ON-DEMAND AUDIO TRANSCRIPT

# 2026 Semi-Annual Fixed Income Review

**Ryan:** Welcome to Dodge & Cox's 2026 Fixed Income Semi-Annual Audiocast. I'm Ryan Utsumi, a Client Portfolio Manager and Head of Fixed Income Client Service at Dodge & Cox, and I'm pleased to be joined by Lucy Johns, our Head of Fixed Income and a member of both the U.S. and Global Fixed Income Investment Committees. Lucy, thanks for joining today.

**Lucy:** Happy to be here.

**Ryan:** Over the next 25 minutes or so, Lucy and I will review global bond market conditions and highlight how we've managed both the Income and Global Bond Funds over the first half of 2026. Lucy, let me start with a question the Client Team is fielding. Global uncertainty and potential volatility are present today as they were 12 months ago when we last spoke. In 2025, we discussed trade policy and conflict in the Middle East, and today we have an expansion of that conflict, a new Fed (Federal Reserve) chair, AI disruption, and multitudes of other headlines. How is the team approaching this environment?

**Lucy:** Well, it's been keeping us busy for sure. What's striking is really how well risk assets have done, by that I mean equities and credit, despite all these potential challenges and uncertainties that are out there. You named a few; in addition, we've got U.S. politics with the midterm elections, the AI funding binge that's been happening, and some of the factors you mentioned potentially spilling over into private credit. So, [there is] a lot to deal with.

But in any environment, we have an enduring focus on the key pillars of our investment strategy: fundamental research, valuation-driven investing, [and] security selection. We really try not to get caught up in trying to make a big macro call or time near-term events. We spend our time focusing on the long term, thinking about a range of scenarios that could happen, and then finding securities that can weather in, really, any of those environments. So, it's really important, we think, to be an active manager in a time like this, and even if valuations in some parts of the market aren't attractive today, we need to keep doing our research and be ready to act when a more attractive time happens.

**Ryan:** Yeah. Volatility will happen, and it sounds like the philosophy and process—the consistency of that—are really what [we believe] will lead to success for our strategies. Turning to the Funds more broadly, I'd identify a few key takeaways as we mark the halfway point in the year. First, we're proud to share that despite a rise in U.S. rates, performance for both Funds remains positive year to date [ended June 30] and over longer periods of time. Second, our team remains price disciplined and has found opportunities to make several adjustments to the portfolios. Third, both Funds remain defensively positioned from a credit standpoint and ready to take advantage of future market dislocations.

Let's jump into the Income Fund. In the U.S., Treasury yields rose during the first half of the year due to three things: inflation increased, the economy and labor market stayed resilient, and the market's expectations for the Fed shifted from a rate cut to a rate hike. This created a headwind for performance. At the same time, U.S. Credit indices widened in the first quarter due to concerns around weakness in the Software sector and in response to the war in Iran. In the second quarter, credit spreads retraced their path into the end of June, ending at historically tight levels.[1] In fact, their tightest levels in 20 years. So, how did we do in this environment? Well, the Fund achieved positive returns of 0.81% vs. 0.62% for the [Bloomberg U.S. Aggregate] Index.[2] The key drivers to returns included credit issuer selection, where the Fund's U.S. dollar position in Pemex—the national oil company of Mexico—performed particularly well.[3] Lucy, we've highlighted Pemex in previous audiocasts, but can you provide a brief reminder to our listeners about the issuer and our long-term thesis?

**Lucy:** Sure. So, Pemex has been a long-term holding in both the Income Fund and the Global Bond Fund, and it's been one of our larger, higher conviction positions. While Pemex is a below-investment-grade company with relatively weak financials—it's got a lot of debt, it's got operating issues, it's got some governance issues—despite that, it's wholly owned by the Mexican government, and it's a strategic asset for them being the oil company of the country. This has led us to be confident in Mexico's willingness and ability to support Pemex as it weathers these challenges, and this has played out over time as we've owned this investment. In recent years under the newer Mexican president, President Sheinbaum, support has been evident directly through their actions. So, for example, in 2026, the budget included $14 billion of support for Pemex. So, as the market has digested this and seen this support explicitly, bond spreads have tightened, driving good performance. Just to talk a bit about where Pemex trades, it's in the neighborhood—for its longer-dated bonds—of 8%, or spreads of over 300 basis points. This is a lot of yield in the environment that we are operating in now. Really, this high carry—again, strong performance in spreads—has led this to be a really strong performer in this period and several recent periods before that as well.

**Ryan:** Yeah, it's a good example of the importance of security selection, no question. While security selection often is the largest driver of excess returns, asset allocation oftentimes also plays a significant role. Over the first six months of the year, the Fund's overweight positioned to Agency[4] mortgage-backed securities (MBS) benefited returns. What contributed to those returns in the strong performance of Agency MBS?

**Lucy:** Yeah. First, to expand on your point about the performance of MBS year to date [in] 2026, it's been notably impressive. In fact, if you look at the excess returns of mortgage-backed securities relative to credit, it's competed or even beat a number of credit securities, and that's definitely not the case in a typical period. So, MBS really was a standout performer, especially in the first quarter of the year. Our strategy has a large overweight to mortgage-backed securities. Entering 2026, the Fund had about 40% in these securities, so a healthy dose of them. So, having that large weight in an area that performed so strongly really contributed to returns. One of the drivers of that spread tightening was President Trump's direction to Fannie Mae and Freddie Mac to directly purchase MBS securities [of] about $200 billion. This really drove spreads tighter, and this was part of his efforts to lower yield levels and borrowing rates.

Within mortgage-backed securities, we do look different than the benchmark. So, to your question of where we're finding value, we are primarily invested in lower-coupon mortgages. This means borrowers that took out loans sometimes as low as 2%, but really between about 2.0-4.5%; they don't have much of an incentive to refinance in today's environment. There's low prepayment variability, that means low negative convexity, which is a key risk of mortgage-backed securities. We like the risk/reward of these securities; they're trading at reasonable spreads. The Index has more in higher-coupon securities—and those do have more of that negative convexity, so we own less of that. Year to date, the higher coupons have actually slightly outperformed, but again, the whole space has done well, and we think going forward, we, again, like where we are within lower coupons.

**Ryan:** I think that's important to highlight. Security selection is so often considered around our credit investments, but also very critical as we think about our structured products allocation as well. Maybe we can turn to the portfolio evolution now. I see the Income Fund has increased its Credit [sector] exposure to the mid-30%s up from the low-30%s over the first half of the year. But, I think it's important to note that it remains at the lower band of where, historically, we've kept the credit weighting in the strategy given the tight spread levels that we're seeing. Two themes that supported the increase in Credit this year to date were software sector opportunities, where we felt some issuers were overly punished based on AI disruption concerns, and within hyperscalers, who have used the last several quarters to issue large amounts of debt in support of their capex (capital expenditure) ambitions. The hyperscaler story has been hard to avoid. The Income Fund has nearly 2% of exposure between Meta, Amazon, and Oracle, and we've added to each issuer so far this year. How did we gain comfort with these investments, and how is the team thinking about Meta and Amazon vs. Oracle?

**Lucy:** Yeah, this space has been really dynamic and, as you said, hard to avoid the headlines. There's just an unprecedented pace to fund capex for AI infrastructures, and the amounts of borrowing and the estimates for future borrowing seem to be going up on a regular basis. Year to date, there's been over $100 billion in [U.S.] dollar issuance, and that doesn't include issuance that's happened outside of the U.S. So, hyperscalers are now actually about 5% of the U.S. Investment-Grade Index—[the] second-largest sector, if you call that a sector—and, that's really approaching the largest sector now, which is Banks. So, that's really a shift in the underlying composition of the Index that's interesting to watch develop. These hyperscalers have also been funding outside the unsecured markets, including different data center structures. There's also an ABS (asset-backed securities) market that's growing. Our team's watching all of these opportunities. We haven't found much opportunity thus far outside the unsecured, which I'll talk about your question, but we think it's really important as—going back to some point I made earlier—to be researching these different opportunities to be ready if valuations become more attractive in the future.

So going back to the core of what we have been looking at, we've seen a lot of issuance from the largest hyperscalers, which are very strong credits: they're rated AA, which is near the peak of the spectrum, they've got tremendous scale with market caps in the trillions of dollars, high liquidity in cash, low leverage, and their businesses are growing and generating cash—before capex—at an incredible rate. We think these are incredibly strong companies, but the valuations that we're seeing in the bond market don't seem to reflect that, in our view. I think because of the large amount of issuance and the supply-demand dynamics as well as some uncertainty about how AI will be monetized, spreads are trading much wider than a simple rating would suggest. Meta and Amazon really fall in this category: they're both AA. We've bought bonds across the credit curve—that means we've bought shorter-dated bonds as well as all the way out to the long end of the curve, say the 30-year area. We think over time that spreads could converge back towards where other high-rated companies trade and this would be a really compelling total return opportunity over our time horizon.

As you mentioned, we also added a bit to Oracle. We like the fundamental outlook for Oracle, especially its non-AI businesses, but Oracle entered this capex cycle in a very different financial position than these companies I just referenced. It's also got a business profile that, while attractive, doesn't reach the same scale and health as these other companies. It's more in the BBB area, and just to give one stat, they have about five times leverage where these other companies have very little. So, we've been more cautious on Oracle and for that reason we chose to stay in shorter-dated maturities, and when I say that, you know, mainly five years and in as opposed to what we did in some of these other opportunities. We think that's more aligned with our risk/return framework.

**Ryan:** Yeah. It seems like we're in early innings; no doubt, there's more to come in the hyperscaler space. Funding some of this increase in Credit—the increase to both software companies as well as to hyperscalers—was a reduction in our Agency MBS exposure. As Lucy mentioned, spreads outperformed over the course of the first half of the year, and we took the opportunity to reduce that exposure by roughly six percentage points. Now wrapping up this part of the discussion, we can look at the Income Fund and its characteristics as of the end of June. From a sector lens, the Fund remains overweight vs. the Index in the corporate and securitized sleeves. While this isn't an unusual position, the magnitude of the overweight is what I would draw your attention to. Given tighter valuations, we found a smaller overweight to be a more prudent positioning of the portfolio at this time. That's generally driven by fewer opportunities and uninspiring valuations. Lucy, what else would you highlight about the Fund's positioning?

**Lucy:** Building on your comment about the sector allocations and how we're positioned, I think one thing I'd add to that is that this portfolio has a lot of liquidity. By virtue of being lower in corporate bonds today vs. history, that means we have a larger percentage of the portfolio in Treasuries and in [the] Securitized [sector], which includes very liquid mortgage-backed securities [and] a relatively large—and what's been growing—portion in AAA Auto ABS. We really have this stock of securities that we could quickly sell if we do find more interesting opportunities elsewhere. The other thing I'd mention on this page is our duration positioning. You see here that we're 6.1 years versus 5.9 [years] for the benchmark, so we're slightly overweight. And the 6.1 number is where we've been for much of the last year or so. It's a higher number than we had for much of the Fund's history over, say, the last decade. But at this point, we're more comfortable with interest rates because—given higher starting yield levels, given a yield curve that has steepened, that provides higher yields further out the curve, and given our view that interest rates are likely to stay here or fall, also that our views are below that of the forwards—we think that having duration makes sense. We also think that there's a bit of a hedging or portfolio diversification benefit through this positioning because if we do see a risk-off event or a recession, we do believe that rates would likely fall in that environment and that would be at the same time [when] maybe other parts of the portfolio aren't doing as well. That's something that we think about as well, the overall risk and return of the portfolio.

Finally, I just point to the yield that you see on the page of 5%, which provides around a 30-basis-point or so yield advantage to the benchmark. We spend a lot of the time that we've been talking about in terms of security selection by finding ways to get incremental income and compound that over the long term. This yield advantage isn't at its peak. With credit valuations where they are, it's harder to do that, but we still think it's an attractive way to generate returns over time. Overall, this portfolio really shows our active approach, which we retain a lot of conviction in. Going back to the earlier comment, there are a lot of dynamics at play in the markets now, and we think it's really important to continue careful underwriting and really think about risk/reward overall.

**Ryan:** Let's turn to the Global Bond Fund. As a reminder, the Dodge & Cox Global Bond Fund takes advantage of the deep fundamental research our firm is known for and expands the opportunity set from the Income Fund to include non-U.S. currency and rates. In other words, the Global Bond Fund allows our investment team to expand the size of the pool from which they're investing. Looking at the global market backdrop, I'd highlight a few things. First, as in the U.S., global credit spreads ended the period lower despite a brief widening in the first quarter. The U.S. dollar strengthened, and as you can see in the chart, particularly so vs. developed markets on the expectations of a hawkish Fed. Finally, most global markets have seen higher yields year to date, though that varies on a country-by-country basis. In these conditions, the Global Bond Fund returned 1.33% in the first half of the year and had positive contributions from currency, duration and yield curve, and excess returns. Lucy, digging into the contribution to returns from rates, what country or countries would you highlight for the audience?

**Lucy:** I'd start with just building on your point about the benefits of a strategy like this. There's a lot of differentiation in what's happening in different countries because of economic cycles, because of how geopolitical events and something like higher energy prices impact different countries, maybe oil importers vs. exporters. There are also various domestic elections happening, which we'll be talking about in the next few minutes. It really is, we think, an important time to have a flexible go-anywhere strategy. And to your point, rates did contribute to performance in the year-to-date [as of June 30] period, and the largest contributor was the [interest] rate side. Some examples of what went well are our investments in Colombia. Colombia is an emerging market country. It is below investment grade, so it has some challenges, but we think that the pricing of local bonds reflects that—we get double-digit yields. Given a positive election outcome in the period, starting yields fell, and with that high carry with falling interest rates, we saw very attractive returns. That's one great example of a contributor. On the developed market side, we saw some positive returns from countries like New Zealand and Norway. If we look at nominal yield levels, they're similar to those in the U.S., but we think these countries have a better fundamental outlook than the U.S. on some dimensions, like their fiscal and debt stance [and] like their inflation outlook, which are a little less muddled than in the U.S. What we saw in the first half of the year is that, while the U.S. rates rose a lot, these countries' yields remained relatively stable, and that led them to generally outperform and add value to the portfolio.

**Ryan:** Those are great examples because from here, what I'd like to turn to is the changes in the portfolio, specifically thinking about rates. The duration of the Fund has lengthened to 6.6 years, but perhaps, I think, more interesting is the composition of that duration. Over the year, the contribution to duration from the U.S. has decreased as we found opportunities to diversify our duration through exposure to rates in other countries. For example, we've added duration in both Hungary and Japan. Would you mind walking through those rate exposures and our thesis behind them?

**Lucy:** Of course. These are interesting examples and highlight not just what we're doing on the duration side, but really how we approach investing in different countries because when we go into any given non-U.S. bond market, our team is looking carefully at the interest rate environment, as well as the currency outlook, as well as just the company's risk profile overall. All those things come together in terms of how we adjust the portfolio over time. If there are risks we don't want to take, we can hedge them out. I'll try to bring that to life with the examples you asked about.

I'll start with Hungary. Going into the year, we had about a three quarters percent position in short-dated, unhedged Hungarian bonds. This reflected that we were relatively bullish on the currency; it's undervalued [and] it has a high carry—or a high yield relative to other opportunities—and we felt that those things could produce an attractive return potential. But, we were short dated because we weren't excited about going out the yield curve and taking on interest rate risks. However, what we saw in the first half of the year was an important election outcome and a very positive one for markets. What happened was that the elections in April resulted in the ouster of long-time Prime Minister Viktor Orban, and instead a much more market-friendly party got a supermajority, and a new prime minister was elected. One of the main objectives of this party's platform is to, over the long run, join the eurozone. If indeed they do that, that comes with improvements in fiscal dynamics, inflation, [and] more support from the eurozone. All those things are likely to support both the currency and also bring down interest rates. The markets responded very well to that event. What we did was we reduced our currency position somewhat: we trimmed it a bit because we felt that the new higher currency valuation wasn't as attractive.

On the other hand, we believe that the rates move has more room to go. Rates are still around 5%, and over time, if they're successful in improving the fundamentals and moving towards the eurozone, those rates will continue to decline and could drive outperformance. To express that view, we bought an increasing amount of longer-duration bonds, and we hedged that, again, reflecting that we weren't trying to increase our currency risks. It's a good example of the tools that we have and the ways that we look very carefully at individual countries and securities.

I'll transition now to Japan, which had some similarities with that. Again, going into the year, we held Japanese bonds—it's actually been one of our larger currency positions for some time now. The Japanese yen is at multi-decade lows from a valuation basis if you look at something like purchasing power parity, and so that has led us to a conviction size position. Over time, we've held short-dated bonds because for much of history, you've been getting zero or negative yields on Japanese bonds and so we decided to stay short. What's changed this year is that long-end, nominal, and real yields have risen to multi-decade highs. The 10-year [yield] is now around 2.7%. This has led us to extend into not only 10-year but 30-year bonds, relatively small positions, but still a big shift in our policy. Why has that happened? It's because monetary policy in Japan has changed. They've removed their focus on zero yield and what was called yield curve control, where they tried to keep long-end rates down. They've got larger fiscal plans now, and also inflation has been a concern given their energy imports. We think these yields, though, compensate us for those risks, and we have conviction that they may fall over our investment horizon. We think it's an attractive rate market to be in.

**Ryan:** It's great. Those examples highlight how the team deliberately expresses its views on rates. And this process extends to our currency investments. The Fund's non-U.S. currency exposure stood at just over 20% as of June 30. We continue to believe the U.S. dollar will modestly depreciate, particularly vs. large developed market currencies that are currently screening as undervalued, such as the Japanese yen, the Norwegian krone, and the New Zealand dollar. Now turning to our positioning in Credit, similar to the Income Fund, the Global Bond Fund's Credit [sector] exposure is low relative to history. That's largely driven due to valuations being tight. Have there been any themes in our activity this year?

**Lucy:** Overall, our Credit [sector] weighting didn't change a lot if you look at just a headline view of the Global Bond Fund—so, about 1% higher, which is less than what we talked about with the Income Fund. But, there was actually a lot of activity. If you're looking at the left side of the page, you see how active we were. We actually added to about ten new issuers and made some trims to some other issuers, so there was plenty of activity despite low spreads and a low headline shift. We hit on the hyperscalers earlier, so I won't go into that, but you see some hyperscaler adds here. Earlier in the conversation, you also talked about software disruption, and that's another theme that you see on the page. Some of those specific names we bought include Salesforce, ServiceNow, and Fidelity National Information Services. These are businesses that face potential headwinds from AI disruption, but we believe that they have really durable businesses: they have high client retention over time, they often have multi-year contracts that reduce churn, and the products are often really embedded in these businesses—so, hard to extract on a moment's notice. While we bought longer-dated bonds of Salesforce in particular, that one seemed uniquely cheap to us, echoing what we've been talking about in the other names I mentioned, we stayed relatively short in terms of maturities. Overall, broad credit valuations aren't particularly compelling, but we do continue to find value in this environment and really any environment. And we think we continue to build durable income into the portfolio.

**Ryan:** I think that highlights the importance of security selection. It's really critical to our process and [we believe] one of the ways that we succeed and generate our excess return. Clearly lots that we could talk about and much more that we could cover, but I want to close it there and thank you, Lucy, for joining today.

**Lucy:** It's been a pleasure.

**Ryan:** And thanks to our listeners for joining as well. We appreciate your confidence in Dodge & Cox and look forward to speaking with you at the end of the year.

The Income Fund — Class I's Yield to Worst was 5.0% and the SEC yield calculated for June 30, 2026 was 4.44%. This material must be accompanied or preceded by the Fund's prospectus.

Dodge & Cox Income Fund — Class I SEC Standardized Average Annual Total Returns as of June 30, 2026: 1 Year 4.67%, 5 Years 1.33%, 10 Years 2.92%. Fund and Index standardized performance is available on our website.

Income Fund's Ten Largest Positions (as of June 30, 2026): Fannie Mae (20.5% of the Fund), Freddie Mac (15.8%), U.S. Treasury Note/Bond (14.8%), Ginnie Mae (2.9%), Petroleos Mexicanos (2.0%), Navient Student Loan Trust (1.9%), ECMC Group Student Loan Trust (1.6%), Charter Communications, Inc. (1.6%), Bank of America Corp. (1.2%), and JPMorgan Chase & Co. (1.2%).

The Global Bond Fund — Class I's Yield to Worst was 5.7% and the SEC yield calculated for June 30, 2026 was 5.21%. This material must be accompanied or preceded by the Fund's prospectus.

Dodge & Cox Global Bond Fund — Class I SEC Standardized Average Annual Total Returns as of June 30, 2026: 1 Year 4.84%, 5 Years 3.05%, 10 Years 4.75%. Fund and Index standardized performance is available on our website.

Global Bond Fund's Ten Largest Positions (as of June 30, 2026): Fannie Mae (8.5% of the Fund), Freddie Mac (7.0%), Norway Government (5.5%), Brazil Government (3.7%), Japan Government (3.6%), Mexico Government (3.5%), U.S. Treasury Note/Bond (3.3%), South Korea Government (3.3%), Colombia Government (3.2%), and Peru Goverrnment (2.5%).



1 Unless otherwise specified, all weightings and characteristics are as of June 30, 2026.

2 All Fund performance results discussed are for the Class I shares of the Income Fund and Global Bond Fund.

3 The use of specific examples does not imply that they are more or less attractive investments than the Fund's other holdings.

4 The U.S. Government does not guarantee the Fund's shares, yield, or net asset value. The agency guarantee (by, for example, Ginnie Mae, Fannie Mae, or Freddie Mac) does not eliminate market risk.