Monthly Market Review

Fixed Income | November 2026

Information provided by MSDLAF+'s Program Administrator PFM Asset Management, a division of U.S. Bancorp Asset Management, Inc.

MSDLAF
Minnesota School District Liquid Asset Fund Plus

One fish, two fish, red fish, blue fish.

Economic Highlights

- The Democratic sweep of the midterm elections reduced the risk of additional fiscal expansion but left the broader economic outlook largely unchanged. Persistent deficits and Middle East tensions remain key unresolved risks, while tariff and trade policy remain largely executive-driven, limiting the election's impact on the administration's existing approach.
- Treasury yields declined at the front end as markets priced out some risk of further fiscal stimulus and more aggressive AI-related capital spending. Longer-term yields remain under pressure from structural fiscal deficits, inflation uncertainty, and elevated Treasury issuance.
- One week prior to Election Day, the Federal Open Market Committee (FOMC) voted to keep the federal funds target rate unchanged at the current range of 3.75% to 4.00%. Two dissenters voted in favor of a 25-basis point (bps) hike. Market expectations continue to fluctuate around the possibility of a hike in December.
- Federal Reserve (Fed) Chair Kevin Warsh suggested the pause was to allow September's 25 bp hike to continue working, pointing to tighter financial and credit conditions as evidence policy was having its intended goal. He reiterated the Fed's commitment to its 2% goal and stated the "accumulation of more information will help" the Fed assess policy ahead of the December meeting.
- Headline PCE rose to 3.6% (from 3.4%), driven primarily by higher energy prices. Core PCE, which excludes food and energy, rose to 3.1% (from 3.0%), reflecting continued stickiness in the services sector and passthroughs to consumers from higher diesel and transportation prices.
- Persistent inflation continues to pressure households as disposable incomes declined by 0.3% on a month-over-month basis, reducing purchasing power. Spending continues to outpace income growth, causing the personal savings rate to decline to a four-year low at 3.8%.
- The advance estimate showed third-quarter real gross domestic product (GDP) accelerated to 3.4%, in large part due to AI-driven capex and continued resilience in consumer spending. Net exports served as the biggest detractor to GDP as AI-driven imports surged.
- October's employment data pointed to firmer hiring momentum, with the three-month average pace of job creation rising to 137,000 following upward revisions to prior months. The unemployment rate fell to 4.1% despite a modest increase in participation, reinforcing the underlying strength of the labor market.

Interest Rates

- U.S. Treasury yields declined broadly in October from the multi-year highs reached in September, led by less-hawkish Fed commentary and a risk off sentiment taking hold.
- Yields on 3-month, 2-, 10-, and 30-year U.S. Treasuries ended the month at 4.08%, 4.59%, 4.93%, and 5.31%, representing changes of -3 bps, -30 bps, -36 bps, and -32 bps, respectively.
- As a result, fixed income indices posted positive returns in October, with intermediate to longer-term maturities posting their best monthly gains in over two years. The ICE BofA 3-month, 2-, and 10-year U.S. Treasury indices returned +0.35%, +0.93%, and +3.28%, respectively.
- The pace of corporate issuance through 2026 has been robust. However, supply is expected to moderate as we approach the holiday season and year-end, providing a potential tailwind for bond market technicals.

Equity Markets

- October marked a sharp divergence in equity sentiment as rotation out of technology sectors gripped stock buyers. The Dow Jones Industrial Average returned +1.8% and the S&P 500 Index declined -0.9%, while the Nasdaq Index declined -5.3% amid concerns of AI-driven capex sustainability.
- International equities declined as the MSCI ACWI ex U.S. Net Index fell -2.8%. The U.S. Dollar strengthened by +0.4%, while gold declined sharply by -6.8%.

PFMAM Strategy Recap & Outlook

- Our base case remains one 25 bp hike at the December meeting with the potential for an additional hike in 2027. The primary risk to this outlook is any flare-ups in tensions in the Middle East, which could result in additional rate hikes.
- Following the recent rally, U.S. Treasury yields are notably less attractive than they were one month ago. As a result, we will remain duration-neutral to benchmarks, while shortening those portfolios with durations above 101% of benchmarks.
- Investment-grade (IG) corporate bonds underperformed in October during the broader market shift in risk sentiment. Valuations improved notably as spreads approached their year-to-date highs by the end of October. The tug-of-war between weaker fundamentals and cheaper valuations warrants selectivity in the sector.
- Asset-backed securities (ABS) also posted negative excess returns in October, as the sector was not immune to the broad market spread-widening. We expect to use this recent widening as an active buying opportunity.
- Mortgage-backed securities (MBS) were the top-of-class performers for October. Following several months of deeply red negative excess returns, the sector broadly bounced back as the rally in longer interest rates and a modest wane of bond volatility provided a stiff tailwind to the sector.
- Money market investors have reaped the benefits of the September Fed rate hike as ultra-short interest rates have fully repriced. Short credit spreads have also become more attractive over the month and provide an excellent source of high-quality, incremental income for cash equivalent investors.

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U.S. Treasury Yields

Maturity	Oct 31, 2025	Sep 30, 2026	Oct 31, 2026	Monthly Change
3-Month	3.82%	4.12%	4.08%	-0.04%
6-Month	3.82%	4.33%	4.27%	-0.06%
2-Year	3.58%	4.89%	4.59%	-0.30%
5-Year	3.69%	5.09%	4.72%	-0.37%
10-Year	4.08%	5.29%	4.93%	-0.36%
30-Year	4.65%	5.63%	5.31%	-0.32%

Yields by Sector and Maturity

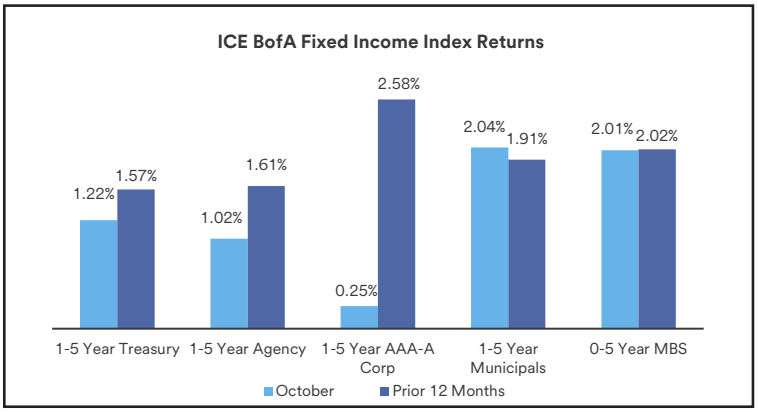
Maturity	U.S. Treasury	Federal Agency	Corporates-AA-A Industrials	AAA Municipals
3-Month	4.08%	4.09%	4.55%	-
6-Month	4.27%	4.27%	4.61%	-
2-Year	4.59%	4.60%	4.94%	3.58%
5-Year	4.72%	4.73%	5.32%	3.75%
10-Year	4.93%	4.99%	5.69%	4.09%
30-Year	5.31%	-	6.16%	4.69%

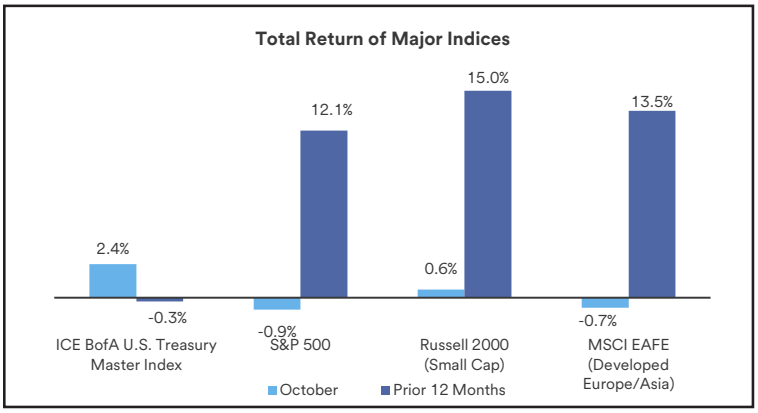
Spot Prices and Benchmark Rates

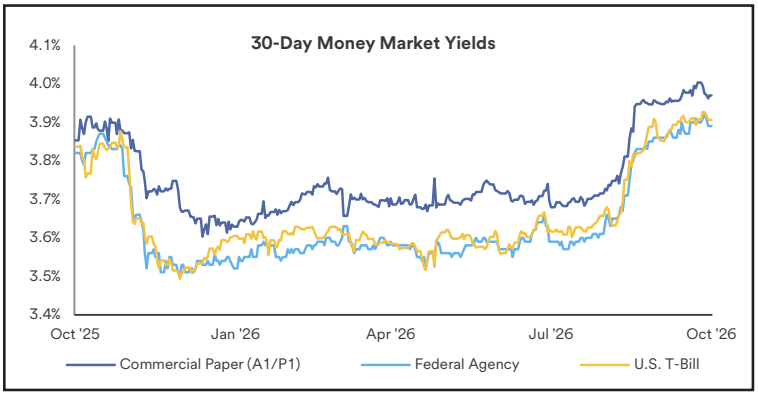
Index	Oct 31, 2025	Sep 30, 2026	Oct 31, 2026	Monthly Change
1-Month SOFR	4.00%	3.91%	3.90%	-0.01%
3-Month SOFR	3.89%	4.08%	4.05%	-0.03%
Effective Fed Funds Rate	3.86%	3.88%	3.88%	0.00%
Fed Funds Target Rate	4.00%	4.00%	4.00%	0.00%
Gold ($/oz)	$3,997	$4,156	$3,899	-$257
Crude Oil ($/Barrel)	$60.98	$90.42	$104.12	$13.70
U.S. Dollars per Euro	$1.15	$1.13	$1.12	-$0.01

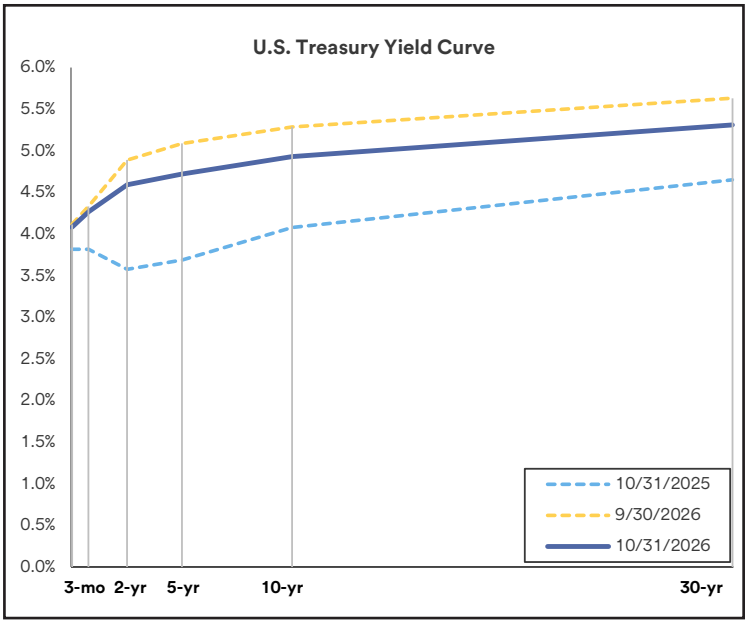
Economic Indicators

Indicator	Release Date	Period	Actual	Survey (Median)
Existing Home Sales MoM	13-Oct	Sept	1.50%	-0.80%
CPI YoY	14-Oct	Sept	3.70%	3.60%
Retail Sales Advance MoM	15-Oct	Sept	0.80%	0.30%
FOMC Rate Decision	28-Oct	Oct	4.00%	4.00%
GDP Annualized QoQ	29-Oct	3Q A	3.40%	3.20%
PCE YoY	29-Oct	Sept	3.60%	3.60%
Change in Nonfarm Payrolls	6-Nov	Oct	165K	70k









Source: Bloomberg. Data as of October 31, 2026, unless otherwise noted.

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