# Dana Fixed Income Strategies

Quarterly Review

As of June 30, 2025

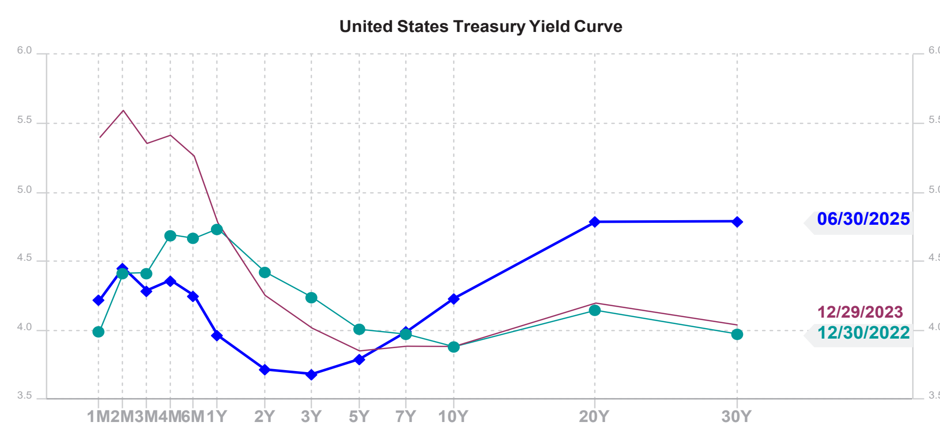
## Why High-Quality Bonds Matter in Uncertain Times

The U.S. economy displayed resilient labor market growth and subdued inflation over the second quarter, despite shocks from aggressive tariff and budget policies that disrupted markets and lifted bond yields. While employment growth slowed from prior months, the labor market continued to add about 130,000 jobs monthly, with the unemployment rate staying steady at 4.2%. High home prices and mortgage rates (around 6.5-7%) kept affordability low, stalling the housing market despite slightly increased inventory. Inflation remained moderate at 2.4% year-over-year in May, but the impact of tariffs could push prices higher in the future.

The U.S. Treasury market experienced historically high volatility in April following the announcement of “Liberation Day” — a universal 10% tariff on all imported goods. The U.S. 10-Year Treasury yield began the quarter at 4.21%, initially falling to 4.00% in early April on weaker economic data. However, yields quickly reversed, surging to 4.49% by mid-April as markets reacted to the potential inflationary and fiscal implications of the tariff policy. The roughly 50-basis-point increase in Treasury yields within a single week ranked in the 99.9th percentile of historical yield moves, driven by concerns over higher inflation, dollar weakness, and rising fiscal risk. Despite this, yields remained rangebound until mid-May, when Moody’s downgraded the U.S. credit rating from Aaa to Aa1, citing persistent deficits and debt accumulation. This, combined with a poorly received 20-year Treasury auction, pushed 10-Year Treasury yields to a peak of 4.60%. However, by quarter-end, yields retreated to 4.28% — nearly unchanged from the beginning of the quarter — as market volatility subsided and expectations for Fed rate cuts in 2025 remained intact.

The second quarter concluded with the June FOMC meeting, where the Federal Reserve held the Federal Funds Rate steady at 4.50%. While two rate cuts are still expected by year-end, persistently elevated inflation may reduce that projection to one — or potentially none. The FOMC statement noted that uncertainty around the economic outlook has diminished, but also emphasized that risks of higher inflation and rising unemployment remain elevated. Both the Fed and financial markets continue to monitor developments in trade policy and the federal budget for further guidance. At this stage, the proposed tax-and-spending bill making its way through Congress is projected to add approximately $3 trillion to the federal deficit and push the debt-to-GDP ratio above 120% over the next decade. These fiscal risks suggest a steeper yield curve, with long-term yields remaining elevated relative to short-term yields — and that’s precisely what unfolded during the second quarter, as front-end yields declined while back-end yields rose by quarter-end.

With all the uncertainty surrounding current investment opportunities and challenges, investors are well served by engaging an actively managed portfolio approach. It is important for investors to remain focused on high-quality factors during periods of transition or market volatility. A portfolio of high-quality bonds consisting of U.S. Treasuries, U.S. Agencies, and investment-grade corporate bonds can offer attractive yields without high interest-rate risk. Tax-exempt yields in municipal bonds are also attractive for investors in higher tax brackets. In these uncertain and transition periods, investors should consider maintaining a well-diversified core fixed income portfolio managed in an active manner to continue compounding interest no matter what path interest rates may follow in the future. Fixed income investments provide important benefits, including diversification from equities, lower return volatility, and the added predictability of a recurring income stream.





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## DANA LIMITED VOLATILITY BOND STRATEGY

Dana's Limited Volatility Bond Strategy delivered a strong Q2 finish, outperforming its benchmark on the back of robust investment income and spread tightening in agency adjustable-rate mortgage securities. With a competitive yield of 4.88% and an average effective duration of just 0.95, the Strategy is positioned for success heading into the second half of 2025. Low prepayment speeds and targeted exposure to short fixed-rate agency securities continued to support its attractive yield profile while minimizing credit and duration risk—making it a smart short-duration alternative in today's market.

## DANA INTERMEDIATE BOND AND SOCIAL ESG BOND STRATEGIES

The announcement of sweeping U.S. tariffs early in April triggered a sharp risk-off response, prompting a Treasury rally. Intermediate duration bonds (5-7 years) outperformed the shortest duration bonds (<3 years) as well as long duration bonds (10+ years). Lower quality bonds outperformed higher quality bonds, and corporate bond spreads remained virtually unchanged despite the volatility associated with aggressive tariff announcements, as well as inflation and fiscal concerns ahead. The environment remains volatile, but expectations for Fed easing and moderating inflation support a constructive view on the taxable fixed income for the second half of 2025. Green bonds slightly outperformed their non-ESG peers as they rebounded from the previous quarter of political climate change and slowing demand.

## DANA MUNICIPAL BOND STRATEGY

At the close of the second quarter, the tax-exempt municipal market stabilized following a volatile first half of the year, driven by rising Treasury yields and robust new issue supply. In addition, the potential elimination of the municipal tax exemption added to investor uncertainty, although consensus now is that the outright elimination is unlikely. The seasonal reinvestment period beginning June 1st boosted demand as investors redeployed cash from bond maturities and redemptions. Bond volatility is anticipated to continue in the second half of 2025, mainly due to the combination of potential federal policy changes, tariff related trade negotiations, and further deregulation, all of which could influence economic growth and impact the Federal Reserve's response to changing economic conditions. Given the expected continued interest rate volatility, it remains critical to have an active manager who can navigate challenging market conditions and deliver long-term value. Dana's active portfolio management and focus on high-quality client portfolios have consistently helped clients weather unpredictable market fluctuations. Despite the anticipated volatility, the municipal market continues to offer long-term value in a high-quality portfolio. This is evidenced by the Strategy's 3.68% tax-exempt yield to maturity (6.22% tax-equivalent yield at the 40.8% federal tax bracket), a 3.45-year average duration, an Aa2 average credit rating from Moody's, and a positive total return year-to-date.



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