

Quarter in Review and Highlights

Equity markets ended the year with another positive quarter, as the S&P 500 Index returned 2.66% despite a roughly 5% pullback in November.¹ The drawdown reflected investor reassessment of the path for interest rate cuts and increased scrutiny of elevated expectations for artificial intelligence (AI)-related capital spending. Corporate fundamentals remained supportive, with earnings growth staying in double-digit territory, underpinned by resilient consumer demand and continued investment in technology and infrastructure. Market leadership became less concentrated amid growing debate around the AI theme. Value stocks outperformed growth stocks, and international equities outpaced their U.S. counterparts.

- **The Federal Reserve (Fed) continued monetary easing with two 25-basis-point rate cuts, one in October and another in December, bringing the target range to 3.50%–3.75%...** The Treasury curve continued its path by modestly bull steepening as the market priced in the additional Fed cuts. Short-term rates, as measured by the 2-year Treasury, tightened approximately 13 basis points (bps) to near 3.48%, while the 10-year Treasury rose two bps to end the year at 4.17%.² The government shutdown and lack of timely economic data complicated the Fed's decision-making. Fed Chair Powell acknowledged the weakening labor market and the need to balance the Fed's dual mandate. The Fed carefully navigated through the fog but continued to cut rates closer to its neutral level.
- **Credit markets were predominantly stronger through the fourth quarter despite the government shutdown and softening labor data. Aside from investment-grade (IG) corporate bonds, every major U.S. fixed-income sector generated positive excess returns during the quarter...** IG corporate credit spreads widened by four bps, underperforming duration-matched Treasuries by four bps.³ Agency mortgage-backed securities were among the quarter's top performing sectors, generating 69 bps of excess returns over duration-matched Treasuries. U.S. corporate high-yield outperformed duration-matched Treasuries by 16 bps, adding 40 bps of excess returns during the December rally.⁴
- **Third-quarter gross domestic product (GDP) grew at an annualized rate of 4.4%, exceeding expectations once again and marking the strongest pace since the third quarter of 2023.⁵ Growth was primarily supported by robust consumer spending, which increased at a 3.5% annualized rate.⁶...** However, federal government agencies were shut down or operating at reduced staffing levels from October 1, 2025, through November 12, 2025, which is expected to weigh on fourth-quarter GDP growth.

Our investment capabilities incorporate a unified investment philosophy and process across the risk spectrum.

Enhanced
Cash

Short Duration
Bond

Core Plus
Bond

High Yield
Bond

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 fourth quarter. The Fed's easing policy further supported short-duration bond valuations. The front end of the yield curve remained elevated, offering historically attractive yields with minimal duration risk.

Front end corporate credit spreads widened modestly during the quarter by five bps.⁷ On a year-to-date basis, front end corporate credit spreads closed the year two bps tighter.⁸ Short duration IG corporate bonds outperformed duration-matched Treasuries by eight bps during the quarter, while the high-yield corporate bond market generated a total return of 1.3%.⁹

Strategy overweights by sector include high-quality collateralized loan obligations (CLOs), student loan asset-backed securities (ABS) and IG corporate bonds. Portfolio duration is currently in line with the benchmark, but we will remain opportunistic with duration and yield curve management.

Core Plus Bond Strategy

The Core Plus Bond Strategy outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, during the fourth quarter. Despite policy volatility, geopolitical uncertainties and the government shutdown disrupting official data releases, the economy showed resilience, with gross domestic product (GDP) growth remaining positive (although decelerating) and inflation gradually moderating.

Equity and credit markets delivered modest but positive returns during the quarter. Equity market leadership broadened slightly compared to earlier quarters. IG corporate credit spreads traded in a narrow range, finishing near the tightest levels seen since the late 1990s.¹⁰

PORTFOLIO MANAGERS

Scott Ellis, CFA

James Faunce, CFA

Hong Mu, CFA, FSA

Jen Ripper

John Swarr, CFA, ASA

Trevor Williams, CFA, CAIA

ABOUT US

Penn Mutual Asset Management (PMAM) is an institutional 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 \$42 billion in assets under management, PMAM is committed to offering fixed income investment solutions and client-focused services.

CONTACT

Penn Mutual Asset Management, LLC

Eight Tower Bridge
161 Washington Street, Suite 1111
Conshohocken, PA 19428
215-956-8114

www.pennmutualalam.com

 

The overweight in spread product broadly was the primary contributor to the outperformance, with the overweight in mortgage-backed securities (MBS) the principal driver. Strategy overweights remain focused on securitized spread sector investments including agency guaranteed residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS). Corporate credit selection also contributed positively to quarterly returns. We are maintaining duration consistent with the benchmark and positioned to benefit from yield curve steepening.

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 fourth quarter. The quarter delivered a strong benchmark total return of 1.53%, with the Strategy outperforming by 25 bps,¹¹ driven by effective security selection and the increase in credit risk throughout the year. While high-yield performance lagged modestly in October, it continued to deliver positive total returns. High yield experienced a notable improvement in November and December, posting 54 bps of excess returns.¹² During the quarter, BB- and B-rated bonds materially outperformed the lower quality tiers of the market.¹³

The broader Bloomberg U.S. Corporate High Yield Index finished December at an option-adjusted spread (OAS) spread of 266 bps, one basis point tighter from the end of September.¹⁴ Spreads widened to over 300 bps in both October and November before retracing to finish the quarter near the tights.¹⁵ For context, the year's tights occurred in early January 2025 at 256 bps, while the wides around Liberation Day reached 452 bps.¹⁶ The high-yield market remained resilient during the quarter, with default rates ending December at 1.88%, below the long-term average of approximately 3.25%.¹⁷

The Strategy continues to have an up-in-quality focus but has been adding credit risk to the portfolio throughout the quarter, positively contributing to performance. The Strategy is well-positioned to take advantage of opportunities in the high-yield market.

Outlook

The economy has been resilient in the face of the uncertainty created by U.S. trade policy. Improved clarity for governments, businesses and consumers should be a tailwind in 2026. Inflation has been trending lower but remains above the Fed's 2% target, keeping both policymakers and markets in a challenging position as they gauge the timing of future rate cuts. Importantly, inflation volatility has subsided, providing a supportive backdrop for fiscal, monetary and deregulatory stimulus to positively impact the economy in 2026. The recently announced mortgage-backed security (MBS) purchases aimed at lowering mortgage rates, T-bill purchases and adjustments to Treasury issuance across the curve should collectively help cap interest rates. However, the biggest risk to financial assets remains a "crack in the bond market" leading to a surge in long-term bond yields.

¹¹⁻¹⁶ Bloomberg data as of December 31, 2025
¹⁷ JPMorgan

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.

Disclosures

The views expressed in this material are the views of PMAM through the quarter ending December 31, 2025 and are subject to change based on market and other conditions without further notice.

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