
Bond Markets End Q3 on a High Note.

Falling yields lifted bond returns and rewarded patient investors.

At the close of 2025's third quarter, all major fixed-income Morningstar Categories showcased positive returns, but it wasn't a smooth-sailing ride.

In July, the 10-Year Treasury yield hovered between cycle highs of 4.35% and 4.45%, and credit spreads widened due to higher-than-expected inflation numbers and political uncertainty. However, as the quarter progressed, the market sentiment shifted from caution to renewed optimism. Treasury yields decreased across the curve, and in September, the Federal Reserve reduced its overnight borrowing rate for banks by 25 basis points, reinforcing expectations for further policy support. While yields fell, the Treasury yield curve steepened during the quarter, with short-term yields falling more than long-term rates, signaling investor caution about the long-term economic outlook. Meanwhile, credit-sensitive sectors staged a rebound, and almost all fixed-income sectors promptly gained back their July losses. The Morningstar US Core Bond Index, a proxy for the US-dollar-denominated investment-grade bond market, gained 2.04% during the quarter.

In what turned out to be a volatile quarter, investors who took reasonable duration and credit risk were rewarded in the end. A typical long-term bond Morningstar Category fund, which invests in long-dated investment-grade corporate and government debt and carries a duration of 11.2 years, gained 3.66% during the quarter.

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morningstar.com

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