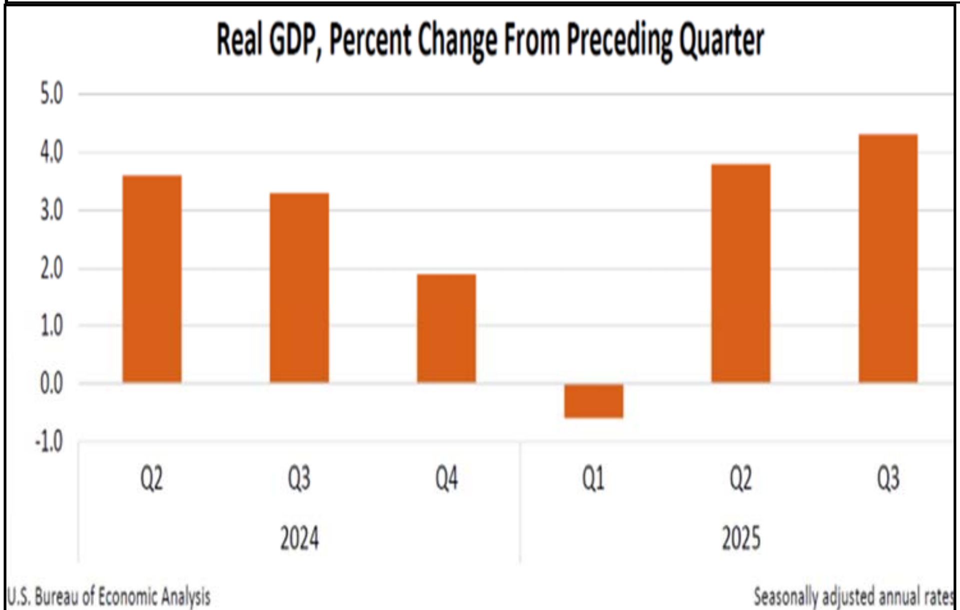
Fourth Quarter 2025 Bond Market Review and Outlook	**CAM** Cincinnati Asset Management, Inc. Investment Grade & High Yield Bond Specialists	

"Our strongest conviction views for 2026 are our above-consensus GDP growth forecast and our below-consensus inflation forecast" David Mericle, chief US economist, Goldman Sachs 1/15/26



Market Review and Outlook

On January 8, 2026 the Atlanta Federal Reserve bank surprised the global financial community by effectively doubling its GDP "nowcast" for the fourth Quarter of 2025. The estimate leaped from a 2.7% rate to a decades record high of 5.4% (source: *atlantafed.org* 1/8/26). With the federal Bureau of Economic Analysis (BEA) data still unavailable due to the federal shutdown this past fall, The Atlanta FED's data assumes a primary factor for investors and policymakers. Note that this "nowcast" updates the model each time additional and more current data is included, so it is more dynamic and subject to revision than a forecast.

The BEA is in the process of updating its schedule for releasing economic data and coordinating with other federal statistical agencies like the U.S. Census Bureau and the Bureau of Labor Statistics to determine the availability of data required to create their reports.

The chart on the left shows the solid and steady pace of GDP growth since Trump took office in January 2025. The increase is notable, since the average gain since 2020 has been 2.2%, so we are significantly above that average (source: *Forbes* 1/14/26)

The factors driving growth in the fourth quarter Atlanta Federal Reserve estimate are similar to those in the second and third quarters. Increases in consumer spending and exports and a decrease in imports the major contributors (source: Bureau of Economic Analysis 12/23/25).

However in the fourth quarter, the large drop in the trade deficit took center stage, the lowest since 2009, was the major factor: exports rose 2.6% while imports fell 3.2% (source: *Financial Content* 1/8/26).

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Yields* on 12/31/2025	**Yield***
CAM Broad Market (corporate core plus) Strategy (6.9 year maturity; 5.0 duration)	**5.00%**
CAM Investment Grade (100% corporate bonds) Strategy (7.5 year maturity; 5.9 duration)	**4.68%**
CAM High-Yield Strategy (only BA & B rated purchased) (5.7 year maturity; 3.0 duration)	**5.63%**
CAM Short Duration Strategy (2.6 year maturity; 1.8 duration; 50% IG & 50% HY)	**4.64%**
CAM Short Duration Investment Grade Strategy (2.7 year maturity; 2.1 duration)	**4.13%**
U.S. Treasury** (10 year maturity)	**4.17%**
U.S. Treasury** (5 year maturity)	**3.73%**
U.S. Treasury** (2 year maturity)	**3.48%**

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

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.

Contact us: Artie Awe, Mike Lynch, & Bill Sloneker are always available to assist.
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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 (%)				
	4Q '25	YTD	1-YEAR	3-YEARS	5-YEARS	10-YEARS
CAM Broad Market Strategy—Net 1/3 high yield, 2/3 investment grade	1.36	8.31	8.31	7.02	1.26	3.56
CAM High Yield "Upper Tier" Strategy—Net only purchase BB and B; no purchases of CCC & lower	1.64	8.22	8.22	8.81	3.06	4.89
Bloomberg US Corporate High Yield Index	1.31	8.62	8.62	10.06	4.51	6.53
CAM Investment Grade Strategy—Net 100% corporate bonds	1.22	8.35	8.35	6.19	0.42	2.94
Bloomberg US Corporate Index	0.83	7.77	7.77	6.10	-0.09	3.27
CAM Short Duration Strategy—Net 1/2 investment grade, 1/2 high yield	1.39	6.23	6.23	6.45	2.64	3.73
CAM Short Duration Investment Grade Strategy—Net 100% corporate bonds	1.15	5.73	5.73	5.14	1.40	2.37

Relative Performance Review 12/31/2025

CAM's **Investment Grade Strategy ("IG")** produced a gross total return of 1.28% in the quarter ended December 31, 2025, compared to 0.83% for the Bloomberg U.S. Corporate Index. CAM always positions a majority of the portfolio within intermediate maturities. Longer dated maturities (10+ years) strongly underperformed the broader index during the quarter. Intermediate maturities (5-7 and 7-10 years) were the best performers during the period. CAM's overall positioning and focus on intermediate maturities was a cumulative +35bp benefit to relative performance. Additionally, BAA quality credit performed in line with the broader index during the quarter. CAM's positioning and underweight vs. the index concentration of 45.4% was a -1bp detriment to relative performance. CAM's positioning within the Technology, Electric Utilities and Independent Energy industries made the largest positive impact to performance, with +12, +5, and +4 basis point contributions to excess return, respectively. The YTD return for the CAM IG strategy was 8.60%, outperforming the Index return of 7.77%. CAM's positioning within the Technology industry was the largest positive impact to performance, with a +24 basis point contribution to excess return. Our positioning within the Chemicals was the largest negative contributor, with a -6 basis point contribution to excess return.

The **High Yield Strategy ("HY")** delivered a gross total return of 1.71% in Q4 while the Bloomberg US Corporate High Yield Index returned 1.31%. CAM's overweight and security selection within the Technology, Banking, and Retailers industries had the largest positive impact on performance relative to the index with +11, +10, and +10 basis point contributions to excess return during the quarter. For negative impact relative to the index, CAM's positioning and security selection within the Consumer Products, Media & Entertainment, and Finance Companies was a -12, -5, and -3 basis point contribution to excess return, respectively. The HY YTD return was 8.53% while the Index returned 8.62%. CAM's overweight and security selection in the Automotive, Property & Casualty, and Technology industries had the biggest positive impact on performance relative to the index with a +27, +22, and +21 basis point contributions to excess return, respectively. As far as negative impact relative to the index was concerned, CAM's relative performance experienced a -86bp detriment due it its upper tier quality positioning versus the HY Index.

Our **Broad Market Strategy ("BM")** – a 67%/33% blend of the IG and HY strategies above – produced a gross total return of 1.42% for the quarter compared to 0.99% for the Index, a similar blend of Bloomberg IG and HY corporates. Broadly speaking, B-rated credit was the best performing rating category during the quarter while CAA-rated and lower was the worst performing category. CAM has a structural underweight in lower-rated credit and thus its upper tier positioning yielded a +5bp benefit to its relative performance. The YTD return for the CAM Broad Market strategy was 8.59% compared to a blended Index return of 8.06%. CAM's positioning in the Technology, Electric Utility, and Banking industries had the biggest positive impact on performance relative to the index with +22, +12, and +11 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 each yielded –6 basis point contributions to excess return, respectively.

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

Periods ended 12/31/2025	10-yrs	20-yrs
U.S. Aggregate	2.01	3.25
U.S. Corporate	3.27	4.27
CAM Investment Grade Strategy (gross)	3.18	4.54
CAM Investment Grade Strategy (net)	2.94	4.30

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 12/31/2025) Source: Bloomberg US Corporate Indices
(annualized %)

High-Yield Bond Sectors	5-years	10-years	20-years
BA-rated bonds	3.83	6.13	6.84
B-rated bonds	4.50	6.18	5.97
CAA-rated bonds	6.30	7.80	6.68
CA & D-rated bonds	11.06	13.52	3.61

Performance of Other Asset Classes
(periods ended 12/31/2025) Source: Bloomberg & Lipper

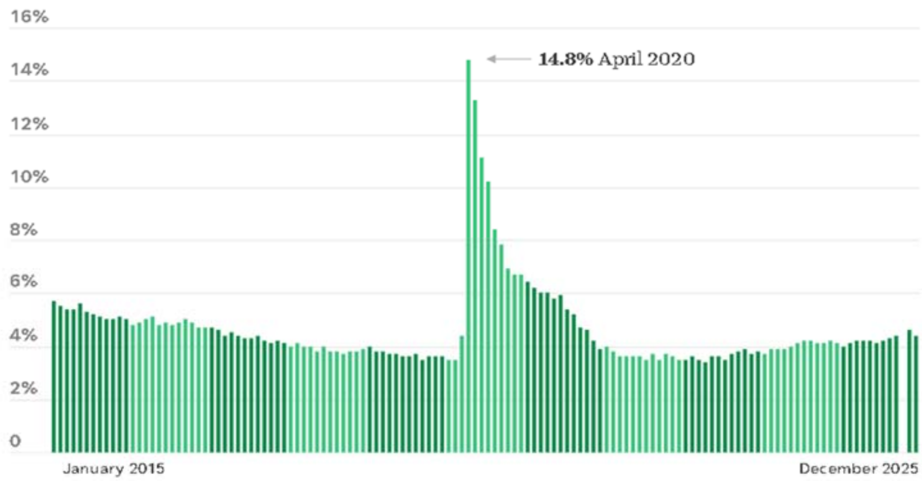
	5-years	10-years	20-years
S & P 500 Stocks	14.43	14.82	10.99
Bloomberg U.S. Aggregate	-0.37	2.01	3.25

The December 31 spread levels (shown at the right) enhance the value of corporate bonds versus U.S. Treasuries. While credit spreads look snug, 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 December had a 4.7% yield to maturity and a modified duration of 5.88. Its breakeven was 79.9, which would mean that the portfolio could tolerate about 80 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 12/31/25)	12/31/25	12/31/24	12/31/23	12/31/22	12/31/21	Tightest This Decade (as of 12/31/25)
A	1.27%	0.64%	0.68%	0.85%	1.09%	0.74%	0.61%
BAA	1.87%	0.97%	0.97%	1.21%	1.59%	1.13%	0.92%
BA	3.45%	1.65%	1.79%	2.01%	2.95%	1.94%	1.56%
B	4.85%	2.68%	2.77%	3.10%	4.89%	3.13%	2.50%
CAA	9.02%	7.29%	7.03%	8.09%	11.54%	5.96%	4.91%

Unemployment rate dips to 4.4% in December

U.S. unemployment, January 2015-December 2025 (scroll over bars for percentages):



NOTE October data unavailable due to the 2025 lapse in appropriations

SOURCE Bureau of Labor Statistics; GRAPHIC George Petras/USA TODAY

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Another significant factor in GDP growth is the investment in Artificial Intelligence (AI). AI related capital expenditures added 1.1% to GDP growth in the first half of 2025. This outpaced the consumer as an engine of economic expansion (source: JP Morgan Wealth Management, *Is AI already driving U.S. Growth?* 9/12/25). AI is starting to impact employment with 27% of business leaders expecting employment impact in 2026. The major planned AI applications are process automation, predictive analytics and market intelligence (source: JP Morgan *Business Leaders' Outlook* 1/7/26). The AI evolution in businesses has contributed to their leaders' optimism, with 71% reporting confidence in their company's 2026 performance. Increased revenue is anticipated by 73% and 64% expect higher profits (source: ibid).

The contribution to GDP is small, but it should grow. As investment moves from microchips, servers and networking equipment to the phase of necessary supporting infrastructure (power plants and transmission grid expansion) the contribution to GDP should grow significantly (source: JP Morgan Wealth Management, *Is AI already driving U.S. Growth?* 9/12/25).

Currently lackluster productivity gains through the development and application of AI could surprise on the upside, resulting in large productivity gains. For example, some AI users for coding software have reported significant reductions in development times. These would positively impact inflation, a major concern of Powell's Federal Reserve, along with employment.

Over the course of 2025 Powell's focus seems to have shifted from inflation to employment as his primary concern. That seems to be the reasoning supporting two additional 25 basis point rate cuts in the fourth quarter of 2025. This

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brings the overnight rate target down to the range of 3.5% to 3.75%.

However additional cuts are not guaranteed, given the recent Atlanta Federal Reserve GDP estimate cited earlier. But employment softness could lead to more easing. While the December unemployment rate fell to 4.4% from 4.5% in November, job growth is much lower than in previous years falling to 49,000 per month in 2025 from 168,000 per month in 2024. Also, the New York Federal Reserve's December Survey of Consumer Expectations reported that only 43.1% of respondents perceived probability of finding a job if they lost their current one, the lowest level since the survey's 2013 inception (Source: *USA Today* 1/9/26). Furthermore, Challenger, Gray and Christmas job cuts report showed that employers cut 1.2 million jobs in 2025, a 58% increase from 2024 (source: ibid).

So while a majority of economists expect the FED to postpone an additional cut at their January meeting, future cuts may arise due to weak labor market concerns.

In the fourth quarter, "core" bonds or the Bloomberg U.S. Aggregate Index rose 1.1% resulting in four consecutive quarters of gains and an annual return of 7.3%. The FED's two rate cuts in the quarter put downward pressure on longer dated yields and the 2-year to 10-year yield curve reached its steepest level since 2022. Shorter maturities yields fell while longer dated yields rose on strong GDP reports and stubborn inflation.

Corporate bonds also show strength moving higher with the most credit sensitive sector, high yield bonds, rising 1.3% (Bloomberg High-Yield Index) outperforming investment grade bonds' rise of 0.8% (Bloomberg Corporate Bond Index). Credit spreads continue to narrow to near historic low spreads (source: *Market Insight Quarterly fourth Quarter 2025* from LPL Research).

We appreciate your interest in our corporate bond strategies . We are happy to share our thoughts with you. Please contact us anytime to discuss.

Sharpe Ratios (risk & reward relative value) Inception-Q4 2025

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

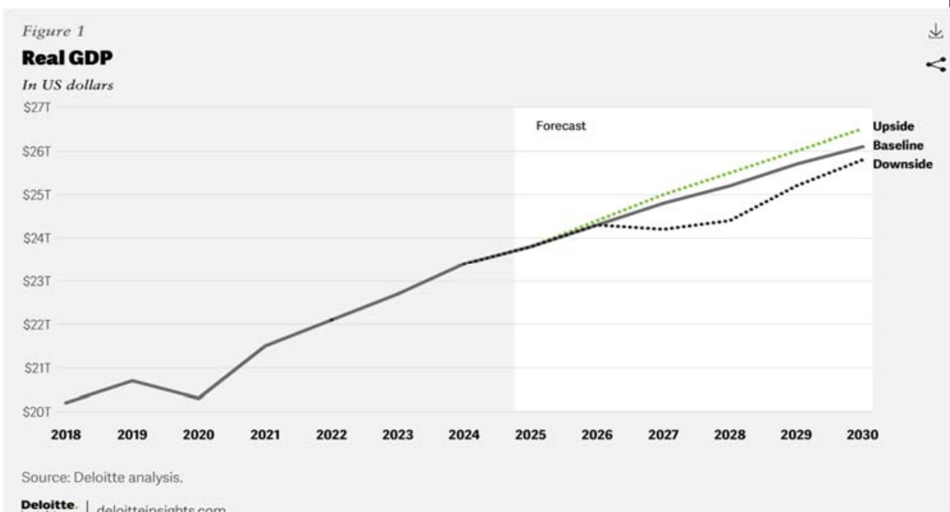
CAM High Yield Strategy 0.48
Bloomberg High Yield Corp Bonds 0.47

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 0.74
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.



Rating	BA	B	CAA
Avg Spread	344	498	938
Std. Dev.	165	220	400
12/31/2025	**165**	**268**	**729**
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 12/31/2025)