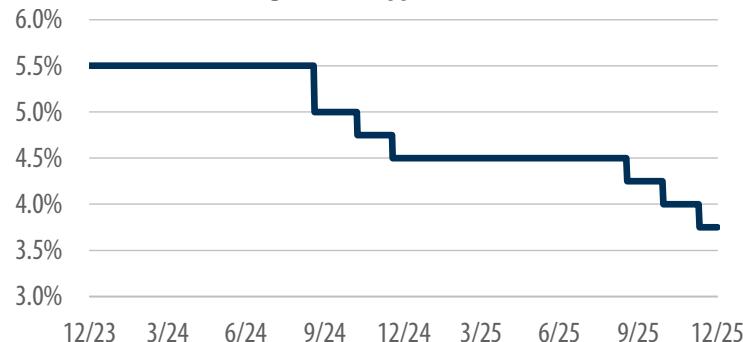




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Chart 1: Federal Funds Target Rate - Upper Bound



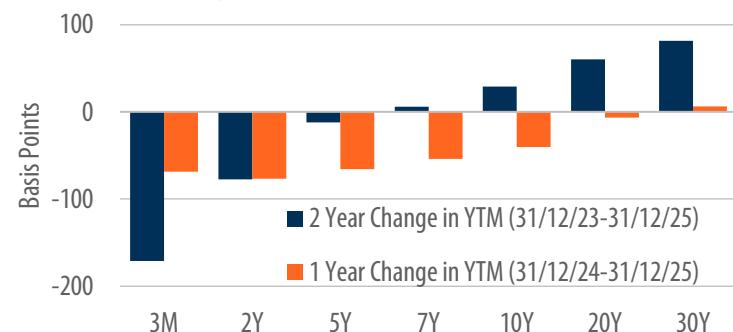
Source: Bloomberg. Data from 31/12/23 to 31/12/25. The Federal Funds Rate is the interbank overnight lending rate for commercial banks' excess reserves.

Chart 2: 2-Year/10-Year U.S. Yield Curve



Source: Bloomberg. Data from 29/12/23 to 31/12/25. **Past performance is no guarantee of future results.** The yield spread is the difference between yields on the varying Treasury maturities. A basis point is a common unit of measure for interest rates and is equal to 1/100th of 1% or 0.01%. A 1% change is equal to 100 basis points.

Chart 3: U.S. Treasury Yield Change Year-Over-Year



Source: Bloomberg, as of 31/12/2025. **Past performance is no guarantee of future results.** YTM represents Yield-To-Maturity.

Fixed Income: The Rope-a-Dope

In boxing, Muhammad Ali's "rope-a-dope" strategy was on full display during his 1974 fight against George Foreman in the "Rumble in the Jungle." Facing a stronger, younger, and heavily favored opponent, Ali leaned back on the ropes, absorbed the pressure, conserved energy, and waited for the right moment to strike. It wasn't about throwing the biggest punch...it was about positioning, patience, and timing. That's a useful metaphor for bond investors today. The market is throwing haymakers with policy uncertainty, fiscal noise, and global cross-currents. The temptation is to swing hard at every headline. We believe the better strategy is to position where compensation is highest and outcomes are less binary. After all, the U.S. bond market was up 7.3% in 2025, the fourth-best annual return in the past 15 years and the best since 2020, as measured by the Bloomberg US Aggregate Bond Index.

What's front and center for bondholders over the next 12–18 months is not what the Federal Reserve ("Fed") already did, but whether the economy reaccelerates in 2026 and whether inflation must follow. We don't believe the two are inseparable. In our view, growth can firm without reigniting inflation when it is driven by supply-side improvements rather than excess demand. Policy initiatives such as deregulation and investment-friendly tax incentives may improve after-tax returns on capital, encourage business investment, and lift productivity, expanding the economy's productive capacity. Combined with easing supply constraints and a recovery in interest-rate-sensitive sectors as policy becomes less restrictive, these forces may allow the economy to "get stronger" without prices "getting hotter." Growth reflects activity; inflation reflects whether demand persistently outpaces supply. They overlap, but they are not the same fight.

That distinction matters for duration. As front-end yields continue to decline, investors sitting in cash and very short maturities will increasingly feel the income give-up and look to extend duration. After seven 25-basis-point rate cuts since September 2024, the income available at the front end is meaningfully lower; down roughly one-third for investors anchored to short-term rates (Chart 1). We believe the intermediate portion of the yield curve currently offers a more attractive balance of carry, roll-down, and risk than either extreme. (Chart 2).

Meanwhile, the long end of the yield curve can be the ropes, absorbing blows from fiscal dynamics and global forces such as foreign sovereign borrowing, currency movements, and international capital flows. Even in an easing cycle, these forces may keep long-dated yields volatile. While the long end may ultimately move lower given attractive real yields, we believe the path forward is more opaque today (Chart 3).

This is a market where discipline has the potential to win. With real and nominal yields still elevated relative to history, fixed income offers durable income today, along with the potential for capital appreciation should rates drift lower over time. In this environment, we generally favor maintaining duration modestly longer than intermediate benchmark duration, remaining cautious at the very long end, and relying on active management as spreads stay tight and outcomes remain dispersed.

SECTOR POSITIONING

Ultra-Short Maturity

During the fourth quarter of 2025, the Fed implemented further policy rate cuts, advancing its gradual shift away from restrictive monetary settings. At its December 2025 meeting, the Federal Open Market Committee (FOMC) revised its outlook, signaling a more moderate pace of easing in 2026 as inflation continued to cool and economic growth slowed but remained durable. The Fed also bolstered money market liquidity by announcing plans to purchase roughly \$40 billion in Treasury bills per month through April 2026. Demand for ultra-short corporate and securitized credit remains strong. Yields on short-duration securities continue to look appealing on a risk-adjusted basis, though their movement into 2026 will likely depend on the Fed's actual pace of easing relative to what markets have already priced in. We continue to favor ultra-short investments for principal preservation while capturing real yield within a diversified fixed income strategy.

Mortgage-Backed Securities

We expect agency mortgage-backed securities (MBS) to serve as a ballast relative to broader credit markets during a potential correction in risk assets or a recession. While interest rate volatility has moderated, mortgage spreads have largely remained steady and are slightly tighter than long-term averages. We like a defensive approach but also favor mortgages more broadly and would selectively position in yield-enhancing opportunities in the commercial and non-agency sectors as a complement to agency MBS.

Preferred Securities

We believe the retail segment of the preferred and hybrid securities market offers attractive relative value compared to the institutional segment and may also benefit from a technical boost as investors re-enter the market after tax-loss harvesting. Looking ahead, we continue to believe that most returns will be driven by income generation. Fed rate cuts could potentially stimulate further investor inflows into the preferred and hybrid security markets, which could serve as a catalyst for additional price appreciation. We also believe that the combination of high income potential and a strong issuer base will provide a buffer against adverse economic or geopolitical conditions, which are typically characterized by lower interest rates and wider spreads. Furthermore, credit fundamentals across major sectors in the preferred market, including banks, insurance, utilities, and energy, remain stable.

U.S. Treasury Securities

During the fourth quarter of 2025, the Fed continued its easing cycle and, at the December meeting, reinforced a more measured policy path going forward. While the Fed projects fewer rate cuts in 2026 than previously anticipated, market pricing continues to reflect a more accommodative trajectory. In our view, much of the expected easing at the front end of the yield curve is already priced in absent a material weakening in economic conditions. By contrast, the intermediate portion of the Treasury yield curve remains relatively steep, offering an attractive roll-down opportunity—allowing investors to generate incremental return as bonds migrate to lower yields over time, even if interest rates remain unchanged.

The long end of the yield curve, while potentially attractive for investors seeking additional duration, remains more volatile and sensitive to a range of factors beyond monetary policy, including fiscal dynamics and global cross-currents such as foreign sovereign borrowing, currency movements, and international capital flows. Given this heightened sensitivity, we believe the intermediate segment of the yield curve offers a more balanced combination of income, roll-down potential, and interest rate risk compensation, particularly in an environment where fiscal policy and global influences continue to evolve.

High-Yield Bonds

High yield bonds currently offer yields near long-term averages and at levels that, historically, have been associated with attractive forward-return potential. Valuations have remained largely stable over the past several months, suggesting that the market has absorbed recent macro uncertainty without a meaningful repricing of risk. From a fundamental perspective, conditions remain supportive: earnings results among high yield issuers have generally met or exceeded expectations, with relatively few negative surprises, and default activity remains contained.

Importantly, in our view, current yield levels provide a buffer against potential spread widening should market volatility increase, particularly in an environment where interest rates may trend lower. This income cushion enhances resilience and improves downside protection relative to periods when yields were less compensatory. In this context, we believe active management is especially critical. We believe a disciplined focus on higher quality issuers with resilient cash flows and lower cyclical exposure offers the potential to capture attractive income while selectively managing downside risk as the credit cycle continues to mature.

Senior Loans

Senior loans continue to offer attractive nominal yields, remaining above long-term averages even as the Fed has advanced further into its easing cycle. During the fourth quarter, the Fed delivered additional rate cuts and, at its December 2025 meeting, updated projections to reflect a more gradual pace of easing in 2026. While the Fed's dot plot signals fewer cuts than currently implied by market pricing, futures markets continue to anticipate a more accommodative policy path. In an environment where policy easing may ultimately exceed the Fed's current projections, senior loan fund flows could face incremental pressure as investors look to extend duration and reposition along the yield curve. Even so, current yield levels provide a meaningful income cushion that supports positive total-return potential, including in scenarios where interest rates decline more than expected. Importantly, corporate default rates remain low and issuer fundamentals have proven resilient, reinforcing the role of senior loans as a source of income and diversification within credit-oriented fixed income allocations.

Emerging Market Bonds

We maintain a constructive view on local currency emerging market debt, supported by persistently high real interest rates and the potential for currency appreciation. Despite some recent softness, U.S. dollar valuations remain elevated relative to historical norms, and additional Fed easing could further reduce the U.S. dollar's yield advantage versus many emerging market currencies. Within this context, select emerging market countries continue to offer attractive real yields, and in several cases, relatively steep yield curves. We believe this combination creates an opportunity for incremental return as bonds roll down the curve toward lower yields over time, while also providing diversification benefits within a broader fixed income allocation.

SECTOR POSITIONING (CONTINUED)

Investment Grade Corporate Bonds

Investment grade corporate bond yields remain attractive relative to long-term averages, even as yields have declined modestly in recent months. Credit spreads have stabilized below their 12-month averages, supported by sustained investor demand for nominal yield. New issue supply has increased meaningfully, with November 2025 marked by record issuance tied to artificial intelligence (AI) related capital expenditure funding needs, and we believe total issuance could rise by approximately 20–25% in 2026. Underlying credit fundamentals appear broadly stable, with pockets of improvement, although recent trends point to some deterioration in ratings momentum. As a result, valuations are likely to remain bifurcated between cyclical and non-cyclical sectors, reinforcing the importance of selective, active management. From a risk perspective, we believe vulnerabilities are more concentrated at the long end of the curve, where spread duration is greater and sensitivity to macroeconomic shifts is elevated. By contrast, short- and intermediate-term investment grade bonds offer more compelling risk-adjusted return profiles, benefiting from attractive income levels while remaining more insulated from price volatility.

Municipal Fixed Income

We believe municipal bonds will perform well into early 2026, driven by easing supply, softening labor market conditions, Fed easing, and supportive fund flows. However, this trend may change towards the end of the first quarter of 2026 as it approaches the traditional period of weakening performance during tax season. Municipal bonds appear fairly valued based on historical muni-treasury ratios, although spreads are tight compared to long-term averages. Nonetheless, nominal and taxable equivalent yields remain attractive, which we believe will continue to drive investor interest. Supply for 2025 is expected to reach record levels, followed by another potential strong year in 2026. We do not anticipate a legislative overhang in 2026, as we experienced in 2025; however, investors should be mindful of potential political events, such as another government shutdown, the debt ceiling debate, and midterm elections. Credit fundamentals remain stable, with a declining number of defaults despite an increase in par value due to notable defaults like Brightline East and West. Additionally, Moody's and Standard & Poor's are now downgrading slightly more issuers than they are upgrading. We favor 12- to 20-year maturities and select A, BBB and High Yield bonds in this environment.

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