

Core Bond Strategy

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Market review and outlook

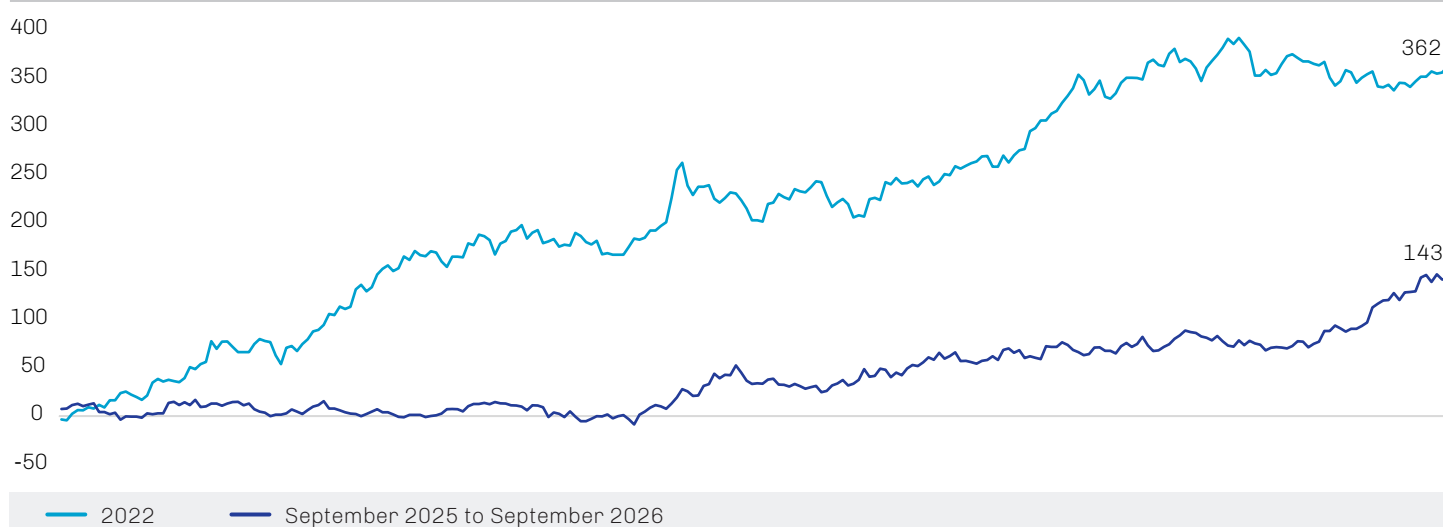
The Bloomberg U.S. Aggregate Bond Index declined 3.51% during the 3Q26, its worst quarterly performance since 3Q22 (-4.75%). Central banks globally adopted a more hawkish stance during the quarter, with the Federal Reserve, European Central Bank, and Bank of Japan all raising policy rates. For the Federal Reserve, the move represented its first rate hike since 2023, while the September Summary of Economic Projections indicated the potential for another increase by year-end. The Fed's decision reflected continued strength in the US economy, including a five-year high in the composite Purchasing Managers' Index and renewed strength in the labor market.

Meanwhile, inflation remains well above the Fed's 2% target, with the ongoing conflict in the Middle East and constraints on the Strait of Hormuz adding to inflationary pressures. The combination of tighter monetary policy and elevated inflation expectations pushed

Treasury yields sharply higher across the curve, weighing on fixed income returns. Although the decline may revive memories of 2022—when the Bloomberg US Aggregate Bond Index posted its worst calendar-year return on record at -13.01%—today's fixed-income market entered the period of rising rates from a considerably stronger starting point. The key difference is income. At the beginning of 2022, the Bloomberg U.S. Aggregate Bond Index had a yield to worst of just 1.75%, well below its 6.17% average since the Index's inception in 1976. With relatively little income available to cushion price declines, the rapid rise in interest rates translated into substantial losses. By comparison, the Index had a yield to worst of 4.37% one year ago. That higher starting income has helped offset some of the price pressure created by rising rates in 2026. Additionally, the pace and magnitude of the increase in rates have also been more measured than during the 2022–2023 tightening cycle.

Exhibit 1. Cumulative Increase in Yield for 2-Year Treasury

Over One-Year Period, in Basis Points



Source: Bloomberg; data as of September 30, 2026.

Updates by sector

Treasury

Treasury yields pushed higher across the entire curve during 3Q26, generating the worst performance for most tenors since 2024. The 2-year Treasury climbed 72 basis points to 4.89% during the quarter, the biggest quarterly move since 2Q23 when the bellwether security increased by 87 basis points. The 10-year Treasury followed a similar path, increasing by 81 basis points to finish September at 5.28%, its highest level since March 2002. The 30-year Treasury climbed by nearly 68 basis points, ending at 5.63%, the highest yield since April 2002.

The resulting loss of 3.04% for the overall Treasury market, as measured by the Bloomberg US Treasury Index, was the worst since 4Q24 (-3.14%) and the 11th worst quarterly performance since 1973. Market expectations for Federal Reserve action during the quarter ranged from a low point of 7.9 basis points in increase at the September meeting to a high of 23.2 basis points in the days prior to the meeting. Expectations for the final meeting of the year on December 9 continue to indicate the market's outlook for one more rate hike by year end. Looking further out, Fed Funds futures are pricing in roughly an additional two to three rate hikes by year end 2027.

Corporate

The investment grade corporate market, as tracked by the Bloomberg US Corporate Bond Index, declined 3.94% during the third quarter. Despite the negative performance, investment grade corporate spreads widened only slightly during the quarter from 74.2 basis points to 80.1 basis points. Even with the Middle East conflict volatility earlier in the year and the ongoing pressure from elevated energy prices, spread levels haven't shifted dramatically since the beginning of the year, moving slightly higher (2.5 basis points). Issuance in the investment grade corporate sector dropped slightly quarter over quarter from \$552 billion to \$503 billion but remains on a record year-to-date pace with \$1.7 trillion in new issuance through September. Despite record issuance levels, spreads in the investment grade corporate market continue to hold in a tight range, an indication of investors' appetite for yield.

Securitized

The securitized sector experienced the most pressure during the quarter, declining 4.06% as interest-rate sensitive residential mortgage-backed securities (RMBS) delivered the worst performance of all major sectors, down 4.25%. Collateralized

mortgage obligations (CMOs), as measured by the ICE BofA US CMO Index, limited some of the damage in the mortgage sector, declining 3.27%. Shorter duration areas of the securitized market such as asset-backed securities (ABS) fared better than the majority of sectors, down only 0.79% and positive relative to comparable duration Treasuries (+0.14%). Index eligible non-agency commercial mortgage-backed securities (CMBS) held up better than RMBS, declining 1.37% during the quarter and generating 0.14% in excess return relative to comparable duration Treasuries. New issues in the securitized market were met with significant investor appetite as the search for yield continues, despite ABS issuance maintaining a record pace and non-agency CMBS/RMBS outpacing prior years' issuance levels.

Q3 performance review

Key contributors

- In the securitized market, non-agency RMBS, non-agency CMBS and ABS contributed to both absolute and relative performance during the quarter as all sectors delivered positive performance.
- The portfolio's allocation to the corporate sector contributed to relative performance, attributable to a shorter duration profile in the sector, an underweight position and security selection.
- Despite longer relative duration compared to the benchmark, the portfolio's Treasury allocation contributed to relative performance as the underweight posture helped mitigate the impact of longer duration positioning.

Key detractors

- Agency RMBS detracted from relative performance due to the portfolio's overweight position, though both CMO and passthrough allocations outperformed benchmark-eligible mortgages.
- Within the non-agency CMBS allocation both laboratory/life sciences and office delivered negative returns during the quarter, though the impact was partially offset by other subsectors within non-agency RMBS, which were positive.
- Solar ABS, which have experienced a challenging year, were one of the only negative segments of the shorter duration ABS allocation and detracted slightly from relative performance.

Bonds rated AAA, AA, A and BBB are considered investment grade.

Period and Annualized Total Returns (%)	Since Inception (31 Jul 2016)	10Y	5Y	3Y	1Y	YTD	3Q26
Gross of Fees	2.38	2.38	0.85	5.43	-0.75	-1.70	-2.96
Net of Fees	2.08	2.08	0.55	5.11	-1.05	-1.93	-3.03
Bloomberg US Aggregate Bond Index	1.10	1.14	-0.64	4.06	-1.84	-2.91	-3.51

Calendar Year Returns (%)	31 Jul 2016 - 31 Dec 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross of Fees	-2.44	4.64	2.06	8.56	8.34	-0.55	-11.47	7.06	3.88	7.70
Net of Fees	-2.56	4.33	1.77	8.24	8.03	-0.84	-11.73	6.75	3.58	7.38
Bloomberg US Aggregate Bond Index	-3.14	3.54	0.01	8.72	7.51	-1.54	-13.01	5.53	1.25	7.30

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