

AAM Core Bond & Beyond

4th Quarter Performance, Themes, & Outlook

January 2026 | Issue #1



Market Recap

By Tim Senechalle, CFA

Positive market momentum continued in the fourth quarter and contributed to healthy 2025 total returns across fixed income and equity markets. Corporate earnings growth, stable credit fundamentals, Federal Reserve rate cuts, and steady demand supported gains and valuations at historically elevated levels.

While positive multi-year trends continued in technology shares, precious metals and BBB quality credit, we note improved performance breadth with non-US equities, small capitalization companies, and Agency RMBS gaining greater favor.

Operating results for insurance companies will reflect the positive market backdrop with P&C industry book value gains from equity appreciation, and Life/Annuity sales are supported by attractive fixed rates in public and private market segments. All companies benefited from the credit backdrop with few incidents of default and new money reinvestment yields that continue to be meaningfully above run-off book yield levels.

FIXED INCOME VIEW

Discover the key forces that shaped fixed income performance this quarter, and the trends we believe will matter most going forward.

ECONOMIC OUTLOOK

Get our forward-looking view on economic conditions, interest rates, and the investment themes we expect to drive markets next quarter.

PORTFOLIO PERFORMANCE REVIEW

See how our portfolios positioned through the quarter's volatility and where we identified opportunities for added value.

Economic View

By Marco Bravo, CFA

Growth, the Treasury Curve, and the Fed

Our outlook continues to center on trend-like U.S. growth with recession risks remaining low, supported by resilient consumer spending and improving business investment. Financial conditions are easing, household balance sheets remain relatively strong, and capital spending, particularly in AI, is providing an incremental lift. Against this backdrop, inflation continues to moderate but remains sticky, keeping the Federal Reserve cautious. We expect short-term rates to move lower as the Fed delivers gradual easing, while long-term Treasury yields remain range-bound due to persistent inflation pressures and heavy deficit financing needs. This dynamic should drive a modest re-steepening of the yield curve as policy rates decline faster than longer-dated yields.

Our 2026 Outlook

Looking ahead to 2026, we expect GDP growth to align with consensus expectations near 2%, with consumption remaining the primary driver, led by middle- and higher-income households. Inflation should continue to decelerate as shelter costs ease and demand normalizes, but is likely to remain above the Fed's 2% target due to tariff pass-throughs and tighter immigration policies supporting wage growth. In response, the Fed is likely to cut rates gradually, potentially two to three 25-basis-point moves, bringing the fed funds rate closer to 3% by year-end, still restrictive by historical standards. Long-term rates are expected to remain elevated, with the 10-year Treasury ending the year near 4%, reinforcing a higher-for-longer environment even as policy becomes incrementally more accommodative.

Fixed Income Market

By Elizabeth Henderson, CFA



Investment grade fixed income delivered a strong year, with high single digit total returns and positive excess returns versus Treasuries. RMBS securities largely outperformed as prepayments remained low and OAS compressed. Corporate spreads ended largely unchanged, as BBBs and Financials outperformed and Technology and Communications underperformed due to AI-related supply surprising to the upside and fallen angels in Media. Rating activity remained positive, reflecting healthy fundamentals. Intermediate bonds outperformed long, as

CMBS and ABS posted more modest gains. Municipals also outperformed on strong technicals, as tax-exempt supply came in well below expectations and reinvestment demand stayed favorable heading into 2026, though taxable municipal spreads widened slightly despite solid demand. This presented opportunities in the University segment of the Taxable market.

AAM Fixed Income Performance

By Elizabeth Henderson, CFA

AAM's Core and Intermediate composites outperformed their benchmarks in 2025, driven by a balanced combination of a strategic underweight to Treasuries, which lagged spread sectors, and strong security selection. Tactical adjustments added value, including increased allocations to current coupon mortgages, corporate bonds, and CMBS, alongside reduced exposure to CLOs and U.S. Treasuries. Security selection was a notable contributor across the curve, particularly in RMBS (nonagency and current coupon), ABS (esoteric and rate reduction, new issues), corporate bonds (new issues, cyclical and financial issuers), and taxable municipals (new issue universities). While AAM's defensive long end corporate positioning created some drag amid historically rich spreads, this was offset by outperformance in taxable municipals, and enhanced short end income also contributed positively to total returns.

AAM Core Bond Composite

	4Q 2025	YTD 2025	1 Year	3 Year Annualized	5 Year Annualized	10 Year Annualized
AAM Core Bond Composite (gross of fees)	1.05%	7.71%	7.71%	5.86%	0.53%	2.88%
 AAM Core Bond Composite (net of fees)	1.02%	7.58%	7.58%	5.73%	0.40%	2.77%
 Bloomberg U.S. Aggregate Index	1.10%	7.30%	7.30%	4.66%	-0.36%	2.01%
AAM Outperformance (net of fees)	-0.08%	0.28%	0.28%	1.07%	0.76%	0.76%

AAM Core Bond Composite represents 9 portfolios and \$1,438 million market value as of December 31, 2025.

The Bloomberg US Aggregate Bond Index is a broad-based benchmark that measure the investment grade, U.S. dollar denominated, fixed rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). Past performance is not indicative of future results. Income from coupons is included in return results. Gross returns reflect the deduction of actual transaction costs but do not reflect the deduction of advisory fees or other fees. Net returns reflect the deduction of actual transaction costs and advisory fees. It is not possible to invest directly in an index and index returns do not include any costs or fees. The volatility of indices may be different from the volatility performance of the Composite. Please see Disclosure Notes for AAM Core Bond Composite.

AAM Intermediate Bond Composite

	4Q 2025	YTD 2025	1 Year	3 Year Annualized	5 Year Annualized	10 Year Annualized
AAM Int Bond Composite (gross of fees)	1.35%	7.75%	7.75%	5.98%	1.45%	2.74%
 AAM Int Bond Composite (net of fees)	1.32%	7.62%	7.62%	5.85%	1.32%	2.62%
 Bloomberg Int Aggregate Index	1.35%	7.45%	7.45%	5.01%	0.68%	2.06%
AAM Outperformance (net of fees)	-0.03%	0.17%	0.17%	0.84%	0.64%	0.56%

AAM Intermediate Bond Composite represents 6 portfolios and \$943 million market value as of December 31, 2025.

The Bloomberg Intermediate Aggregate Index includes securities in the intermediate maturity range of the Aggregate Index. The Bloomberg Intermediate US Aggregate Bond Index is a market weighted index of Investment Grade, SEC-registered, dollar denominated securities. The securities represented are 1-10 year Governments, 1-10 year Corporates, all Mortgages and all Asset-Backed Securities within the Aggregate Index. Past performance is not indicative of future results. Income from coupons is included in return results. Gross returns reflect the deduction of actual transaction costs but do not reflect the deduction of advisory fees or other fees. Net returns reflect the deduction of actual transaction costs and advisory fees. It is not possible to invest directly in an index and index returns do not include any costs or fees. The volatility of indices may be different from the volatility performance of the Composite. Please see Disclosure Notes for AAM Intermediate Bond Composite.

Outlook for Insurance Portfolios

Public Fixed Income: Stable, Selective, and Valuation-Constrained

The 2026 outlook across investment-grade corporates, structured products, and municipal markets is broadly stable but increasingly selective, with modest return expectations and a greater emphasis on credit quality and sector dispersion. With risk premia narrow across public markets, returns will be driven less by beta and more by security selection and access to primary issuance.

Corporate spreads are expected to widen modestly as technical tailwinds fade from historically strong levels. Increased supply tied to M&A and AI investment, the potential for reduced foreign demand for USD-denominated fixed income, and late-cycle fundamental pressures all argue for a more cautious stance. Within this environment, stronger fundamentals and relative value favor Banks and Utilities, while Technology sectors could see spread pressure and potential rating challenges stemming from elevated AI-related capital spending.

Structured products, which outperformed in 2025, are expected to do so again in 2026, supported by strong technicals—particularly in Agency MBS as GSE demand remains firm and housing affordability reforms gain traction. CMBS and ABS continue to offer attractive spread premiums versus Treasuries, though refinancing risk remains a concern in office-heavy CMBS collateral. Diversified pools present opportunity, while CLOs may lag amid falling policy rates and elevated issuance. Selection across collateral and structure will be increasingly important.

In municipals, elevated supply and rich valuations make tax-exempt bonds less compelling for institutional buyers. By contrast, taxable municipals offer more favorable spreads alongside stable credit fundamentals, with higher education issuers in particular demonstrating resilience. As in other sectors, consistent access to the new-issue market will be critical for improving relative value and flexibility.

Expanding Beyond Public Markets: Opportunities and Risks

With public market spreads tight, insurance companies continue to expand allocations to non-public market segments where additional yield can be earned through liquidity, structural complexity, or underwriting expertise. Commercial real estate lending and AI-related infrastructure project finance remain areas of opportunity, though outcomes will increasingly be differentiated by the rigor of upfront underwriting and structuring discipline.

Non-public markets continue to attract regulatory and political scrutiny, warranting careful consideration when deploying capital in lower-liquidity strategies. While many regulatory changes are well telegraphed, they could still pressure select segments of private markets where insurers are forced to sell illiquid assets in response to unfavorable capital treatment.

AAM Core Bond Disclosure Notes

Period Covered	Core Bond Gross Return TWR (%)	Core Bond Net Return TWR (%)	Benchmark Return (%)	# of Portfolios	Dispersion (%)	Gross 3 Year Annualized Standard Deviation (%)	3 Year Annualized Standard Deviation Benchmark (%)	Composite Assets (\$millions)	Firm Assets (\$millions)
2025	7.71	7.58	7.30	8	0.18	5.68	6.06	\$1,621	\$27,489
2024	3.09	2.97	1.25	8	0.30	7.37	7.83	\$1,615	\$24,032
2023	6.83	6.70	5.53	9	0.17	6.87	7.24	\$1,654	\$22,966
2022	-13.04	-13.15	-13.01	9	0.35	6.35	5.85	\$1,625	\$24,004
2021	-0.48	-0.60	-1.54	9	0.28	4.55	3.40	\$2,020	\$28,966
2020	8.30	8.17	7.51	9	0.26	4.47	3.40	\$2,082	\$27,650
2019	9.50	9.37	8.72	9	0.16	2.87	2.91	\$1,956	\$28,041
2018	0.41	0.31	0.01	9	0.14	2.76	2.88	\$2,377	\$24,703
2017	4.53	4.43	3.54	6	0.11	2.78	2.82	\$1,590	\$19,703
2016	3.99	3.88	2.65	8	0.35	3.03	3.02	\$1,819	\$18,305
2015	1.05	0.93	0.55	8	0.34	3.14	2.92	\$1,638	\$16,729

AAM claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. AAM has been independently verified for the periods January 1, 2007 through December 31, 2025. The verification report is available upon request.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

- AAM was founded in 1982 and specializes in the management of insurance company fixed income and convertible portfolios for companies located in the U.S., Bermuda and Grand Cayman. Core Bond Composite performance returns represent AAM's primary fixed-income strategy, investing throughout the investment-grade market within a relative value framework.
- The benchmark shown is the Bloomberg U.S. Aggregate Bond Index. Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg or Bloomberg's licensors own all proprietary rights in the Bloomberg Indices. Bloomberg does not approve or endorse this material or guarantee the accuracy or completeness of any information herein, nor does Bloomberg make any warranty, express or implied, as to the results to be obtained therefrom, and, to the maximum extent allowed by law, Bloomberg shall not have any liability or responsibility for injury or damages arising in connection therewith.
- Valuations and returns are computed and stated in U.S. Dollars.
- Composite dispersion represents the consistency of a firm's composite performance results with respect to the individual portfolio returns within a composite. The dispersion of annual returns is measured by the equal-weighted standard deviation of gross portfolio returns represented within the composite for the full year. Dispersion is not presented ("n/a") for periods where less than six portfolios were included in the composite for the full year.
- Composite returns reflect the reinvestment of income and other earnings. Gross returns reflect the deduction of actual transaction costs but do not reflect the deduction of advisory fees or other fees. Net returns reflect the deduction of actual transaction costs and advisory fees.
- This composite was created in May 2003, and the inception date is 1 January 2003. A list of the firm's composite descriptions and the firm's policies for valuing investments, calculating performance and preparing GIPS reports are available upon request.
- The minimum account size for inclusion in the Core Bond Composite is \$50,000,000.
- Historical performance results are not a guarantee of future performance results.
- GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.
- The management fee schedule is as follows and is computed based on assets under management:

\$0-\$50,000,000	0.25%	\$50,000,000-\$1,000,000,000	0.08%
\$50,000,000-\$100,000,000	0.15%	\$1,000,000,000-and above	0.06%
\$100,000,000-\$500,000,000	0.10%		

AAM Intermediate Bond Disclosure Notes

Period Covered	Intermediate Bond Gross Return (%)	Intermediate Bond Net Return (%)	Benchmark Return (%)	# of Portfolios	Dispersion (%)	Gross 3 Year Annualized Standard Deviation (%)	3 Year Annualized Standard Deviation Benchmark (%)	Composite Assets (\$millions)	Firm Assets (\$millions)
2025	7.75	7.62	7.45	6	0.18	4.32	4.71	\$943	\$27,489
2024	3.86	3.74	2.47	≤ 5	n/a	5.63	6.18	\$725	\$24,032
2023	6.37	6.23	5.18	≤ 5	n/a	5.10	5.60	\$634	\$22,966
2022	-9.11	-9.23	-9.51	≤ 5	n/a	4.51	4.39	\$583	\$24,004
2021	-0.69	-0.83	-1.29	≤ 5	n/a	3.01	2.07	\$684	\$28,966
2020	6.33	6.20	5.60	6	0.27	3.01	2.19	\$1,162	\$27,650
2019	7.47	7.35	6.67	6	n/a	2.05	2.07	\$1,097	\$28,041
2018	1.19	1.06	0.92	≤ 5	n/a	2.09	2.15	\$288	\$24,703
2017	2.94	2.81	2.27	≤ 5	n/a	2.09	1.99	\$670	\$19,703
2016	2.51	2.40	1.97	≤ 5	n/a	2.26	2.16	\$674	\$18,305
2015	1.82	1.71	1.21	≤ 5	n/a	2.34	2.13	\$589	\$16,729

AAM claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. AAM has been independently verified for the periods January 1, 2007 through December 31, 2025. The verification report is available upon request.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

- AAM was founded in 1982 and specializes in the management of insurance company fixed income and convertible portfolios for companies located in the U.S., Bermuda and Grand Cayman. Intermediate Bond Composite performance returns represent AAM's primary fixed-income strategy, investing throughout the investment-grade market within a relative value framework, typically in securities maturing in less than 10 years.
- The benchmark shown is the Bloomberg Intermediate U.S. Aggregate Index. Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg or Bloomberg's licensors own all proprietary rights in the Bloomberg Indices. Bloomberg does not approve or endorse this material or guarantee the accuracy or completeness of any information herein, nor does Bloomberg make any warranty, express or implied, as to the results to be obtained therefrom, and, to the maximum extent allowed by law, Bloomberg shall not have any liability or responsibility for injury or damages arising in connection therewith.
- Valuations and returns are computed and stated in U.S. Dollars.
- Composite dispersion represents the consistency of a firm's composite performance results with respect to the individual portfolio returns within a composite. The dispersion of annual returns is measured by the equal-weighted standard deviation of gross portfolio returns represented within the composite for the full year. Dispersion is not presented ("n/a") for periods where less than six portfolios were included in the composite for the full year.
- Composite returns reflect the reinvestment of income and other earnings. Gross returns reflect the deduction of actual transaction costs but do not reflect the deduction of advisory fees or other fees. Net returns reflect the deduction of actual transaction costs and advisory fees.
- This composite was created in October 2016, and the inception date 1 January 2004. A list of the firm's composite descriptions and the firm's policies for valuing investments, calculating performance and preparing GIPS reports are available upon request.
- The minimum account size for inclusion in the Intermediate Bond Composite is \$50,000,000.
- Historical performance results are not a guarantee of future performance results.
- GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.
- The management fee schedule is as follows and is computed based on assets under management:

\$0-\$50,000,000	0.25%	\$50,000,000-\$1,000,000,000	0.08%
\$50,000,000-\$100,000,000	0.15%	\$1,000,000,000-and above	0.06%
\$100,000,000-\$500,000,000	0.10%		