Dana Fixed Income Strategies

Quarterly Review

As of March 31, 2026

Markets in Transition: From Disinflation to Energy-Driven Uncertainty

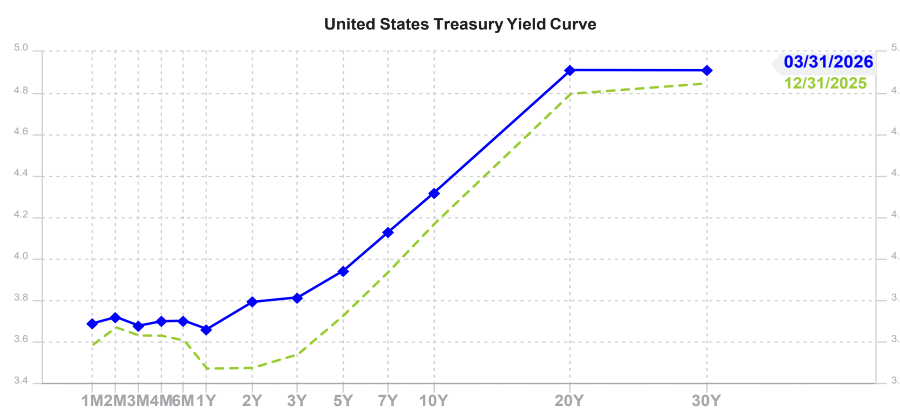
The year began with a continuation of economic momentum, as GDP growth was expected to exceed 2.5% and inflation was projected to gradually move toward the Federal Reserve's 2% target by the end of 2026. During the first two months of the quarter, economic data broadly aligned with market expectations established at the end of the prior year. At its January meeting, the Federal Reserve left interest rates unchanged, citing continued economic expansion and early signs of stabilization in the labor market as justification for maintaining a pause in policy adjustments. The Consumer Price Index (CPI) moderated, declining from 2.7% at the beginning of the year to 2.4% by the end of February. At the same time, employment growth showed signs of slowing, with average job creation over the previous twelve months falling to approximately 24,000 jobs per month. As the labor market cooled, and disinflation continued, market participants began pricing in two interest rate cuts from the Federal Open Market Committee (FOMC) over the remainder of the year in anticipation of easing financial conditions. In response, the yield curve rallied, with interest rates declining across maturities from two-year to thirty-year U.S. Treasuries.

Market conditions shifted abruptly in March as geopolitical tensions escalated following the outbreak of war involving the United States, Israel, and Iran. The conflict introduced a new layer of uncertainty for investors, primarily through its impact on global energy markets. Oil prices rose sharply amid concerns about potential supply disruptions in the Middle East, increasing the risk of renewed inflationary pressures. As a result, the bond market experienced heightened volatility, with Treasury yields reversing their earlier rally and ending the quarter higher across the yield curve than at the start of 2026.

The evolving macroeconomic backdrop points to continued moderate U.S. growth near 2%, though inflation risks could move closer to 4% should elevated energy prices persist. An energy supply shock also complicates the Federal Reserve's policy outlook. At the March meeting, Chairman Powell noted that the unemployment rate has remained relatively stable and suggested that recent private-sector job creation may be near the breakeven level required to maintain labor market stability. He also emphasized that policymakers must weigh risks to both employment and inflation carefully, particularly given the possibility that rising oil prices could influence inflation expectations. In this environment, Powell indicated that maintaining a "mildly restrictive" policy stance remains appropriate.

Reflecting these new uncertainties, market expectations have shifted significantly. By quarter end, the bond market had moved from anticipating two interest rate cuts in 2026 to expecting no cuts. The key question now is how economic growth ultimately responds. If the conflict in the middle east produces a supply-side shock that raises energy costs while weakening demand, recession risks could increase—particularly if central banks are forced to tighten policy further to contain inflation. Alternatively, fiscal support could help sustain economic activity and maintain consumer demand despite higher energy prices.

Interest rate volatility has also risen materially across both investment-grade and high-yield credit markets, reflecting growing concerns about the trajectory of economic growth amid the ongoing geopolitical crisis. With limited clarity surrounding potential outcomes, volatility may remain elevated before a more stable interest rate environment emerges.



In periods of heightened uncertainty, maintaining a disciplined and actively managed investment approach becomes particularly important. A portfolio of high-quality fixed income assets including U.S. Treasuries, U.S. agencies, and investment-grade corporate bonds, can offer attractive yields while limiting exposure to excessive credit risk. Tax-exempt yields in municipal bonds also remain compelling for investors in higher tax brackets. A well-diversified core fixed income portfolio can help generate income, reduce return volatility, and provide stability as markets navigate an uncertain economic and geopolitical landscape.

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DANA FIXED INCOME STRATEGIES

As of March 31, 2026

FIXED INCOME PORTFOLIO MANAGEMENT TEAM

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Lead Municipal Bond Portfolio Manager

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Lead Intermediate Bond Portfolio Manager

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Lead Limited Volatility Bond Portfolio Manager

DANA LIMITED VOLATILITY BOND STRATEGY

Dana's Limited Volatility Bond Strategy delivered a positive total return, outperforming its benchmark due to a strong yield advantage that provided greater investment income during the first quarter of 2026. With a competitive yield of 4.65% and an average effective duration of just 1.24 at quarter end, the Strategy is well positioned for continued success heading into the second quarter. Low prepayment speeds and exposure to adjustable-rate government agency securities supported the Strategy's attractive yield profile while also minimizing both credit and duration risk. These factors make it a smart short-duration alternative in today's market. We remain optimistic about the year ahead.

DANA INTERMEDIATE BOND AND SOCIAL ESG BOND STRATEGIES

The first quarter of 2026 was characterized by a distinct shift in market sentiment within the U.S. investment-grade fixed income landscape. While the period began with notable strength, performance bifurcated in March as heightened geopolitical volatility introduced uncertainty regarding fiscal deficits, economic growth, and long-term inflation trajectories. The Treasury curve experienced a significant repricing as market participants recalibrated expectations. Short-term yields moderated as the market aligned with a Fed funds target range of 3.50%–3.75%, with the 3-month Treasury bill concluding the quarter at 3.69%. Conversely, long-term rates faced upward pressure driven by expanding term premiums and a substantial supply of Treasury issuance required to finance federal deficits. By late March, the 10-year Treasury yield rose to 4.29%, while the 30-year Treasury bond reached 4.89%. The 2-10 year spread transitioned into positive territory, ending the quarter at +50 basis points. This "bear steepening" indicates a market that anticipates durable growth but remains cautious regarding structural inflation risks.

Despite resilient corporate fundamentals, credit spreads in the 1-5 year maturity range widened by 10 to 15 basis points. This expansion was primarily driven by risk aversion surrounding potential energy price shocks and their broader inflationary impact. Within specialized segments, ESG-related issuance remained subdued, reflecting a cautious primary market amidst an evolving and complex regulatory environment. Performance in this space largely tracked the broader corporate index, as investors prioritized liquidity and core credit metrics over thematic allocations.

DANA MUNICIPAL BOND STRATEGY

The tax-exempt municipal market started 2026 on a positive note, supported by robust investor demand, steady fund inflows, and a manageable new-issue supply calendar during January and February 2026. However, broader market headwinds emerged in March amid rising geopolitical tensions, resulting in increased volatility and higher Treasury yields, both of which ultimately pushed municipal yields higher by quarter end. Overall, the market delivered modest total returns in Q1, further demonstrating the resilience of municipals which were more stable than most other fixed investments on a relative basis. With interest rates moving modestly higher at quarter end, the municipal market offers a compelling entry point for fixed income investors. This is reflected in the Strategy's attractive 3.60% tax-exempt yield to maturity (6.08% tax-equivalent yield at the 40.8% federal tax bracket), a 3.62-year average effective duration, and an Aa2 average credit quality rating from Moody's.