LM CAPITAL GROUP
GLOBAL BOND MANAGEMENT

LM Capital Group Perspectives
Investment Insights
4Q 2025

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The Cross Currents Continue

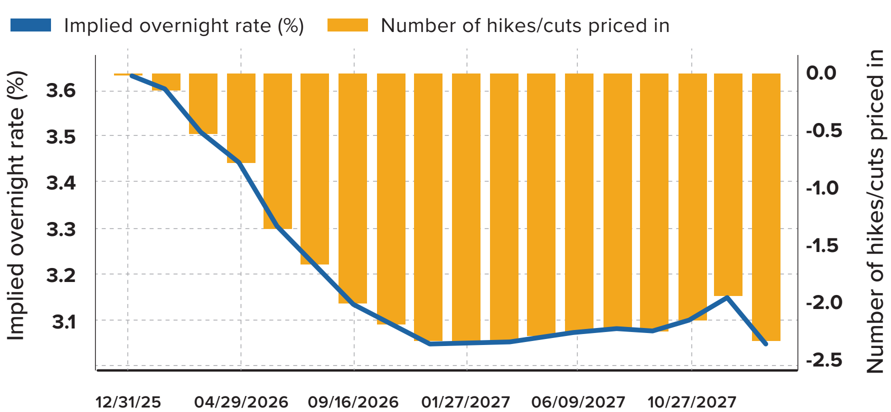
Markets dealt with many cross currents in 2025. The first half of the year was dominated by trade concerns as the US raised tariff rates to levels not seen since the 1930s. Developed markets fell hard at the onset of the news in early April but ultimately shrugged off the impact and ended the year considerably higher as they focused on the positive implications of fiscal and monetary stimulus that came through more policy announcements during the second half of the year. The need for more government funding meant fiscal concerns continued to weigh on government bonds and curves steepened in all major markets. The near-term economic outlook continues to be distorted by data delays from the government shutdown as recently released government data - reflecting conditions with a two-to-three-month lag - indicated inflation remains moderately above the Federal Reserve's target, while labor market conditions continued to soften.

The all-feared tariff-driven inflation spike failed to materialize and growing nervousness about the labor market meant that the FOMC had the green light to lower interest rates by 75 basis points in the second half of the year. This supported bond returns while investors continued to fluctuate on their opinions of how dovish the FOMC will continue to be in the coming year. As of December 31, 2025, the market had priced in two and half cuts in 2026 which we feel is slightly aggressive unless further signs of labor market weakness and a slowing economy appear.

World Interest Rate Probability

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
1/28/2026	-0.149	-14.9%	-0.037	3.598	0.250
3/18/2026	-0.535	-38.5%	-0.134	3.501	0.250
4/29/2026	-0.789	-25.5%	-0.197	3.438	0.250
6/17/2026	-1.346	-55.7%	-0.337	3.298	0.250
7/29/2026	-1.669	-32.3%	-0.417	3.218	0.250
9/16/2026	-2.012	-34.3%	-0.503	3.132	0.250
10/28/2026	-2.189	-17.7%	-0.547	3.088	0.250
12/09/2026	-2.342	-15.3%	-0.585	3.049	0.250
1/27/2027	-2.339	+0.3%	-0.585	3.050	0.250
3/17/2027	-2.341	-0.2%	-0.585	3.050	0.250
4/28/2027	-2.289	+5.2%	-0.572	3.063	0.250
6/09/2027	-2.250	+4.0%	-0.562	3.072	0.250

Implied overnight rate and number of hikes/cuts



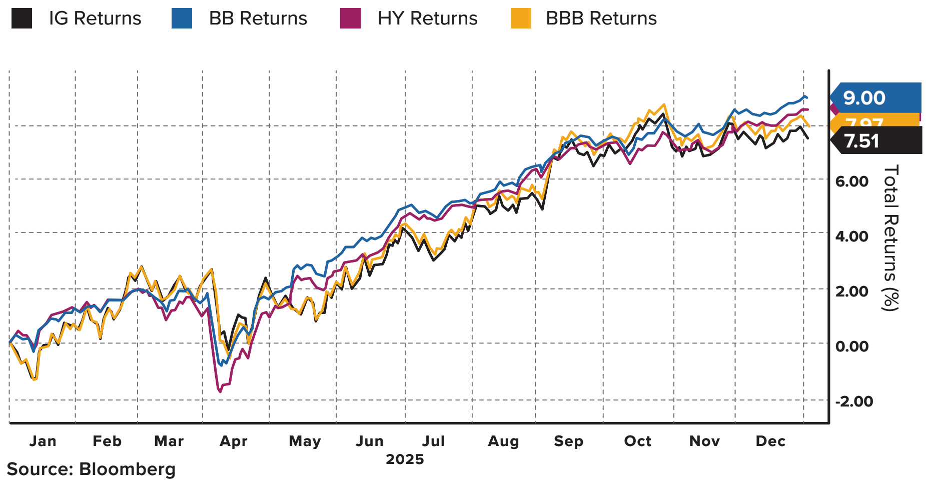
Source: Bloomberg

Due to concerns over the longer-term impact of the One Big Beautiful Bill on debt sustainability and the FOMC's struggle to contain inflationary pressures, US Treasuries lagged other indexes – particularly US Corporates and US Mortgages, which lead the trailing 12-month returns.

Sector returns were fairly strong once again this quarter: High Yield (+1.31%), Emerging Market Debt (+2.40%), and MBS (+1.71%) all outpaced the broader Barclays U.S. Aggregate Index (+1.10%). U.S. Treasuries (+0.90%) and U.S. IG (+0.84%), lagged the index and the Non-Dollar sector posted the only negative return at -0.47%.

Junk outperforms investment grade

BBs best performers in 2025 - Normalized as of 12/31/2024



Source: Bloomberg

Market Outlook

We continue to be positioned for a range-bound market but believe that the market is too complacent. Lately, the market has focused on any sign of economic weakness and downplays any sign of economic strength. Around this time of the year, we are always alert to the possibility that pressures from year-end positioning may overwhelm the signals from economic data.

Despite the recent focus on job creation, few market participants seem worried about a recession. We agree with the market assessment that recent unmasked frauds do not indicate imminent problems in corporate credit. The threat to corporate credit comes from the possibility of a weaker economy.

Currently, we are maintaining our cautious stance, with portfolio durations close to those of the benchmark indices. Durations are generally 1-2% short of the benchmark indices, and, where appropriate, we remain underweight in long-duration credit exposure by favoring U.S. Agency MBS sector exposure instead. We have been and continue to be positioned for a further steepening of the US Treasury yield curve, with the difference between short-term and long-term rates becoming greater. In accounts that have a benchmark that includes 30-year US Treasuries, we remain significantly underweight in the 30-year key rate duration bucket of the benchmark. We continue to maintain non-dollar-denominated debt in accounts that include that sector in their mandates.

We expect positive fixed income returns over the next several months and 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. Absent an unforeseen catalyst, we do not expect to make significant changes to our portfolio positioning. However, what appears to be market complacency is worrying and remains one of our chief concerns. We continue to expect a clearer picture of the economy and interest rates to emerge someday.

Pablo Barrientos

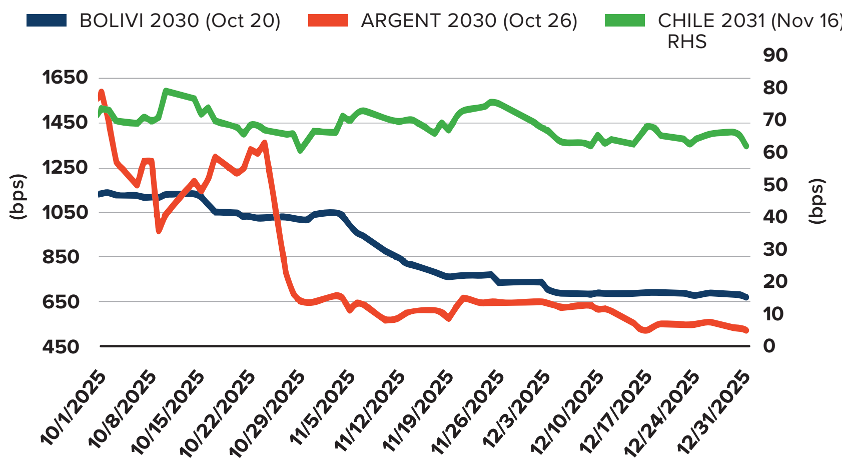
Senior Credit Analyst

Emerging Markets 4Q 2025 Review

Emerging markets (EM) during the fourth quarter of 2025 were significantly influenced by key political events across Latin America. Notably, the presidential elections in Chile and Bolivia, along with midterm legislative elections in Argentina, collectively solidified the conservative movement in the region. In Chile, far-right candidate José Antonio Kast secured a decisive victory on December 14, marking a shift toward more conservative policies reminiscent of the Pinochet era. In Bolivia, centrist Rodrigo Paz won the presidency on October 20, promising a transition to "capitalism for all" after two decades of socialist governance. Meanwhile, in Argentina, President Javier Milei's libertarian La Libertad Avanza party achieved a landslide in the October 27 midterms, enhancing his mandate for austerity measures. Investors responded positively to these outcomes, with fixed income securities in these countries experiencing upward price movements and a broader increase in risk appetite for regional investments.

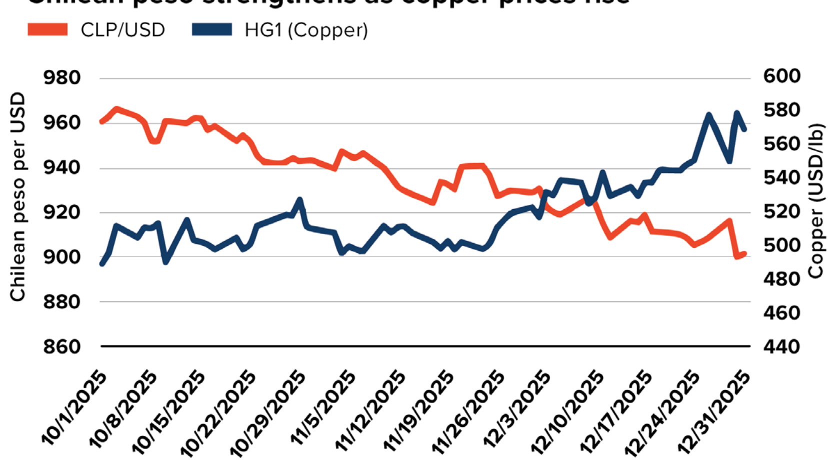
Global trade discussions advanced in Q4 2025, with the U.S. and China achieving a détente to ease tensions. Highlights included a November 1 framework agreement and a one-year trade deal for stability, after an October 30 extension of a 10% reciprocal tariff and a Fentanyl tariff cut from 20% to 10% effective November 10. China committed to buying at least 12 million metric tons of U.S. soybeans in the quarter's final months, alongside agricultural trade restorations, lowering overall tariffs on Chinese goods from 57% to 47% for a more predictable environment. This boosted commodity markets with reduced volatility and higher demand. Copper, vital for EM exporters like Chile, rose over 20% in 2025 to exceed $13,000 per ton by year-end, fueled by U.S. import surges, supply issues, and eased trade barriers enhancing industrial demand.

Spreads tighten following elections



Source: Bloomberg

Chilean peso strengthens as copper prices rise

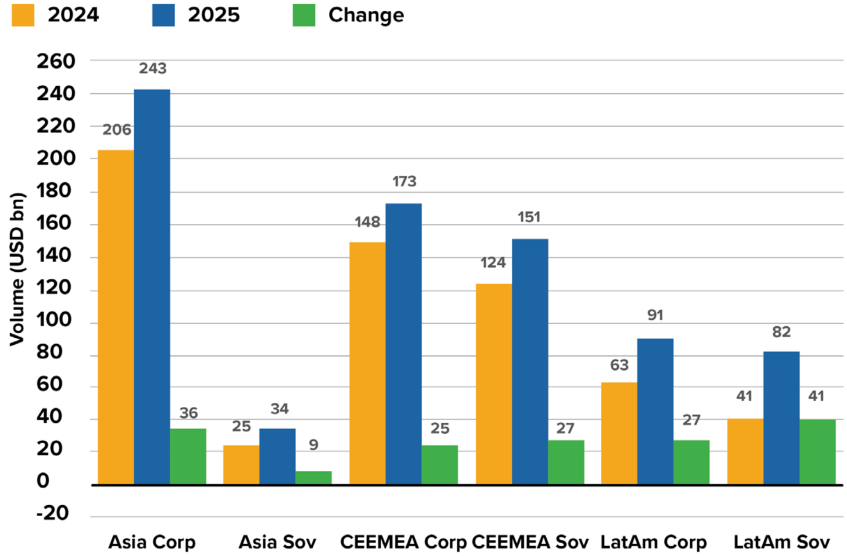


Source: Bloomberg

Overall, inflows into EM debt funds stayed robust throughout the fourth quarter of 2025, encompassing both hard-currency and local-currency vehicles. Primary markets remained vibrant, as sovereigns and corporates capitalized on stable conditions to pre-fund 2026 obligations and execute opportunistic liability management operations.

As we enter 2026, markets are poised to be influenced by key presidential elections in Colombia and Brazil, alongside evolving geopolitical factors such as the ongoing Russia-Ukraine conflict and Venezuela's shifting landscape following the U.S. military apprehension of Nicolás Maduro. Furthermore, the USMCA's joint review process is underway, with formal renegotiations expected to intensify this quarter amid preparations and stakeholder consultations. This could lead to revisions, extensions, or even withdrawal scenarios, including the possibility of shifting to bilateral agreements between the U.S., Canada, and Mexico, as U.S. officials have signaled interest in separate discussions to address distinct economic and trade dynamics.

EM Primary Debt Markets



Source: Bloomberg, Bond Radar

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