CONGRESS ASSET MANAGEMENT COMPANY

Fixed Income Outlook

1Q26

Key Takeaways:

1. Economic Stability with Risks: The U.S. economy remains resilient, supported by strong consumer spending despite elevated inflation and housing costs.
2. Fed Policy Impact: Three rate cuts in 2025 lowered short-term rates; inflation remains above target.
3. Market Trends: The Yield curve is normalizing and steepening; credit spreads remain tight, driven by strong demand for corporate bonds.
4. Investment Strategy: Attractive bond yields make this a good time to increase allocations to high-quality, investment-grade fixed income for liquidity and principal protection.

In 2025, investors faced challenges due to the chaotic implementation of tariffs and ongoing uncertainty over fiscal policy. Concerns about inflation, rising healthcare costs, and a prolonged government shutdown dominated headlines. Yet, despite these hurdles, the consumer has shown a notable resilience. The bond market performed well, with many of the more dire economic predictions failing to materialize. The U.S. economy remains on stable footing notwithstanding elevated consumer prices and high housing costs.

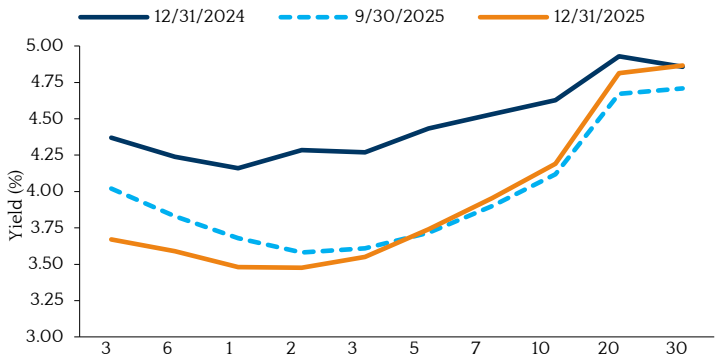
The Federal Open Market Committee (the Fed) reduced short-term interest rates three times in 2025, by a total of 0.75%. They cited a weakening labor market as the rationale for the moves, but stated that they are also wary of inflation. Of late, the Fed has faced sharp criticism from the Trump administration, which advocates for even lower interest rates. The Fed obliged this desire, while acknowledging the dual risks of inflation and employment weakness in the economy.

Should the Fed be fighting inflation or supporting employment? The Fed chose to confront a weakening labor market and prioritize employment, even as inflation metrics are above their target rate of 2%. For bond investors, we naturally fear inflation as it erodes our purchasing power and undermines investment returns. Further interest rate cuts may accelerate inflation, which would be particularly damaging to income-dependent investors. Perhaps it would be best for the Fed to make no changes until additional data warrants such policy moves.

Unfortunately, the recent government shutdown delayed access to timely economic data. At the same time, we must evaluate what we can from the numbers we do have. Inflation and pricing metrics for consumer goods remain elevated, as does the cost of housing. Employment bears watching as it has softened this year, yet in a historical context has looked much worse. These trends predate the shutdown and are still impacting the economy.

GDP figures have been robust in the last few quarters, squashing the premature fears of a stagflation crisis. The consumer has remained a solid actor of late, continuing to purchase goods and services amid higher prices. This consumer strength should be appreciated, as it accounted for over two-thirds of GDP in the third quarter of 2025. If left unaddressed, fears over future elevated prices and healthcare costs may eventually strain the consumer wallet. Further, a weakening employment situation could also detract from consumer spending.

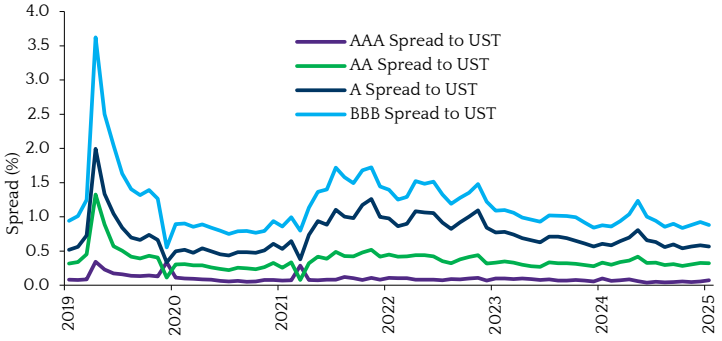
US Treasury Yield Curve on December 31, 2024, September 30, 2025, & December 31, 2025



Source: Bloomberg as of 12/31/2025

The U.S. Treasury yield curve steepened over the quarter, moving away from its recent, unusual "U" shape. The Fed's policy changes prompted short-term rates to fall, while long-term rates have remained stationary. This has been a relief to market participants, who have been navigating an environment where mid-term rates sagged below both short-term and long-term rates. We would cheer on a continued normalization of the yield curve to an upward sloping shape.

Intermediate Investment Grade Credit Spreads (OAS) by Quality Rating Cohort December 2019 to December 2025



Source: Bloomberg as of 12/31/2025

Past performance is not indicative of future results. There is no guarantee the observations and trends described herein will continue.

Credit spreads, or the additional yield required by investors to compensate for default risk, have persistently been tight. This pattern is one that regrettably seems unlikely to abate. Falling yields pushed investors away from the high quality but low yielding U.S. Treasury market and towards more risky assets. This has been a strong driver of corporate bond performance and the persistence of these narrow spreads. We are wary of a reversal of these elevated valuations and have been purchasing these issues selectively.

Once again, we can report that corporate bonds outperformed U.S. government-guaranteed issues over the past quarter and calendar year. Investor demand for these assets has not flagged even with the current rich pricing conditions. We find that portfolio allocations generally remain split between corporate bonds and U.S. government-guaranteed securities, with a slight tilt given to the latter.

We expect the normalization of the yield curve to continue, becoming steeper as 2026 progresses. Inflation fears should keep long-term rates higher while the Fed policy may move short-term rates down even lower. Spreads for corporate bonds will remain narrow as there seems little to derail investor demand. We maintain a vigilant watch over these spreads as we feel investors are not being adequately compensated for the risks they bear.

Bond yields remain attractive for investors and present a good opportunity for new or increased allocations to fixed income strategies. After the excellent equity market performance over the last three years, we encourage investors to reassess their asset allocations and consider adding to investment grade bonds. Our strategic goal is to purchase high-quality, investment-grade bonds for our clients' portfolios. We endeavor to build portfolios that offer liquidity, strong credit ratings, and principal protection.

John Beaver, CFA© | Portfolio Manager

Important Disclosure

Not an Offer, Recommendation or Professional Advice: This document does not constitute advice or a recommendation or offer to sell or a solicitation to deal in any security or financial product. It is provided for information purposes only and on the understanding that the recipient has sufficient knowledge and experience to be able to understand and make their own evaluation of the proposals and services described herein, any risks associated therewith and any related legal, tax, accounting or other material considerations. To the extent that the reader has any questions regarding the applicability of any specific issue discussed above to their specific portfolio or situation, prospective investors are encouraged to contact Congress Asset Management or consult with the professional advisor of their choosing.

Use of Third-Party Information: Certain information contained herein has been obtained from third party sources and such information has not been independently verified by Congress Asset Management. No representation, warranty, or undertaking, expressed or implied, is given to the accuracy or completeness of such information by Congress Asset Management or any other person. While such sources are believed to be reliable, Congress Asset Management does not assume any responsibility for the accuracy or completeness of such information. Congress Asset Management does not undertake any obligation to update the information contained herein as of any future date.

Currentness: Except where otherwise indicated, the information contained in this presentation is based on matters as they exist as of the date of preparation of such material and not as of the date of distribution or any future date. Recipients should not rely on this material in making any future investment decision

Benchmarks: Any indices and other financial benchmarks shown are provided for illustrative purposes only, are unmanaged, reflect reinvestment of income and dividends and do not reflect the impact of advisory fees. Investors cannot invest directly in an index. Comparisons to indexes have limitations because indexes have volatility and other material characteristics that may differ from a particular fund or strategy. For example, a hedge fund may typically hold substantially fewer securities than are contained in an index.

Forward-Looking Statements: Certain information contained herein constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained herein may be relied upon as a guarantee, promise, assurance or a representation as to the future.

Fixed Income Risks

Credit Risk: The risk that an issuer of a fixed income security will fail to make interest payments or repay principal when due, in whole or in part. Changes in an issuer's financial strength, the market's perception of an issuer's creditworthiness, or in a security's credit rating may affect a security's value. In addition, investments in sovereign debt involves a heightened risk that the issuer responsible for repayment of the debt may be unable or unwilling to pay interest and repay principal when due, and the Strategy may lack recourse against the issuer in the event of default. Investments in sovereign debt are also subject to the risk that the issuer will default independently of its sovereign. Below investment grade securities (high yield/junk bonds) have speculative characteristics, and changes in economic conditions or other circumstances are more likely to impair the ability of issuers of those securities to make principal and interest payments than is the case with issuers of investment grade securities.

Extension Risk: The risk that if interest rates rise, repayments of principal on certain debt securities, including, but not limited to, floating rate loans and mortgage-related securities, may occur at a slower rate than expected and the expected maturity of those securities could lengthen as a result. Securities that are subject to extension risk generally have a greater potential for loss when prevailing interest rates rise, which could cause their values to fall sharply.

Interest Rate Risk: The risk that debt instruments will change in value because of changes in interest rates. The value of an instrument with a longer duration (whether positive or negative) will be more sensitive to changes in interest rates than a similar instrument with a shorter duration. Bonds and other debt instruments typically have a positive duration. The value of a debt instrument with positive duration will generally decline if interest rates increase. Certain other investments, such as interest-only securities and certain derivative instruments, may have a negative duration. The value of instruments with a negative

duration will generally decline if interest rates decrease. Inverse floaters, interest-only and principal-only securities are especially sensitive to interest rate changes, which can affect not only their prices but can also change the income flows and repayment assumptions about those investments.

Prepayment Risk: The risk that the issuer of a debt security, including floating rate loans and mortgage related securities, repays all or a portion of the principal prior to the security's maturity. In times of declining interest rates, there is a greater likelihood that the Strategy's higher yielding securities will be pre-paid with the Strategy being unable to reinvest the proceeds in an investment with as great a yield. Prepayments can therefore result in lower yields to shareholders of the Strategy.

General Market Risk: Economies and financial markets throughout the world are becoming increasingly interconnected, which increases the likelihood that events or conditions in one country or region will adversely impact markets or issuers in other countries or regions. Securities in the Strategy's portfolio may underperform in comparison to securities in the general financial markets, a particular financial market, or other asset classes due to a number of factors, including: inflation (or expectations for inflation); deflation (or expectations for deflation); interest rates; global demand for particular products or resources; natural disasters or events; pandemic diseases; terrorism; regulatory events; other governmental trade or market control programs and related geopolitical events. In addition, the value of the Strategy's investments may be negatively affected by the occurrence of global events such as war, terrorism, environmental disasters, natural disasters or events, country instability, and infectious disease epidemics or pandemics.

Municipal Securities Risk: Investing in various municipal securities may involve risk related to the ability of the municipalities to continue to meet their obligations for the payment of interest and principal when due. A number of municipalities have had significant financial problems recently, and these and other municipalities could, potentially, continue to experience significant financial problems resulting from lower tax revenues and/or decreased aid from state and local governments in the event of an economic downturn. This could decrease the Strategy's income or hurt the ability to preserve liquidity.

U.S. Government and Agency Issuer Risk: Treasury obligations may differ in their interest rates, maturities, times of issuance and other characteristics. Obligations of U.S. Government agencies and authorities are supported by varying degrees of credit but generally are not backed by the full faith and credit of the U.S. Government. No assurance can be given that the U.S. Government will provide financial support to its agencies and authorities if it is not obligated by law to do so.