

US Short Duration

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 ICE BofA US 1-3 Year Government & Corporate Index returned +1.61% in the quarter. Declining interest rates contributed to index performance while index spreads were unchanged. The index yield to worst declined during the quarter from 4.43% to 4.12%. Index option-adjusted spreads for the corporate component of the index finished the quarter at 61 bps, 5 bps wider than start-of-the-quarter levels.

Performance review

During the quarter, the US Short Duration strategy outperformed the BofA US Corporate and Government 1-3 Year Index, gross and 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. The portfolio's modest duration overweight compared to the benchmark also contributed to relative returns while credit spread-related impacts detracted.

The largest contributor to relative returns was the ex-index allocation to commercial mortgage-backed securities. Selection within investment grade corporate credit and positioning within government securities and interest rate-related derivatives also contributed. Modest detractors included the ex-index allocation to asset-backed securities and the underweight allocation to emerging markets debt.

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 outperformed the benchmark, gross and net of fees, over the quarter, with the overweight to credit and duration contributing to returns.
- Market volatility is anticipated to continue given heightened uncertainty around the Trump administration's policy objectives and potential Federal Reserve action.

In corporates, the largest contributors to relative returns were an overweight allocation not banking and selection within consumer non-cyclical and REITs. Detractors included selection in energy, electric, consumer cyclical and brokerage/asset managers/exchanges.

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 Short Duration Composite

As of 3/31/25	QTD	YTD	1 yr	3 yr	5 yr	10 yr	Since inception*
Composite - Gross (%)	1.82	1.82	6.30	4.16	4.03	2.92	3.15
Composite - Net (%)	1.76	1.76	6.07	3.93	3.80	2.69	2.91
Benchmark (%)	1.61	1.61	5.65	3.12	1.59	1.74	1.60

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 period longer than 12 months have been annualized. For comparison purposes, this composite is measured against the ICE BofA US Corporate & Government 1-3 Years Index. *Inception date 4/1/2011.

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