

# Intermediate Duration Fixed Income Managed Account

MARKETING COMMUNICATION

## Quarterly Review

- The strategy remained overweight corporate bonds on a market value basis. Allocation effects were negative amid spread widening but issue selection was positive and offset the negative allocation effect.
- The global fixed-income markets produced largely flat returns in the first three months of the year. Despite the uneven end result, bonds performed well through January and February amid anticipation that the US Federal Reserve and other major central banks would continue cutting interest rates in 2026. This backdrop changed considerably in early March, when the outbreak of war in Iran caused a spike in crude oil prices and raised fears that other commodities could face shortages. Investor's concerns over increased inflation rose as a result, and the markets quickly began to factor in the likelihood that central banks would need to hold rates steady or possibly even tighten policy. Yields rose sharply (as prices fell) in response to the shifting outlook, erasing the earlier gains and offsetting the contribution from income.
- Duration continued to be managed in line with the benchmark, the Bloomberg U.S. Intermediate Government/Credit Bond Index, but there was a positive duration effect during the period.

## Outlook

- Fixed income markets delivered negative returns for the first quarter, as the US-Israeli attacks on Iran pushed oil prices above \$100/barrel, renewing concerns that inflation would prevent the Federal Reserve (Fed) from easing in the near term. Risk appetites waned with increased geopolitical risk, artificial intelligence disrupting software companies and liquidity concerns of private credit funds suffering from heavy redemptions. The risk off sentiment impacted risk premiums and inflation premiums. The US term structure bear flattened with the short maturity yields rising more than longer term yields as market participants forecasted less monetary accommodation and a higher inflation impulse. Equities declined and credit spreads increased as investors favored higher quality assets with more economic uncertainty ahead.
- We are monitoring corporate fundamentals, which we expect will remain at a healthy level in aggregate, even as we expect corporate borrowing to pick up. US GDP growth in the first quarter of 2026 may be flattered by higher tax refunds and AI-fueled business spending. However, increases in the cost of energy and other key inputs alongside rising debt service costs suggest corporate margin compression going forward. On the consumer front, we believe that increasing impatience with higher prices, softer labor market conditions, and the continued decline in excess savings are potential catalysts for weaker spending.
- We continue to believe that we are in the late expansion phase of the credit cycle, with growth slowing to below trend. We expect inflation will subside after this temporary increase in energy prices. We believe the Fed is on hold over the next period to observe the impacts of higher energy costs and is not likely to tighten monetary policy from here. While we do not anticipate that the US will enter a recession, we continue to see elevated risk of a downturn scenario, which is not adequately reflected in compressed credit spreads and in rates markets currently. Market volatility and term premiums may remain elevated due to ongoing military interventionism and continued concerns over the growing fiscal burden, although a quicker resolution to the current military operations in Iran could clear the path towards one to two Fed Funds cuts late in 2026 as the current energy price "tax" wears on consumption.
- 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

**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 U.S. Intermediate Government/Credit Bond Index is the intermediate component of the Bloomberg U.S. Government/Credit Index. The U.S. Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the US Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government). The Credit Index includes publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.

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