



Core Fixed Income Managed Account

Marketing Communication

Quarterly Review

- The strategy remained overweight corporate bonds on a market value basis, which contributed positively to allocation effects during a tightening spread environment. However, the benefit of allocation decisions was overshadowed by negative security selection, resulting in an overall detractor from performance.
- The strategy maintained its underweight position in agency mortgages relative to the benchmark, the Bloomberg US Aggregate Index, which ultimately detracted from performance as spreads compressed and negated the benefits of security selection.
- Duration continued to be managed in line with the benchmark but there was a minor positive duration effect during the period.

Outlook

- Fixed income markets delivered strong returns during the third quarter, as both spreads and yields declined. Spread sectors continued to be well supported, while yields re-priced and the curve continued to steepen in anticipation of a 25 basis point cut at the Federal Reserve (Fed)'s September meeting. Alongside the widely anticipated September cut, Chairman Powell indicated that the Fed would look through tariff related inflation impacts. Additional comments on labor force conditions pulled forward market expectations of a third cut to the Federal Funds rate this year. Despite pressure from the White House, the Fed continues to be data driven. Current market expectations are for two 25 basis point cuts at the November and December meetings.
- We are generally constructive on corporate fundamentals, which remain at a healthy level by historical standards. However, as the impact of tariffs begins to work through the economy, weak pricing power and rising debt service costs suggest margin compression going forward. On the consumer front, we believe moderating demand for labor, the continued decline in excess savings, and tight credit conditions are potential catalysts for weaker spending, which may be further exacerbated by higher prices for goods.
- We continue to believe that we are in the late expansion phase of the credit cycle, with growth slowing to below trend, and a short-term increase in inflation. While we do not anticipate the US will enter a recession, we continue to see elevated risk of a downturn scenario (characterized by a pullback in consumer spending, negative earnings growth, and an increasingly accommodative Fed). We are concerned that slowing rates of hiring may weigh more heavily on incomes and consumption, the potential for tariffs, the growing fiscal burden and the risk of an extended government shutdown in the US. Lastly, we are monitoring the vulnerability surrounding the US dollar as demand seemingly moves towards economies with perceived higher growth rates and more attractive risk market valuations.
- While the strategy's corporate bond exposure remains overweight on a market value basis, corporate risk relative to benchmark is currently underweight largely due to a higher quality bias and shorter maturities than the benchmark. We believe this allows the strategy room to increase risk if valuations improve and transaction costs are low.
- For account guidelines that permit investment in securitized assets, we continue to favor non-agency spread products such as commercial mortgage-backed securities and asset-backed securities.



- For account guidelines that permit investment in high yield corporate bonds, we continue to have exposure to the asset class with room to add in the event valuations materially improve. When combined with investment grade corporate bonds, the strategy is marginally overweight corporate bonds at the strategy level.

Important Disclosure

Investing involves risk, including possible loss of principal. Fixed-income securities may be susceptible to general movements in the bond market and are subject to credit and interest rate risks. **Credit risk** arises from an issuer's ability to make interest and principal payments when due, as well as the prices of bonds declining when an issuer's credit quality is expected to deteriorate. **Interest rate risk** occurs when interest rates rise causing bond prices to fall. The issuer of a debt security may be able to repay principal prior to the security's maturity, known as **prepayment (call) risk**, because of an improvement in its credit quality or falling interest rates. In this event, this principal may have to be reinvested in securities with lower interest rates than the original securities, reducing the potential for income.

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. Diversification does not ensure a profit or guarantee against a loss. Commodity, interest and derivative trading involves substantial risk of loss.

Market conditions are extremely fluid and change frequently.

The Bloomberg US Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US investment grade fixed rate bond market, with index components for government and corporate securities, mortgage passthrough securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.

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