

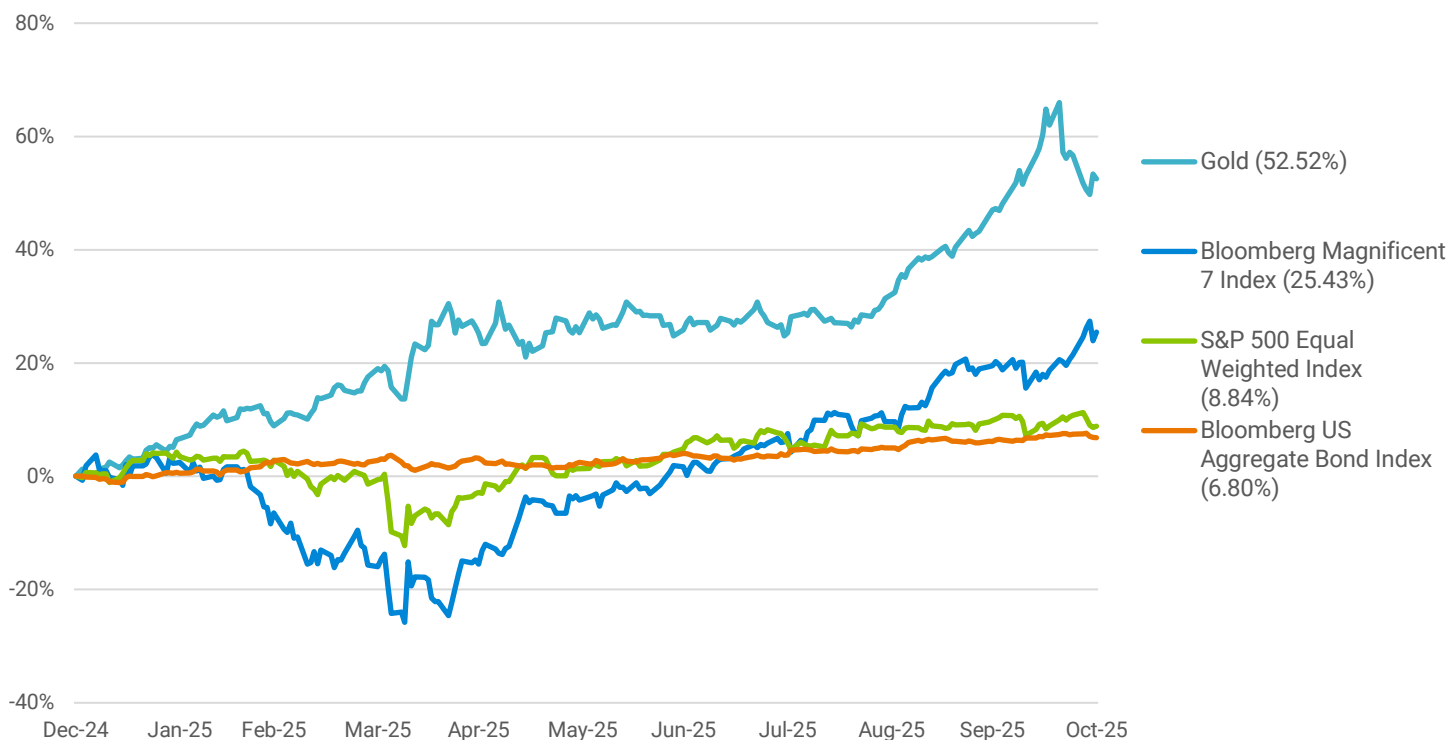
Shape of the Markets

THE GREAT CASH CARVE-OUT: MAKING ROOM FOR BONDS THIS THANKSGIVING

Cash parked in money-market funds is now at record levels, with an estimated \$7.5 trillion in money markets.¹ It's not hard to fathom why investors may be parked in cash, whether it be fear, or inertia.

The S&P 500 is now up 37% from the "Liberation Day" lows in April. Some investors question whether the equity run is warranted, or if the pace of equity returns is overdone. Fears of an AI bubble grow as the Magnificent 7 has posted 25.4% returns year-to-date, while the S&P 500 Equal Weighted Index has only returned 8.8%. Meanwhile, gold has returned 53% year-to-date, and we've had one of the best housing markets in history over the last five years. On the contrary, bonds – as measured by the Bloomberg U.S. Aggregate Index – are still in their longest drawdown in history, at 58 months and counting.

Year-to-date Cumulative Total Returns



Source: Bloomberg. Data as of 10/31/25.

With equities, a risk-asset, and gold, a safe-haven, ripping and roaring alongside each other, it begs the question: do bonds present the most attractive potential in today's markets?

1- Source: FRED, Money Market Funds; Total Financial Assets, Level (MMMFFAQ027S). 10/1/1945-4/1/2015.

Despite numerous headlines and headwinds for U.S. fixed income – tariffs, inflation, a ballooning fiscal deficit, and government dysfunction – investors still continued to seek fixed income assets. The Bloomberg U.S. Aggregate is up 6.8% year-to-date, a solid year for bonds, yet they maintain go-forward potential. How can that be?

There are a couple ways to consider the opportunity in fixed income.

The long end of the Treasury curve (as measured by the 20-year spot, our preferred tenor) has stayed at or near the highest yields witnessed since 2008. Put differently, investors are being compensated at or near the most they have for taking on interest rate risk over the last 17 years. This is a good thing.

The opportunity set is potentially more attractive when considering Tax-Exempt Municipal bonds. For investors in the highest tax bracket, for example, the taxable equivalent yield at the 20-year spot on the AAA MMD, the benchmark municipal curve, is roughly 6.5%. For context, the annualized return on the S&P 500 for the last 25 years is 6.5%.

Money market funds certainly had their place in a portfolio, particularly in 2022 – the worst year for fixed income in history. However, 2022 is precisely why the go-forward potential in fixed income looks more attractive today. Rising yields come at the expense of existing bondholders, but to the benefit of future bondholders. Even though yields have come down this year, the yield-to-worst on the Bloomberg U.S. Treasury Index is still 118 basis points above its 25-year average.

Today, as the front-end of the yield curve comes down, the yield on money market funds is also dropping, making the go-forward carry less appealing. Perhaps most importantly, sitting in cash has come with a cost as rates fell across the entire Treasury curve this year.

Bonds won't come without the aforementioned headlines and headwinds. Nevertheless, we believe bonds may present themselves as an opportunity worth considering today. In fact, we believe the go-forward returns in bonds may be more than just worthy of consideration – they may actually demonstrate to be quite favorable for those who are willing to embrace their potential.



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Sources: PTAM, Bloomberg, MMD AAA FRED, Monkey Market Funds; Total Financial Assets, Level (MMMFFAQ027S). Data as of 10/31/2025 unless otherwise noted.

Glossary

Yield-to-worst is the lowest potential yield an investor can receive on a bond without the issuer defaulting. It considers all possible call dates and other features that could affect the bond's return.

Risks and Other Important Considerations

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