2Q 2024

QUARTERLY COMMENTARY

Penn Mutual Asset Management

QUARTER IN REVIEW AND HIGHLIGHTS

Risk markets continue to exhibit strength despite the recent uptick in inflation delaying the start of Federal Reserve (Fed) rate cuts. The S&P 500 Index notched 33 record high closes during the first half of the year with large capitalization technology names maintaining their market dominance. Investor enthusiasm regarding the potential of artificial intelligence (AI) fueled extraordinary gains for companies set to benefit from the transformative technology.

- **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…** Elevated mortgage rates continue to weigh on housing market activity but tight supplies have kept home prices elevated. Housing affordability remains the most challenging in decades.

- **Rapidly changing investor expectations for the path of Fed monetary policy kept interest rate volatility elevated during the second quarter. Treasury yields remain well above levels from the start of the year…** The duration of the Treasury yield curve inversion extended to the longest on record this year but the U.S. economy continues to exhibit resilience, defying the bond market's historical recession indicator.

- **Gross domestic product (GDP) for the first half of 2024 is projected to grow near 1.5%, a level suggesting the Fed is on track to achieve the historically elusive economic "soft landing"…** Labor market conditions in the U.S. are showing pockets of weakness, including an uptick in the unemployment rate, but new job creation remains solid.

- **Investment-grade (IG) and high-yield corporate credit spreads hovered near the tightest levels since the Global Financial Crisis with near record-high issuance easily absorbed by investors taking advantage of attractive all-in yields…** IG corporate bonds underperformed duration-matched Treasuries by four basis points (bps) while the high-yield market generated a total return of 1.09%. Treasury rates across the yield curve moved higher with the 10-year Treasury yield closing June at 4.40%, up 20 bps during the quarter.

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 second quarter and year-to-date. Short-term Treasury rates continued to grind higher as bond investors scaled back expectations for Fed rate cuts this year. The 2-year Treasury note yield rose by 14 bps during the quarter, closing June at 4.76%.

Following a string of disappointing inflation readings during the first quarter, inflation started to moderate as the second quarter came to a close. Fed policymakers continue to signal interest rate cuts are likely at some point this year.

Similar to themes from the first quarter, active duration management and securitized credit sector spread tightening contributed to the strong second quarter performance. Strategy overweights by sector include investment-grade corporate credit, high-quality collateralized loan obligations (CLOs) and 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 second quarter and year-to-date. During its June meeting, the Fed reduced its forecast for interest rate cuts this year in response to higher inflation readings and continued strong labor market conditions. The powerful dynamic of full employment and improving household balance sheets continue to support the U.S. economic expansion.

Strategy overweights include high-quality collateralized loan obligations (CLOs), IG corporate bonds and residential mortgage-backed securities (RMBS). We are remaining opportunistic with duration and yield curve management as bond market valuations adjust to the rapidly changing expectations for Fed 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 second quarter and year-to-date.

High yield credit spreads were firm during the second quarter of 2024 as equity markets continued their ascent higher, and overall volatility was muted. Spreads ended the quarter close to 15-year tights with the growth outlook solid and default projections for 2024-25 benign. The front end of the high-yield market was 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 approximately 40 bps in April but fully retraced that move by quarter end.

The Strategy maintained its overall risk profile, adding selectively to a few bonds with more spread duration. 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 second quarter and year-to-date.

Abundant liquidity conditions and significant wealth gains since last November remain supportive of risk market valuations. The S&P 500 Index notched 33 record high closes during the first half of 2024.

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

The high yield credit market finished the quarter on a strong note, with spreads tighter and volatility muted. Spreads continued to hover close to 15-year tights with the growth outlook solid and default projections for 2024-25 benign. 10-year Treasury rates retraced the majority of their April spike as the narrative shifted once again — this time to more confidence in moderating inflation, softer growth and the likelihood of Fed rate cuts in the fall. Down in quality credit outperformed, aside from the very distressed portion of the CCC market. Carry remains a dominant theme in the market with spreads compressed, and the inverted nature of the yield curve has generated solid returns for floating-rate bank loans. New issue supply was robust and met with strong demand.

The Strategy maintained its overall risk profile, balancing select exposure to low quality credit with a good fundamental outlook and/or positive catalysts/event risk, with core BB bonds. Energy remains an overweight sector. The Fund held approximately 6% in floating-rate bank loan assets.

BALANCED INCOME STRATEGY

The Balanced Income Strategy underperformed its benchmark, the Morningstar Moderately Conservative Target Risk Total Return USD Index, during the second quarter and year-to-date. While the major stock market indexes continued to rally, the market narrowed, favoring mega capitalization stocks relative to small-cap stocks. The Strategy's equity portfolio underperformed on a relative basis due to its smaller average market capitalization and individual security selection. The portfolio's fixed-income holdings finished in line with benchmark performance.

The second quarter of 2024 was a difficult period for stock pickers. The major indexes continued higher, with the largest technology and growth companies leading the way. Under the surface, however, market performance has been much more muted as small-cap stocks and some traditional value-related sectors have 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 performance slightly better than its benchmarks, and roughly in line for the full year. We continue to focus on companies with strong balance sheets and the potential to improve their credit profile over the intermediate term.

In terms of overall allocation (stock, bond and cash weightings), the quarter-ending allocation changed modestly from the end of the first quarter, with 39.7% in common stock, 58.6% in fixed income and 1.7% in cash. Despite the strength in broad equity and credit indexes, we continue to see some nice value in smaller companies and corporate credits with cash-rich balance sheets. We believe that 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 markets.

This positioning could lag if growth and momentum factors continue to do well. Over the longer-term, we believe our positioning and balance sheet focus could provide benefits even if the Fed starts a rate cut cycle. 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

The Fed remains biased toward easier monetary policy this year despite setbacks in its fight to lower inflation. Monetary policymakers are beginning to put more emphasis on the full employment side of the Fed's dual mandate. Supply pressures are likely to keep upward pressure on long-term Treasury yields for the balance of the year.

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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 June 30, 2024 and are subject to change based on market and other conditions without further notice.

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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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