

Income ETF Strategies

Performance Commentary | Fourth Quarter 2025



MULTI-ASSET INCOME ALLOCATION PERFORMANCE

Contributors

- High Yield
- EM Local Debt
- MBS

Detractors

- Preferreds
- Long Treasuries

The fourth quarter was not an easy one for markets but ended up being a productive one, with all major asset classes finishing in positive territory. Risk assets faced volatility during the quarter, including a record-breaking government shutdown, weak job data, and rising AI valuation concerns. Ultimately, markets recovered and investors gained policy clarity on a few fronts, including Fed cuts, and economic data showed overall resilience with a robust 4Q GDP number. Despite major policy and macro disruptions, markets and the global economy displayed remarkable resilience in 2025. Equities posted another strong year on a global basis. Bond markets also had robust returns, driven by yield carry, Fed easing, and spread tightening.

The MAI strategy had a positive quarter. The best performers were high yield corporate debt, which benefitted from credit strength; and non-dollar EM debt, which enjoyed duration benefits, attractive yield carry, and a boost from a weakening US dollar.

Notable Portfolio Adjustments During the Quarter

- Exited Long Credit Exposure
- Initiated Long Treasuries

TAX-AWARE MAI ALLOCATION PERFORMANCE

Contributors

- Core Munis
- EM Local Debt

Detractors

- Preferreds

The municipal bond market in 2025 was defined by remarkable resilience amid record-breaking supply and a dynamic macroeconomic backdrop. Gross issuance soared to a new high. Despite heavy supply, the market absorbed new issuance with relative ease, thanks to robust demand from ETFs, which captured most fund inflows. As a result, tax-exempt municipals outperformed Treasuries in the latter half of the year, supported by declining rates and a favorable technical environment. High yield munis lagged given their long duration profile and heavy reliance on the transportation sector. High yield corporates continued to show strength on the taxable side, while equities staged a robust quarter.

Despite the volatility in the municipal bond sector, the strategy delivered a positive quarterly return. We continue to harvest yield from diversified sources, with a particular focus on municipal sectors. 2026 is setting up to be a year where the coupon income from bonds will serve as the investor's primary source of total return.

The yield on aggregate investment grade municipal debt ended the quarter at 3.60%, while the average yield on high yield municipal bonds was 5.59%.

Notable Portfolio Adjustments During the Quarter

- No Notable Shifts

Disclosures: Sage Advisory Services, Ltd. Co. (Sage, we, our and us) is a registered investment adviser that provides investment management services for a variety of institutions and high net worth individuals. The information included in this report constitute Sage's opinions as of the date of this report and are subject to change without notice due to various factors, such as market conditions. This report is for informational purposes only and is not intended as investment advice or an offer or solicitation with respect to the purchase or sale of any security, strategy or investment product. Investors should make their own decisions on investment strategies based on their specific investment objectives and financial circumstances. All investments contain risk and may lose value. Past performance is not a guarantee of future results. No part of this Material may be produced in any form, or referred to in any other publication, without our express written permission. For additional information on Sage and its investment management services, please view our web site at sageadvisory.com, or refer to our Form ADV, which is available upon request by calling 512.327.5530.

Not FDIC Insured

May Lose Value

No Bank Guarantee