



FIXED INCOME | Q1 2026

Short Duration Commentary

Q1 2026

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Executive Summary

Overview

Geopolitical and macro risks dominated headlines and the market landscape as the first quarter ended, driven by the Israeli and U.S. attacks on Iran and their aftermath, including Iran's response and effective closure of the Strait of Hormuz, through which approximately 20% of the global supply of crude oil passes, in addition to other inputs key to the world's supply chains. Financial markets were shaken as Iran's retaliatory missile and drone strikes across the Middle East caused damage and signaled a quick surrender, ceasefire or negotiated settlement was unlikely, resulting in energy prices soaring, most significantly impacting Asian and European countries. Other commodities also saw substantial price rises, while investor concern over the oil shock's impact on inflation and economic growth, in the event energy prices stay at elevated levels for a prolonged period of time, weighed on equity and fixed income markets.

Markets went from pricing in stable or accommodative central bank monetary policy across much of the globe at the start of the year to expectations for rate hikes over coming quarters for some countries or regions in response to the sharp jumps in inflation forecasts arising from the Middle East conflict. That recalibration led to a steep increase in interest rates and added to the risk-off environment characterized by heightened volatility throughout March, as investors were left captive to the latest headlines or social media post about efforts to resolve the Middle East conflict. With very few observers calling for prices to fall close to where they were before the current phase of the conflict started, important questions to be resolved include: How sticky high energy prices will be; if economies will face stagflation or more concerningly, recession in coming quarters; and how the Federal Reserve (Fed) and other central banks will react to upward pressure on inflation and downward pressure on economic growth.

Geopolitical Environment

Geopolitical developments were the primary driver of volatility across markets during the quarter. The Strait of Hormuz remained effectively closed, while conflicting headlines about shipping access and diplomatic progress contributed to large day-to-day swings in energy prices. Notably, repeated signals from President Trump that U.S. envoys were engaged in talks with Iran, alongside Iranian denials, coupled with the administration's shifting aims, added to the headline-driven volatility by raising (and then tempering) expectations for a near-term off-ramp. Even if conditions improve, reopening is as much a logistical and insurance problem as a security one, with war-risk coverage and the practical mechanics of naval escorts, if put in place, likely to shape how quickly commercial flows can normalize. Our baseline view is that while normalization will likely be a more gradual process rather than immediate, with the timing ultimately dictated by the pace of de-escalation and the practical reopening of commercial shipping lanes, some lasting damage has been done to infrastructure in particular, which will continue to result in higher prices for certain commodities and cause other ripple effects.

From an investment perspective, the key issue is not simply higher spot oil prices, but whether disruption persists long enough to embed second-order effects through increased inflation expectations, tighter financial conditions and weaker risk appetite. In this context, persistence matters: Each additional week of constrained flows increases the economic cost and complicates the central bankers' policy outlook, even if the conflict remains geographically contained.

Central Banks/Monetary Policy

Central bank messaging turned more hawkish at the end of the quarter as energy-driven inflation risks rose, but officials remained reluctant to tie themselves to a specific path amid unusually elevated uncertainty. At the Fed's March meeting, the dominant message was patience, with policymakers highlighting unclear economic effects from the Middle East conflict and the need to preserve policy optionality.

Markets also became more willing to price in more restrictive policy outcomes, not because central banks want to hike, but because a sustained energy shock could keep inflation uncomfortably firm, which is a more pressing issue for those central banks focused on inflation without the Fed's dual mandate. While inflation has firmed of late, much of the pressure reflects energy and geopolitical factors rather than underlying demand. At the Federal Open Market Committee (FOMC) meeting in March, the Fed held the fed funds policy rate at 3.50%–3.75%, left its projected rate path intact, calling for one 25-basis-point (bp) cut this year, and saw one dissent in favor of a rate cut. Our baseline expectation remains two 25-bp cuts later this year, consistent with a delayed, but not derailed, normalization path, though persistently elevated energy prices or stickier inflation could keep policy on hold longer to preserve inflation-fighting credibility.

Growth, Inflation and the Consumer

Economic growth expectations have softened, primarily as a result of the sharp rise in energy prices and worries these may persist. If the WTI oil price were to average \$100 per barrel for a sustained period, global growth would likely be modestly lower, while headline inflation would be meaningfully higher, with policy tradeoffs most acute outside the U.S., where some central banks may be more inclined or forced to tighten monetary policy.

Our baseline for the U.S. is that headline inflation is likely to reaccelerate in the near term based on higher energy costs, while core inflation will be less affected unless the shock persists. A key test will be whether longer-run inflation expectations remain anchored, and any spillover into core inflation stays contained, which would allow policymakers to look through an energy-driven headline spike and exercise more patience. Second-order risks would grow if inflation expectations rise, wage growth reaccelerates or services inflation shows renewed momentum. Overall, the outlook on inflation is shaped by competing forces rather than any single driver, causing the outlook to be murkier than usual, supporting a patient policy stance while tail risks remain elevated.

At the same time, offsetting forces within the consumer outlook warrant monitoring. Tariff relief associated with recent policy shifts, coupled with higher tax refunds, could partially offset the effective "gas tax" impact on households, although tariff pass-throughs to consumer prices typically occur more slowly than changes in gasoline prices. These consumer-side offsets also have important second-order implications for fiscal flows, particularly where tariff changes translate into refunds or revenue shifts that alter near-term funding needs.

Now that guidance and timing around tariff-related reimbursements (i.e., tariff refunds to importers) are clearer, some payments may be made sooner than expected. If so, the U.S. Treasury may need to pull forward its borrowing, which could put upward pressure on rates, particularly if markets see the fiscal boost as front loaded while the growth outlook is still cloudy. Near-term economic data we are monitoring include retail spending, consumer confidence and gasoline demand, in addition to Treasury financing/auction announcements that could signal a shift in the issuance pace.

Business/Labor Markets

From a cyclical standpoint, the dominant question is not whether activity collapses immediately stemming from the energy shock, but whether higher energy costs and an elevated risk backdrop weigh on confidence, capital spending and hiring decisions as time progresses. In this environment, market pricing has been more reactive to incremental headlines than to conventional macro data, consistent with a late-cycle regime in which labor markets can soften without immediately signaling recession. We are monitoring weekly jobless claims, hiring intentions and forward-looking activity measures (e.g., new orders and PMIs) for signs that caution is translating into broader weakness.

Near-Term Outlook: Constructive on Interest Rates, Cautious on Spreads

After the rise in benchmark yields through much of March, we find front-end rates attractive, though the path lower is likely to be uneven as markets oscillate between “growth down” and “inflation up” reactions to geopolitical headlines. We would reassess this stance if the WTI price remains well above \$100 for an extended period, inflation expectations move materially higher, or spreads reprice sharply in a way that signals tighter financial conditions.

In credit, near-term spread movement remains more sensitive to the policy backdrop than to the conflict itself. Historically, that sensitivity is highest when geopolitical shocks coincide with a hiking cycle, while paused or easing regimes are typically more supportive, even if near-term volatility rises. Even so, current conditions call for maintaining an up-in-quality bias and emphasizing liquidity. Inarguably, the sharp rise in Treasury yields in March helped cushion some of the widening in credit spreads the market experienced.

With the reset in Treasury yields, we favor a slightly long-duration bias and a “bulleted” yield-curve posture, while keeping spread risk tightly controlled. In investment grade credit, we continue to emphasize disciplined issuer and security selection in defensive subsectors and a strong focus on liquidity. Within securitized markets, March’s shifts in interest rates and volatility in response to geopolitical developments have led to a repricing, as primary 30-year fixed mortgage rates were roughly 40 bps higher month over month, and mortgage-backed securities (MBS) spreads have retraced the tightening seen following the government-sponsored enterprises (GSE) MBS purchase announcement. At current levels, we are predisposed to increase residential mortgage-backed securities (RMBS) exposure across our strategies, favoring the positive convexity of seasoned-loan and low-loan-balance collateral over more generic alternatives. In asset-backed securities (ABS), we continue to avoid subprime collateral, given the disproportionate impact of higher energy prices on lower-income consumers, and instead prefer higher-FICO, prime borrower pools. In commercial mortgage-backed securities (CMBS), we remain cautious on office exposure, particularly in secondary and tertiary markets, where higher energy costs, inflation pressure and slower growth add to headwinds for commercial real estate fundamentals.

Investment Grade Credit Themes

- Investment grade credit fundamentals continue to show resilience at a high level. However, operating margins appear to be peaking, especially outside of the technology and communications subsectors where the Magnificent 7 companies reside. Corporate balance sheets entered 2026 in generally good shape, but a deteriorating demand environment and further supply chain disruptions or tariff-related cost pressures could weaken credit fundamentals.
- U.S. consumer spending continues to be relatively solid, despite a persistently low-fire, low-hire labor market and weak consumer confidence measures, although higher-income and wealthier consumers have been responsible for much of the growth in spending. In contrast, consumers further down the economic ladder are facing increasing strains from a labor market generating few new jobs, tepid real wage growth, stubbornly high and rising inflation and increased healthcare costs. A recent spike in mortgage rates off their recent lows has reduced buyer affordability and will act as a brake on housing market activity moving forward.
- As we appear headed for a potentially more challenging investment backdrop and upward pressure on credit spreads, we continue to favor the banking sector, where fundamentals are supported by robust capital levels, ample loan loss reserves and lowered impaired loans, in addition to strong profitability and returns on equity.
- Away from financials, we favor up-in-quality, more defensively positioned subsectors less exposed to cyclical pressures, in addition to issuers more insulated from trade policy-driven uncertainty. Given that investment grade credit market technicals have been showing more fragility as liquidity conditions tightened in the first quarter, at current valuations, which remain not too far above multi-decade record tight spread levels even after widening in the quarter, we favor exposure to non-financials in the communications, healthcare, pharmaceuticals and electric utilities subsectors and await a better entry point at wider spreads to increase our overall credit sector risk profile.

Sector Views

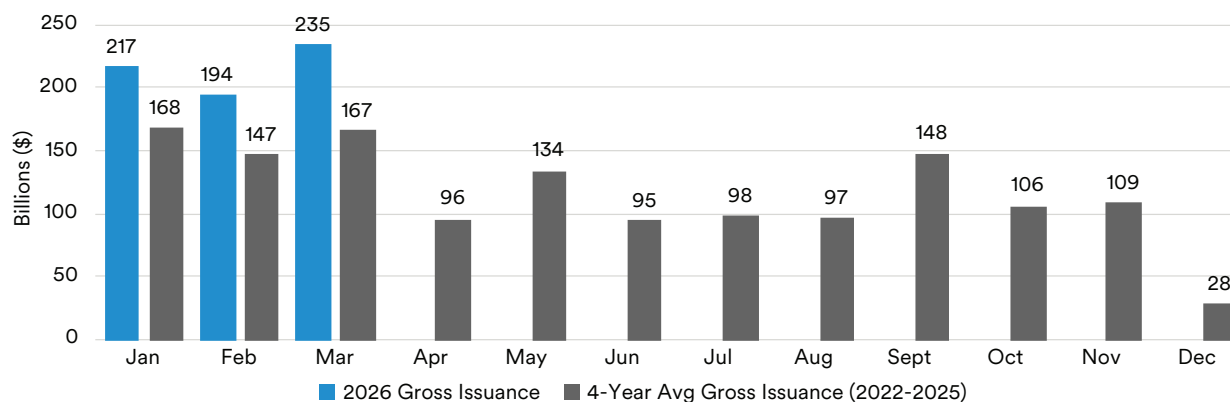
In the first quarter, we saw strong investor appetite for investment grade credit, as seen in an all-time record for quarterly new issue activity being established in the face of a number of macro issues, including prevailing heightened geopolitical uncertainty, ongoing threats to Fed independence, recurring frictions over trade policy and tariffs and concerns over the impact of AI, especially on certain businesses and longer-term labor demand. Despite these worries and other issues like less-than-compelling valuations, investors were swayed by broadly strong issuer fundamentals in terms of balance sheet metrics and another quarter of double-digit year-over-year earnings growth for large companies in the S&P 500 Index, coupled with attractive all-in yields. Nonetheless, we saw some notable signs of concern surface in the market even before the renewed conflict in the Middle East at the end of February.

After credit spreads tightened in January, growing market worries over private credit exposure and opacity of underlying loan assets for business development companies (BDCs) and private equity-sponsored, more tertiary life insurance issuers, in particular, coupled with skyrocketing capital expenditure budget announcements from some hyperscalers and a meaningful Treasury yield decline, helped push credit spreads wider in February, often a challenging month for corporate bond market performance. The Iran attacks, return of volatility, fears of stagflation due to energy market disruptions and a prolonged oil shock, and extremely news-headline-driven backdrop, pressured the corporate bond market in March, as spreads widened to levels last seen in May 2025 in the wake of April's Liberation Day announcement on tariffs. Record new issue volume in March (and fourth largest month on record), highlighted by Amazon's \$37 billion in issuance and Salesforce's \$25 billion multi-tranche offering, also helped lay the groundwork for another month of spread widening. Set against the welcoming and buoyant new issue market, Wall Street dealers initially began to struggle to recycle risk

in March as dealer balance sheets swelled to absorb mainly front-end corporates sold by investors to purchase new issues. This phenomenon served to pressure spreads and caused credit curves to invert for a time, leading to underperformance for short-dated corporates amid the shifting scenarios around the Iran conflict. Even with credit spreads widening over the first quarter, we do not view current valuations as compelling and prefer to focus on opportunities primarily confined to one-off credit situations, selective new issues, temporary market dislocations causing issuer spreads to widen unfairly and avoiding issuers with deteriorating balance sheets or more challenged operating fundamentals.

High-Grade Bond Issuance

(as of March 31, 2026)



Source: J.P. Morgan

Portfolio Strategy

With our view that credit spreads—at the levels they ended last year—did not represent a compelling buying opportunity, we entered 2026 positioned in a relatively conservative fashion compared to our historical norms in terms of sector weightings and risk profiles across strategies. Even though January kicked off the year with a robust \$217 billion in new issue volume, our participation was relatively limited as we saw few attractive opportunities to put money to work or tactically extend durations at compressed and tightening spread levels, while benchmark yields crept only slightly higher over the month. Our disciplined and patient approach was somewhat rewarded in February as valuations improved with the widening in credit spreads, but the sharp drop in benchmark yields and diminished appeal to tactically extend portfolio durations across strategies at lower yields left us largely on the sidelines over the month. The environment turned more decidedly in our favor in March, as credit spreads continued to widen, and benchmark Treasury yields jumped higher across the curve with risk assets selling off and Fed monetary policy repricing, more than reversing February’s rate declines. Consequently, most of our heavy lifting was accomplished in March, as we utilized both the new issue calendar and secondary market to capitalize on what we saw as attractive opportunities in “cheap” new issues and lock in higher all-in yields for longer in extending duration, increasing on a quarter-over-quarter basis our credit weightings and sector duration contributions, while avoiding raising our overall spread durations across strategies.

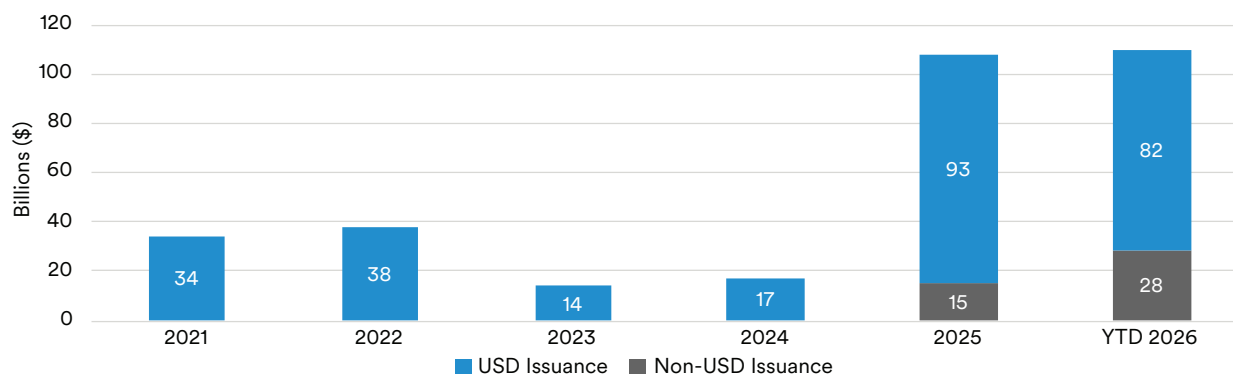
Turning to our credit sector trading activity over the quarter, we raised our sector weighting in the Cash Plus strategy by purchasing a half-year duration money center bank bond, two-year money center bank floating-rate issue, and one-year duration BDC issue in secondary, as well as a technology company’s two-year duration new issue. In our Enhanced Cash strategy, we also lifted our sector weighting in adding roughly two-year duration new issues from a super-regional bank’s opco issuer, major U.S. credit card/payment network operator and aforementioned technology company. On the secondary side, we also bought two AA-rated 1.5-year duration secured funding agreement-backed bonds issued by U.S. insurance companies. These Enhanced Cash strategy purchases were funded in part by mainly selling short-dated holdings. We raised our credit weighting by several percentage points across our

1-3 year strategy portfolios in the first quarter by buying the roughly two-year duration new issues that came to market from a super-regional bank's opco issuer and major U.S. credit card/payment network operator. We also added three-year duration bonds in secondary from an aircraft lessor, a large U.S. regional bank and western U.S. electric utility opco issuer in new issue. Further on the new issue front, we added two-year duration bonds of an aerospace spin-off from a large industrial company, technology company noted above and European bank opco-level issuer. These portfolio purchases were funded by selling selected one-year duration securities and floating-rate bonds across the 1-3 year strategy. It was a similar story in the 1-5 year strategy portfolios where we also increased our credit weighting in the first quarter. We carried out a swap extension trade out of a roughly one-year duration money center bank into a same-name three-year duration secondary bond and sold a one-year duration technology issuer bond to fund our other buys, which included the three-year duration bond in secondary issued by an aircraft lessor. We tapped the new issue market by purchasing five-year bonds from a large technology company and the aerospace spin-off from a large industrial company noted above, as well as three-year new issues from the western U.S. electric utility opco issuer and technology company cited several times above.

Looking ahead, coupling an uneven labor market characterized by barely positive job growth and modest real wage growth with growing inflationary pressures, the U.S. consumer may not easily notice the benefits of increased fiscal policy support via record federal tax refunds already hitting their wallets. Economic growth in 2026 may become even more dependent on the enormous sums being devoted to AI buildout and compute expenditures despite the OBBB Act's benefits for corporations. With the turn of events in the Middle East and severe impacts on energy markets carrying with them potentially material implications for economic growth and inflation around the globe, we view the investment environment more cautiously than we did heading into the year. As credit spreads only widened modestly in the first quarter, we see the investment grade corporate market as well as many risk assets, including equity markets, for example, as largely looking through the Iran conflict and pricing in a fairly sanguine outcome. Thus, we maintain our bias in favor of directing our credit exposure to more up-in-quality, defensively positioned subsectors, while picking our spots to invest where we see market dislocations or mispricings creating opportunities. In the meantime, we anticipate staying very selective and shading our sector weightings slightly below our historical norms and prefer holding exposure in banking, communications, healthcare, pharmaceuticals and electric utility subsector issuers. Notably, we also expect to see more opportunities to increase exposure in the technology subsector, primarily via the new issue market or when taking advantage of swings in valuations as market sentiment shifts, as the supply technical created by significantly higher issuance by hyperscalers to fund their capital needs will continue to impact the investment grade credit market and reshape benchmark credit indices.

Corporate Hyperscaler Issuance

(as of March 31, 2026)*



Source: J.P. Morgan, Dealogic, Bloomberg L.P.

*Alphabet/Google, Amazon, IBM, Meta and Oracle

Performance

Relative to portfolio benchmark indices, our investment grade credit sector exposure was a modestly positive contributor to excess return across most strategies in the first quarter and a slight drag on performance in our 1-3 year strategy. Subsector allocation and security selection were uneven contributors to relative performance, as the sector struggled to overcome a general widening in credit spreads over the quarter. Spreads tightened in January despite a robust \$217 billion in new issue activity met by strong investor appetite, before succumbing to less favorable technical conditions and signs of cracks forming in the credit market in February and March, which both saw spreads widen. Our bellwether front-end credit index, the ICE BofA 1-5 Year U.S. Corporate Index, tightened by 6 bps in option-adjusted spread (OAS) in January before February's 9-bp retracement wider. The February 28 launching of attacks on Iran and eventual follow-on oil shock, coupled with investor outflows in the second half of March, pushed the index OAS 8 bps points wider on the month, although the sharp rise in Treasury yields helped cushion spread widening, to close the first quarter at 73 bps versus entering the year at 62 bps. Total and excess returns for the front-end credit index were +0.12% and -0.09%, respectively, for the quarter, which represented the first negative excess return quarter since first quarter 2023.

ICE BofA 1-5 Year U.S. Corporate Index OAS

(as of March 31, 2026)



Source: ICE Data Services

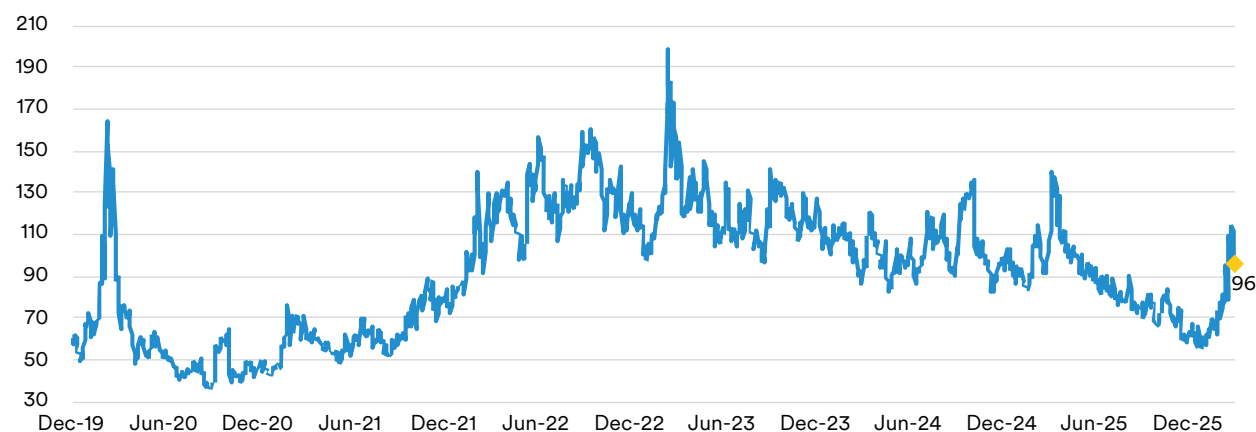
Taking a closer look at investment grade credit sector performance across our strategies, positive excess return in the Cash Plus strategy portfolios was driven by our banking and automotive subsector holdings, partly offset by a BDC holding in the finance company subsector, while in the Enhanced Cash strategy portfolios, banking and technology subsector holdings benefited performance. In our 1-3 year strategy portfolios, slightly lagging performance across financials was nearly offset by positive contributions from our holdings in the healthcare, pharmaceuticals, tobacco, technology and electric utilities subsectors. It was a bit of a similar story in our 1-5 year strategy portfolios with positioning and exposure across financials detracting from relative performance; however, holdings in the food and beverage, healthcare, pharmaceuticals, tobacco and technology subsectors more than offset the weakness in financials to generate a slightly positive excess return from the investment grade credit sector in the quarter.

Treasury/Agency Themes

- The Iran conflict has arguably delivered the most significant geopolitical shock to energy markets since the 1990 Gulf War. Brent crude rose above \$100 per barrel, with refined products and natural gas posting even sharper gains. In response, major central banks have adopted a more hawkish tone, reflecting heightened concern over renewed inflationary pressures.
- The key takeaway from the March FOMC meeting was elevated uncertainty. Chair Jerome Powell remained characteristically cautious, avoiding firm policy guidance amid the evolving geopolitical backdrop. However, in our opinion, markets moved quickly to price out rate cuts in 2026. We view this reaction as excessive, driven more by short-term risk aversion than a fundamental shift in the macro outlook.
- We continue to expect the FOMC to deliver rate cuts in the second half of the year, as evidence of a deceleration in monthly core inflation and softer growth supports not only our expectations, but the FOMC's own outlook for a rate cut this year.
- Amid March's Treasury sell-off and jump in rate volatility, the benchmark two-year Treasury briefly broke above 4%, which we view, going forward, as an initial support level. We anticipate a fairly wide near-term trading range of 3.60% to 4.00% for the two-year Treasury yield and will continue to refine entry points across the entire front end of the maturity spectrum when adjusting duration or yield curve positioning relative to benchmark indices.

MOVE Index Interest Rate Volatility

(as of March 31, 2026)



Source: Bloomberg L.P.

Sector Views

With conflict in the Middle East resurfacing at the end of February and now fully underway, energy markets have become the central transmission channel into global financial markets, with oil price movements exerting influence across nearly all asset classes. This has resulted in a period of sharply higher volatility and rapid cross-asset repricing, Treasury yields pushing upward and the yield curve flattening, as the market reassessed both inflation risks and the sustainability of growth. A notable development has emerged at the very front end of the curve, where three-month yields have now fallen below two-year yields for the first time in over a year. Central banks globally have responded to fears of an oil shock and feed-through to inflation, adopting a more hawkish tone as the inflationary implications of sustained higher energy prices become clearer as the conflict drags on. The inflationary impulse from higher oil prices is only one side of the equation. In addition to raising

costs for many goods reliant on transportation for distribution or as inputs, elevated fuel costs will also act as a direct drag on household purchasing power, effectively tightening financial conditions for consumers and eventually introducing pressures via weaker demand. While not front and center in many discussions today, this dynamic is often underappreciated as energy shocks tend to erode real incomes, which can ultimately slow consumption and broader economic momentum. There are, however, partial offsets on the fiscal side. The U.S. administration has requested approximately \$200 billion in funds (roughly 0.6% of GDP), tying it to the conflict. While this proposal has encountered political resistance, any eventual increase in defense outlays would provide a targeted, albeit modest, cushion to aggregate demand, particularly in sectors linked to government spending. Against this complex backdrop, the Fed has taken a “wait-and-see” approach. As widely expected, policymakers left the policy rate unchanged at the January and March FOMC meetings. The 2026 dot plot continues to signal a single rate cut, though the distribution has narrowed, indicating somewhat greater alignment among participants. Market pricing, however, has reacted far more aggressively. Expectations have swung sharply from pricing approximately 2 ½ quarter-point fed funds rate cuts by year-end before the attacks on Iran—to assigning a probability of one hike. We view this shift as overdone and unlikely to come to fruition. In our assessment, it reflects a reactive repricing of near-term inflation risks rather than a durable change in the underlying macro landscape. As such, we expect market expectations to revert toward easing as the year progresses, particularly as growth concerns become more evident. Importantly, we believe the market’s current focus is too narrowly centered on the inflationary effects of higher oil prices. The more consequential risk lies in the potential negative transmission into demand, particularly in a scenario where the closure or disruption of the Strait of Hormuz is extended on top of the damage to certain critical energy-related infrastructure. A prolonged constraint on energy supply would not only sustain elevated prices but also accelerate demand destruction, amplifying downside risks to growth. Should this dynamic take hold, we would expect markets to increasingly price in slower economic activity and a rising probability of recession, ultimately leading to a reversal in the recent backup in yields. With Treasury yields now retracing to their highest levels since mid-2025, we are finding tactical entry points to add duration across our strategies. Our medium-term conviction remains that yields are biased lower into the second half of the year, driven by a combination of moderating inflation, slowing growth and a recalibration of policy expectations. This outlook is supported by a well-established historical pattern observed following geopolitical shocks. Markets typically experience an initial phase of sharp dislocation and repricing, followed by a period of adjustment, and ultimately a gradual re-anchoring aligned with underlying economic fundamentals as uncertainty recedes. While it may take some time to play out, we expect this cycle to unfold once again.

Portfolio Strategy

Toward the end of the quarter, we undertook a broader initiative to extend portfolio durations by reallocating proceeds from shorter-duration position sales into longer-dated Treasuries and select high-quality spread sectors when yields approached the upper bounds of our predefined target ranges. This disciplined approach enabled us to modestly increase duration while remaining mindful of overall risk positioning. Looking forward, we will continue to manage our yield curve exposure by targeting a bulleted posture to minimize reinvestment risk. In addition, duration adjustments will be opportunistic, as we monitor evolving macroeconomic policies, geopolitical developments and shifting central bank policies.

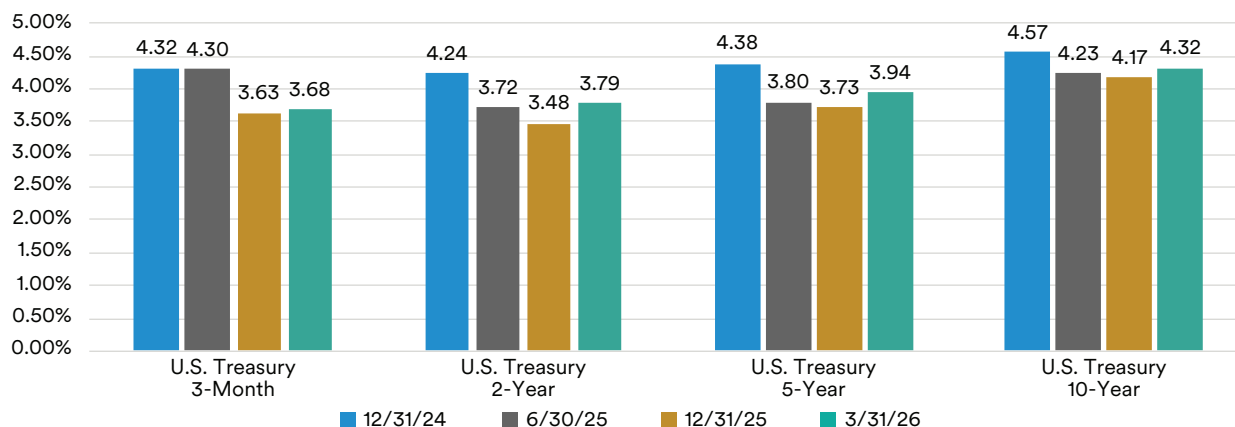
Performance

Outside of a modest drag from duration and yield curve positioning in our Cash Plus and Enhanced Cash strategies, relative performance across our other strategies was positive, primarily reflecting our active yield curve and duration adjustments made over the volatile quarter. The two-year Treasury yield increased by 41 bps, ending at 3.79%, while the five-year yield rose 44 bps to 3.94%

over the quarter. The 10-year yield increased by 38 bps, finishing the quarter at 4.32%. From a sector standpoint, agency allocations detracted from overall performance across strategies, as spreads widened across all spread sectors in the quarter.

U.S. Treasury Yields

(as of March 31, 2026)



Source: Bloomberg, L.P.

Asset-Backed Securities Themes

- Consumer finances and spending remain bifurcated: Higher-income households, supported by strong home values and equities, are still spending on premium goods and discretionary experiences, while lower-income households remain focused on essentials (housing, food and clothing). We expect this split to weigh on the economy if energy prices stay elevated and the labor market weakens further.
- We continue to prefer liquid, defensive ABS tranches, particularly AAA-rated credit cards. Additionally, we maintain a preference for prime auto and equipment issuers, focusing on the AAA- and AA-rated tranches.
- Vehicle prices, both new and used, are expected to remain elevated as tariffs constrain original equipment manufacturer (OEM) production volumes and limit new vehicle unit sales. As a result, buyers are likely to shift to used vehicles. Elevated vehicle prices should continue to support lease residual values and auto loan collateral recovery rates.
- We continue to avoid subprime and less liquid, esoteric ABS subsectors, which we view as more vulnerable in a downturn and prone to spread widening during periods of market volatility.
- While overall consumer balance sheets remain generally sound, credit performance indicators continue to show signs of deterioration. Prime auto 60- and 90-day delinquencies remain near historical averages, although recent negative trends warrant monitoring.

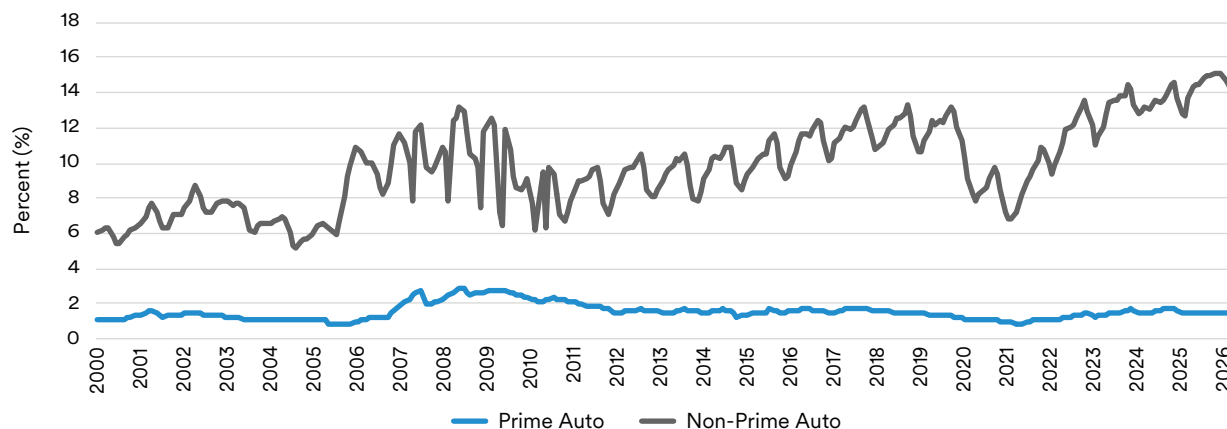
Sector Views

Rising gas prices in March, driven by the Iran conflict, have contributed to renewed concerns around consumer health. In the past, higher charge-offs typically go hand-in-hand with higher unemployment, so we believe high gas prices would need to persist for an extended time period for there to be a significant macroeconomic impact. As in the previous quarter, we continued to observe signs of weakening in certain ABS collateral performance as labor market growth moderates, and lower-income consumers face increasing financial pressure. Despite these headwinds, we remain comfortable with our AAA- and AA-rated holdings. However, challenges endure in select subsectors,

particularly subprime auto and student loans, which continue to weigh on broader ABS performance. In subprime auto, 30+ day delinquencies now stand at 14.1%, 1.2% lower than where they started the year but still elevated. We attribute most of the decrease to the seasonality impact of tax refunds and do not expect declining delinquencies to persist. Lower-income consumers, who often hold more limited ready cash, have an increased tendency to prioritize certain monthly obligations over others. That said, even if credit conditions deteriorate, we do not foresee a meaningful impact on our credit card holdings as they are backed by strong levels of credit enhancement with charge-offs and delinquencies remaining well below historical norms. Moreover, we expect securitized ABS credit card trusts, which are backed by more seasoned collateral accounts than the overall market, to continue outperforming broader consumer credit portfolios. The most recent Fed Senior Loan Officer Opinion Survey, reflecting sentiment as of January, showed banks leaving lending standards for credit cards and other consumer loans generally unchanged while loosening standards for auto loans.

Auto Loan 30+ Days Delinquencies

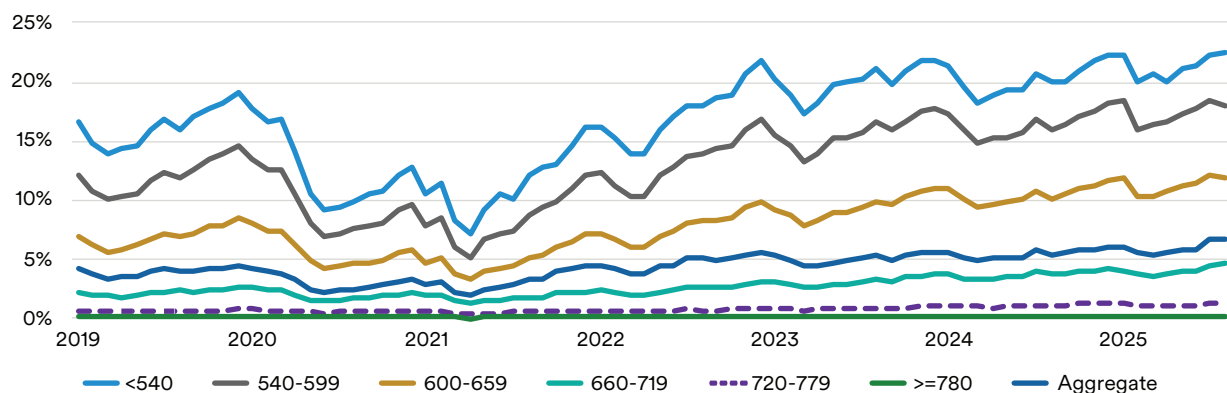
(as of March 31, 2026)



Source: J.P Morgan

Auto Loan 30+ Days Delinquencies by Credit Score

(as of March 31, 2026)



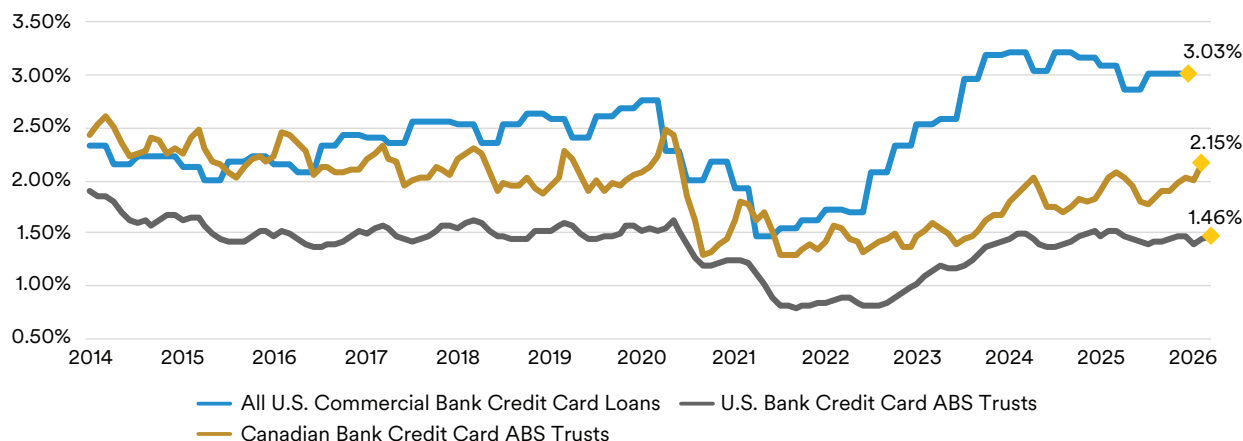
Source: J.P Morgan

Credit card trust performance metrics showed little to no change over the quarter. Data from the J.P. Morgan credit card performance indices reflecting the March remittance reporting period showed charge-offs on bank credit card master trusts rose 2 bps during the quarter to 2.25%. The 60+ day delinquencies rose 1 bp. Charge-offs and delinquencies still remain well below historical norms. The March Manheim Used Vehicle Value Index (MUVVI) rose to 215.3, an increase of 6.2%, year over year, and the highest reading since summer 2023. Demand for used vehicles remains strong according to

auction data from Manheim, a Cox Automotive brand and the largest wholesale marketplace in the U.S. Values increased 1.4% over the month of March, a jump well above long-term norms, and are 2.3% higher compared to the start of the year.

Credit Card Delinquencies

(as of March 31, 2026)



Source: Bloomberg, J.P. Morgan

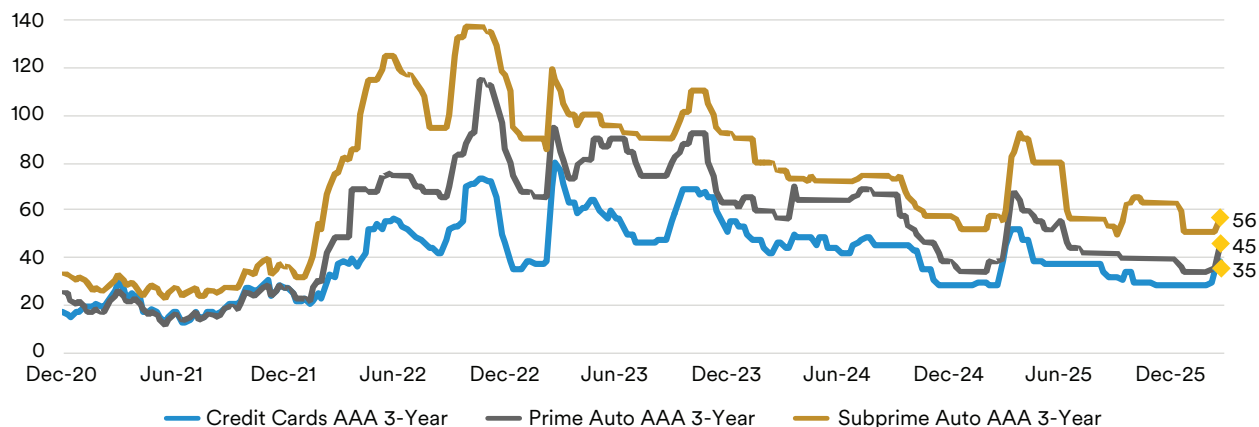
Tariff and geopolitical-related risks remain key considerations, particularly for our ABS auto holdings. We expect this segment to feel the greatest impact from tariffs, as tariffs on key metals are likely to increase vehicle manufacturing costs. GM and Ford appear to be among the U.S. OEMs most exposed. While these automakers are expected to absorb a portion of the associated cost increases, a significant share is likely to be passed on to consumers through higher vehicle prices. This dynamic would further pressure affordability at a time when many household budgets are already strained. Elevated new vehicle prices, however, will continue to act as a tailwind for used vehicle values, which we expect to remain broadly stable and supportive of used vehicle ABS performance. Looking ahead, we anticipate a moderation in new auto ABS issuance, reflecting weaker vehicle sales volumes amid higher sticker prices and ongoing supply chain constraints. Although late March typically marks the seasonal peak in Manheim pricing, the extended tax refund season this year could extend price support. Additionally, Cox noted that despite earlier expectations, there has been little observable impact from Middle East geopolitical developments, with used vehicle demand remaining healthy.

Portfolio Strategy

ABS sector shifts varied across our strategies in the first quarter. We slightly increased our ABS holdings in our Enhanced Cash strategy, while in our other strategies we invested our paydowns into more attractive spread sectors. We participated in 12 primary ABS deals during the first quarter across a diversified mix of sectors, including data centers, equipment, auto loans and auto leases. All purchases were in AAA and AA tranches. One notable deal we participated in was a data center where we bought the AAA-rated tranche with a 5.0-year weighted average life (WAL) at a spread of 120 bps over Treasuries. We also participated in a Canadian bank's prime auto issuance where we bought their 1.7 year, AA-rated tranche at a spread of 75 bps over Treasuries.

Short Tenor AAA ABS Spreads

(as of March 26, 2026)



Source: Bloomberg L.P., MIM

Performance

Our ABS holdings generated positive excess returns across all strategies after adjusting for their duration and yield curve repositioning. The greatest contributions to outperformance came from the Auto and “Other” ABS sectors. Within the “Other” ABS sector, device payment plan and floorplan holdings were the best-performing subsectors.

Commercial Mortgage-Backed Securities Themes

- In the single asset, single borrower (SASB) subsector, we continue to favor trophy properties, which typically consist of prized assets in primary cities or destination vacation locations. We also favor seasoned AAA-rated conduit tranches with stable average-life profiles.
- Smaller loans with marginal cash flow metrics may face refinancing challenges, particularly as regional banks remain cautious amid ongoing pressure from troubled multifamily and office loans on their balance sheets. In contrast, outstanding loans secured by trophy properties and well-performing pools of industrial and lodging assets are more likely to successfully refinance in the SASB market.
- Agency CMBS are likely to remain supported by strong sponsorship, as banks prefer their more stable duration profile versus RMBS, whose duration can fluctuate in volatile rate environments due to convexity.
- Commercial real estate delinquencies are expected to trend higher as weakness in the office subsector persists, particularly among second- and third-tier properties. We anticipate signs of stabilization within the multifamily sector, supported by slowing new construction and improving absorption. In our view, delinquencies in other subsectors are not broadly thematic, but rather localized to specific geographies or individual assets.
- We continue to limit our agency CMBS activity and conduit tranches that are exposed to extension risk, as we do not believe valuations are attractive at current spreads.

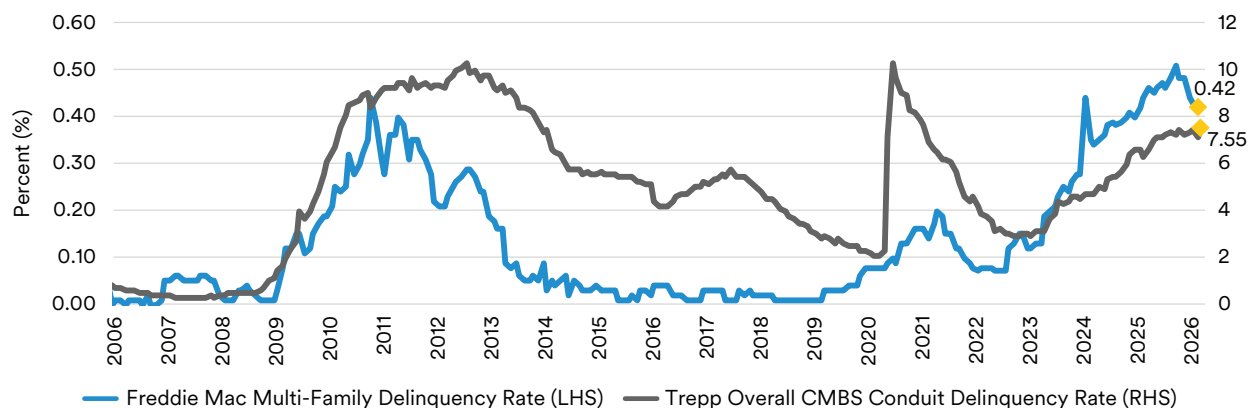
Sector Views

We continue to see persistent headwinds in the CMBS market, with collateral performance expected to remain under pressure, particularly within the office sector. While a meaningful decline in interest rates could support refinancing activity over time, we do not anticipate a material near-term improvement in fundamentals for the most challenged subsectors. Although tariff-related impacts are likely to be less direct for CMBS than for consumer ABS, we remain cognizant of the potential for indirect macroeconomic pressures. In our view, the combination of a slowing economy, still restrictive financial conditions and elevated market volatility is likely to continue weighing on CMBS performance. These factors may further complicate refinancing efforts for borrowers facing near-term maturities. Against this backdrop, we maintain a defensive CMBS posture, emphasizing higher-quality collateral, strong credit profiles and robust structural protections.

The Trepp CMBS Delinquency Rate was back on the rise in March, with the overall delinquency rate increasing 25 bps from December's 7.30% to 7.55%. Four of the five major property types' delinquency rates increased, while one edged down slightly. Lodging delinquencies posted the largest increase, jumping 137 bps to 7.31%, the first time it has been above 7% since the April 2025 peak of 7.85%. Office delinquencies rose 51 bps to 11.71%, maintaining the elevated range established over the past year, but remaining below its recent high of 12.34% in January. The five largest, newly delinquent loans accounted for just over \$2 billion of the almost \$5.1 billion in newly delinquent loans, including a West Coast hotel portfolio, a Midwest office loan, a Northeast retail center loan, a national hotel portfolio and a Pacific Northwest office portfolio, which pushed the rate higher.

CMBS Delinquencies

(as of March 31, 2026)

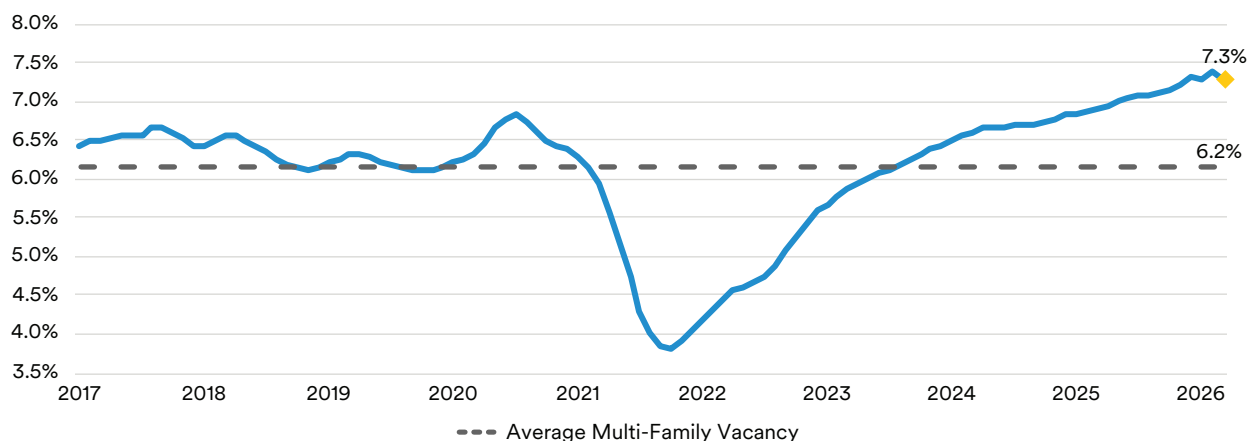


Source: Trepp, Bloomberg L.P.

In the multifamily space, we are closely tracking rising delinquency rates across select markets, which may be a harbinger of broader stress. Multifamily delinquencies increased 30 bps to 7.15% in March, pushing slightly above its prior highwater mark of 7.12% in October 2025, and well past its levels of 5.44% and 1.84% from one and two years ago, respectively. Multifamily commercial real estate (CRE) loan spreads have remained steady, but vacancy rates have reached an all-time high for the sector. Credit spreads incorporate funding costs, expected loss, capital charges, market liquidity and target lender margin, meaning they effectively communicate current market sentiment and risk pricing. Unlike CMBS spreads, which are more frequently priced and generally more observable, CRE lending spreads are private, making pricing and benchmarking more difficult. The national multifamily vacancy rate has climbed to a record high of 7.3%. Multifamily is considered lower risk relative to other property types, but recent metrics indicate the sector has supply that is increasingly outpacing current demand across the country.

Multi-Family Vacancy Index

(as of March 31, 2026)



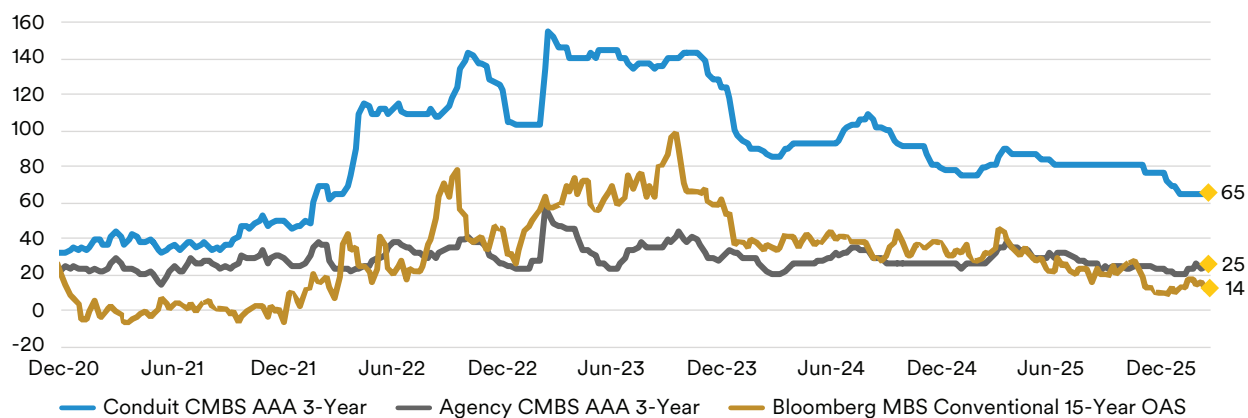
Source: Apartment List Vacancy Index

Portfolio Strategy

With the exception of our 1-5 year strategy, we generally reduced our CMBS holdings across strategies. We used both the outright sale of agency CMBS tranches and reinvestment of CMBS paydowns into other spread product sectors to accomplish the reduction in exposure. Within the sector, we continued to favor more stable conduit ASB and select SASB tranches. In our view, spreads for securities further out the maturity spectrum remain relatively unappealing compared to other spread product alternatives. We participated in two primary deals this quarter. One of these deals was a SASB collateralized by a trophy Las Vegas hotel property. We participated in the AAA- and AA-rated tranches of this floating-rate deal, which launched at spreads of 140 and 170 bps over secured overnight financing rate (SOFR), respectively. At current spread levels, we expect to maintain our current portfolio weightings and add additional exposure only if a compelling opportunity appears.

Short Tenor AAA CMBS Spreads

(as of March 26, 2026)



Source: Bloomberg L.P., MIM

Performance

After adjusting for their duration and yield curve repositioning, CMBS generated positive performance across all our strategies. A majority of the outperformance continued to be attributed to our non-agency SASB and conduit ASB positions. We continue to favor these and AAA-rated conduit tranches with stable average-life profiles. Short-tenor CMBS spreads were relatively unchanged over the first quarter. Three-year, AAA-rated, floating-rate SASB tranches ended the quarter at a spread of 121 bps over SOFR, 1 bp tighter. Three-year Freddie Mac “K-bond” agency CMBS tranches ended the quarter at a spread of 25 bps over Treasuries, 1 bp wider.

Residential Mortgage-Backed Securities Themes

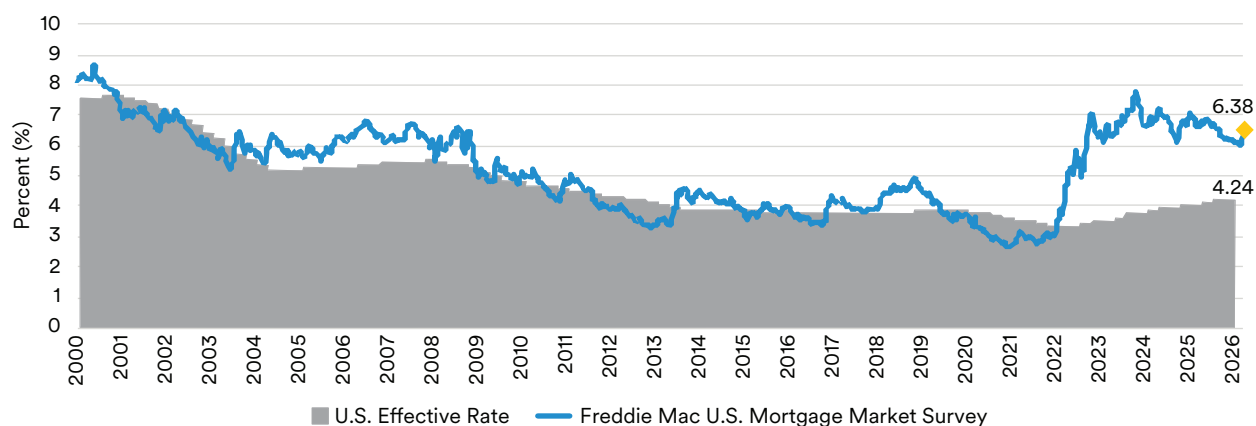
- We favor seasoned 15-year specialized pools, given their attractive convexity characteristics, as well as non-agency closed-end second-liens and single-family rental tranches.
- We continue to avoid specialized pools from recent vintages that are exposed to prepayment risk and non-agency, non-QM tranches with high average-life variability and unattractive call features.
- Most outstanding mortgages remain meaningfully out of the money, which should continue to constrain RMBS prepayments. However, as interest rates decline, certain more recent vintages may experience faster prepayment activity. Elevated singlefamily home prices provide broad support for the rental market and residential mortgage credit, although select geographies have recently experienced home price declines, presenting localized challenges.
- Speculation around the potential privatization of Fannie Mae and Freddie Mac will continue to be topical. Maintaining the ultimate government guarantee of agency RMBS securities will be necessary to carry out any privatization without seriously disrupting the mortgage market. However, politics and the approaching midterm elections create headwinds for any privatization initiatives. We also expect the GSEs to continue growing their MBS portfolios, which should support spreads and modestly reduce mortgage rates.
- The Fed’s MBS portfolio is expected to continue declining as mortgage paydowns are reinvested into Treasuries. Fannie Mae and Freddie Mac should continue to conduct MBS purchases for their retained portfolios as part of efforts by the Trump administration to lower mortgage rates. The sustained effectiveness of any such purchases in meaningfully influencing primary mortgage rates remains uncertain.
- While President Trump indicated his desire to ban large institutional investors from buying more single-family homes, these SFR companies are a relatively small portion of the highly fragmented single-family home rental market. We do not expect that a ban, if enacted, would have a material impact on our portfolio holdings.

Sector Views

We continue to view spreads on non-agency RMBS as attractive relative to other sectors, though we remain cautious about adding exposure to investor properties due to early signs of worsening credit performance. Most outstanding mortgages remain well out of the money, which should keep RMBS prepayments constrained. Elevated single-family home prices provide broad support for the rental market and residential mortgage credit, although select geographies, including Florida, have recently experienced home price declines, a trend we continue to monitor across broader markets.

Outstanding Mortgage Average Rate vs. Current Rate

(as of March 31, 2026)



Source: Bloomberg L.P.

Paydowns in the Fed's MBS portfolio increased to \$13.7 billion in March from \$13.3 billion in February but were lower than January's \$15.3 billion. Given the composition of the Fed's portfolio, we expect prepayments in the Fed's portfolio to remain in this range for the foreseeable future. Aggregate prepayments for 30-year conventionals increased by 21%–22% in March, driven by positive housing seasonals, a three-day higher day count, and a 5 bp decrease in mortgage rates. In Ginnie Mae securities, aggregate prepayments increased by 15%–23% and post-peak prepayments were higher for 5.0% and 5.5% coupon mortgages compared to February. We expect prepayments to eventually trend higher, as recently originated collateral responds to Fed interest rate cuts when they resume later in the year.

Late last year, President Trump publicly expressed an interest in addressing housing affordability and highlighted the role of institutional single-family rental (SFR) investors, including the potential limitation of future acquisitions by larger market participants. Currently, there are too few details to accurately forecast the impact of a policy shift. Our research team continues to view SFR as a sector of low leverage in the securitized products space, with leverage points of typically 60%–70% loan to value (LTV) highlighting the significant value in the transactions. SFR operators have become significant new home buyers/builders through their build-to-rent programs, and it is unclear if this type of soft acquisition would be banned since this model is supportive of home values as well as the builder community. Importantly, large institutional SFR owners represent a relatively small share of the highly fragmented single-family rental market, with owners of more than 1,000 homes accounting for approximately 3.3% of total supply. In our view, housing affordability challenges are primarily driven by structural supply constraints, and restrictions on additional SFR acquisitions are, therefore, unlikely to materially reduce home prices.

Privatization of GSEs also continues to be a topic of market speculation. While it does not seem to be a primary focus for the Trump administration, it is a subject that has been brought up on multiple occasions, including during President Trump's first term. To recap, in response to the Global Financial Crisis, the U.S. Treasury placed Fannie Mae and Freddie Mac into conservatorship in September 2008. This action was intended to stabilize the mortgage market and restore confidence in the GSEs. There is a draft bill that calls for the U.S. Treasury Department to relinquish its senior preferred equity stake in the GSEs, exercise its warrants on the common stock, sell off that equity and then release the GSEs from conservatorship within two years. Fitch currently rates GSE debt AA+, the same credit rating as the U.S. government due to the implicit government guarantee of the GSEs. Fitch noted that "ending GSE conservatorship would have a direct negative rating effect on GSEs, which in turn would have an adverse impact on a substantial number of affordable housing debt ratings that have

direct linkages to Fannie Mae and Freddie Mac, based on guarantees provided by these GSEs.” In our view, privatization of the GSEs continues to be unlikely in the near term, as the administration is likely to continue to prioritize other, more pressing matters, such as the conflict in the Middle East, immigration reform and tariff policy.

In the first quarter, President Trump directed Fannie Mae and Freddie Mac to purchase \$200 billion in mortgage bonds, in a move aimed to improve affordability and bring down housing costs. Notably, Fannie Mae and Freddie Mac had already been increasing their MBS holdings toward the end of 2025 through their retained portfolios. Both institutions currently publish month-over-month portfolio activity, and we expect this reporting to remain transparent as the initiative progresses. In 2025, Freddie Mac’s and Fannie Mae’s retained portfolios increased by approximately 20% and 17%, respectively, representing nearly \$40 billion of mortgage market takeout. Over the past 12 months, the agencies have been net purchasers of roughly \$50–60 billion in mortgages, a trend that is expected to continue and provide support to both the mortgage market and the mortgage basis. We continue to monitor GSE activity closely, as this technical can impact valuations.

Portfolio Strategy

Over the first quarter, we increased our RMBS exposure in most of our strategies. We opportunistically added exposure in agency-specified pools whose superior liquidity profile outweighs the spread advantage found in non-agencies. We believe that maximizing portfolio liquidity is paramount for the near term. As the geopolitical landscape and its impact on valuations becomes clearer, we may selectively increase our exposure to non-agency second-lien deals and SFR tranches. We will maintain our preference for deals collateralized by full-documentation loans to high FICO borrowers at modest LTV ratios. We continue to avoid non-agency deals with significant exposure to investor properties due to early signs of deteriorating credit performance in that subsector. Over the quarter, we participated in three new primary deals, one of them being a AAA-rated, 2.63-year WAL, closed-end second-lien tranche, which priced at 120 bps over Treasuries.

We expect prepayments to remain relatively low for most vintages as the vast majority of mortgage collateral remains outside of the refinancing window. While a weakening economy is a negative headwind for residential real estate performance, we believe our portfolio holdings of senior non-agency tranches are well-protected and do not anticipate any meaningful credit deterioration. That said, we remain mindful of spread volatility and the potential for liquidity challenges in non-agency tranches. Going forward, we expect to maintain our current RMBS weightings across our strategies.

Performance

Our RMBS tranches showed positive excess returns across strategies after adjusting for their duration and yield curve positioning in the first quarter. Non-agency CMOs continued to be the largest contributor to our outperformance.

Municipal Themes

- Rising oil and natural gas costs are increasing operational and financial pressures across various municipal sectors. Most issuers have tools to manage these challenges, so while short-term expense pressures may arise, we believe the overall impact is generally manageable.
- We favor defense-oriented and oil-producing regions that will benefit from increased federal spending and higher commodity prices, while monitoring high energy consumption areas and regions that face greater downside risk.
- Sustained inflation or slower economic growth could weaken sales and income tax revenues, pressuring certain dedicated tax bonds and fiscally constrained issuers. Overall municipal credit impacts will depend on the scale and duration of the Middle East conflict, with a contained scenario limiting disruption and a prolonged conflict creating both risks and opportunities.
- Hospitals continue to face rising labor, drug and supply costs, placing pressure on operating margins. We favor larger, diversified systems that are returning to pre-pandemic patient flows and margins, while strategically investing capital to enhance capacity, broaden service offerings and strengthen market presence.

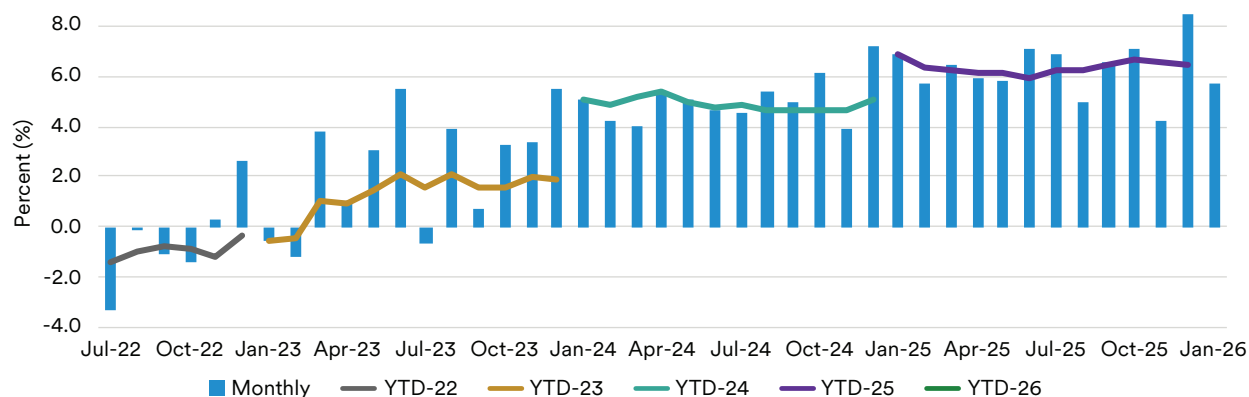
Sector Views

Elevated energy prices driven by geopolitical tensions are creating a mixed but manageable backdrop for municipal credit. Rising oil and natural gas prices are increasing expenses for public power utilities, though most can recover these costs through pass-through mechanisms, hedging and liquidity management. These higher fuel costs also ripple through transportation, where historically the sector has shown resilience during price spikes, with modest traffic impacts and limited credit disruption supported by strong debt service coverage. Airports may experience some softness in air travel as elevated fuel costs push ticket prices higher, particularly impacting price-conscious travelers. However, airports retain flexibility to adjust fees, manage expenses and rely on diversified revenue streams. Large hub airports are generally better insulated than smaller regional facilities, though higher jet fuel costs and potential disruptions to international air traffic could also pressure major gateways.

Hospital finances face a mix of pressures and opportunities that could produce varied credit performance across issuers. Kaufmann Hall's latest report showed the median operating margin in January 2026 at 5.7%, down from 6.5% in December 2025, as net operating revenue per day rose 3%, year over year, while expenses increased 5%. Rising labor, drug and supply costs drove much of the margin decline, and volumes weakened, potentially due to holiday-related delays in elective procedures. Looking ahead, longer-term revenue headwinds, including upcoming reductions in Medicaid provider tax rates, along with tighter eligibility requirements and work mandates, give hospitals time to realign cost structures, enhance efficiency and prepare for reduced reimbursement. Larger, diversified systems with strong market share positions are already returning to pre-pandemic patient flows and margins while strategically investing capital to enhance capacity, broadening service offerings and strengthening market presence. These systems are expanding ambulatory sites to bring care closer to patients, partnering with physician groups to drive patient flow, improving patient portals for easier access and scheduling, along with leveraging AI to automate reporting and enhance clinical outcomes. Smaller or rural hospitals with less scale and flexibility remain more vulnerable, underscoring the importance of operational efficiency and proactive cost management in sustaining credit resilience.

Hospital Operating Margin Index

(as of March 31, 2026)



Note: Calendar YTD. Figures are medians. Reflects any changes to historical data by the source.

Source: Kaufman, Hall & Associates, LLC

Broader economic spillovers pose additional risks. If energy-driven inflation persists or growth slows, sales and income tax revenues could soften, pressuring certain dedicated tax bonds and fiscally constrained issuers. Regional impacts are likely to diverge. Defense-oriented regions with military installations, shipbuilding capacity, aerospace manufacturing and defense contractors along the East Coast, the South and parts of the West Coast are positioned to benefit from increased federal spending, supporting employment, income and tax revenues. Oil-producing regions may also gain from higher commodity prices through increased production and tax collections. In contrast, regions with high energy consumption and areas facing elevated inflation face greater downside risk. Ultimately, credit outcomes will depend on the scale and duration of the conflict, with a contained scenario limiting disruption and a prolonged conflict heightening both risks and sector-specific opportunities.

Portfolio Strategy

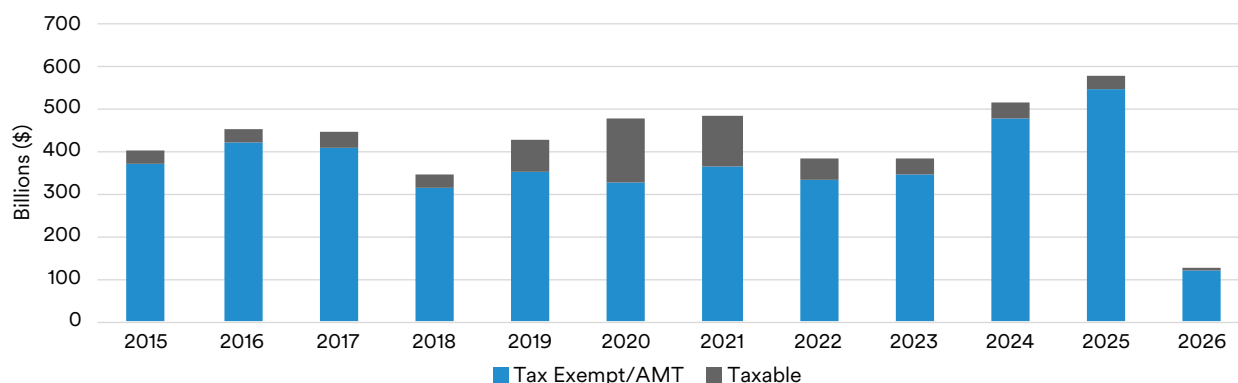
During the quarter, we concentrated our purchases in select positions within the Airport, Healthcare and Higher Education sectors. We continued to sell shorter-dated holdings. Specifically, we reduced exposure to shorter-duration bonds in favor of adding either longer-dated taxable municipal bonds or in other spread sectors where we invest. From a portfolio positioning standpoint, sector exposure was reduced in our Cash Plus and 1-5 year strategies and maintained in our Enhanced Cash and 1-3 year strategies. We continue to view taxable municipals as a high-quality, defensive sector. Our approach remains disciplined and highly selective, considering rich valuations and an evolving macroeconomic and geopolitical landscape.

Performance

Given the backdrop of limited new issuance in the taxable municipal market with first-quarter supply declining 13%, year over year, front-end credit spreads tightened, resulting in positive excess returns in the sector. The ICE BofA 1-5 Year U.S. Taxable Municipal Securities Index generated a total return of 0.69%, outperforming the ICE BofA 1-5 Year U.S. Treasury Index, which returned 0.19%. The OAS on the taxable municipal index tightened by 5 bps, ending the quarter at 28 bps. Within portfolios, taxable municipal holdings were neutral relative to their impact on performance in our shorter-duration strategies and added positive performance in our 1-3 and 1-5 year strategies. On an excess return basis, Airport, Higher Education and Local Obligation holdings were the primary drivers of sector outperformance.

Taxable Municipal Issuance

(as of March 31, 2026)



Source: Bank of America

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