

JULY 2025

Active Fixed Income Perspectives Q3 2025: The power of income

Key takeaways

Performance

Bonds have continued to flex the power of income. They not only provided stability during the tariff-related volatility, but returns have been solid. In the first half of 2025, broad fixed income indexes have returned between 4% and 7.25%, largely driven by income from higher coupons.

The big picture

Downside risks to the U.S. and global economies remain, even as the most severe policy scenarios appear to have been avoided. The disruption to U.S. exceptionalism demonstrates the need for diversification and to have a global reach when looking for opportunities. Across sectors, fixed income still offers one of the most attractive entry points to add income in decades.

Our approach

While taxable credit spreads have reverted to early 2025 levels, all-in yields near 5% or higher should continue to draw investor interest and serve as a technical tailwind. We continue to seek the best opportunities globally, remain selective in lower-quality bonds, and see value in the belly of the yield curve as a hedge to our credit exposure. In municipals, we favor high-quality credit, with historically attractive yields relative to U.S. Treasuries on the long end.

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Making a comeback

The markets have been remarkably resilient in the face of substantial policy and geopolitical uncertainty over recent months. The de-escalation of trade tensions helped spark the strong rally in risk assets following their initial sharp sell-off following the April 2, 2025 ("Liberation Day") tariff announcement. Momentum continued through the end of the second quarter as investors managed to shake off the negative implications of rising tension in the Middle East and eventual U.S. involvement in the Israel-Iran conflict.

Credit-sensitive sectors experienced the greatest benefit from the rebound in market sentiment; spreads promptly recovered from their brief widening and ended the quarter at tighter levels. Uncertainty about the direction of U.S. policies propelled the performance of international bonds as global and ex-U.S. indexes outpaced broad U.S. indexes.

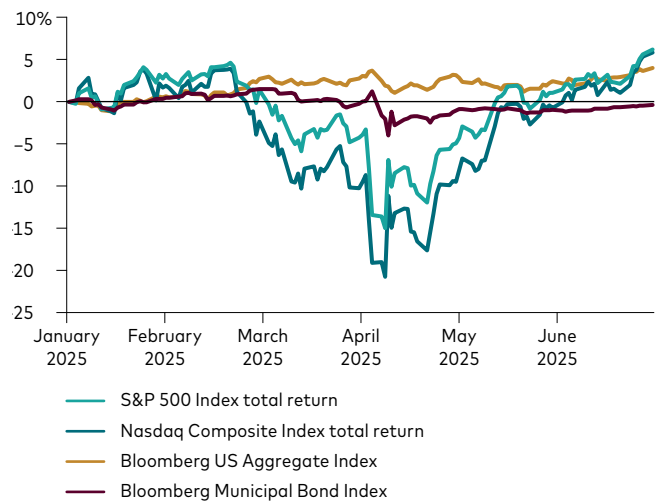
The power of income

In a landscape that has been dominated by uncertainty, fixed income has shown itself to be an indispensable component of a well-diversified portfolio. Bonds have been a stabilizer to portfolio performance this year, propelled by higher starting yields. Higher income returns have helped provide a cushion against recent market volatility, keeping bond returns steady amid larger swings in equities.

Our portfolios have been positioned to take advantage of the higher all-in yield environment by focusing on yield per unit of risk. This approach has provided a yield cushion that helped steady returns against broader market volatility.

Bonds held steady versus equities during the selloff after the tariff announcement

(Cumulative returns from January 1 through June 30, 2025)



Source: Bloomberg, as of June 30, 2025.

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.

Broader taxable and tax-exempt bond indexes now offer 2.5 to 3.5 times the income buffer than they did as recently as mid-2021. That means that upward movements in interest rates have a less negative impact on total returns for those who remain invested long enough to reap the benefits of higher coupon income.

For example, even if rates across the curve were to rise by 50 basis points (bps) from current levels, returns over the subsequent year would remain firmly positive for the broad market. In scenarios where rates decline, higher income returns would be further enhanced by the corresponding rise in bond prices.

Higher yields mean bonds hold more potential upside than downside

		Modeled 12-month returns under different interest rate-change scenarios (in basis points)					
		Starting yield	-100 Total return expectations	-50 Total return expectations	0 Total return expectations	+50 Total return expectations	+100 Total return expectations
As of 6/30/2025	U.S. aggregate	4.5%	10.3%	7.3%	4.5%	1.8%	-0.7%
	Municipals	4.0%	10.2%	7.1%	4.0%	0.8%	-2.4%
As of 12/31/2021	U.S. aggregate	1.8%	8.2%	4.9%	1.8%	-1.3%	-4.2%
	Municipals	1.1%	5.6%	3.4%	1.1%	-1.2%	-3.6%

>8%
4.9%–7.9%
1.5%–4.8%
-1.5%–1.5%
<-1.5%

Note: The model assumes a one-time move in interest rates then assumes the investor holds the position for the next 12 months and captures the price change and the income return using the current yield to worst, which is the lowest potential yield an investor can receive on a bond without the issuer defaulting.

Source: Vanguard calculations, based on the Bloomberg US Aggregate Bond Index and Bloomberg Municipal Index, as of June 30, 2025.

Higher return potential also means that high-quality bonds are better equipped to be portfolio hedges. At current levels, interest rates have a lot more room to rally in the event of a growth slowdown. If a recession were to occur, we would expect a significant decline in interest rates to cause strong returns by increasing bond prices across high-quality fixed income.

Tariffs still matter

While the most extreme tariff outcomes appear to have been avoided for now, the impact of tariffs will continue to be a significant factor in

our projections for the global economy. For the U.S., we expect the weighted average tariff rate to settle near 12%, with the highest rate applied to China, the lowest to Canada and Mexico, and the rest of world somewhere in the middle. Relative to the initial levels proposed on April 2, we see a more muted stagflationary impulse to the economy. However, even though the rate is half of what was initially proposed, it would still settle at roughly 10 percentage points higher than it was at the end of 2024.

Trade policy changes hold the key to our economic outlook

Vanguard forecasts of tariff impacts on growth and inflation



Source: Vanguard, as of June 30, 2025.

Eyes on the long end

The long end of the U.S. yield curve has attracted significant attention this year. Although forecasts have pointed toward slower economic growth, yields on longer-term securities have remained near their cyclical peaks, even as short-term yields have declined, resulting in a significant steepening of the yield curve.

Ongoing uncertainty regarding tariffs, coupled with expectations of sustained bipartisan deficit spending, has led investors to require higher yield premiums for bonds with extended maturities. This term premium, which is the additional return an investor earns from holding a long-term bond compared with a series of shorter-term bonds, has risen by approximately 1.5 percentage points over the past two years. In June 2023, the yield on 2-year Treasuries was more than one percentage point higher than the yield on both 10-year notes and 30-year Treasury bonds. Today, the 10-year note offers a yield premium of 0.50% and the 30-year offers a pickup of 1.0%. In our view, investors are now more appropriately compensated to take on duration risk.

U.S. policymakers appear to be cognizant of rising term premium dynamics and have underscored the importance of maintaining healthy demand for Treasuries and keeping borrowing costs at sustainable levels. This

has led market participants to believe that the Treasury Department will not increase long-maturity issuance for several quarters and will instead skew any increase toward shorter maturities, where there is likely to be greater demand. Policymakers also have started to take other actions that could support Treasury market dynamics, including a proposed reform to the Supplementary Leverage Ratio and a slowing of the Federal Reserve's balance sheet runoff. Nevertheless, elevated deficits and the need for fiscal policy to be put on a more sustainable path will remain an important medium-term theme in markets.

Investors are better compensated for taking on longer duration



Source: Bloomberg, as of June 30, 2025.

Economy, policy, and outlook

Several factors have raised our expectations for the U.S. economy through the back half of the year compared with our expectations last quarter. However, our outlook remains softer relative to what we initially forecast for the year. Growth in the first half of 2025 has been slower than last year, but overall, the economy remains resilient and tariff de-escalation and a moderation in inflation have reduced the downside risks for markets. In Washington, the newly signed tax and spending bill is expected to be modestly positive for growth into 2026, but markets may pay more attention to the growth of the deficit.

Growth: We expect the economy to expand by 1.5% in 2025. This is lower than our initial expectations at the beginning of the year (2%), but significantly higher than our base-case forecast post-“Liberation Day” announcement (0.75%).

We expect growth to slow in coming months due to the rise in the realized tariff rate, among other factors, but consumer strength should help the U.S. avoid a recession this year.

Labor force: The labor market is gradually cooling but remains stable. We anticipate that the unemployment rate will rise to 4.7% by year-end as job growth slows. However, labor supply headwinds, including lower immigration, will constrain the rise in the unemployment rate.

Inflation: Tariff-related cost increases should push inflation up in the latter half of the year, with the core Personal Consumption Expenditures (PCE) price index projected to reach close to 3% year over year by the end of 2025. While the front-running of goods imports has lessened the impact so far, we still expect tariff-related costs to push goods prices up over the coming months.

Shelter inflation rates are approaching their pre-pandemic levels, and rental price indicators suggest further slowing is likely over the rest of 2025.

Further out, we see core PCE trending back down toward 2% in 2026. Tariff effects may be viewed by the Fed as a one-time price increase, provided that long-term inflation expectations remain anchored.

Monetary policy: The Federal Open Market Committee decided in June to keep the federal funds rate unchanged for the fourth time this year.

The Fed is assessing monetary policy, which is still restrictive, even as there are some indications of slowing growth and risks of rising inflation.

As long as the labor market remains steady, the Fed can continue to take a measured approach. Although there is limited evidence to support significant rate cuts in 2025, there is still a case for moving toward a neutral policy stance if inflation continues to moderate.

In the months ahead, we anticipate that economic data will offer greater insight into the pass-through effects of tariffs. If the pass-through impact is weaker than expected, conditions should allow for maintenance rate cuts later this year. We think two cuts over the rest of 2025 is a reasonable expectation.

Portfolio positioning and strategy

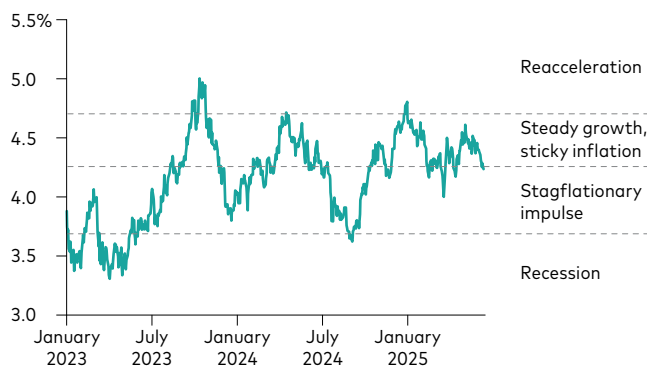
U.S. rates and yield curve

So far this year, 10-year Treasury yields have mostly traded inside our forecasted range of 4.25%–4.75%, notwithstanding significant intraquarter volatility, which saw lows of 3.86% and highs of 4.6% in the weeks around peak tariff uncertainty. The curve continued to steepen as 30-year yields moved 20 bps higher, while 2-year yields settled 16 bps lower.

Across our portfolios, we strategically added duration exposure when yields pushed toward the higher end of the range, because we saw it as an attractive hedge to our credit positions exposed to weakening economic data. However, we have now reduced that exposure as yields have moved lower.

Ten-year yields have mostly stayed within our forecasted range in 2025

U.S. 10-year Treasury yield



Sources: Vanguard and Bloomberg, as of June 30, 2025.

Past performance is no guarantee of future returns.

The outlook for Treasury yields is a balance between the effects of restrictive monetary policy and a gradually moderating economy. Although inflation registered lower-than-expected figures in the second quarter, it is expected to experience an increase over the coming months due to anticipated tariff impacts.

Persistent large deficits and elevated Treasury issuance also weigh on investors' minds and may pressure term premia higher over the medium term.

Against this background, we foresee a range-bound yield environment. We are now trading duration more tactically but with a long-duration bias, given our outlook for slowing growth and a belief that the Fed will prioritize its employment mandate over inflation should a weaker labor market become evident. We prefer to hold duration exposure in the belly of the yield curve given rising term-premium risks in longer maturities.

Non-U.S. rates

Outside the U.S. we remain relatively bearish on euro zone duration exposure versus comparable U.K. gilts. Downside risks to U.K. growth could result in a faster pace of rate cuts by the Bank of England, while the uptick in Germany's future fiscal spending and associated greater government bond issuance should drive underperformance of German bonds relative to gilts.

Peripheral Europe has shown resilience to recent volatility; elevated trade tensions and geopolitical uncertainty have increased political cohesion in the region. Additionally, improving fundamentals, such as Italy's recent rating upgrade, support a positive outlook for peripheral European debt. We continue to maintain an overweight position in Greece and Spain compared with Germany.

In Japan, recent volatility may delay further Bank of Japan (BoJ) rate hikes. We continue to believe that the hikes priced in for 2025 are insufficient relative to the building inflation risks in Japan. We therefore continue to hold short-duration positions in shorter-maturity Japanese government bonds (JGBs). Meanwhile, the sharp sell-off in long-end JGB yields has steepened the yield curve to levels at which we believe adding duration in 30-year JGBs is attractive, effectively adding to our flattening bias in Japan.

Credit outlook

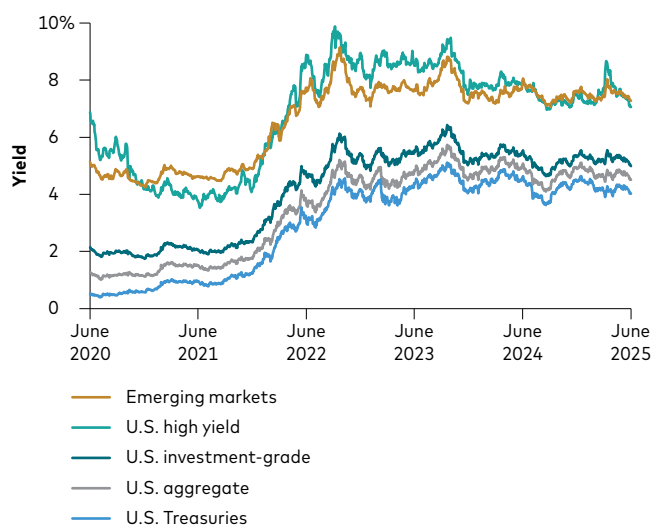
Despite the heightened uncertainty over the quarter, fixed income credit outperformed the broader bond market, led by lower-rated segments. Spreads across sectors jumped wider on tariff concerns but sharply recovered, narrowing below their levels before the April 2 tariff announcement. Credit continues to exhibit much lower volatility than equities and rates.

With the growth forecast to slow but remain positive, we expect credit to perform well through the end of the year. Current spread levels leave limited room for further tightening, but all-in yields near 5% or higher support strong total returns. The biggest risk to credit is a dramatic spike in yields or a sharper growth slowdown, and neither is our base-case forecast.

Our credit strategy is to remain defensive and focused on issuers with earnings stability and economic resiliency. Our preference for higher-quality credit exposure hasn't changed. Compared with lower-quality credit, investment-grade credit is more insulated from policy uncertainty and

a modest growth decline. It should continue to benefit from light net supply, stable fundamentals, and sustained demand from global yield buyers. We expect investment-grade spreads to be rangebound between 70 bps and 90 bps.

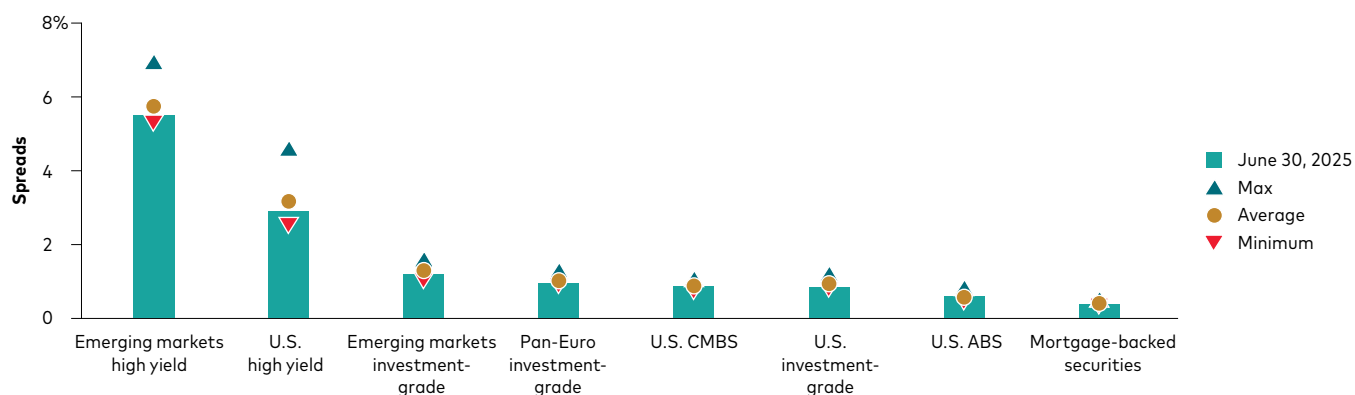
Credit continues to offer attractive yields



Source: Bloomberg, as of June 30, 2025.

Past performance is no guarantee of future returns.

Spreads have mostly held within a narrow range this year



Note: Emerging markets high yield is represented by J.P. Morgan EMBIG Diversified High Yield Index; U.S. high yield is represented by Bloomberg US High Yield Corporate Index; emerging markets investment-grade is represented by J.P. Morgan EMBIG Diversified Investment Grade Index; Pan-Euro investment-grade corporates is represented by Bloomberg Pan European Aggregate Corporate Index; U.S. CMBS is represented by Bloomberg US Aggregate CMBS Index; U.S. investment grade corporates is represented by Bloomberg US Aggregate Corporate Index; U.S. ABS is represented by Bloomberg U.S. Aggregate ABS Index; Mortgage-backed securities is represented by Bloomberg US MBS Fixed Rate Index.

Source: Bloomberg, as of June 30, 2025.

Taxable strategy map

Rates

Exposure	View	Strategy
U.S. duration and curve	<ul style="list-style-type: none"> Despite secular upside risks to rates, we see tactical opportunities in long-duration exposure, especially going into potentially weakening economic data. Term premia concerns may limit the decline in longer maturity yields, keeping steepening pressure on the curve. 	<ul style="list-style-type: none"> Tactically long duration and preference for exposure in the intermediate part of the curve.
Global duration and curve	<ul style="list-style-type: none"> BoJ policy normalization to pressure JGB yield curve higher/flatter. Seismic change in European fiscal outlook will drive euro zone fixed income underperformance. 	<ul style="list-style-type: none"> Short 2-year and 10-year JGB, long 30-year. Short Germany versus the U.K.
Mortgage-backed securities (MBS)/agencies	<ul style="list-style-type: none"> MBS valuations are fair. Ongoing talks to restructure Fannie Mae and Freddie Mac away from their current conservatorship are difficult and unlikely to result in materially wider spreads. 	<ul style="list-style-type: none"> Overweighting agency MBS with a focus on low-convexity sectors. Overweighting non-agency mortgage sector.

Credit

Exposure	View	Strategy
Investment-grade corporates	<ul style="list-style-type: none"> Credit fundamentals remain healthy, but spreads are tight. Corporate margins have expanded this year as companies continue to cut costs, maintain pricing, and capture higher productivity. The majority of firms are expected to pass tariff-related costs on to consumers. 	<ul style="list-style-type: none"> Prefer short-dated financials. Overweight BBB rated industrial issuers over single A rated. Overweight domestic sectors—banks, utilities, insurance companies.
High-yield corporates	<ul style="list-style-type: none"> The sector is more sensitive to the path of the economy than it is to tariff rates. Tight spreads, slowing growth, and a softening labor market limit our overall exposure. 	<ul style="list-style-type: none"> We see most value in the higher-quality parts of high yield. Focus is on bottom-up security selection, as dispersion across issuers remains high.
Emerging markets	<ul style="list-style-type: none"> EM performance has been resilient versus U.S. credit this year, in part due to its broad investor base. Negative net supply and sustained investor demand are supportive for the sector. A weaker dollar and slowing growth are fueling EM disinflation. 	<ul style="list-style-type: none"> With spreads back near their tightest levels this year, we are focused on relative value across countries and issuers. In EM local, we prefer rate exposure in economies where the slowdown in global trade will weigh heavily on growth and where currency appreciation is compounding the loss of competitiveness from tariffs.
Structured products	<ul style="list-style-type: none"> ABS new issuance and investor demand remain robust. We still favor ABS as an attractive source of high-quality carry. We're seeing a promising rebound in the refinancing market for CMBS loans, with refinancing success rates of 80% over the last six months. 	<ul style="list-style-type: none"> We continue overweighting ABS, with a preference for higher-quality issuers and sectors with proven track records through multiple economic cycles. In CMBS, we prefer higher-rated issues with selective exposure to single-property deals.

Municipal bonds

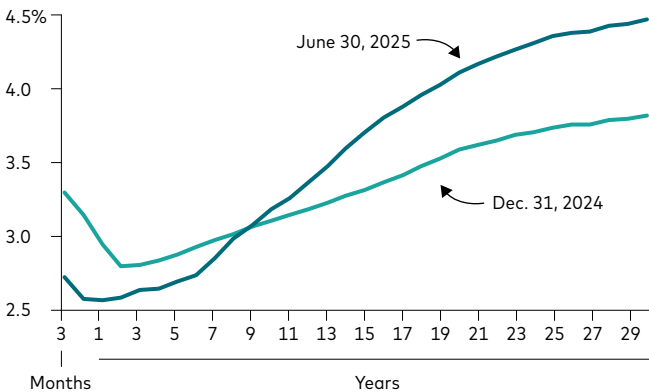
Historical steepness

Duration risks are becoming more balanced (if not positive), especially with the shape of the curve adjusting to offer ample compensation for those willing to take intermediate, all-curve, and (even more so) long-end exposure.

The sheer steepness of the municipal yield curve presents exciting opportunities for active management to add value:

- The AAA municipal curve is especially upward-sloping between 10- and 30-year maturities, where the yield differential of 131 bps is the highest it has been in over a decade.
- The steepness in the long end of the curve creates a favorable carry-and-roll advantage that will serve as a total return buffer even if yields move higher.
- The AAA municipal/Treasury ratio on the long-term end of the yield curve is hovering around 95%, which means that those municipal investors are getting the tax-exempt benefits virtually for free.

The AAA municipal yield curve has steepened significantly so far this year



Source: Bloomberg, as of June 30, 2025.
Past performance is no guarantee of future returns.

How we got here: Record levels of municipal issuance and U.S. Treasury market volatility applied more upward pressure on long-end yields. Overall, the AAA muni curve steepened roughly double that of the U.S. Treasury curve by almost every measure.

Sweet spot: We prefer higher-rated bonds at the long end of the curve. Specifically, we see bonds that mature in 18 to 20 years as having the most favorable roll-down effects all the way through lower maturities.

- Highly rated municipal bonds are attractive relative to their long-term history. Lower-rated bonds still offer selective opportunities, but the best deal in munis is now up-in-quality.
- Combining high quality (AAA and AA) and long maturities (15+ years) presents the most value relative to historical yield levels.

Percentile rankings for June 30 yields against daily observations since 2007

	Maturity bucket				
	< 5 years	5-10 years	10-15 years	15-20 years	20-30 years
AAA	82%	85%	85%	91%	88%
AA	81%	84%	82%	88%	87%
A	82%	80%	79%	83%	81%
BBB	76%	70%	68%	71%	71%
HY	49%	57%	47%	47%	48%

Percentile: <65% 65%-75% 75%-85% >85%

Sources: Vanguard and Bloomberg, as of June 30, 2025.
Past performance is no guarantee of future returns.

Finding value in pressure points

Most municipal bond coupons are at 3%, 4%, and 5%. As yields move above or below these levels (or “pressure points”), call options can either extend or compress duration. This risk is inefficiently priced in this market. Yield volatility, in conjunction with a steep curve that crosses through several of these pressure points, puts this risk front and center for many municipal securities.

We can take advantage of these call/coupon pricing inefficiencies through modeling rate shifts in ways that few (if any) individual investors can do themselves. This skill requires years of development and a dedicated focus, even for other active managers.

A walk in the park

Holding munis amid rising yields was, just a few years ago, like crossing treacherous terrain. In today's environment, it's more akin to getting your feet wet crossing a creek on a leisurely stroll: annoying, but in no way dangerous to your well-being.

With today's yield-to-worst (about 4%, compared with 1.1% at the end of 2022), investors have more income that can help guard against negative returns. For example, it would require a 63-bps rise in yields for 12-month returns to break even (i.e., a return of 0%). If yields decline in response to materially slower growth, the combined upside of higher yields and bond price appreciation is greater (per the forecasted returns visualized on page 3).

Back at the end of 2021, it would have taken only about a 24-bps rise in yields to force investors to break even over a 12-month holding period. Comparatively, a 63-bps rise in yields would have resulted in a 12-month return of roughly -1.8%, and that would require an additional year of coupon clipping to recover.

That bond math shows how today's higher rate setting helps to insulate investors from potential losses and can provide better returns in all scenarios—particularly if interest rates were to remain the same or generally decline.

Tax-exempt portfolio positioning

Exposure	View	Strategy
Credit allocation	<ul style="list-style-type: none">• Balance sheets are still strong, with spreads offering attractive carry.• Higher-rated bonds appear to be the best deal in munis right now, with lower cost driven by market technicals.	<ul style="list-style-type: none">• Use cash flows to add to highly rated bonds.• Maintain positions in lower-rated bonds with ample spread.• Selectively add exposure in sectors with negative sentiment (such as universities and hospitals).
Structure	<ul style="list-style-type: none">• Steep, volatile yield curves place convexity management front and center.	<ul style="list-style-type: none">• Avoid bonds trading near par, particularly those with near-term call dates, in favor of discount and deep premium bonds.
Duration/curve	<ul style="list-style-type: none">• Going forward, duration risks should be balanced, if not favorable.• The current yield curve is one of the steepest in several decades.	<ul style="list-style-type: none">• Implement slightly long overall duration as a hedge that pairs off against a credit overweight.• Favor longer maturities, particularly for intermediate and long strategies.

Vanguard active bond funds and ETFs

Vanguard active bond funds and ETFs		Ticker symbol	Expense ratio*
Treasury/ Agency	GNMA†	VFIJX	0.11%
	Government Securities Active ETF	VGVT	0.10
	Inflation-Protected Securities	VIPIX	0.07
	Intermediate-Term Treasury	VFIUX	0.10
	Long-Term Treasury	VUSUX	0.10
	Short-Term Federal	VSGDX	0.10
	Short-Term Treasury	VFIRX	0.10
Investment- grade corporate	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
	Short Duration Bond ETF	VSDB	0.15
	Short-Term Investment-Grade	VFSIX	0.07
	Ultra-Short-Term Bond	VUSFX	0.09
	Ultra-Short Bond ETF	VUSB	0.10
	High-Yield Corporate†	VWEAX	0.12%
Global/ international	Emerging Markets Bond	VEGBX	0.35%
	Global Credit Bond	VGCAx	0.25
Vanguard active municipal bond funds			
National municipal	Ultra-Short-Term Tax-Exempt	VWSUX	0.09%
	Short Duration Tax-Exempt Bond ETF	VSDM	0.12
	Limited-Term Tax-Exempt	VMLUX	0.09
	Core Tax-Exempt Bond ETF	VCRM	0.12
	Intermediate-Term Tax-Exempt	VWIUX	0.09
	Long-Term Tax-Exempt	VWLUX	0.09
	High-Yield Tax-Exempt	VWALX	0.09
State municipal	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 June 30, 2025.

Active fixed income leadership team



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In industry since 1990



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Head of U.S. Municipals
In industry since 2005

Active fixed income at Vanguard

\$478B Vanguard Global Active Bond AUM

\$282B Vanguard Global Active Taxable Bond AUM

\$196B Vanguard Global Active Municipal Bond AUM

25+ Portfolio managers

35+ Traders

60+ Credit research analysts

130+ Dedicated team members

For more information about active fixed income, speak with your representative.

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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.

Although the income from a municipal bond fund is exempt from federal tax, you may owe taxes on any capital gains realized through the fund's trading or through your own redemption of shares. For some investors, a portion of the fund's income may be subject to state and local taxes, as well as to the federal Alternative Minimum Tax.

Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

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