TCW

TCW Talking Points

THIRD QUARTER 2026

FOR INVESTMENT PROFESSIONAL USE ONLY

3Q 2026: Treasury Yields Rise to the Highest Levels in Years

The 2-Year yield rose by 71 basis points (bps) over the quarter to 4.89%, while the yield on the 10- and 30-Year rose by 82 and 68 bps, respectively. The closing level of 5.29% for the 10-year was the highest since 2007, while the 5.63% yield on the 30-year was the highest since 2002.

Common Explanations for Rate Moves	Our View
Inflation concerns stemming from higher oil prices and ongoing Middle East conflict	• Inflation expectations remain well anchored around 2% • No signs yet of material spillover to non-energy sectors
75 to 100 bps of Fed tightening (3-4 more hikes) priced by next summer	• 3-4 hikes are unlikely • Hiking into a supply shock increases risk of policy error • Underlying inflation trends outside of energy are lower
A regime change at the Fed, including a newly uncertain reaction function	• Term premium is higher, but familiarity with Warsh should help reduce it over time
Higher growth expectations based on massive AI spending	• There are underappreciated risks to AI spending via regulation, social resistance, construction delays, and/or reassessment of ultimate profitability • More rate-sensitive sectors of the economy likely to drag on activity
Risk asset optimism	• Positive wealth effect could be reversed if AI spending expectations get revised lower
Increasing supply of debt from surge in AI-related issuance	• Impact from this channel likely modest
High and growing amount of US debt outstanding	• No historical correlation between rates and the amount of debt outstanding • As long as the USD and US Treasuries remain the world's reserve currency and risk-free asset of choice, normal rules don't apply • A concern over the very long term, but not over any investable horizon
International buyers, particularly Japanese, stepping back as JPY rates rise	• Difficult to quantify, but the effect likely shifts rates higher than they would be otherwise, though small in comparison to fundamental economic drivers

3Q 2026: A Look Beyond Headline Inflation and Growth Narratives

- Inflation concerns remained a major headline during the quarter as Brent crude prices rose by over 40%, with the FOMC's September rate hike and upward adjustment to its inflation projections further cementing the narrative. And while higher energy costs can add to headline inflation, we have yet to see a meaningful spillover into core inflation measures. Data from the BEA showed that core PCE inflation rose by a less-than-expected 0.3% in August following a downwardly revised July print, bringing the 3-month annualized trend to 2% – right at the Fed's target.

- Despite increased energy prices, estimates for economic growth remained robust and above-trend, spurred by significant AI-related capex plans and their effect on GDP, equity valuations, and flowthrough to consumers via the wealth effect. But potential speedbumps could be on the horizon given budding concerns over AI safety and potential for more restrictive regulation, or the prospect that profitability assumptions change.

- Away from the wealth effect, consumer spending was supported by tapping into household savings as the savings rate fell to 4.1%, down from 5.0% at the start of the year and more than 2% lower than the recent high in 2025. With rates higher, general costs of financing more expensive, and one-time effects like the World Cup and OBBBA tax refunds fading, consumers are faced with a choice to take on more leverage to maintain spending (higher credit card utilization, tapping into home equity, etc.) or alter consumption behavior.

- Meanwhile, the labor market remained in a low hire low fire state characterized by soft demand, low levels of voluntary quits, and little to no wage growth. In fact, on an inflation-adjusted basis, wage growth turned negative over the quarter, limiting the risk of a wage-based price spiral.

Our View: The 2026 economy is very different than the economy during the 2022 rate hiking cycle, where consumers were flush with government stimulus, savings rates were higher, and a tight labor market was pushing wages higher and contributing to demand-driven inflation. We view the current inflationary episode as a function of elevated energy prices, and assuming oil prices normalize over time, those pressures are likely to ease, especially given today's softer labor market and slowing in rate-sensitive sectors like housing. Given that, zero to one more hike is the more likely outcome, with a possibility that the Fed has to step in and support the economy if higher rates begin to bite.

3Q 2026: Credit Markets Flash Early Signs of Dispersion

- The Bloomberg U.S. Corporate Index lost 3.9% on a total return basis in the third quarter alongside elevated Treasury yields, though the rise in rates pushed the yield on the Index to a post-2023 high of 6%. Credit spreads widened by 6 bps during the period to drive 14 bps of underperformance relative to similar duration Treasuries.

- Part of this widening can be attributed to the surge in AI-related spending that has flown through nearly every channel of capital markets, including a growing share of corporate issuance. While the debt has been absorbed by market participants, a higher yield premium has often been required given the scale of spend and implications for free cash flow, with markets more skeptical of prospective ROI.

- The impact of higher rates, more expensive borrowing costs, and growing interest burdens was felt more prominently in the high yield markets, where the Bloomberg U.S. Corporate High Yield Index experienced spread widening of 42 bps in 3Q to underperform investment grade issues by 54 bps on a duration-adjusted basis. The BBB-BB basis, or spread differential between the BBB component of the investment grade Index and BB component of the high yield Index, rose from a YTD low of 51 bps in early September to 84 bps by quarter-end.

- Meanwhile, spreads for CCC rated issues in the high yield Index widened by 237 bps during the quarter to finish beyond 1,000 bps. With CCC representing the riskiest cohort of credit markets, moves of this magnitude often represent growing signs of stress and can be a leading indicator of further dispersion within credit.

Our View: Despite the widening over the quarter, credit spreads for both IG and HY issues remain below long-run average levels, offering minimal cushion against prospective volatility. While this is counteracted to a degree by higher starting yields, the level of spreads reflects market pricing that remains centered around best-case outcomes with little protection should things unfold differently. And with AI issuance becoming a larger share of capital markets, valuations are increasingly levered to the success of the broader AI ecosystem, though history suggests that infrastructure buildouts of this magnitude are rarely without missteps.

3Q 2026: A Broad Opportunity Set and Resilience in Securitized Markets

- The Bloomberg U.S. MBS Index also struggled with higher yields and rate volatility as the current coupon spread widened from 107 bps to 125 bps en route to 116 bps of negative excess returns. However, the sector has exhibited a more resilient return pattern and reaction to the surge in Treasury yields compared to the 2022/2023 rates cycle, when the current coupon spread widened to 185 bps as the 10-Year Treasury yield approached 5%.

- The non-agency MBS sector, meanwhile, remains well-supported by years of built-up home appreciation, attractive coupons, and strong fundamentals, which has driven steady demand and compelling returns. Per J.P. Morgan, the non-agency MBS sector is outpacing corporate credit this year on a duration-adjusted basis, with the sector yet to dip into negative return territory despite the volatility surrounding the Iran conflict, oil, and rates.

- Unlike the dispersion in corporate credit that has seen a widening of the spread differentials between quality cohorts, the asset-backed securities (ABS) sector experienced a tightening of spreads and flattening of credit curves in the third quarter. The floating rate structure of many ABS securities benefits from higher Treasury base rates and more compelling income generation, while the sector also offers a variety of collateral types and natural structural protections that have seen demand keep pace with increasing supply.

- In the commercial MBS (CMBS) sector, single asset single borrower (SASB) deals outstanding are set to overtake more traditional conduit deal types alongside a growing set of property types financed by SASB securitizations. Office, lodging, industrial, multi-family, mixed use, and health care are some of the common property types backing these deals, with the trend set to continue as issuers prefer the collateral flexibility and refinancing optionality afforded by the SASB structure.

Our View: We remain constructive on securitized markets given better relative value and generally wider spread levels than similarly rated corporate counterparts, though issue selection remains critical to managing downside risks and navigating a dynamic market backdrop. Agency MBS is a large allocation across portfolios given the liquidity and still-attractive spread levels, while we maintain positions across a variety of securitized credit sectors to capture those wider spreads in a diversified manner.

3Q 2026: Core and Core Plus Fixed Income Positioning Summary

The rise in volatility to close the third quarter potentially sets the stage for more price discovery across markets, though for now portfolios maintain a more sizeable allocation to securitized sectors given better relative value versus corporates, with an emphasis on liquidity to quickly deploy into dislocations.

Characteristic	Positioning	Comments
Duration	Approximately 0.3 years longer than the benchmark	We believe markets are overestimating the scope of future Fed tightening and that rates at current levels are unsustainable over the long run
Curve	Expectations for a steeper curve	Overweight short and intermediate tenors of the curve where 3 to 4 hikes are already priced in, benefiting relative returns should the Fed not need to hike as aggressively as anticipated
MBS	• Agency MBS – large overweight • Non-Agency MBS – moderate allocation	• Agency MBS position utilizes both specified pools for better prepayment characteristics and TBAs for liquidity • Allocations across the 30-Year coupon stack, though with overweights to the middle coupons (3.5% to 5.0%) for a balance of carry and prepayment protection • Exposure is roughly split between legacy (pre-GFC) issues that offer total return upside and newer sectors to capitalize on higher carry, collateral diversification, and strong underlying fundamentals
ABS	Overweight	• Focus on senior tranches of CLOs for floating rate coupons, liquidity, and structural protection • Diversified exposure across non-traditional ABS sectors offering attractive risk-adjusted yields, with a focus on commercial rather than consumer collateral
CMBS	Small overweight	CMBS position is focused on single asset single borrower deals for transparency into underlying collateral
Investment Grade Credit	Underweight	• Current credit spreads offer investors minimal protection against prospective volatility or spread widening • Modestly overweight hyperscalers broadly given wide spreads and robust cash flow generation, despite risks of higher leverage • Look outside the US for wider spreads available in other markets as more issuers tap non-US markets for issuance
High Yield / Loans	Minimal allocation	Focus on idiosyncratic opportunities and bottom-up issue selection seeks to capture compelling yields, drive alpha potential, and minimize correlation to broader risk assets
International	Moderate allocation	• Maintain position in Australian state government debt given high quality, low beta, and attractive spread • Maintain small position in high-quality, USD and local currency-denominated emerging market sovereigns • Selective positioning in UK duration, where allowed

Based upon a representative account. Portfolio characteristics and securities are subject to change at any time.

Important Disclosure

All information is as of the date of this presentation unless otherwise indicated. Source: Bloomberg, TCW

Portfolio characteristics and holdings are subject to change at any time. Past performance is no guarantee of future results. The views and forecasts expressed in this quarterly review are as of September 30, 2026, are subject to change without notice and may not come to pass. TCW reserves the right to change its investment perspective and outlook without notice as market conditions dictate.

INVESTMENT RISK

Fixed income investments entail interest rate risk, the risk of issuer default, issuer credit risk, and price volatility risk. Strategies investing in bonds can lose their value as interest rates rise and an investor can lose principal. Mortgage-backed and other asset-backed securities often involve risks that are different from or more acute than risks associated with other types of debt instruments. MBS related to floating rate loans may exhibit greater price volatility than a fixed rate obligation of similar credit quality. With respect to non-agency MBS, there are no direct or indirect government or agency guarantees of payments in pools created by non-governmental issuers. Non-agency MBS are also not subject to the same underwriting requirements for the underlying mortgages that are applicable to those mortgage-related securities that have a government or government-sponsored entity guarantee. The strategy's investments denominated in foreign currencies will decline in value if the foreign currency declines in value relative to the U.S. dollar. The securities markets of emerging market countries can be extremely volatile. Securities prices and returns will fluctuate with market conditions, currencies and the economic and political climates where the investments are made. All investing involves risk including the potential loss of principal. Market volatility may significantly impact the value of your investments. Recent tariff announcements may add to this volatility, creating additional economic uncertainty and potentially affecting the value of certain investments. Tariffs can impact various sectors differently, leading to changes in market dynamics and investment performance.

High yield securities may be subject to greater fluctuations in value and risk of loss of income and principal than higher rated securities. Fixed income investments entail interest rate risk, the risk of issuer default, issuer credit risk, and price volatility risk. Strategies investing in bonds can lose their value as interest rates rise and an investor can lose principal. Mortgage-backed and other asset-backed securities often involve risks that are different from or more acute than risks associated with other types of debt instruments. MBS related to floating rate loans may exhibit greater price volatility than a fixed rate obligation of similar credit quality. With respect to non-agency MBS, there are no direct or indirect government or agency guarantees of payments in pools created by non-governmental issuers. Non-agency MBS are also not subject to the same underwriting requirements for the underlying mortgages that are applicable to those mortgage related securities that have a government or government-sponsored entity guarantee. The strategy's investments denominated in foreign currencies will decline in value if the foreign currency declines in value relative to the U.S. dollar. The securities markets of emerging market countries can be extremely volatile. Securities prices and returns will fluctuate with market conditions, currencies and the economic and political climates where the investments are made. All investing involves risk including the potential loss of principal. Market volatility may significantly impact the value of your investments. Recent tariff announcements may add to this volatility, creating additional economic uncertainty and potentially affecting the value of certain investments. Tariffs can impact various sectors differently, leading to changes in market dynamics and investment performance.

NOTICE TO PROSPECTIVE INVESTORS WHO INVEST THROUGH INTERMEDIARIES

Certain unaffiliated intermediaries, including, but not limited to, registered investment advisers, broker-dealers, banks and consultants (each, a "Firm"), may offer/recommend private funds or strategies sponsored by The TCW Group, Inc. and its affiliates ("TCW" and together with the private funds and strategies, the "TCW Accounts") to Firm clients. The Firm does not receive any compensation from TCW if a client invests in the TCW Account. However, the client may pay the Firm a fee (e.g., advisory fee, consultancy fee, due diligence fee, etc.) and indirectly pays TCW a management fee through the investment in the TCW Account. As a result of this arrangement, a conflict of interest may exist in that the Firm may have an incentive to endorse and make positive statements about TCW. The Firm, its clients or personnel may be or have been invested in vehicles managed, advised, or sponsored by TCW, and the Firm, its clients or personnel or affiliates potentially may invest in such vehicles in the future.

NOTICE TO PROSPECTIVE INVESTORS WHO INVEST THROUGH A WRAP FEE OR OTHER PLATFORM

Certain unaffiliated firms that sponsor a wrap fee program or other platform (each, a "Sponsor") may include private funds or strategies offered by The TCW Group, Inc. and its affiliates ("TCW" and together with the private funds and strategies, the "TCW Accounts"). The Sponsor charges TCW an administrative or service fee to make a TCW Account accessible to the Sponsor's clients through the program or platform. The Sponsor may also pay the management fee charged by the TCW Account on behalf of the Sponsor's clients. As a result of these arrangements, a conflict of interest exists in that the Sponsor may have an incentive to endorse or recommend a particular TCW Account to its clients rather than other products accessible on the program or platform. The Sponsor, its clients or personnel may be or have been invested in vehicles managed, advised, or offered by TCW, and the Sponsor, its clients or personnel or affiliates potentially may invest in such vehicles in the future.

STRATEGY DISCLOSURE (U.S. AND NON-U.S.)

This material is for general information purposes only and does not constitute an offer to sell, or a solicitation of an offer to buy, any security. Any issuers or securities noted in this document are provided as illustrations or examples only, for the limited purpose of analyzing general market or economic conditions and may not form the basis for an investment decision, nor are they intended to serve as investment advice. Any such issuers or securities are under periodic review by the portfolio management group and are subject to change without notice. TCW makes no representation as to whether any security or issuer mentioned in this document is now in any TCW portfolio. TCW, its officers, directors, employees or clients may have positions in securities or investments mentioned in this publication, which are subject to change without notice. Any information and statistical data contained herein derived from third party sources are believed to be reliable, but TCW does not represent that they are accurate, and they should not be relied on as such or be the basis for an investment decision. All information is as of the date of this presentation unless otherwise indicated.

An investment in the strategy described herein has risks, including the risk of losing some or all of the invested capital. An investor should carefully consider the risks and suitability of an investment strategy based on their own investment objectives and financial position. There is no assurance that the investment objectives and/or trends will come to pass or be maintained. The information contained herein may include preliminary information and/or "forward-looking statements." Due to numerous factors, actual events may differ substantially from those presented herein. TCW assumes no duty to update any forward-looking statements or opinions in this document. This material comprises the assets under management of The TCW Group, Inc. and its subsidiaries, including TCW Investment Management Company LLC, TCW Asset Management Company LLC, and Metropolitan West Asset Management, LLC. Any opinions expressed herein are current only as of the time made and are subject to change without notice. The investment processes described herein are illustrative only and are subject to change. Past performance is no guarantee of future results. © 2026 TCW

ADDITIONAL STRATEGY DISCLOSURE (Non-U.S. – Australia, Brunei, China, DIFC, Hong Kong, Indonesia, Japan, Kazakhstan, Korea, Malaysia, New Zealand, Oman, Peru, Qatar, Saudi Arabia, Singapore, Switzerland, Taiwan, Thailand, and UK) This material is for general information purposes only and does not constitute or form part of an invitation or offer to issue or sell, or a solicitation of an offer to buy, any security, specific product or services. This material is only directed at institutional investors and only provided upon their request. The distribution of this material in certain jurisdictions and/or to certain investors may be restricted or prohibited and should therefore not be relied upon by such persons. Accordingly, this material may not be used in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons to whom this presentation is communicated should inform themselves about and observe any such restrictions.

FOR INSTITUTIONAL INVESTORS IN AUSTRALIA ONLY

This material is intended only for use in Australia by "wholesale clients" within the meaning of Corporations Act 2001 (Cth). TCW Australia Pty Ltd ABN 86 630 943 609 AFSL 545329 (TCW Australia) is the distributor of this material in Australia. TCW Australia holds an Australian Financial Services License (no. 545329) which authorizes it to carry on a financial services business only with respect to wholesale clients. Registered address: Level 14, 50 Bridge Street, Sydney NSW Australia.

FOR INSTITUTIONAL INVESTORS IN THE DIFC ONLY

TCW Asset Management (DIFC) Limited is regulated by the Dubai Financial Services Authority (DFSA). This marketing material is intended only for Professional Clients or Market Counterparties and no other Person should act upon it.

FOR INSTITUTIONAL INVESTORS IN JAPAN ONLY

FOR GENERAL INFORMATIONAL PURPOSES ONLY – TCW Japan, Ltd.; Registration NO.: Director of Kanto Local Finance Bureau (Financial Instruments Business Operator) No.3158; Member of Investment Management Association of Japan; Member of Type II Financial Instruments Firms Association

FOR INSTITUTIONAL INVESTORS IN THE UNITED KINGDOM (UK) ONLY

The investments referred to in this brochure may not be suitable for all investors. It is categorically offered at the request of the recipient who is categorised as a Professional Client or an Eligible Counterparty under applicable law. This brochure is directed at persons who are classified as Professional clients and Eligible Counterparties only. The distribution of this brochure in certain jurisdictions may require that it is translated into the official language of those countries. Should any inconsistency arise between the official language version and the English version, the official language version shall prevail for the relevant investors. Currency movements may affect the value of investments. Investors should also be aware that the value and income of any securities or investments and the price of shares and the income derived from them, which are mentioned in this brochure, may fall as well as rise. Past performance is not a guarantee to future performance. Under no circumstances should information or any part of it be copied, reproduced or redistributed. TCW Europe Limited is authorised and regulated by the Financial Conduct Authority: 33 Cork Street, 4th Floor | London W1S 3NQ, UK.