Core Fixed Income Managed Account

Quarterly Review

- The Federal Reserve held monetary policy steady during the first quarter. Incoming data indicates inflation remains elevated and labor markets continue to be firm. Forward-looking market expectations for monetary policy are dovish anticipating 75 basis points of cuts through year end. Rates moved higher in the quarter. The US 2-Year Treasury note yield increased from 4.3% to 4.6% and the US 10-Year Treasury note yield increased from 3.9% to 4.2%. The yield curve remains inverted as short term yields hover around 5.3%.
- Fixed income markets were well bid during the period. Asset backed securities experienced declining spreads, contracting over 10 bps through the end of March as measured by the Bloomberg ABS index. The Bloomberg CMBS index indicated commercial mortgage backed securities spreads also narrowed during the quarter. The index declined almost 30 bps with current spreads around 96 bps. Corporate bonds, as measured by the Bloomberg Corporate Index, declined almost 10 bps with current spreads just inside of CMBS spreads. Agency mortgages, as measured by the Bloomberg MBS index, were the outlier on the quarter moving sideways rather than compressing.
- The strategy remained overweight corporate bonds on a market value basis, which positively impacted performance via allocation effect as spreads contracted during the period. However, negative issue selection offset the allocation benefit.
- The strategy remained underweight agency mortgages and this negatively impacted performance as issue selection was negative in the sector for the quarter.
- Duration continued to be managed in line with the benchmark but duration differences along the yield curve resulted in a positive performance contribution during the period.

Outlook

- The Federal Reserve held the Fed Funds rate steady at 5.25% throughout the first quarter. Markets reacted to inflation prints that came in hotter than expected, partly due to residual seasonality, but ended the quarter with expectations for 75 bps of cuts between now and year-end. This market expectation is consistent with the Fed's Summary of Economic Projections and a "soft landing" narrative. Meanwhile, risk appetites remained robust and spreads continued to tighten during the quarter. The yield curve remained inverted, with higher yields on shorter maturity Treasurys relative to longer-dated notes and bonds. We believe that growth and inflation are likely to be slightly lower throughout the remainder of this year, with potential for the unemployment rate to edge up slightly. We think this implies some chance the Fed may be more accommodative than the market currently anticipates. Yields on 10-year Treasurys returned to the 2023 year-end level 3.88% in early February before pushing higher, ending the quarter at 4.20%.
- We continue to hold the view that we are in the late phase of the credit cycle. Corporate balance sheets have deteriorated, but from a very strong starting point; profit margins could continue to be pressured amid higher input costs, tighter credit conditions, and a slowdown in de-leveraging trends. We believe a relatively healthy middle class consumer and resilient labor market should prevent the economy from entering into a severe recession in this cycle.
- We anticipate continued volatility in interest rate markets should inflation data come in much higher or lower than expectations, even as the broad disinflation trend remains intact. We remain concerned about the lagged

effects of significant monetary tightening and potential exogenous shocks to growth, possibly emanating from the ongoing conflict in the Middle East. We do not believe that current spreads provide adequate compensation for the risks facing the economy and markets.

- The strategy's corporate bond risk is currently at the low end of our risk budget, which we believe can provide room to increase risk if valuations and bid-ask spreads improve.
- For strategies that use securitized assets, we continue to favor non-agency spread products such as commercial mortgage-backed securities and asset-backed securities.
- For strategies that use high yield corporate bonds, we continue to have exposure to the asset class with room to add in the event valuations materially improve.

Important Disclosure

Key Risks: Credit Risk, Issuer Risk, Interest Rate Risk, Liquidity Risk, Prepayment Risk and Extension Risk.

Past performance is no guarantee of future results.

There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return.

Commodity, interest, and derivative trading involves substantial risk of loss.
Diversification does not ensure a profit or guarantee against a loss.
Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

Market conditions are extremely fluid and change frequently.

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