JUNE 30, 2025

HIGH YIELD

MARKET COMMENTARY

The high yield market generated a solid +3.6% total return in the second quarter notwithstanding material intra-quarter volatility outperforming US Treasuries, investment grade corporates and leveraged loans. Following the so-called "liberation day" tariff announcements on April 2nd, the high yield market sold off more than 3.0% over four trading days as spreads widened more than 100 bps before the market bottomed on April 8th. Over the balance of the second quarter, the high yield market rallied over 6.0% as the initial fears regarding the adverse economic impact of tariffs abated and the Administration showed an openness to negotiate down and/or delay the implementation of tariffs. Strong corporate earnings, benign economic reports and favorably viewed geopolitical developments also helped fuel the high yield market rally over the final 11 weeks of the second quarter. By quarter-end, recession fears eased, high yield market spreads tightened, and yield curve remained unchanged.

Inflation continued to show signs of moderation, through the latest Core PCE reading – the Fed's preferred inflation gauge – was 2.7%. Accordingly, the FOMC left the Fed Funds rate unchanged, at 4.25%-4.50%, citing its objective of containing inflation while supporting economic growth. The futures market is still pricing in two 25 bps Fed Funds rate cuts by year-end, with less than a 10% chance of a rate cut at the upcoming July meeting. Interest rates across the yield curve were little changed during the quarter with the 10-year US Treasury yield holding at 4.2% while the 2-year yield decreased 19 bps to 3.7%.

Within the high yield market, yield-to-worst decreased 68 bps to 7.1% and the option adjusted spread tightened 59 bps to 296 bps in the second quarter. The last twelve-month high yield default rate, including the impact of distressed exchanges, increased 10 bps to 1.4% in the second quarter, well below its historic average and more than 230 bps lower than that of bank loans. High yield primary market gross issuance increased 13% in the second quarter to $77.3 billion, driven primarily by debt refinancing transactions.

Turning to performance, the ICE BofA BB-B US High Yield Constrained Index generated a +3.5% total return in the second quarter. The ICE BofA BB-B US High Yield Constrained underperformed the broader high yield market by 10 bps as the CCC+ or lower rating cohort produced a 3.9% second quarter total return. From a sector perspective, healthcare, media, and telecommunications were notable outperformers while energy, retail and chemicals were notable underperformers in the second quarter.

Our overall assessment of the high yield market remains average relative to its history and attractive relative to other fixed income alternatives. High yield bonds offer higher carry and lower duration compared to investment grade bonds in a stable economic environment and "higher for longer" interest rate backdrop. We assess the high yield market across three vectors, Fundamentals, Technicals and Valuation, using a 1.0 to 5.0 scale, with 1.0 being bullish and 5.0 being cautious. Fundamentals (2.5) are solid with below average leverage, a benign default rate environment and low recession risk. Technicals (2.5) are strong given shrinking supply driven by elevated high yield bond calls/tenders and improved asset classes fund inflows. Valuation (3.0) is average balancing the high current yield offset by tight credit spreads relative to history.

ATTRIBUTION ANALYSIS – 2Q25

The High Yield portfolio outperformed the ICE BofA BB-B US High Yield Constrained Index in the second quarter (gross and net of management fees). Credit selection was positive across fourteen of the nineteen high yield market sectors, most notably in capital goods and energy, partially offset by the portfolio's 2.6% allocation to cash. From a ratings perspective, credit selection was positive across all high yield ratings cohorts, partially offset by portfolio cash holdings, included in the investment grade rating cohort for attribution purposes.

As of 6/30/25, net of fee composite and ICE BofA BB-B US High Yield Constrained performance for 1-, 5-, and 10-year periods: 9.37%, 7.01%, 4.74% and 9.08%, 5.36%, 5.07%, respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees; the composite includes all High Yield discretionary accounts. Additional disclosures provided in Endnotes.

Unless otherwise noted, the "high yield" market refers to the ICE BofA US High Yield Index. **Past performance is no guarantee of future results.**

Hotchkis & Wiley

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Endnotes:
All investments contain risk and may lose value. This commentary is for general information only and should not be relied on for investment advice or recommendation of any particular security, strategy, or investment product.

Portfolio characteristics and attribution are based on a representative High Yield portfolio. Attribution is an analysis of the portfolio's gross of fee returns relative to the index, is calculated using trading information and does not reflect management fees and other transaction costs and expenses; interaction effect is combined with stock selection. Returns can differ from certain client portfolio(s) due to data differences, cash flows, trading, and other activity. Absolute performance for the portfolio may reflect different results. No assurance is made that holdings, or all investment decisions by H&W were or will be profitable (data source: Bloomberg, ICE).

The discipline used in managing accounts in the High Yield strategy may prevent or limit investment in major bonds in the ICE BofA US High Yield and returns may not be correlated to the index. Composite performance is available at www.hwcm.com, located on the strategy's Performance tab along with important disclosures included in the strategy's GIPS Report; quarterly characteristics and portfolio holdings are located on the Portfolio and Literature tabs. Portfolio information is subject to the firm's portfolio holdings disclosure policy.

The ICE BofA BB-B US High Yield Constrained Index contains all securities in the ICE BofA US High Yield Index rated BB+ through B- by S&P (or equivalent as rated by Moody's or Fitch), but caps issuer exposure at 2%. Index constituents are capitalization weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. The ICE BofA US High Yield Index tracks the performance of below investment grade, but not in default, US dollar-denominated corporate bonds publicly issued in the US domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's, Fitch and S&P. Any indices and other financial benchmarks shown are provided for illustrative purposes only, are unmanaged, reflect reinvestment of income and dividends and do not reflect the impact of advisory fees. It is not possible to invest directly in an index.

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Investing in high yield securities is subject to certain risks, including market, credit, liquidity, issuer, interest-rate, inflation, and derivatives risks. Lower-rated and non-rated securities involve greater risk than higher-rated securities. High yield bonds and other asset classes have different risk-return profiles, which should be considered when investing. Investment risk disclosures for the firm's strategies are described in Part 2A of Form ADV of H&W.

Information contained in this material may represent or be based on forward-looking statements. Due to various risks and uncertainties, actual events/results or performance of the strategy may differ materially from those reflected or contemplated in such forward-looking statements. Information based on forecasts, proprietary or third-party estimates cannot be guaranteed and are subject to change. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness.

Portfolio managers' opinions and data included in this commentary are as of June 30, 2025. Any discussion or view of a security, an asset class/segment, industry/sector and/or investment type are not investment recommendations, should not be assumed to be profitable, and are subject to change without notice. **Past performance is no guarantee of future results.**