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Separately Managed Accounts | Global Fixed Income

Investment Grade Corporate

Marketing communication | As of 30 Sep 2025

- **During the third quarter, the Investment Grade Corporate strategy underperformed its benchmark, the Bloomberg U.S. Intermediate Investment Grade Corporate Index.**
- **The strategy's up-in-quality positioning, allocation to consumer non-cyclicals and selection in consumer cyclicals detracted from performance.**
- **The strategy's slight underweight to the technology sector and security selection within utilities contributed to performance.**

Market review

While uncertainty continued to overhang the markets during the third quarter, worst-case scenario fears regarding the impact of tariffs on economic growth and inflation were avoided. The U.S. economy continued to steadily slow, and the labor market softened, but overall growth continued to hold up well. Real consumption accelerated to above a 2% annualized pace, despite a sharp slowdown in job creation. The unemployment rate ticked up to a new cyclical high of 4.3% in August, while other measures of labor market slack pointed to more stability. However, the partial government shutdown prevented the Bureau of Labor Statistics from releasing September's jobs report on the first Friday of October. Inflation increased as the impact from tariffs steadily fed through to consumer prices, while leading indicators pointed to further upside ahead. Core personal consumption expenditures (PCE) inflation increased to 2.9% year-on-year, up from its recent low of 2.6% in April.

After holding rates steady at its July meeting, the Federal Reserve (Fed) cut rates for the first time this year in September, bringing the target federal funds rate to a range of 4.00%-4.25%. While the Fed's updated economic projections in September showed few changes, the heavily scrutinized dot plot indicated two more rate cuts this year and one in 2026. The Bank of England also cut rates once by 25 basis points in August, while the European Central Bank and Bank of Japan held policy steady throughout the quarter.

U.S. Treasury rates declined across the yield curve, with the 10-year Treasury yield ending eight basis points lower at 4.16%. Shorter rates fell more due to expectations for further cuts, while the long end remained pressured by concerns over long-term inflation and fiscal deficits, resulting in a steeper yield curve. Lower rates and tightening credit spreads fueled positive returns across fixed income asset classes with spread sectors broadly outperforming Treasuries.

The investment grade corporate sector remained quite stable during the third quarter, buoyed by strong technical factors and still-attractive yields. Spreads remained in a narrow range throughout the quarter, hitting a 25-year tight of 72 basis points in late September before ending the quarter at 74 basis points. Yields jumped approximately

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20 basis points at the quarter's outset before beginning a steady decline to the year's low of 4.70% in mid-September, ending the quarter at 4.81%. Issuance slowed toward the end of August but surged in a record September, with more than $200 billion of total gross issuance that month. Year to date, new-issue volume has continued to surpass 2024's pace with issuance in the sector now standing at $1.3 trillion. The broader investment grade corporate segment outperformed Treasuries, ending the quarter with a total return of 2.60% (Bloomberg U.S. Corporate Bond Index). Continuing the theme from last quarter, BBB rated bonds outperformed higher-quality credits within the index. The strategy's benchmark, the Bloomberg U.S. Intermediate Investment Grade Corporate Index, returned 2.04% during the quarter.

Portfolio review

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

The strategy's up-in-quality positioning contributed negatively to performance during the third quarter. Similar to the prior quarter, the strategy underperformed in the second half of the period as the rally deepened and credit risk outperformed. Most of the accounts in the composite do not have exposure to BBB rated securities, which comprise around 47% of the index and outperformed A, AA and AAA rated securities during the quarter. At the index level, BBB rated corporates returned 2.17%, while As returned 1.96%, AAs 1.63% and AAAs 1.61%.

The strategy's slight underweight to the technology sector contributed positively to performance, while its allocation to consumer non-cyclicals hurt performance. The strategy benefited from positive security selection within utilities, while selection was negative within consumer cyclicals.

Over the course of the quarter, we extended duration within the strategy's Morgan Stanley and Coca-Cola exposures, while also reinvesting maturities and cash into Broadcom.

Outlook

With the holiday season approaching and issuance winding down as we move into November and December, we think spreads can remain firm even in the face of macro uncertainty. We expect the uptick in merger and acquisition activity to continue to gain momentum as rating agencies give corporations plenty of leeway to lever up balance sheets for large or transformative deals.

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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All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. Debt or fixed income securities are subject to credit risk and interest rates risk. The value of and income generated by debt securities will decrease or increase based on changes in market interest rates. Credit risk refers to an issuer's ability to make interest and principal payments when due.

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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 U.S. dollar-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. The **Bloomberg U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers. **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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