

MacKay Shields Fixed Income Quarterly Outlooks

September 2025



INVESTMENTS

Table of Contents

Macroeconomic Outlook **3-5**

Global Fixed Income Outlook **6-7**

Emerging Markets Outlook **8-9**

High Yield Outlook **10-11**

Convertibles Outlook **12**

Macroeconomic 4Q2025

With Sticky Inflation, Markets May be Mispricing the Fed

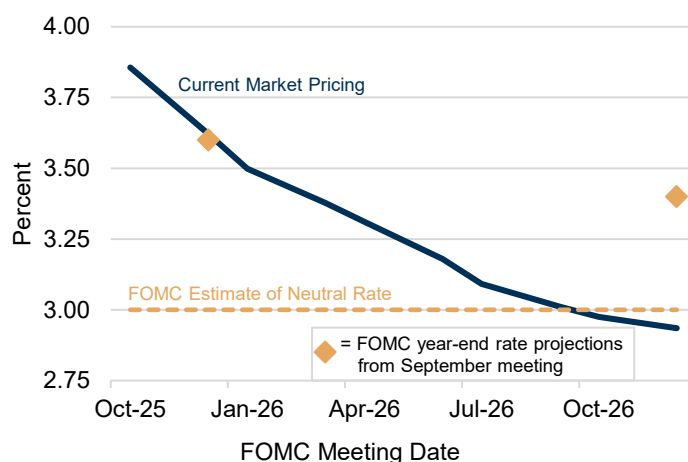
Summary

- We expect a slower, shallower Fed cutting path than markets discount in 2026; sticky core inflation and firmer growth argue for patience.
- Market pricing may reflect an expectation that the Fed will turn more dovish once a new Chairman is in place next spring. We expect any such shift in the Fed's reaction function to be modest, though we remain attuned to risks posed by political pressure on the central bank.

The July payrolls report marked an important inflection point for market pricing of the policy rate path. That report, which included significant downward revisions to the prior two months' payrolls estimates, crystalized investor concerns over labor market weakness and risks to the economic outlook. Early September saw additional downbeat labor data, in the form of a weak August payrolls print and a 911,000 downward revision to the level of payrolls as of last March, as part of the Bureau of Labor Statistics' annual benchmark revisions process.

In the wake of these developments, the rates market has discounted a policy rate below three percent by the end of next year, with much of the easing front-loaded over the next several FOMC meetings. For example, at time of writing, amidst a government shutdown and renewed tariff threats against China, money markets are pricing in a policy rate of 3.40 following the March 2026 meeting. In contrast, in the *Summary of Economic Projections* released after the September meeting, the median FOMC participant projected a 3.40 percent policy rate at the *end* of next year.

Figure 1: Markets are Discounting More Easing in 2026 than the FOMC



Source: Bloomberg, Federal Reserve. Market Pricing based on overnight index swap rates and fed funds futures as of October 10.

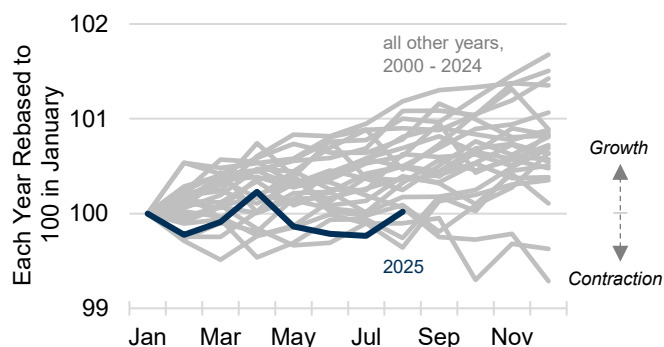
We remain skeptical that the policy rate will follow the current market-discounted path of policy easing through end-2026, for several reasons. First, payrolls provide an incomplete and potentially misleading picture of current economic activity. Looking more broadly, after a strong second quarter, third quarter GDP is tracking above three percent, reflecting solid economic activity underpinned by strong household spending and the AI investment boom. In addition, payrolls are at best a coincident indicator, and weak readings likely reflect the springtime confidence shock amid the tariff rollout rather than an ongoing collapse in labor demand. Finally, weak labor supply resulting from border and deportation policies have contributed to the slowdown in payrolls growth. There are simply fewer workers to fill open positions in sectors that have historically relied on unauthorized immigrants. The Federal Reserve Bank of Dallas, for example, now estimates that the rate of monthly payrolls growth needed to keep the unemployment rate from rising has fallen to approximately 30,000, from 100,000 at the end of last year.¹

1. Anton Cheremukhin, "Break-even Employment Declined after Immigration Changes", Federal Reserve Bank of Dallas, October 2025.

Macroeconomic 4Q2025 (cont'd)

With Sticky Inflation, Markets May be Mispricing the Fed

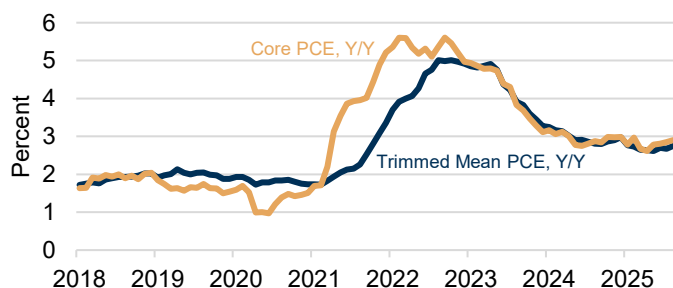
Figure 2: A Very Weak Year for Labor Supply Growth



Source: Bureau of Labor Statistics. 2025 data through August.

Inflation trends also do not suggest that a steady diet of rate cuts over the next year is warranted. The recent increase in core inflation has largely been due to tariffs. But stepping back, progress towards the Federal Reserve's two percent inflation objective has stalled out over the past eighteen months, with core PCE inflation bouncing between 2.5 and 3.0 percent. Trimmed mean inflation, which removes outlying price movements and is a better indicator of underlying inflation trends than the traditional core reading, has also shown no progress back to the two percent objective. And with sticky inflation in recent years, survey-based measures of inflation expectations are already on the high side and risk de-anchoring from the two percent objective if the Fed quickly cuts rates towards a neutral setting. Higher inflation expectations would make returning inflation to two percent even more challenging in the years ahead.

Figure 3: Inflation Has Been Stuck Above 2.5 Percent



Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas. Data through August 2025.

Finally, the growth outlook does not warrant a quick return of policy rates to the FOMC's estimate of neutral. We expect that economic growth will pick up next year, as fiscal policy becomes a stronger tailwind. The gradual adjustment to tariffs, an AI investment boom that has yet to peak, and easy financial conditions are also supportive of stronger economic activity.

This leaves the question of *why* markets are discounting a steeper rate-cutting path than the Committee itself anticipates. One possibility is that market pricing reflects an asymmetric risk outlook – investors may by and large forecast a decent growth picture but may be more concerned about a growth slowdown than a reacceleration. Payrolls data are certainly consistent with this possibility, but as noted, other activity indicators have been on the firm side.

Another possibility is that market pricing reflects expectations for a dovish shift in monetary policy given the leadership change at the Federal Reserve next spring. This strikes us as a more plausible reading of market pricing, though absent more comprehensive turnover on the FOMC, any shift in the reaction function is likely to be modest. The annual rotation of voting Reserve Bank Presidents also does not suggest a dovish shift in policy.

Still, given pressure from the administration on the Fed, we remain attuned to risks that policy decisions could be influenced by politics, especially if early retirements open up additional seats on the Board of Governors or at Reserve Banks. In this event, we would expect a further steepening of the Treasury curve due to a higher inflation risk premium.

Macroeconomic 4Q2025 (cont'd)

With Sticky Inflation, Markets May be Mispricing the Fed

Global Developed Markets Policy

The US monetary policy outlook stands in some contrast with other major developed economies. In the euro area, the European Central Bank has cut rates by over two percentage points since the spring of 2024. With the main refinancing rate now at 2.15 percent, a roughly neutral setting, policy is well-positioned to respond to inflation surprises on either side of the two percent target. Weakness in the industrial sector and disinflationary pressure suggest scope for cuts, but ECB officials remain cognizant of a loosening German fiscal profile. Balancing these factors, we see scope for an additional rate cut before year-end.

While inflation is just modestly above target in the euro-area, it has proven to be stickier in the United Kingdom, with core CPI on a gradual upward trend over the past year and currently running at a 3.6 percent pace. At the same time, the labor market has been weakening, with falling job openings and slowing wage growth. Given these conflicting signals for monetary policy, the Monetary Policy Committee has recently been divided on the rate outlook. Still, we expect the disinflationary read-through from softer activity data to open the door for an additional rate cut by year-end, and potentially an additional cut in the first quarter of 2026.

The Bank of Japan finds itself in a somewhat unique position, being the only advanced economy central bank to raise rates this year. The BoJ has proceeded extremely gradually as it attempts to put zero interest rate policy firmly in the past; indeed, the policy rate sits at just 50 basis points. While investors had largely expected the BoJ to raise rates at its late-October meeting, the elevation of Sanae Takaichi to leadership of the ruling Liberal Democratic Party suggests a more pro-stimulative economic policy thrust, clouding the outlook for monetary policy. We still see a rate increase this year, but expect it will be delayed until the December meeting.

Global Fixed Income 4Q2025

Balancing Caution with Opportunity in Credit Markets

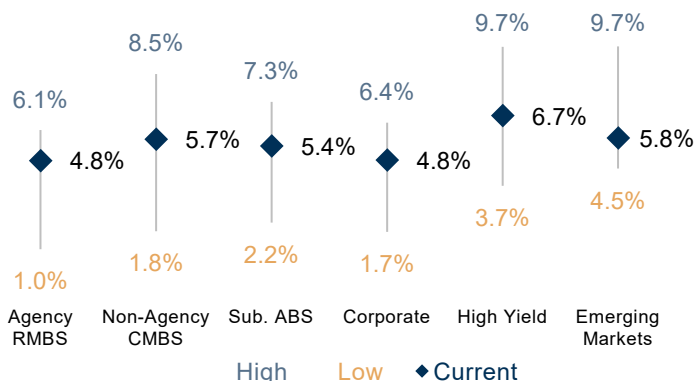
PREMIUM YIELDS | FED EASING | BALANCE CAUTION & OPPORTUNITY



Executive Summary

Although the market today is tight, we are seeing far greater differentiation across deals and structures than we have in a while. Spreads are tight and, in our view, optimism is elevated, narrowing the margin for error; positioning emphasizes carry, quality, diversification, and vigilance around both macro and idiosyncratic risks (see Figure 1 below).

Figure 1: Bond Yields Remain Attractive Across Credit Markets | Yield-to-Worst Range



As of September 30, 2025. Yields = Yields to Worst. Source: Bloomberg Corporates = Bloomberg US Corporate Bond Index; High Yield = Bloomberg US Corporate High Yield Bond Index; Agency RMBS = Bloomberg US Mortgage-Backed Securities (MBS) Index; CMBS = Bloomberg US CMBS: ERISA Eligible Index; Sub. ABS = Bloomberg US Agg Subordinated ABS Total Return Value; Emerging Markets = Bloomberg Emerging Markets Hard Currency Aggregate Index. Source: Bloomberg. It is not possible to invest directly in an index. Please see disclosures at the end of this presentation for additional information and index descriptions.

Investment Grade Credit:

It is our view going into the fourth quarter, to maintain an underweight to Investment Grade (IG) while favoring high quality, A-rated issuers in resilient, cash generative areas—consumer non-cyclicals, regulated utilities, select financials, and durable technology subsectors—plus select regional banks and insurance perpetual capital securities (PCaps)¹ that offer a premium vs parent senior unsecured.

High Yield Credit:

High yield remains compelling on carry with broadly stable fundamentals, but emphasize quality and issuer selection given dispersion and early signs of deterioration at the margin.

Securitized Credit:

We believe the securitized space, particularly Commercial Mortgaged Backed Securities (CMBS), presents significant long-term value following a challenging quarter as rating driven technicals widen spreads—especially in shorter duration tranches—while AI demand supports data center and fiber credits, and selective NYC office exposure benefits from rising return to office.

It is our view that multi-family fundamentals remain firmly supported by housing shortages and resilient demand. Recent fraud allegations at a subprime lender have pressured the overall subprime ABS market. These risks appear idiosyncratic rather than representative of the broader market.

Emerging Market Credit:

Local currency sovereigns benefit from USD depreciation as moderating Emerging Market (EM) inflation enables rate cuts without FX stress (source: Reuters). The consensus is for a prolonged USD bear cycle (source: Reuters), which may potentially drive flows into local currency bonds. Macro-driven upgrades are evident in countries like the Bahamas, Ecuador, Argentina, Turkey, and India (source: Bloomberg). Large, investment grade rated corporates are generally considered best-in-class due to sovereign support. High yield issuers have enjoyed low leverage, but we are starting to see some deterioration (source: JP Morgan). Airlines have rebounded post-COVID, and many are focused on profitable routes and business travel. Oil platform services in Brazil present unique opportunities. Idiosyncratic risks remain, however.

1. Insurance Perpetual Capital Securities (P-Caps) are subordinated, perpetual debt-like instruments issued by insurance companies that offer high-yielding, equity-like features and are used to bolster regulatory capital without diluting shareholder equity.

Global Fixed Income 4Q2025 (cont'd)

Strategy

The overall market trades at a discount, allowing for premium yields relative to traditional benchmarks. With the Fed expected to continue cutting rates, markets are pricing in even more easing. As rates fall, bond prices rise, but reinvestment risk increases as average portfolio yields decline. The market may be overly optimistic, so it is our intention to balance caution with opportunity.

Figure 2: Fixed Income Sector Outlook

Sector	Stance	Rationale	Key Risks	Implementation
INVESTMENT GRADE	Underweight	Tight spreads; prefer resilient A-rated issuers and select bank/insurance P-Caps for premium vs parent senior unsecured	Spread re-tightening leaves little buffer; sector re-leveraging	Tilt to A-rated defensives; selective regional bank and insurance P-Caps
HIGH YIELD	Overweight carry, quality bias	Carry remains compelling with broadly stable fundamentals	Early deterioration at the margin; rising dispersion	Emphasize BB/B; avoid weakest credits; high selectivity
SECURITIZED	Selective overweight	CMBS value post-weak quarter; short-duration tranches wide; AI tailwinds for data centers/fiber	CRE idiosyncrasies; rating-driven volatility	Shorter-WAL CMBS; selective NYC office; data center/fiber
EM CREDIT	Selective overweight	USD depreciation; moderated inflation enables cuts; macro upgrades; strong large IG corporates	Idiosyncratic sovereign/corporate risks	Focus LC sovereigns; high-quality IG corporates; select airlines/oil-services
PORTFOLIO	Balance carry with quality	Easing path supports prices but raises reinvestment risk	Over-optimistic easing; duration/repricing risk	Diversify by sector/rating; ladder maturities

Emerging Markets 4Q2025

Precision Matters

Despite ongoing macroeconomic uncertainty, the global economy has held up better than expected in 2025, with financial markets broadly performing well. However, risks remain—from mixed signals in U.S. data to China's structural challenges and persistent concerns around global fiscal sustainability. Yet, for Emerging Markets (EM), this environment continues to present compelling opportunities.

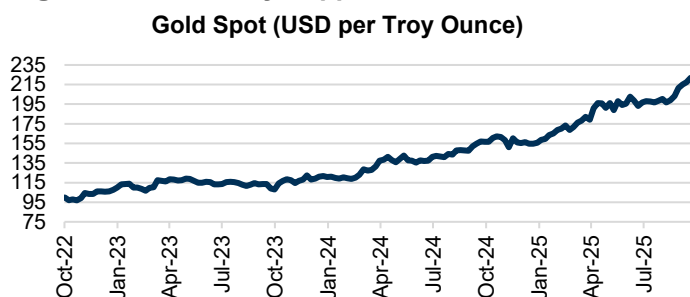
As we enter the final quarter of 2025, EM fixed income remains well-positioned, supported by a favorable mix of macro and microeconomic factors: the Federal Reserve's renewed easing cycle, stable commodity prices, and a weaker U.S. dollar. Still, with tight valuations and diverging local monetary policies, careful asset selection will be key.

Hard Currency Sovereigns: Strong Returns, Broad Support

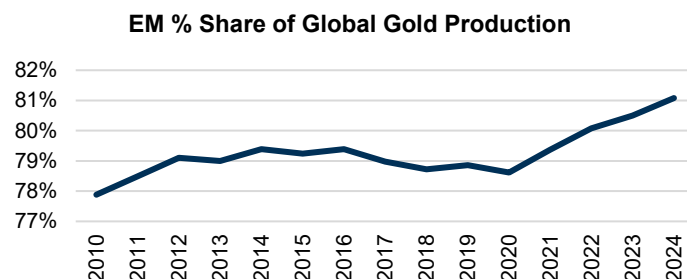
EM hard currency sovereign debt has returned approximately 11% year-to-date as of 10/22/25, as measured by the JP Morgan EMBIG Diversified Index. This performance has been underpinned by:

- **Commodity Support:** Exporters of gold and other raw materials have benefited from strong pricing. Even though oil markets remain uncertain, we believe a Brent price above \$60/bbl in 2026 should be manageable for both importers and exporters. (See Figure 1.)
- **Credit Rating Momentum:** The sovereign rating outlook continues to improve. Oman, Morocco, and Azerbaijan have gained investment-grade status, while fears of Romania's downgrade have eased. Though Panama is likely to lose its investment-grade rating, potential upgrades in Kenya, Egypt, and Pakistan could serve as positive catalysts. (See Figure 2.)
- **Inflows:** Higher all-in yields have driven renewed interest in EM credit. U.S. investment-grade funds are increasing allocations (sources: JP Morgan, EPFR), while Chinese investors continue to steadily grow their holdings of non-China EM USD bonds (sources: JP Morgan, EPFR), a trend that now appears structural.

Figure 1: Commodity Support

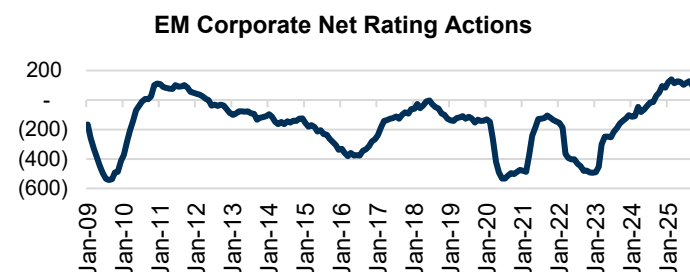


Source: Bloomberg



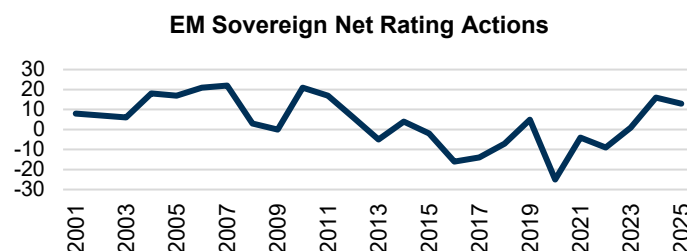
Source: World Gold Council

Figure 2: Credit Rating Momentum



Source: JP Morgan

Net Rating Action: Based on the number of upgrades and downgrades, with the net rating actions equal to the difference between the two. Actions from all three major rating agencies (Fitch, S&P, Moody's) are included and all upgrades/downgrades are counted. For example, if an issuer is upgraded by all three agencies twice within a 12-month period, it would count as 6 upgrades.



Emerging Markets 4Q2025 (cont'd)

At a country level, The Bahamas stands out, supported by improved debt management, fiscal discipline, and strong tourism inflows linked to climate-driven travel trends (source: Bahamas Ministry of Tourism, Bahamas Ministry of Finance). Uzbekistan is also compelling, with gold-backed exports and ongoing structural reforms offering tailwinds. Meanwhile, Argentina faces renewed FX pressure. Despite international support, including from the U.S., we believe credible and decisive policy actions will be essential to restore macroeconomic stability and build a sustainable FX regime.

Local Currency Sovereigns: Leading Performance

Local currency EM sovereign bonds have outperformed hard currency peers, delivering over 15% YTD (JP Morgan GBI-EM Global Diversified Index). The combination of Fed easing and a weaker USD forms an uplifting external backdrop for the asset class to perform strongly. Regionally, we favor Asia, where inflation dynamics are improving and FX has remained stable, helped by a more benign-than-expected USDCNY trajectory. We have turned increasingly constructive on Hungary. We see potential upside in the event of an opposition victory in the April 2026 parliamentary elections. Even without political change, we believe Hungary's macro fundamentals appear well-anchored, and the broader appetite for EM local currency exposure should provide tailwinds. Elsewhere, we find attractive value in both FX and rates markets in Peru and South Africa.

EM Corporates: Fundamentals Solid, Spreads Tight

EM corporate bonds have delivered over 7% in returns YTD, supported by strong fundamentals and robust demand. However, spreads remain tight, with the JP Morgan CEMBI Broad Diversified index trading near historical lows of around 200bps.

Despite valuations, we remain constructive:

- **Stable Credit Metrics:** While slightly off-peak levels, most companies are managing well despite higher rates.
- **Diverse New Issuance:** Activity has broadened across regions and sectors, while flows have turned firmly positive (sources: JP Morgan, EPFR). Investors are engaged, drawn to debut issuers and unique credit stories.
- **Sector Views:**
 - **Defensive Picks:** We favor utilities, particularly in Turkey, Mexico, and Indonesia.
 - **Resilient Financials:** Banks and other financials have held up well across cycles.
 - **Latin America:** Airlines have rebounded strongly, with improved supply-demand dynamics.
 - **Middle East:** Pipeline operators are well-positioned amid stable commodity conditions.
 - **Brazil:** Energy services companies offer compelling thematic exposure.
 - **India:** Despite tariff headwinds, high-yield corporates remain backed by stable fundamentals and deep domestic capital markets.

Conclusion: Precision Over Broad Exposure

It is our view that the EM fixed income market remains rich with opportunity heading into Q4 2025. The macro backdrop is broadly supportive, but tighter valuations and diverging policy paths mean precision matters more than ever.

With global growth fears easing but risks still present, successful investing in EM debt will depend on navigating country-specific stories, policy developments, and sector dynamics. In this environment, we believe a selectively positioned, research-driven portfolio is best placed to capture the next leg of returns.

High Yield 4Q2025

Strength Beneath the Surface

While the financial media seems mostly focused on the new record highs in U.S. equities, U.S. corporate credit is on a historic run of its own. The ICE BofA U.S. High Yield Index gained 2.4% in Q3, extending its winning streak to 12 consecutive quarters, the longest since 1997. Spreads tightened by 2 bps during the quarter and 11 bps year-to-date, ending September at 299 bps—only 22 bps wider than the post-2008 tightness reached earlier in 2025. Investment grade spreads are even narrower on a historical basis: the spread on the ICE BofA U.S. Corporate Index ended the quarter at 76 bps, its tightest level since 1998.

The seemingly insatiable demand for high yield has continued unabated in 2025, except for a brief period of volatility following Liberation Day; in April, retail investors pulled \$10.9 billion from U.S. high yield mutual funds and ETFs, according to J.P. Morgan. Since then, from May through September, retail investors poured a total of \$18.5 billion back into high yield funds, including \$1.7 billion in September alone. Year-to-date, high yield funds have seen inflows of \$14.9 billion. When combined with inflows into leveraged loan and investment grade bond funds, total retail demand has swelled to approximately \$75 billion year-to-date, according to LSEG Lipper. These figures do not include demand from institutions, which we believe many of whom also increased credit allocations following the post-Liberation Day widening in spreads.

The supply of high yield bonds may finally be starting to catch up with demand. September new issuance totaled \$53 billion, marking the third-highest monthly volume in the high yield market's history and the most active month since 2021 (source: S&P Global Market Intelligence). After running about 10% below 2024 levels through Q2, year-to-date high yield issuance ended Q3 up 12% versus 2024.

Further growth in the supply of high yield bonds may be on the way. After several subdued years, corporate M&A activity has shown renewed signs of life (source: FitchRatings). Large-scale LBO activity, which had also been dormant, has picked up as well. Video game maker Electronic Arts recently announced plans to go private in what would be the largest LBO in history (source: Bloomberg).

The \$55 billion enterprise value includes \$20 billion of debt, which is expected to be financed in the leveraged loan and high yield markets.

High yield supply may also come from an unexpected source: AI infrastructure. Earlier this year, AI computing power provider and first-time high yield issuer CoreWeave sold \$3.75 billion of high yield holding company bonds to help finance its purchase of computer power from Nvidia (source - Bloomberg). On October 14, cryptocurrency miner and another debut issuer, TeraWulf, announced plans to raise \$3.2 billion of high yield bonds to finance part of a data center expansion (source: TeraWulf press release).

At the same time, some notable cracks have begun to emerge in the leveraged credit markets. In September, auto parts supplier First Brands announced it had run out of cash and filed for bankruptcy, wiping out shocked investors (source: Reuters). The company's Term Loan B—rated B1/B+ as recently as September—traded at \$96 on September 4 and changed hands at \$11 on October 14, according to Bloomberg. (First Brands did not issue high yield bonds but carried \$5.5 billion of leveraged loans.)

Just weeks earlier, Tricolor, a subprime auto dealer and finance provider, stunned investors when it abruptly filed for Chapter 7 liquidation. According to Bloomberg, the highest-rated tranches of the company's asset-backed securities (ABS)—once rated AAA—now trade in the \$70s, while a lower-rated tranche has plunged from \$105 in early September to \$12.50. (Tricolor was not a high yield issuer either, but it had issued over \$2 billion in the ABS market over the past five years.)

The circumstances surrounding First Brands and Tricolor appear to be company-specific and unrelated, but there are similarities. Both were private companies not subject to the same disclosure requirements or scrutiny as public issuers. Both companies obtained financing in opaque and less regulated markets. The lax oversight afforded management the opportunity to engage in alleged fraud.

High Yield 4Q2025 (cont'd)

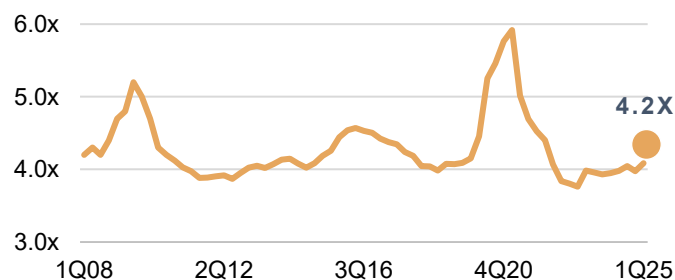
In recent years, bullish investor sentiment toward credit has led to a sharp compression in the liquidity premium—the extra yield on top of the premium for credit risk that investors demand to hold smaller, private, or less transparent companies. Historically, investors required meaningful additional yield to compensate for this risk. Today, many are rushing into private credit, willing to sacrifice liquidity for the prospect of modestly higher returns. Tricolor and First Brands serve as cautionary reminders that this premium should probably be higher.

Overall high yield credit fundamentals remain strong. High yield issuers are mostly exposed to the U.S. economy, which has avoided a recession. As shown below, the leverage ratio for high yield companies has declined below the historical average and the interest coverage ratio remains higher than past levels.

Figure 1: High Yield Credit Fundamentals are Strong

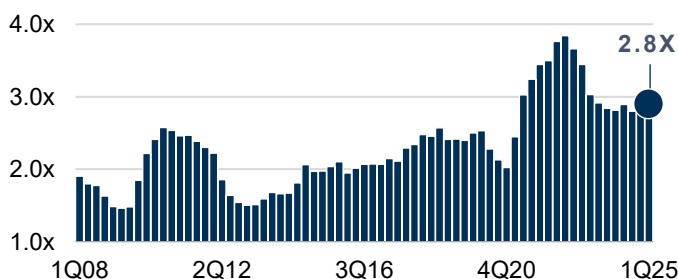
High Yield Leverage

LTM Debt/EBITDA



High Yield Interest Coverage

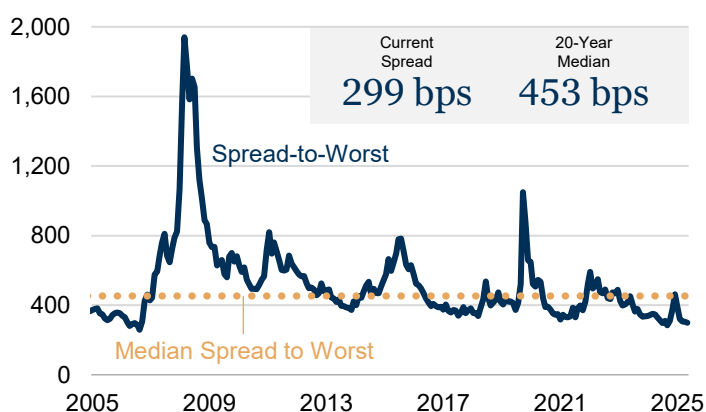
EBITDA-Capex/Interest Expense



Index: ICE BofA US High Yield Index
As of September 30, 2025
Source: ICE Data.

Valuations fully reflect the combination of favorable supply/demand, strong credit fundamentals, and bullish investor sentiment. As of September 30, 2025, the ICE BofA U.S. High Yield Index spread-to-worst of 299 bps is lower than its historical median and the post-GFC "non-panic" range of 325-525 bps, as illustrated below:

Figure 2: Spread-to-Worst



Index: ICE BofA US High Yield Index
As of September 30, 2025
Source: ICE Data.

While tighter-than-average high yield spreads are consistent with the current "everything rally" environment, overall yields in U.S. High Yield remain attractive. Current yields of 7.0% compare favorably to the post-2009 average yield of approximately 6.5% on the ICE BofA U.S. High Yield Index, especially when factoring in the improved credit quality of the market over that period.

Convertibles 4Q2025

Edward Silverstein, CFA, Senior Managing Director,
Head of Convertibles

Performance

The first nine months of 2025 have been a very good period for the U.S. Convertible market. The steep market decline in equity and equity-linked convertible markets from mid-February through early April seems long forgotten. Year-to-date (as of 9/30/25) the ICE BofA U.S. Convertible Index is up 15.70%, slightly ahead of the S&P 500's 14.81% advance and lagging the tech-heavy NASDAQ's 17.96% gain (source: Bloomberg). Despite the presence of many small and mid-cap companies in the U.S. convertible market, the asset class has not been negatively impacted by the performance of the small cap Russell 2000 Index which is up 10.38% year-to-date (source: Bloomberg). The solid performance of convertible securities relative to the major equity indices stocks has been helped by several small to medium-sized convertible issuers tied to AI infrastructure, cryptocurrency, and aerospace, that have experienced sharp gains this year and do not have meaningful weightings in the equity indices.

With the recent runup in the market, the average convertible bond price reached 119 at the end of the third quarter compared to just above 100 at the start of the year (source: Bloomberg). With this higher price comes greater equity sensitivity, or delta, and less downside mitigation in the event that stocks retreat. We are mindful of this market shift and have transitioned out of several very high delta portfolio positions into more defensive ones.

Issuance

Through the end of the third quarter of 2025, new issuance totaled \$81.9 billion (source: Bank of America data), well ahead of last year's \$52.5 billion of new issuance for the same period. September alone saw \$16.3 billion of new issuance as companies continue to use the convertible market as a source of funds to refinance existing debt or to meet capex needs (source: Bank of America data). New issuance has come from a variety of sectors and market caps.

Even with the recent drop-in interest rates, the convertible market remains a source of lower cost debt financing for companies seeking to raise capital. We purchased several new issue offerings as we believed that these companies have solid underlying businesses, strong prospects for growth, and reasonable valuations based on prospective free cash flow estimates. We expect the pace of new issuance going forward to be somewhat dependent on the direction of the equity markets. If stock prices remain elevated, company managements are likely to remain comfortable issuing a debt instrument linked to their common share price.

Positioning and Outlook

The convertible market's tremendous performance, up 8.58% in the third quarter alone, has us a bit more cautious in our outlook for our equity-linked asset class (source: Bloomberg). In addition, the increased equity sensitivity of the average convertible bond makes the market a bit more vulnerable in the event of an equity selloff. We have reduced our exposure to several securities with elevated bond prices and a high degree of equity sensitivity and lack of downside protection. More importantly, we have not chased those segments of the markets such as cryptocurrency whose valuation is not supported by a sound underlying business and free cash flow. While we are cautious about the direction of equities, we maintain a measured and agnostic stance on the broad market's direction, focusing instead on valuation discipline and issuer fundamentals. We are not incorporating any macro-economic view into our investment decisions. Our largest exposure is to the Information Technology sector which also has the largest representation in the U.S. convertible universe. We are relatively in-line with the benchmark's 29% weighting for that sector. We remain overweight in the Healthcare sector and underweight Utilities and Financials. We continue to believe that our process, which emphasizes strong company fundamentals and reasonable valuation, will outperform over a complete market or economic cycle.

IMPORTANT DISCLOSURE

Availability of products and services provided by MacKay Shields may be limited by applicable laws and regulations in certain jurisdictions and this document is provided only for persons to whom this document and the products and services of MacKay Shields may otherwise lawfully be issued or made available. None of the products and services provided by MacKay Shields are offered to any person in any jurisdiction where such offering would be contrary to local law or regulation. This document is provided for information purposes only. It does not constitute investment advice and should not be construed as an offer to buy securities. The contents of this document have not been reviewed by any regulatory authority in any jurisdiction. All investments contain risks and may lose value and these materials do not undertake to explain all of the risks associated with any investment strategy referred to herein. Clients and investors should not invest in any strategy referred to herein unless satisfied that they and/or their representatives have requested and received all information that would enable them to evaluate the merits and risks thereof. Any forward looking statements speak only as of the date they are made, and MacKay Shields assumes no duty and does not undertake to update forward looking statements. Any opinions expressed are the views and opinions of certain investment professionals at MacKay Shields which are subject to change without notice. There may have been, and may in the future be, changes to the investment personnel responsible for the management of the strategy(ies) described herein, as well as changes to the investment process utilized by such investment personnel.

No part of this material may be reproduced in any form, or referred to in any other publication, without the express written permission of MacKay Shields. © 2025 MacKay Shields LLC. All rights reserved.

Information included herein should not be considered predicative of future transactions or commitments made by MacKay Shields LLC nor as an indication of current or future profitability. There is no assurance investment objectives will be met.

It is not possible to invest directly in an index. Past performance is not indicative of future results.

NOTE TO UK AND EUROPEAN AUDIENCE

This document is intended only for the use of professional investors as defined in the Alternative Investment Fund Manager's Directive and/or the UK Financial Conduct Authority's Conduct of Business Sourcebook. To the extent this document has been issued in the United Kingdom, it has been issued by NYL Investments UK LLP, 200 Aldersgate Street, London UK EC1A 4HD, which is authorised and regulated by the UK Financial Conduct Authority. To the extent this document has been issued in the EEA, it has been issued by NYL Investments Europe Limited, 77 Sir John Rogerson's Quay, Block C Dublin D02 VK60 Ireland. NYL Investments Europe Limited is authorized and regulated by the Central Bank of Ireland (i) to act as an alternative investment fund manager of alternative investment funds under the Alternative Investment Fund Managers Directive (Directive 2011/61/EU) and (ii) to provide the services of individual portfolio management, investment advice and the receipt and transmission of orders as defined in Regulation 7(4) of the AIFMD Regulations to persons who meet the definition of "professional client" as set out in the MiFID Regulations. It has passported its license in additional countries in the EEA.

This document only describes capabilities of certain affiliates of New York Life Investments and/or MacKay Shields LLC. No such affiliates will accept subscriptions in any funds not admitted to marketing in your country or provide services to potential customers in your country, including discretionary asset management services, except where it is licensed to do so or can rely on an applicable exemption.

MacKay Shields LLC is a wholly owned subsidiary of New York Life Investment Management Holdings LLC, which is wholly owned by New York Life Insurance Company. "New York Life Investments" is both a service mark, and the common trade name of certain investment advisers affiliated with New York Life Insurance Company. Investments are not guaranteed by New York Life Insurance Company or New York Life Investments.

NOTE TO JAPANESE RECIPIENTS

This is issued by New York Life Investment Management Asia Limited (Financial Instruments Business Operator, Kanto Local Finance Bureau (FIBO) No. 2964, Member of Japan Investment Advisers Association and Type 2 Financial Instruments Firms Association) for institutional investors only. As costs and/or fees to be borne by investors vary depending on circumstances such as products, services, investment period and market conditions, the total amount nor the calculation methods cannot be disclosed in advance. All investments involve risks, including market fluctuation and investors may lose the principal amount invested. Investors should obtain and read the prospectus and/or information set forth in Article 37-3 of the Financial Instruments and Exchange Act carefully before making investment decisions.

SOURCE INFORMATION

ICE Data Indices, LLC ("ICE Data"), is used with permission. ICE® is a registered trademark of ICE Data or its affiliates, and BofA® is a registered trademark of Bank of America Corporation licensed by Bank of America Corporation and its affiliates ("BofA") and may not be used without BofA's prior written approval. ICE Data, its affiliates and their respective third-party suppliers disclaim any and all warranties and representations, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ice data, its affiliates nor their respective third-party suppliers shall be subject to any damages or liability with respect to the adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an "as is" basis and your use is at your own risk. ICE Data, its affiliates and their respective third-party suppliers do not sponsor, endorse, or recommend MacKay Shields LLC, or any of its products or services.

MacKay Shields LLC does not offer or sponsor any funds registered under the Investment Company Act of 1940, as amended ("Registered Funds"). MacKay Shields LLC serves in the capacity as investment manager of certain Registered Funds through sub-advisory arrangements.

This material contains the opinions of the Emerging Market Debt team of MacKay Shields LLC but not necessarily those of MacKay Shields LLC. The opinions expressed herein are subject to change without notice. This material is distributed for informational purposes only. Forecasts, estimates, and opinions contained herein should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Any forward-looking statements speak only as of the date they are made and MacKay Shields assumes no duty and does not undertake to update forward-looking statements. There may have been, and may in the future be, changes to the investment personnel responsible for the management of the strategy(ies) described herein, as well as changes to the investment process utilized by such investment personnel.

Information included herein should not be considered predicative of future transactions or commitments made by MacKay Shields LLC nor as an indication of current or future profitability. There is no assurance investment objectives will be met. Past performance is not indicative of future results.

IMPORTANT DISCLOSURE

INDEX DEFINITIONS

The J.P. Morgan EMBIG Diversified Index — The J.P. Morgan EMBIG Diversified Index tracks liquid, USD-denominated debt from emerging market sovereign and quasi-sovereign entities, but with a unique "diversification" methodology that limits the weight of larger countries by using a specified portion of their total debt. This weighting scheme allows smaller markets to have a greater influence than in the broader J.P. Morgan EMBI Global Index. The index includes fixed-rate and floating-rate instruments, excluding convertibles and inflation-linked bonds.

The JP Morgan CEMBI Broad Diversified Index — JP Morgan CEMBI Broad Diversified Index is a global benchmark for US-dollar-denominated corporate bonds from emerging markets, including a specific range of countries in Africa, Asia ex-Japan, Latin America, and Eastern Europe. It includes fixed, floating, and zero-coupon bonds, excluding defaulted issues, with a diversified structure that caps the weight of the largest country debt stocks to enhance diversification.

NOTE TO CANADIAN AUDIENCE

The information in these materials is not an offer to sell securities or a solicitation of an offer to buy securities in any jurisdiction of Canada. In Canada, any offer or sale of securities or the provision of any advisory or investment fund manager services will be made only in accordance with applicable Canadian securities laws. More specifically, any offer or sale of securities will be made in accordance with applicable exemptions to dealer and investment fund manager registration requirements, as well as under an exemption from the requirement to file a prospectus, and any advice given on securities will be made in reliance on applicable exemptions to adviser registration requirements.

SOURCE INFORMATION:

"Bloomberg®", "Bloomberg Indices®", Bloomberg Fixed Income Indices, Bloomberg Equity Indices and all other Bloomberg indices referenced herein are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the indices (collectively, "Bloomberg") and have been licensed for use for certain purposes by MacKay Shields LLC ("MacKay Shields"). Bloomberg is not affiliated with MacKay Shields, and Bloomberg does not approve, endorse, review, or recommend MacKay Shields or any products, funds or services described herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to MacKay Shields or any products, funds or services described herein.

INDEX DEFINITIONS

THE ICE BOFA U.S. HIGH YIELD INDEX

ICE BofA US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. The ICE BofA US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

ICE BOFA U.S. CORPORATE INDEX

The ICE BofA US Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market.



INVESTMENTS

"New York Life Investments" is both a service mark, and the common trade name, of certain investment advisors affiliated with New York Life Insurance Company.