QUARTERLY MARKET REVIEW

MARKET REVIEW

Q1's exogenous shock of conflict in the Middle East left few assets unscathed. Volatility, however, and as should be no surprise, was elevated in equities, rates, and foreign exchange. Questions around the length of conflict, the duration of energy supply disruption, and the potential for realignment of geopolitical dynamics merely added to the concern sowed by wobbles in private credit. In these episodes, regular frequency economic data is of limited value, which leaves us with a familiar north star in our investment process – valuation.

While credit spreads were relatively tame, as investment grade credit only widened by ~10 bp and continued to churn new issue out to eager buyers, some weakness was evident down the ratings spectrum and tranches lower in the capital structure in the ABS space. CCC credit spreads were almost 100 bp on the quarter, which is by no means alarming, and most likely was not driven by fundamental or flow driven volume, rather by dealers marking their books.

Broad market performance was challenged by not only wider spreads, but also by upward rate pressure. Put simply, duration of any kind was challenged. US IG and HY were down by roughly 50 bp on a total return basis, while US Treasuries were flat. Floating rate structures fared better, though levered loans lost about 50 bp owing to cyclical and secular concerns and weakened in sympathy with credit.

As of 3/31/2026	Duration (yrs)	Yield (%)	Spread (bp)	Spread Change YTD (bp)	Total Return YTD (%)	Excess Return YTD (%)
Bloomberg US Aggregate	5.8	4.6	30	4	-0.1	-0.1
Bloomberg US Treasury	5.7	4.1	1	1	0.0	-
Bloomberg US Corporate (IG)	6.7	5.1	89	11	-0.5	-0.5
Bloomberg US High Yield	3.1	7.4	317	51	-0.5	-0.7
Bloomberg US High Yield BB	3.3	6.2	197	32	-0.3	-0.5
Bloomberg US High Yield CCC	2.6	11.4	725	110	-1.3	-1.5
Bloomberg US Securitized	5.1	4.8	27	2	0.4	0.2
Bloomberg US MBS	5.2	4.8	24	2	0.4	0.2
Bloomberg US ABS	2.8	4.4	53	1	0.3	0.1
Bloomberg US CMBS	3.9	4.7	71	-4	0.3	0.3
J.P. Morgan EMBI Global Diversified	6.3	7.3	289	35	-1.3	-1.3

OUTLOOK

The challenge for the Fed and markets will be to disaggregate the impact of the Middle East from core economic activity impacting underlying growth, inflation, credit quality and consumer balance sheet health.

Inflation continues to run higher than many forecasters had hoped as the positive impact expected from fiscal expansion associated with tax refunds and Trump's BBB is offset by the drag associated with higher oil prices. Survey indicators of inflation suggest that there is continued risk to the upside in inflation.

In addition, we have been cued in on potential US Treasury selling by reserve managers and the significant disruption in the petrochemical market, which has far reaching implications for manufacturing and consumer prices beyond headline energy prices alone.

We remain positioned conservatively, on an absolute basis and relative to several peers. There will be a time to deploy risk broadly in credit, and we maintain significant dry powder to do so when we are compensated for those risks.

- We favor high-quality structured credit to diversify risk and emphasize lower spread duration and liquidity as both a source of relative safety and risk adjusted return, as well as a potential source of funds should spreads widen materially.
- Elevated interest rate volatility and wider mortgage spreads have improved the relative value of the mortgage basis, shifting the outlook from fair to modestly attractive, especially considering the richness of credit spreads.
- Recent volatility has created meaningful dislocations between cash and synthetic markets, especially in European markets. This is something we are watching carefully as managers grappling with outflows have the potential to close this gap.
- We continue to watch the dynamics in the US leveraged loans and by extension the private credit markets, which were thrown into turmoil following the weak performance in the software sector, calling attention to higher concentration risk and reduced liquidity when navigating volatile and uncertain market environment.

With spreads modestly wider and macro noise high, the ability to dynamically lean into structural weaknesses (e.g., loans) or capitalize on opportunities (e.g. Agency MBS) while harvesting credit alpha from our core sector positioning remains pivotal.