

Fixed Income Markets Overview

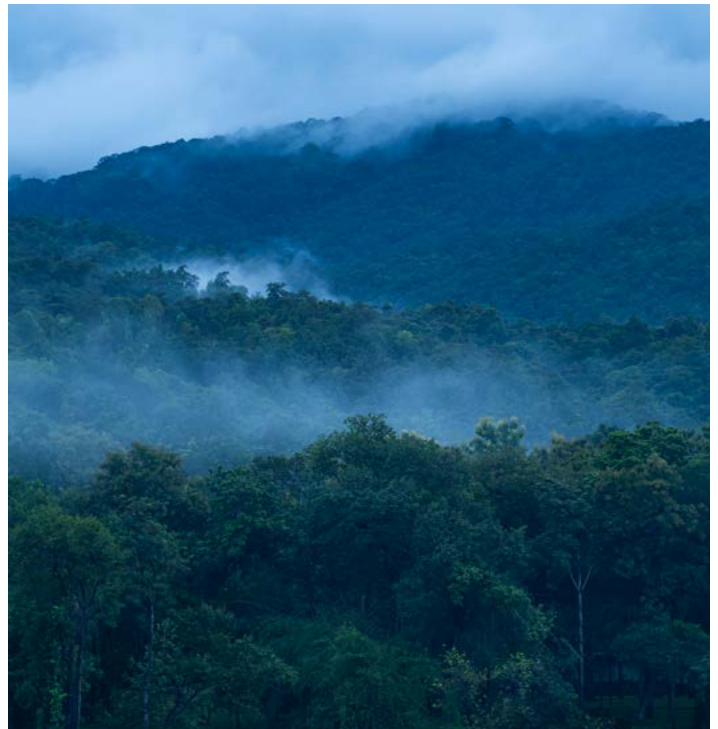
The fourth quarter of 2025 presented investors with a complex economic landscape: strong headline growth numbers from prior quarters collided with deteriorating consumer sentiment, weakening U.S. labor data, and a sharply divided Federal Reserve. The result was an environment of heightened rate volatility, shifting dynamics regarding bond term premiums (the additional yield provided by longer bonds), and widening dispersion across credit sectors.

The December Federal Open Market Committee meeting marked the third rate cut of 2025, in which the federal funds target range was lowered to 3.5% – 3.75%. Policy uncertainty is likely to carry into early 2026, keeping the front end sensitive to incoming inflation and labor market releases. Fed minutes showed several officials were inclined to pause cuts to assess data, while others emphasized labor market softness.

Global conditions remained uneven but resilient. Europe continued to exhibit stagnation while Japan showed modest economic recovery, with the Japanese 10-year bond yield rising above 2% for the first time since 1999. In the past, Japanese yields have tended to anchor developed market yields and limit upside pressure on global rates. What this means for rates around the world will be closely followed in 2026. Meanwhile, China's growth held steady on fiscal and credit stimulus and India's momentum strengthened. A broader global shift from tariff shocks to a more predictable trade framework reduces tail risks, though higher global tariff risks remain.

U.S. labor markets softened late in the year, with average monthly gains noticeably slowing.

U.S. consumer confidence fell, with inflation and tariffs cited as the dominant concerns. This erosion in sentiment – even as third quarter gross domestic product surged at an annualized 4.3% – highlights a divergence between growth data and household level stress, often a precursor to slowing consumption. Inflation remained stubborn enough for policymakers to remain cautious, with consumers consistently citing prices and tariffs as material burdens. Purchasing managers' indexes across developed markets showed no improvement in the fourth quarter, reinforcing expectations for weak manufacturing momentum globally.



If you'd like additional information about this or any of the Cavanal Hill Funds, please contact Jim Nichols at [855.359.1898](tel:855.359.1898), James.Nichols@cavanalhill.com, or cavanalhillfunds.com.

For the quarter, the U.S. Bloomberg Aggregate Index returned 1.10%. Longer-duration bonds underperformed, with 10-plus-year maturities flat (0.00%), while shorter-duration securities (1-to 3-year) returned 1.18%. Lower-quality bonds underperformed a touch as the market took a step back from risk. AAA-rated securities were up 1.12%, while BBB-rated bonds returned 0.85%. Mortgages returned 1.71%, while corporate bonds were up 0.84%. Treasuries and agencies posted gains of 0.90% and 1.14%, respectively. Asset-backed securities were up 1.25%, while taxable munis returned 1.22%. High yield bonds gained 1.31% for the quarter, as spreads remained relatively stable.

Outlook

After a very uneven economic performance in the fourth quarter, headlined by a government shutdown that lasted 35 days, and a year of policy that tended to be more restrictive than growth oriented, the outlook for U.S. economic growth appears on the upswing in 2026.

A potent combination of factors is likely to result in strong U.S. GDP in 2026 in our view. The One Big Beautiful Bill (OBBB) introduced several features. The expensing of capital expenditures should lead to substantial spending, given the tax implications. Changes to personal taxes are likely to result in significantly larger tax refunds this spring and improved consumer spending in the first half of 2026. Another tenet of the current administration is to reduce regulation, which should help margins for companies as well. Declining inflation pressure from housing and increased productivity from capital expenditures are also potential benefits. We also believe a growing Fed balance sheet should increase liquidity, and additional rate cuts from the Fed would be bullish.

There are risks to the economy as well. A K-shaped economy (denoting an uneven recovery) has put pressure on the lower 50% of consumers, and employment has been fairly soft. Home prices remain high, and electricity prices have put a squeeze on consumers as well. While tariff uncertainty

has declined, we may still see additional shocks. Uncertainty about the effect of mid-term elections will be scrutinized as well. There is also a risk that the Fed cuts rates too far, sparking concerns about inflation and an economy that runs too hot.

Still, we believe the risks are muted compared with the economic potential created by the OBBB and we lean toward a strong economy with muted inflationary pressures. We would expect rates to fall further, especially on the short end of the yield curve. Yields on the long end, depending on the strength of the economy, could face some pressure to the upside. Credit is likely to do fairly well. However, with spreads near record tight levels, we expect excess returns to be minimal. We will continue to focus on improving the portfolio's quality through selective sales, and focusing investments on securitized products, especially on the residential mortgage side, where we believe spreads remain attractive.



If you'd like additional information about this or any of the Cavanal Hill Funds, please contact Jim Nichols at [855.359.1898](tel:855.359.1898), James.Nichols@cavanalhill.com, or cavanalhillfunds.com.

Disclosures

Caval Hill Investment Management, Inc. (“Caval Hill”) is an SEC registered investment adviser and a wholly-owned subsidiary of BOKF, NA, a wholly-owned subsidiary of BOK Financial Corporation, a financial holding company (“BOKF”). SEC registration does not imply a certain level of skill or training. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. The opinions expressed herein reflect the judgment of the author at this date and are subject to change without notice and are not a complete analysis of any sector, industry or security. Caval Hill Distributors, Inc., member FINRA, is the distributor for Caval Hill Mutual Funds. Caval Hill Distributors, Inc. is also a wholly-owned subsidiary of BOKF, NA and an affiliate of Caval Hill Investment Management, Inc.

This report is not to be considered a recommendation of Caval Hill's investment management services, any particular security, strategy or investment product, nor is it intended to provide personal investment advice. It does not take into account any specific investment objectives, financial situations, or particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed in this report and should understand that statements regarding future prospects may not be realized.

The information provided in this presentation is for informational purposes only and is not an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction. Caval Hill's investment management services may only be offered by Caval Hill representatives in states where registered or exempt from registration. The purpose of this report is to provide the public with general information on Caval Hill's services and philosophy. Any communications with prospective clients residing in jurisdictions where Caval Hill and its investment adviser representatives are not registered or licensed shall be limited as to not trigger registration or licensing requirements.

Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Investments are not insured by the FDIC and are not guaranteed by Caval Hill or any bank, including any banking affiliates of Caval Hill. Investments are subject to risks, including the possible loss of the principal amount invested. Past performance does not guarantee future results. This communication is not to be construed as legal advice.

This document contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates, and projections, of the securities and credit markets and the economy in general. Words such as “anticipates,” “believes,” “estimates,” “expects,” “forecasts,” “plans,” “projects,” variations of such words and similar expressions are intended to identify such forward-looking statements. Management judgments relating to and discussion of the value and potential future value or performance of any security, group of securities, type of security or market segment involve judgments as to expected events and are inherently forward-looking statements.

These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what is expressed, implied, or forecasted in such forward-looking statements. The potential realization of these forward-looking statements is subject to a number of limitations and risks. Caval Hill does not undertake any obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events or otherwise. This report may not be reproduced, redistributed, retransmitted or disclosed, or referred to in any publication, in whole or in part, or in any form or manner, without the express written consent of Caval Hill. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report. This material was authored by a Portfolio Manager for Caval Hill Investment Management, Inc. For questions about this report, please contact Matt Stephani at 918-588-6192.

If you'd like additional information about this or any of the Caval Hill Funds, please contact Jim Nichols at 855.359.1898, James.Nichols@cavalhill.com, or cavalhillfunds.com.