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When Bond Market Volatility Rises, TLH & TLC Can Support Investment Objectives

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SUMMARY

- We believe that periods of higher bond market volatility demonstrate the need for proactive tax loss harvesting (TLH) and tax-loss crossing (TLC) in bond portfolios throughout the year, rather than waiting until tax-season or year-end.
- Several conditions that, historically, have contributed to increased bond market volatility may be present during 2026.
- Breckinridge portfolio managers, supported by tools integrated into our portfolio management and trading platform, identify and execute TLH and TLC trades throughout the year and across market cycles. This helps manage and may effectively eliminate a need to convert investments to cash while waiting for opportunities.¹
- This process may result in additional opportunities to potentially capture tax alpha—the value added through active tax management of a portfolio or a client’s account.

1. There are differences between TLH and TLC transactions, and the cash effect varies. In most TLH transactions, a bond is sold to realize a loss and the proceeds of the sale are reinvested in a similar but not substantially identical bond. The sale of the original position generates cash temporarily, which is reinvested. Even if this is done near simultaneously, there is still a sale-and-repurchase process. There may be market exposure gap risk and transaction costs and wash sale rules must be managed. In a typical TLC transaction, trades are structured as cross trades, meaning securities are traded without needing to go out to the open market. Two accounts both with tax-loss harvesting needs sell bonds at a loss to each other, i.e., all sellers are also buyers. Cash involvement is economically minimized or eliminated by the simultaneous exchange of bonds between accounts. There is no meaningful cash drag or reinvestment lag. Transaction costs are reduced and a loss is realized for tax purposes. Even in TLC, from a settlement perspective, trades still clear through cash (delivery versus payment (DVP) or receive versus payment (RVP)). As a result, the portfolio experiences little or no cash drag and economic exposure is maintained.



Elevated bond market volatility historically occurs during periods of shifting economic, interest rate, inflation, or business conditions, Congressional elections, changing Federal Reserve (Fed) policy, and geopolitical shocks. Each of these conditions could spur volatility in 2026.

For example, February airstrikes in Iran and its retaliations have roiled international and Middle East relations, as well as the flow of economically sensitive resources, including oil. In May, Jerome Powell's term as Fed Chair will end. A new chairman has been tapped, and policy changes could follow. November U.S. mid-term congressional elections could lead to changes in the balance of power in Washington D.C. Meanwhile, inflation remains persistent, the business cycle could be shifting, and bond investors may demand a term premium should conditions falter.

For investors, volatility means changes in the prices of the securities held in their bond portfolios. The changes can present opportunities to capture value through TLC and TLH as they are presented, rather than waiting until tax-season or year-end.

A summary of our reasoning for year-round tax aware management is summarized in Figure 1.

FIGURE 1: TAX LOSS HARVESTING APPROACH

Tax-Aware Management: Capital Gains Tax

When capital losses reach a threshold deemed meaningful by our investment team, Breckinridge pursues selling at a loss to offset current and/or future capital gains with the intention of optimizing an investor's after-tax income.

Tax-Loss Crossing (TLC)

- ➔ Eligible if opted into Cross-Trading

- 1 Aggregate and Sort Losses**
Prioritize positions with larger capital losses.
- 2 Identify Eligible Securities for Reinvestment**
Match bond characteristics and ensure eligibility of replacement bonds.
- 3 Execute Cross at Third-Party Evaluated Price**
Review transaction and cross at third-party evaluated price. Account remains fully invested while loss is booked.

Tax-Loss Harvesting (TLH)

- ➔ PMs proactively capitalize on opportunities
- ➔ Client-directed requests to TLH are welcome

- 1 Aggregate and Sort Losses**
Prioritize positions with larger capital losses.
- 2 Sell Position for Capital Loss**
- 3 Portfolio Returned to Inquiry to Reinvest Proceeds**
Latency time between sale of capital loss and reinvestment of proceeds presents reinvestment risk relative to tax loss crossing.

Source: Breckinridge Capital Advisors as of February 2026.



For more specifics on tax-loss trading, consider reading the article on our website, [Tax-Loss Harvesting in Fixed Income Portfolios](#). The goal of tax-aware trades is to reduce the impact of taxes on a client's overall portfolio or account. The potential for tax aware management to reduce a client's overall tax liability is illustrated in Figure 2.

FIGURE 2: IMPACT OF TAX-AWARE MANAGEMENT

Intermediate Tax-Efficient Composite

Year	Impact of Tax-Aware Management (bps)
2026 YTD	6.4bps
2025	19bps
2024	9bps
2023	43bps
2022	77bps

Tax aware management is intended to illustrate the potential tax benefit derived from tax loss trades. The calculation includes all portfolios in the Intermediate Tax-Efficient Composite that executed tax-loss management trades (tax loss harvesting and/or tax loss crossing) over the reporting period. The number of portfolios included may differ quarter to quarter depending on market environment and the number of portfolios with tax loss opportunities. The losses for each portfolio from tax-aware management (gross of fees) were averaged together to determine the total figures presented. Note the figure does not represent performance or an actual decrease in a client's overall tax payment or liability. The effectiveness of tax-aware management is largely dependent on each client's entire tax and investment profile, including investments outside of Breckinridge's advisory services. As such, there is a risk that it will not produce the benefits as described. Clients should consult their tax professionals regarding tax strategies and associated consequences. The impact of tax aware management is heavily influenced by interest rates and will fluctuate. Trading for the purpose of tax aware management may result in increased transaction costs. Please refer to the GIPS Report for additional information on the Intermediate Tax-Efficient Composite.

Source: Breckinridge Capital Advisors as of June 2026. Please see our *Intermediate Tax-Efficient GIPS report* [here](#).

Clients have the option to opt into TLH and TLC and may submit requests to harvest losses in their portfolio. Breckinridge portfolio managers monitor portfolios for tax-loss trading opportunities. Ongoing portfolio monitoring for tax-loss trading opportunities aims to ensure that losses during rate peaks, when bond price declines are typically greatest, are generally identified and executed as they occur. Attention to TLC and TLH opportunities throughout the year can potentially help avoid a need to move investment to cash while waiting for opportunities

Client attention to tax-loss trading also tends to increase as the year-end approaches, and investors grow more mindful of the approaching tax season. Spreading the trades throughout the year mitigates changing market conditions that might occur at year end.

Breckinridge's investment strategies are biased to high quality, investment grade bonds. High grade bonds have the potential to weather strained market liquidity when volatility is high. Investors tend to avoid lower quality bonds during volatile markets because they typically prove harder to trade. We believe technology is essential to effectively uncover tax-loss opportunities. Breckinridge's portfolio management and information technology teams develop tools that support identification and execution of tax-loss trades.

We can scan individual positions across portfolios based on a range of parameters such as targeted loss levels. Our technology organizes data for thousands of portfolios managed across our platform, which can help portfolio managers identify favorable TLC trades. Potential benefits of cross trades include lower transaction costs than open-market trades and keeping assets invested, while preserving overall portfolio structure and strategy.



Additionally, Breckinridge can provide clients with after-tax reporting that includes performance analysis, gross and net fees, on both a pre-tax and after-tax basis. We can also provide a portfolio level breakdown of the impact of state income tax and tax-loss harvesting on after-tax holding period returns for the portfolio and the index.

In order to take advantage of market and economic events that create volatility, tax-aware investors need to monitor portfolios and be ready to act when opportunities arise. We feel an attentive tax-loss trading approach supported by integrated technology tools is essential to systematically harvesting losses when appropriate. Breckinridge's full-year, all-market approach is intended to support clients' efforts to achieve tax savings in the near term and greater after-tax wealth over the long term.



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Tax laws and regulations are complex and subject to change at any time. These changes can impact tax consequences and investment results for investors, who should consult with a tax professional before making any decisions.

Tax loss harvesting may generate a higher number of trades in an account due to our attempt to capture losses. This can mean higher overall transaction costs to clients. To the extent that a client's custodian uses a different pricing source, cost basis or tax lot accounting, actual tax efficiencies could be greater or lower than what has been shown. Also, a client may repurchase a bond at a higher or lower price than the price at which the original bond was sold. The replacement bond is subject to price fluctuations.

Federal and local tax laws and rates can change at any time; changes to tax laws and rates can impact tax consequences for investors. Further, the Internal Revenue Service (IRS) and other taxing authorities have set certain limitations and restrictions on tax loss harvesting. The tax consequences of Breckinridge's tax loss strategy may be challenged by the IRS. Investors should consult with their tax professionals regarding tax loss harvesting strategies and associated consequences.

Cross transactions will be used to facilitate tax loss harvesting in most cases. When using cross transactions for tax loss harvesting, participating client accounts gain exposure to the tax-loss harvested bonds received from other accounts. While Breckinridge generally selects bonds that, in its best judgement, will not change significantly in price, bonds nevertheless are subject to fluctuations in price, and the bonds received may go up or down in value.

Cross trades create a conflict as the adviser is advising clients on both sides of the transaction. Also, cross trades can result in more favorable treatment to one client over the other. There is no guarantee that the buying or selling client will receive the best prices available for the day. Breckinridge investors can opt out of tax loss harvesting and/or cross trading. In cases where an investor opts out of or is prohibited from cross trading, they may not receive the benefit of lower transaction costs versus trading in the open market and the same price as those investors participating in cross trades.

Separate accounts may not be suitable for all investors.

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