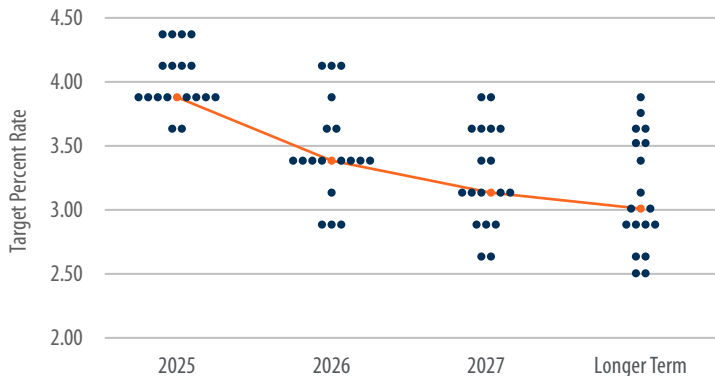




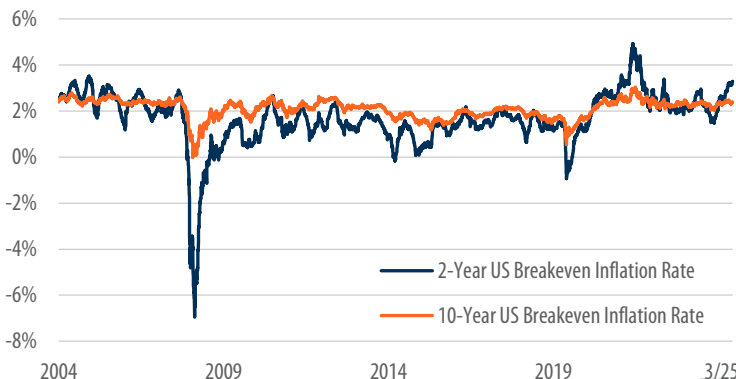
William Housey, CFA
Managing Director of
Fixed-Income,
Senior Portfolio Manager

Chart 1: Fed Dot Plot



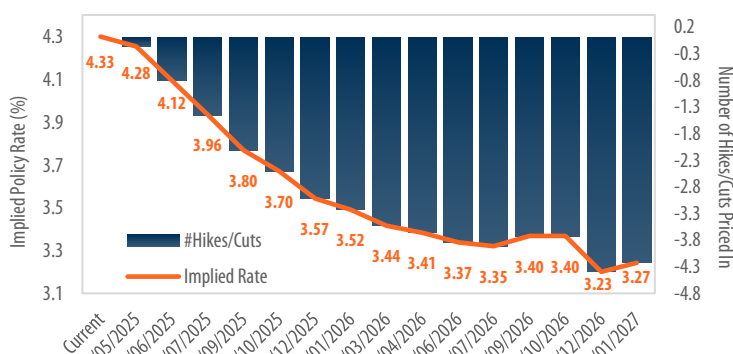
Source: Bloomberg. Data as of 31/3/2025. Orange dots are the Federal Open Market Committee Dots Median.

Chart 2: Inflation Breakevens



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

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



Source: Bloomberg, as of 31/3/2025. The assumed rate movement for one rate hike or cut is equivalent to +/- 0.25%. There is no assurance forecasts will be achieved.

In 1953, beekeeper Sir Edmund Hillary and Nepali Sherpa Tenzing Norgay faced daunting odds on their historic, first ever ascent of Mount Everest. Amid fierce storms, perilous crevasses, and rapidly shifting weather conditions, their journey demanded patience, precision, and unyielding resilience. Each challenge tested their resolve, yet their unwavering determination ultimately led them to the summit.

Today, investors find themselves in a similarly daunting landscape, navigating an environment fraught with uncertainty driven by ever evolving tariff policies and weakening consumer sentiment. This has weighed on equity markets, raising fears about the impact on the broader economy and clouding the short-term outlook.

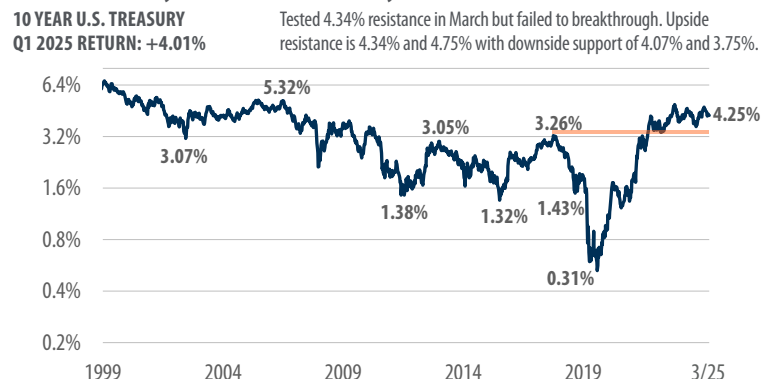
When tariff concerns first emerged, bond yields quickly rose, reflecting expectations that tariffs could persistently raise prices. This is evident from the significant increase in the 2-year U.S. breakeven inflation rate (the market derived measure of expected inflation) climbing from 2.02% at year-end 2023 to 3.28% currently. However, the market's inflation outlook contrasts sharply with the Federal Reserve's ("Fed") recent projections of PCE inflation at 2.7% in 2025 and 2.2% in 2026.

The Fed's updated "dot plot" (Chart 1) suggests two rate cuts this year, signaling caution amid the potential for weaker economic growth despite elevated near-term inflation concerns. The Fed is currently in "wait and see" mode and is finding some comfort in the fact that despite escalating near term inflation expectations, longer-term inflation expectations remain subdued, with the 10-year U.S. breakeven inflation rate currently at 2.37% (Chart 2). Meanwhile, the bond market anticipates about three rate cuts (Chart 3), highlighting notable market divergence from the Fed. We believe the market may be overstating short-term inflation risks, given the complex economic and corporate profit implications that come from the proposed tariff policies.

Interest rates now appear range-bound, with the bond market weighing the potential for near-term inflationary pressures against longer-term growth. Despite the 10-year U.S. Treasury yield reaching as high as 4.81% early in the quarter, rates swiftly retreated, and the 10-year has notably struggled to sustain a move back above technical resistance at 4.34% after its recent intraday decline to 4.10% (Chart 4).

Much like the first explorers who traversed difficult valleys to reach the Everest summit, investors today must endure the current volatility with patience, precision and resilience to ultimately benefit from the rewards at the summit. Thus, our investment strategies favor intermediate duration bonds, maintaining market weight duration (relative to the Bloomberg U.S. Aggregate Bond Index's duration within core fixed income) for durability and increasingly looking for opportunities in lower quality credit as the current equity correction (or bear market) unfolds.

Chart 4: Weekly 10-Year U.S. Treasury Yield



Source: Bloomberg. Data from 31/12/1999 to 28/3/2025. **Past performance is no guarantee of future results.** The 10 Year U.S. Treasury return is represented by the ICE BofA Current 10-Year U.S. Treasury Index. See Index Definitions.

SECTOR POSITIONING

Ultra-Short Maturity

The Fed's projections for interest rate cuts this year remain unchanged from December, resulting in ultra-short rates staying relatively stable and elevated compared to the past 15 years. We believe ultra-short investments will continue offering the potential for principal preservation with an attractive real yield that may be beneficial within an investment strategy.

Mortgage-Backed Securities

We believe mortgage-backed securities (MBS) could serve as a ballast relative to broader credit markets during a potential correction in risk assets or a recession. MBS valuations are slightly more attractive than their long-term averages, and we believe they are fairly valued, particularly if interest rates remain elevated due to inflationary pressures. Given the prevailing market volatility, we prefer a defensive approach and remain selective when opportunistically taking positions that seek to enhance yields in commercial and non-agency securitized sectors.

U.S. Treasury Securities

The Fed's interest rate projections remain unchanged from December. We are more constructive on short-end valuations, believing the Fed's next move will be an easing of monetary policy. In contrast, the long end of the yield curve faces uncertainty surrounding the deficit and issuance volumes. Recent soft economic data, including weakened consumer confidence, has led to higher U.S. Treasury prices which may provide a stabilizing influence against credit risk and economic deterioration.

High-Yield Bonds

We believe prices and yields of high yield bonds appear attractive. In addition, recent widening of credit spreads, influenced by tariff disputes and geopolitical uncertainties, has improved spreads from historically tight levels. While equity market volatility may persist which could impact high yield credit spreads further, we do not foresee an imminent recession and believe that high yield bonds may offer attractive returns through time, driven by their income potential and prospects for price appreciation as volatility subsides. In the event of economic deterioration, we believe that current yield levels may provide a buffer against spread widening over time, especially considering the high yield market's increased composition of BB-rated (higher quality) credits relative to history. Furthermore, declining interest rates which often accompany periods of volatility may contribute additional support. We believe that an active management approach, focusing on higher-quality issuers, may be a more resilient strategy should market conditions worsen.

Senior Loans

Senior loans continue to offer an attractive income stream, due to their floating rate structure, balanced credit risk profile and low default rate. We believe the expected slow pace of interest rate cuts is likely to support the yield advantage of senior loans relative to other areas of the market. While valuations currently favor senior loans over high yield bonds, we anticipate that this relationship could reverse in an environment where interest rates are cut, and loans undergo repricing.

Definitions:

The **Federal Funds Rate** is the interbank overnight lending rate for commercial banks' excess reserves. The **Implied Federal Funds Rate** for the U.S. 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.

The **ICE BofA Current 10-Year U.S. Treasury Index** is a one-security index comprised of the most recently issued 10-year U.S. Treasury note.

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.

Emerging Market Bonds

Local currency fixed income within emerging markets has rebounded from the sell-off that occurred at the end of 2024. We anticipate further volatility, as uncertainty surrounding U.S. administration policies has supplanted concerns about Fed policy for emerging markets investors. Several factors are likely to drive market fluctuations, including trade policy developments, Chinese economic growth prospects, and a potential resolution to the Ukraine-Russia conflict. Notwithstanding these challenges, we maintain a positive view of valuations, given local yields in emerging markets have demonstrated relative resilience compared to U.S. Treasuries.

Investment Grade Corporate Bonds

Investment grade corporate bond yields remain attractive compared to historical levels over the past 15 years. We believe these yields support credit spreads that, while having widened from recent lows, remain below their historical averages. Fundamentals for investment grade corporates continue to be sound, although we believe there will be a bifurcation in valuations between cyclical and non-cyclical sectors over time. As such, we believe credit selection will become increasingly critical. Given the greater exposure to spread duration in longer-term securities, we expect more risk to be concentrated in this space. In contrast, we have a favorable view of the relative value offered by short and intermediate term bonds.

Preferred Securities

Valuations in the preferred and hybrid securities market have improved over the past three months, and recent new issuance over the last two years presents an opportunity to capitalize on higher yields from high-quality issuers. We believe that the combination of favorable market technicals, robust income potential, and a strong issuer base provides a degree of insulation against a weaker economic environment or geopolitical turmoil characterized by lower interest rates and wider credit spreads. Looking ahead, we believe that most of the forward return will be driven by income rather than capital appreciation until market volatility subsides. Despite little change in credit fundamentals over the quarter, we remain cautious on credit risk and advocate for maintaining significant underweights (or no allocation at all) to real estate investment trusts (REITs), regional banks with higher credit risk, and consumer finance banks.

Municipal Fixed Income

We believe ultra-short and short-duration strategies will generate positive total returns in the municipal bond sector, while intermediate and longer-term strategies are likely to be highly sensitive to interest rate movements. We have a neutral outlook on the sector based on expectations for continued strong new issue supply, positive ETF and mutual fund inflows, and 10-year interest rates remaining rangebound. We view nominal yields as attractive and valuations as slightly below historical norms, with tight credit spreads. Credit fundamentals have been surprisingly resilient thus far; however, we expect the new administration to be actively seeking ways to reduce federal expenses and potentially cut benefit programs that could pressure state budgets. Meanwhile, tax policy is expected to become a major focus for municipal bonds this year as Congress works to extend the Tax Cuts and Jobs Act of 2017.

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