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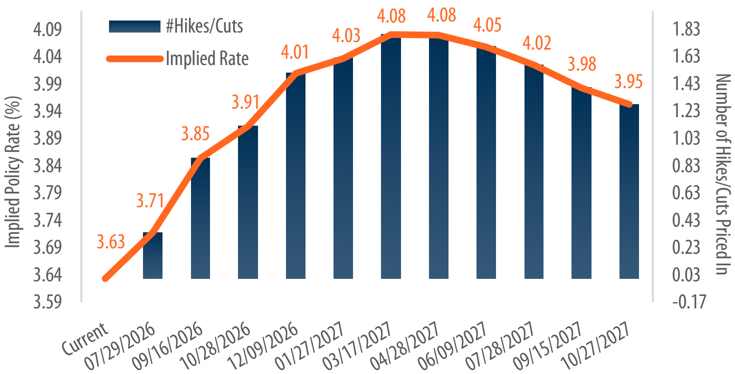
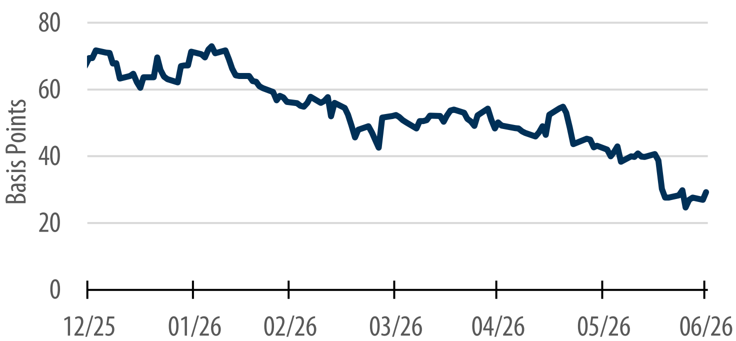
Chart 1: Implied Federal Funds Rate & Number of Hikes/Cuts



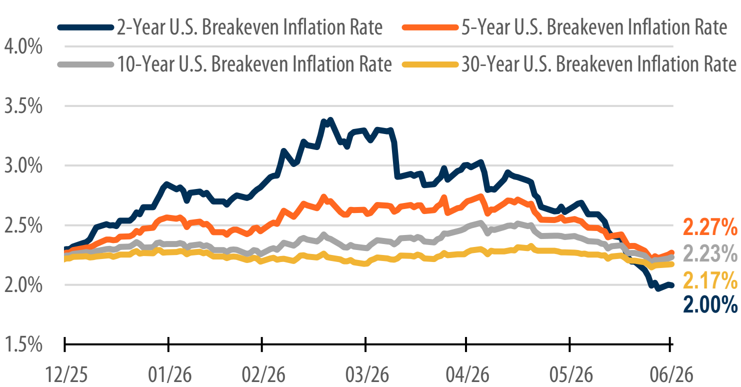
Source: Bloomberg. As of 6/30/2026. The assumed rate movement for one rate hike or cut is equivalent to +/- 0.25%. There is no assurance forecasts will be achieved. The Federal Funds Rate is the interbank overnight lending rate for commercial banks' excess reserves. The Implied Federal Funds Rate for 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.

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



Source: Bloomberg. Data from 12/31/2025 to 6/30/2026. **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: Inflation Breakevens



Source: Bloomberg. Data from 12/31/2025 to 6/30/2026. The breakeven rate is a market-based gauge for the expected annual inflation. Past performance is no guarantee of future results.

Fixed Income: Be Quick, But Don't Hurry

John Wooden built the most dominant dynasty in college basketball history, winning 10 NCAA championships in 12 years at UCLA, including seven in a row. He did it on the strength of a phrase he repeated at practice, "Be quick, but don't hurry." Quickness, he taught, comes from preparation and control; hurry comes from pressure, and pressure is what produces mistakes. The two can look alike in the moment, but they lead to very different outcomes. Monetary policy faces the same distinction today.

The market is tempted to hurry. Kevin Warsh arrived at the Federal Reserve ("Fed") and moved quickly to reaffirm its commitment to the inflation mandate. This message is reinforced by a run of hotter inflation prints and by nine dots in the latest projections pointing to a rate hike this year (Chart 1). In response, the bond market did what it had to do. Front-end yields moved higher, and the market now prices a meaningfully greater probability of one or two hikes by early next year.

However, the curve tells two stories at once. As the front-end has repriced, the spread between 2-year and 10-year U.S. Treasury yields has flattened to 29 basis points ("bps") from 69 bps at the end of 2025 (Chart 2). If the front-end is signaling that the Fed may hike, the back-end is warning that a hike would be a mistake. A curve this flat is the market's judgment that a hike would do more to slow the economy than to cool an inflation impulse that is already fading.

We believe the back-end has the better read. Last quarter, we framed the oil shock around two paths and noted that in both, the forward distribution leaned in favor of bondholders. The disinflationary path is now the one unfolding. With crude oil falling (down 38% from its ~$113 per barrel peak in early April), the same force that was a headwind for inflation is turning into a tailwind; inflation expectations are declining alongside it (Chart 3), and real yields (yield adjusted for inflation expectations) have moved to levels we believe may offer a meaningful cushion against inflation. Markets are reacting to what is directly in front of them, and for the moment that means the recent inflation prints and a new Chair's resolve to maintain price stability. What matters now is how conditions evolve from here, and the direction of travel on inflation has changed.

Rising real yields and a Fed we do not expect to hike rates make the front-end and intermediate portions of the curve particularly attractive, in our view. The front-end, which we flagged a quarter ago as an attractive entry point, has repriced further, now discounting rate hikes we believe are unlikely to materialize. Investors there are well compensated to wait and stand to benefit as those yields retrace when rate hike fears fade. The forward distribution increasingly leans in favor of bondholders, in our view. If the Fed hurries, the back-end's warning is validated and duration is rewarded. If it stays patient as disinflation plays out, the front-end's fears unwind. In both, the investor who owns real yield is paid to wait. We do not expect the Fed to hike, and we continue to favor maintaining duration modestly longer than intermediate benchmark duration. We remain cautious at the very long end and rely on active management as outcomes stay dispersed. This is a market where discipline wins. **Be quick, but don't hurry.**

SECTOR POSITIONING

Ultra-Short Maturity

The Fed held rates steady at its June meeting and removed its prior easing bias, with the updated dot plot pointing to a potential rate hike later this year. The trajectory of front-end interest rates will depend on whether inflation pressures tied to the Iran conflict prove transitory or broaden into core readings, in our view. Amid heightened geopolitical uncertainty, demand for ultra-short corporate credit remains strong. We believe this demand is supported by elevated all-in yields and investor preference for shorter duration exposure with broader spread dispersion across credit markets. 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 tightened following the announcement that Government Sponsored Enterprises (GSEs) would purchase $200 billion in agency MBS. However, spreads have since widened modestly as volatility from the Iran conflict has started to ease. We believe key risks include a volatility spike driven by flight-to-quality events or a stagflationary environment. We maintain a broadly neutral stance on agency MBS while holding a more constructive view on structured and defensive exposures. We continue to find value in floating-rate securities while selectively allocating to 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 broadly resilient through the first half of the year. However, the $25 par retail segment has underperformed amid the increase in interest rates while the $1,000 par institutional segment has delivered positive returns year-to-date. 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 elevated income potential and a high-quality issuer base providing insulation against a weaker economic environment or geopolitical disruption. Bank earnings in the first quarter of 2026 were solid across the U.S., Europe, and Canada. In our view, private credit concerns appear largely concentrated in private equity-backed software lending with limited direct impact on preferred securities market exposure. We expect supply in 2026 to remain elevated but below last year's record pace, with utilities continuing to expand their market share. We favor the $25 par retail segment for its yield advantage and upside convexity, while acknowledging that $1,000 par institutional securities should exhibit less volatility given their variable-rate structures and shorter durations.

U.S. Treasury Securities

In our view, the Fed is likely to remain on hold in the near term given the inflationary pressures stemming from the Iran conflict. However, with multiple hikes already priced into the market, we believe the Fed is unlikely to tighten beyond what is currently anticipated. Inflation has proven sticky and may not recede as quickly as many expect, even once a resolution is reached. That said, its supply-driven nature suggests the rationale for further tightening could fade as energy prices ease. A significant economic slowdown or flight-to-quality bid could drive meaningful yield curve steepening, in our view, adding to the return potential.

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, exacerbated by war-related spending, and the risk of further foreign diversification away from U.S. dollar assets. Treasury issuance may eventually shift toward the short end to limit upward pressure on longer rates, though the mix will likely remain unchanged in the near term, in our view.

High Yield Bonds

Yields on high yield bonds remain above their 15-year average and at levels historically associated with attractive forward return potential. Despite partial spread retracement from the wider levels seen earlier this year, we continue to find compelling opportunities among higher-quality issuers tied to the AI data center build-out. While the hyperscalers anchoring the spending are often investment grade names, like Alphabet Inc. and Amazon.com Inc., their capital expenditure cascades through high yield bonds, strengthening the cash flows of the data center operators, power and infrastructure providers, and equipment and connectivity suppliers. Moreover, strong first quarter earnings and credit defaults that remain below long-term averages reinforce the fundamental backdrop. With yields at these levels, income does the heavy lifting, providing a meaningful cushion against potential spread widening. As a short duration asset class, high yield is more sensitive to the front end of the curve than to longer maturities — a segment we believe is currently mispriced. Should the rate hikes embedded there begin to unwind, that short duration profile would translate falling front-end rates into price appreciation, adding a rates tailwind on top of potential attractive income, in our view.

Senior Loans

We believe senior loans offer attractive nominal and real yields, with spreads near long-term averages and price discounts reflecting a recovery from the dislocations seen earlier in the year. The relationship between senior loans and high yield bond valuations has inverted, leaving senior loans more compelling relative to high yield bonds on a spread-adjusted basis, in our view. This unusual dynamic may represent a relative value opportunity for patient investors. Spread dispersion remains elevated as artificial intelligence disruption fears and private credit-driven selling of broadly syndicated loans to meet redemptions have created pronounced dislocations within the market. However, fundamentals remain supportive, with defaults contained, limited near-term maturities through 2027, and sponsors opportunistically repurchasing debt at discounted levels. We believe current yield levels provide a meaningful income cushion that supports an outlook for positive total returns, though a wider range of outcomes reflects uncertainty around elevated software and AI exposure, and lower average credit quality relative to the high yield market. Additionally, a faster easing cycle remains the principal threat to the floating-rate coupon, an environment we believe rewards security selection over broad market exposure.

References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed to be profitable.

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 attractive emerging market currency valuations. Despite a modest strengthening in the U.S. Dollar Index (DXY), emerging market currencies have performed well, supported by higher real, or inflation-adjusted rates, in our view. Investor flows have been the strongest in five years on a year-to-date basis, reflecting sustained positive sentiment toward the asset class. In our view, emerging market fundamentals remain positive, with services purchasing managers indexes signaling expansion, economic surprise indices in strong positive territory, and the majority of major central banks maintaining an accommodative stance while inflationary pressures remain largely contained. We believe key risks include elevated geopolitical uncertainty, U.S. policy unpredictability, and near-term risk-off events that could weigh on emerging market currencies, the primary return driver alongside carry. We continue to see increasing differentiation between commodity exporters and importers and favor selective exposure to high-real-rate markets.

Investment Grade Corporate Bonds

Investment grade corporate bond yields remain attractive relative to long-term averages, in our view, with index yields significantly above the 15-year average. Credit spreads are near the tighter end of their 12-month range, supported by strong demand, while new issue supply remains robust, running approximately 20% above last year's pace. Fundamentals from the first quarter of 2026 were broadly positive, with revenue and earnings growth among the strongest since early 2023, though the upgrade-to-downgrade ratio has narrowed to roughly 1:1. We believe valuations are likely to remain bifurcated between cyclical and non-cyclical sectors, as geopolitical risks and Washington policy decisions remain ongoing vulnerabilities. In our view, this environment reinforces the importance of selective, active management. 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

In our view, municipal bonds have strong potential through the summer months as the market enters a period of seasonally elevated reinvestment flows, including coupons, maturities, and sinking fund payments, alongside somewhat reduced new issue supply. Year-to-date, municipal bond fund flows have been the highest on record. We believe nominal and taxable-equivalent yields ("TEYs") remain attractive, with BBB and high yield in particular offering equity-like TEYs above 7%. Municipal-to-Treasury ratios appear fairly valued to modestly rich in a long-term historical context, while credit spreads remain relatively tight. Credit fundamentals across the municipal landscape are broadly stable, with most issuers navigating budget pressures without meaningful credit stress. Supply is running slightly ahead of last year's record pace but is expected to ease through the summer. We continue to find value in the 12-20 year maturity portion of the municipal curve and in select A, BBB, and high yield revenue bonds across sectors such as airports, gas bonds, hospitals, and utilities.

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 to be profitable.

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