



APRIL 2026

Active Fixed Income  
Perspectives Q2 2026:

# Dispersion drives opportunity

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## Key takeaways

### Performance recap

Coupon income supported bond returns during a period of heightened market volatility. The sharp rise in energy prices shifted expectations for rate cuts toward the possibility of rate hikes in economies with inflation-focused central bank mandates and greater exposure to energy shocks. Global bond yields moved higher, albeit unevenly, across regions, reflecting differences in perceived inflation risk. Credit spreads widened modestly from cycle lows, and performance across sectors became increasingly differentiated.

### The big picture

The U.S. economy entered the year with solid underlying momentum; however, higher energy prices pose an increasing risk to both the growth and inflation outlook. So far, markets have not shown a broad or lasting negative reaction, but if the disruption to energy flows persists, growth fears will become more broad-based, putting downside pressure on yields and upside pressure on credit spreads.

### Our approach

Attractive overall yields continue to draw a broad mix of investors, and increased price dispersion across the market is creating pockets of value. We are maintaining an up-in-quality bias in credit focused on diversified sources of yield and have increased duration exposure as a portfolio hedge against downside scenarios. Higher yield volatility brings increased opportunity for tax-exempt portfolios to add value through coupon and call structure management.

## Notable resilience

The bond market was pulled in multiple directions during the first quarter as investors navigated the uncertainty of rapidly shifting conditions. Early in the quarter, government bond yields moved lower as markets priced in concerns that the pace and scale of artificial-intelligence-related investment could ultimately weigh on growth.

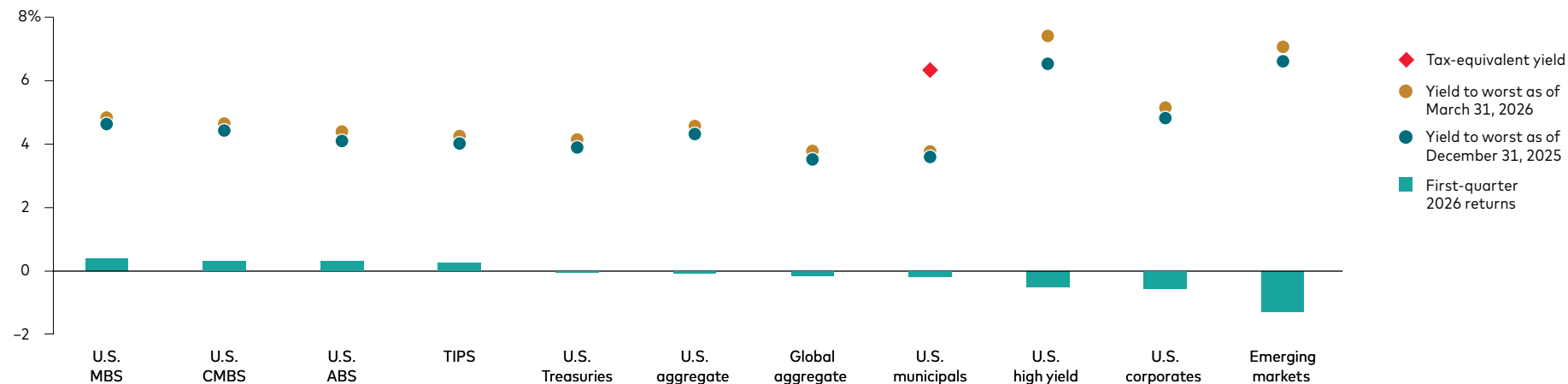
That dynamic shifted sharply in March, when the onset of the conflict in Iran and the resulting spike in energy prices pushed near-term inflation risks back into focus, driving yields higher globally—most notably in regions where central banks operate under inflation-focused mandates and economies are more sensitive to energy price shocks.

Even so, bond markets demonstrated notable resilience. The repricing was measured given the magnitude of the energy shock, with credit spreads widening only modestly from cycle lows toward the upper end of the ranges we had anticipated this year.

Importantly, strong starting yields—near or above 4% across much of the market—continued to support investor returns. Coupon income helped offset the impact of higher yields and wider spreads, leaving total returns for the U.S. Aggregate Index flat for the quarter.

As clarity around energy markets improves, we see a more stable to constructive path for rates, and we used the period of volatility to selectively add duration at more attractive levels and increase exposure to credit opportunities where risk compensation improved.

## Fixed income sector returns and yields



**Notes:** The municipal tax-equivalent yield is calculated using a 40.8% tax bracket, which includes a 37.0% top federal marginal income tax rate and the 3.8% net investment income tax to fund Medicare. Yield to worst represents the lowest yield possible for a security given the current price, considering both call dates and maturity.

**Indexes used in chart:** The following indexes are represented in the sector returns and yields chart: J.P. Morgan EMBI Global Diversified Index, Bloomberg U.S. Corporate High Yield Index, Bloomberg U.S. Mortgage Backed Securities Index, Bloomberg U.S. Corporate Index, Bloomberg CMBS: Erisa Eligible Index, Bloomberg U.S. Aggregate Index, Bloomberg U.S. Treasury Inflation-Linked Bond Index (Series-L), Bloomberg U.S. Treasury Index, Bloomberg U.S. Asset-Backed Securities Index, Bloomberg Global Aggregate Index, and Bloomberg U.S. Municipal Index.

**Sources:** Bloomberg indexes and JPMorgan, as of March 31, 2026.

**Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.**

### The flow of energy

In March, Brent crude prices surged well above \$100 per barrel after averaging roughly \$66 over the prior 12 months. The magnitude of the move reflects the disruption to energy flows in the Middle East. Absent a resumption of normal transit, upward pressure on energy prices is likely to persist.

The economic impact of higher energy prices depends largely on the duration of the disruption. If the flow of traffic through the Strait of Hormuz is halted or limited as it has been, global volumes will be constrained despite efforts to reroute oil and natural gas through alternative channels.

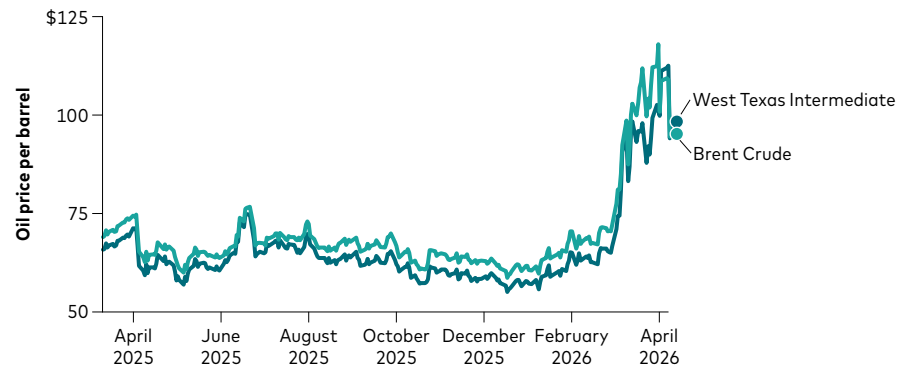
Higher energy prices most directly affect headline inflation. However, at sufficiently high levels or over longer periods, spillovers into core inflation and growth become more meaningful—raising the risk of broader macroeconomic consequences. We are assessing the potential impact to markets across three key scenarios.

**Base case path**—Progress toward resolution with broader terms that include a reinstatement of normal transit levels through Hormuz. If oil prices remain around \$100 for one to two quarters, we do not expect a large impact to growth or medium-term inflation across regions.

**Protracted scenario**—Progress stalls and the conflict continues. If oil prices hold above \$100 per barrel for several quarters, measurable effects are expected. In that scenario, we forecast a 40-basis-point decline in U.S. growth and a further 30-basis-point rise in core inflation. The impact in Europe would be approximately double these figures.

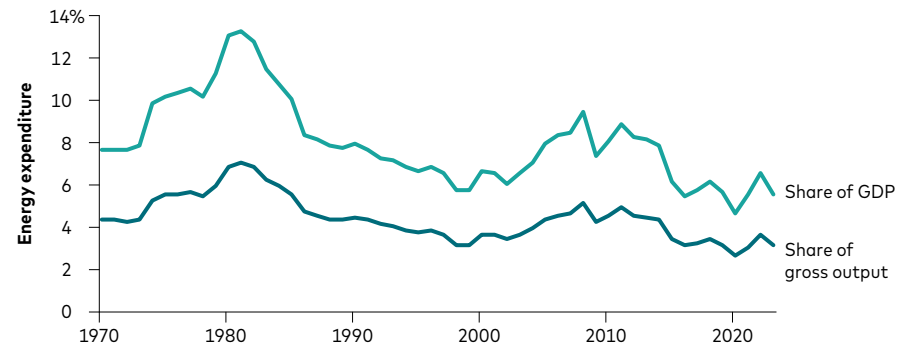
**Recession outcome**—Should oil prices remain above \$125 for twelve consecutive months, recessionary conditions are anticipated in the Euro area and Japan. Sustained oil prices exceeding \$200 for a year would produce comparable economic conditions in the United States.

### Oil price per barrel



Source: Bloomberg data as of April 9, 2026.

### Energy expenditures decline as a share of GDP and gross output (1970–2023)



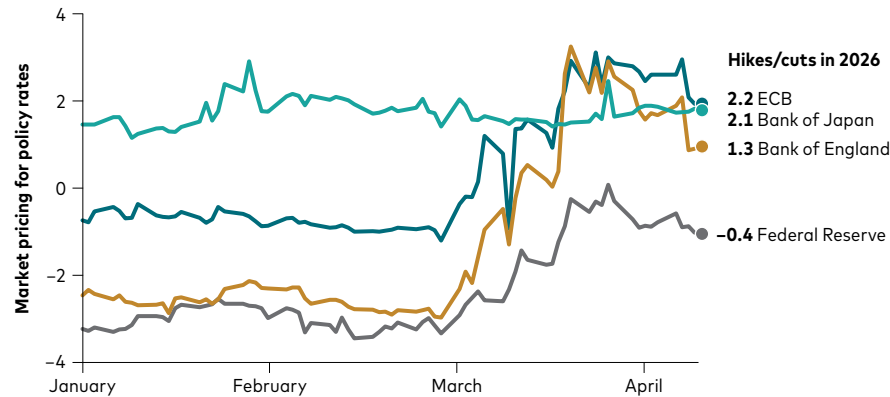
Source: U.S. Energy Information Administration as of March 26, 2026.

### Diverging policy paths

As energy prices jumped, markets refocused on inflation risks and repriced expected policy paths across regions. In the most exposed economies—particularly where central banks operate under inflation-focused mandates—expectations shifted from near-term rate cuts toward the possibility of rate hikes this year.

Central banks have historically looked through energy-driven inflation shocks, recognizing that monetary policy is ill-suited to address supply-side pressures and that premature tightening risks amplify downside growth outcomes. However, the inflation experience of recent years has left policymakers more sensitive to the possibility of higher inflation becoming entrenched. While short-term inflation expectations moved higher, medium-term measures remain well anchored in the United States and broadly within acceptable ranges across Europe and Japan.

### Central bank expectations for 2026 have repriced unevenly across regions



Source: Macrobond as of April 9, 2026.

In a more prolonged conflict scenario, inflation risks could gradually give way to growth concerns as higher input costs weigh on demand, prompting markets and policymakers to anticipate eventual easing. With the duration and magnitude of the shock still uncertain, the Federal Reserve retains flexibility given its dual mandate, while the ECB, Bank of England, and Bank of Japan have shifted toward a more hawkish stance—raising the likelihood of divergent policy paths as conditions evolve.

### Trimming our outlook

The U.S. economy entered this period from a position of strength. Business investment and consumer spending have provided steady support, even as markets absorb supply-driven shocks tied to energy, tariffs, and labor. This resilience has been reinforced by strong corporate profitability and an ongoing investment cycle, particularly in technology.

Fiscal policy remains supportive, and the Federal Reserve retains flexibility should conditions weaken. As a net energy exporter, the U.S. is also better positioned to absorb energy shocks than in past cycles. Moreover, economic growth is far less energy-intensive today than in prior decades—measures of energy use per dollar of real GDP have declined by more than half over the past 40 years.

Against this starting point, it remains difficult to construct a base case recession scenario over the near term. While recent geopolitical developments have increased uncertainty, they have not materially altered our outlook for the U.S. economy. Instead, we have modestly revised our forecasts, downgrading growth and upgrading inflation expectations. Even so, we continue to anticipate growth above 2% and inflation below 3% over the coming quarters.

Outside the U.S., we see greater risks and have more meaningfully lowered our growth projections and raised our inflation views. In the months ahead, we are prepared for a wider range of outcomes and continue to emphasize active positioning, quality bias, and valuation discipline.

## Portfolio positioning and strategy

### U.S. rates and yield curve

U.S. Treasury yields moved higher across the curve in the first quarter, but the majority of the repricing occurred between two- and five-year maturities. The move reflected the market's expectation that the Fed would not be able to deliver on the two cuts previously priced in for 2026.

We anticipate the Federal Reserve to remain cautious but prepared to look through short-term energy-related price increases as long as core inflation increases remain moderate and inflation expectations remain anchored near 2%. We maintain our view of one policy rate cut over the course of this year, dependent on clearer progress in inflation.

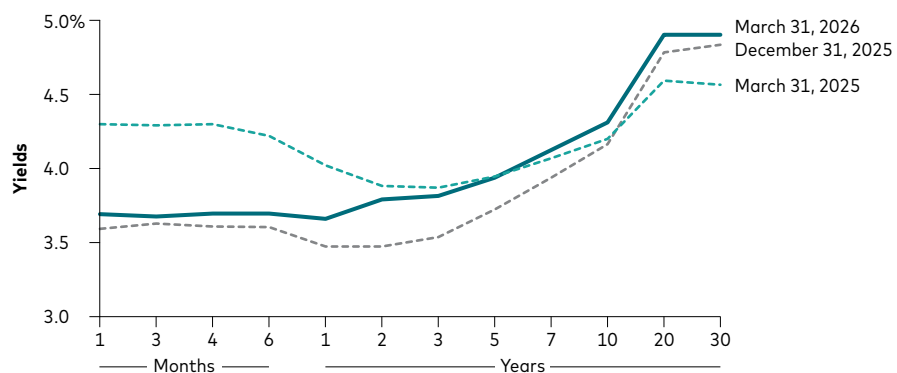
As 10-year Treasury yields moved above our prior fair-value range of 3.75% to 4.25%, we viewed the increase as an opportunity to add duration. While we acknowledge that the reduced likelihood of near-term FOMC easing has likely lifted the fair-value range somewhat, we continue to see yields above 4.25% as attractive levels to extend duration and build greater portfolio resilience against potential growth risks.

Outside the United States, the policy outlook for the European Central Bank and the Bank of England has shifted. A sustained decline in energy prices would likely be required to prevent the ECB from initiating a modest tightening cycle, while we remain skeptical the BoE will ultimately follow through with rate hikes given ongoing labor-market weakness.

In Japan, our view of a gradual normalization remains unchanged. Stronger relative growth prospects in the U.S. support our continued preference for long Germany versus short U.S. cross

market relative value positions, while rising fiscal and monetary policy risks in Japan reinforce the case for higher and flatter JGB yields. Despite added uncertainty from Middle East tensions, we continue to view short-duration positions in JGBs as warranted.

### U.S. Treasury yields



Source: Bloomberg data as of March 31, 2026.

### Daily U.S. Treasury Par Real Yield Curve Rates

Date	5 Year	7 Year	10 Year	20 Year	30 Year
March 31, 2026	1.38%	1.70%	2.00%	2.46%	2.69%
April 15, 2026	1.29%	1.61%	1.90%	2.38%	2.63%

Source: Federal Reserve, as of April 15, 2026.

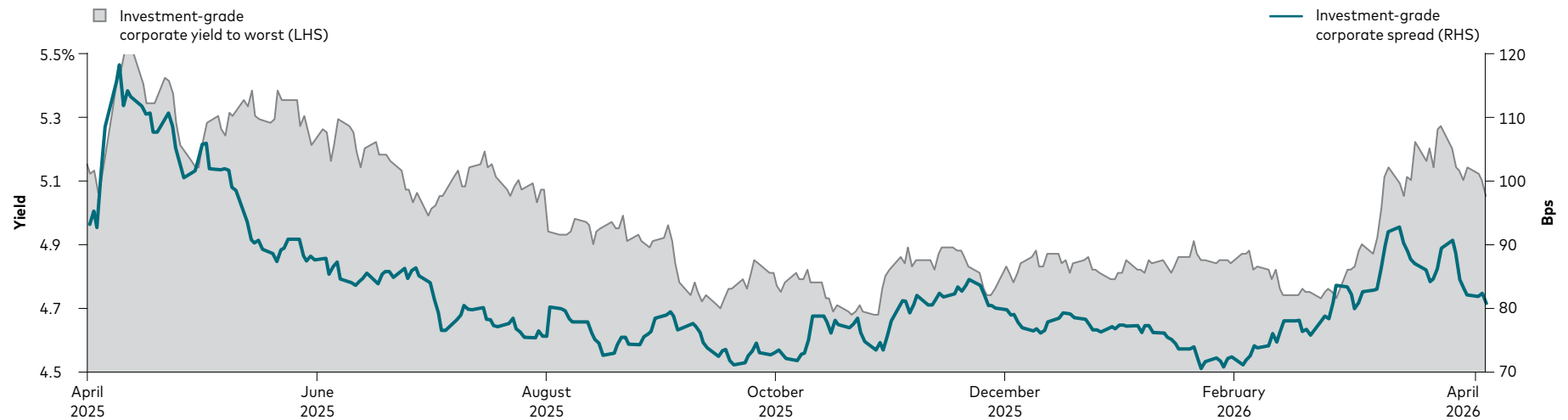
### Credit outlook

In the first quarter, credit spread moves were mostly contained relative to the repricing in yields. As the quarter progressed, spreads moved wider in two stages, first when concerns around AI-related disruption weighed on sentiment and then again with the onset of the conflict in Iran. So far, the reaction to the rise in geopolitical risk has been far more muted than prior macro shocks, including last year's tariff-driven volatility, signaling the market's optimism that the risks are short-lived.

In addition to the rise in volatility, credit issuance volumes were expectedly strong in the first quarter. In the U.S., investment grade companies set a record with roughly \$775 billion in gross issuance fueled by continued AI-related investment and rising merger and acquisition volumes. Perhaps a more important signal was that increase in issuance was more than met by strong demand to absorb the new supply of bonds.

Investment-grade credit remains particularly attractive. Fundamentals are healthy, and the supply-demand backdrop continues to support spreads. With all-in yields back above 5%, the bid for high quality credit should remain strong from yield-focused buyers.

### Round trip: Yields have bounced back to last year's levels



Source: Macrobond as of April 8, 2026.

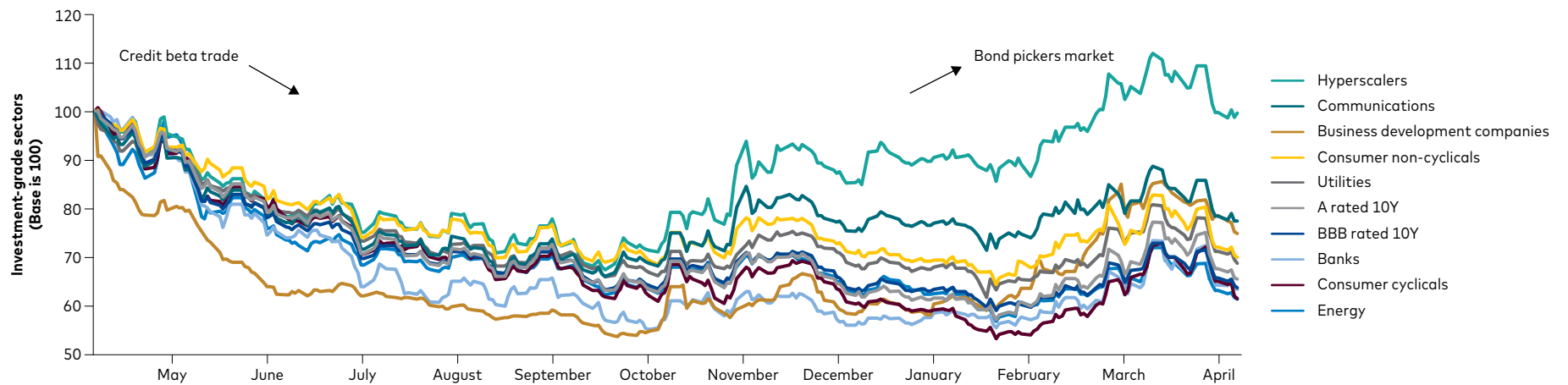
Broadly, spreads now reflect what we thought could transpire at the start of the year. Levels rose to the middle of our forecasted ranges, and within each segment, we are seeing wider dispersion across subsectors and issuers. This has created opportunities to add exposure to issuers with resilient business models trading at more attractive levels. While credit performance last year was better defined as a rising tide that lifted all boats, this year has been more of a bond-picker's market, as we expected.

Our outlook for credit performance remains constructive, but the war in Iran and corresponding disruption in the flow of energy presents notable downside risks that we continue to assess.

The longer the conflict lasts, the greater the implications for credit performance. As that occurs, the concerns over inflation will turn to concerns over growth, causing a more sustained widening in spreads.

If our base case holds and there is a near-term resolution in the Middle East where traffic through Hormuz resumes, we would expect economic conditions to be supportive for performance. If concerns around growth rise, lower-quality credit is most exposed, so we prefer to maintain a quality bias and a disciplined, issuer-by-issuer approach.

**Rising uncertainty is increasing dispersion and opportunity**



Source: Macrobond as of April 9, 2026.

## Taxable portfolio positioning

### Rates

Exposure	View	Strategy
<b>U.S. duration and curve</b>	<ul style="list-style-type: none"> <li>We expect 10-year Treasuries to trade within a range between 4.0%-4.5%.</li> <li>Yields can fall from current levels if the conflict in Iran resolves or on higher growth risks.</li> </ul>	<ul style="list-style-type: none"> <li>We expect the Federal Open Market Committee to keep policy on hold near-term.</li> <li>We have extended duration as yields moved above our fair-value range.</li> </ul>
<b>Global duration and curve</b>	<ul style="list-style-type: none"> <li>Higher oil and gas prices have shifted the ECB's policy outlook toward a likely summer rate hike.</li> <li>Rising fiscal and monetary policy risks in Japan argue for higher JGB yields.</li> </ul>	<ul style="list-style-type: none"> <li>We continue to like the relative value of a long Germany versus short U.S rates exposure.</li> <li>In Japan we remain positioned short duration and in yield curve flatteners.</li> </ul>
<b>Mortgage-backed securities (MBS)/ agencies</b>	<ul style="list-style-type: none"> <li>MBS valuations are fair. Fundamental and technical drivers are positive.</li> <li>Generic MBS valuations are rich, but sub-sectors offer value.</li> </ul>	<ul style="list-style-type: none"> <li>Overweight hybrid adjustable-rate mortgages (ARMs), and select collateralized mortgage obligation structures (CLO).</li> <li>Underweight generic agency passthrough exposure.</li> </ul>

### Credit

Exposure	View	Strategy
<b>Investment-grade corporates</b>	<ul style="list-style-type: none"> <li>Amidst the rise in volatility and record supply, U.S. investment-grade has been remarkably resilient.</li> <li>We are cautious on European investment-grade given the potential impact from the Middle East conflict.</li> </ul>	<ul style="list-style-type: none"> <li>We favor businesses that stand to benefit from AI's impact or are more insulated from it.</li> <li>We favor banks, aerospace &amp; defense, healthcare, and pharmaceuticals while we are underweight technology.</li> </ul>
<b>High-yield corporates</b>	<ul style="list-style-type: none"> <li>While spreads remain tight relative to history, dispersion across issuers is rising.</li> <li>There are signs that a turn in the credit cycle is nearing, with fallen angel activity beginning to pick up, and loan defaults elevated.</li> </ul>	<ul style="list-style-type: none"> <li>Remain cautious overall on generic high yield beta exposure.</li> <li>Our highest conviction views remain at the issuer level.</li> </ul>
<b>Emerging markets</b>	<ul style="list-style-type: none"> <li>Higher credit quality oil importers with larger economic buffers are better equipped to manage, but lower rated names are more exposed.</li> </ul>	<ul style="list-style-type: none"> <li>March volatility offered opportunities to add exposure at wider spread levels and rotate across regions.</li> </ul>
<b>Structured products</b>	<ul style="list-style-type: none"> <li>Broadly, consumer asset-backed fundamentals remain stable as the overall consumer remains resilient.</li> <li>Credit stress is being driven primarily by a narrow slice of lower quality originations, rather than broad-based deterioration.</li> </ul>	<ul style="list-style-type: none"> <li>We remain overweight ABS securities backed by strong structural protection.</li> <li>Higher-rated CLOs continue to provide good carry and spread pickup to corporates.</li> </ul>

## Municipal bonds

### Steep and cheap

Rising yields over the quarter have further reinforced our core municipal investment theme: municipal bonds continue to offer compelling value, but particularly in longer maturities. A curve that began 2026 steep has only steepened further, with yield pickup between 3-month and 30-year AAA bonds increasing from 150 basis points to nearly 200 basis points over the past three months. We're capturing this 94th percentile level pickup through a barbell strategy that overweights not only attractive long-end bonds but also municipal cash, the latter of which is serving to anchor portfolio durations near those of our benchmarks.

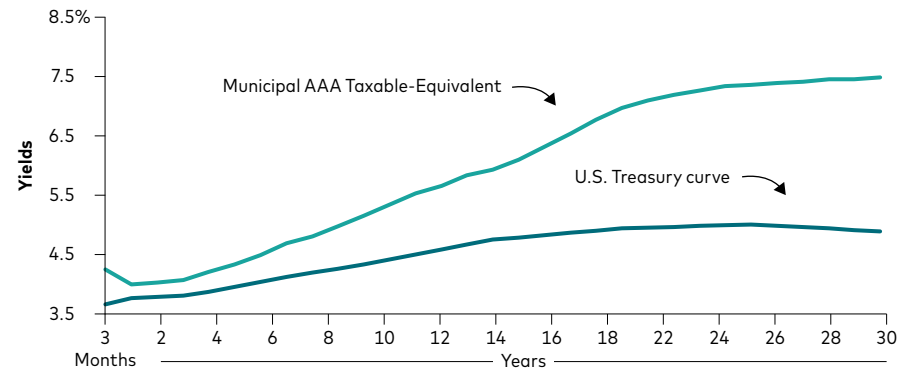
A full view of the municipal AAA tax-equivalent yield curve highlights this "cheapness" in the long end, with 21+ year bonds yielding above 7% and offering roughly 250 basis points of pickup over Treasuries at the 30-year maturity. At the BBB level, many tax-equivalent yields exceed 9% for long-term maturities, with approximately 300 basis points of pickup versus BBB-rated corporate bonds at 30 years.

AAA 10-year bonds were the most volatile maturity segment this quarter, reaching extreme richness through February before selling off sharply in March, ending the quarter at a 71% ratio to the U.S. Treasury 10-year bond. This price action highlights how rich valuations in the belly of the curve can be particularly vulnerable to rate shocks. Once AAA-to-Treasury ratios approach the 60% breakeven level, subsequent movement is typically to the downside, that is, muni underperformance versus Treasuries. By contrast, with long-end ratios near 90%, there is limited room for additional cheapening before crossover buyers—such as banks and insurance companies—support valuations.

While many of our portfolios were underweight the belly when valuations were tight, we have started to cover those short benchmark-relative positions in response to recent cheapening.

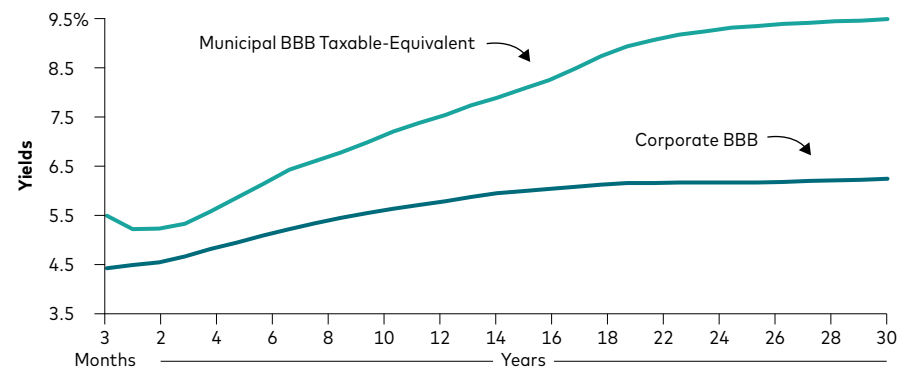
Broad municipal yields have risen amid heightened volatility, and we expect to take advantage of attractive entry points in the coming weeks as heavier supply creates buying opportunities.

### Municipal and U.S. Treasury yield curves



Source: Bloomberg, as of March 31, 2026.

### Municipal and corporate yield curves



Source: Bloomberg, as of March 31, 2026.

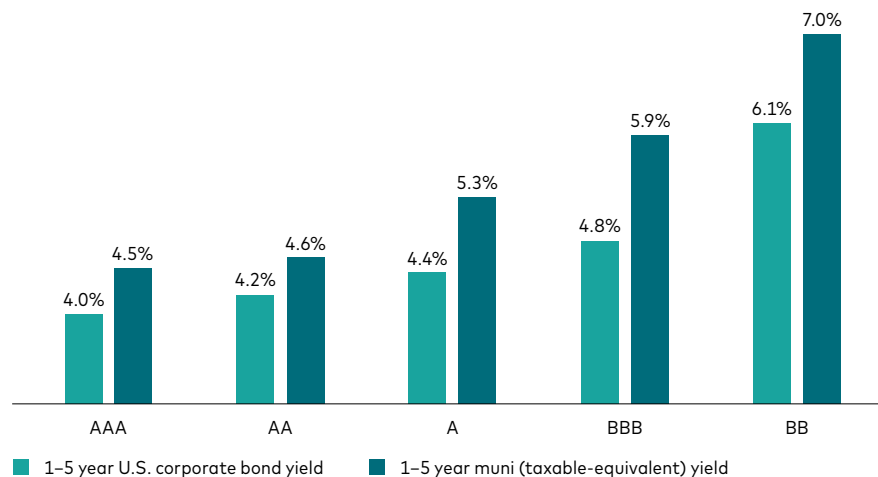
**Note:** The municipal tax-equivalent yield is calculated using a 40.8% tax bracket, which includes a 37.0% top federal marginal income tax rate and the 3.8% net investment income tax to fund Medicare. Yield to worst represents the lowest yield possible for a security given the current price, considering both call dates and maturity.

### Demand strengthens resilience, upside in credit spreads

The municipal market experienced its strongest first quarter of inflows (+\$31.2 billion) on record, remaining positive even through most weeks in the war-driven volatility in March. As investors review tax documents, many are likely seeking greater after-tax efficiency. When paired with historically attractive all-in tax-equivalent yields, these considerations are driving a highly supportive technical backdrop for municipal bonds in 2026.

Funds and ETFs are typically the primary buyers of middle- and lower-rated municipal debt, and these positive flows have supported credit spread performance. This has benefited portfolios positioned with exposure to middle-rated securities (single-As to BBs). Spreads remain attractive relative to corporate counterparts. Even at the front end of the curve—where high-grade valuations are generally rich—single -A, BBB, and BB bonds continue to offer meaningful incremental yield.

### Muni yields in lower rating tiers are attractive, even at the front end



**Notes:** Tax-equivalent yield for munis is calculated using a 40.8% tax bracket for each maturity band, which includes a 37.0% top federal marginal tax rate and a 3.8% net investment income tax to fund Medicare. Nominal U.S. aggregate yields within each maturity band are subtracted from corresponding municipal tax-equivalent yields to calculate the yield advantages displayed.

**Source:** Bloomberg, as of March 31, 2026.

We intend to maintain our modest tilt toward lower-rated segments with the expectation that investor enthusiasm will continue providing technical support. Higher issuance in the coming months should allow us to selectively add to these positions.

### When yields are volatile, manage your convexity profile

Approximately 80% of municipal bonds embed call options. When yields move sharply, these features can move in or out of the money, causing bond durations to extend or compress. This sensitivity of duration to yield changes is referred to as convexity. With a long-standing process focused on evaluating these risks, our team is uniquely well-positioned to analyze, monitor, and extract value from the convexity embedded in the municipal market.

We favor avoiding par and near-par bonds in favor of premium callable and discounted structures. When executed effectively, this approach allows portfolios to systematically adjust to a duration underweight as yields rise and an overweight as yields fall. This discipline also serves as a key risk-management tool, helping anticipate how duration may respond across rate scenarios and enabling strategic adjustments as conditions evolve.

## Tax-exempt portfolio positioning

Exposure	View	Strategy
<b>Credit allocation</b>	<ul style="list-style-type: none"> <li>Lower-rated credit (single A and lower) valuations look "fair" historically but are justified by strong fundamentals and supportive demand technicals.</li> </ul>	<ul style="list-style-type: none"> <li>Maintain positions in lower-rated bonds with ample spread.</li> <li>Selectively add exposures with a keen eye to value.</li> </ul>
<b>Structure</b>	<ul style="list-style-type: none"> <li>A volatile yield curve places convexity management front and center.</li> <li>When properly utilized, the strategy can play both offense and defense, extending duration versus the benchmark in a rally and shortening duration in a selloff.</li> </ul>	<ul style="list-style-type: none"> <li>Augment coupon and call option exposures to maintain an advantageous benchmark-relative duration profile under various rate-shift scenarios.</li> <li>Avoid bonds trading near par, particularly those with near-term call dates.</li> </ul>
<b>Duration/ curve</b>	<ul style="list-style-type: none"> <li>The yield curve remains steep overall, even with the belly cheapening versus U.S. Treasuries.</li> <li>Going forward, overall duration risks should be balanced if not favorable.</li> </ul>	<ul style="list-style-type: none"> <li>Favor long-end yields and highly attractive carry-and-roll stemming from curve steepness.</li> <li>Seek to cover some short positions in the belly of the curve with higher levels of issuance in the coming weeks.</li> <li>Implement slightly long overall duration as a hedge that pairs off against a credit overweight.</li> </ul>

## Vanguard active bond funds and ETFs

Vanguard active bond funds and ETFs		Admiral™ Shares or ETF ticker symbol	Expense ratio*
<b>Treasury/Agency</b>	GNMA†	VFIJX	0.11%
	Government Securities Active ETF	VGVT	0.10
	Inflation-Protected Securities	VAIPX	0.10
	Intermediate-Term Treasury	VFIUX	0.10
	Long-Term Treasury	VUSUX	0.10
	Short-Term Federal	VSGDX	0.10
	Short-Term Treasury	VFIRX	0.10
<b>Investment-grade corporate</b>	Core Bond	VCOBX	0.10%
	Core Bond ETF	VCRB	0.10
	Core-Plus Bond	VCPAX	0.20
	Core-Plus Bond ETF	VPLS	0.20
	Intermediate-Term Investment-Grade	VFIDX	0.09
	Long-Term Investment-Grade†	VWETX	0.10
	Multi-Sector Income Bond	VMSAX	0.30
	Multi-Sector Income Bond ETF	VGMS	0.30
	Short Duration Bond ETF	VSDB	0.15
	Short-Term Investment-Grade	VFSUX	0.09
	Ultra-Short-Term Bond	VUSFX	0.09
	Ultra-Short Bond ETF	VUSB	0.10
	<b>Below- investment-grade</b>	High-Yield Corporate†	VWEAX
High-Yield Active ETF		VGHY	0.22
<b>Global/ International</b>	Emerging Markets Bond	VEGBX	0.35%
	Global Credit Bond	VGCAx	0.25

Vanguard active municipal bond funds		Admiral™ Shares or ETF ticker symbol	Expense ratio*	
<b>National municipal</b>	Core Tax-Exempt Bond ETF	VCRM	0.12%	
	High-Yield Tax-Exempt	VWALX	0.09	
	Intermediate-Term Tax-Exempt	VWIUX	0.09	
	Limited-Term Tax-Exempt	VMLUX	0.09	
	Long-Term Tax-Exempt	VWLUX	0.09	
	Short Duration Tax-Exempt Bond ETF	VSDM	0.12	
	Ultra-Short-Term Tax-Exempt	VWSUX	0.09	
	<b>State municipal</b>	California Intermediate-Term Tax-Exempt	VCADX	0.09%
		California Long-Term Tax-Exempt	VCLAX	0.09
Massachusetts Tax-Exempt*		VMATX	0.09	
New Jersey Long-Term Tax-Exempt		VNJUX	0.09	
New York Long-Term Tax-Exempt		VNYUX	0.09	
Ohio Long-Term Tax-Exempt*		VOHIX	0.09	
	Pennsylvania Long-Term Tax-Exempt	VPALX	0.09	

\* As reported in each fund's prospectus. A fund's current expense ratio may be higher or lower than the figure shown.

† Investment advisor: Wellington Management Company LLP.

\* Investor Shares available only. There is no minimum investment required for advised clients.

**Note:** Data as of March 31, 2026.

## Active fixed income at Vanguard

**\$479B**

Vanguard global active bond AUM

**\$285B** Vanguard global active taxable bond AUM

**\$194B** Vanguard global active municipal bond AUM

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**25+**

Portfolio managers

**35+**

Traders

**60+**

Credit research analysts

**130+**

Dedicated team members

**Note:** Data as of March 31, 2026.

## Active fixed income leadership team



**Sara Devereux**

CIO VCM, Global Head of Fixed Income

In industry since 1992



**Chris Alwine, CFA**

Global Head of Credit

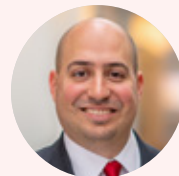
In industry since 1990



**Roger Hallam, CFA**

Global Head of Rates

In industry since 2000



**Paul Malloy, CFA**

Head of U.S. Municipals

In industry since 2005

**For more information about active fixed income, speak with your financial advisor.**

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*Vanguard ETF Shares are not redeemable with the issuing Fund other than in very large aggregations worth millions of dollars. Instead, investors must buy and sell Vanguard ETF Shares in the secondary market and hold those shares in a brokerage account. In doing so, the investor may incur brokerage commissions and may pay more than net asset value when buying and receive less than net asset value when selling.*

Past performance is no guarantee of future results. All investing is subject to risk, including possible loss of principal. Diversification does not ensure a profit or protect against a loss.

Bonds of companies based in emerging markets are subject to national and regional political and economic risks and to the risk of currency fluctuations. These risks are especially high in emerging markets.

High-yield bonds generally have medium- and lower-range credit-quality ratings and are therefore subject to a higher level of credit risk than bonds with higher credit-quality ratings.

U.S. government backing of Treasury or agency securities applies only to the underlying securities and does not prevent share price fluctuations. Unlike stocks and bonds, U.S. Treasury bills are guaranteed as to the timely payment of principal and interest.

Bond funds are subject to interest rate risk, which is the chance bond prices overall will decline because of rising interest rates, and credit risk, which is the chance a bond issuer will fail to pay interest and principal in a timely manner or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline.

Investments in bonds issued by non-U.S. companies are subject to risks including country/regional risk and currency risk.

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