Fixed Income Outlook

| 3Q26

Key Takeaways:

1. War-driven inflation pressures are pushing rates higher.
2. The Fed faces a difficult balance between inflation, growth, and politics.
3. We believe high-quality investment-grade bonds remain a stabilizing portfolio tool.

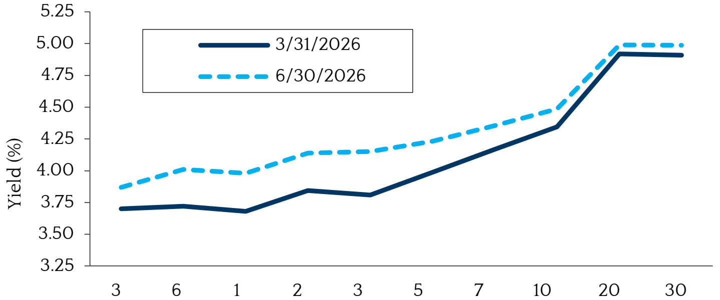
Bond investors continue to grapple with the war with Iran and inflation pressures. Economically, the U.S. consumer has been resilient through the first half of the year, maintaining spending in the face of higher prices, especially at the gas pump. Bond performance has been positive, but the future remains uncertain, with many factors at play amid a number of competing economic and geopolitical risks. While markets are focused on these issues, the Federal Open Market Committee (the Fed) welcomed its new Chair, Kevin Warsh, in late May.

The ongoing war with Iran is still having broad effects on markets. Most acutely, the closure of the Strait of Hormuz has heavily disrupted global oil and fertilizer prices, driving them higher in both spot and futures markets. Those elevated commodity prices have had an immediate economic impact and heightened concerns about inflation, pushing interest rates higher. The likelihood of these rising input costs spreading throughout the economy will increase as the conflict drags on.

Newly sworn-in Fed Chair Kevin Warsh, who replaces Jerome Powell, faces a quandary in the current economy. Inflationary pressures have been exacerbated by the war with Iran and continue to run well above the Fed's long-term target of 2%. The conventional solution would be a series of rate hikes to slow the economy and reduce inflation over time. However, higher interest rates cannot cure the exogenous shock of the war and would likely intensify consumer financial strain.

The Fed's choices are further complicated by President Trump's repeated call for lower interest rates. Trump presumably nominated Warsh to pursue a rate-cutting agenda. Doing the opposite would almost certainly invite the same withering criticism that Powell faced during his tenure as Fed Chair. The next interest rate decision looms large in the political arena and could once again test the independence of the Fed.

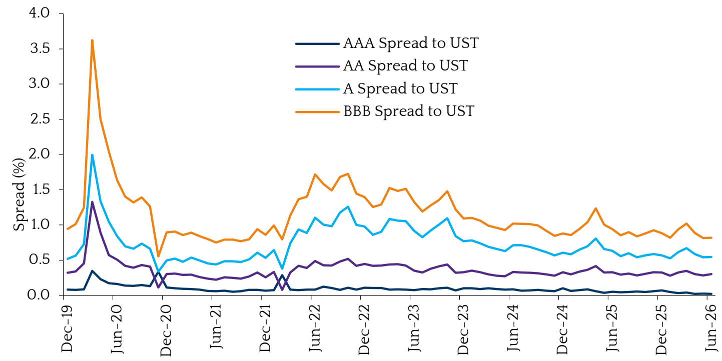
U.S Treasury Yield Curve on March 31, 2026 and June 30, 2026



Source: Bloomberg as of 6/30/2026

The U.S. Treasury yield curve still carries a normal, upward-sloping shape, despite the recent uptick in yields. Short-term yields have risen as investors anticipate the Fed will raise rates later this year. Market-derived expectations point to a mid-fourth quarter timeframe for the FOMC to adjust rates upward, although these expectations are not certainties and can shift over time.

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



Source: Bloomberg as of 6/30/2026

Credit spreads, or the additional yield required by investors to compensate for default risk, grew tighter over the second quarter. This reversed a softening trend witnessed in the first quarter, quashing hopes for more accommodating spread levels. Spreads are roughly in line with levels registered at the end of last year.

Investor enthusiasm for corporate credit seemingly knows no limits and high demand persists in the marketplace. A recent offering by SpaceX in June raised $25 billion while garnering a whopping $89 billion in demand from investors. The market's ability to not only absorb such a large issuance, but also investors' appetite for additional participation in the deal, is remarkable. This ostensibly endless desire for corporate debt has historically been a long-running factor in supporting tight credit spreads.

Bond performance for the second quarter reflects both the increase in yields and persistent tight spreads. U.S. government-backed issues suffered as interest rates moved up, given that prices move inversely to yields. Corporate bonds outperformed U.S. government-backed issues as narrowing credit spreads helped offset the impact of rising yields. The magnitude of corporate bond outperformance was substantial and reversed the trend observed in the first quarter. On a year-to-date basis, corporate bonds have now outperformed U.S. government-backed bonds.

As we look forward, we do so with trepidation. The war with Iran continues despite a fragile ceasefire and stalled peace talks. The U.S. economy forges ahead on the strength of large-scale AI spending and a surprisingly strong consumer facing inflation pressures. Housing costs are still quite expensive, but employment levels have remained strong. Should any of these broad themes change, a shift in momentum could quickly push the markets in a new direction.

We expect the Fed to remain data-driven, especially with a new Fed Chair seeking to navigate both Washington politics and monetary policy. Given the Fed's recent reluctance to alter the current policy, it suggests that meaningful changes in economic data would likely provide the motivation for future policy adjustments. Higher interest rates appear more probable in the future than lower rates, whether driven by the Fed or by the markets alone.

Our strategy is to purchase high-quality, investment-grade bonds for our clients' portfolios, regardless of the interest rate environment. These portfolios seek to offer liquidity, strong credit ratings, and principal protection. Given the economic uncertainties, now may be a good time for clients to reassess their allocation across different asset types. Increasing exposure to investment grade bonds may help smooth portfolio volatility amid the uncertainties ahead.

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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.