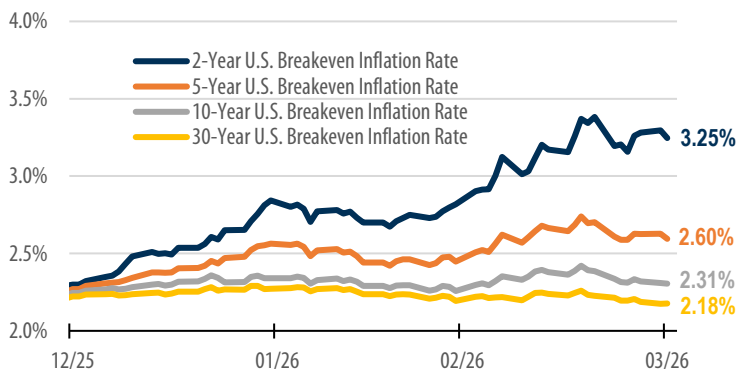




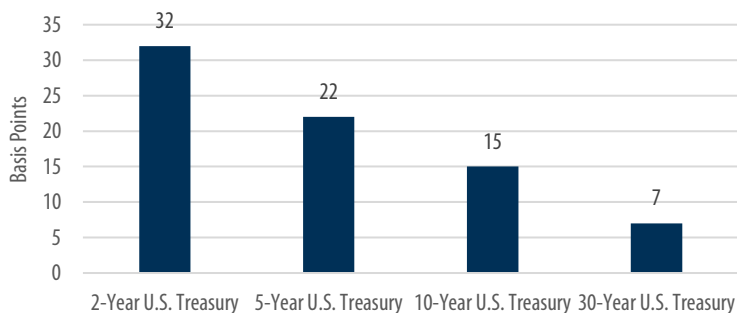
William Housey, CFA
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Chart 1: Inflation Breakevens



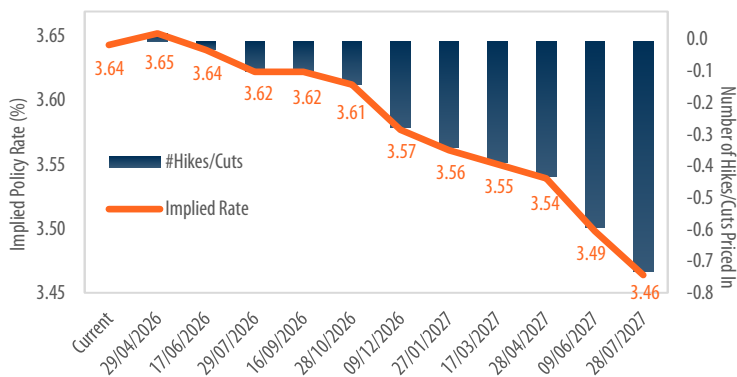
Source: Bloomberg. Data from 31/12/2025 to 31/3/2026. The breakeven rate is a market-based gauge for the expected annual inflation. Past performance is no guarantee of future results..

Chart 2: U.S. Treasury Yield Change Year-To-Date



Source: Bloomberg. As of 31/3/2026.

Chart 3: Implied Federal Funds Rate & Number of Hikes/Cuts



Source: Bloomberg. As of 31/3/2026. The assumed rate movement for one rate hike or cut is equivalent to +/- 0.25%. There is no assurance forecasts will be achieved. The Federal Funds Rate is the interbank overnight lending rate for commercial banks' excess reserves. The Implied Federal Funds Rate for the US is the estimated forward rate for the United States and is derived from Federal Funds Futures contracts to determine the probability of the Federal Reserve changing monetary policy at a particular meeting.

Mario Andretti, the only driver in history to win the Daytona 500, the Indianapolis 500, and a Formula One World Championship, once said, "If everything seems under control, you're just not going fast enough." Yet, in racing, speed alone isn't enough. Winning is not about leading every lap, but about managing the race; positioning, timing, and anticipating what comes next. A driver can dominate early, only to lose in the final laps as conditions change. The winners are those who understand how the race is evolving, not just where they are in the moment.

That's a helpful framework for bond investors today. The first quarter of 2026 has been defined by a surge in oil prices, driven by escalating tensions between the U.S./ Israel and Iran. As energy prices moved higher, interest rates followed, reflecting a sharp increase in near-term inflation expectations (Chart 1). The 2-year U.S. Treasury yield is up 32 basis points (bps), the 5-year is up 22 bps, the 10-year is up 15 bps, and the 30-year is up 7 bps in the first quarter (Chart 2). Markets are reacting to what is directly in front of them: higher oil, higher inflation, and higher rates. However, like a race, the outcome won't be determined by the current lap.

What matters now is how conditions evolve from here. The range of potential outcomes reinforces this point. If geopolitical tensions ease, commodity prices would likely retrace to lower levels, inflation expectations may decline, and rates may follow, potentially supporting both risk assets and bonds. If the conflict persists, the inflation impulse may prove temporary as higher energy costs weigh on consumption and growth, ultimately shifting the market's focus from inflation to slowing activity and thus lower rates. In both scenarios, while the path may differ, the forward distribution increasingly leans in favor of bondholders, in our view.

That dynamic has important implications for positioning. Despite headline noise, we believe the Federal Reserve ("Fed") is unlikely to respond to a supply driven shock with rate hikes. We continue to expect at least one rate cut this year (Chart 3). At the front-end of the yield curve, with the 2-year near 4%, we see a particularly attractive entry point. This segment has already done the heavy lifting in terms of repricing higher inflation expectations and now offers compelling carry with asymmetric return upside potential in an easing scenario, especially for investors who maintained ultra short positioning when yields were declining. Although the intermediate part of the curve has remained relatively flat and has not meaningfully repriced, we remain constructive and continue to like owning duration here. At the long end of the curve, with the 30-year approaching 5%, investors are increasingly better compensated for the risks we've highlighted previously, including persistent deficits, elevated sovereign debt issuance here and abroad, and global cross currents such as foreign borrowing needs, currency movements, and capital flows. While volatility may remain higher, the risk reward profile is more balanced at current yield levels.

Markets are focused on who is leading the race today, but investing requires anticipating how the race will unfold. With real and nominal yields elevated, fixed income offers both durable income and the potential for price appreciation across a range of outcomes. Subsequently, we favor maintaining duration modestly longer than intermediate benchmarks while emphasizing active management in an increasingly complex and evolving landscape.

SECTOR POSITIONING

Ultra-Short Maturity

The Fed's easing cycle was paused in early 2026 as the oil shock stemming from the Iran conflict complicated the inflation picture, with CPI still running above the 2% target. With the expected change in timing of one to two interest rate cuts, expectations have moderated meaningfully relative to where markets stood at the start of the year. Amid heightened geopolitical uncertainty, demand for ultra-short corporate credit remains strong. We believe this demand is supported by elevated all-in yields, investor preference for lower-duration exposure and broader spread dispersion across credit markets. In our view, yields on short-duration securities continue to look appealing on a risk-adjusted basis, and the delayed pace of easing may allow front-end yields to remain attractive for longer than previously anticipated. We continue to favor ultra-short investments for principal preservation while capturing real yield within a diversified fixed-income strategy.

Mortgage-Backed Securities

We believe agency mortgage-backed securities (MBS) may serve as a ballast relative to broader credit markets during a potential risk asset correction or recession. Valuations have tightened, aided by the announcement that Government Sponsored Enterprises (GSEs) would purchase \$200 billion of mortgages. Risks include a volatility spike on flight-to-quality events or a stagflationary environment, in our opinion. We have a positive view on structured and defensive exposure, finding value in floating-rate securities while selectively allocating to in yield-enhancing opportunities in the commercial and non-agency securitized sectors as a complement to a portfolio of agency MBS.

Preferred Securities

Despite geopolitical turmoil, the preferred and hybrid securities market has remained resilient to start the year. We continue to see attractive relative value in the retail segment, which offers an incremental yield advantage over institutional securities along with greater convexity that may support price appreciation if long-term rates decline. Looking ahead, we believe most returns should be driven by income, with the combination of high-income potential and a high-quality issuer base providing insulation against a weaker economic environment or geopolitical disruption. Credit fundamentals across banks, insurance, and utilities remain stable. Fourth quarter of 2025 bank earnings were solid across the U.S., Europe, and Canada. We believe private credit concerns are largely concentrated in private equity-backed software lending with limited preferred securities market exposure. We also expect supply to be lower than 2025's record year, with utilities continuing to expand their share of the market experienced over the past two years. We favor the \$25 par retail segment for its yield advantage and upside convexity, while acknowledging that the \$1,000 par institutional segment should exhibit less volatility given their variable-rate structures and shorter durations.

U.S. Treasury Securities

We believe the Fed is likely to remain on hold in the near term due to the oil shock tied to the Iran conflict, though we believe the broader policy direction still leans toward easing unless inflation meaningfully accelerates. A significant economic slowdown or flight-to-quality environment could lead to meaningful curve steepening, enhancing the return potential of intermediate duration.

The long end of the yield curve remains more volatile and sensitive to factors beyond monetary policy. Ongoing concerns include the U.S. budget deficit, the overturning of tariffs and cost of the conflict with Iran, and the risk of further foreign diversification away from U.S. dollar assets. Treasury issuance may eventually shift toward the short end to support bank liquidity and mortgage rates, though we believe the mix will likely remain unchanged in the near term. We favor the intermediate segment for its more balanced combination of income, roll-down potential, and interest rate risk compensation.

High-Yield Bonds

Yields on high yield bonds are currently above their 15-year average and at levels historically associated with attractive forward return potential. Spreads have widened from recent tights as AI disruption fears rippled through sectors such as information technology and health care, driving spread dispersion to the highest level in two years. Despite the volatility, fundamentals remain supportive: earnings for the fourth quarter of 2025 saw twice as many beats as misses with favorable credit takeaways across most sectors while default rates remain well contained. In our view, the broader macro backdrop remains resilient, underpinned by tax refunds from the "One Big Beautiful Bill" Act, data center capital expenditure trickle-down, AI-driven business formation, and an acceleration in mergers and acquisitions and potential initial public offerings which could provide liquidity and credit enhancement.

Importantly, we believe current yield levels provide a meaningful income cushion against potential spread widening, enhancing downside mitigation relative to periods when yields were less compensatory. Technical factors remain supportive, with issuance trailing demand and overall index quality improving. In this context, we believe active management is especially critical. In our view, elevated sector-level dispersion and "baby with the bathwater" selling pressure in leveraged finance create opportunities for disciplined managers focused on higher-quality issuers with resilient cash flows.

Senior Loans

We believe senior loans offer attractive nominal and real yields, with spreads above the long-term average and deeper price discounts reflecting a meaningful reset from prior tight levels. Rate cut expectations have moderated, repricing activity has slowed and the relationship between loan and high yield bond valuations has inverted, leaving loans inexpensive relative to high yield bonds. Dispersion has risen to levels not seen since early 2020, driven by AI disruption concerns and selling pressure from private credit redemptions. Fundamentals remain supportive, with defaults contained, limited near-term maturities through 2027, and sponsors opportunistically repurchasing debt at discounted levels. Current yield levels provide a meaningful income cushion that supports an outlook for positive total returns, though a wider range of outcomes reflect uncertainty around rate policy, elevated software and AI exposure, and lower average credit quality relative to the high yield market.

SECTOR POSITIONING (CONTINUED)

Emerging Market Bonds

We maintain a constructive view on local-currency emerging market debt, supported by high real interest rates and historically inexpensive emerging markets currency valuations. Uncertainty around the Iran conflict has complicated the broadening growth outlook and U.S. dollar pressure that has supported emerging markets foreign exchange returns. Emerging markets fundamentals remain positive. Services purchasing managers indexes are signaling expansion, economic surprise indices are in positive territory, and the majority of major emerging markets central banks maintain an accommodative stance while inflationary pressures remain contained. Investor net flows improved in the first quarter of 2026, matching all of 2025. We believe key risks include elevated geopolitical uncertainty, U.S. policy unpredictability, and near-term risk-off events that could weigh on emerging markets foreign exchange—the primary return driver alongside carry. We continue to see increasing differentiation between oil and commodity exporters and importers and favor selective high-real-rate markets.

Investment Grade Corporate Bonds

Investment grade corporate bond yields remain attractive relative to long-term averages, with index yields above the 15-year average. Credit spreads are near the average of the 12-month range though they have widened marginally from the 2026 tightness. Demand remains strong, with investment grade fund inflows averaging \$10 billion per week and new deals roughly four times oversubscribed. New issue supply has surged, with January issuance reaching record levels and February exceeding recent averages due to increased mergers and acquisitions and large-scale capital expenditures. Fundamentals have strengthened, with solid revenue and earnings growth and upgrades outpacing downgrades by roughly three to one. The credit quality of the index has also improved with the BBB- share of the index at a record low. We believe valuations are likely to remain bifurcated between cyclical and non-cyclical sectors, with geopolitical risks and Washington policy decisions an ongoing source of vulnerability, reinforcing the importance of selective, active management, in our view. From a risk perspective, we believe vulnerabilities remain more concentrated at the long end of the curve, while short- and intermediate-term bonds offer more compelling risk-adjusted return profiles.

Municipal Fixed Income

Municipal bond performance may soften through mid-April 2026 due to geopolitical risks, seasonal tax-selling pressure, and increased new issue supply, before improving during the summer reinvestment months. Municipal-to-Treasury ratios appear fairly valued while credit spreads remain relatively tight. We believe nominal and taxable-equivalent yields ("TEYs") are attractive, with BBB and high yield in particular offering equity-like TEYs above 7%. This is driving robust fund flows, currently at the third-highest first quarter start on record as high net worth investors drive interest. Given 2026 is an election year, we do not anticipate major legislative proposals that would materially impact the market, though a potential government shutdown, the debt ceiling debate, and midterm elections bear watching. In our view, longer term risks include swelling sovereign budget deficits and geopolitical tensions pushing long-end rates higher, as well as the possibility that fund flows turn negative if Treasury yields rise or supply exceeds demand.

Credit fundamentals remain broadly stable, though some issuers face budget pressures as revenue softness can lag economic turns by up to a year. The rating agencies ended 2025 with disparate views: S&P downgraded more issuers than it upgraded while Moody's upgraded more borrowers than downgraded. Default rates year-to-date are roughly in line with prior years. We continue to find value with coupons 5% and higher, in the 12–20 year maturity portion of the curve and in select A, BBB, and high-yield revenue bonds in sectors such as airports, gas bonds, hospitals, and utilities.

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