

A Remarkably Peaceful Year in U.S. Bond Markets

By: Jack Fagan, CFA

January 2026

The U.S. fixed income market defied expectations to deliver above average returns in 2025.

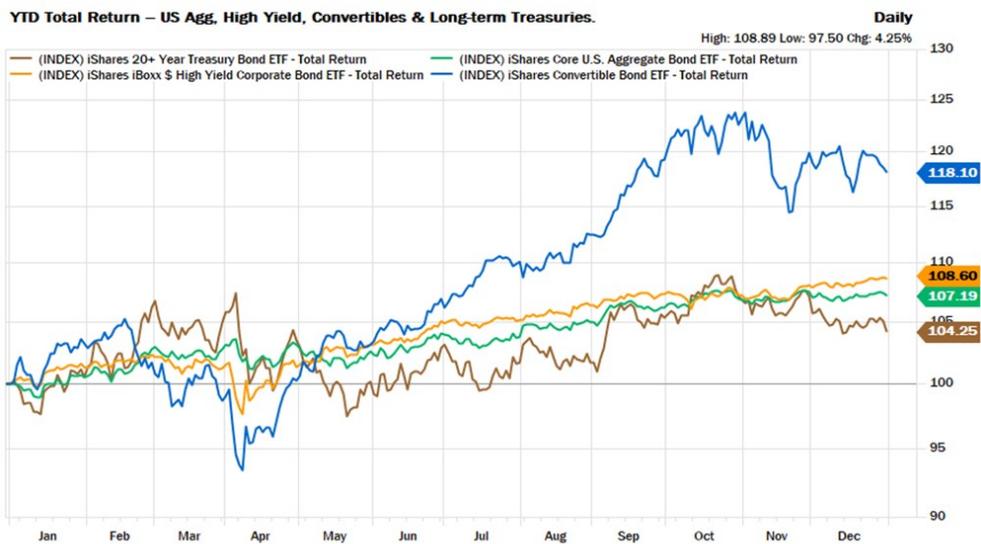
The year 2025 was, obviously, exceptionally atypical. Yet despite the plethora of challenges and concerns, be it the fiscal health of the federal government, periods of extreme volatility, the on and off again tariff policies, or the assortment of geopolitical shocks, the U.S. bond market delivered a better than typical year. The U.S. Aggregate Bond Index printed a total return of 7.2%, which is above the long-term average and good for the 73rd percentile of returns over the last 30 years.

Zooming out and taking the year as a whole, it might appear that the asset class performed exactly as designed: providing income and a degree of portfolio diversification without any drama. But under the hood we know it was a hard-won year of returns as existential concerns lingered around the global role of the U.S. dollar, foreign investor participation in U.S. Treasury markets, and the mounting cost of large budget deficits and debt levels.

Looking ahead to 2026, the outlook remains constructive. Attractive starting yields should provide a strong income baseline, credit market indicators remain very healthy, and a smaller federal budget deficit along with declining interest rate volatility are also supportive features. This article explores some key highlights from 2025, as well as a snapshot of rate expectations for 2026.

Final performance

For the full year 2025, performance (on a total return basis) was led by convertible bonds, driven by strong equity markets. High yield corporates and the U.S. Aggregate Bond Index also delivered strong high-single digit returns while long-term Treasuries lagged although still produced a solid 4.25% return thanks to the highest starting yields in 18 years.

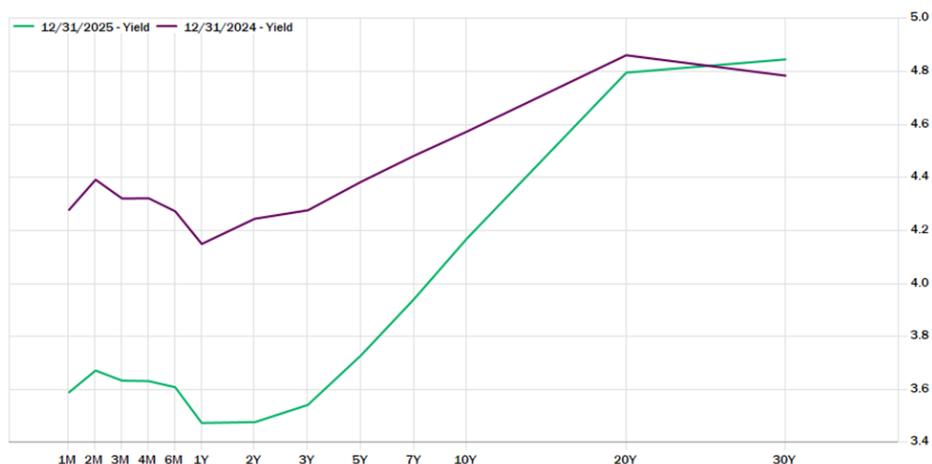


A Remarkably Peaceful Year in U.S. Bond Markets

The yield curve steepened as the Federal Reserve cut rates and inflation moderated

The U.S. Treasury yield curve “bull steepened” in 2025, which is to say shorter term yields fell more than longer-term yields. To be precise, the 2-year yield dropped 0.77%, the 10-year dropped 0.40%, and 30-year yields rose 0.06%. This reaction in the yield curve is driven mainly by two components: the Federal Reserve cutting interest rates (affecting shorter term rates) and moderating inflation (affecting medium term rates). The longest end of the curve, the 30-year Treasury, is often more of a reflection of the very long-run growth and inflation outlook in addition to long-run structural questions like the stability of the U.S. government and the safe-haven status of the U.S. dollar. With the benefit of hindsight and a year full of data, the evolution of the U.S. yield curve appears broadly consistent with these dynamics.

United States Treasury Yield Curve



Source: FactSet

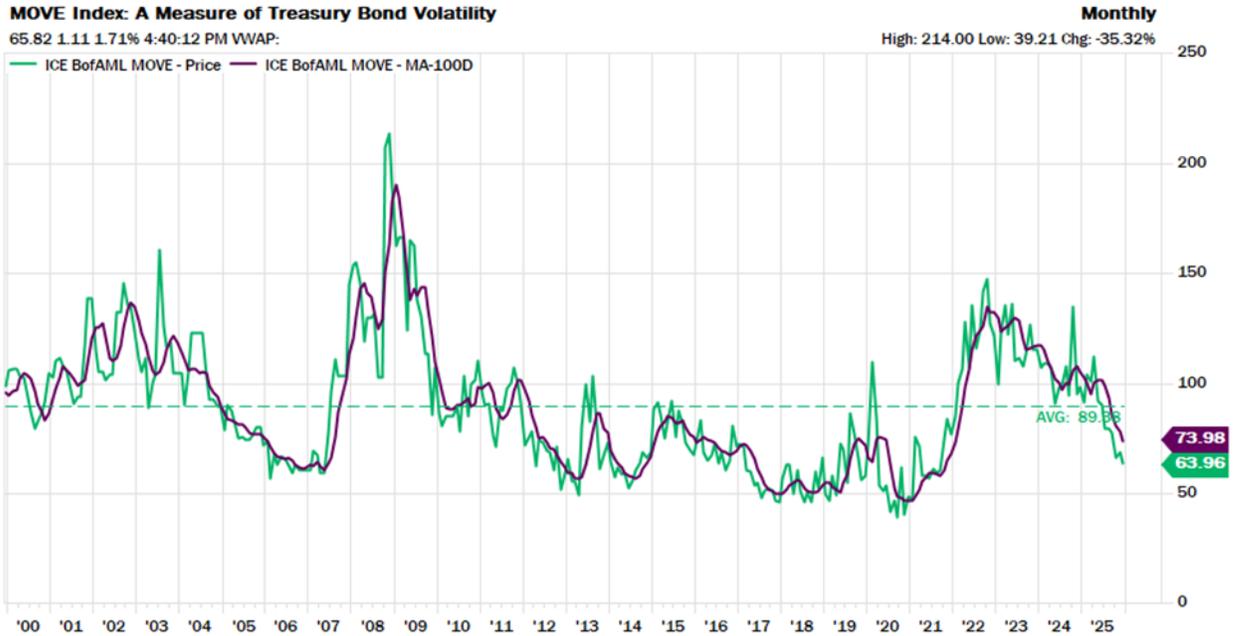
Treasury volatility declined for the third consecutive year

The MOVE Index, a measure of Treasury bond volatility, was a one-way street in 2025. Excluding the surge in volatility in April, amid the imposition of “Liberation Day” tariffs, the last 12 months continued the trend of easing volatility. Perhaps surprisingly, the index is now well below the 20-year average and within sight of the 20-year low.

A point of observation: three consecutive years of a declining MOVE Index is actually a normal occurrence after a surge in volatility (like what we saw in 2022). Over the last 30 years, there are three instances of multi-year easing in the MOVE Index: 2002-06, 2009-13, and 2022-present. Each followed a period of heightened volatility and the MOVE Index ended at a lower level each time.



A Remarkably Peaceful Year in U.S. Bond Markets

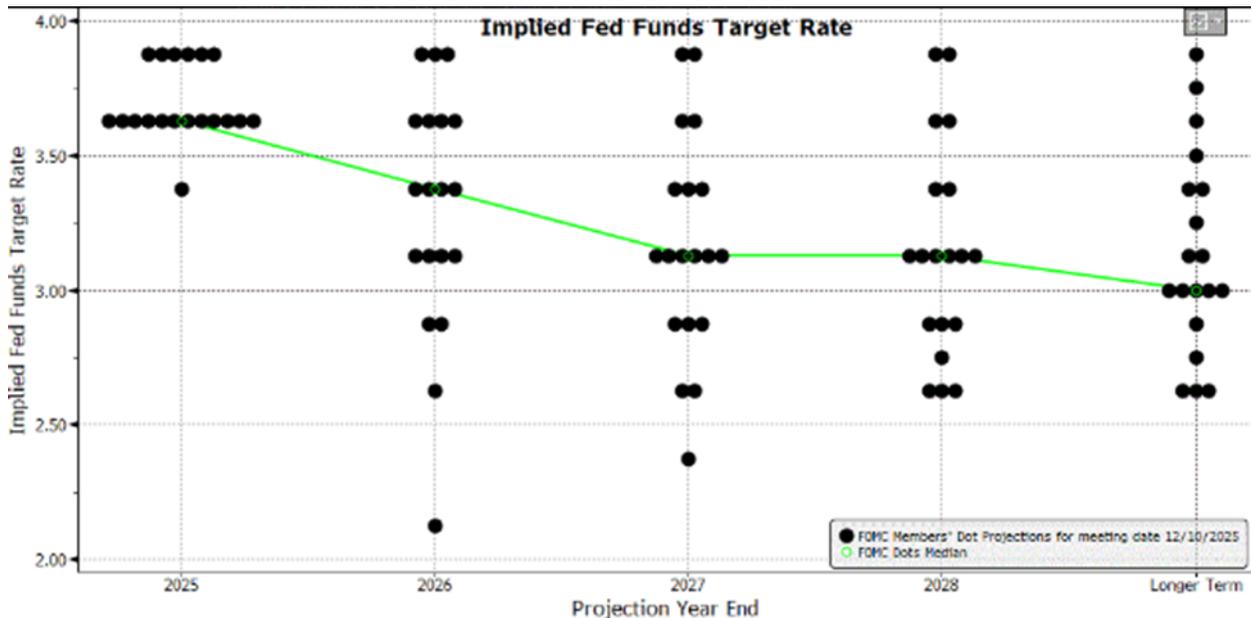


Source: FactSet, ICE, BofAML

Other Items of Interest

December FOMC Dot Plot

For the first time in several meetings, the FOMC Dot Plot update was uneventful. The December plot remained largely in line with September. There were a couple of marginal adjustments, but the net result was no change to the median annual estimate of the Federal Funds rate – that is, a projection for just one rate cut in 2026.



Source: FOMC, Bloomberg

A Remarkably Peaceful Year in U.S. Bond Markets

The market remains ahead of the FOMC on rate cuts in 2026

In contrast with the Federal Reserve’s projections, market pricing implies a 75% probability of at least two rate cuts in 2026. The median is for two cuts, but notably the distribution of outcomes is skewed to the downside (i.e., more cuts). While these probabilities will certainly change throughout the year, it is an informative point-in-time view on the market positioning for lower rates in 2026. This highlights a key risk to the 2026 outlook: the potential for the Federal Reserve to provide less monetary stimulus than anticipated.



Source: CME Group, as of January 6, 2025

Update on FOMC Chairman Nomination

Back in July, when we first reviewed the upcoming succession of FOMC Chair Jerome Powell, the race looked wide open with as many as five legitimate contenders. Fast forward to January and it now appears to be a two-horse race. Kevin Hassett and Kevin Warsh have catapulted to the front of the pack, at least according to prediction market pricing. Christopher Waller, once a front runner, is now a distant third. What is interesting about the last month is that in early December, President Trump had reportedly selected his nominee, but declined to reveal the name. No subsequent announcement has been made, suggesting the decision is still not final. A potential twist is that Trump wants Treasury Secretary Scott Bessent to take the seat, but Bessent has stated he doesn’t want the job, and perhaps the two remain in ‘negotiations.’ In conclusion, the succession remains quite uncertain. A decision is expected in January, but it wouldn’t surprise this Investment Team if there is another shoe yet to fall. ■

A Remarkably Peaceful Year in U.S. Bond Markets

| | | Chance |
|---|--------------------|---------------|
|  | Kevin Hassett | 41% |
|  | Kevin Warsh | 40% ▲1 |
|  | Christopher Waller | 11% ▼2 |
|  | Rick Rieder | 5% |
|  | Judy Shelton | 3% ▼1 |
|  | Scott Bessent | 3% |
|  | Michelle Bowman | 3% |

Source: Kalshi, as of January 6, 2026

The opinions expressed herein are strictly those of Osborne Partners Capital Management, LLC as of the date of the material and is subject to change without notice. None of the data presented herein constitutes a recommendation or solicitation to invest in any particular investment strategy and should not be relied upon in making an investment decision. There is no guarantee that the investment strategies presented herein will work under all market conditions and investors should evaluate their ability to invest for the long-term. Each investor should select asset classes for investment based on his/her own goals, time horizon and risk tolerance. The information contained in this report is for information purposes only and should not be deemed investment advice. Although information has been obtained from and is based upon sources Osborne Partners Capital Management, LLC believes to be reliable, we do not guarantee its accuracy and the information may be incomplete or condensed. Past performance is not indicative of future results. Inherent in any investment is the possibility of loss. Osborne Partners Capital Management, LLC does not provide tax or legal advice. Please consult with your tax and legal advisors regarding your personal circumstances. Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™ and federally registered CFP (with flame design) in the U.S., which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements.