

Investment Grade Corporate

Marketing communication | As of 30 Jun 2025

- **The Investment Grade Corporate strategy underperformed on a gross and net of fees basis.**
- **Security selection was the primary detractor from performance.**
- **Curve positioning was the primary contributor to performance.**

Market review

As the quarter began, global markets were rattled by the broad implications of the U.S. administration's "Liberation Day" announcement of across-the-board tariff rates that were materially higher than market expectations. The subsequent 90-day pause in the most extreme measures calmed markets and led to a strong recovery in risk assets, although trade policy uncertainty continued to overhang the markets. At the same time, global economic data showed more signs of deceleration during the quarter, including a downward revision to first-quarter's U.S. gross domestic product (GDP) growth to -0.5% annualized. Although much of the weakness was due to a short-term surge in imports as businesses tried to front run tariffs, underlying U.S. consumer spending also slowed. June's U.S. employment report beat expectations, with higher job creation and a lower unemployment rate, but other labor market data continued to signal a further slowdown ahead. While inflation moderated to around 2.4% annually, according to the most recent Consumer Price Index print, the effects from tariffs may push core goods prices higher in the third quarter. As a result of U.S. trade policy uncertainty, the dollar weakened further versus most G10 peers and emerging market (EM) currencies.

The Federal Reserve (Fed) held rates steady throughout the quarter as policymakers continued to closely monitor economic data for potential impacts from trade policies, while signaling likely additional cuts later this year. The Bank of Japan (BoJ) also remained on hold during the quarter but left the door open for another rate hike later in the year. The European Central Bank (ECB) and Bank of England (BOE) both cut rates by another 50 and 25 basis points, respectively, with the ECB signaling a data-dependent approach as it nears the end of its current easing cycle. U.S. Treasury yields remained volatile, but the 10-year Treasury ultimately ended close to flat for the quarter at 4.24%, masking a sharp increase amid ongoing fiscal uncertainty, followed by a decline as concerns eased. Meanwhile, short to intermediate rates fell due to better inflation data while longer-term rates rose based on fears about fiscal policy and the country's growing debt load, resulting in a steeper Treasury yield curve for the quarter.

In the investment grade corporate sector, spreads widened more than 25 basis points after tariffs were announced, accompanied by a nearly equal rise in Treasury yields. This pushed yields on corporate bonds to a year-to-date high of 5.55% and spreads to 119 basis points. Despite the volatility to start the quarter, both investment grade spreads and yields consistently declined into quarter end, displaying remarkable

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Investment Grade Corporate

resiliency in the face of a volatile geopolitical environment and highly uncertain trade policy. Technical factors remained the main driver of market support during the quarter as new issue volume continued to surpass 2024's pace. Issuance in the sector now stands at \$902 billion year to date, approximately 2% above the same point last year. Investment grade corporates ended the quarter with total return of 1.82%, outperforming Treasuries. (Source: Bloomberg index returns except where noted.)

Portfolio review

The Investment Grade Corporate strategy underperformed its benchmark, the Bloomberg U.S. Intermediate Investment Grade Corporate Index, on a gross and net of fees basis.

The strategy's up-in-quality positioning contributed negatively to performance this quarter. The strategy performed well to start the quarter as spreads widened, but underperformed in the back half of the quarter as the rally deepened and credit risk outperformed. Most of the accounts in the composite do not have exposure to BBB rated securities, which comprises ~47% of the index and outperformed vs. A's, AA's, and AAA's over the quarter. At the index level, BBB rated corporates returned 2.23%, while A returned 2.06%, AA 1.82% and AAA 1.70%. The strategy's slight underweight to the technology sector contributed positively to performance, while its allocation to consumer non-cyclicals hurt performance. The strategy saw positive security selection within utilities, while selection was

negative within insurance. Curve positioning was the primary contributor to performance as the strategy was overweight the short end of the curve which declined the most during the quarter.

Over the course of the quarter, we extended duration within our JP Morgan exposure while also reinvesting maturities and cash into Charles Schwab.

Spread volatility was the main story to start the quarter but was replaced by remarkable resiliency as spreads continued firming into quarter end as tariff volatility and geopolitical uncertainty stabilized. Treasury curves steepened over the quarter as yields on the front end of the curve declined while long end yields rose. At current levels, valuations appear full. However, there are many technical factors such as higher yields, lower net issuance and continued demand that can continue to support spreads in the near term.

We continue to favor positioning that emphasizes higher credit quality and liquidity. We prefer defensive sectors such as utilities and consumer non-cyclicals because they generate consistent cash flows, even during periods of economic uncertainty. We also prefer U.S. money center banks as they remain well-capitalized. Conversely, we intend to maintain the strategy's underweight to economically sensitive sectors such as basic industry and transportation.

Investment Grade Corporate

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Glossary

The **Bloomberg U.S. Intermediate Investment Grade Corporate Index** is a broad based benchmark that measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers that have between 1 and up to, but not including, 10 years to maturity. **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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