

## VIDEO TRANSCRIPT

Video Title: **Fixed Income Investing: What Matters Right Now**

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Description: In this video, JP Pontbriand, Chief Investment Officer at Salem Five Wealth Management & Trust, explains why fixed income investing is becoming increasingly important in today's market environment. He discusses three key areas shaping bond markets: U.S. Treasuries and Federal Reserve policy, corporate bond credit spreads, and opportunities in foreign bonds. The presentation highlights how interest rates, credit risk, and global diversification are influencing investment decisions, while offering practical insights for investors seeking stronger income and better portfolio diversification.

[00:01]

[Soft background music begins]

[On-screen text: "Fixed Income Investing: What Matters Right Now"]

[Speaker appears on screen]

JP Pontbriand:

Hello. My name is JP Pontbriand, Chief Investment Officer for Salem Five Wealth Management & Trust. When people hear "fixed income" or "bonds" they usually think safe and boring. But right now, fixed income is anything but boring - and it's becoming an increasingly important part of both conservative portfolios and diversified ones. In this video, I'll walk through three key things shaping bond investing today:

- U.S. Treasuries and what's happening at the Federal Reserve
- Credit spreads for bonds issued by corporations
- And opportunities - in foreign bonds

Each of these topics could be explored in great depth, but today we're simply providing a few basic but important insights.

[00:59]

[On-screen text: "U.S. Treasuries & The Fed"]

Let's start with U.S. Treasuries - the foundation of the bond market. Issued by the US government, Treasuries are considered the safest bonds in the world, so everything else is priced relative to them. After a second round of short-term interest rate cuts by the Federal Reserve last year, we now have a more normally shaped yield curve,

[01:23]

[On-screen chart: "U.S. Treasuries & The Fed"]

This chart shows the current shape of the U.S. Treasury yield curve across maturities ranging from one month to twenty years. The data illustrates that short-term Treasury yields are lower than longer-term yields, creating a more normal upward-sloping yield curve following recent Federal Reserve rate cuts. Longer maturities now offer higher yields, suggesting expectations for steady economic growth and more attractive income opportunities for investors willing to extend duration.]

meaning that investors now earn more interest (rather than less) for committing to longer maturities.

This is what we usually see in an economy that's experiencing or expected to experience healthy growth. And overall, Treasury rates from short-term to long-term are within historically normal ranges. So what comes next? The nomination of Kevin Warsh to succeed Jerome Powell as the Chair of the Federal Reserve is likely to be confirmed by the Senate. Will we see the "hawkish" Warsh come out and advocate for keeping rates elevated, or will a "dovish" Warsh emerge and push for rate cuts? We expect little if any rate policy changes by the Fed, not because of Warsh but because of the other 11 members on the committee setting the Fed Funds rate. Our key take-away for investors is to move away from low-yielding shorter-term instruments and toward higher-yielding options. Now let's talk about credit spreads. A credit spread is the extra yield you earn for taking risk beyond Treasuries when lending to corporations instead of the government.

[02:23]

[On-screen chart: "Corporate Index Option-Adjusted Spread"]

This chart shows corporate bond spreads declined from elevated levels in mid-2023, with some brief spikes—especially in early 2025—but overall remained relatively tight, ending well below where they began.]

Right now, those spreads are tight. That means investors are not being paid much extra to take on credit risk. Think of it this way: If Treasuries yield about 4.0%, and a corporate bond pays about 4.8%, then you're getting paid less than 1% for the possibility that the company might run into trouble. That's not necessarily a bad trade-off; it means we have to be particularly selective in this area because the "margin of safety" the extra yield provides is less than normal. Our key take-away for investors is to limit corporate bond exposure, particularly "high-yield" bonds associated with lower quality issuers.

[03:16]

[On-screen text: "Opportunities in Foreign Bonds"]

Finally, foreign bonds. Most of the bond market – over 60% – lies outside of the U.S. Many opportunities exist within both developed and emerging-market countries.

[03:28]

[On-screen chart: "Global Fixed Income"]

This chart shows the global fixed income market by region, with the United States representing the largest share at 39.3%, followed by Europe at 26.3%, Asia-Pacific at 21.3%, and the rest of the world at 13.1%, highlighting the broad diversification available beyond U.S. markets.]

These can include (a) high quality bonds with greater currency-adjusted yields than comparable U.S. bonds, (b) diversification from the U.S. economy and Federal Reserve policy, and (c) selective foreign currency exposure. Yet this area is almost completely ignored by U.S. investors. Like any investment, foreign bonds also have their particular risks and complexities. Nevertheless, it can be a huge blind-spot that merits consideration. Our key take-away here is that foreign bonds should be a meaningful part of the fixed income portfolio for many investors.

So, are bonds still boring? Maybe; but they definitely are too important to neglect and too varied to be treated as a monolith. Here are our top priorities for investors to consider:

[04:33]

[On-screen chart: "Top Priorities"]

This chart shows highlights the top priorities for short-term rates, extra yield and foreign bonds]

1. Short-term rates are not very compelling – more attractive yields are found in longer-term instruments
2. The extra yield in corporate bonds – particularly lower quality bonds – is relatively low so exposure to these types of securities should be limited
3. Foreign bonds are worth a look and probably merit a greater allocation among fixed income holdings

[04:33]

[Speaker appears on screen]

[On-screen text: "JP Pontbriand, Chief Investment Officer, Salem Five Wealth Management & Trust"]

Thank you for watching; we hope today's look at fixed income helps you with your investment portfolio. Please reach out to your Salem Five Wealth Advisor for more information or with any questions you may have.

[05:11]

[End Screen – Blue background with text]

[Soft background music begins]

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