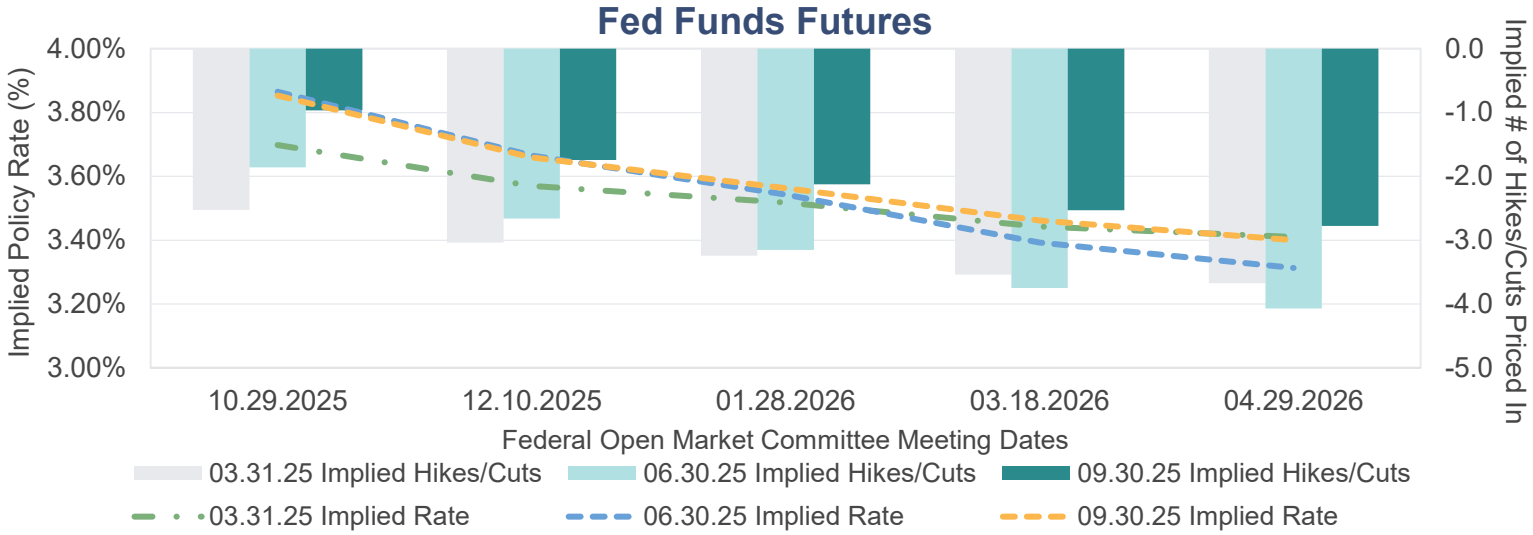
Taxable Fixed Income Commentary

3rd Quarter 2025

Economic Overview

After a tumultuous second quarter, volatility came off the burner in the third quarter as incoming data suggested that the economy recovered quickly from the initial spasm of trade-policy induced uncertainty in the spring. A final tally of the second quarter performance showed an economy that grew at a real rate of 3.8%, and 1.6% in the first half, while incoming third quarter data suggested that the economy was on track to expand by more than 3%, according to the Atlanta Fed. Consumers carried the day, as real personal spending and retail sales data revealed a far more confident consumer than previously estimated. Meanwhile, inflation continued to prove sticky, as core PCE inflation data continued its slow grind back towards 3%, coming in at 2.9% year-over-year in August, as core service prices continued to run well above levels consistent with the Fed's target. Contrary to other economic indicators, the labor market remained in the doldrums, adding just 29K jobs on average in June through August, while the unemployment inched higher to 4.3%. The U.S. government shutdown delayed the release of the September jobs report.

At its September meeting, the Fed resumed its rate-normalization process by cutting the fed funds rate by 25 bps to a range of 4.00-4.25%, citing a slower pace of job gains and a higher unemployment rate. However, the Fed acknowledged that inflation has moved higher and remains elevated. The Fed also updated its forecasts, now calling for two additional 25 bp rate cuts this year and one cut in 2026. The fed funds rate forecasts pulled forward a cut into this year and next from later years, compared to the previous forecasts from June. Additionally, the Fed updated its economic projections. It upgraded its growth forecast for this year and next by 0.2% to 1.6% and 1.8%, respectively, maintained its call for 4.5% unemployment this year but upgraded its labor outlook for 2026 to 4.4% from 4.5%, while maintaining its core PCE forecast of 3.1% this year but increasing its inflation outlook for 2026 to 2.6% from 2.4%. The Fed does not project inflation will return to its 2% target until 2028.



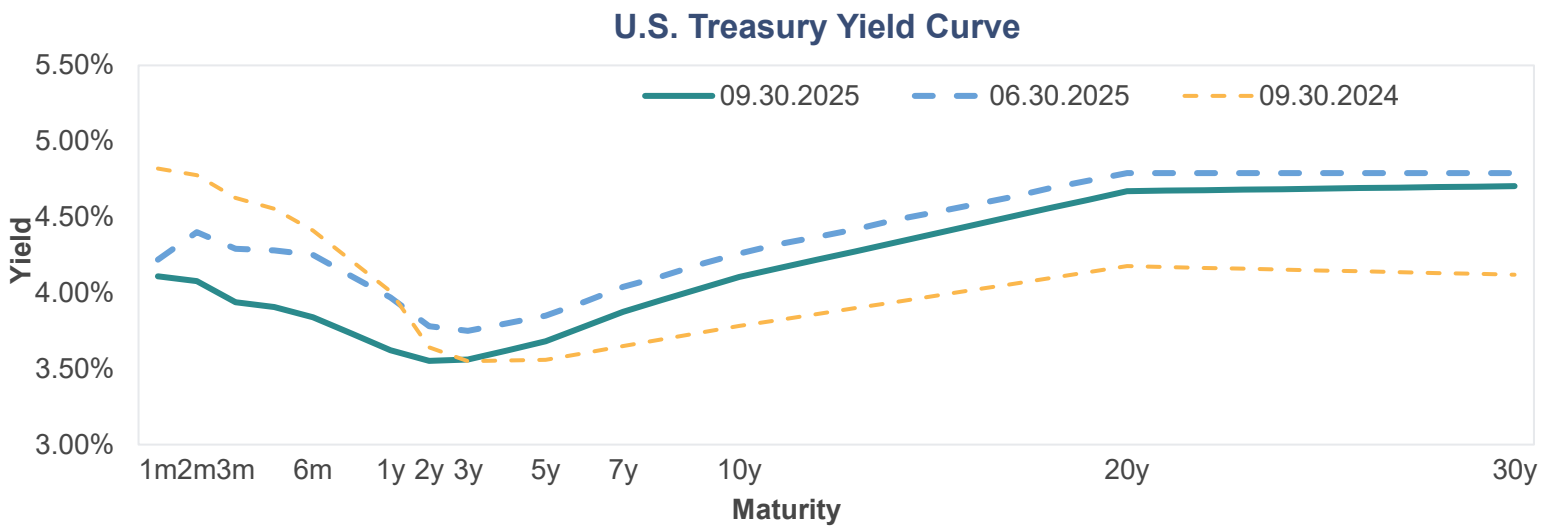
Throughout the quarter, U.S. Treasury yields declined, while the yield curve steepened. Front-end yields inside one year fell approximately 35 bps as the Fed eased rates, while two-year, five-year, and ten-year U.S. Treasury yields fell 11 bps, 6 bps, and 8 bps, respectively. Additionally, in a notable comparison to the spring, interest rate volatility fell to its lowest level since the beginning of 2022 and prior to the Fed's rate hiking cycle, as investors poured capital into fixed income markets to lock in yields ahead of additional Fed rate cuts.

Chart data is as of 09.30.2025. Sources: Bloomberg L.P.; Sterling Capital Management Analytics. All data referenced herein is as of 09.30.2025 unless otherwise noted. Yields are subject to market conditions and are therefore expected to fluctuate. Textual data source: Bloomberg L.P. BPS = basis points; Fed = Federal Reserve; PCE = Personal Consumption Expenditures. Please refer to the last page for important definitions and disclosures.

STERLING CAPITAL

Taxable Fixed Income Commentary

3rd Quarter 2025



Outlook

In light of recent economic momentum, we have upgraded our growth outlook for the year to close to 2%, as the economy has sharply recovered from the trade-policy driven volatility to start the year. After delivering a respectable first half of growth, the economy is set to produce above-trend growth to close out the year, predominantly driven by a resilient consumer. While bifurcation by income level remains an issue for American consumers, in the aggregate, households are relatively healthy, supported by real wage gains, ample liquid assets, and a manageable debt burden. We acknowledge that the labor market is currently in an unhealthy balance, with a low rate of both hiring and firing. However, we attribute much of that to labor supply constraints stemming from President Trump's immigration policies as well as to companies' reticence to deploy capital in an uncertain environment. We point to the low firings rate and low initial jobless claims as an indication that labor demand has not yet meaningfully deteriorated.

Looking ahead to 2026, the macro setup is arguably improving. Peak policy uncertainty is likely in the rearview mirror as several trade deals have been inked with larger trading partners, and the U.S. and China have refrained from escalating trade tensions since the tit-for-tat tariffs in the spring. We do recognize, however, that President Trump's penchant to wield tariffs as a negotiating tactic represents a risk to the outlook. Meanwhile, corporations have greater tax policy certainty, deregulation should act as a tailwind for economic activity, and the lagged effects of Fed rate cuts will start impacting the economy. We expect up to two more 25 bp cuts this year and further easing in 2026, as the Fed is keenly focused on the low pace of hiring. We have a wary eye on inflation, though, as the Fed focuses on the labor side of its mandate. Core PCE has not shown any sign of moderating year-to-date, and a better growth outlook next year risks further inflationary pressures. The incremental pace of tariff cost passthrough as well as high consumer inflation expectations may put the Fed in a precarious position if it is overly dovish in favor of its labor mandate. Consequently, intermediate and core portfolio durations are managed slightly short of benchmark durations, while maintaining a bulleted yield curve structure, as longer maturity bonds would bear the brunt of a dovish policy error.

. Chart data is as of 09.30.2025. Chart source: FactSet. All data referenced herein is as of 09.30.2025 unless otherwise noted. Yields are subject to market conditions and are therefore expected to fluctuate. Textual data source: Bloomberg L.P. This information must be read in conjunction with the important disclosures and definitions on the last page.

STERLING CAPITAL

Taxable Fixed Income Commentary

3rd Quarter 2025

Corporate Credit

Buoyed by supportive technical conditions and another strong quarter of company earnings, corporate bonds produced a positive quarterly performance. The OAS on the Bloomberg U.S. Investment Grade Corporate Index tightened nine bps for the quarter to close at a spread to Treasuries of 74 bps, the tightest quarterly close for this index since 1998. Investment grade bonds outperformed duration-matched Treasuries by 0.98% this quarter and have now outperformed by 1.23% year-to-date. Similarly, high yield posted total return of 2.54% with an excess return of 1.29%, as the OAS on the Bloomberg U.S. Corporate High Yield Index tightened by 56 bps to 267 bps (the tightest quarterly close since 1996).

Lower quality bonds generally outperformed higher quality bonds this quarter, as investors grew more comfortable taking risk thanks to encouraging economic growth that showed only limited signs of tariff-related headwinds. In the investment grade universe, BBBs outperformed single-As by 0.37% on an excess return basis. Cyclical, commodity-related sectors like energy and metals & mining led the way from a sector perspective, although the chemical sector continued to struggle. After underperforming earlier in the year due to worries about the potential impact from tariffs on raw materials and finished vehicles, the investment grade automotive sector rebounded strongly as spreads tightened 20 bps during the quarter. In high yield, CCCs outperformed, posting an excess return of 3.17% in the quarter. This was partly driven by idiosyncratic factors, including strong performance in the distressed Echostar/DISH bond complex following a sale of telecom spectrum to AT&T, but also reflecting expectations for Fed rate cuts and a reach for yield with spreads close to all-time lows.

Fundamentally, the third consecutive quarter of double-digit year-over-year earnings growth for the S&P 500® continued to support risk appetite for corporate bonds. Credit ratings trends during September provided an example of this fundamental strength with a net $115B in investment grade bonds upgraded, the highest such figure since June 2021, according to Bank of America. Additionally, the share of bonds in the universe with positive ratings outlooks or watches versus the share of negative ratings outlooks/watches remains well above historical norms. For the high yield universe, the picture was not quite as sanguine as Moody's and S&P reported downgrade/upgrade ratios of 1.73 and 1.32 for the third quarter.

High yield credit fundamentals reported by J.P. Morgan for the second quarter of 2025 showed some mild erosion in credit metrics, although revenues and EBITDA continued to expand at a moderate rate of 2.1% and 1.1%, respectively. Leverage increased by 0.14x in the quarter to 4.20x but was still slightly below the long-term average of 4.29x. Similarly, interest coverage of 4.71x, unchanged for the quarter, was above the long-term average of 4.51x.

Importantly, technical conditions in credit markets remained broadly supportive of valuations this quarter as well. While gross issuance for investment grade corporates reached $397B for the quarter after the busiest September ever for the market, year-to-date issuance stood at just 3% ahead of last year's pace. Heavy coupon and maturity schedules for this quarter – much of it generated by five-year maturities issued during the pandemic surge in 2020 – helped keep net issuance to a minimum, leaving this figure down 20% year-over-year. Meanwhile, demand remained high thanks to all-in yields for corporates that remained quite attractive on a long-term basis.

All data referenced herein is as of 06.30.2025 unless otherwise noted. Yields are subject to market conditions and are therefore expected to fluctuate. Textual data source: Bloomberg L.P. OAS = option-adjusted spread; EBITDA = earnings before interest, taxes, depreciation and amortization. This information must be read in conjunction with the important disclosures and definitions on the last page.

STERLING CAPITAL

Taxable Fixed Income Commentary

3rd Quarter 2025

Third quarter high yield primary market issuance was heavy, with gross issuance totaling $120.8B compared to $72B in the third quarter of 2024. Year-to-date gross high yield issuance is $265.5B, up 3.5% year-over-year. However, refinancing activity was high, and net issuance was negative $10.5B, with year-to-date net issuance of negative $28.8B.

Our View

While market conditions and fundamentals remain quite supportive of corporate credit, we believe that this is fully reflected in valuations that are now at the tightest levels in almost three decades. While we are not overly concerned about significant widening in the near term due to strong economic growth and an outstanding technical backdrop, we see limited upside in corporate bonds and generally prefer to take risk in other sectors with better risk/reward profiles.

Within the corporate sector, we see the best value in the 5-10 year part of the curve due to spread curves that have flattened significantly over the past several quarters, offering investors little additional compensation for extending duration to the long end. In an environment where valuations for most sectors appear quite rich, we maintain overweights to sectors with better fundamental tailwinds, including lower quality technology, life insurance, utilities, and aerospace & defense. In high yield, where valuations are also stretched, it is a credit-picker's market, and we remain focused on credits with fundamental upside and potential for positive credit migration.

Securitized Products

Securitized products posted strong performance during the third quarter, with all major sub-sectors outperforming Treasuries. Agency MBS led the way with excess returns of 83 bps for the quarter, as the sector benefited from early demand given attractive starting valuations and a steady decline in interest rate volatility, a welcome change from the much more volatile second quarter. MBS also benefited from increased investor activity ahead of Fed rate cuts, with expectations that lower front-end rates and a steeper curve would likely bring additional focus to the sector, particularly from the banking community. Looking at the MBS coupon stack, lower and middle coupons outperformed as interest rates moved down, advancing the longest-duration securities the most. The only laggards on the coupon stack were the highest coupons within the index, which struggled as prepayment concerns rose on the heels of mortgage rates falling nearly 50 bps from their second quarter highs, as measured by the Mortgage Bankers Association's 30-year contract mortgage rate.

ABS spreads generated a modest amount of additional tightening in Q3 on the heels of the sharper Q2 recovery from the tariff-related jolt wider in March and April. The AAA-rated, on-the-run segments of the market tightened five bps in Q3, while subordinated bonds tightened four bps, and esoteric sectors tightened eight bps. Third quarter 2025 new issue volume reached $92B, which was up considerably from $76B and $78B in the prior and year-over-year quarters, respectively. The acceleration in primary market activity was due to better financial market conditions and pent-up supply from issuers spilling over from Q2. Auto loans and leases, as well as esoteric sectors such as data center ABS, contributed to the increase. As of the end of the quarter, the market was on pace to match 2024's record issuance level.

All data referenced herein is as of 09.30.2025 unless otherwise noted. Yields are subject to market conditions and are therefore expected to fluctuate. Textual data sources: Bloomberg L.P.; Mortgage Bankers Association. ABS = asset-backed securities; MBS = mortgage-backed securities. This information must be read in conjunction with the important disclosures and definitions on the last page.

STERLING CAPITAL

Taxable Fixed Income Commentary

3rd Quarter 2025

Secondary trading activity was reasonably steady throughout the quarter, with a meaningful increase in volume as quarter-end approached. Strong investor demand and the commensurate spread tightening caused ABS to outperform similar-duration Treasuries by 39 bps for the third quarter.

Non-agency CMBS posted a solid quarter, outperforming duration-matched Treasuries by 64 bps. While this performance reflected the broader “risk-on” sentiment across markets, improving sector fundamentals also contributed. The RCA Commercial Property Price Index rose 2.3% in the three months ending in August, with no property sectors reporting declines. Notably, office properties showed meaningful improvement as employers continued to scale back permissible work-from-home arrangements. The Trepp delinquency rate remains elevated but has been increasing at a slower pace. At the end of August, it stood at 7.29%, up just 21 bps from three months prior. This compares with a 78 bp increase in the preceding three-month period. Meanwhile, index-eligible conduit issuance rebounded strongly from the Q2 lull, nearly doubling quarter-over-quarter. Supply, however, was concentrated in the final month of the quarter, contributing to relative underperformance versus corporate bonds and agency passthroughs.

Our View

Following strong relative performance in the third quarter, we think agency MBS spreads are back to more long-term fair value levels. While we do think the market can continue to post positive excess returns relative to Treasuries, primarily as a function of the sector’s yield advantage, we see limited scope for further significant spread tightening. Our focus remains on moderate premium coupons with collateral features that provide incremental prepayment protection. We think these securities give us the best balance of current income earning potential while limiting potential downside from further declines in mortgage rates. GSE reform remains a risk and is front-of-mind, though recent developments have been limited, and we ultimately expect policy makers to avoid any changes that significantly disrupt the agency MBS market.

The continued tightening of ABS spreads in the third quarter leaves the market on the tighter side of our gauges of relative value. Given current spread levels and the uncertainties surrounding the macroeconomic picture, we believe that there is likely to be only modest upside in ABS returns going forward. That said, ABS continues to offer wider spreads than short corporate bonds, which are trading near their long-run tights, as well as higher credit ratings overall. The midyear slowdown in new issue that caused some forecasters to revise down their issuance outlooks for 2025 proved to be temporary. However, a softer labor market has the potential to weigh on ABS credit fundamentals in delinquencies and defaults, particularly for unsecured consumer loans and subprime auto loans, where some weakness has already begun to occur. Student loan payments have resumed, and collection efforts are once again being reported to credit bureaus, putting further strain on the budget of lower income consumers. This environment favors investment in more highly-rated tranches of robust ABS capital structures where investors are better insulated from potential credit deterioration, especially when the pricing of credit risk is historically rich.

Late-quarter weakness in commercial MBS improved the sector’s relative value profile and we used the pickup in supply to add new five-year last cash-flow super-senior AAAs in the final month of the quarter. To the extent relative value remains attractive versus alternatives, we plan to continue adding selectively in the months to come. We believe sector fundamentals will continue to improve. These high-quality, short-duration bonds are well-positioned to perform, with limited downside risk given their defensive credit profile and relatively low spread duration.

All data referenced herein is as of 09.30.2025 unless otherwise noted. Yields are subject to market conditions and are therefore expected to fluctuate. Textual data sources: Bloomberg L.P.; Mortgage Bankers Association. CMBS = commercial mortgage-backed securities; GSE = government-sponsored enterprise. This information must be read in conjunction with the important disclosures and definitions on the last page.

STERLING CAPITAL

Taxable Fixed Income Commentary

3rd Quarter 2025

Taxable Municipals

Taxable municipal securities outperformed duration-matched Treasuries by 0.96% during the quarter, as spreads tightened by seven bps. Spreads moved in line with corporate credit as uncertainty fell and investors continued to reach for yield. Issuance was again muted, with total taxable issuance coming in at $6.6B, as municipalities continue to favor the tax-exempt market.

Credit fundamentals remained broadly stable during the quarter. While Moody's reported that downgrades outpaced upgrades for the first time since 2020, much of this activity stemmed from the U.S. sovereign rating downgrade from Aaa to Aa1 in May, which had secondary effects on housing finance agencies and other entities with federally backed collateral. Excluding those sovereign-related adjustments, rating actions were more balanced. According to U.S. Census Bureau data, seasonally adjusted state and local tax collections increased by nearly 5% year-over-year, led by continued strength in individual and corporate income taxes alongside steady gains in sales and gross receipts. Transportation Security Administration data also highlighted sustained economic activity, with average daily passenger throughput of 2.59MM, up 1.1% year-over-year. Meanwhile, public pension systems posted returns between 10% and 11%, according to Moody's data, exceeding annual targets for a third consecutive year and contributing to reduced net pension liabilities and lower fixed-cost pressures. Underscoring the supportive credit environment, Connecticut received dual upgrades from Fitch and Moody's, New Jersey was upgraded by S&P, Maine earned an upgrade from Fitch, and Illinois received a positive outlook from Moody's, all reflecting prudent financial management and strengthened reserves.

Our View

Taxable municipal bonds continue to be a fundamentally solid asset class, offering diversification to portfolios. That said, given current valuations, we have gradually scaled back our allocation in favor of more attractive opportunities elsewhere. While we do not anticipate significant upside at these levels, we still consider them a strategic holding, particularly for accounts with limited access to other asset classes like corporates or securitized credit.

All data referenced herein is as of 06.30.2025 unless otherwise noted. Yields are subject to market conditions and are therefore expected to fluctuate. Textual data sources: Bloomberg L.P.; U.S. Census Bureau;. This information must be read in conjunction with the important disclosures and definitions on the last page.

STERLING CAPITAL

Important Information & Disclosures

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Economic charts are provided for illustrative purposes only. The information provided herein is subject to market conditions and is therefore expected to fluctuate.

The opinions contained in this presentation reflect those of Sterling Capital Management LLC (SCM), are for general information only, and are educational in nature. The opinions expressed are as of the date of publication and are subject to change without notice. These opinions are not meant to be predictions and do not constitute an offer of individual or personalized investment advice. They are not intended as an offer or solicitation with respect to the purchase or sale of any security. This information and these opinions are subject to change without notice. All opinions and information herein have been obtained or derived from sources believed to be reliable. SCM does not assume liability for any loss which may result from the reliance by any person upon such information or opinions.

Investment advisory services are available through SCM (CRD# 135405), an investment adviser registered with the U.S. Securities & Exchange Commission (SEC) and an indirect, wholly-owned subsidiary of Guardian Capital Group Limited. SEC registration does not imply a certain level of skill or training, nor an endorsement by the SEC. SCM manages customized investment portfolios, provides asset allocation analysis, and offers other investment-related services to affluent individuals and businesses.

SCM does not provide tax or legal advice. You should consult with your individual tax or legal professional before taking any action that may have tax or legal implications.

Specific securities identified and described do not represent all of the securities purchased, sold or recommended to clients. There are no assurances that securities identified will be profitable investments. The securities described are neither a recommendation nor a solicitation. Security information is being obtained from resources the firm believes to be accurate, but no warrant is made as to the accuracy or completeness of the information.

Bloomberg L.P. Information: "Bloomberg®" and the Bloomberg indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Sterling Capital Management LLC and its affiliates. Bloomberg is not affiliated with Sterling Capital Management LLC or its affiliates, and Bloomberg does not approve, endorse, review, or recommend the product(s) presented herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the product(s) presented herein.

Technical Terms: the technical terms below are sourced from Corporate Finance Institute, the Bureau of Economic Analysis (BEA), and MSCI.

The **core Personal Consumption Expenditure (core PCE) Index** is a measure of prices that people living in the U.S., or those buying on their behalf, pay for goods and services.

The **coupon rate** is the amount of annual interest income paid to a bondholder, based on the face value of the bond.

The **fed funds rate** refers to the interest rate that depository institutions (such as banks and credit unions) charge other depository institutions for overnight lending of capital from their reserve balances on an uncollateralized basis.

Option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is then adjusted to take into account an embedded option. Typically, an analyst uses Treasury yields for the risk-free rate. The spread is added to the fixed-income security price to make the risk-free bond price the same as the bond.

The **Real Capital Analytics' Commercial Property Price Index™** (CPPI™) measures the actual price experience of property investors, based on transaction data.

The **Trepp CMBS delinquency rate** refers to the percentage of loans within a financial institution's loan portfolio whose payments are delinquent.

A Note on Indices: The volatility of an index varies greatly. All indices are unmanaged and investments cannot be made directly in an index.

The **Bloomberg U.S. Corporate High Yield Index** is an unmanaged, U.S. dollar-denominated, nonconvertible, non-investment-grade debt index. The index consists of domestic and corporate bonds rated Ba and below with a minimum outstanding amount of $150 million.

The **Bloomberg U.S. Corporate Index** is an unmanaged index composited of the qualifying universe of investment grade rated taxable corporate bonds. The index includes U.S.-denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers.

The **S&P® 500 Index** is an unmanaged capitalization-weighted index of 500 U.S. stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

STERLING CAPITAL