QUARTERLY COMMENTARY

Penn Mutual Asset Management

QUARTER IN REVIEW AND HIGHLIGHTS

Investor enthusiasm regarding artificial intelligence (AI) continues to fuel strong equity market gains with the S&P 500 Index notching 22 record high closes during the first quarter. Credit markets also rallied during the quarter as the record-setting volume of corporate bond issuance was easily absorbed by the market.

- **U.S. economic growth continues to show surprising resilience in light of the sharp rise in interest rates and a prolonged inversion of the yield curve. Fourth quarter gross domestic product (GDP) came in at 3.4%, following a 4.9% print in the third quarter…** Labor market conditions in the U.S. remain strong with the monthly job gains above the 200,000 mark in each of the previous three months.

- **Treasury yields moved higher during the first quarter as bond investors dialed back expectations for the number of Federal Reserve (Fed) interest rate cuts this year…** The duration of the Treasury yield curve inversion reached the longest on record during March but the U.S. economy continues to exhibit strength, defying the bond market's historical recession indicator.

- **Credit markets also benefited from the prospect of more accommodative Fed policy with investment-grade (IG) corporate spreads closing the first quarter near the tightest levels since the Global Financial Crisis…** IG corporate credit spreads tightened by nine basis points (bps) during the quarter, outperforming duration-matched Treasuries by 88 bps while the high-yield market registered a total return of 1.47%.

Our investment capabilities incorporate a unified investment philosophy and process across the risk spectrum

Enhanced Cash	Short Duration Bond	Strategic Income	Short Duration High Yield	Core Plus Bond	High Yield Bond	Balanced Income

SHORT DURATION BOND STRATEGY

The Short Duration Bond Strategy outperformed its benchmark, the Bloomberg U.S. Government/Credit 1-3 Year Bond Index, during the first quarter. Treasury rates at the front end of the yield curve moved materially higher during the period as bond investors scaled back expectations for Fed rate cuts this year. The 2-year Treasury note yield rose by 37 bps during the quarter, closing March at 4.62%.

The duration of the Treasury yield curve inversion reached the longest on record during March; however, the U.S. economy continues to show surprising strength, defying the bond market's historical recession indicator. The favorable inflation trends reversed course during the first quarter but Fed Chair Jerome Powell suggested the uptick was a "bump" in the road toward the Fed's 2% target.

Active duration management and credit sector spread tightening contributed to the outperformance during the quarter. Overweights by sector include investment-grade corporate credit, high-quality collateralized loan obligations (CLOs) and multi-family property commercial mortgage-backed securities (CMBS).

STRATEGIC INCOME STRATEGY

The Strategic Income Strategy outperformed its benchmark, ICE BofA 3-Month U.S. Treasury Bill Index, during the first quarter. The Fed continues to forecast three interest rate cuts this year but the recent uptick in inflation and tight labor market conditions may present obstacles to easier monetary policy. Equity markets continue to exhibit strength with the potential benefits of artificial intelligence (AI) outweighing the headwinds tied to higher interest rates.

Credit markets also posted strong performance maintaining the positive momentum at the end of 2023. Investment-grade corporate credit spreads tightened by eight bps, outperforming duration-matched Treasuries by 89 bps while the high-yield market registered a total return of 1.47%.

Strategy overweights include high-quality CLOs, multi-family property CMBS and student loan asset-backed securities (ABS). We are remaining opportunistic with duration and yield curve management as the bond market adjusts to the rapidly changing expectations for monetary policy.

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ABOUT US

Penn Mutual Asset Management (PMAM) is an insitutional asset management firm located just outside of Philadelphia, PA. Since 1989, the firm has been dedicated to creating value through a prudent, thoughtful and rigorous investment decision-making process. With over $35 billion in assets under management, PMAM is committed to offering fixed income investment solutions and client-focused services.

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SHORT DURATION HIGH YIELD STRATEGY

The Short Duration High Yield Strategy performed in line with its benchmark, the ICE BofA 0-2 Year Duration BB-B U.S. High Yield Constrained Index, during the first quarter.

Overall, high yield credit spreads were firm during the first quarter as equity markets continued their ascent higher and volatility was muted. Spreads ended the quarter close to 15-year tights with solid growth outlook and benign default projections for 2024-25. The front end of the high-yield market was particularly strong, supported by tender/call activity as issuers looked to term out maturities. New issue supply was robust and met with strong demand. 2-year treasury rates rose by 37 bps during the period as it became apparent that near-term Fed rate cuts were being pushed back to later in the year; however, the market took the higher rates in stride.

The Strategy continued to add risk selectively in response to the solid macroeconomic backdrop. A modest amount of duration was added with a few 2029 bonds as higher Treasury rates offered a more attractive entry point. The Strategy ended the quarter with a portfolio duration of just under two years, approximately three-fourths of year longer than the benchmark. Average portfolio credit quality was in the BB category while the average position size was approximately 1%.

CORE PLUS BOND STRATEGY

The Core Plus Bond Strategy outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, during the first quarter.

Easing financial conditions and significant wealth gains since last November continue to support risk market valuations. Investment-grade and high-yield corporate credit spreads tightened as record volumes of issuance were easily absorbed by investors taking advantage of attractive all-in yield levels.

New purchase activity during the quarter remained focused on securitized spread sectors including agency guaranteed residential mortgage-backed securities (RMBS) and high-quality CLOs. We continue to reduce corporate bond holdings to source more attractive relative value in the securitized credit markets. Strategy overweights by sector include Treasury Inflation-Protected Securities (TIPS), RMBS and CLOs.

HIGH YIELD BOND STRATEGY

The High Yield Bond Strategy outperformed its benchmark, the Bloomberg U.S. High Yield BA/B 2% Issuer Capped Index, during the first quarter.

High yield credit spreads were firm during the first quarter as equity markets continued their ascent higher, and volatility was muted overall. Spreads ended the quarter close to 15-year tights with solid growth outlook and benign default projections for 2024-25. 10-year Treasury rates rose 33 bps during the period as it became apparent that near-term Fed rate cuts were being pushed back to later in the year; however, the market took the higher rates in stride. Down in quality and less rate-sensitive corporate and credit outperformed, along with leveraged loans. New issue supply was robust and met with strong demand.

The Strategy continued to add risk selectively in response to the solid macroeconomic backdrop. Energy remains an overweight sector while the Fund held approximately 7% in floating-rate assets.

BALANCED INCOME STRATEGY

The Balanced Income Strategy underperformed its benchmark, the Morningstar Moderately Conservative Target Risk Total Return USD Index, during the first quarter. Both stocks and bonds experienced gains over this period, with stocks sustaining a magnificent rally which started in late 2023. The Strategy's equity portfolio underperformed on a relative basis while the portfolio's fixed-income holdings finished in line with benchmark performance.

The first quarter of 2024 was an extension of the strong rally that closed 2023 for both stocks and bonds. After hitting lows in terms of bond prices (and high yields) in October, both bonds and then stocks posted a historic rally that led to significant gains for most asset classes. The key positive performing factors were growth and momentum driven. Dividend yield and small-cap stocks lagged. Therefore, the all-cap positioning in the equity portfolio did not help to add value this quarter, resulting in a lag versus the benchmark. On the fixed-income side, the Strategy's higher quality credit positioning resulted in a relatively minor lag in performance, but we believe this positioning should provide downside protection if the credit markets stumble under the weight of higher refinancing rates and/or if the economy slows.

In terms of overall allocation (stock, bond and cash weightings), the quarter-ending allocation changed modestly from the end of the fourth quarter, with 39.6% in common stock, 59.4% in fixed income and 1.0% in cash. Despite the strength in broad equity and credit indexes, we are seeing some nice value in smaller companies and corporate credits with cash-rich balance sheets. We believe these areas have the potential to add value to the strategy over the next few years especially relative to the risks we currently see in the broader markets.

This positioning could lag if growth and momentum factors continue to outperform. Over the longer-term, we remain confident that our positioning and balance sheet focus could provide benefits if interest rates stay elevated. We will continue to monitor our investable universe for any opportunity to add value. We believe this focus on individual security selection will help to decrease the portfolio's exposure to market beta while allowing for positive alpha generation.

OUTLOOK

Fed policymakers are likely to continue over-promising but under-delivering on the number of interest rate cuts this year as easing financial conditions and rapidly rising stock prices keep inflation pressures elevated.

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INDEX DEFINITIONS:

Bloomberg U.S. Aggregate Bond Index – An index that is a broad-based flagship benchmark that measures the investment grade, US dollar denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg U.S. Government/Credit 1-3 year Bond Index- The Bloomberg U.S. Government/Credit Bond Index is a broad-based benchmark that measures the non-securitized component of the US Aggregate Index. It includes investment grade, US dollar-denominated, fixed-rate Treasuries, government-related and corporate securities.

Bloomberg U.S. High Yield Ba/B 2% Issuer Capped Index – This index measures the performance of fixed-rate dollar-denominated debt securities with rating Ba/B. The securities instruments are non-investment grade. There is a limit of 2% maximum exposure to any one issuer.

ICE BofA 0-2 Year Duration BB-B U.S. High Yield Constrained Index – This index measures the performance of ICE BofAML 0-2 years Duration BB-B U.S. High Yield Bond. It's all securities in the ICE BofAML U.S. High Yield Index rated BB1 through B3 and with a duration-to-worst less than two years, but caps issuer exposure at 2%.

ICE BofA 3-Month U.S. Treasury Bill Index – This index measures the performance of a single issue of an outstanding treasury bill which matures closest to, but not beyond, three months from the rebalancing date. The issue is purchased at the beginning of the month and held for a full month; at the end of the month that issue is sold and rolled into a newly selected issue.

Morningstar Moderately Conservative Target Risk Total Return USD Index – The Morningstar Target Risk Index family is designed to meet the needs of investors who would like to maintain a target level of equity exposure through a portfolio diversified across equities, bonds and inflation-hedged instruments. The Morningstar Moderately Conservative Target Risk Index seeks approximately 40% exposure to global equity markets.

DISCLOSURES:

The views expressed in this material are the views of PMAM through the quarter ending March 31, 2024 and are subject to change based on market and other conditions without further notice.

This material contains certain views that may be deemed forward-looking statements. The inclusion of projections or forecasts should not be regarded as an indication that PMAM considers the forecasts to be reliable predictors of future events. Any forecasts contained in this material are based on various estimates and assumptions, and there can be no assurance that such estimates or assumptions will prove accurate. Actual results may differ significantly.

Past performance is not indicative of future results. The views expressed do not constitute investment advice and should not be construed as a recommendation to purchase or sell securities. All information has been obtained from sources believed to be reliable, but accuracy is not guaranteed. There is no representation or warranty as to the accuracy of the information and PMAM shall have no liability for decisions based upon such information.

Offering a wide range of tailored investment strategies and solutions to help meet the investment goals of our clients, while focusing on our mission to provide exceptional experience and service.

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