

Intermediate Government

Marketing communication | As of 31 Mar 2025

- **The Intermediate Government strategy underperformed the benchmark on a gross and net of fees basis.**
- **Duration positioning was the primary detractor from performance.**
- **Curve positioning was the primary contributor to performance.**

Market review

Economic activity remained strong in the first quarter but showed more signs of a potential slowdown ahead. As the quarter progressed, uncertainty surrounding pending U.S. tariffs caused increasing angst as countries and investors wrestled with the wide range of possible policy outcomes and disparate economic impacts. Depending on the magnitude, breadth and duration of tariffs, the drag on growth could range from 0% to 2% or more of gross domestic product (GDP), with a move of similar scope to inflation in the opposite direction. This uncertainty affected surveys of U.S. consumer and business sentiment, which softened in March, while consumer inflation expectations moved higher. Nevertheless, actual data regarding U.S. job creation, personal income, retail sales and industrial production remained resilient during the quarter.

The Federal Reserve (Fed) kept rates unchanged throughout the quarter as policymakers paused to assess the impact of the Trump administration's aggressive economic agenda. Following their March meeting, policymakers lowered their growth outlook and raised inflation forecasts, while reiterating the likelihood of two 25-basis-point rate cuts in 2025. Other global central banks, including the European Central Bank (ECB), Bank of England (BoE) and Bank of Canada, cut rates during the quarter, while the Bank of Japan (BoJ) hiked rates in January to their highest level since 2008. U.S. Treasury yields trended downward over the quarter and the yield curve slightly steepened. The 10-year Treasury yield ended the quarter 35 basis points lower at 4.23%, reversing about half of the fourth quarter's rise.



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Portfolio review

During the first quarter, the Intermediate Government strategy underperformed its benchmark, the Bloomberg U.S. Intermediate Government Index, on a gross and net of fees basis.

Duration positioning was the primary detractor from performance. While the strategy was long duration early in the quarter, its duration shortened later in the quarter which detracted from performance as rates declined. Curve positioning contributed to performance as the portfolio was positioned with an overweight to the 5-10 year area of the yield curve which experienced the greatest declines in yield during the quarter. Lastly, our modest overweight to agencies had a neutral impact to performance.

During the quarter we modestly added to duration by purchasing 7-year Treasuries in January.

Looking ahead, we have lowered our U.S. economic growth forecast to 0.5% for 2025, reflecting the headwinds from higher tariffs. We continue to anticipate a modest increase in unemployment but now expect core PCE inflation to

move materially higher to around 3.5% this year. However, these forecasts remain highly fluid with the potential for much higher or lower growth depending on how tariff policies play out in the months ahead.

The Fed is likely to continue cutting interest rates but at a slower pace than the market is pricing. We forecast two more 25 basis point cuts this year, bringing the policy rate to around 3.75%-4.00%. The ECB looks set to lower rates further as well, with two more cuts likely this year, although additional expectations for fiscal easing have reduced the need for significant monetary support. In China, we expect policymakers will continue their fiscal policy support, although substantial monetary easing is unlikely.

Going forward, we will continue to maintain a neutral duration profile with a bias to add duration and position for a steepening yield curve. We continue to hold more agency debt than the benchmark. However, we expect this overweight to dwindle given the lack of agency issuance which results in less attractive relative value.

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Minimum investment is \$250,000.

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Glossary

The **Bloomberg U.S. Aggregate Bond Index** tracks the performance of U.S. investment-grade bonds. The **Bloomberg U.S. Intermediate Government Index** covers the non-securitized component of the U.S. Aggregate Index with maturities of 1 to 9.999 years. **It is not possible to invest directly in an index.** Clients should consult their financial professional regarding unknown financial terms and concepts.

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