LM CAPITAL GROUP
GLOBAL BOND MANAGEMENT

LM Capital Group Perspectives

Investment Insights
2Q 2025

Michael Chalker

Managing Director, Senior Portfolio Manager

"Liberation Day" Was Just the Beginning

The second quarter saw significant volatility across markets as investors grappled with tariff policy uncertainty and war in the Middle East. In both cases, investors' worst fears ultimately proved unfounded and in the absence of a meaningful weakening in the hard data, most major asset classes delivered positive returns over the quarter. The liberation day tariff announcement in April caused a sharp selloff across markets while the reciprocal tariff package was more aggressive than expected causing both stock and bond markets to react quickly. The 10-year Treasury yields rose 50 basis points within a week on fears the end-result would spike inflation. Ultimately, the US administration responded to market volatility and moved to soften its trade policy, pausing reciprocal tariffs for 90 days and agreeing on the principles of a trade deal with China.

The impact of a weakening dollar was further apparent across fixed income markets. While Treasury yields remained flat in aggregate, the curve steepened over the quarter as the bond market digested the future implications of the "One Big Beautiful Bill Act." This could add between \$3 and \$5 trillion to Federal debt over the next 10 years before accounting for any tariff offsets and raised questions about the sustainability of Federal finances.

Source: Bloomberg

Quarter in Review

The 10yr Treasury began the quarter at 4.21% and had a violent move in April all the way down to 3.86% then rallying to 4.59% within a week. The volatility did not stop there however, as we saw rates decline again before wavering the rest of the quarter to finish basically where we started at 4.23%. The US Dollar had a significantly weak quarter, finishing lower by -7.04% as continued confusion about global trade tariffs and economic weakness weighed on the greenback. Across the corporate landscape, the High Yield sector regained its position as best performer this quarter. Spreads across all sectors blew out in early April but have since retraced the entire move. Financials were the best performers with utilities and industrials producing very similar returns. Lowest rated securities were the largest outperformers while longest maturity securities significantly outperformed shorter ones.

The High Yield (+3.53%), Government Agency Securities (+1.30%), Emerging Market Debt (+2.54%), Corporate (+1.82%) and Non-Dollar (+8.65%) sectors outperformed the broader Barclays US Aggregate Index's return of +1.21% during the quarter. The US Treasury (+0.85%) and Mortgage-Backed Securities (+1.14%) sectors underperformed the broader index's return.

Market Outlook

The uncertainty continues. We have just received clarity on tax and budget policy. Tariffs and rate cuts are the big question marks now. We seem to be one surprising economic number away from a drastic change in expectations for the next Fed Funds rate cut. Will it be September? December? The US economy has shown surprising resilience while CFOs have waited for concrete tax and tariff numbers to determine the net present values of their planned projects.

For July, we are maintaining our cautious stance, with portfolio durations close to those of the benchmark indices. Durations are generally within 2% of the benchmark indices, and, where appropriate, we remain underweight in long-duration credit exposure by favoring US Agency MBS sector exposure instead.

In accounts that have a benchmark that includes 30-year US Treasuries, we remain significantly underweight the 30-year bucket of the benchmark. We have long seen that there is something special about the 30-year bond that allows its yield to be lower than expected by a rational long-term investor.

We remain positioned for a range-bound market, yet we fully expect that economic data in the third quarter could meaningfully affect the market, although the direction remains unclear. We find the continued strength in US corporate credit, compared to US Agency MBS, to be surprising. We attribute the strength to an absence of recession fears. However, we continue to fear the appearance of recession fears in the bond market.

We expect positive fixed-income returns over the next several months. July will provide greater insight into fiscal policy, federal budget deficits, and proposed tax cuts, as people digest the tax bill that seems to be imminent. If there is a whiff of fear in credit markets, we expect it to be largely offset by lower rates in the US Treasury market.

We do not expect to make significant changes to our portfolio positioning in the near future, although we are prepared to respond should certain scenarios come to fruition. We continue to expect a clearer picture of the economy and interest rates to emerge later in the year.

Pablo Barrientos

Senior Credit Analyst

Emerging Markets 2Q 2025 Review

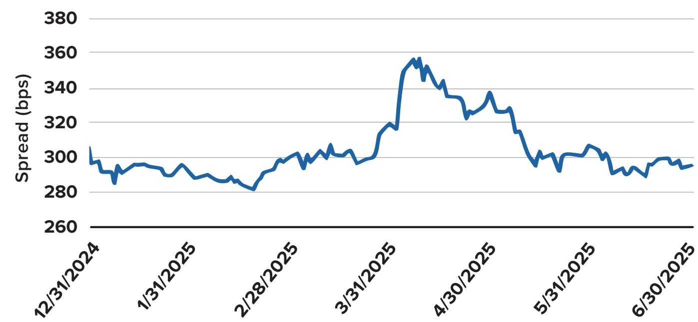
Emerging market (EM) debt markets ended the quarter at tighter spreads than on March 31 despite the steep widening that followed April 2 Liberation Day tariff announcements. While worst-case trade scenarios between the US and certain EM countries have largely faded, we anticipate greater clarity on tariff specifics in the second half of 2025.

The initial market shock from tariff uncertainty created attractive opportunities to increase exposure to oversold credits with strong fundamentals. Notable examples include Mexican petrochemical company Orbia, Colombian oil and gas explorer GeoPark, and Peruvian mining company Buenaventura.

Presidential elections also generated buying opportunities in Q2. Romania's election of Bucharest Mayor Nicusor Dan, a Euro-aligned candidate, reassured markets, allowing the government to focus on addressing fiscal challenges.

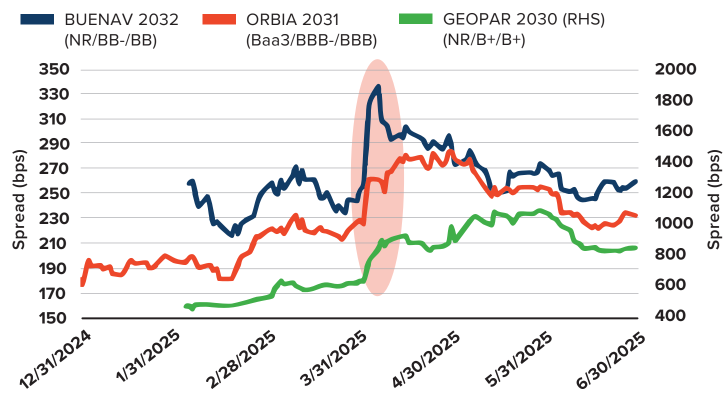
Mexico made history by electing judiciary members, including Supreme Court justices, for the first time. Despite low voter turnout of just over 10%, the ruling party gained control. While the implications of this new judiciary remain uncertain, demand for Mexican assets held firm, driving the peso from 20.47 on March 31 to 18.75 by June 30. However, the US dollar's depreciation against various emerging market currencies, not solely the Mexican peso, broadly enhanced asset performance across the sector.

EMBI Global



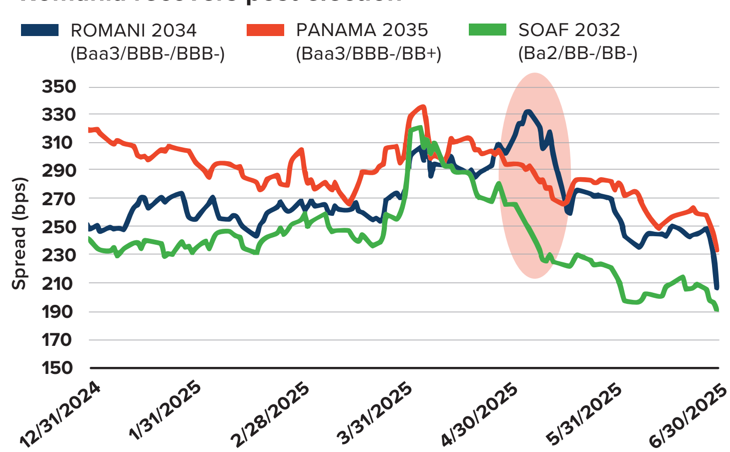
Source: Bloomberg

Impact on select spreads from Liberation Day



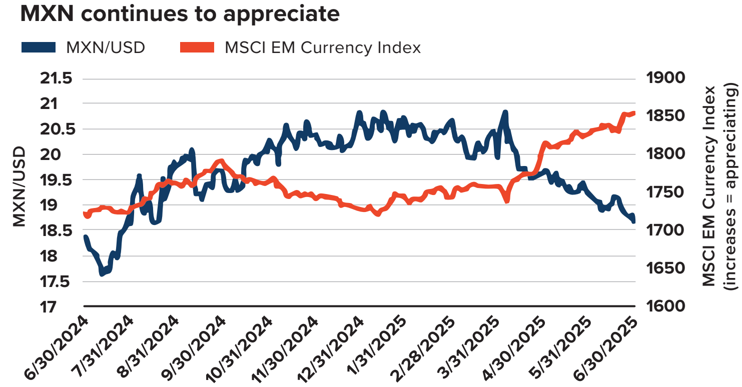
Source: Bloomberg

Romania recovers post election



Source: Bloomberg

MXN continues to appreciate



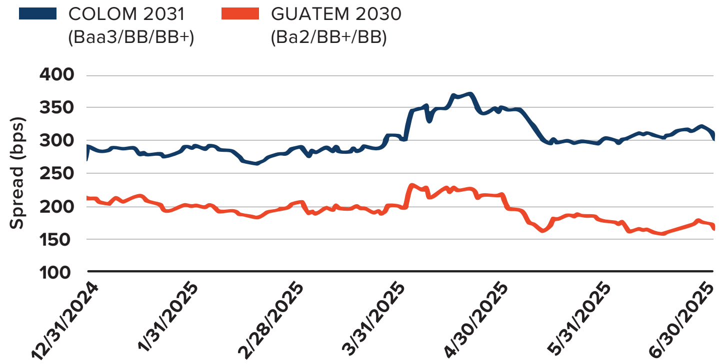
Source: Bloomberg

Also of note, ahead of recent rating downgrades, we exited most of our Colombian sovereign exposure due to a worsening fiscal outlook. We will closely monitor developments as the May 2026 presidential campaigns approach.

Primary markets remained active across the credit spectrum, offering opportunities to acquire attractive credits with new issue concessions. EM bond fund inflows were robust, with local currency funds recording historic inflows in June.

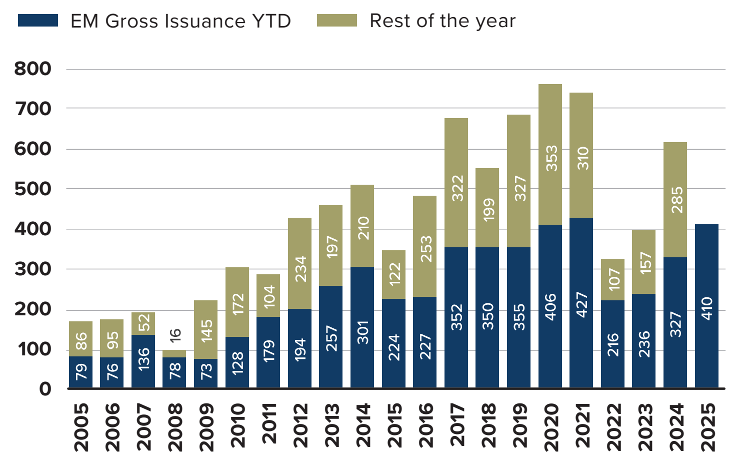
Looking to Q3, we expect primary market activity to slow until after Labor Day in September, when market participants return from their August break and tariff negotiations gain clarity. Meanwhile, we will actively seek attractive and opportunistic credits in the secondary market. Currently, we are closely monitoring Mongolia's sovereign bonds as the new prime minister stabilizes the political landscape and prioritizes fiscal responsibility.

Colombia's fiscal concerns keep spreads wide



Source: Bloomberg

EM sovereign and corporate gross supply (US$bn)



Source: Bloomberg, Bond Radar, Morgan Stanley Research

LM Capital Appoints New Managing Director

LM Capital Group appointed Michael Chalker to Managing Director effective July 1, 2025. Michael, a senior portfolio manager and macro analyst for the firm, assumed the position effective July 1, 2025.

This change reflects the execution of a well-established business continuity and succession plan that was developed in 2017 to ensure orderly transitions as senior leaders in the firm retire. The firm remains committed to providing a high level of service, communication and attractive risk adjusted returns to our clients and the consultant community.

In his new role, Michael will continue to focus on primarily overseeing the organization and performance of LM Capital's investment team, while maintaining his role as a senior portfolio manager. In addition, Michael will chair the firm's Management Committee which is responsible for major business decisions and the day-to-day operation of the firm.

"I'm very pleased to elevate Michael to the role of Managing Director. He has been an outstanding, long-tenured LM Capital professional with ten years of experience at the firm and over 15 years in the industry. He exemplifies our risk adverse culture and we look forward to him leading the firm into the future," said Luis Maizel, Senior Managing Director. John Chalker retired on June 30, 2025 after serving as Managing Director since the firm's inception in 1989. John Chalker will remain a shareholder and serve as an advisor to the firm on business issues and product development. Luis Maizel further added, "On behalf of the entire LM Capital team, I want to thank John for his excellent service since co-founding the firm with me in 1989. John has been a key to our success and we look forward to drawing on his knowledge in the future."

LM Capital Group welcomes William Wilson to the Operations Team

LM Capital Group is pleased to announce the addition of William Wilson as an Operations Analyst in the Operations Department.

Prior to joining the firm, Mr. Wilson worked at The Vanguard Group in Scottsdale, Arizona, where he served as an Investment Operations Senior Analyst. He holds a Bachelor's degree in Finance from Northern Arizona University and is currently a Level II candidate in the Chartered Financial Analyst (CFA®) program.

Please join us in welcoming him to the team!

LM CAPITAL GROUP
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750 B Street, Suite 3010, San Diego, CA 92101
info@lmcapital.com | 619-814-1401

www.lmcapital.com

For more information please contact

Cheryl King
Senior Vice President - Business Development
415-215-8882

Gerry Dodd
Senior Vice President - Business Development
817-538-4315

Adrienne Gaines
Senior Vice President - Business Development
619-814-1401