Commentary
First Quarter 2025

US Core Plus

Market review

Investors turned their attention from the Federal Reserve to tariffs in the first quarter in anticipation of President Trump's tariff plan. In the meantime, the final reading for fourth-quarter GDP showed the economy grew at a 2.4% annualized pace according to data from the Bureau of Economic Analysis, and inflation eased in February, with the consumer-price index (CPI) climbing 0.2% on a month-over-month basis. The US labor market was resilient in March, adding 228,000 jobs, while the unemployment rate, which is based on a separate survey, edged up to 4.2% in March from 4.1% in February.

The Federal Reserve met in March and opted to leave its benchmark interest rate unchanged at a range between 4.25% and 4.50%. "We do not need to be in a hurry to adjust our policy stance, and we are well-positioned to wait for greater clarity," Fed Chair Jerome Powell said at a news conference after the meeting.

Interest rates declined on the quarter, led by short- and medium-dated tenors, but all benchmark US Treasury yields declined by 20-45 basis points (bps). Generally weaker economic data and uncertainty around trade policy led to expectations of lower policy rates later in the year, with traders forecasting three interest rate cuts in 2025 by quarter end, up from slightly fewer than two at the beginning of the year.

The Bloomberg US Aggregate Index returned +2.78% in the quarter. Positive returns to the index were driven by falling yields, with the index yield to worst declining 31 bps from 4.91% to 4.60%. The index option-adjusted spread increased 1 bp on the quarter, rising from 34 bps to 35 bps, still near its narrowest levels in over three years.

Performance review

During the quarter, the US Core Plus strategy underperformed the Bloomberg US Aggregate Index, net of fees. The strategy benefited from the overweight to credit in the quarter given the additional yield generated by these securities relative to the benchmark. Relative performance also benefited from duration/yield curve positioning while credit spread impacts detracted.

Selection in government securities was the largest contributor to relative performance. Over the quarter, the portfolio held longer-duration securities in governments relative to the benchmark's duration profile for the sector. This positioning positively impacted relative performance given the shift lower in rates over the quarter. Allocations to asset-backed securities and non-agency residential mortgage-backed securities were the largest detractors from relative returns.

Highlights

- Interest rates declined on the quarter with generally weaker economic data and uncertainty around trade policy leading to expectations for lower policy rates later in the year.
- The strategy underperformed the benchmark, net of fees, over the quarter, with credit spread-related impacts detracting.
- Market volatility is anticipated to continue given heightened uncertainty around the Trump administration's policy objectives and potential Federal Reserve action.

Market Outlook

After the end of the first quarter, President Trump unveiled a slew of tariff rates against the country's trade partners that were significantly more aggressive than the market anticipated. The market response has suggested expectations for weaker growth and higher inflation over the next few years, with interest rates moving sharply lower and risk assets declining.

Market volatility is anticipated to continue given heightened uncertainty around the Trump administration's policy objectives and potential Federal Reserve action. We maintain a cautious risk stance and will continue to manage exposure alongside the evolving outlook.

US Core Plus Composite

As of 3/31/25	QTD	YTD	1 yr	3 yr	5 yr	10 yr	Since inception*
Composite - Gross (%)	2.75	2.75	5.55	1.31	2.17	2.64	5.15
Composite - Net (%)	2.67	2.67	5.21	0.99	1.84	2.31	4.82
Benchmark (%)	2.78	2.78	4.88	0.52	-0.40	1.46	2.96

Past performance is not indicative of future results. Returns are presented gross and net of management fees and include the reinvestment of all income. Returns for periods longer than 12 months have been annualized. For comparison purposes, this composite is measured against the Bloomberg US Aggregate Index. *Inception date: 10/1/2008. Results shown represent performance attained while the portfolio manager was affiliated with a different firm during October 1, 2008 to March 21, 2011.

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Effective January 1, 2021 the composite name changed and was previously called Core Plus Fixed Income.

Prior to January 1, 2009, the Barclays Capital Government/ Credit Index was the primary benchmark. The retroactive change was made because the Aggregate Bond Index more accurately reflects the strategy of the composite.

The period from October 1, 2008 to March 21, 2011, the Portfolio Manager was affiliated with a prior firm. Aegon USA Investment Management, LLC acquired the assets and portfolio manager from Transamerica Investment Management, LLC. The performance record during this time is linked and has met the GIPS portability requirements. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm.

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