

# Core Fixed Income Managed Account

MARKETING COMMUNICATION

## Quarterly Review

- The strategy remained overweight corporate bonds on a market value basis, which detracted from performance as spreads widened. However, effects from security selection were positive on the period and resulted in the sector's positive contribution to returns over the period.
- The strategy maintained its underweight position in agency mortgages relative to the benchmark, the Bloomberg US Aggregate Index, which slightly detracted from performance as spreads compressed while positive effects from security selection drove excess returns.
- While the portfolio's underweight position in US Treasuries created positive allocation effects, negative security selection effects dragged on performance.
- Duration continued to be managed in line with the benchmark and duration effect during the period was flat.

## Outlook

- Fixed income markets delivered a solid positive total return as rates declined while the curve steepened on the back of two 25 bps Federal Reserve (Fed) cuts during the fourth quarter. Risk premiums, or credit spreads, drifted slightly higher but remained near historic tight. The Federal Reserve continues to grapple with their dual mandate as inflation remains elevated while labor market conditions have deteriorated. The lack of official data due to the extended government shutdown made policy decisions more challenging for the Federal Reserve and there was an increase in voting member dissents over the last two meetings. The Fed Funds Rate target now stands at 3.75%. Markets are currently pricing in only a 50% probability of another cut in the first quarter of 2026, although just over 2 more cuts are priced by year end, 2026. Spread sectors (primarily corporate bonds, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities) remained well supported with new supply easily absorbed.
- Corporate fundamentals remain at a healthy level by historical standards. Growth in the first quarter of 2026 may receive a boost through higher tax refunds and a reversal of the negative impacts from the shutdown. However, weak corporate pricing power and rising debt service costs suggest margin compression going forward. On the consumer front, we believe that moderating demand for labor, the continued decline in excess savings, and increasing impatience with higher prices 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, while inflation - which is still above target, should moderate as the effects of tariffs dissipate. While we do not anticipate that the US will enter a recession, we continue to see elevated risk of a downturn scenario. We are concerned that slowing rates of hiring and reduced affordability may weigh more heavily on incomes and consumption. Additionally, the risk of additional Federal Government stimulus leading up to mid-term elections may also add to the growing fiscal burden. This concern has been evident in the still elevated level of term premium in the longer end of the yield curve. Market volatility may remain elevated due to ongoing geopolitical tensions and interventionism.
- 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 strategies that utilize agency mortgages, the exposure to the asset class is currently underweight but within range of neutral.

## Important Disclosure

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**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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