Third Quarter 2025 Bond Market Review and Outlook

Cincinnati Asset Management, Inc.

Investment Grade & High Yield Bond Specialists

"While there have been some signs of a softening, particularly in job growth, the U.S. economy generally remained resilient." J.P. Morgan Chairman and CEO Jamie Dimon 3Q earnings press release

Note: Chart shows average response in each survey.
Source: Wall Street Journal surveys of economists

Market Review and Outlook

In accordance with Jamie Dimon's remarks in the JP Morgan Chase third quarter earnings press release, economists see decent economic growth but weaker employment prospects. The *Wall Street Journal* recently completed their quarterly survey of economists with 64 total responses. The survey results show that participants expect the third-quarter inflation-adjusted GDP to increase 2.5% on an annualized basis. However, they expect just over a 49,000 average monthly payrolls increase for the next 12 months. That is the lowest forecast in over two years (Source: *Wall Street Journal* 10/15/25).

"Lower" was a common theme throughout the third quarter in the credit market as the surveyed probability of recession, Treasury yields, and credit spreads all moved lower.

The one year recession probability forecast saw a bit of a reduction to 33% at the end of the period after climbing from 20% to 40% during the first half of the year (Source: Bloomberg).

Treasury yields moved lower during the quarter, with most of that move taking place in shorter maturities, which are more levered to the Fed's policy rate than intermediate maturities. The 2yr, 5yr and 10yr Treasuries finished the period 11, 6 and 8 basis points lower ending at 3.61%, 3.74%, and 4.15%, respectively (Source: Bloomberg).

Credit spreads in both the Investment Grade space and the High Yield area found their way lower. The Option Adjusted Spread (OAS) for the Bloomberg US Corporate Bond Index (IG Index) reached a low of 72 basis points, which set a new 27-year low for the measure. The IG Index reached the low for the first time on September 18th, a day after the first Fed rate-cut since December 2024. The IG Index finished the quarter at an OAS of 74, making it 9 basis points tighter during the third period. The Bloomberg US Corporate

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Yields[*] on 09/30/2025	**Yield***
CAM Broad Market (corporate core plus) Strategy (6.8 year maturity; 5.0 duration)	**5.06%**
CAM Investment Grade (100% corporate bonds) Strategy (7.24 year maturity; 5.8 duration)	**4.66%**
CAM High-Yield Strategy (only BA & B rated purchased) (5.7 year maturity; 3.2 duration)	**5.85%**
CAM Short Duration Strategy (2.7 year maturity; 1.9 duration; 50% IG & 50% HY)	**4.92%**
CAM Short Duration Investment Grade Strategy (2.6 year maturity; 2.2 duration)	**4.20%**
U.S. Treasury[**] (10 year maturity)	**4.15%**
U.S. Treasury[**] (5 year maturity)	**3.74%**
U.S. Treasury[**] (2 year maturity)	**3.61%**

* 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.
- <u>All</u> 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 (%)**				
	3Q '25	YTD	1-YEAR	3-YEARS	5-YEARS	10-YEARS
CAM Broad Market Strategy—Net 1/3 high yield, 2/3 investment grade	2.15	6.86	5.23	7.79	1.52	3.29
CAM High Yield "Upper Tier" Strategy—Net only purchase BB and B; no purchases of CCC & lower	1.98	6.47	6.70	9.89	3.68	4.38
Bloomberg US Corporate High Yield Index	2.54	7.22	7.41	11.09	5.55	6.17
CAM Investment Grade Strategy—Net 100% corporate bonds	2.21	7.04	4.54	6.78	0.53	2.77
Bloomberg US Corporate Index	2.60	6.88	3.63	7.07	0.35	3.12
CAM Short Duration Strategy—Net 1/2 investment grade, 1/2 high yield	1.56	4.78	5.16	6.94	2.93	3.25
CAM Short Duration Investment Grade Strategy—Net 100% corporate bonds	1.36	4.54	4.39	5.32	1.40	2.21

Relative Performance Review 09/30/2025

CAM's **Investment Grade Strategy ("IG")** produced a gross total return of 2.27% in the quarter ended September 30, 2025, compared to 2.60% for the Bloomberg U.S. Corporate Index. CAM always positions a majority of the portfolio within intermediate maturities. Longer dated securities (10+ years) strongly outperformed the broader index during the quarter. Intermediate 7-10 year maturities modestly outperformed, while 5-7 year maturities modestly underperformed. CAM' overall positioning and focus on intermediate maturities was a -16 basis point detriment to relative performance. Additionally, BAA quality credit slightly outperformed the broader index during the quarter. CAM's positioning and underweight vs. the index concentration of 45.9% was a -12 basis point detriment to relative performance. CAM's positioning within the Banking, Media/Entertainment and Construction Machinery industries were the largest positive impact to performance, with +3, +2, and +1 basis point contributions to excess return, respectively. Our positioning within the Electric Utilities industry printed the largest negative contribution of -7 basis points. The YTD return for the CAM IG strategy was 7.23%, outperforming the Index return of 6.88%. CAM's positioning within the Banking and Technology industries were the largest positive impact to performance, with a +12 and +11 basis point contribution to excess return, respectively. Our positioning within the Chemicals and Airlines industries were the largest negative contributors, each with a -6 and -5 basis point contribution to excess return, respectively.

The **High Yield Strategy ("HY")** delivered a gross total return of 2.05% in Q3 while the Bloomberg US Corporate High Yield Index returned 2.54%. CAM's overweight and security selection within the Consumer Products, Technology, and Metals and Mining industries had the largest positive impact on performance relative to the index with +9, +9, and +7 basis point contributions to excess return during the quarter. For negative impact relative to the index, CAM's positioning and security selection within the Cable & Satellite, Automotive, and Independent Energy industry groups was a -12, -9, and -7 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 -20 basis point contribution to excess return. The HY YTD return was 6.70% while the Index returned 7.22%. CAM's overweight and security selection in the Automotive, Property & Casualty, and Electric Utility industries had the biggest positive impact on performance relative to the index with a +20, +17, and +13 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 -18 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 2.22% for the quarter compared to 2.58% 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. Broadly speaking, BAA-rated credit was one of the best performing rating categories during the quarter. CAM's upper tier positioning yielded a -9 basis point detriment to its relative performance. The YTD return for the CAM Broad Market strategy was 7.07% compared to a blended Index return of 7.00%. CAM's positioning in the Technology, Electric Utility, and Banking industries had the biggest positive impact on performance relative to the index with +10, +9, and +9 basis point contributions, respectively. As far as negative impact relative to the index was concerned, CAM's positioning within the Pharmaceuticals and Food and Beverage industry groups yielded -7 and -6 basis point contributions to excess return, respectively.

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

Periods ended 09/30/2025	**10-yrs**	**20-yrs**
U.S. Aggregate	**1.84**	**3.23**
U.S. Corporate	**3.12**	**4.25**
CAM Investment Grade Strategy (gross)	**3.01**	**4.48**
CAM Investment Grade Strategy (net)	**2.77**	**4.24**

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 exceeded 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 subsectors. 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 (16.54% 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 09/30/2025) Source: Bloomberg US Corporate Indices **(annualized %)**

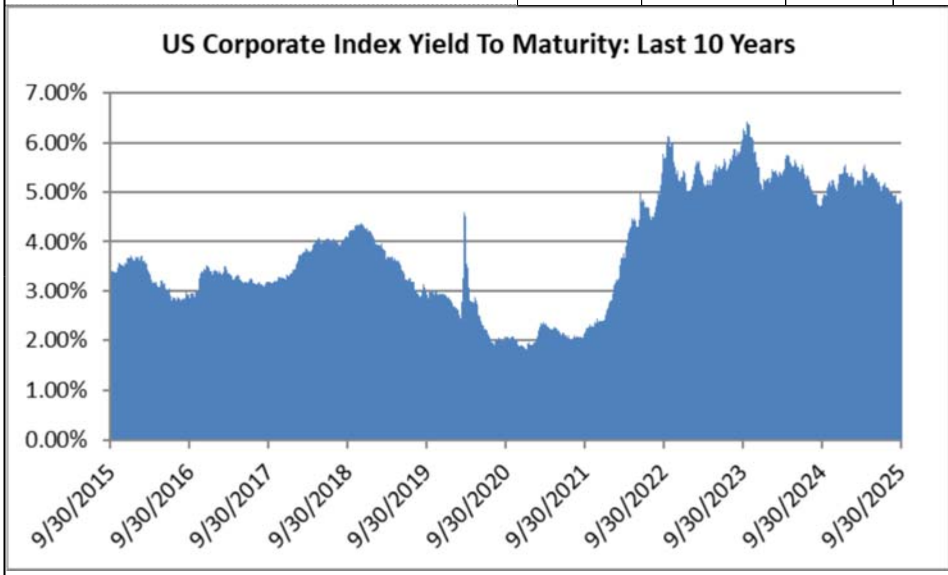
High-Yield Bond Sectors	**5-years**	**10-years**	**20-years**
BA-rated bonds	**4.67**	**5.96**	**6.78**
B-rated bonds	**5.36**	**5.80**	**5.95**
CAA-rated bonds	**8.29**	**6.95**	**6.65**
CA & D-rated bonds	**19.45**	**11.50**	**4.20**

Performance of Other Asset Classes
(periods ended 09/30/2025) Source: Bloomberg & Lipper

S & P 500 Stocks	**16.47**	**15.30**	**10.96**
Bloomberg U.S. Aggregate	**-0.45**	**1.84**	**3.23**

The September 30 spread levels (shown at the right) enhance the value of corporate bonds versus U.S. Treasuries. While credit spreads look snug, we believe that this is a classical "buy the yield, not the spread" environment for investors. Higher yields provide a larger margin of safety amid an environment of narrow credit spreads. One measure bond managers use to project downside protection is called a "breakeven" calculation. For example, CAM's IG composite at the end of August had a 4.76% yield to maturity and a modified duration of 5.69. Its breakeven was 83.6, which would mean that the portfolio could tolerate about 84 basis points of spread widening before generating a negative total return over the course of a one-year period.

Credit Rating	20-Year Average Spread (as of 12/31/24)	09/30/25	12/31/24	12/31/23	12/31/22	12/31/21	Tightest This Decade (as of 12/31/24)
A	1.28%	0.61%	0.68%	0.85%	1.09%	0.74%	0.63%
BAA	1.88%	0.92%	0.97%	1.21%	1.59%	1.13%	0.95%
BA	3.51%	1.68%	1.79%	2.01%	2.95%	1.94%	1.58%
B	4.88%	2.63%	2.77%	3.10%	4.89%	3.13%	2.54%
CAA	8.95%	6.96%	7.03%	8.09%	11.54%	5.96%	4.91%



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High Yield Index (HY Index) OAS tightened 23 basis points moving from 290 basis points to 267 basis points (Source: Bloomberg).

Technicals and Fundamentals

From a technical perspective, the investment grade and high yield markets continued to have a strong backdrop. Defaults remain relatively low, supply is very strong, and flows are quite robust. For the investment grade market, September marked the fifth-largest monthly total for supply on record and the second busiest month ever outside of the COVID-era borrowing binge.

Fundamentals remain in good shape across credit with regard to the headline metrics of leverage, interest coverage, and margins.

As market participants assimilated all available information over the quarter, the end result was buying and led to positive returns across markets. So, while spreads continue to be reported as being low or tight, they are at the current level for good reason. Not least of which is the reason of the available yields that still exist in the markets today.

The Yield Driver

As can be seen in the chart on the left, when one looks at the yield available today relative to the past 10 years, it is normal for investors to get quite excited. Barclays recently reported on this very dynamic across the different ownership cohorts of the investment grade credit market. They wrote that the yield that can be captured has been leading the largest ownership groups including foreign buyers and insurance companies to be strong buyers of credit.

The Fed Cuts Resume

The FOMC met twice during the third quarter, in July and September. It elected to hold its policy rate steady at the first meeting and it delivered a 25bp reduction on September 17th.

After the September meeting, Fed Chair Jerome Powell commented on the weakening labor market. "Labor demand has softened, and the recent pace of job

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Footnotes and Disclosure

Advisory services are offered through Cincinnati Asset Management, Inc., ("CAM") an investment adviser registered with the U. S. Securities and Exchange Commission. The CAM High Yield, Investment Grade, Broad Market, Short Duration, and Short Duration-Investment Grade composites consist of all discretionary portfolios under management, including all securities and cash held in the portfolios, and have been appropriately weighted for the size of the account. All accounts are included after they are substantially invested.

Returns are calculated monthly in U.S. dollars and include reinvestment of dividends and interest. Figures for periods of less than one year are cumulative returns. All other figures represent annualized returns. Past performance is no guarantee of future results.

When compared to indices' performance, CAM results are after deduction of all transaction costs and CAM advisory fees. CAM advisory fees used are the actual composite averages. Accounts managed through brokerage firm programs usually will include additional fees. "Net of fees" herein refers only to CAM's management fee. The indices and information shown for comparative purposes are based on or derived from information generally available to the public from sources believed to be reliable. No representation is made to its accuracy or completeness. The Indices are referred to for informational purposes only and the composition of the Index is different from the composition of the accounts included in the performance shown above. Index returns do not reflect the deduction of fees, trading costs or other expenses.

This material was not intended or written to be used, and it cannot be used, by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws.

This information is intended solely to report on investment strategies and opportunities identified by CAM. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. This material is not intended as an offer or solicitation to buy, hold or sell of any financial instrument. References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.

High yield bonds may not be suitable investments for all individuals. Before investing a thorough reading of all materials and consultation with an independent third party financial consultant may be appropriate. Fixed Income securities may be sensitive to changes in prevailing interest rates. When rates rise the value generally declines. For a depository institution, there is also risk that spread income will suffer because of a change in interest rates. Additional disclosures on the material risks and potential benefits of investing in corporate bonds are available on our website: https://www.cambonds.com/disclosure-statements/

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creation appears to be running below the break-even rate needed to hold the unemployment rate constant," Powell told reporters. He added, "I can no longer say" the labor market is "very solid" (Source: Bloomberg). Inflation remains a concern for the Fed with a worry that tariffs have yet to fully work through the system. A softening labor market and stubborn inflation is a tough needle for the Fed to try and thread. That leaves some differing opinions on the best forward rate path.

The Fed Dot Plot to the right shows that among 19 FOMC meeting participants, six projected no additional cuts by the end of 2025 and nine projected 50 basis points while there was one outlier response of 125 basis points. There was even one response of a projected rate increase. A little something for everyone in that chart.

We believe that there is good reason for the disparity in projections for the path of the policy rate given the highly bifurcated nature of the current economic backdrop. There are some sectors of the economy that are struggling while other sectors of the economy remain red hot. The perfect example of this split is the tremendous spending on data centers and AI infrastructure versus companies that are dealing with rising costs due to tariffs as reported by the *Wall Street Journal*.

Consumer spending has held up well, and arguably even exceeded expectations, but consumption has become increasingly reliant on higher income consumers. American Express is a company that targets wealthier consumers. Their Chief Executive Stephen Squeri commented with the third quarter earnings that "The health of our consumer is really, really good." He continued, "It truly is a bifurcated economy. We're lucky to have a much more premium card base" (Source: *Wall Street Journal*).

Sharpe Ratios (risk & reward relative value) Inception-Q3 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) 0.53

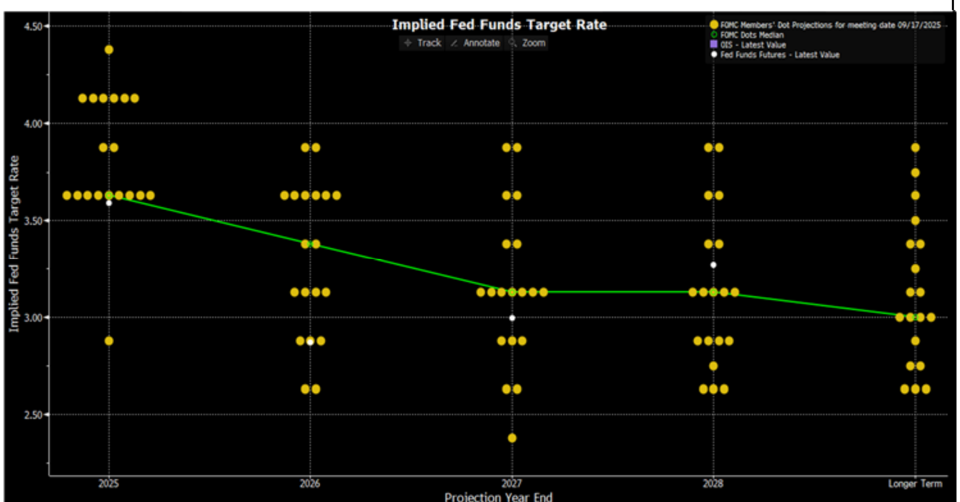
CAM Short Duration IG Strategy 0.75
Bloomberg U.S. Corporate 1-5 Yr 0.78

CAM Broad Market Strategy 0.54
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 exceeded its benchmark by 2%, and the Short Duration Investment Grade and Broad Market strategies fell modestly short of their respective benchmarks.

Looking Ahead

As we look toward the end of the year and into the next, the investment landscape for U.S. corporate bonds remains constructive. Uncertainty is certainly present, the government is shutdown, but bond yields along with decent technicals and fundamentals provide a ballast.



Rating	BA	B	CAA
Avg Spread	346	500	940
Std. Dev.	165	220	401
09/30/2025	**168**	**263**	**696**
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 09/30/2025)