We're Positioning

The stretch of earning around 4-5% in very short-term accounts (money markets, CDs) is fading. To keep income up, investors can buy longer-term bonds or consider lower-quality bonds that pay more but carry more risk. We're taking a middle path: adding some longer-term bonds to lock in income, but not moving all the way into the longest maturities. With the extra yield on lower-quality bonds near historical lows, we continue to focus on higher-quality corporate and municipal bonds.

Income Ideas Beyond Bonds

With stock prices already high and bond yields moving lower, dividend-paying stocks can help add income. A stock-and-income approach, owning stocks and selling call options on part of them, can boost income further. These equity-based ideas typically have more volatility than high-quality bonds but when used appropriately can supplement portfolio income. Manager experience and consistency matter. Also, taxes: in many cases, qualified stock dividends are taxed at long-term capital gains rates, which are generally lower than the ordinary income tax rates that apply to corporate bond interest. Your situation may differ, please consult your tax advisor.

Balancing Reinvestment, Interest-Rate, and Credit Risk

Reinvestment risk. Risk of having to reinvest coupons and maturities at lower yields. Example: a 1-year bond purchased at 4% matures when 1-year yields are 2%, the new opportunity is less attractive. One way to mitigate this is to buy longer bonds to lock in yields.

Interest-rate risk. Extending maturity increases price sensitivity to rising yields. Put simply: longer duration = higher interest-rate risk. Portfolio construction is the trade-off between these first two risks. Given today's curve level and shape, we believe a moderate duration stance balances them, locking in income where sensible while retaining flexibility to reinvest.

Credit risk. Risk that an issuer fails to pay coupons or principal. U.S. Treasuries carry minimal credit risk; below-investment-grade corporates carry substantially more. With high-yield valuations rich, we remain reluctant to increase exposure and instead prefer investment-grade solutions.

For More Information

We always welcome the opportunity to work with you and discuss how this applies to your objectives and risk tolerance. Please do not hesitate to reach out to your Stonebridge Relationship Manager for more details on how we implement these strategies.

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