

# Volatility Creates Opportunity

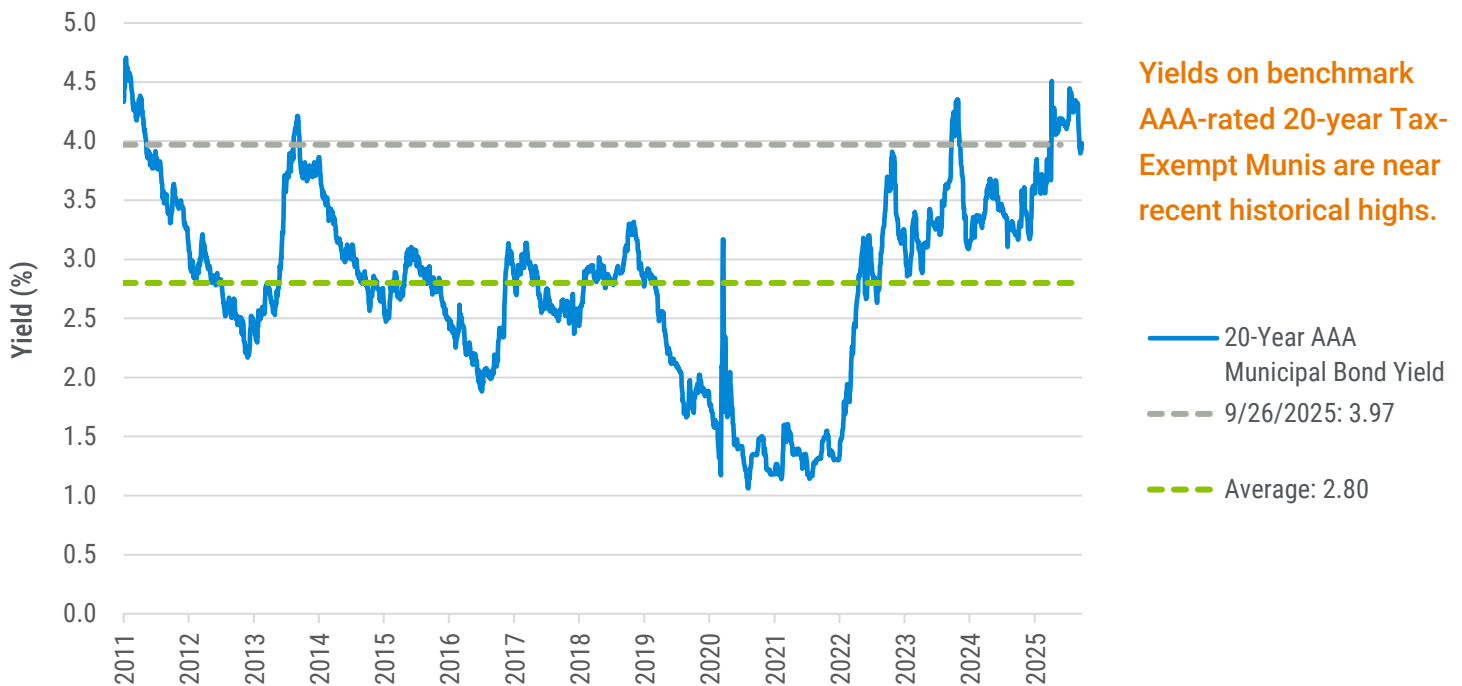
FIXED INCOME INSIGHTS

SEPTEMBER 2025

Global bond markets have experienced notable volatility to start 2025, particularly following President Trump's tariff announcements on Liberation Day. Concerns around the fiscal deficit and inflation expectations have led to continued volatility, even as tariff negotiations occur. **This volatility has created attractive opportunities for bond investors, particularly within our Interest Rate Offense sectors.**

## Tax-Exempt Municipal Bonds

1. The current yield on a benchmark AAA-rated, 20-year Tax-Exempt Municipal bond is at levels only seen in three other instances over the last 15 years.
2. The spread for a 20-year Taxable Equivalent Yield compared to the 10-year U.S. Treasury Yield is at historically high levels.
3. The yield curve roll potential provided at the 20-year spot of the benchmark AAA curve is at levels rarely presented over the last 15 years.



Source: Bloomberg, AAA MMD Municipal Bond Yield. Data from 1/3/2011-9/26/2025. Past performance does not guarantee future results.

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## U.S. Treasuries

The 20-year Treasury was reintroduced in 2020. Since its reintroduction, it has historically yielded as much, if not more than the 30-year Treasury because it is somewhat regarded as the “ugly stepchild” to the more favored 10-year and 30-year bonds. While we currently favor the return potential found at the 20-year spot on the curve to the 30-year, we can use the 30-year Treasury’s longer history to illustrate relative attractiveness representing the long-end of the Treasury curve.

1. Excluding a few weeks in 2023 and 2024, the yield on the 30-year Treasury is the highest it’s been since 2011.
2. The yield curve roll presented at the 30-year spot on the curve (measured by the 30-10 spread) is at the highest potential since October 2021. At that time, rates were roughly 275 basis points (bps) lower than they are today.



Sources: 30-Year Treasury: [www.treasury.gov](http://www.treasury.gov) as of 9/26/2025. Past performance does not guarantee future results.

## Taxable Municipal Bonds

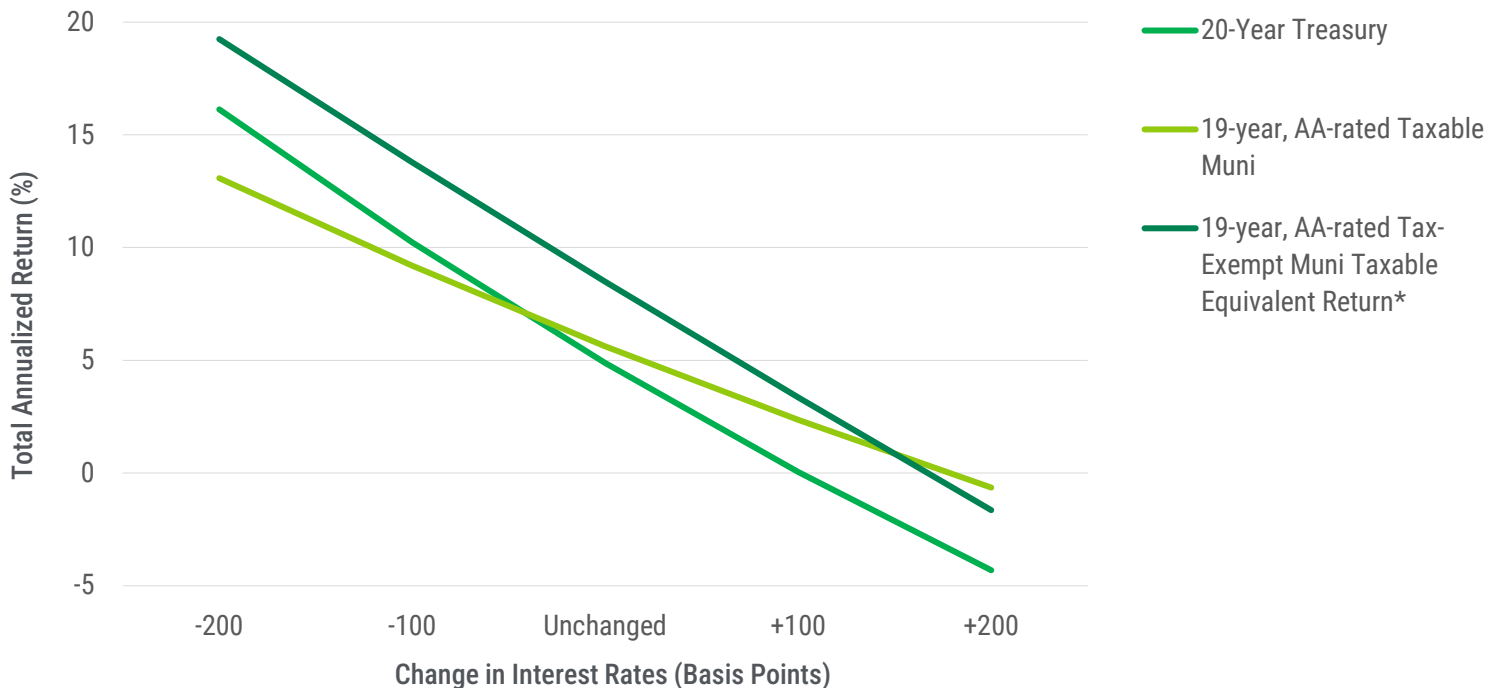
1. Taxable Municipal bonds spread off the Treasury curve and have the potential to benefit from the same steepness we love at the 20-year spot on the curve.
2. Selective exposure to Build America Bonds (BABs) can maintain high credit quality exposure while potentially mitigating spread widening risk at a time when spreads are tight across many sectors.
3. The average yield on our 20-Year Taxable Muni BABs is roughly 5.75% – very attractive, especially considering the high credit quality in Munis.

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A key principle of Shape Management is to combine bonds with complementary characteristics in a portfolio. We consider bonds that are more interest rate sensitive to be “offense” for our portfolios. **With high yields and steep, attractive slopes, some of our favorite forms of offense are among the most attractive levels seen in years.**

In fact, over the last 20 years the S&P 500 has averaged a roughly 8.75% annualized return. If rates fell moderately over the next 3 years, roughly 50 bps a year – less than the average intra-year swing – the potential return for these bonds is in excess of 8.75%. **The opportunity in our favored Interest Rate Offense presents equity-like return potential for high quality bonds if rates fall moderately.**

### Three-year horizon total return analysis (Illustrative performance)



Sources: PTAM, Bloomberg as of 9/26/25. The following bonds that are used to create the Shapes are held by PTAM clients as of the date of this distribution: 20-year Treasury; 19-year AA-rated Taxable Muni; 19-year, AA-rated Tax-Exempt Muni Taxable Equivalent Return. In calculations for the Taxable Equivalent Return, we found the difference between the starting yield and the taxable equivalent yield, then added that difference to the bond’s scenario-based total return analysis to account for taxable equivalent income. The 19-year, AA-rated Taxable Muni Shape was generated with 1 bond currently held by PTAM and fitting the criteria stated. The 20-year Treasury is constructed with the on-the-run 20-year Treasury, but broadly speaking, could be a Treasury with a tenor between 15-and 25-years.

Assumptions: (1) a parallel shift in the yield curve (2) static allocation for 3 years (3) linear rate changes (4) sector specific spreads are held constant across five rate scenarios (5) reinvestment rate consistent with respective sector.



**Taylor Huffman, CFA®**

Taylor acts as PTAM's Client Portfolio Manager, serving as a liaison between investments, marketing, and sales. She is responsible for investment strategy updates and portfolio communications for all three mutual funds. Taylor additionally leads production of various

portfolio and market commentary as well as dedicated strategy content.

Taylor worked in mutual fund distribution at PTAM before being promoted to Client Portfolio Manager. Prior to PTAM, Taylor was a Multi-Asset Trader at LGIM (Legal & General Investment) America, where

she traded equities, sovereign fixed income, derivatives, and foreign exchange.

Taylor received a Bachelor of Arts from the Princeton School of Public and International Affairs from Princeton University. She is also a CFA® charter holder.

## Glossary

**Yield Curve** refers to the U.S. Treasury yield curve rates.

## Risks and Other Important Considerations

Investing involves risk; principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in asset-backed and mortgage-backed securities include risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. For a complete list of disclosures, please visit [www.ptam.com](http://www.ptam.com).

When selecting a bond to invest in, most investors rely on what we refer to as "traditional fixed income metrics," which are generally a combination of (1) taking a stance on whether interest rates will increase or decrease, (2) yield and (3) duration. Nearly 30 years ago, PTAM's founders recognized the potential shortcomings in traditional bond metrics, and developed Shape Management, a math-based investment process that addresses each of these shortcomings by analyzing the risk return profile of a bond's future cash flows. Shape Management is a mathematical calculation that analyzes the risk return profile of a bond's or group of bonds' future cash flows. By using Shape Management, PTAM creates projections of the performance of specific bonds or grouping of bonds. These projections are not the actual performance of any bond or product. As a result, Shape Management performance in this email were not actually achieved by any PTAM investment or product. The criteria and assumptions underlying the projected performance may prove to be incorrect. Prospective investors should not rely solely on such projected performance and should conduct a thorough independent analysis of the investment opportunity. The graphs included throughout this email are provided for illustrative and educational purposes only. Projected performance results may have many inherent limitations. No representation is being made that an investment will, or is likely to, achieve profits or losses similar to those shown. In fact, there are frequently significant differences between projected performance results and actual results subsequently achieved. Although projected performance may be useful to consider when making an investment decision. Investment decisions based on Shape Management information may not be profitable. All projected performance is shown as net performance, which includes management

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