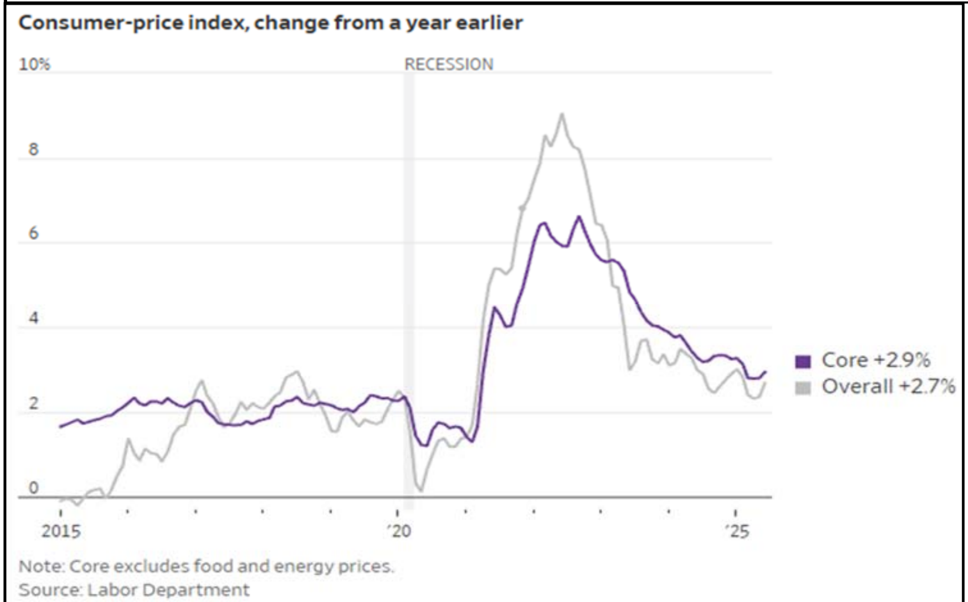
Second Quarter 2025 Bond Market Review and Outlook

CAM
Cincinnati Asset Management, Inc.
Investment Grade & High Yield Bond Specialists

"...we continue to struggle to see signs of weakness...the consumer basically seems to be fine."

J.P. Morgan CFO Jeremy Barnum 7/15/25 earnings call



Market Review and Outlook

Consumer prices (CPI) rose 2.7% in June, a bit faster than the 2.4% annual increase in May and in line with economists' forecasts (source: *Wall Street Journal* 7/16/25). Core prices which exclude volatile food and energy prices rose 2.9% in line with expectations (source: ibid). The chart above shows the 10-year history of CPI, which has fallen considerably since its 2022 highs.

Some feel the slight uptick may be the harbinger of tariff induced increases in inflation as Trump's tariffs are imposed. However, that may moderate if he is using them to induce our trading partners to sign new trade agreements. Indeed his recent proclamation of 30% tariff increases on August 1 has increased the urgency to complete new trading agreements by the EU, Canada and others.

The Federal Reserve's uncertain path on their interest rate policy seems to reflect the uncertainty regarding tariffs and their impact to date, which is much lower than anticipated back in April, when they were first imposed. Further uncertainty of their impact relates to their duration, due to many countries' delay in concluding new trade agreements. Change, especially revoking or moderating many protective tariffs, trade policies and punitive regulations that have benefitted a number of the US's trading partners is always difficult to make.

As a result of the lower impact by tariffs on inflation, Fed chairman Powell recently signaled a more moderate stance toward interest rates than he held in April, leaving open the possibility of an rate cut in September.

His moderation is bolstered by the more recent report of the Producer Price Index, which was unchanged in June. Also, wholesale prices rose 2.3% from a year earlier, the least since September 2024 (source: *Bloomberg* 7/16/25).

Powell's moderating stance is also influenced by signs of spending weakness among lower-income households, as re-

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Yields* on 06/30/2025	**Yield***
CAM Broad Market (corporate core plus) Strategy (6.6 year maturity; 4.9 duration)	**5.24%**
CAM Investment Grade (100% corporate bonds) Strategy (7.1 year maturity; 5.7 duration)	**4.83%**
CAM High-Yield Strategy (only BA & B rated purchased) (5.5 year maturity; 3.3 duration)	**6.04%**
CAM Short Duration Strategy (2.7 year maturity; 2.0 duration; 50% IG & 50% HY)	**5.11%**
CAM Short Duration Investment Grade Strategy (2.6 year maturity; 2.2 duration)	**4.39%**
U.S. Treasury** (10 year maturity)	**4.23%**
U.S. Treasury** (5 year maturity)	**3.80%**
U.S. Treasury** (2 year maturity)	**3.72%**

* The lower of yield to maturity or yield to worst call date ** Source: Bloomberg

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CAM's Key Strategic Elements

- Bottom-up credit analysis determines value and risk.
- Primary objective is preservation of capital.
- Larger, more liquid issues preferred.
- Target is always intermediate maturity.
- No interest rate forecasting.
- All clients benefit from institutional trading platform and multi-firm competitive bids and offers.

CAM returns are after CAM's average management fee & all transaction costs but before any broker, custody or consulting fees. **The indices are unmanaged and do not take into account fees, expenses, and transaction costs.**	Total Return (%)	Annualized Returns (%)				
	2Q '25	YTD	1-YEAR	3-YEARS	5-YEARS	10-YEARS
CAM Broad Market Strategy—Net 1/3 high yield, 2/3 investment grade	2.63	4.60	7.81	5.83	1.59	2.90
CAM High Yield "Upper Tier" Strategy—Net only purchase BB and B; no purchases of CCC & lower	3.27	4.39	8.46	8.67	4.18	3.50
Bloomberg US Corporate High Yield Index	3.53	4.57	10.28	9.93	5.97	5.38
CAM Investment Grade Strategy—Net 100% corporate bonds	2.31	4.70	7.51	4.52	0.43	2.62
Bloomberg US Corporate Index	1.82	4.17	6.90	4.34	0.14	2.94
CAM Short Duration Strategy—Net 1/2 investment grade, 1/2 high yield	1.88	3.17	6.77	6.13	3.08	2.69
CAM Short Duration Investment Grade Strategy—Net 100% corporate bonds	1.49	3.12	6.19	4.14	1.29	2.15

Relative Performance Review 06/30/2025

CAM's **Investment Grade Strategy ("IG")** produced a gross total return of 2.37% in the quarter ended June 30, 2025, compared to 1.82% for the Bloomberg U.S. Corporate Index. CAM always positions a majority of the portfolio within intermediate maturities. Longer dated securities (10+ years) returned 1.22% for the period, underperforming the broader index. CAM's underweight in this duration bucket produced a 16 basis point contribution to excess return. Additionally, CAM targets a 30% limitation on its exposure to BAA-rated credit, while the index averaged an exposure of 46.3%. BAA credit modestly outperformed the broader index and the allocation effect of CAM's underweight was a -3 basis point contribution to excess return. CAM's positioning within the Electric Utilities and Cable Satellite industries were the largest positive impact to performance, with a +9 and +7 basis point contributions to excess return, respectively. Our positioning within the Chemicals industry printed the largest negative contribution of -3 basis points. The YTD return for the CAM IG strategy was 4.83%, outperforming the Index return of 4.17%. CAM's positioning within the Electric Utility and Technology industries were the largest positive impact to performance, with a +13 and +12 basis point contribution to excess return, respectively. Our positioning within the Airlines and Chemicals industries were the largest negative contributors, each with a -4 basis point contribution to excess return.

The **High Yield Strategy ("HY")** delivered a gross total return of 3.34% in Q2 while the Bloomberg US Corporate High Yield Index returned 3.53%. CAM's overweight and security selection within the Automotive, Cable Satellite, and Retailers industries had the largest positive impact on performance relative to the index with +21, +14, and +11 basis point contributions to excess return during the quarter. For negative impact relative to the index, CAM's positioning and security selection within the Media Entertainment and Airlines industry groups was a -14 and -10 basis point contribution to excess return, respectively. CAM does not purchase securities in the CAA-rated cohort, which outperformed the broader index as a whole. The result of CAM's underweight was a -5 basis point contribution to excess return. The HY YTD return was 4.55% while the Index returned 4.57%. CAM's overweight and security selection in the Automotive, Retailers, and Cable Satellite industries had the biggest positive impact on performance relative to the index with a +28, +13, and +12 basis point contributions to excess return, respectively. As far as negative impact relative to the index was concerned, CAM's exposure to the Food & Beverage industry group had a -17 basis point impact to its performance relative to the Index.

Our **Broad Market Strategy ("BM")** – a 67%/33% blend of the IG and HY strategies above – produced a gross total return of 2.69% for the quarter compared to 2.39% for the Index, a similar blend of Bloomberg IG and HY corporates. CAM is underweight the BAA-credit cohort relative to the Index as a function of our barbell approach to credit quality exposure. BAA-rated credit underperformed the broader benchmark over the quarter and the result was a +5 basis point contribution to our excess return. The YTD return for the CAM Broad Market strategy was 4.73% compared to a blended Index return of 4.31%. CAM's positioning in the Electric Utility, Automotive, and Cable Satellite industries had the biggest positive impact on performance relative to the index with +12, +11, and +9 basis point contributions, respectively. As far as negative impact relative to the index was concerned, CAM's positioning within the Airlines and Food and Beverage industry groups yielded -6 and -4 basis point contributions to excess return, respectively.

Bloomberg Bond Indices Returns vs. CAM Gross (annualized %)

Periods ended 06/30/2025	10-yrs	20-yrs
U.S. Aggregate	**1.76**	**3.09**
U.S. Corporate	**2.94**	**4.06**
CAM Investment Grade Strategy (gross)	**2.86**	**4.33**
CAM Investment Grade Strategy (net)	**2.62**	**4.09**

Better Asset Allocation Might Result from More Exacting Analysis

CAM looks to minimize the overall volatility of our High Yield strategy by focusing on the upper tier of High Yield credit (BA-B), as well as the conservative portion of a firm's capital structure. The chart to the right indicates 5, 10, and 20-year performance for the High Yield credit quality cohorts. While the CAA-rated cohort outperformed BA and B-rated bonds for the more recent 5 and 10-year periods, higher quality BA-rated bonds approximated CAA-rated returns over the longer 20-year period. Not shown in the table is the pronounced volatility that has characterized the CAA-rated and lower sub-sectors. For example, the CAA credit tier returned -20.55% in Q1-2020 (i.e. start of the COVID pandemic) versus -12.69% for the HY Index as a whole. In fact, over the 20-year period the standard deviation of the CAA credit tier has been approximately 61% greater than the broader Bloomberg US Corporate HY Index (16.53% versus 10.29%). This shows investors may not be rewarded for the additional volatility and risk of the CAA-rated and lower subsectors.

Upper tier High Yield credit (BA-B) has also outperformed the Bloomberg US Aggregate Index (the "Agg") for all periods, indicating these credit quality stripes have also kept better pace with inflation.

The above points suggest that upper tier High Yield bonds deserve consideration as a core holding over a complete market cycle.

Total Return of High-Yield Bonds by Credit Quality
(periods ended 06/30/2025) Source: Bloomberg US Corporate Indices
(annualized %)

High-Yield Bond Sectors	5-years	10-years	20-years
BA-rated bonds	**5.02**	**5.38**	**6.67**
B-rated bonds	**5.82**	**4.95**	**5.89**
CAA-rated bonds	**8.90**	**5.69**	**6.54**
CA & D-rated bonds	**20.54**	**7.60**	**4.07**

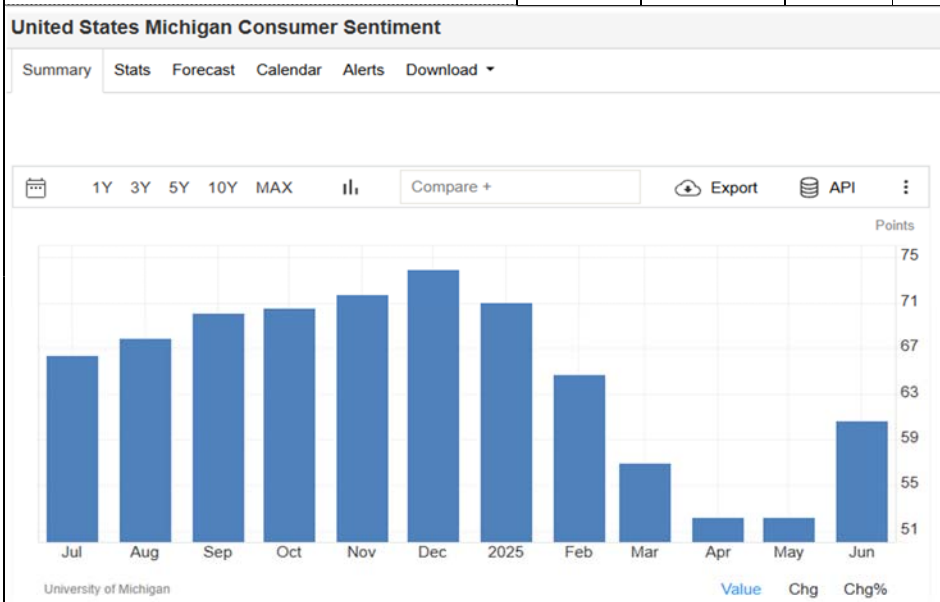
Performance of Other Asset Classes
(periods ended 06/30/2025) Source: Bloomberg & Lipper

S & P 500 Stocks	**16.64**	**13.65**	**10.72**
Bloomberg U.S. Aggregate	**-0.73**	**1.76**	**3.09**

The June 30 31 spread levels (shown at the right) enhance the value of corporate bonds versus U.S. Treasuries. The Liberation Day tariffs introduced substantial volatility during Q2; however, this volatility diminished after the implementation was delayed and negotiations began. Accordingly, nearly all spread cohorts have returned to approximate their 12/31/2024 levels.

While credit spreads look snug, we believe that this is a classical "buy the yield, not the spread" environment for investors and we continue to believe that investment grade credit offers compelling risk reward for its credit quality and duration.

Credit Rating	20-Year Average Spread (as of 12/31/24)	06/30/25	12/31/24	12/31/23	12/31/22	12/31/21	Tightest This Decade (as of 12/31/24)
A	1.28%	0.71%	0.68%	0.85%	1.09%	0.74%	0.63%
BAA	1.88%	1.02%	0.97%	1.21%	1.59%	1.13%	0.95%
BA	3.51%	1.71%	1.79%	2.01%	2.95%	1.94%	1.58%
B	4.88%	2.81%	2.77%	3.10%	4.89%	3.13%	2.54%
CAA	8.95%	7.84%	7.03%	8.09%	11.54%	5.96%	4.91%



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cently reported by major banks and credit card companies (source: *Wall Street Journal* 7/15/25). That in itself may lead the Fed to cut rates in September.

The 10-year Treasury has moved up since the end of the second quarter on tariff induced inflation concerns driven by Trumps new August 1 deadline. Today, July 16 its yield is 4.45% up from 4.20% at the end of June and 4.22% at the end of the first quarter (source: *Bloomberg* 7/16/25).

The yield has been volatile due to investor uncertainty regarding the economy and a large dose of tariff trama. The range this year has been fairly wide with the lowest yield at 4.01% on April 4th (remember "liberation day" on which the tariffs were first imposed was April 2) and the highest yield was 4.79% on January 13.

The bond market should settle into a more "normal" behavior as tariff deals are signed. So, today's higher yields driven by uncertainty may represent a logical time to allocate to longer dated maturities.

New Tax Laws

On July 4th President Trump signed tax legislation that enacts significant changes. This dispels the uncertainty concerning Federal taxes for individuals and businesses. Many of the changes are viewed as pro-growth. Some of the more important elements follow:

Business "bonus" depreciation is now permanent: businesses can expense 100% of capital expenditures.

Research and Development Deductions can be expensed rather than amortized and small businesses can apply retroactively to 2022.

The current lower tax brackets that were scheduled to increase in 2026 are now permanent..

The state and local tax (SALT) Federal Tax deduction limit is raised to $40,000 from $10,000.

Seniors aged +65 can reduce Federal Tax payments with a $6,000 deduction for single filers with income below $75,000 and joint filers with income below $150,000.

Auto loan interest is once again deductible up to $10,000 for new cars USA built for single filers below $149,000 in income and joint filers below $249,000 in income.

Tax on tips can be deducted up to $25,000

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Footnotes and Disclosure

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annually.

Tax on overtime pay can be deducted up to $12,500.

There are many more elements to the tax bill that are similar in their impact on businesses and individuals increasing income. The resulting impact on GDP will be positive.

The dramatic improvement in consumer sentiment in June might have been partially in anticipation of the passing of the tax bill. The increase in sentiment was the first in six months. The improvements were broad based with increases in business and personal finance up about 20% and inflation expectations falling from 6.6% for the year ahead to 5.0% (source: University of Michigan and *Trading Economics* 7/16/25).

On Thursday, July 17 the labor department released the jobless claims report (see lower chart on the right). Unemployment claims fell for the fifth straight week (red line), signaling economic resiliency. However continuing claims (blue line), a proxy for the number receiving benefits was little changed. Continuing claims are near their highest level since 2021 implying that the unemployed are experiencing difficulty in landing a job (source: *Bloomberg* 7/17/25). If the steady rise in the continuing claims persists, the Fed may respond with an interest rate cut.

However, June retail sales showed strength after falling for the previous two months as show in the chart on the upper right. The broad based 0.6% increase surprised most economists, as did the significant contribution made by auto sales (source: *Bloomberg* 7/17/25). However, the data is unadjusted for inflation and represents about one-third of consumer spending, the remainder of which is spending on services. However, this is a positive signal for the economy and speaks against an interest rate cut.

The puzzle for interest rates persists, however the larger elements tilt toward decreasing, which has been done by many countries.

Sharpe Ratios (risk & reward relative value) Inception-Q2 2025

CAM Investment Grade Strategy 0.33
Bloomberg U.S. Corp Bonds 0.29

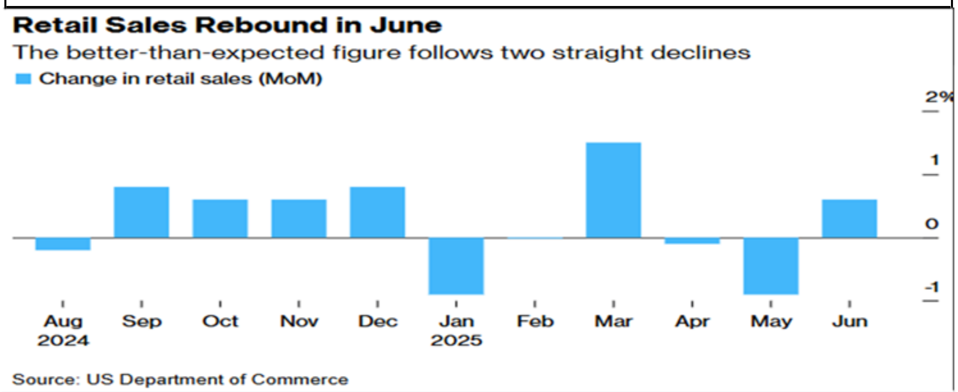
CAM High Yield Strategy 0.48
Bloomberg High Yield Corp Bonds 0.47

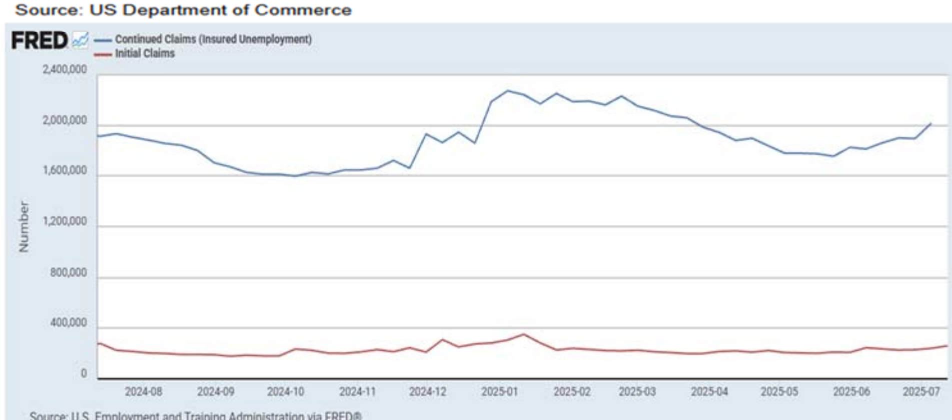
CAM Short Duration 0.43
Bloomberg Weighted Benchmark
(1/2 Interm. HY & 1/2 U.S. Corporate 1-5) 0.52

CAM Short Duration IG Strategy 0.75
Bloomberg U.S. Corporate 1-5 Yr 0.77

CAM Broad Market Strategy 0.53
Bloomberg Weighted Benchmark
(2/3 Corporate and 1/3 High Yield) 0.55

An important objective for all Cincinnati Asset Management investment strategies is to deliver superior risk-weighted returns versus the benchmark. A quantitative indication of our success is the Sharpe Ratio that calculates total return per unit of risk. The data on the left indicates we have largely been successful. The Sharpe Ratio of the Investment Grade Strategy exceeded its respective benchmark by approximately 14%! The High Yield Sharpe Ratio approximated its benchmark, and the Short Duration Investment Grade and Broad Market strategies fell modestly short of their respective benchmarks.





Rating	BA	B	CAA
Avg Spread	348	502	942
Std. Dev.	165	220	402
06/30/2025	**171**	**281**	**784**
Lowest Spread	151	228	378

Spreads to Treasuries by Credit Rating show significantly lower risk of BA and B rated bonds. Source: Bloomberg, Barclays Research (12/31/99 to 06/30/2025)