



Short Government Managed Account

Quarterly Review

- The global fixed-income markets performed well in the third quarter. Investors reacted favorably to the backdrop of slow but steady economic growth and moderate inflation, together with the US Federal Reserve's decision to reduce interest rates by a quarter point at its September meeting. The cut, which marked the first easing since December 2024, brought the fed funds rate to a range of 4.0% to 4.25%. Investors also displayed confidence that the Fed was likely to continue easing policy over the course of the coming year. Bonds responded favorably to these developments, with longer-term debt and more credit-sensitive categories leading the way.
- US Treasury yields declined modestly across the curve (as prices rose), augmenting the contribution from income. The move represented the continuation of an uneven downtrend in yields that began in late May. Investors reacted favorably to the US Federal Reserve's first interest rate cut of 2025, as well as expectations for a shift toward more dovish policy. The yield on the two-year note declined from 3.72% to 3.60%, while the 10-year fell from 4.24% to 4.16%. Treasuries, while positive in absolute terms, didn't keep pace with the stronger returns for more credit-sensitive areas of the market.
- Security selection contributed while yield curve effects detracted over the quarter. The strategy is focused on US Treasury securities and did not hold benchmark eligible US Agency securities, which weighed on relative performance.

Outlook

- Late Cycle Stallflation" scenario, where we anticipate slower growth, though not to the extent of "stagflation" or recession. We expect moderate spread widening and some labor market softness, which could allow for additional Federal Reserve (Fed) cuts. However, we are seeing signs of a shift from late cycle towards a 'resilient economy', supported by strong corporate profits, better than expected consumer spending, and less drag from tariffs than anticipated. Despite this strength, we have chosen to trim risk where appropriate, particularly in sectors exposed to political, regulatory, or financial risk. We have been focused on owning names that we believe can weather a downturn while offering attractive risk-adjusted carry in the meantime.
- As anticipated, in September the Fed cut the federal funds rate by 25 basis points (bps), lowering it from 4.25% to 4.00%, prompted by concerns over a softening labor market and slower economic growth. We believe that the Fed will maintain their 'data dependent' glide path, balancing the economic health of the workforce and companies, with that of inflation. In our "Late Cycle Stallflation" base case, we expect two more cuts in 2025 and one in January 2026 of 25 bps each. Although labor and earnings data remained stable, in our view, there has been non-trivial uncertainty regarding the US debt demand, the Fed membership and leadership, and tariff-driven inflation. We remain duration-neutral in our portfolios, with a slightly favorable opinion in the long-end as rates steepen.



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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