



INVESTMENT COMMENTARY

In spite of the historic levels of market volatility that followed April 2nd "Liberation Day", the mid-May Moody's Downgrade of U.S. Treasury debt, and the late June U.S. bombing of Iran, the U.S. stock markets rebounded strongly in the second quarter, while bond investors settled for modestly positive returns, as the yield curve generated a bull steepener primarily driven by a decline in short-term rates. The Federal Reserve target funds rate remained unchanged at 4.25% to 4.50% in the second quarter. The Federal Open Market Committee's (FOMC) June statement highlighted, "Although swings in net exports have affected the data, recent indicators suggest that economic activity has continued to expand at a solid pace. The unemployment rate remains low, and labor market conditions remain solid. Inflation remains somewhat elevated." U.S. Real Gross Domestic Product (GDP) reversed course and decreased at an annual rate of -0.5% during the first quarter. Inflation, as measured by the U.S. Consumer Price Index (CPI), rose by 2.4% for the twelve-month period ending in May, while Core CPI (ex-food and energy) was up 2.8% for the same period. The Bureau of Labor Statistics (BLS) reported that the unemployment rate remained relatively steady at 4.1% in June, while the U6 measure, which includes the unemployed, underemployed workers, and those marginally attached to the labor force, decreased slightly to 7.7%. The Conference Board Consumer Confidence Index improved slightly over the prior three months to 93 in June but fell below the May reading of 98.4. Similarly, the closely followed University of Michigan Consumer Sentiment survey reported a June reading of 60.7, its first month-over-month increase in six months, although still well below the December 2024 level.

The S&P 500 reversed its downward trajectory from the prior quarter to post a positive second-quarter return of +10.94%, while the tech-heavy NASDAQ 100 shot up +17.86% for the quarter. The Bloomberg U.S. Aggregate Index generated a positive return of 1.21% for the quarter. The yield curve steepened by 19 bps, as the 2-year Treasury yield declined by 17 bps to 3.72%, while the 10-year Treasury yield rose by 2 bps to finish the quarter at 4.23%. During the quarter, U.S. Treasuries returned +0.85%, while all other major investment grade bond sectors were also positive – Investment Grade (IG) corporate bonds (+1.82%), U.S. Agency Securities (+1.42%), Mortgage-Backed Securities (+1.14%),

Commercial MBS (+1.88%) and Asset-Backed Securities (+1.38%). U.S. High Yield Corporate Bonds were aided by the risk-on trade in the quarter, generating a positive return of +3.53%.

Our investment outlook remains focused on two primary global themes: tariffs and uncertainty. Tariffs have the potential to be stagflationary, as they are a tax that inflates the price of goods paid by the consumer and/or importer, while higher prices tend to constrict or displace consumer spending. Today, the uncertainty weighing on every economist, and indeed the Fed, is whether tariffs will reignite inflation or weigh on economic growth. Prior to the onset of the current "tariff wars", the Fed was preparing to take a well-deserved victory lap, having brought inflation down from 9% just three years ago, while sustaining a healthy U.S. economy. However, the current level of uncertainty surrounding U.S. tariff policy has put future Fed rate cuts on hold indefinitely. The Fed's approach to its dual mandate of price stability (inflation) and full employment (economic growth) is to put greater focus on its mandate, which is furthest from its stated objective. Currently, unemployment is solidly within the "full" employment range, and the economy is relatively healthy. However, by most measures, inflation remains stubbornly above the stated 2% target. In the near term, PIA does not anticipate the level of tariff policy clarity that would portend additional Fed rate cuts; therefore, we remain in a wait-and-see mode. However, we continue to believe the tariff driven U.S. economy is more likely to eventually drift into a growth recession (GDP below trend, but above recession levels). However, counter to this view is the significant decline in the U.S. dollar (DXY), which experienced its worst first half of the year since 1973. A weaker dollar certainly supports U.S. exports and GDP, while also being inflationary as it increases the cost of imports. Additionally, we view financial conditions as somewhat of an economic tie-breaker, and currently, conditions are considered to be accommodative.

Since "Liberation Day", the U.S. drafted, then paused for 90 days, and redrafted numerous skeletal tariff agreements; however, the U.S. has yet to execute a meaningful, comprehensive cross-border trade deal. On a positive note, the broad scope of tariff rhetoric and legislative dialogue surrounding the Big Beautiful Bill (BBB) has provided insights into the



Trump Administration's trade policy objectives. Based on all tariff-related activity thus far in 2025, we are confident that the U.S. trade policy is, in fact, a tariff policy intended to provide tax revenue to justify tax cuts and the inevitable increases in the budget deficit. Thus far, the start-stop tariff policies have been all over the map (pun intended), adversely impacting global business activity and confidence, while potentially limiting imports, exports, and supply chains. Although tariff-related inflation or economic decline has yet to be reflected meaningfully in the economic data, the U.S. is already generating record-setting tariff revenue. Secretary Bessent noted a small Treasury budget surplus of \$27 billion (gross) in June, due to U.S. Customs duty collections climbing above \$100 billion for the first time in any U.S. fiscal year. We believe the official average tariff rate through June was 16%, while the effective U.S. tariff rate was roughly 8%. We believe the muted level of inflation reflected in the economic data thus far is primarily a result of two factors. One, the U.S. economy is mainly service-based, and services are expected to be minimally impacted by tariffs. The other is the result of near-term decisions by U.S. importers to minimize price increases, such as front-loading inventory in advance of tariffs, absorbing some of the tariff cost, or utilizing bonded warehouses known as foreign free trade zones where importers are allowed to delay payment until the goods are put into commerce. We believe the tariff policies will be inflationary and will begin to show up meaningfully in the inflation data in the second half of 2025. We believe that tariff policies will initially have a negative impact on global productivity throughout supply chains and ultimately alter consumption patterns and reduce overall GDP.

The Investment Strategy Group (ISG) believes that U.S. tariff policies could significantly reduce the likelihood of achieving the Fed's 2% inflation target, which we previously considered unattainable in the absence of a recession. We also believe bond market investors now favor the Fed's on-hold status, as a welcome alternative to loose fiscal policy, a ballooning budget deficit, and continued U.S. dollar weakness. We believe, on balance, even in the case of weakening employment, policy risks remain that could lead to higher long-term interest rates. Additionally, while stagflation has always been an unlikely scenario, the current U.S. fiscal, immigration, and tariff policies portend lower GDP and persistent, if not higher, inflation.

PIA portfolio duration for our Core strategies remained at the long end of our neutral duration range (+/- 0.25 years relative to our respective benchmarks), as we continue to measure the economic inputs to a potential stagflation scenario. We attempted to reduce our overall credit risk during the quarter; however, we continue to overweight corporate debt, with a focus on high-quality credits with strong balance sheets. Our Industrial credits provide incremental risk-adjusted yield, and our Financials are senior domestic debt, we believe offer attractive compensation for their sector volatility. We maintained our modest overweight in Agency MBS during the quarter. In our Plus strategies, we maintained modest high yield credit exposure as the absolute yields remain attractive.

PIA Investment Strategy Group



INDEX RETURNS	QTD	YTD	1-Year
Bloomberg			
Universal	1.40%	4.10	6.51%
Aggregate	1.21	4.02	6.08
Gov-Credit	1.22	3.95	5.89
Int. Gov-Credit	1.67	4.13	6.74
IG - Corporate	1.82	4.17	6.91
Treasury only	0.85	3.79	5.30
1-3 year Gov	1.19	2.83	5.72
High Yield Corporate	3.53	4.57	10.29

SECTOR RETURNS	QTD	QTD (Excess)	YTD	YTD (Excess)
Treasury (actual returns)	0.85%	—	3.79%	—
U.S. Agency	1.42	0.19	3.70	0.25
Mortgage Backed Security	1.14	0.17	4.23	0.10
Commercial Mtg Backed Security	1.88	0.39	4.49	0.33
Corporate	1.82	1.04	4.17	0.21
Financials	2.11	1.00	4.46	0.50
Industrials	1.68	1.04	4.08	0.12
Utilities	1.69	1.19	3.70	-0.34
AAA-rated	0.84	0.91	3.55	-0.16
AA-rated	1.33	0.86	3.79	0.07
A-rated	1.80	1.03	4.22	0.28
BBB-rated	1.95	1.09	4.21	0.17
High Yield Corporate	3.53	2.17	4.57	1.04

Source: Bloomberg
Excess returns are the return achieved by a security (or portfolio of securities) above the return of a benchmark.

KEY INDICATORS	6/30/25	12/31/24
U.S. \$ Index (DXY)	96.88	108.49
Oil (CL1)	65.1	71.7
Commodity Research Bureau (CRB)	297.3	296.7
Gross domestic Product (GDP)	-0.5	2.4
Consumer Price Index (CPI)	2.4	2.9
Core CPI (Ex - Food & Energy)	2.8	3.2
Consumer Confidence	93.0	109.5
Unemployment Rate	4.2	4.1
S&P/Case Shiller - Comp - 20	3.4	4.5

Source: Bloomberg

INDEX RETURNS	QTD	YTD	1-Year
Bloomberg			
Global Aggregate	4.52%	7.27%	8.91%
Emerging Markets Debt	2.54	4.94	9.41
ICE BofA - 1-year T-Note	0.90	1.96	4.76
S&P 500	10.94	6.20	15.14
DJIA	5.46	4.55	14.72
NASDAQ 100	17.86	8.35	16.10
MSCI EAFE	12.04	19.94	18.42

CREDIT SPREADS	6/30/25	3/31/25	12/31/24
All Index Treasuries (yield)	0.5	-0.4	4.5
U.S. Agency	24.2	26.6	25.0
Mortgage Backed Security	87.6	80.1	76.5
Commercial Mortgage Backed Security	86.2	89.9	82.3
IG - Corporate	84.9	95.6	81.5
Financials	86.4	96.5	83.7
Industrials	82.4	93.5	79.7
Utilities	94.7	105.2	84.3
AAA-rated	36.9	43.6	34.5
AA-rated	48.5	55.5	46.5
A-rated	72.0	81.1	69.5
BBB-rated	104.4	116.7	98.9
High Yield Corporate	323.3	374.1	313.5

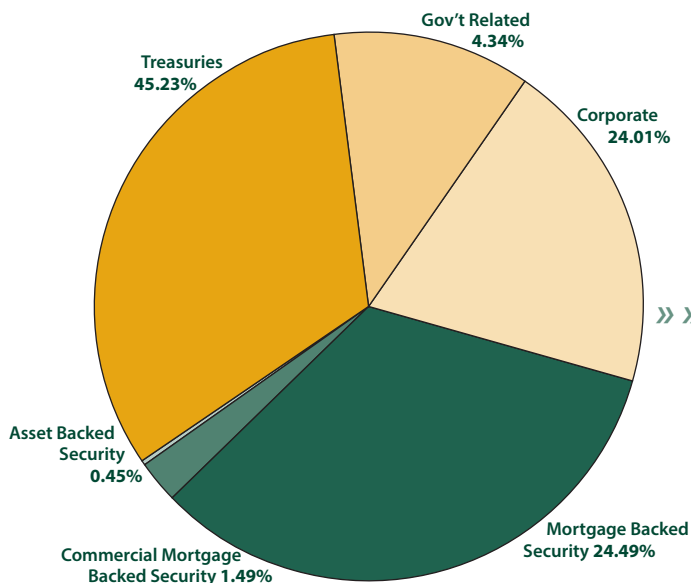
Source: Bloomberg

KEY RATES	2Q25	1Q25	4Q24	QTD Return	YTD Return
Fed Funds	4.50%	4.50%	4.50%	n/a	n/a
On-the-Run's					
3 Months	4.30	4.30	4.32	1.04	2.07
6 Months	4.25	4.23	4.27	1.00	2.03
2 Years	3.72	3.89	4.24	1.11	2.68
5 Years	3.80	3.95	4.38	1.66	4.64
10 Years	4.23	4.21	4.57	0.98	5.03
30 Years	4.78	4.57	4.78	-2.16	2.15

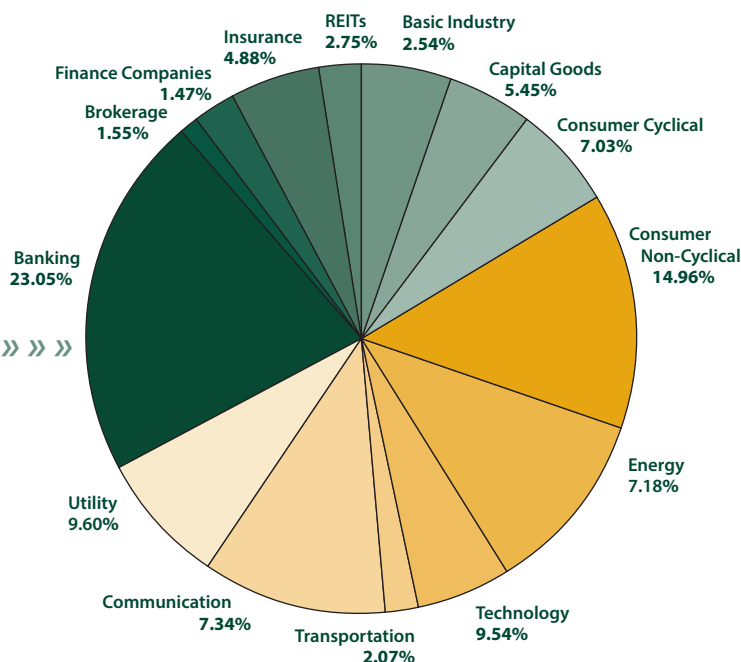
Source: Bloomberg



BLOOMBERG AGGREGATE



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INDEX DESCRIPTION

Bloomberg U.S. Universal Index represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield Index, Investment-Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment-grade or below investment-grade. Some U.S. Universal Index constituents may be eligible for one or more of its contributing subcomponents that are not mutually exclusive. These securities are not double-counted in the index.

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the investment grade fixed rate bond market with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The issues must be rated investment grade, be publicly traded, and meet certain maturity and issue size requirements.

Bloomberg U.S. Government/Credit Bond Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg U.S. Intermediate Government/Credit Bond Index is the Intermediate component of the U.S. Government/Credit index. The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government).

The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg U.S. Corporate Bond Index covers USD-denominated, investment-grade, fixed-rate, taxable securities sold by industrial, utility, and financial issuers. It includes publicly issued U.S. corporate debentures and secured notes that meet specific maturity, liquidity, and quality requirements. Securities in the index roll up to the U.S. Credit and U.S. Aggregate indices. The U.S. Corporate Index was launched on January 1, 1973.

Bloomberg U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting. Securities in the Index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices.

Bloomberg U.S. 1-3 Year Government Bond Index consists of securities in the U.S. Government Index with a maturity from 1 up to (but not including) 3 years. Securities issued by the U.S. Government (i.e., securities in the Treasury and Agency Indices). Inclusions: Public obligations of the U.S. Treasury with a remaining maturity of one year or more. Publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government.

ICE BofA 1-Year US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury note that matures closest to, but not beyond, one year from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date.

Bloomberg Corporate U.S. High Yield Index - covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The Yankee sector has been discontinued as of 7/1/00. The bonds in the former Yankee sector have not been removed from the index, but



have been reclassified into other sectors.

Bloomberg Global Aggregate Index provides a broad-based measure of the global investment-grade fixed-rate debt markets. The Global Aggregate Index contains three major components: the U.S. Aggregate Index (USD 300 million), the Pan-European Aggregate Index (EUR 300 million), and the Asian-Pacific Aggregate Index (JPY 35 billion). In addition to securities from these three benchmarks (94.4% of the overall Global Aggregate market value), the Global Aggregate Index includes Global Treasury, Eurodollar (USD 300 million), Euro-Yen (JPY 35 billion), Canadian (CAD 300 million), and Investment-Grade 144A (USD 300 million) index-eligible securities not already in the three regional aggregate indices. The Global Aggregate Index family includes a wide range of standard and customized subindices by liquidity constraint, sector, quality, and maturity. The Global Aggregate Index is a component of the Multiverse Index.

The Bloomberg EM USD Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. The index is broad-based in its coverage by sector and by country, and reflects the evolution of EM benchmarking from traditional sovereign bond indices to Aggregate-style benchmarks that are more representative of the EM investment choice set. Country eligibility and classification as an Emerging Market is rules-based and reviewed on an annual basis using World Bank income group and International Monetary Fund (IMF) country classifications. This index was previously called the Barclays US EM Index and history is available back to 1993.

S&P 500 Index – The S&P 500 index includes 500 leading companies in leading industries of the U.S. economy.

The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The Dow Jones Industrial Average (DJIA) is an index used to measure the performance of the U.S. financial markets. Introduced on May 26, 1896 by Charles H. Dow, it is the oldest stock price measure in continuous use. Over the past century “the Dow” has become the most widely recognized stock market indication in the U.S. and probably in the entire world. Most of the stocks included in the index are listed on the New York Stock Exchange, and are all large blue-chip companies that reflect the health of the U.S. economy. All but a handful of these have major business operations throughout the world, thus providing some insight into the economic well-being of the global economy.

The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No security can have more than a 24% weighting. The index was developed with a base value of 125 as of February 1, 1985. Prior to December 21, 1998 the Nasdaq 100 was a cap-weighted index.

MSCI EAFE Index is a capitalization weighted index that monitors the performance of stocks from Europe, Australasia, and the Far East.

Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly.



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