Core Fixed Income Managed Account

Quarterly Review

- The strategy remained overweight corporate bonds on a market value basis, which detracted from performance as spreads increased. However, issue selection was positive during the period.
- The strategy remained underweight agency mortgages relative to the benchmark. While spreads declined during the period, allocation decisions were flat. However, issue selection was positive.
- Exposure to ABS and CMBS contributed positive issue selection.
- Duration continued to be managed in line with the benchmark but the strategy experienced a small but negative effect on performance.

Outlook

- We continue to believe that the US economy is in the mid- to late expansion phase of the credit cycle. The Federal Reserve began its easing cycle with a dovish surprise, delivering a 50 bps cut in September aimed at supporting a softening labor market, while recognizing good progress on moving towards their 2% Core Personal Consumption Expenditures (PCE) inflation target. Yield curves bull steepened, with the UST 2's-10's curve finally un-inverting for the first time since June 2022 just 3 months after the start of the Fed's tightening cycle. The Federal Reserve's primary focus has shifted from inflation to that of the labor market. As a result, we believe that the market's overall focus will increasingly be keyed into each new inflation data point as signs of economic and labor market health. In such an environment, it is possible that weaker economic data could usher in a "growth scare" even in the absence of an actual GDP downturn. We believe increasing labor market weakness coinciding with a deterioration of the health of the consumer could result in a decline in aggregate demand, sparking recessionary concerns. While our base case remains a "soft landing" and while we do not believe the US will enter a recession, the risk is increasing as real consumer wages and excess savings continue to fall while the cost of financing remains high. Current market pricing partially reflects these concerns, with over 70 bps of additional rate cuts priced in through the end of 2024. However, risk assets continue to be well supported by yield based buyers, with robust demand for new issues, helping to hold credit spreads near historic tights and keeping liquidity at a healthy level.

- We are concerned about the growing fiscal burden in the US and a significant slowdown in China impacting global growth. We also remain concerned about potential exogenous shocks, possibly emanating out of the ongoing conflicts in the Middle East and Ukraine, supply chain disruptions, and the potential disruption and volatility around US and global elections.

- While the strategy's corporate bond exposure remains overweight on a market value basis, risk relative to benchmark is currently at the low end of our risk range largely due to a higher quality bias and shorter maturities than the benchmark. We believe this allows the strategy room to increase risk if valuations and bid-ask spreads improve.

- For strategies that use securitized assets, we continue to favor non-agency spread products such as commercial mortgage-backed securities and asset-backed securities.
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- For strategies that use high yield corporate bonds, we continue to have exposure to the asset class with room to add in the event valuations materially improve.

Important Disclosure

Key Risks: Credit Risk, Issuer Risk, Interest Rate Risk, Liquidity Risk, Prepayment Risk and Extension Risk.

Past performance is no guarantee of future results.

There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return.

Commodity, interest, and derivative trading involves substantial risk of loss.
Diversification does not ensure a profit or guarantee against a loss.
Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

Market conditions are extremely fluid and change frequently.

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