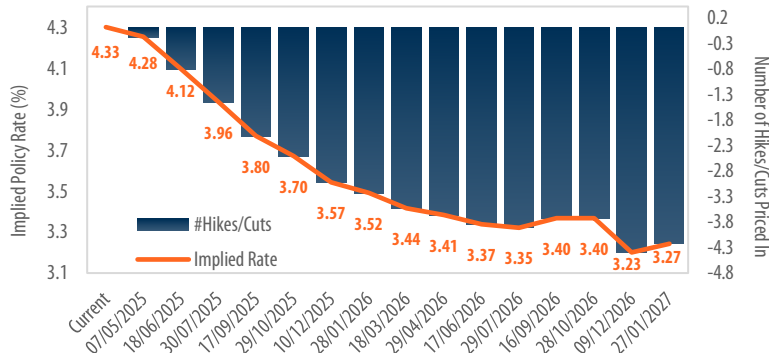




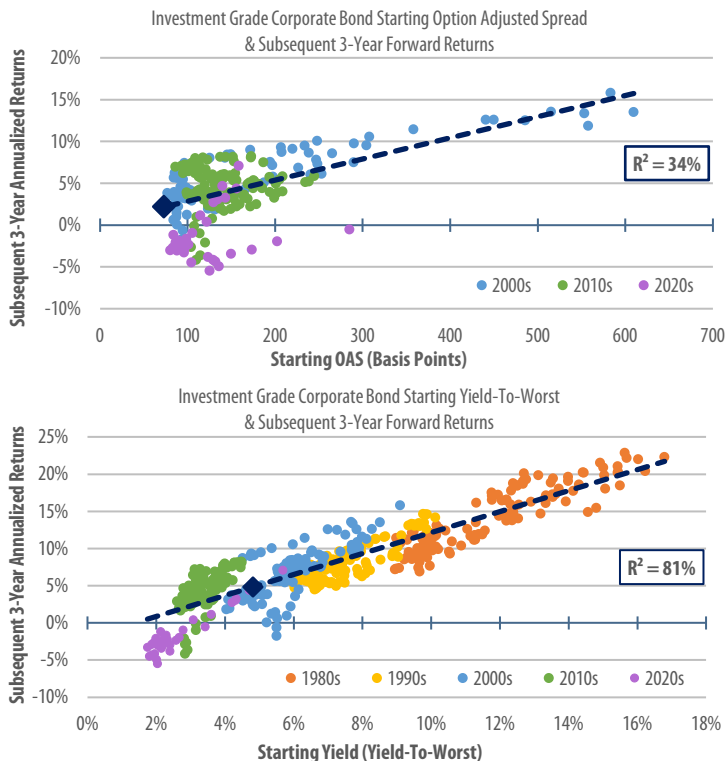
William Housey, CFA
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Chart 1: Implied Federal Funds Rate & Number of Hikes/Cuts



Source: Bloomberg, as of 30/9/25. 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.

Chart 2: Spreads & Yields



Source: Bloomberg. Data as of 30/9/25. **Past performance is no guarantee of future results.** These charts are for illustrative purposes and not indicative of any actual investment. Indexes are unmanaged and an investor cannot invest directly in an index. Returns are annualized 3-year forward returns. There is no assurance any forecasts will be achieved. R^2 represents the percent of total variation in total returns that can be explained by yields at the start of each period. YTW = Yield to Worst. OAS = Option Adjusted Spread. Spread data begins in 2002, so the available history is shorter than the yield data.

In Greek mythology, Odysseus's journey home from the Trojan War was marked by detours, storms, and shifting winds - yet each challenge brought him closer to his destination. His voyage, known as the Odyssey, took ten years as he battled mythical creatures, endured the wrath of the gods, and relied on resilience to ultimately reach his home in Ithaca. Today's fixed income investors may feel similarly: navigating reckless deficits, record Treasury auctions, the most persistent inflation in decades, and unpredictable policy shifts. Ultimately, however, we believe these challenges have created a market backdrop that offers compelling opportunities for fixed income investors.

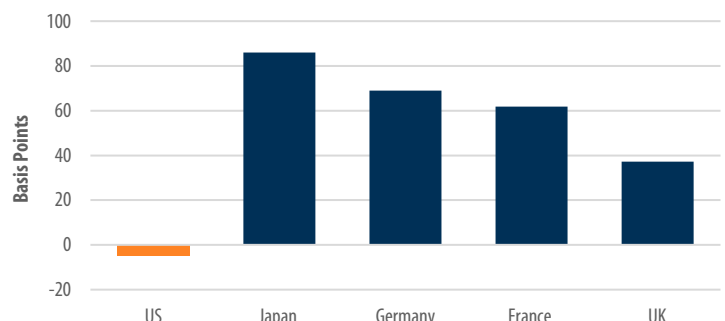
In September, the Federal Reserve ("Fed") cut interest rates for the first time since December 2024. The bond market is now pricing in slightly more than four additional cuts by the end of 2026, which would place the federal funds rate near 3%. We view this terminal rate assumption as reasonable, consistent with our expectations for forward inflation and an appropriate implied real yield (~1%) at year-end 2026 (Chart 1). For fixed income investors, the Fed resuming interest rate cuts greatly improves the risk-reward since the probability of price appreciation as yields decline has now risen, even if the pace of rate cuts currently implied by the market proves optimistic.

Absolute yields remain attractive, in our view - even with credit spreads across most sectors of fixed income having tightened. Empirical evidence shows that yield levels have been the most reliable indicators of potential future bond market returns, especially when spreads are at "tight" levels (Chart 2).

Longer-maturity yields tell a more nuanced story: with the 10-year U.S. Treasury yield at 4.15% and the TIPS market implying expected inflation of 2.37% over the next decade, the resulting real yield - yield adjusted for inflation expectations - is hovering near 2%. Compensation for bondholders at this level could provide a meaningful cushion against the risk of persistent, "sticky" inflation. Moreover, while 30-year yields may appear to be "stuck", they should be considered through a global lens. In the U.S., the 30-year Treasury yield is modestly lower this year, down five basis points (bps) to 4.73%, despite briefly peaking above 5% twice. Yet abroad, the picture is strikingly different: 30-year bonds in the U.K. are up 37 bps this year; France is higher by 62 bps; Germany by 69 bps; and Japan by 86 bps. The U.S. long-end has outperformed because global investors recognize the varying degrees of inflationary and fiscal pressures affecting other government bond markets (Chart 3).

In summary, much like Odysseus's voyage, we believe today's fixed income journey demands patience and discipline but could offer meaningful rewards. Elevated real yields, globally competitive rates, and the Fed's renewed interest rate-cutting cycle create the combination of attractive income and potential price appreciation. With policy clarity improving, global context adding perspective, and absolute yields near multi-decade highs, we believe fixed income provides a particularly favorable environment for investors today.

Chart 3: Year-To-Date Change in 30-Year Benchmark Yields



Source: Bloomberg as of 30/9/2025. **Past performance is no guarantee of future results.** U.S. is represented by the US Generic Govt 30 YR Index. Japan is represented by Japan Govt 30 YR Index. Germany is represented by Germany GOVT Bond 30 YR Index. France is represented by France Govt Oats Btan 30 YR Index. UK is represented by UK Gilts 30 Year Index.

SECTOR POSITIONING

Ultra-Short Maturity

In September, the Fed began reducing interest rates, lowering the target range for the Federal Funds Rate by 25 bps. They also indicated expectations for two additional cuts this year, and project one cut for 2026. While the market aligns with the Fed's outlook for this year, it continues to anticipate more cuts next year than the Fed currently expects. We believe yields on short maturity securities remain attractive, though we anticipate they will decline into 2026 if market expectations hold true. We continue to favor ultra-short investments for principal preservation, along with a real yield that offers potential benefits within a diversified investment strategy.

Mortgage-Backed Securities

We believe mortgage-backed securities (MBS) will serve as a ballast relative to broader credit markets during a potential correction in risk assets or a recession. Over the past three months, agency MBS spreads have narrowed and are now approaching their long-term averages. Meanwhile, volatility has returned to moderate levels, aligning with longer-term norms. We like a defensive approach but also favor mortgages more broadly. We would selectively position allocations in yield-enhancing opportunities in the commercial and non-agency sectors as a complement to agency MBS.

U.S. Treasury Securities

The Fed started lowering rates in September and now expects two more cuts this year. It still projects just one cut in 2026, even though the market is already pricing in more than four. In our view, short-term rates are already fully reflected in prices unless the economy slows down sharply. The yield curve's medium-term section is fairly steep, presenting a "roll-down" opportunity where bonds may generate extra returns as they age and move to lower yields on the curve, without any change in interest rates. The long end could also look attractive for investors seeking duration once the Fed trims rates a few more times.

High-Yield Bonds

High yield bonds are currently offering yields near their long-term averages, which have historically been associated with strong returns, despite the valuation compression seen over the past quarter. We believe fundamentals remain supportive, as third quarter earnings reports for high yield issuers have been in line with, or better than, expectations. A modest number of high yield issuers have had earnings misses, however a majority are issuing positive or in-line forward-looking guidance. Fewer issuers are citing tariff pressures, and defaults remain subdued. Should financial market volatility increase, our analysis indicates current yield levels could provide a meaningful buffer against modest spread widening when taking the potential for lower interest rates into consideration. We believe that active management, focusing on higher-quality and less cyclical issuers, provides attractive investment opportunities in this environment.

Senior Loans

We believe senior loans provide some of the highest nominal yields in taxable fixed income. The Fed cut rates in September after a long pause and projects two more cuts this year, followed by an additional cut next year. However, the market is pricing in more cuts than the Fed anticipates. Should market expectations materialize and the Fed increase the pace of rate cuts in 2026, that would represent a headwind for senior loan fund flows because investors will likely seek to add duration to their portfolios. Despite this, we believe yields at current levels provide ample opportunity for positive total return from these assets, even if the Fed cuts more than it currently projects. Corporate default rates remain low, and we believe fundamentals have thus far remained resilient, supporting investor interest in these assets.

Emerging Market Bonds

We maintain a constructive outlook on local currency emerging market debt, supported by the potential for currency gains and high real interest rates. We view the U.S. dollar as potentially overvalued, with possible adjustments as the Fed eases monetary policy while many emerging market central banks have already begun to moderate their easing cycles. Additionally, uncertainty surrounding U.S. trade policy presents a further headwind for the dollar. We believe select emerging market countries offer attractive real interest rates, further supporting this asset class.

Investment Grade Corporate Bonds

Investment grade corporate bond yields maintain a competitive advantage over long-term averages despite declining over recent months. Credit spreads have rallied this quarter and are below the 12-month average, with support from strong demand and investor interest in nominal yields. Our analysis indicates that credit fundamentals remain stable or are improving; however, we've observed a recent shift in ratings momentum driven by downgrades among major issuers. We believe bifurcation in valuations between cyclical and non-cyclical sectors will persist and believe diligent active management will be key to competitive returns. We believe risk will be more concentrated in the long end of the yield curve, where spread duration is greater and sensitivity to macroeconomic shifts is higher. In contrast, we see more compelling risk-adjusted return outcomes in short- and intermediate-term investment grade bonds that are more insulated from price volatility.

Preferred Securities

The retail segment started the third quarter at the widest valuations in the preferred and hybrid securities market. A subsequent rally compressed yields and drove prices closer to par. We believe most of the forward-looking returns will come from income, although Fed rate cuts could spur additional investor inflows into the preferred and hybrid securities market. This may act as a catalyst for further price appreciation. High levels of income and a high-quality issuer base would also provide insulation if the economy weakens or if geopolitical turmoil leads to lower rates and wider spreads. As we begin the earnings season for the third quarter of 2025, we believe that credit fundamentals have changed little across the major sectors of the preferred market which includes banks, insurance, utilities, and energy.

Municipal Fixed Income

We believe municipal bond performance will improve throughout the balance of 2025, particularly in core and long duration strategies. A combination of likely Fed cuts, reduced new issue supply, and high taxable equivalent yields should attract investor interest. We believe value exists in the 12-20 year part of the municipal yield curve, which has lagged in performance and currently represents the steepest part of the municipal yield curve before it flattens on the long end. Issuers accelerated project financing ahead of this year's tax legislation, creating excess supply that hindered year-to-date performance; however, we anticipate supply will ease, creating a healthier balance. Municipality credit fundamentals remain resilient, as the U.S. economy helps sustain municipal budgets even as some higher-profile issuers like Chicago and California struggle with deficits.

There can be no assurance that any of the trends and projections cited herein will continue or come to fruition. References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

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