FIXED INCOME PERSPECTIVES

A Monthly Strategy Review of Bond Market Trends and Economic Developments

May 2025

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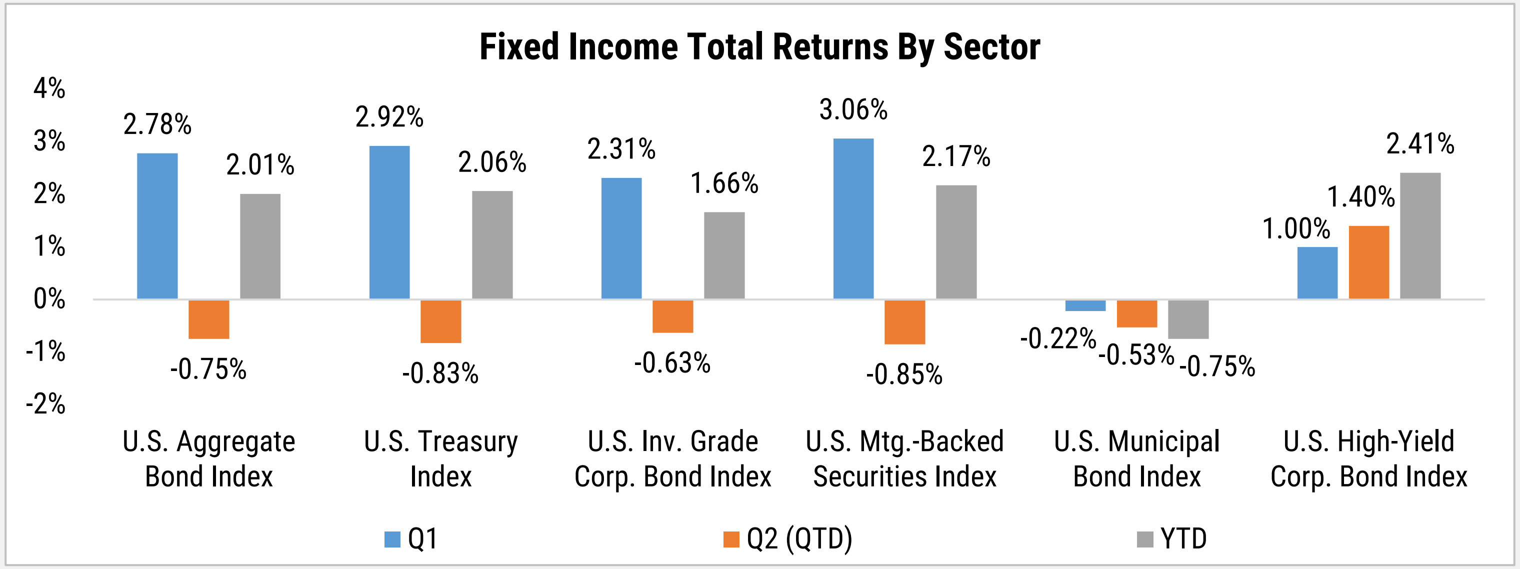
Providing Ballast

EquityCompass

While the rotation into fixed income has partially reversed in May, bonds have outpaced equities on a year-to-date basis, providing ballast to balanced portfolios. In contrast to the severe turbulence in the stock market triggered by heightened economic uncertainty, high-grade bonds have experienced significantly lower volatility. This more stable return profile was particularly evident during the unsteady market environment that followed the April 2 tariff announcement.

Through May 16, the Bloomberg U.S. Aggregate Bond Index (AGG) generated a year-to-date total return of 2.0%, compared to 1.8% for the S&P 500 Index. Across the major fixed income sectors, High-Yield has staged a strong comeback in the second quarter as recession fears have subsided. Municipals have lagged Treasuries by a considerable margin, due to concerns over the potential for significant federal government funding cuts to state and local entities.

Fixed Income Sector Performance



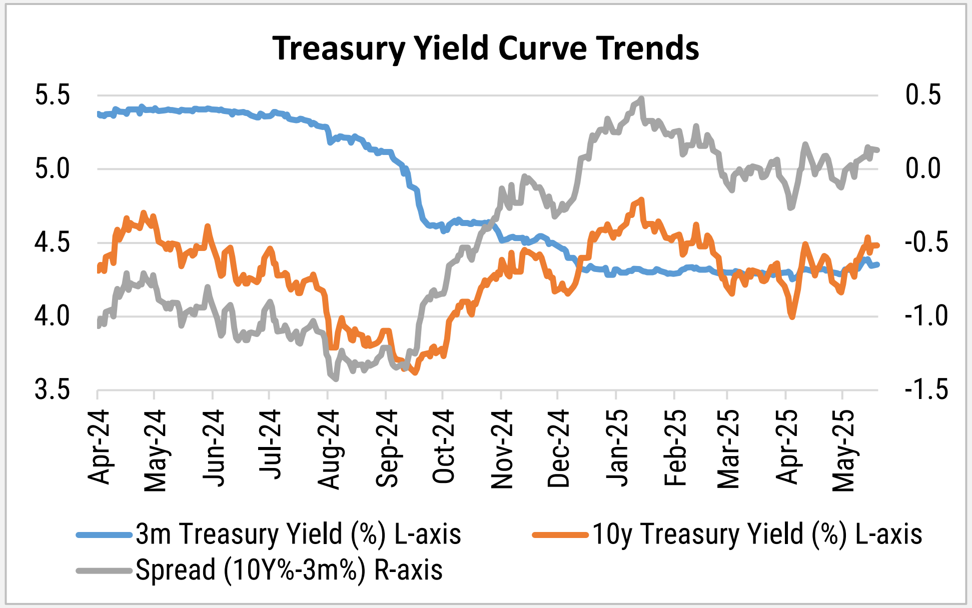
Returns through 5/16/2025; Fixed income indices provided by Bloomberg; Source: Bloomberg Finance, LP

Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.
Past performance cannot and should not be viewed as an indicator of future performance.

Treasury yields have largely followed the path of equities, rising and falling in tandem with the major U.S. stock market indices. After reaching a low of 4.0% in early April, the 10-year U.S. Treasury yield has climbed by 50 basis points (bps) to 4.5%, as stocks have recovered a substantial portion of their previous losses. Assuming the broader markets continue to stabilize, we expect Treasury yields to settle into fairly narrow ranges in the coming weeks amid ongoing crosscurrents. Economic uncertainty should continue to put downward pressure on bond yields, while lingering concerns over sticky inflation and unsustainable federal budget deficits may push rates higher.

After a pronounced steepening move during the second half of last year, subsequent changes to the shape of the curve have been relatively modest. Absent a sustained bout of stagflation, we expect the curve will continue to normalize by resuming its steepening trend through the remainder of the year. Compared to its 30-year average of 170 bps, the 3-month to 10-year yield spread remains well below that level at 15 bps.

Treasury Yield Curve



Source: Bloomberg Finance, LP

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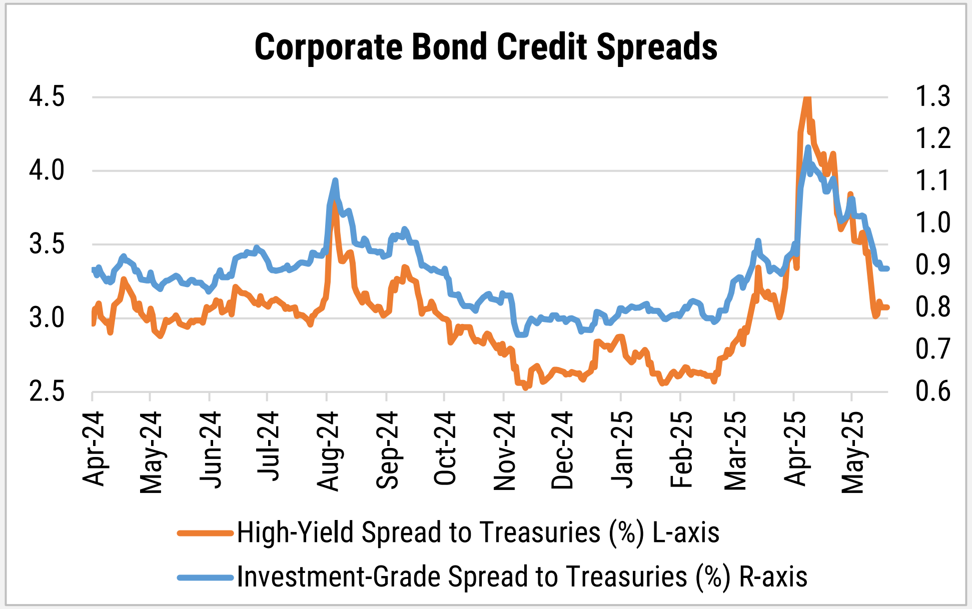
Shortly after the initial tariff rollout, credit spreads rapidly ascended to their highest levels since November 2023. **While spreads have recovered notably as some tariffs have been reduced and others delayed, they remain somewhat wider compared to the start of the year.** The de-escalation of trade tensions has been encouraging, but most of the potential deals with our major trading partners have yet to be finalized.

Considering the lingering uncertainty related to trade policy, we do not believe that current credit spreads offer sufficient compensation relative to the downside risks. The risk/reward profile of corporate bonds still appears to be skewed in favor of issuers over investors, which suggests that a larger adjustment in spreads may be needed to more fully rationalize the relative value of company debt.

Credit Spreads



Source: Bloomberg Finance, LP

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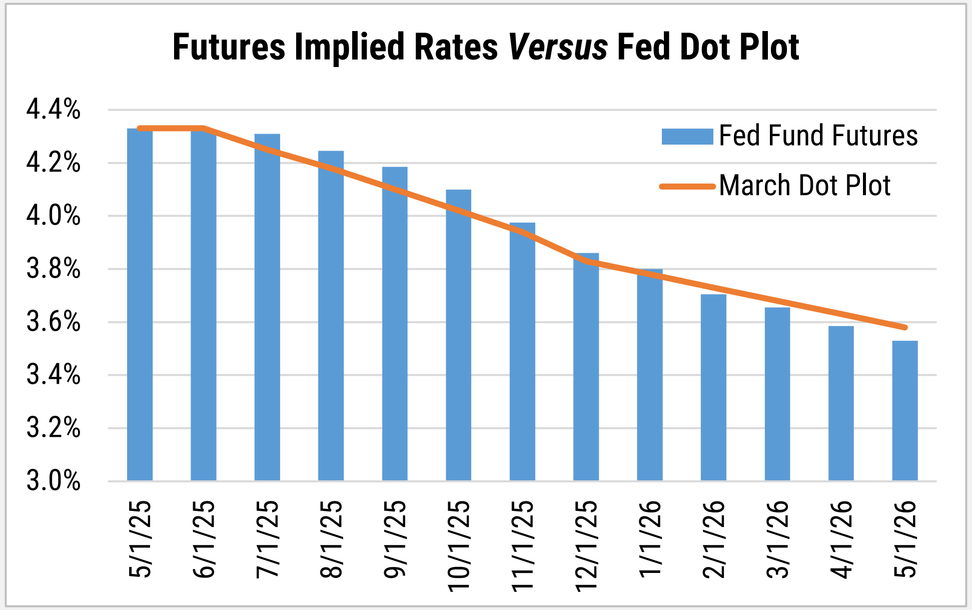
Federal Reserve Monetary Policy

Patience and a "wait and see" approach were the main messages from the May 7 Federal Open Market Committee (FOMC) meeting. **The combination of low unemployment and above-target inflation has prompted the Federal Reserve (Fed) to remain on the sidelines and await further data on the impact of tariffs before resuming rate cuts.** Prior to previous shifts in policy, the Powell Fed has clearly communicated upcoming moves at least one meeting in advance. There was no attempt at the May meeting to set up a rate cut in June, which means that the July 30 FOMC meeting is likely the earliest that the Fed would engage, unless economic activity dramatically weakens over the next few weeks.

Rate cut expectations in the interest rate futures market are well aligned with the Fed's dot plot. The Fed's forward guidance calls for 50 bps in rate cuts by year end. According to fed funds futures, 25 bps rate reductions will most likely occur at the September 17 and December 10 FOMC meetings.



As of 5/16/2025; Source: Bloomberg Finance, LP

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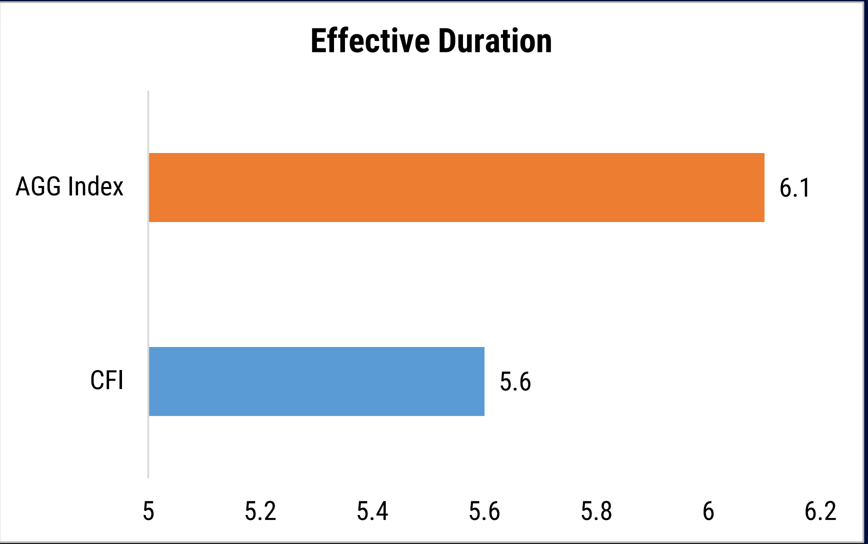
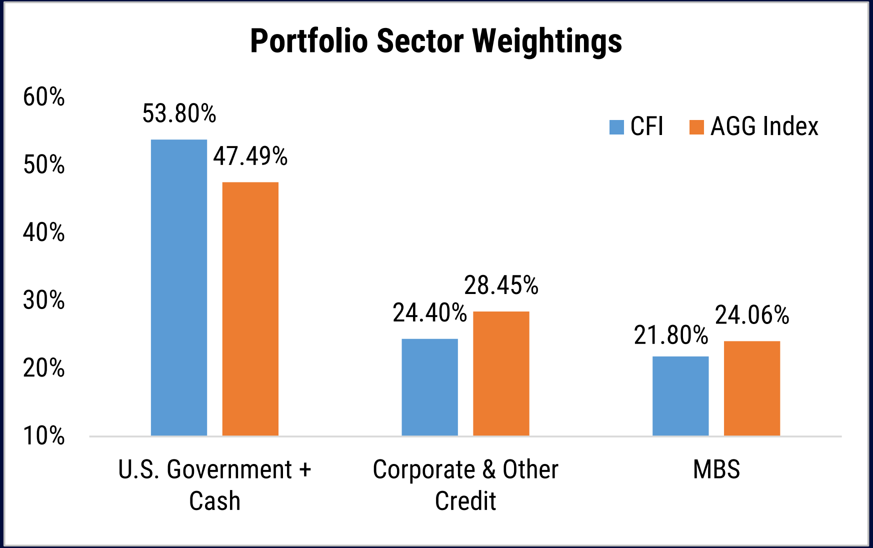


As of 5/16/2025; Source: FactSet Data Systems, Inc. and Bloomberg Finance, LP



As of 5/16/2025; Source: FactSet Data Systems, Inc. and Bloomberg Finance, LP

Core Fixed Income Portfolio (CFI) Statistics

Compared to the AGG, CFI offers a similar yield, higher credit quality, and a shorter duration. For reference purposes, the AGG's May 16 yield-to-maturity was 4.7%. To address the potential risks associated with wider credit spreads, CFI maintains significantly higher credit quality relative to the AGG. Compared to the benchmark, CFI holds an overweight to the combination of Treasuries and cash of 630 bps, with a commensurate underweight to corporate bonds and other sectors with higher credit risk exposures. The portfolio's shorter duration on a relative basis is a function of curve positioning, given CFI's overweight to the intermediate-term segment of the curve. Expected principal cash flows have been allocated along the yield curve to enhance roll down, reduce reinvestment risk, and lower inflation exposure.

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Fixed Income Market Review

- The high-grade fixed income sector has provided ballast to diversified portfolios during a period of heightened economic uncertainty and elevated market volatility.
- The 10-year U.S. Treasury yield has closely tracked the swings in market sentiment this year.
- After spiking in April as recession risks increased, credit spreads have tightened notably in May on the de-escalation of trade tensions.
- The Fed stressed patience at the May FOMC meeting, as policymakers await further data surrounding the impact of tariffs on inflation and economic growth.
- The Core Fixed Income Portfolio has remained defensively positioned throughout the year, given the unsettled macro environment.

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Heightened economic uncertainty has eroded sentiment among businesses and consumers but has not yet resulted in any meaningful deterioration in the high-frequency data. **This divergence between soft and hard data suggests that there is still a window of opportunity to finalize trade deals before economic fundamentals are significantly impacted.** The sooner that high tariffs are reduced or eliminated in favor of negotiated trade agreements, the greater the odds of averting a recession or an extended period of stagflation. The latest reading on the Conference Board's Leading Index (LI) signals that time is of the essence in resolving outstanding trade issues. The LI dropped by 1% in April, its steepest decline in over two years and a warning sign of a looming economic slowdown.

High-Frequency Economic Data Monitor

High-Frequency Indicators	Current Reading	-1 Week	-2 Weeks	-3 Weeks	1 Week Pct	2 Week Pct	3 Week Pct
U.S. Crude Rotary Rig Count	474	479	483	481	-1.0%	-1.9%	-1.5%
Raw Steel Production	1,740	1,725	1,706	1,682	0.9%	2.0%	3.4%
MBA U.S. Purchase Index	166.5	162.8	146.6	153.4	2.3%	13.6%	8.5%
JRI Same Store Sales Monthly (YoY)	5.8%	6.7%	6.7%	7.0%	-0.9%	-0.9%	-1.2%
Department Store YOY % Change (MTD)	1.5%	1.6%	1.5%	1.9%	-0.1%	0.0%	-0.4%
Initial Jobless Claims	229	229	241	223	0.0%	-5.0%	2.7%
Continuing Jobless Claims	1,881	1,872	1,908	1,833	0.5%	-1.4%	2.6%
N.Y. Fed Weekly Economic Index (WEI)	2.1	2.6	2.3	2.7	-18.0%	-9.5%	-21.4%
U.S. TSA Checkpoint Numbers	2,578,387	2,761,985	2,827,041	2,590,905	-6.6%	-8.8%	-0.5%
Chicago Board Options Exchange (VIX)	17.4	21.9	22.7	24.8	-20.7%	-23.4%	-30.1%
IG Corp. Credit Default Spread (CDX)	55.5	61.9	64.3	66.4	-10.3%	-13.8%	-16.5%

Data as of 5/16/2025. Green denotes positive trend; red denotes negative trend.
Source: Bloomberg Finance, LP

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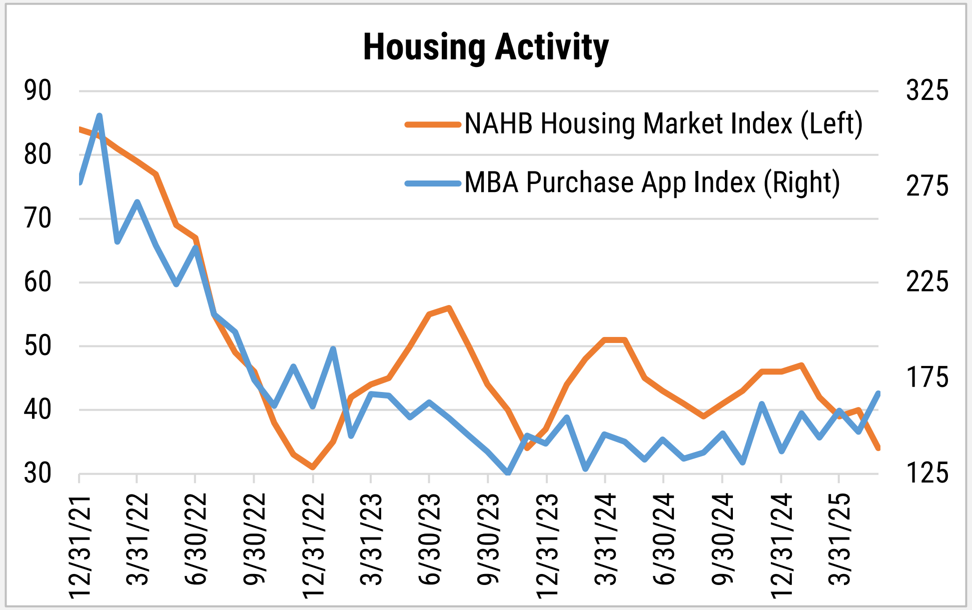
The latest round of reports on the U.S. housing market reflects the ongoing challenges facing this languishing economic sector. The NAHB Housing Market Index fell to an 18-month low of 34 in May, down from 40 the previous month. According to the latest survey, two issues topped the list of homebuilders' concerns in the current environment: (1) high mortgage rates and (2) tariffs on building materials.

Mortgage applications for home purchases declined by 7% month/month in April and have failed to show any meaningful recovery over the past two years. With average 30-year mortgage rates still hovering near 7% amid poor affordability metrics, housing is unlikely to provide a significant contribution to gross domestic product (GDP) growth in the second quarter.

Mortgage Applications



Source: Bloomberg Finance, LP

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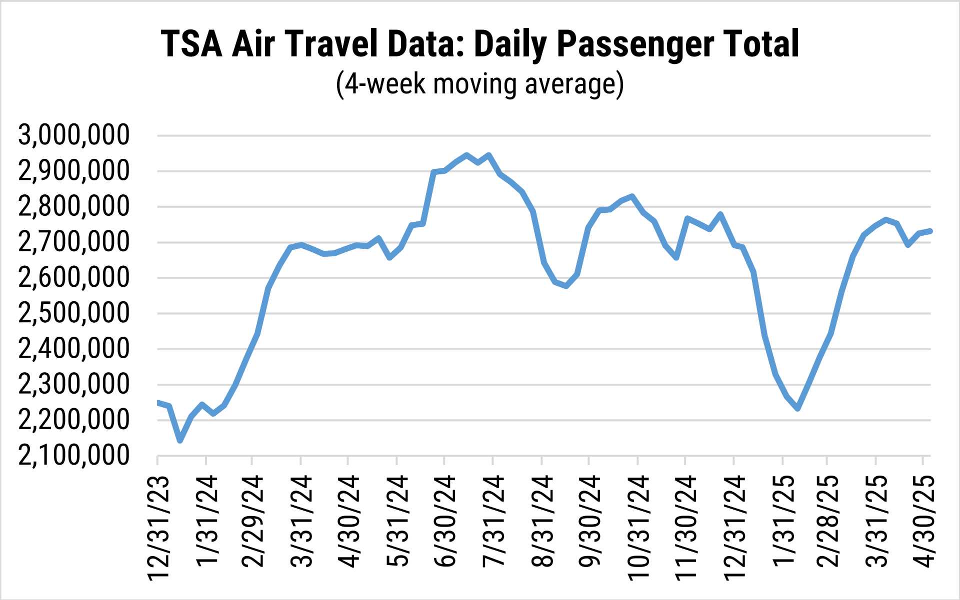
Air Travel By Total Passengers

Since the pandemic subsided, upper-income households have ramped up their spending on services and experiences. Air travel has been a primary beneficiary of this trend, setting a record for total passengers last year. According to the TSA, the daily passenger count for air travelers averaged 2.5 million in 2024, surpassing the previous high set in 2019 by 9%. **To this point in 2025, air passenger volume has been running slightly ahead of last year's record pace.** The vibrant travel and leisure sector has provided a helpful boost to the broader economy, offsetting at least a portion of the weakness in housing.

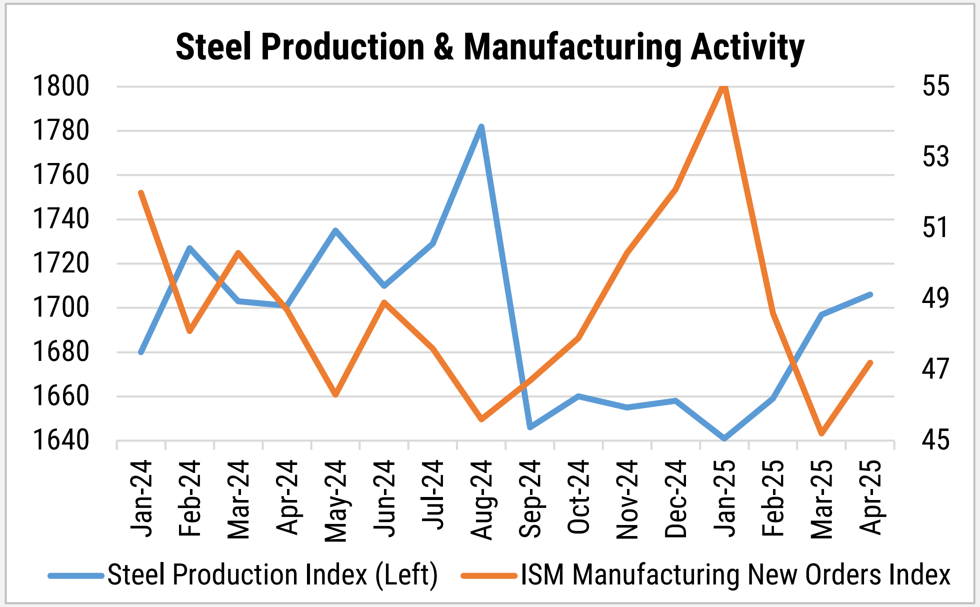


Source: Bloomberg Finance, LP

Over the past two years, the production side of the economy has lagged the services sector by a wide margin, primarily due to elevated borrowing costs and a shift in consumer spending preferences. This bifurcation continued in April, with the ISM Services Index exceeding the ISM Manufacturing Index for 37 consecutive months.

Boosting domestic manufacturing is one of the primary stated goals of the administration's new trade policies. In that regard, the recent upturn in steel output is an encouraging sign. The U.S. Raw Steel Production Index has risen for five out of the past six weeks and increased by 5% from the beginning of the year.

Steel Production



Source: Bloomberg Finance, LP

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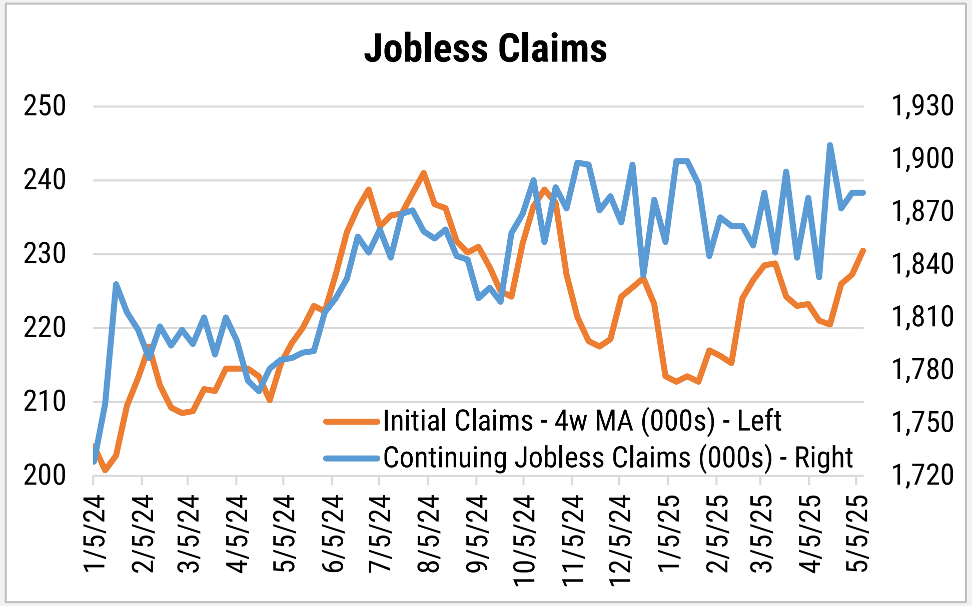
A strong labor market has underpinned GDP growth over the past four years and continued to support consumer spending through April, despite low sentiment readings. **While the most recent reports on labor market conditions showed some signs of softening around the edges, total employment remained robust heading into May.**

Initial jobless claims have generally moved sideways for the better part of three years, but they have turned slightly higher over the past month. The four-week moving average for initial claims has climbed from 220,000 to 230,000 since mid-April. This still reflects a low level of layoffs by historical standards. Continuing claims have followed a similar pattern, with no clear signs of a sustained breakout to the upside.

Jobless Claims



Source: Bloomberg Finance, LP

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Economic Data Review

- High-frequency economic data has generally improved over the past several weeks, despite the initial phase of tariff implementation.
- Housing remains the weakest link in the economic chain, with no signs of meaningful recovery in sight.
- Air passenger volume reached a record high in 2024 and has maintained a similar pace through the first four months of 2025.
- The recent upturn in steel production may foreshadow a rebound in manufacturing activity.
- Healthy labor market conditions have helped to cushion the economy from the adverse shock to consumer confidence.

About the Author

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Senior Portfolio Manager

Jim joined EquityCompass in July 2019. He is a Senior Portfolio Manager for the Core Fixed Income Portfolio, Municipal Income Enhanced Portfolio, and co-manager of the High-Dividend Portfolio. Prior to joining the portfolio management team, Jim served as the Chief Fixed Income Strategist at Stifel, Nicolaus & Company, Incorporated for 12 years. At Stifel, Jim created investment portfolio and risk management strategies for the firm's institutional fixed income clients. He also managed a $3 billion bond portfolio for Stifel Bank. Previously, he spent five years at Legg Mason as a fixed income strategist and 13 years at the Federal Deposit Insurance Corporation (FDIC) in bank supervision. His FDIC career focused on the credit analysis of bank balance sheets and the risk profile of innovative credit market instruments, including corporate bonds, mortgage-backed securities, and derivatives.

Jim has a B.S.B.A. in Finance from West Virginia University. He is also a CFA charter holder and member of the CFA Society Baltimore.

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About EquityCompass

EquityCompass Investment Management, LLC ("EquityCompass") is a Baltimore-based equity investment management team that provides portfolio strategies with respect to assets of approximately $5.1 billion.[1]

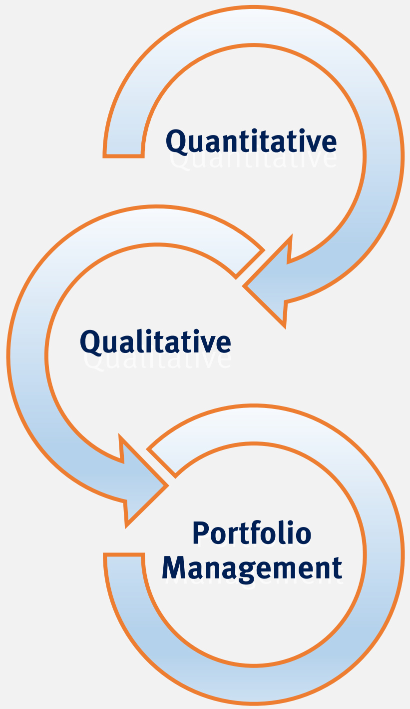
At EquityCompass, our mission as an asset management company is to provide investment solutions that address the needs of clients accumulating, mitigating risk to, and decumulating wealth. We aim to accomplish these goals with an organization culture that prizes intellectual honesty, open dialogue among colleagues, and a commitment to continually improve ourselves and the investment process.

Extensive Investment Experience

- Investment team led by Richard Cripps, CFA – former Managing Director of Portfolio Strategy at Stifel and former Chief Market Strategist and Co-Chairman of the investment committee at Legg Mason Wood Walker
- Senior members include Robert Hagstrom, CFA, as Chief Investment Officer and Chris Mutascio as Senior Managing Director – both with 20+ years of investment experience
- Publishing investment research since 2001
- Offering investment portfolios on the Stifel platform since 2006

Research-Driven, Risk-Managed Portfolio Strategies

- Incorporates fundamental, technical, and behavioral insights evolving from original research by EquityCompass professionals
- Portfolios are designed to maximize expected returns by focusing on stock selection while incorporating rigorous risk management strategies
- The investment team collaborates to leverage ideas, research, and expertise in making investment decisions on all strategies



Rigorous empirical testing to identify favorable risk-adjusted investment insights

Experienced qualitative analysis for final investment selection

Focused and disciplined portfolio decision-making

(1) Total assets combines both Assets Under Management and Assets Under Advisement as of April 30, 2025. Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets where the firm provides a model portfolio and does not have trading authority over the assets.

Disclosures

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Description of Benchmark(s): **The MBA (Mortgage Bankers Association) Purchase Index** is a weekly report of mortgage loan applications based on a sample of 75% of U.S. mortgage activity. Analysts consider the report to be a leading indicator of housing market activity. The **Bloomberg U.S. Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency). The **Bloomberg U.S. Treasury Index** measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting. The **Bloomberg U.S. Mortgage Backed Securities (MBS) Index** tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage. The **Bloomberg U.S. Corporate Bond Index** 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. The **Bloomberg U.S. Corporate High Yield Bond Index** measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on EM country definition are excluded. The **Bloomberg U.S. Municipal Bond Index** is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year. The **S&P 500® Index** is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

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The **Chicago Board Options Exchange (CBOE)** created the VIX (**CBOE Volatility Index**) to measure the 30-day expected volatility of the U.S. stock market, sometimes called the "fear index." The VIX is based on the prices of options on the S&P 500 Index and is calculated by aggregating weighted prices of the index's call and put options over a wide range of strike prices. **The Institute of Supply Management (ISM) Manufacturing Purchasing Managers Index (PMI)** is based on data compiled from monthly replies to questions asked of purchasing and supply executives in over 400 industrial companies. For each of the indicators measured, this 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. **The Raw Steel Production Index** measures the real output of all relevant establishments located in the United States, regardless of their ownership, but not those located in U.S. territories. The **Weekly Economic Index (WEI)** provides a signal of the state of the U.S. economy based on data available at a daily or weekly frequency. The WEI is an index of ten indicators of real economic activity, scaled to align with the four-quarter GDP growth rate. It represents the common component of series covering consumer behavior, the labor market, and production. The **Manufacturing ISM Report** is based on data compiled from monthly replies to questions asked of purchasing and supply executives in over 400 industrial companies 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 **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. The **NAHB/Wells Fargo Housing Market Index (HMI)** is based on a monthly survey of NAHB members designed to take the pulse of the single-family housing market. The survey asks respondents to rate market conditions for the sale of new homes at the present time and in the next six months as well as the traffic of prospective buyers of new homes. The **credit default swap index (CDX)** is a benchmark financial instrument made up of credit default swaps that have been issued by North American or emerging market companies. A credit default swap is an over-the-counter derivative contract that offers one counterparty protection against a credit event, such as the default or bankruptcy of an issuer. It can be thought of as insurance in the financial world. The credit default swap index tracks and measures total returns for the various segments of the bond issuer market so that the overall return of the index can be benchmarked against funds that invest in similar products. **Gross domestic product (GDP)** is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health. All benchmark returns are shown on a total return basis and assume that all cash distributions, such as dividends, are reinvested. The volatility of the indices identified in this report may be materially different from the volatility of the model portfolios presented by EquityCompass. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.

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