

Intermediate Bond Strategy

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Market review and outlook

The Bloomberg US Intermediate Aggregate Bond Index returned 0.47% in 2Q26, as markets recovered from the initial uncertainty and volatility brought about by the conflict in the Middle East. Quarterly performance was a solid follow up to more pedestrian performance in the first quarter (+0.11%). The largest quarterly jump in the price of Brent crude since the Gulf War in 1990 was followed by the biggest quarterly decline since the pandemic began in early 2020. Volatility in energy markets was indicative of overall volatility in financial markets, with fears of an expanding conflict ebbing and flowing with each bit of news out of the Middle East.

From an economic standpoint, upbeat news helped to dampen some of the concerns around the geopolitical situation as the third estimate of 1Q26 GDP increased by 2.1%. The labor market continued to rebound from the slow start to the year, adding an average of 155,000 jobs from March to May. With the May report reflecting 172,000 jobs added and unemployment holding at 4.3%, the outlook is looking up for the labor market. The quarter witnessed a transfer of leadership at the Federal Reserve from Jerome Powell to Kevin Warsh, and Warsh made quite the impression at his first meeting, delivering a more hawkish tone than some expected. Warsh was clear that forward guidance is going to be limited, if not outright eliminated, and hinted the Dot Plot could face a similar fate. In a symbolic gesture, the new chair did not submit a dot and referenced that all submissions were made in pencil, alluding to the fact that they could change at any time. The shift from dovish to hawkish is in full gear, with half of participants signaling a rate hike by year-end and six members targeting two rate hikes by year-end. In other Federal Reserve news, the Supreme Court prevented the administration from terminating Lisa Cook (for now), and her challenge will play out in the lower courts.

Updates by sector

Treasury

The Treasury yield curve flattened in 2Q26 as the potential end to the conflict between the US and Iran gained momentum and a more hawkish Fed shifted market expectations for the future path of interest rates. The 2-year Treasury yield climbed 37.9 basis points, with the 3-year and 5-year yields increasing by 36.6 and 28.4 basis points, respectively. The longer end of the curve moved higher but to a much lesser degree, with the 10-year climbing by

14.9 basis points and the 30-year higher by 4.1 basis points during the quarter. The Bloomberg US Treasury Index returned 0.32% during the quarter, a solid rebound from 1Q26's loss of 0.04%. Market expectations for action from the Federal Reserve began the quarter with roughly 7.3 basis points of rate cuts expected by year-end before dramatically shifting to 37.7 basis points in rate increases by the end of the year, reflecting the potential impact of conflict-inspired inflation and a more hawkish Federal Reserve.

Corporate

The investment grade corporate market, as measured by the Bloomberg US Intermediate Corporate Bond Index, rebounded from a negative first quarter (-0.22%) with a strong return of 0.98% in the second quarter. Intermediate investment grade corporate spread levels peaked at the beginning of the quarter at 80.9 basis points and steadily tightened through to the end of June (65.1 basis points), finishing the first half of the year below where they began the year (69.5 basis points). Issuance in the investment grade corporate sector reached \$552 billion and combined with the first quarter's issuance of \$640 billion pushed past the prior record for the first six months of the year (2020) and is on pace for a record calendar year. Despite record issuance levels, spreads in the investment grade corporate market continued to grind tighter, an indication of investors' appetite for yield.

Securitized

The securitized sector, as tracked by the Bloomberg US Securitized: MBS, ABS and CMBS Index, delivered positive returns in 2Q26, generating a return of 0.58%. Benchmark-eligible agency passthroughs returned 0.58%, in line with the overall sector, while collateralized mortgage obligations (CMOs), as measured by the ICE BofA CMO Index, outpaced plain vanilla passthroughs (0.67%). With ongoing volatility in the rates market, interest-rate sensitive agency residential mortgage-backed securities (RMBS) trailed other segments of the securitized market including asset-backed securities (ABS) and commercial/residential non-agency mortgage-backed securities (CMBS/RMBS). Despite ABS issuance being on a record pace for 2026 and non-agency CMBS/RMBS outpacing prior years' issuance levels, new issues in the securitized market were still met with significant investor appetite as the search for yield continues.

Q2 performance review

Key contributors

- Within the ABS sector, unsecured consumer exposure in the portfolio was additive to overall performance due to the combination of strong performance and weighting relative to the benchmark.
- The portfolio's allocation to non-benchmark eligible segments of the non-agency RMBS sector, led by home equity conversion mortgages, or reverse mortgages, contributed to excess return relative to the benchmark.
- The portfolio's allocation to agency CMOs outpaced the benchmark allocation to agency passthrough mortgages and contributed to relative performance, as CMOs held up better during periods of rate volatility.

Key detractors

- The portfolio's Treasury allocation trailed the comparable benchmark allocation by 2 basis points, with the impact exacerbated by the relative underweight.
- The portfolio maintains a relative underweight in the corporate sector. With the portfolio's allocation performing in line with the benchmark, the underweight resulted in a slight detraction during the quarter.
- The portfolio's allocation to agency passthrough mortgages trailed the benchmark allocation, with the impact amplified by the relative underweight position.

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

Period and Annualized Total Returns (%)	Since Inception (31 Jul 2021)	3Y	1Y	YTD	2Q26
Gross of Fees	2.20	6.12	4.23	1.22	0.79
Net of Fees	1.90	5.81	3.91	1.07	0.72
Bloomberg US Intermediate Aggregate Bond Index	0.84	4.66	3.76	0.59	0.47

Calendar Year Returns (%)	31 Jul 2021 - 31 Dec 2021	2022	2023	2024	2025
Gross of Fees	-1.02	-7.83	6.60	4.84	7.83
Net of Fees	-1.14	-8.09	6.29	4.53	7.51
Bloomberg US Intermediate Aggregate Bond Index	-1.17	-9.51	5.18	2.47	7.45

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