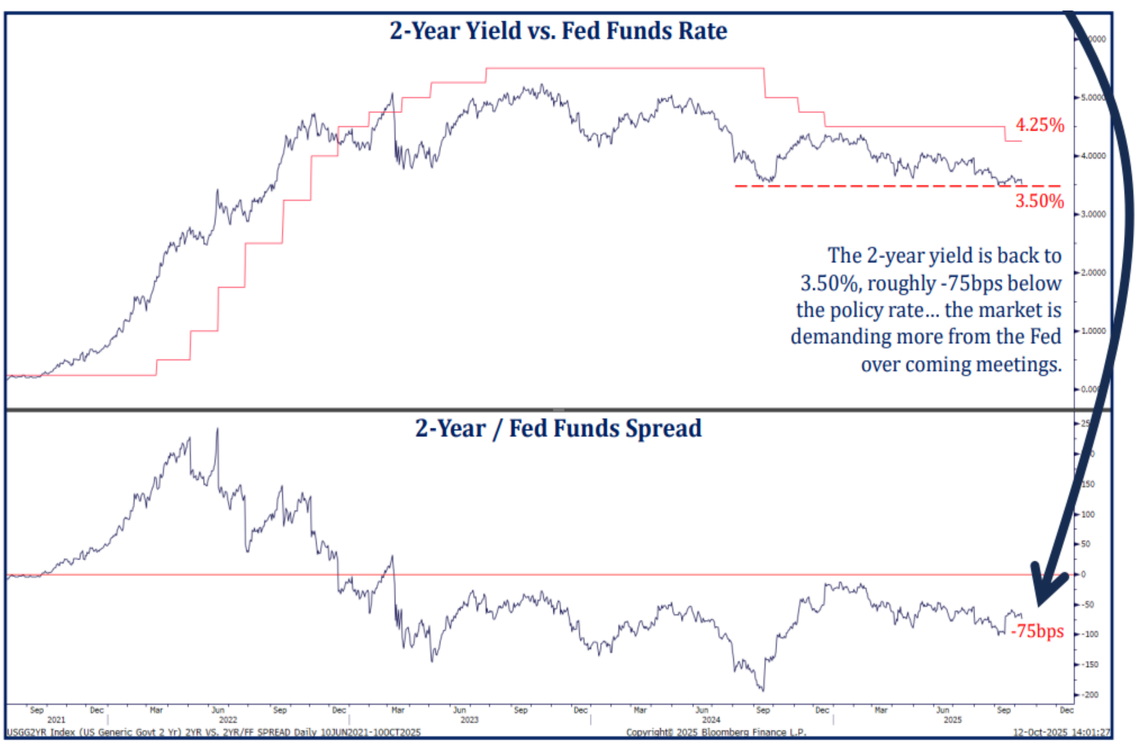
## 3Q 2025 – Quarterly Commentary

Despite continued policy uncertainty and growing evidence of a weakening in the labor market, throughout the third quarter investor sentiment transitioned from the cautiously optimistic view that characterized much of the first half of the year to one that is decisively bullish. This translated into attractive fixed income returns for the period driven by both declining interest rates and a further tightening of corporate bond credit spreads.

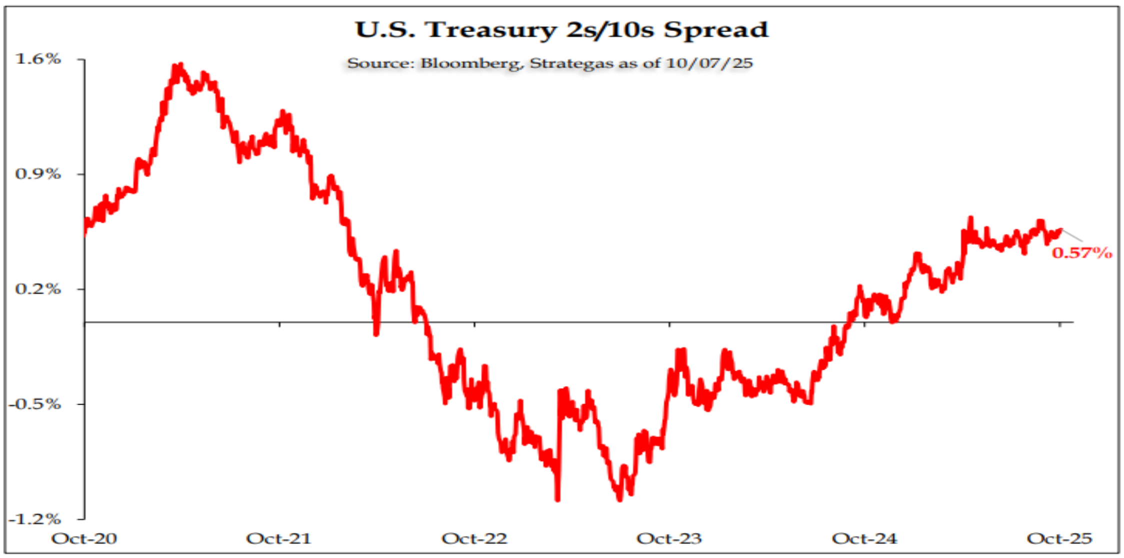
Underlying the positive market tone has been a meaningful shift in messaging from the Federal Reserve. Growing evidence of a deterioration in the labor market has raised concerns about the resilience of the economy, prompting calls for meaningful rate cuts. In light of this new development a debate on the current policy stance is becoming evident within the FOMC as several Fed officials have openly acknowledged that the recent labor market weakness, and the resulting risks to growth, are now of greater priority relative to inflation. As widely anticipated, in September the FOMC responded to this new uncertain outlook and reduced the policy rate by 25 basis points to 4.25 percent.

The bond market reaction has been more pronounced, quickly pricing in a series of additional rate cuts over the coming months reflecting a view that the Fed is behind the curve and should have moved to reduce rates earlier this year. The Two-Year U.S. Treasury yield declined to a year-to-date low of 3.50 percent – a full 75 basis points below the current fed funds rate. This rate differential will need to compress before investors will consider the funds rate as being aligned with the economic outlook and the trend towards lower short term yields as being complete.



While the expectation of additional Fed easing has supported lower yields at the short end of the yield curve, it is noteworthy that since the Fed began the process of reducing rates in August of last year yields on longer term bonds have increased. This has led to a continued steepening of the U.S. Treasury yield curve, a trend we expect will continue given ongoing fiscal concerns.

Portfolio adjustments made this year to increase exposure to the short end of the yield curve benefited results for the quarter, and we remain confident in this positioning as we approach year end. However, as we look forward into next year, we are attentive to opportunities building in longer duration securities where yields have become increasingly attractive. This will likely prove actionable in the months ahead as the yield curve continues to normalize.




In light of anticipated Federal Reserve rate cuts and healthy corporate fundamentals, investors looked through the recent weakness in the labor market and drove corporate bonds to another strong quarter of performance. Despite record valuations the Bloomberg Corporate Bond Index added to the year-to-date rally returning 2.60 percent for the period, outpacing the Bloomberg Aggregate overall market return of 2.03 percent. While recent gains in corporate credit have been broad-based, it is particularly noteworthy that third quarter gains were more pronounced in economically sensitive areas of the market such as consumer cyclical and energy. This performance leadership beneath the surface provides further support to the durability of the market's tone as we approach year end.

While we remain overweight corporate credit, in light of rich valuations we continue to focus new investments on issues at the short end of the yield curve where interest rate risk is less than that of the market overall. This duration positioning allows the portfolio to benefit from the sector's yield advantage while at the same time serving to limit future price risk that will occur when yield spreads eventually widen to more historical levels.

Year to date bond market returns have been very favorable and, in light of an evolving trend toward lower interest rates, we anticipate additional gains during the final quarter of the year.

Birch Run Investments, LLC
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