Monthly Commentary

EAGLE Asset Management

Strategic Income Portfolio

May 2024

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Market Overview

The S&P 500 Index continued to trade higher, rising approximately 5% during May. Year to date the market is up 11.6% through the first five months of 2024. The first quarter presented a familiar refrain to most of 2023, with growth outperforming value and large-cap stocks outperforming small-cap stocks. Investors continued to debate the U.S. Federal Reserve's (Fed's) monetary policy, with interest rate cut expectations getting pushed further out. Price action has been volatile so far this quarter, against the backdrop of 10-year U.S. Treasury yields moving 40 basis points higher. Interestingly, energy was the only sector in the S&P 500 Index to perform negatively, while information technology was up more than 10% during the month.

The bond market, as measured by the Bloomberg U.S. Aggregate Bond Index, gained 1.70% in May, only the second time this year the index posted positive monthly performance. The yield on the 10-year U.S. Treasury note fell 18 basis points (bps) to 4.50% from 4.68% at the end of April. The fall in interest rates was largely driven by encouraging inflation-related data, which resulted in a dovish repricing of interest rate-cut scenarios.

Investment-grade corporate bonds, as measured by the Bloomberg U.S. Corporate Bond Index, gained by 1.87%. Again, positive monthly performance was driven by the fall in rates, coupled with marginal tightening of the average corporate credit spread. Corporate credit spreads continued to grind tighter as they compressed 2 basis points from 0.87% to 0.85%.

Corporate bonds outperformed all other major taxable fixed-income sectors on a total return basis and outperformed U.S. Treasuries on a duration-adjusted basis. Government-related securities and securitized products (asset-backed, mortgage-backed, and commercial mortgage-backed securities) posted positive total returns during the month and both outperformed relative to Treasuries.

Negative performance made ratios much more attractive this month. Ratios hovered near their highest point in 2024, though they were still relatively expensive compared with their 5-year average. Municipal AAA to Treasury yield ratios cheapened across the curve, with the 2-year, 5-year, 10-year, and 30-year ratios widening by 3 percentage points (pp), 9 pp, 9 pp, and 2 pp, respectively, ending the month at 69%, 70%, 69%, and 86%, respectively.

Portfolio Allocation Review

At the May meeting, the Eagle Strategic Income Portfolio team decided to maintain the portfolio allocation of 60% equities, 33% fixed income, and 7% cash and cash equivalents (2% cash, 5% T-bills). We continue to believe that equity markets have room to run, warranting an above-benchmark allocation despite the attractiveness of fixed income given the level of yields available in the market. This belief has paid off year to date and the team perceives continued strength given positive momentum in company fundamentals. The allocation to T-bills remains important to the yield-generating capabilities of the portfolio while also

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Asset Allocation Changes

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	Allocation as of 4/30/24	Allocation as of 5/31/24	Change
Equity	60.0%	60.0%	0.0%
Fixed income	33.0%	33.0%	0.0%
Cash and cash equivalents	7.0%	7.0%*	0.0%

* 2% cash, 5% cash equivalents

having low correlation with the equity and fixed income portions of the portfolio given the T-bills' limited duration and high yield, which together help to generate absolute performance with limited volatility.

Equity Performance Review[1,3]

Within the equity sleeve of the Strategic Income Portfolio, stock selection in utilities, financials, and consumer discretionary contributed to relative performance. Stock selection in information technology, healthcare, and consumer staples detracted from performance. Below-median dividend payers in the S&P 500 Index strongly outperformed peers above the median, which created a 556-basis point headwind for the strategy.

Taxable Performance Review[1,3]

In the taxable portions of our Strategic Income Portfolios, our corporate bond sleeve benefited from positive security selection attribution and broader asset exposure to corporate bonds — the best-performing asset within the Bloomberg Intermediate U.S. Government/Credit Index during May. The portfolios contributed to absolute performance and the underweight to fixed income in preference of equities continued to be a tailwind to both absolute and relative performance.

Municipal Performance Review[1,3]

Municipal bonds were negative in May as heavy new issue supply and inflation concerns challenged the fixed income sector. The Bloomberg U.S. Municipal Bond Index was down -0.29%, bringing year-to-date total return to -1.91%. Municipals underperformed the Bloomberg U.S. Treasury Index, which ended the month up 1.46%, by 175 basis points. Total return performance was mixed across the curve, with the short and long ends outperforming the belly of the curve. The 1-year and 22+ year indices were up 0.24% and 0.46%, respectively, while the 10-year index was down -1.18%. While the May selloff was not anticipated, it did bring municipal bond prices down to more desirable levels. We remain confident of a summer rally as we head into June – a seasonally high redemption month, which should help absorb new issue supply. Given the excess of new issuance volume this year, attractive tax-equivalent yields, and continued strong demand, we continue to have a constructive view on the municipal bond market.

Outlook

Those hoping for a soft landing helped fuel the recent rally within the equity and fixed income markets as economic data was softer on the margin despite coming in relatively mixed. We do not believe, however, that a single month of downward surprises to economic data will create viable longer-term tailwinds, and we remain under the impression the Fed will have to stick to its "higher for longer" agenda.

Despite broader economic data coming in mixed, evidence of softening brought on by tighter financial conditions still readily exists. On the financial front, the Federal Deposit Insurance Corporation (FDIC's) quarterly banking profile report for the first quarter of 2024 suggests loan growth slowed at its lowest rate since the third quarter of 2021, while credit card net charge-offs were at the highest rate in over a decade. Investors were presented with relatively mixed data from the Institute for Supply Management (ISM) and the Purchasing Managers' Index (PMI) on manufacturing and services. May's ISM manufacturing report showed economic activity contracted for the second consecutive month. Manufacturing PMI declined at a faster pace sequentially, while demand softened as the new orders index also dropped further into contractionary levels. In

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contrast, services data returned to expansionary territory in May, driven by surging business activity. Though the Services ISM® Report on Business® fell slightly, it ultimately still confirmed lingering pricing pressures.

Expectations for the commencement of rate cuts continue to whipsaw on any economic data surprise. One should discount any enthusiasm associated with this one Consumer Price Index (CPI) report, which despite being one of the more benign readings year to date, showed signs of lingering inflationary pressures. Be prepared for mixed inflation readings over the next handful of months as one-year base effects bounce between easing and steepening every month through September. After that, however, we expect inflation in the fourth quarter of this year to reaccelerate. Owners' equivalent of rent, and shelter more broadly, is set to disinflate at a more moderate pace than what the market currently anticipates, while core services excluding shelter CPI also continues to move higher. The main takeaway is that cuts this year will likely be predicated on what happens in the labor market – not on inflation steadily moving toward the Fed's 2% target.

Mixed signals continue to develop within the labor market, a dynamic we've touched on in past commentary. May's nonfarm payroll numbers came in much stronger than consensus estimates, while in the household employment survey the number of people who were employed declined by 408,000. The household survey put upward pressure on the unemployment rate, which increased to 4.0% in May, the first time that it hit that number since January 2022. Recent commentary from the U.S. Bureau of Labor Statistics suggests the strength in the labor market is not as robust as data would imply and downward revisions are necessary. Any negative revisions would effectively downgrade the health of the labor market from "really strong" to "strong." Regardless, expect noise in the interim created by employment dynamics under the surface (e.g., part-time versus full-time workers, as well as native versus foreign-born workers). Also expect future labor market data to continue to drive rate volatility.

We anticipate a market that will trend relatively sideways in the months ahead, but ultimately remain volatile as macroeconomic data and Fed rhetoric remain in focus. Recent exuberance within meme stocks and other riskier bets (e.g., cryptocurrencies) have helped show that animal spirits are elevated. There is a good chance that momentum will be sustained as investors with cash on the sidelines experience FOMO (fear of missing out) and begin to put money to work to chase returns – that is, until another shock to economic data further pushes out the timeline of rate cuts and/or investors pare back risk exposure as uncertainties surrounding the U.S. election and other geopolitical conflicts persist.

We expect a continued high inverse correlation between longer-term U.S. Treasury rates and fed funds futures probabilities for cuts (i.e., a higher probability of cuts = rates move lower, and vice versa). The recent rally in the rates market seems a bit overdone, as expectations for cuts in the short term are once again overzealous. We believe any reset higher should be treated as an opportunity to allocate sidelined cash to assets that demonstrate historically high and attractive all-in yield levels.

1. References to specific securities are intended to illustrate the types of securities Eagle may hold in this portfolio. They are not intended as representations of specific investment recommendations that would have been profitable to an investor. Past performance is not a guarantee of future results. Opinions and estimates offered constitute Eagle's judgment and are subject to change without notice as are statements of financial-market trends, which are based on current market conditions. Investing involves risk, including the possible loss of principal.

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There are risks associated with dividend investing, including that dividend-issuing companies may choose not to pay a dividend, may not have the ability to pay, or the dividend may be less than what is anticipated. Dividend-issuing companies are subject to interest-rate risk, and high dividends can sometimes signal that a company is in distress.

3. Source: Bloomberg, InvestorTools Perform

The product described is a separately managed account with fixed-income components and is subject to interest-rate risk, inflation-rate risk, and may experience a loss of principal. Other products may be more appropriate, depending on your investment needs. As with all investing, there is the risk that an unexpected change in the market

or within the company itself may have an adverse effect. As with all investments, there is the risk of the loss of capital. High-yield securities may be subject to greater risk than pure fixed-income instruments.

Equity Income investing is based upon the identification of companies that possess both moderate growth rates as well as higher-than-average and consistent dividend distributions. There are risks associated with dividend investing, including that dividend-issuing companies may choose not to pay a dividend, may not have the ability to pay, or the dividend may be less than what is anticipated. Dividend-issuing companies are subject to interest rate risk, and high dividends can sometimes signal that a company is in distress. Historically, dividend yields have been relatively constant and therefore have created a cushion for investors when stock prices have declined. However, there is the risk that a company will not achieve its expected earnings results, or that an unexpected change in the market or within the company will occur, both of which may adversely affect investment results. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.

Asset-backed securities (ABS) and mortgage-backed securities (MBS) are created by pooling loans from a variety of sources and issuing bonds that are backed by these loans. Creditworthiness stems from the credit quality of the underlying loans, as opposed to corporate bonds in which creditworthiness is derived from the earning power of the issuing company. The primary risk of these securities is interest-rate risk. Rising interest rates might cause loan principal prepayments to slow, resulting in less available principal to invest at prevailing higher rates. Conversely, rate decreases might accelerate prepayments, leaving more dollars to invest at lower rates.

Definitions

The AAA Municipal to Treasury yield ratio is a comparison of the yield of AAA municipal bonds to U.S. Treasuries. It aims to ascertain whether AAA municipal bonds are an attractive buy in comparison.

An all-in yield refers to a yield, whether in the form of an interest rate, margin, original issue discount (OID), upfront fees, Eurodollar Rate floor and/or Base Rate floor, or otherwise, that does not include arrangement fees, structuring fees, commitment fees and underwriting fees or other fees not paid generally to all lenders of such Indebtedness.

Animal spirits is a phrase used to describe how human emotion, irrational thinking, and a herd mentality among market participants can drive financial decision-making and investing in uncertain environments and volatile times. British economist John Maynard Keynes coined the phrase in his 1936 book, "The General Theory of Employment, Interest, and Money."

Attribution is a term used to describe factors, circumstances or events that affect the performance or returns of an investment.

Basis points (bps) are measurements used in discussions of interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

The U.S. Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services. The U.S. Bureau of Labor Statistics bases the index on prices of food, clothing, shelter, fuels, transportation, doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living. Prices are collected each month in 75 urban areas across the country from about 6,000 households and 22,000 retailers.

Core services inflation excluding shelter, sometimes called "super core" inflation, is a version of core inflation that excludes prices for food, energy, and housing. Core inflation includes a measure of housing services, which is what households pay for rent or the equivalent for those who own their homes.

Correlation is a statistic that measures the degree to which two securities or variable move in relation to each other. Inverse correlation, also known as negative correlation, tracks the movement of two variables that tend to move in opposite directions, so that when one rises, the other falls.

Credits are a generic term for fixed-income securities such as corporate bonds, mortgage- or asset-backed securities, municipal bonds, or emerging market bonds.

A credit spread is the difference in yield between a U.S. Treasury bond and another debt security with the same maturity but different credit quality. Also referred to as "bond spreads" or "default spreads," credit spreads are measured in basis points, with a 1% difference in yield equaling a spread of 100 basis points. Credit spreads reflect the risk of the debt security being compared with the Treasury bond, which is considered to be risk-free. Higher quality securities have a lower chance of the issuer defaulting. Lower quality securities have a higher chance of the issuer defaulting.

Credit spread tightening refers to the contraction of credit spreads in response to changes in economic conditions that cause a decline in credit risk.

Disinflation refers to the temporary slowing of the pace of price inflation and describes what happens when the inflation rate is marginally lower over the short term. Disinflation refers only to the rate of change in the rate of inflation. In this, it is distinct from inflation and deflation, which describe the direction of prices.

Dividend payers are the companies that distribute a portion of their profits to shareholders in the form of a dividend.

Duration incorporates a bond's yield, coupon, final maturity and call features into one number, expressed in years, that indicates how price-sensitive a bond or portfolio is to changes in interest rates. Bonds with higher durations carry more risk and have higher price volatility than bonds with lower durations.

The Federal Reserve's inflation target rate is the rate of price increases prefers to see to ensure the economy will remain stable. Generally, the Fed's target rate is 2%, as measured by Personal Consumption Expenditures (PCE) Price Index.

Fed funds futures are financial futures contracts that are based on the federal funds rate. The federal funds rate, known as the fed funds rate, is the target interest rate set by the Federal Open Market Committee of the Federal Reserve. The target is the Fed's suggested rate for commercial banks to borrow and lend their excess reserves to each other overnight.

Growth investing is a stock-buying strategy that focuses on companies expected to grow at an above-average rate compared to their industry or the market.

The household employment survey, officially known as the Current Population Survey (CPS), is designed to measure the labor force status of the civilian noninstitutional population with demographic detail. The national unemployment rate is the best-known statistic produced from the household survey. The survey also provides a measure of employed people, one that includes agricultural workers and the self-employed. A representative sample of U.S. households provides the information for the household survey.

The Institute for Supply Management produces several surveys assessing business conditions and outlooks across a variety of industries. They include the ISM Purchasing Managers' Index (PMI), which measures the prevailing direction of economic trends in the manufacturing sector, and the Services ISM® Report on Business®, which is based on data compiled from purchasing and supply executives and reflects the change, if any, in the current month compared to the previous month in supplier deliveries along with seasonally adjusted business activity, new orders, and employment.

Investment-grade refers to fixed-income securities rated BBB or better by Standard & Poor's or Baa or better by Moody's.

Market capitalization, or market cap, refers to the total dollar market value of a company's outstanding shares of stock.

A meme stock refers to the shares of a company that has attained viral popularity due to heightened social sentiment, typically after being featured or heavily discussed on social media or other online platforms.

A net charge-off a term that describes debt that a lender is unlikely to see repaid.

The owners' equivalent of rent of primary residences (OER) is a component of the Consumer Price Index that helps measure changes in the cost of shelter in the United States. It is based on the answers from consumers who own their homes to the question: "If someone were to rent your home today, how much do you think it would rent for monthly, unfurnished and without utilities?"

The payroll report, officially known as the Employment Situation Summary, is a monthly U.S. Bureau of Labor Statistics (BLS) report tracking nonfarm payroll employment and the national unemployment rate, with data on changes in average hourly earnings, and job trends in public and private sectors of employment. The report is based on surveys of households and employers.

Securitized products, such as asset-backed securities (ABS) and mortgage-backed securities (MBS), are created by pooling loans from a variety of sources and issuing bonds that are backed by these loans. Creditworthiness stems from the credit quality of the underlying loans, as opposed to corporate bonds in which creditworthiness is derived from the earning power of the issuing company. The primary risk of these securities is interest-rate risk. Rising interest rates might cause loan principal prepayments to slow, resulting in less available principal to invest at prevailing higher rates. Conversely, rate decreases might accelerate prepayments, leaving more dollars to invest at lower rates.

A soft landing is a cyclical slowdown in economic growth that avoids a recession.

Tailwind is a term used to describe events or market forces that exert a positive influence on an investment's performance.

Tax-equivalent yield is the interest rate that a taxable bond must pay to provide the same yield as a comparable tax-exempt municipal bond.

Total return, when measuring performance, is the actual rate of return of an investment or a pool of investments over a given period. Total return includes interest, capital gains, dividends, and distributions realized over the specified period. Total return accounts for two categories of return: income including interest paid by fixed-income investments, distributions, or dividends and capital appreciation, representing the change in the market price of an asset.

Underweight describes a portfolio position in an industry sector or some other category that is less than the corresponding weight level in a benchmark portfolio.

Value investing is an investment strategy that involves picking stocks that appear to be trading for less than their intrinsic or book value.

A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity.

Indices

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

The Bloomberg U.S. Aggregate Bond Index is composed of the total U.S. investment-grade bond market. The market-weighted index includes Treasuries, agencies, commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) and investment-grade corporates.

The Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market.

The Bloomberg Intermediate U.S. Government/Credit Index measures the performance of the non-securitized component of the U.S. Aggregate Index with maturities of 1-10 years, including Treasuries, government-related issues, and corporates. It is a subset of the U.S. Aggregate Index.

The Bloomberg Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

The Bloomberg U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index.

The Bloomberg 1-Year Municipal Bond Index is an unmanaged index comprised of investment-grade municipal bonds with maturities of one to two years.

The Bloomberg 10-Year Municipal Bond Index is an unmanaged index comprising investment-grade municipal bonds with maturities of 8 to 12 years.

The Bloomberg 22+ Year Municipal Bond Index is an unmanaged index comprised of investment grade municipal bonds with an average maturity of more than 22 years.

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