

Taxable Fixed Income Commentary



1st Quarter 2025

In the first quarter, interest rates fell as economic momentum slowed against a backdrop of aggressive trade policy changes. Larger than expected tariff increases by the Trump administration put investors on edge. Stock prices dropped and Treasury yields declined in a flight to quality environment. Market volatility is likely to remain high until economic policy uncertainty dissipates.

The Trump administration has lifted tariffs to the highest levels in nearly one hundred years. Currently in place are 10% base line tariffs for all countries, 25% tariffs on specific sectors and over 100% tariffs on imports from China. There are plans for additional tariffs which have been delayed. The administration has expressed multiple goals behind the increases: leverage to rebalance global trade in a more favorable way to U.S. interests, generate revenue and move industrial production on shore. These may be laudable objectives but in the short run, market participants believe tariffs are likely to raise prices on consumers, slow growth and invite retaliation from trading partners.

The administration's focus on trade has been a surprise to investors who believed the President would emphasize more pro-growth elements of his campaign agenda, such as deregulation and tax cuts. The tariffs' size and speed were taken as a major shock, injecting uncertainty into an economy that is slowing with inflation still uncomfortably high. Consumer and business confidence has plummeted. This creates a dangerous feedback loop in which lower consumer spending from higher prices makes business less profitable and less willing to hire. The longer the uncertainty persists, the risk of recession rises.

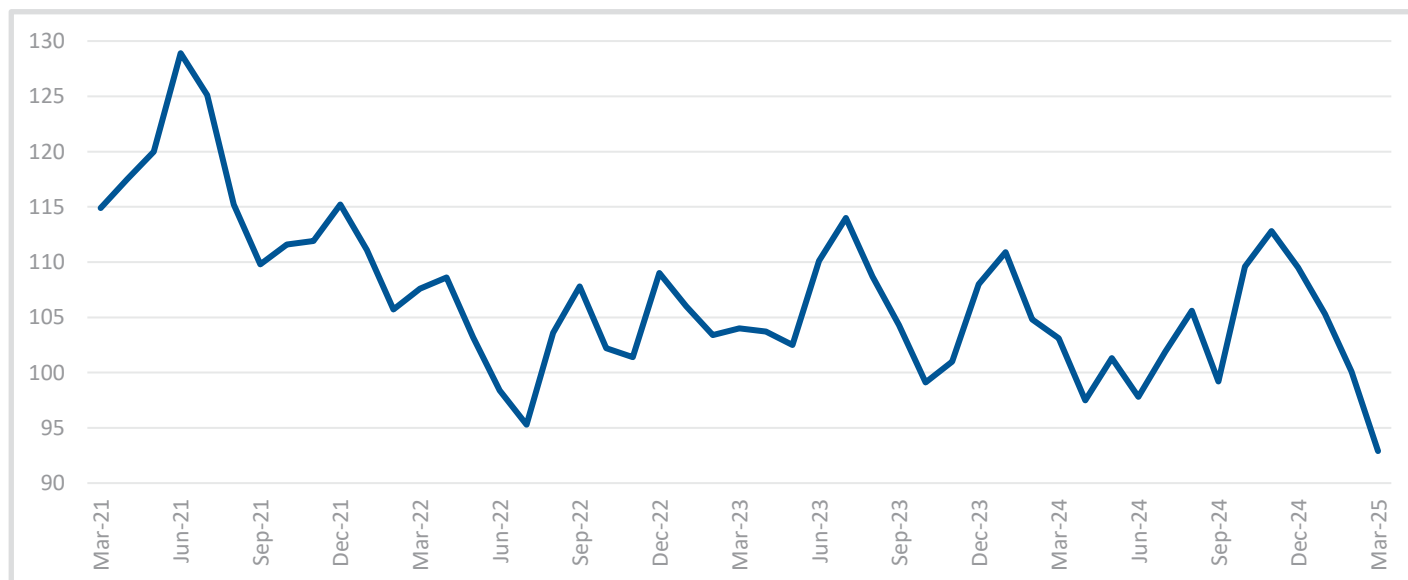
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Market Returns (%)

	1Q 2025
BBG Int. Treasury	2.49
BBG TIPS 1-10Y	4.00
BBG U.S. MBS	3.06
BBG Int. Corp	2.27
Industrials 1-10Y	2.36
Financials 1-10Y	2.31
BBG Muni 5 Year	0.91
ML High Yield	0.97
S&P 500	-4.28

*Please see important disclosures at the end of this commentary for strategy and market definitions.
Sources: Bloomberg (BBG)
Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss. Returns reflect the reinvestment of all applicable income and proceeds.

Consumer Confidence Index



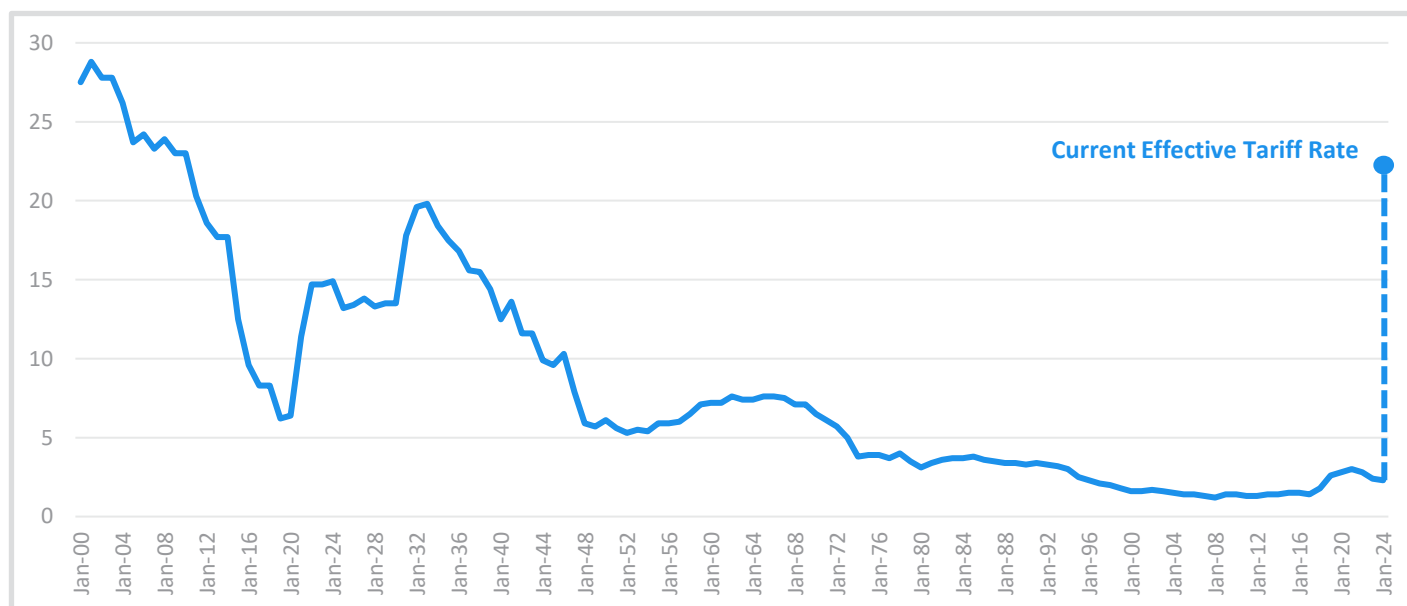
Source: Bloomberg as of 3/31/25. Conference Board Consumer Confidence SA 1985=100.

For more information on any indices, please see the "Index Definitions" sections in the "Important Disclosures" page at the end of this presentation.

There are encouraging signs that the administration is altering its approach to trade talks given the negative market reaction. For example, there have been a number of tariff postponements and exemptions which can be interpreted as a sign of de-escalation. Bilateral negotiations with a number of countries are in process according to press reports. Headlines and tweets shift the narrative quickly, but the unresolved question is whether real economic damage has been done already. Even if tariffs retreated to last year's level, consumers and businesses would still have to fear that tariff war could resume at any time at the President's discretion.

The U.S. economy was slowing to trend growth before the recent tariff announcements. For instance, annualized real gross domestic product has declined from 3.0% to 2.7% to 2.4% sequentially over the last three quarters ending in December. Monthly payrolls are softening, and the unemployment rate has risen from 3.7% at the start of 2024 to 4.2% currently. Payroll data do not point to impending recession, but fewer job openings, lower hiring/quits rate and softer wages all indicate that job creation is slowing rather than accelerating.

Tariff Rates



Source: Bloomberg as of 4/25/25. Tariff Index.

Inflation measures are moving in the right direction but tariffs place that progress at risk. The Federal Reserve's preferred annualized measure of core inflation has retreated from 3.0% to an expected 2.5% over the past year but still too high for comfort. Inflation expectations in coming years are rising according to surveys, a worrying sign for the Federal Reserve who prizes keeping inflation anchored to 2%.

The Federal Reserve has held its target rate of 4.33% steady this year in the face of trade risks. Chair Powell stated on April 16th that policymakers "for the time being are well positioned to wait for greater clarity before considering any adjustments to our policy stance." He also recognizes that their dual mandate of stable prices and full employment could come into conflict if tariffs remain in place for an extended period.

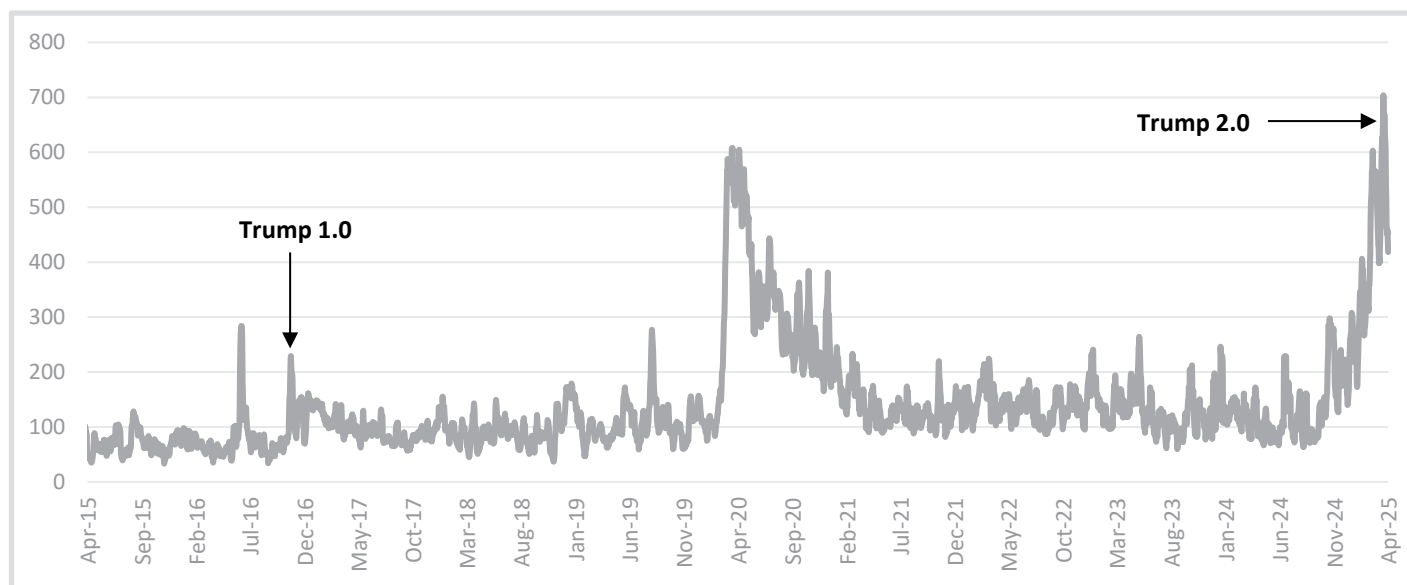
The outlook for monetary policy is complicated to say the least. The uncertainty bands for the economy are wider than usual as trade policy has been unpredictable. If trade tensions decline and growth stays positive, Fed officials may hold the federal funds rate steady. But if the unemployment rate begins to rise either because of tariffs or the uncertainty surrounding them, the Fed may cut quickly to aid the labor despite high realized inflation, thinking that inflation could be transitory.

There has been a range of views from Fed policymakers, some advocating that price pressures could prove transitory while others fear higher prices could prove persistent if inflation expectations become unanchored. Our expectation is for the Federal Reserve to take a meeting-by-meeting approach in the face of such uncertainty. “Soft data” figures like confidence surveys have been poor predictors of actual “hard data” like retail sales and employment in recent years and could provide a false signal.

While Treasuries benefitted from the stock sell-off in the first quarter, that dependable historical pattern changed in early April. Bond prices and stock prices were falling together in the aftermath of the President’s April 2nd tariff announcement. It is too soon to draw conclusions, but it is possible that investors are demanding more compensation to own Treasuries in light of rapid policy reversals and questions about central bank independence.

Our current portfolio positioning is broadly in line with benchmark duration and sector weightings. We view the recent move higher in bond yields as a buying opportunity but are reluctant to extend until more is known on the scope and timing of new policies, particularly on trade and fiscal matters. While we see the underlying dynamics of the labor market and inflation as supporting easier Fed policy, uncertainty about administration policies may prevent a dovish pivot in the near term. Tariffs could weigh on growth at a time when above target inflation gives the Federal Reserve less room to deliver sufficient cuts to prevent a recession. We have an up in quality bias in credit given the uncertain environment.

Economic Uncertainty



Source: Bloomberg as of 4/24/25. US Economic Policy Uncertainty Index.

Important Disclosures



Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss.

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Allocations presented herein are as of the date noted and subject to change. Returns reflect the reinvestment of income and other investment proceeds.

Index Definitions:

It is not possible to invest directly in an index. Investors pursuing a strategy similar to an index may experience higher or lower returns and will bear the cost of fees and expenses that will reduce returns.

Bloomberg 1-3 Yr Gov/Credit is the 1-3 Yr component of the U.S. Government/Credit Index. The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes Treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. **Bloomberg 1-3 Yr Gov/Credit Ex BBB** is the same index as previous but excludes BBB securities. **Bloomberg Intermediate Aggregate Index** is the intermediate component of the US Aggregate Index. The Bloomberg U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. The Bloomberg Intermediate Aggregate ex CMBS/ABS/BBB Index is the same index as previous but excludes commercial mortgage backed securities (CMBS), asset backed securities (ABS), and BBB rated bonds. **Bloomberg Intermediate Government Index** includes Treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government) between 1-10 years maturity. **Bloomberg U.S. Corporate Investment Grade Index** is a rules-based and market value weighted index of publicly issued U.S. corporate bonds. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. Bonds in the Index must have at least one year to final maturity regardless of call features and have at least \$250 million par amount outstanding. Bonds in the Index must be fixed rate, although it can carry a coupon that steps up or changes according to a predetermined schedule, must be dollar-denominated and non-convertible and must be publicly issued. The Bloomberg 1-5 Corporate Index is the 1-5 year component of the Corporate Index. The Bloomberg Intermediate Corporate Index is the Intermediate component of the Corporate Index.

S&P/Case-Shiller U.S. National Home Price Index measures the change in the value of the U.S. residential housing market by tracking the purchase price and resale value of single-family homes that have undergone a minimum of two arm's-length transactions. The Bloomberg Intermediate Government/Credit Index is an unmanaged index that represents the Intermediate component of the U.S. Government/Credit index. It is comprised of the Bloomberg Barclays Government and Credit Indices, including securities that are of investment-grade quality or better, have between one and three years to maturity, and have an outstanding par value of at least \$250 million. Please note that indices do not take into account any fees and expenses of investing in the individual securities that they track, and that individuals cannot invest directly in any index. Index returns include reinvestment of all dividends and capital gain distributions.

Consumer Price Index (CPI): The Consumer Price Index (CPI) measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending.

Core CPI: CPI excluding food and energy sector prices.

ISM Manufacturing Prices Paid Index: The Manufacturing ISM (Institute for Supply Management) Report On Business is based on data compiled from purchasing and supply executives nationwide. Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (New Orders, Backlog of Orders, New Export Orders, Imports, Production, Supplier Deliveries, Inventories, Customers' Inventories, Employment and Prices), the report shows the percentage reporting each response, the net difference between the number of responses in the positive economic direction and the negative economic direction, and the diffusion index. A PMI reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally declining.

ISM Services Purchasing Managers Index: The Institute of Supply Management (ISM) Non-Manufacturing Purchasing Managers' Index (PMI) (also known as the ISM Services PMI) report on Business, a composite index is calculated as an indicator of the overall economic condition for the non-manufacturing sector. The NMI is a composite index based on the diffusion indexes for four of the indicators with equal weights: Business Activity (seasonally adjusted), New Orders (seasonally adjusted), Employment (seasonally adjusted) and Supplier Deliveries.

Senior Loan Officer Opinion Survey (SLOOS Net Tightening Standards): The Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS) is a quarterly survey of up to 80 large domestic banks and 24 branches of international banks. Conducted by the Federal Reserve Board, the survey is completed in time to be discussed at Federal Open Market Committee (FOMC) meetings.

2/10s: The 2s10s yield curve is a measure of the difference in interest rates between the two-year and ten-year Treasury bonds.

Leading Economic Index (LEI): The Conference Board Leading Economic Index is an American economic leading indicator intended to forecast future economic activity. It is calculated by The Conference Board, a non-governmental organization, which determines the value of the index from the values of ten key variables. These variables have historically turned downward before a recession and upward before an expansion. The per cent change year over year of the Leading Economic Index is a lagging indicator of the market directions.

Cleveland Trimmed Mean CPI: 16% Trimmed-Mean Consumer Price Index (CPI) is a measure of core inflation calculated by the Federal Reserve Bank of Cleveland. The Trimmed-Mean CPI excludes the CPI components that show the most extreme monthly price changes. This series excludes 8% of the CPI components with the highest and lowest one-month price changes from each tail of the price-change distribution resulting in a 16% Trimmed-Mean Inflation Estimate.

Atlanta Fed Wage Growth Tracker: The Atlanta Fed's Wage Growth Tracker is a measure of the nominal wage growth of individuals. It is constructed using microdata from the Current Population Survey (CPS), and is the median percent change in the hourly wage of individuals observed 12 months apart.

JOLTS Index: The job openings and labor turnover survey (JOLTS) is a monthly report by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor counting job vacancies and separations, including the number of workers voluntarily quitting employment. Quits: Employees who left voluntarily. (Exception: retirements or transfers to other locations are reported with Other Separations.)

Federal Funds Rate: A target interest rate set by the central bank in its efforts to influence short-term interest rates as part of its monetary policy strategy. This indicator shows the new target interest rate on the date the new rate went into effect.

Personal Consumption Expenditure (PCE): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.