

Fixed Income Outlook

2Q26

Key Takeaways:

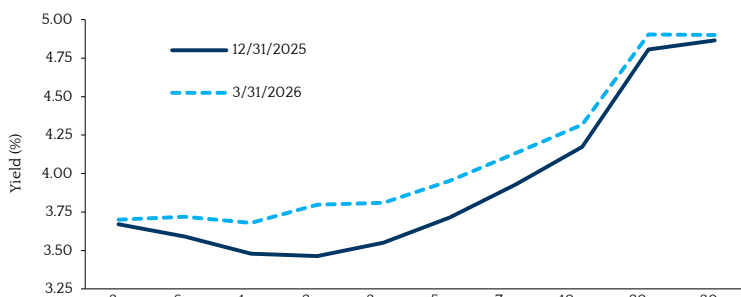
1. Geopolitical pressures are driving bond markets. The war with Iran has pushed energy prices and inflation expectations higher, leading to rising interest rates rather than a traditional flight to safety.
2. The Federal Reserve is on hold amid uncertainty. Conflicting signals from inflation, employment, and global events suggest the Fed will wait for clearer data before adjusting policy.
3. Corporate bond spreads widened modestly and yet remain historically tight, which we believe supports a disciplined, quality focused approach through selective purchases.
4. Higher yields strengthen the case for investment-grade bonds. Improved income potential and diversification benefits could make high-quality fixed income an attractive anchor amid ongoing market volatility.

The war with Iran has begun to reshape the investment landscape. Oil prices moved higher, bond prices weakened, and equity market volatility rose. Events and data from January and February have become less central as the implications of the hostilities evolve. Investors are now focused on the fallout from the war, including higher inflation, slower growth, and pressure on consumer health. There are many unknowns and uncertainties that will cause markets to fluctuate, even as the future situation develops.

The commencement of the war with Iran at the end of February brought an unexpected response from the bond market. A typical reaction to armed conflict is a rush to the safety of U.S. Treasury issues, which brings down yields. Instead, investors sold government bonds as they feared the impact on inflation from higher global fuel prices. This pushed up yields by over 40 basis points across much of the yield curve. Investors' fears of heightened inflation were sustained through the end of the quarter and yields remain elevated.

A secondary impact of the shift toward higher yields was the flattening of the yield curve. Previously, there had been a dip in yields in the "belly" of the curve due to expectations of potential interest rate cuts by the Federal Open Market Committee (the Fed). Short-term and long-term yields were higher than those on Treasuries with maturities of 1 to 5 years. By mid-March, this dip disappeared as interest rates rose through that area of the curve.

US Treasury Yield Curve on December 31, 2025 & March 31, 2026



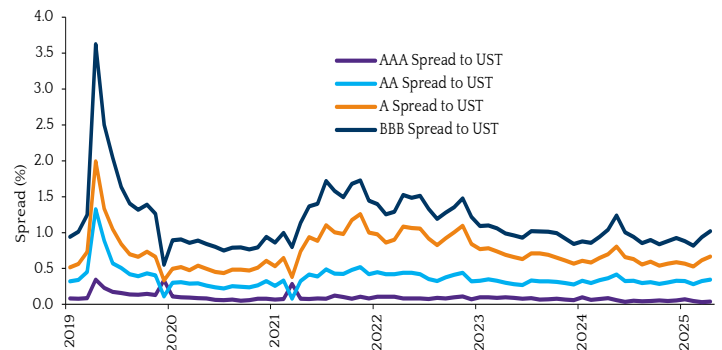
Source: Bloomberg as of 3/31/2026

Understandably, the Fed decided against making any changes to monetary policy during its March meeting. The war in the Middle East has increased uncertainty about the direction of the U.S. economy. Of primary concern for the committee was the impact of the war on energy prices. Higher energy costs, if left unchecked, can filter into the prices of everyday goods and services, increasing inflationary pressures.

The FOMC had held rates steady back in January as employment appeared to be stabilizing. A weaker reading in February cast new doubt on the labor market, suggesting that another cut might be necessary. However, the unfolding of the war with Iran and sharply climbing global oil prices changed all economic expectations. The Fed is now primed to wait for more data before taking any action.

Prior to the spike in oil prices, the economy had demonstrated to be resilient so far this year overall. Consumer income and consumption data showed continued strength through January, despite elevated inflation. Similarly, manufacturing and services measures were in expansionary territory through February. Unemployment and inflation remained concerning, but neither was overwhelmingly dire. Future economic measures are now highly uncertain due to the Middle East conflict.

Intermediate Investment Grade Credit Spreads (OAS) by Quality Rating Cohort December 2019 to March 2026



Source: Bloomberg as of 3/31/2026

Credit spreads, or the additional yield required by investors to compensate for default risk, have moderately softened in some areas. There has not been widespread movement, and spreads are still tight by historical standards. Heavy issuance by corporations has been absorbed by the market, although deals from technology companies building out power and artificial intelligence capabilities have drawn some investor concern. Private credit, not owned in any of our strategies, has been a focal point of concern.

These investor concerns have translated into wider spreads in those sectors and some individual names, but not across the market. This supports maintaining current allocations to corporate bonds while remaining selective in new purchases. The amount of spread movement has not been enough to build a compelling case for changes to our portfolio allocation strategy.

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

Performance in the first quarter of the year reflected a reversal of a long-standing trend. U.S. government-guaranteed issues outperformed corporate bonds by a healthy margin. Overall, intermediate bond returns were negative for Q1, but close to zero, as interest rates rose. Inflation fears from the Iran war overtook the surprisingly resilient demand for corporate bonds. The softening in credit spreads also contributed to the deeper negative returns for corporate issues.

The first quarter offered yet another lesson on how prognostications about future interest rates are futile. Attempting to look ahead offers the same uncertainty. Much of the fate of the global economy will depend on the length and breadth of the conflict with Iran, which is indeterminate by all estimates. The future price of energy, too, will have an impact on the forward path for the domestic economy due to trade links with the rest of the world. Damage to global energy markets may require a long time to normalize, much less retreat to pre-war lows.

The higher yield curve today should be attractive to investors seeking better returns from bonds. Further, fixed income investments may still offer protection against the recent volatility seen in the equity market. A foundation of our strategy is to purchase high-quality, investment-grade bonds for our clients' portfolios. These portfolios seek to offer liquidity, strong credit ratings, and principal protection. We believe now is an ideal time for investors to reassess their asset allocations and consider purchasing or adding investment grade bonds given the uncertainties ahead.

John Beaver, CFA® | Portfolio Manager

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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.