Income ETF Strategies

Performance Commentary | Third Quarter 2026

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MULTI-ASSET INCOME ALLOCATION PERFORMANCE

Contributors
- U.S. Income Equities
- Leveraged Loans/CLOs

Detractors
- Mortgage REITs
- Long Treasuries

It was a challenging quarter for investors, with returns driven by a significant repricing of interest rates. Stronger economic data during the quarter worked against returns as it was paired with sticky inflation and concerns around growing deficits, and heavy supply. The result was a more hawkish shift in monetary policy: the Fed hiked in September and signaled that more may come. It was a negative quarter for income-oriented investors.

The MAI strategy was negative on the quarter as financial conditions tightened. Mortgage REITs, Treasuries, and MBS were the biggest detractors, while U.S. equities and loans, which were the least rate-sensitive sectors, provided diversification during the quarter.

The resulting reset in yields has materially improved the outlook for forward returns. Higher yields give investors more income, more compensation for uncertainty, and a larger cushion against future rate volatility.

Notable Portfolio Adjustments During the Quarter

- No Notable Shifts This Quarter

TAX-AWARE MAI ALLOCATION PERFORMANCE

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- U.S. Income Equities
- Leveraged Loans/CLOs

Detractors
- High Yield Municipals
- Core Municipals

The municipal market shifted from having strong summer technical support to a pronounced September repricing. After benefiting from reinvestment demand and steady fund inflows earlier in the third quarter, market conditions weakened as record issuance, declining redemption proceeds, Treasury volatility, and accelerating tax-loss harvesting increased selling pressure.

During the quarter, the strategy produced a negative return given the soft backdrop for municipal bonds. Equities and sectors with low interest-rate sensitivity, such as loans and CLOs, helped mitigate the decline.

The yield on aggregate investment grade municipal debt ended the quarter at 4.78%, while the average yield on high-yield municipal bonds was 6.21%.

Notable Portfolio Adjustments During the Quarter

- No Notable Shifts This Quarter

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