MassMutual Investments

Up to Par: Looking Forward and Back on Bonds

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Despite the holidays having just passed and staring down the dead of winter in New England, my mind is entirely fixed on getting back to "par." Not par in relation to dreams of the warmth of spring and golf season, but par[1] in the bond market; something not seen in the core fixed income benchmark since early 2022. Bond investors have been rewarded over the last three years with solidly positive returns[2], and there are multiple reasons for continued optimism in 2026.

Currently in the mid-90s, the average price of the Bloomberg U.S. Aggregate Bond Index is the highest it's been in nearly four years **(Illustration 1)**. More noteworthy is that after a slight loss of 1.5% in 2021 and the Index's record loss of 13% in 2022 (cumulatively 14.5%) and recovery of nearly the same cumulative percent in the three years since, the Index is still 6% below par (par being an average price of 100). The upshot is that there's still plenty of open fairways for the bond market to perform well (like a long drive landing safely between the cuts of rough). This is not to imply that a bond priced at a discount to par foreshadows positive returns, but it does suggest a valuation opportunity in bonds given higher prospective yields resulting from current market interest rates. The value opportunity has remained attractive to bond investors regardless of the strong fixed income returns over the last three years.

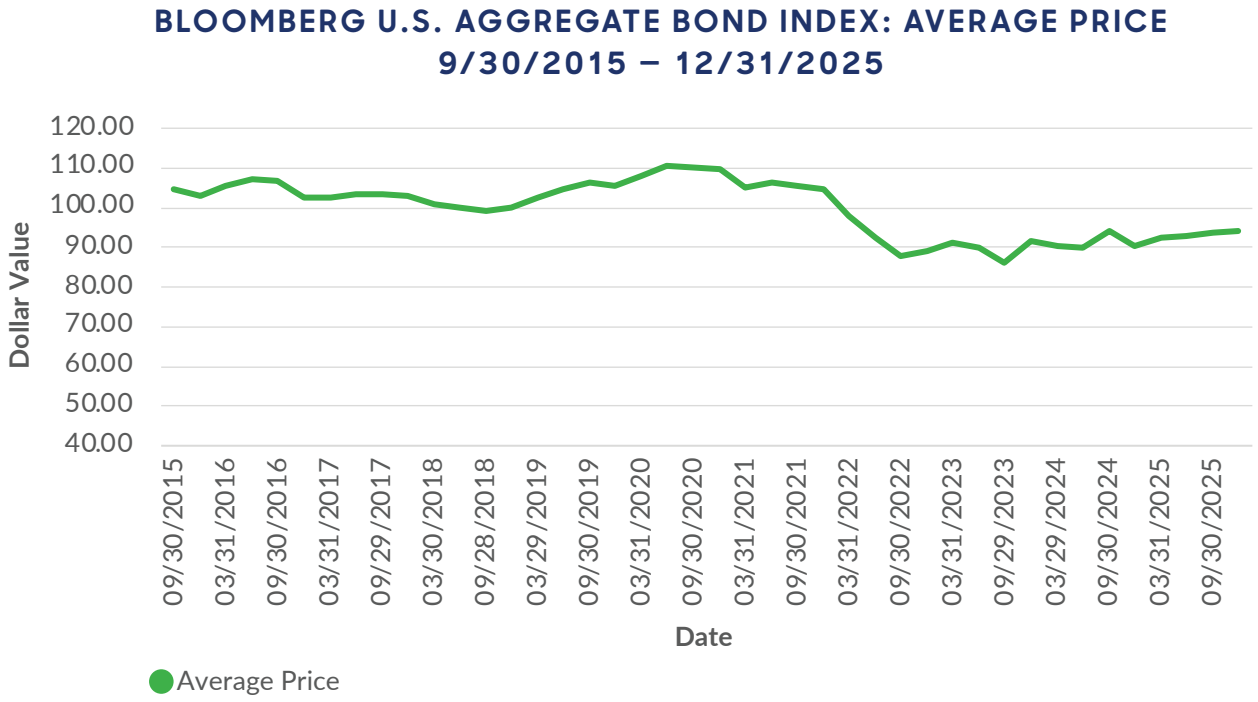
Illustration 2 indicates the Bloomberg U.S. Aggregate Bond Index's yield (measured by yield to worst) has only recently marked its peak of the last 10 years, having done so in 2024 at about 5.00%. Although its yield declined modestly in 2025, it remains at a very strong premium to equity market dividend yield (measured by the S&P 500 Dividend Yield) with the latter also declining given strong stock performance. Therefore, in terms of yield, as the general inverse of price, the valuation advantage remains well over three times in favor of bonds versus stocks, and only modestly lower than the past year's level.

Of course, the circumstance of below par when talking about bonds (loss in price) is not the same as for golf (gain in skill). The relation of price to yield suggests the Index is currently priced with many outstanding bond issues having lower coupons and making them less attractive compared to those available from current issue bonds given current market yields. However, sanguinity beyond outright price further lies in the observation that coupon compensation (i.e., bond income) is at its highest level than at any point in at least the last 10 years **(Illustration 3)**. Also, thanks to recent U.S. Treasury yield declines, the ratio of coupon to yield is also higher. If market yields were to rise from current levels, income from the coupon is better positioned to mitigate resulting bond price losses (bond prices typically move opposite to yields).

[1] Par is a reference to the outstanding amount of a bond and is the amount on which an issuer pays interest, as well as the amount of principal to be repaid by an issuer at the end of a bond's term. In this paper, par is a reference to an Index price level of 100.

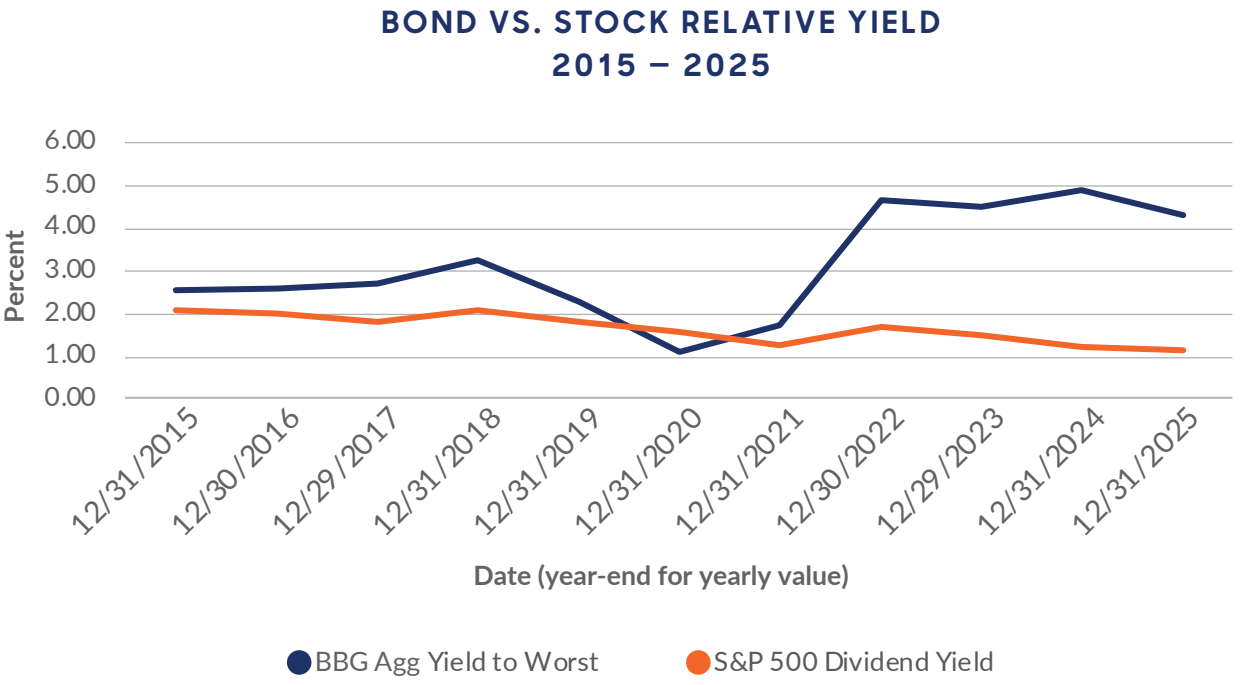
[2] The Bloomberg Aggregate Bond Index total returns for 2025, 2024, and 2023, respectively: 7.30%, 1.25%, 5.53%, equating to a 3-year annualized return of 4.66%.

Illustration 1:



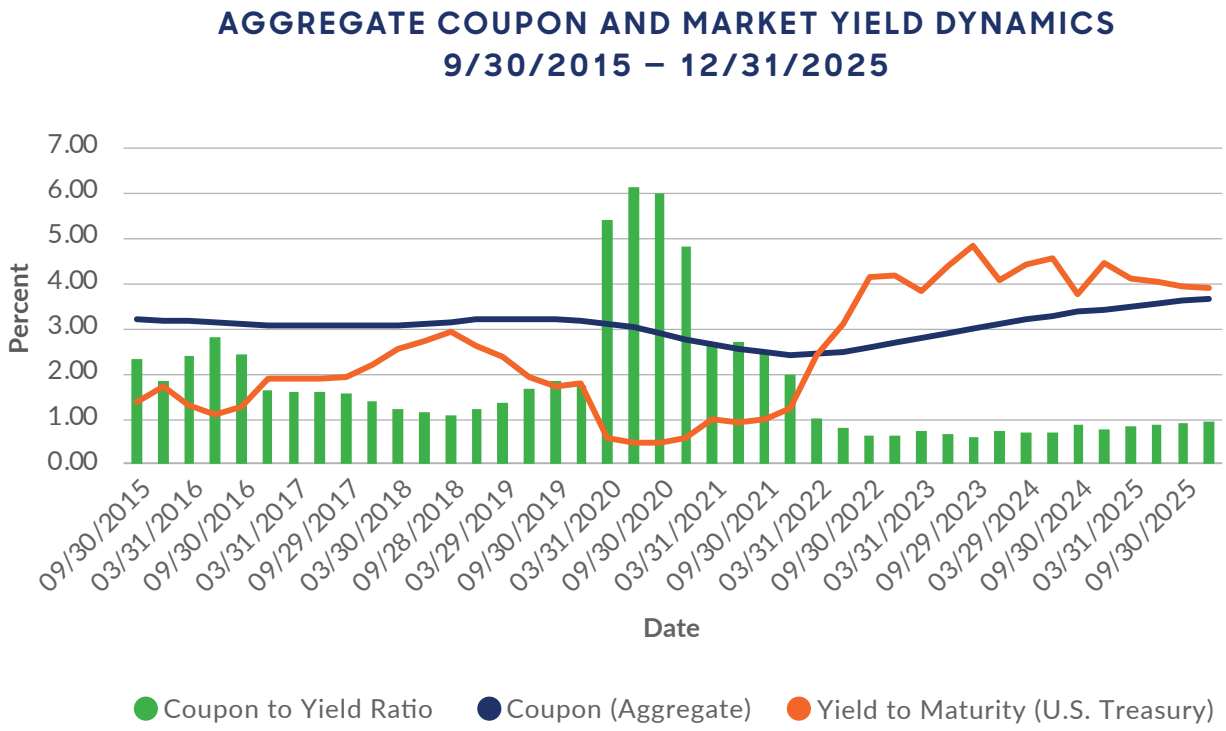
Source: 1/12/2026, Barclays Live (live.barcap.com).

Illustration 2:



Source: 1/12/2026, Barclays Live (live.barcap.com); 1/12/2026 US500 (us500.com/tools/data/sp500-dividend-yield).

Illustration 3:



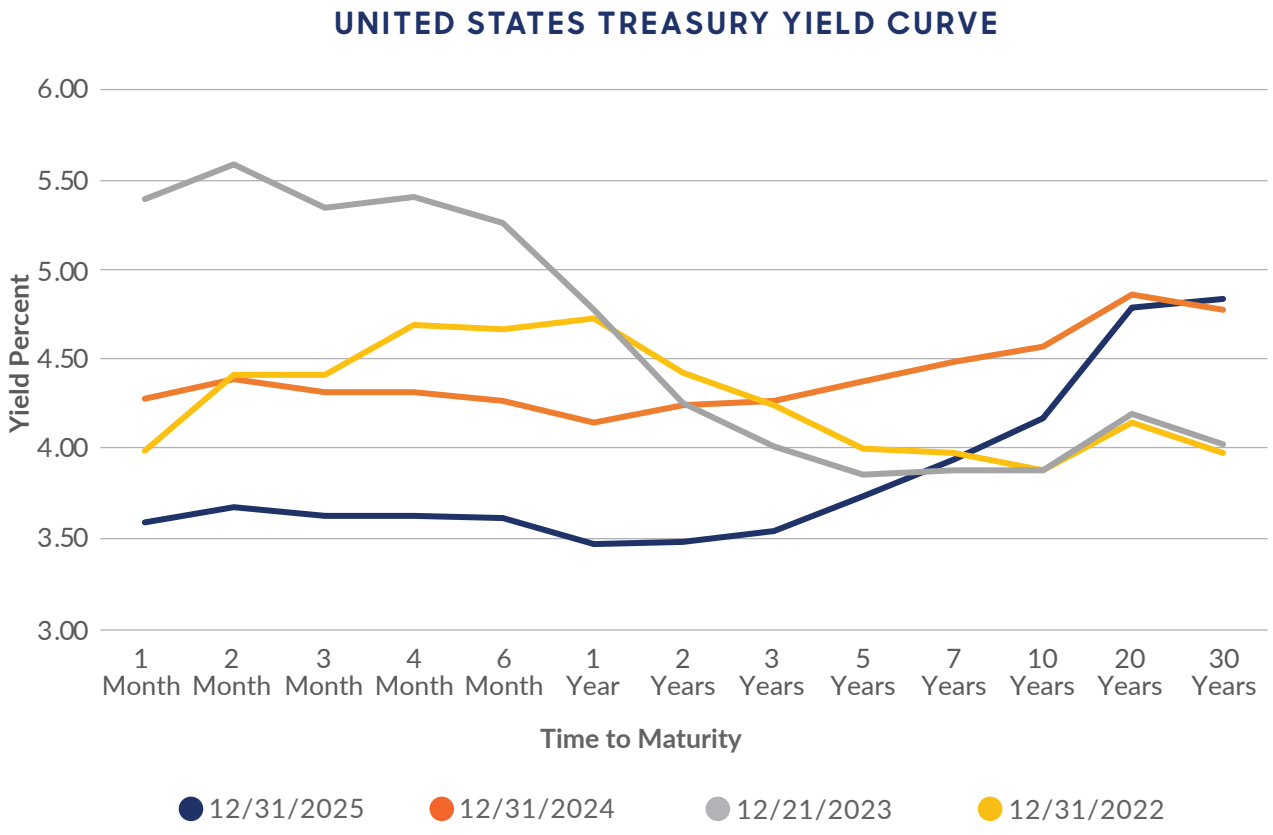
Source: 1/12/2026, Barclays Live (live.barcap.com).

There are other factors in play additionally supporting a positive outlook for the bond market, and its improvement toward par value. Each of these are discussed briefly.

I. Leading the witness

The yield curve steepened, quite significantly, over the last year **(Illustration 4)**. Long maturity yields remain higher compared to those of a couple years prior, but the 30-year maturity was hardly agitated in 2025. The steadiness in the long end prevailed despite "fiscal dominance" narratives centering on the U.S. federal debt load and its worsening dynamics, foreign demand for U.S. treasury offerings amid significant trade policy shifts involving tariffs, and lower expectation of U.S. dollar strength. Granted, the curve is by no means characterized as historically "steep," but there is no doubt it illustrates recent momentum toward lower yields as opposed to higher. The prevalently quoted barometer of market yields, the 10-year treasury yield, moved lower in 2025 by 0.40% to 4.18%. If current economic conditions remain in place, with improving inflation readings and stable economic growth, the long end of the curve is more likely to continue to play catch up with the decline in shorter- and intermediate-term yields. As of this writing (January 12, 2026), the U.S. Federal Reserve's (the "Fed") own projections call for at least one interest rate cut in 2026, and the current shape of the yield curve reminds me of the familiar phrase of "don't fight the Fed," which the long end currently seems to be doing.

Illustration 4:



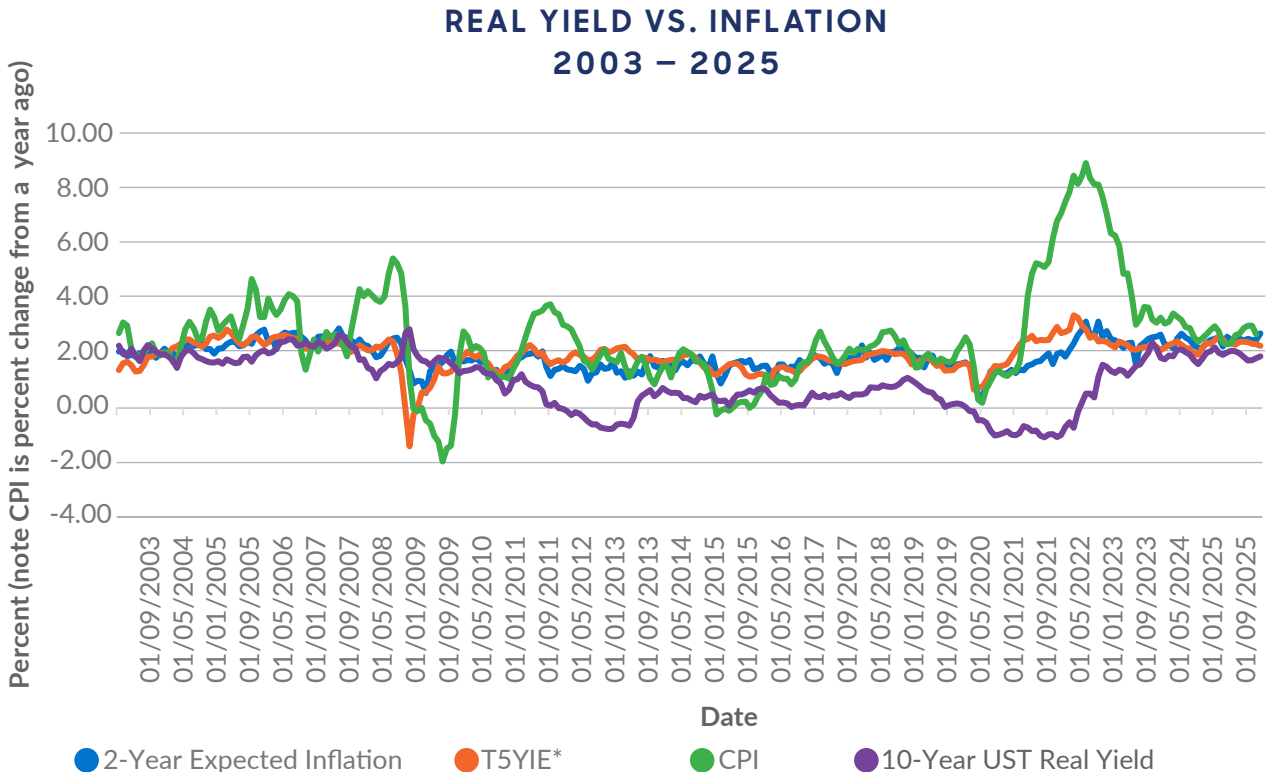
Source: 1/12/2026, FactSet.

II. Get real – real yields restrictive

Another observation of the current bond market is the 10-year U.S. Treasury real yield is relatively restrictive, currently at 1.90% **(Illustration 5)** and comparing to a median level of about 1.00% since 2002. This real yield has been subject to increases above its current level in the last couple of years, but relatively well contained. This is an important point that even with near-term inflation expectations having risen in 2025, the real yield does not appear to be prone to a significant rise for a few reasons, as suggested by the illustration. First, the Fed initiated an approximate 3% increase in real yield in 2022 to battle rising inflation and as such has likely already done much of the work to contain inflationary pressure. Second, while the 2025 trade tariffs are a likely source of the recent uptick of inflation expectations, there seemingly would need to be much more inflation pressure for a significant increase in real yield. For instance, in the 2005-2006 period, inflation (based on the Consumer Price Index, or "CPI") reached well over 4% annually but without a dramatically higher real yield compared to today's level. Even in 2022 when all measures of inflation were higher compared to current levels, the real yield was **lower** than where it currently stands. The latest CPI report, for the month of November showed the annual rate of inflation to be 2.7% (admittedly with some data uncertainty given the recent government shutdown). At current inflation levels, the real 10-year yield appears to be relatively steady.

Third, focusing on inflation expectations, although the nearer-term expectations have risen (the 2-year measure in the illustration), longer-term expectations of rising prices have improved recently as shown by the red line in the chart declining slightly in the most recent data. The 5-year and 2-year inflation expectation measures tend to be relatively close to one another, and under the premise the latter would revert closer to the former with upcoming data. This may aid in alleviating some of the current "restrictiveness" of the 10-year real yield.

Illustration 5:



Source: 1/12/2026, FRED Graph from Federal Reserve Economic Data, Federal Reserve Bank of St. Louis (fred.stlouisfed.org).

* T5YIE is a measure of 5-year expected inflation and "Real Yield" refers to yield calculation as the difference between the nominal yield and inflation projections (referencing the "real yield" removing the effect of inflation).

III. Yields "lofty" across sectors

Like a solid nine iron into the green, market yields across fixed income sectors have plenty of loft. While the initial section of this document emphasized investment-grade market yield, represented by the Bloomberg U.S. Aggregate Bond Index, yields are higher outside the Index. From high yield corporate debt to syndicated bank loans, to emerging market (U.S. money) debt and long municipal bonds, yields on offer are compelling relative to U.S. Treasury yields. Each of these sectors of course have their own credit spread dynamics, and while in the current environment credit spreads are generally considered relatively narrow compared to historical levels, the fact remains absolute yield levels are enticing. Consider, for example, the following Bloomberg Indices (or Index components), all having currently discounted prices (below par) and notable yield and coupon income advantages to the U.S. Treasury Index. The ability to "out earn" U.S. Treasuries in terms of the coupon rate acts as a buffer to market yield volatility. Moreover, the broadly discounted prices and attractiveness in yield opportunities compared to treasury securities may offer a powerful technical demand factor and continue to aid the recent trend of "up to par." This is particularly notable given the record deposits in cash equivalent money market assets, where such yields have moved to well below the 4% level with the most recent federal interest rate cut in December 2025 and is expected to trend lower in 2026.

	U.S. Duration (Mod. Adj.)	Price	Spread (OAS)	U.S. Yield to Worst	Avg Coupon
U.S. Treasury	5.88	94.08	—	3.89	3.26
U.S. Aggregate	5.98	94.07	27	4.32	3.65
Corporate	6.83	95.18	78	4.81	4.47
U.S. MBS	5.63	92.21	22	4.63	3.52
U.S. Corporate High Yield	2.77	98.05	266	6.53	6.60
U.S. Lev Loan Index	—	96.93	399*	7.62	7.02
EM USD Aggregate	5.99	95.18	178	5.71	5.23
Municipal Long Bond (22+)**	11.23	96.83	—	7.75	8.04

* Discount Margin to Treasury.

** Yield and Coupon illustration on taxable equivalent basis by dividing the tax-exempt rates by 1 - maximum federal income tax rate of 40.8% (37% federal + 3.8% NII tax).

Source: From content produced and distributed by Bloomberg via Barclays Live website (live.barcap.com); see disclosures for definitions.

IV. Summary

Recent performance strength in the bond market has enabled prices to move toward par values, although there remain notable discounts across fixed income sectors. The yield of the Bloomberg Aggregate Bond Index continues to hover above 4% and offers compelling yield relative to stock dividend yield. Coupon rates are also now a significant portion of market yields represented by U.S. Treasuries, suggesting solid income compensation as a dampening effect from market yield volatility. Short-term yields have dropped over the past year while long-term yields have remained steady, yet there continues to be high expectations of continued interest rate moderation which may ultimately spur the latter to follow suit. Real treasury yields as well as nominal yields and coupons across bond market sectors continue to trade with certain loftiness, which offers broad attractiveness to the bond market for the current environment.

Bloomberg U.S. Aggregate Bond Index measures the performance of investment grade, U.S. dollar-denominated, fixed rate, taxable bond securities, including Treasuries, government-related and corporate securities, mortgage-backed securities (MBS) (agency fixed-rate and hybrid ARM pass-throughs), asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS). The Index does not reflect any fees, expenses, or taxes and cannot be purchased directly by investors.

U.S. Duration (Mod Adj): A measure of sensitivity to the treasury curve. Keeping option adjusted spread (OAS) constant, the measure is calculated by shocking the par yield curve (which represents yields of hypothetical treasury bonds trading at par) up and down by a fixed amount and measuring the resulting change in price.

Price: Pricing the benchmark indices aims to mark each bond with an appropriate and observable level when available, whether sourced internally or supplied by a third-party pricing vendor; the index calculation is weighted by end of period par value of bonds comprising the index.

Spread (Option Adjusted Spread or "OAS"): The yield spread which, when added to a benchmark yield curve, can be used to discount a security's cash flows to match its market price. For loans, its OAS is set to its ZV spread to the benchmark curve (ZV spread is the spread applied to the treasury spot curve that makes the present value of all future cash flows match its market price).

Yield to Worst (YTW): Represents the lowest potential yield that an investor would receive on a bond if the issuer does not default. The yield to worst is calculated by making worst-case scenario assumptions on the issue by calculating the returns that would be received if provisions, including prepayment, call, or sinking fund, are used by the issuer. The YTW is used to evaluate the worst-case scenario for yield to help investors manage their risk and exposures. For loans, Yield to Worst is set to its Yield to Curve 3-years.

Average (Avg) Coupon: The fixed annual interest rate paid on a bond's face (par) value; the index calculation is weighted by end of period par value of bonds comprising the index.

Investors should consider funds' objectives, risks, fees, and expenses carefully before investing. This and other information can be found in the funds' prospectuses or summary prospectuses, which are available from MassMutual by calling 1-866-444-2601. Please read them carefully before investing.

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