April 2026

AAM Core Bond & Beyond

1st Quarter Performance, Themes & Outlook

Market Recap

By Tim Senechalle, CFA

In AAM's 2026 market outlook, our investment team highlighted the merits of selectivity and opportunism as we position client portfolios and deploy new capital. These priorities proved valuable in the 1st quarter as geopolitical developments, AI disruption, and private credit concerns were catalysts for volatility in rates, credit, and equity markets. Among the notable shifts:

- 10-year U.S. Treasury notes traded across a 50 basis points range[1]
- Investment grade corporate bond spreads widened 22 basis points relative to January lows[2]
- Stock prices fell with dramatic dispersion of total returns as Energy Sector shares gained 37% while Information Technology shares declined 9%[3]

Within the high grade market, which represents the majority of insurance investment portfolios, volatility provided attractive entry points to add quality securities at materially higher yields. We took advantage of compelling opportunities in new issue corporate bonds, ABS/CMBS secondaries, and Agency Residential MBS, which underperformed as rate volatility surged. Improved breadth of equity returns and heightened single-stock volatility benefited client portfolios with exposure to dividend focused shares or convertible securities, both of which materially outperformed large cap equity markets.

Sources: 1. Bloomberg 2. Bloomberg US Corporate Bond Index data 3. Standard & Poor's Index GICS Level 1

WHAT'S NEW

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

Heightened geopolitical tensions between the U.S., Israel, and Iran have added uncertainty to the outlook for inflation, consumer spending, and monetary policy. The recent surge in oil prices contributed to the largest month-over-month increase in headline CPI since mid-2022, raising concerns that higher fuel costs could weigh on consumer spending, particularly among lower- and middle-income households. This combination of renewed inflation pressure and emerging growth headwinds presents a challenge for the Federal Reserve as it balances price stability with slowing momentum in the broader economy.

Despite these risks, the U.S. economy entered the conflict on relatively solid footing. Continued gains in wages and household wealth should help support consumption, while AI-related investment is expected to provide a meaningful boost to fixed investment. Increased tax refunds associated with the OBBB may offer an additional near-term tailwind. Current forecasts point to approximately 2% GDP growth in 2026, though risks remain skewed to the downside. AAM views the probability of recession as low, contingent on a near-term resolution to the conflict; a more prolonged or escalatory scenario would materially increase downside risks. Looking ahead, decelerating shelter costs should continue to support moderation in core inflation, though readings are likely to remain above the Federal Reserve’s 2% target. We expect the Fed to largely look through the oil-price shock, focusing instead on labor-market conditions and broader growth trends. With longer-term inflation expectations well anchored, a rate cut later this year remains likely. The Treasury curve is expected to steepen modestly, with the 10-year yield ending the year in a 3.9%–4.4% range.

Fixed Income Market

By Elizabeth Henderson, CFA

Fixed-income markets navigated a mixed but resilient first quarter as shifting rate dynamics, heavy issuance, and geopolitical volatility drove performance. January began constructively on strong demand technicals, pushing investment-grade corporate spreads to very tight levels and supporting securitized excess returns. February brought a reset as elevated supply, AI-related sector repricing, and higher geopolitical risk widened corporate spreads despite continued inflows and active trading. Volatility intensified in March with rising Treasury yields, producing rate-driven losses even as credit fundamentals remained generally sound; credits and structures linked to higher rates and commodity prices were relative winners. Sector dispersion increased overall, with corporates finishing wider after a round-trip in excess returns, securitized assets proving more resilient, and municipals led results.

AAM Fixed Income Performance

By Elizabeth Henderson, CFA

Performance during the quarter was driven primarily by security selection, while sector allocation effects were largely offsetting. At a high level, overweights to securitized products and municipal bonds were balanced by underweights to U.S. Treasuries and an overweight to corporate credit. Security selection added meaningful value across portfolios, particularly in more specialized and less index-heavy areas of the market, including community banks, non-agency RMBS, esoteric ABS, single-asset single-property CMBS, and taxable municipal bonds. Analyst-driven security selection was also additive in sectors with elevated idiosyncratic risk, including Technology and Consumer Non-cyclicals. Areas of relative underperformance included an underweight to high-coupon mortgages, reflecting their premium dollar prices and negative convexity in an environment where interest rates were expected to decline.

AAM Core Bond Composite

	1Q 2026	YTD 2026	1 Year	3 Year Annualized	5 Year Annualized	10 Year Annualized
AAM Core Bond Composite (gross of fees)	0.18%	0.18%	5.03%	4.92%	1.22%	2.60%
AAM Core Bond Composite (net of fees)	0.15%	0.15%	4.90%	4.80%	1.10%	2.48%
Bloomberg U.S. Aggregate Index	-0.05%	-0.05%	4.35%	3.63%	0.31%	1.70%
AAM Outperformance (net of fees)	0.20%	0.20%	0.55%	1.17%	0.79%	0.78%

AAM Core Bond Composite represents 9 portfolios and $1,433 million market value as of March 31, 2026.
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 in 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

	1Q 2026	YTD 2026	1 Year	3 Year Annualized	5 Year Annualized	10 Year Annualized
AAM Int Bond Composite (gross of fees)	0.27%	0.27%	5.34%	5.27%	1.82%	2.52%
AAM Int Bond Composite (net of fees)	0.24%	0.24%	5.22%	5.14%	1.70%	2.39%
Bloomberg Int Aggregate Index	0.11%	0.11%	4.83%	4.23%	1.03%	1.84%
AAM Outperformance (net of fees)	0.13%	0.13%	0.39%	0.91%	0.67%	0.55%

AAM Intermediate Bond Composite represents 7 portfolios and $1,098 million market value as of March 31, 2026.

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 in 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

The macroeconomic backdrop, which has investors expecting that the Federal Reserve 'pause' will remain in place for some time, has lifted benchmark yields and improved assumed reinvestment rates. New money yields for the insurance industry remain above industry book yields with accretive benefits to operating performance. As it relates to fixed income and our expectation for performance in the next quarter, we are positioning portfolios with yield and spread in the short end via esoteric ABS, CMBS, BBB Corporate bonds and Financials. We are comfortable with a modest exposure to floating rate instruments and high coupon mortgages, which should perform well in this environment over the next quarter. In the intermediate part of the curve, we prefer non-agency RMBS and new-issue corporate and taxable municipal bonds with additional spread at issuance vs. secondary offerings. Issuer selection for intermediate and longer duration bonds will continue to be a driver of performance given the increase in idiosyncratic risk and unfavorable break-evens in a spread widening environment. On the long end of the curve, we expect higher quality securities to outperform especially if the price of oil remains high and/or continues to climb, as risk premiums will need to increase and spreads on the long end are historically rich.

Expanding Beyond Public Fixed Income Markets: Opportunities and Risks

We are closely monitoring developments in two areas relevant to insurance investment portfolios. The first relates to evolving fundamentals and demand dynamics in private credit markets. In a whitepaper published in early April, our team wrote on this topic and highlighted the merits of diversification, credit research, value assessment, and structural integrity in these lesser liquid markets *(Corporate Fundamentals 1Q2026).* We believe that institutional investors will benefit from opportunities brought about by undisciplined underwriting and unstable retail investor behavior and will deploy capital opportunistically in private markets for clients with an appetite for illiquid investments.

The second area relates to regulatory developments. The NAIC, other regulatory bodies, and rating agencies continue to focus on improved transparency around insurer investments and are actively seeking paths to mitigate investment risks to solvency. While regulatory capital efficiency is a valuable part of insurance strategy, an economic capital-centric investment process positions us to absorb the inevitable changes that follow market stresses and regulator responses. Stay tuned for a summary of upcoming regulatory developments from AAM's insurance accounting and strategy team.

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	9	0.17	5.68	6.06	$1,438	$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

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.

1. 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.
2. 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.
3. Valuations and returns are computed and stated in U.S. Dollars.
4. 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.
5. 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.
6. 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.
7. The minimum account size for inclusion in the Core Bond Composite is $50,000,000.
8. Historical performance results are not a guarantee of future performance results.
9. 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.
10. The management fee schedule is as follows and is computed based on assets under management:
    - $0–$50,000,000 0.25%
    - $50,000,000–$100,000,000 0.15%
    - $100,000,000–$500,000,000 0.10%
    - $500,000,000–$1,000,000,000 0.08%
    - $1,000,000,000–and above 0.06%

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	n/a	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

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3. Valuations and returns are computed and stated in U.S. Dollars.
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6. 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.
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    - $50,000,000–$100,000,000 0.15%
    - $100,000,000–$500,000,000 0.10%
    - $500,000,000–$1,000,000,000 0.08%
    - $1,000,000,000–and above 0.06%