

# Neuberger Tax-Exempt Extended Core Fixed Income

**PORTFOLIO MANAGERS:** James Iselin, Stephen Leone, Peter Moukios, Jeffrey Hunn, Kristian Lind and Randy Gross

## Performance Highlights

The MAG Tax-Exempt Extended Core Fixed Income Portfolio posted a negative return (before fees) in the first quarter of 2026 but outperformed the benchmark.

## Market Environment

### Fixed Income Performance

In March, U.S. and global investment grade (IG) fixed income delivered negative total returns of -1.76% and -1.78%, respectively, as measured by the Bloomberg U.S. Aggregate Index and Bloomberg Global Aggregate Index (USD hedged). For 1Q 2026, the Bloomberg U.S. Aggregate Index and Bloomberg Global Aggregate Index (USD hedged) returned -0.05% and -0.15%, respectively, as gains in January and February partially offset the sharp March selloff. Risk assets mostly declined in March and the first quarter (with a few exceptions in the month and quarter) as sovereign yields rose materially across major markets, credit spreads widened and investor demand for spread sectors softened amid heightened geopolitical tensions in the Middle East, global policy uncertainty and a more cautious risk backdrop.

### Quarter

U.S. government yields moved broadly higher across the curve in the first quarter of 2026. The 2-year yield increased by 32 bps to 3.80%, while the 5-year yield rose by 21 bps to 3.94%. The 10-year yield climbed by 15 bps to 4.32%, and the 30-year yield edged up by 6 bps to 4.91%. The 10-year TIPS yield moved higher by 7 bps, closing the quarter at 2.00%. The Federal Reserve held its target rate steady at 3.75–3.50% over the period. These shifts reflect ongoing adjustments to expectations regarding inflation, economic growth, and the fiscal outlook.

### Credit Markets and Spreads

In March, most fixed income spread sectors widened, with Senior Floating Rate Loans the lone exception, tightening modestly. Over the first quarter, spread widening was broad-based and more pronounced, with only U.S. CMBS tightening over the period. These moves reflected elevated uncertainty around the geopolitical situation in the Middle East, trade policy and the global growth outlook, which weighed on risk sentiment and outweighed still-supportive credit fundamentals across many sectors. Defensive positioning and supply/demand dynamics continued to influence spread behavior, while market focus on asset quality and macro sensitivity persisted.

Overall, demand for fixed income turned more cautious through March, as investors adopted a more defensive posture amid broad-based spread widening, trade policy uncertainty, and concerns over the global growth outlook. While underlying support from elevated yields and resilient corporate fundamentals persisted, risk sentiment weighed on appetite across higher-beta sectors.

## U.S. Economy

- Nonfarm payrolls for February declined by 92k, versus expectations for a gain of roughly 55k, reflecting a notable slowdown in labor market momentum. The unemployment rate held at 4.4%, modestly higher than expectations and levels seen earlier in 2025.
- Average hourly earnings rose 0.4% MoM in February, above consensus expectations of 0.3%, with wages up 3.8% YoY, indicating that wage pressures remain present despite weaker job growth.
- U.S. headline CPI for February was 2.4% YoY, while core CPI was 2.5% YoY, both unchanged from January and in line with consensus expectations, suggesting inflation has stabilized modestly above the Fed's 2% target.
- Retail sales rose 0.6% in February, above consensus of roughly 0.5% and better than January's slight decline of -0.2%. Retail sales are up 3.7% versus a year ago. Sales excluding autos increased 0.5%, also exceeding expectations, pointing to continued resilience in consumer spending.

U.S. economic activity remains resilient, though recent data point to a softer labor market. Job growth has weakened, the unemployment rate remains a bit higher relative to earlier in the cycle, and wage growth, while still firm, has not fully dissipated. Inflation has stabilized near current levels, and consumer spending continues to grow at a moderate pace. Against this backdrop, markets continue to anticipate additional Fed easing later in 2026 as policymakers balance labor market softening against inflation remaining modestly above target. That said, given the conflict in the Middle East and its implications, markets have scaled back expectations for the number of cuts in 2026.

Investment grade U.S. municipal bonds, as measured by the ICE BofA Municipal Securities Index, delivered a slightly negative return of -.18% during the first quarter. For the quarter, 1-3 year munis generated a return of .54% and the 3-7 year part of the curve returned -.17%. Longer maturities, in the 22+ year range, slightly underperformed shorter bonds with a return of -.28%. The Bloomberg Taxable Municipal Index outperformed tax-exempts with a return of .43%. Per Bloomberg, total municipal issuance (tax-exempt only) for the quarter was \$138 billion or 11% higher than it was for the same quarter a year earlier. With regard to credit, BBB rated securities slightly outperformed AAA and AA rated bonds during the quarter. Revenue bonds outperformed general obligations during the quarter. Within the revenue bond sector,

transportation and housing bonds outperformed while education related credits underperformed.

## Portfolio Review

The MAG Extended Core Fixed Income Portfolio posted a negative return (before fees) in the first quarter of 2026 but outperformed the benchmark. Overall duration was a strong enough positive contributor to offset negative contributions from allocation across the yield curve and sector weightings and security specific factors.

## Outlook

We entered this year optimistic about the muni market's prospects. Despite nonstop news flow both domestically and internationally, the market got off to a solid start from a total return standpoint in January and February. All of that changed in March, when the military conflict with Iran began. Usually, when a war or geopolitical crisis starts, you see a flight-to-quality trade, and assets like U.S. Treasuries and high-quality municipal bonds perform well—but not this time. Given the location of the conflict and closure of the Strait of Hormuz, the impact on energy markets was profound.

Initially, the market developed a view that, with a sharp increase in oil prices, inflation would be front and center, and central banks would potentially have to tighten monetary policy. Before the war started, the market had expected the Federal Reserve to deliver 2.5 rate cuts in 2026. Shortly after, the market started pricing in the possibility of a rate hike. As a result, Treasuries sold off and munis, which were already trading at fuller valuations, underperformed in March. For the quarter, the investment grade municipals posted a slightly negative total return.

Historically, the bright side of a fixed income sell-off, however, is often higher yields and the potential for more income going forward. The yields on high-grade 10-year municipals increased by over 50 basis points in March,<sup>1</sup> and they are higher than where they started the year. Municipal valuations relative to Treasuries have also improved. In addition, despite its smooth absorption by the market, supply has been heavy so far in 2026, and we expect that trend to continue. In our view, this combination of higher yields, better valuations and plentiful supply should represent a compelling entry point for the market.

From a positioning perspective, generally, we shifted to a more cautious duration view in the latter part of February, given lower absolute yields and fuller municipal valuations. More recently, we have favored extending portfolios and shifting duration positioning back to neutral. With yields moving higher and supply abundant, we think this is a good time to bring duration a little "closer to home." All things equal, we see significant opportunities to buy quality, given the current level of yields and general tighter spreads (yields over Treasuries) for lower-rated investment-grade bonds. Finally, rates

volatility may provide opportunities to execute tax-loss swaps; we will look to be proactive on that front when it makes economic sense.

<sup>1</sup>Source: Bloomberg. Data as of March 31, 2026.

Information is as of March 31, 2026.

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Through December 31, 2023, the Index consists of 50% ICE BofA 3-7 Year US Municipal Securities Index and 50% ICE BofA 7-12 Year US Municipal Securities Index. From January 1, 2024 and onward, the Index consists of ICE BofA 3-15 Year US Municipal Securities Index. ICE BofA 3-15 Year US Municipal Securities Index is a subset of ICE BofA US Municipal Securities Index including all securities with a remaining term to final maturity greater than or equal to 3 years and less than 15 years. ICE BofA US Municipal Securities Index tracks the performance of US dollar denominated investment grade tax-exempt debt publicly issued by US states and territories, and their political subdivisions, in the US domestic market. Qualifying securities must have at least one year remaining term to final maturity, at least 18 months to final maturity at the time of issuance, a fixed coupon schedule and an investment grade rating (based on an average of Moody's, S&P and Fitch). Minimum size requirements vary based on the initial term to final maturity at time of issuance. The index is rebalanced on the last calendar day of the month, based on information available up to and including the third business day before the last business day of the month.

The benchmark is an unmanaged index. Neuberger IA advises according to the Portfolio characteristics which may differ from those of the benchmark. Additional disclosures for complete benchmark descriptions are available upon request.

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