Great Lakes Water Authority

Investment Performance Report – March 2025

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Executive Summary

PORTFOLIO RECAP

- Safety – The aggregate portfolio is diversified amongst cash, bank deposits, U.S. Treasuries, Federal Agencies, commercial paper, SEC-registered money market funds, and a local government investment pool. The total credit profile of the portfolio is strong with over 99% of the assets invested in bank deposits or securities that are rated within the two highest short and long-term rating classifications as established by S&P rating agency.

- Liquidity – Great Lakes Water Authority ("GLWA") has continued to monitor its portfolio with the goal of limiting the allocation to cash and bank deposit accounts and maximizing the use of short-term investments to meet cash requirements. As of March 31, 2025, approximately 57% of the funds were held in cash and money market accounts maturing overnight. The percentage is a bit lower than what was seen in the prior quarter.

- Return – The overall yield at market decreased to 4.28% as of March 31, 2025, versus 4.42% as of December 31, 2024. The lower yield is reflective of the expectation of the Fed to continue reducing borrowing costs and the continuing of the easing cycle. GLWA earned over $38.2 million (unaudited) in investment income for the first nine months of fiscal year 2025 on a book value basis. Investment income includes earnings on all fund types, including restricted and unrestricted funds combined as well as construction and bond proceeds. It should be noted that investment income for GLWA for FY 2025 is projected to be less than what was seen in the prior fiscal year.

AVAILABLE FUNDS (Unaudited)

Type	Book Value	Market Value	Yield @ Cost *(as of 3/31/25)*	Yield @ Market *(as of 3/31/25)*
Deposit Accounts	$16,533,936	$16,533,936	2.12%	2.12%
Trust Money Market Fund	$352,321,054	$352,321,054	4.23%	4.23%
Money Market Fund	$16,494,397	$16,494,397	4.23%	4.23%
Local Government Investment Pool	$293,875,653	$293,875,653	4.39%	4.39%
Managed Funds	$504,748,154	$504,422,694	4.08%	4.31%
MARCH 2025 TOTALS:	***$1,183,973,193***	***$1,183,647,734***	***4.18%***	***4.28%***
PREVIOUS QUARTER TOTALS:	*$1,227,095,605*	*$1,226,000,655*	*4.26%*	*4.42%*

Accounts like the Flint Security Deposit and Retainage accounts which are not owned by GLWA are not included in this report.

Investment Strategy

OVERALL STRATEGY

- All investment activity is conducted subject to GLWA's investment policy and state statutes while meeting the primary objectives of safety and liquidity. The portfolio is managed to a disciplined investment plan to provide improved safety and diversification while putting every dollar to work.
- GLWA, working with its investment advisor PFM Asset Management ("PFMAM"), has continued to invest its funds in a mixture of short and intermediate-term individual investment securities to ensure adequate liquidity to cover upcoming debt, pension payments, and operational requirements.
- PFMAM will continue to actively manage long-term portfolios with full discretion and align short-term balances with expected liabilities and identify strategies to maximize future investment income in the current interest rate environment, subject to GLWA's investment policy and state statutes.

PORTFOLIO PERFORMANCE – CURRENT PERIOD*

- The overall portfolio's original yield at cost went from 4.26% as of 12/31/2024 to 4.18% as of 3/31/2025.
- The total portfolio had a market yield of 4.28% at the end of March, compared to 4.42% as of December 31, 2024. Yield at market represents what the market would provide in return if the portfolio was purchased on March 31, 2025 (versus purchased in prior months / years); the lower yield is a result of the expectation of the Fed policy to cut overnight interest rates in the near future.

PORTFOLIO PERFORMANCE – PROJECTIONS

- GLWA earned over $38.2 million (unaudited) in investment interest income for fiscal year-to-date 2025 (as of 3/31/2025) on a book value basis.
- The fiscal year-to-date 2025 period earnings were slightly lower than the 2024 fiscal year-to-date earnings, as expectations are for lower interest income for the entire FY 2025 mainly due to the expectation of the Fed moving monetary policy to a neutral level.

** Yield at cost is based on the original cost of the individual investments from the purchase date to maturity. On the other hand, yield at market is calculated on a specific day (in this case, March 31, 2025) and assumes that all the securities in the portfolio are purchased given the market price/yield on that particular day. If one is to generally hold their investments to the stated maturity date, then the yield at cost would be the better number to use to gauge how the portfolio is performing.*

Summary Market Overview and Outlook

ECONOMIC HIGHLIGHTS UPDATE

- The second quarter of 2025 got off to a turbulent start as markets reacted to the April 2nd announcement of tariffs on so-called "Liberation Day." The levies, which were significantly more punitive than originally anticipated, include a flat 10% tariff on all imports as well as more focused tariffs on specific countries with which the U.S. runs large trade deficits.
- Several major Wall Street firms reacted to the tariffs by lowering growth forecasts and increasing inflation expectations for 2025. Equity prices declined by 10% and the yield on the 5-year Treasury fell by over 25 basis points over the two-day period following the announcement
- At the Federal Open Market Committee ("FOMC") meeting several weeks earlier, the Federal Reserve (the "Fed") held the target range for the Federal Funds rate steady at 4.25% to 4.50%. The Fed's "dot plot" continued to show a total of 50 basis points of rate cuts over the balance of 2025 while its Summary of Economic Projections showed worse outlooks for GDP and PCE inflation.
- In Fed Chair Jerome Powell's post-meeting press conference, he emphasized the high level of uncertainty and increased risks to the economic outlook due to the unknown impact of policy changes. He noted that the Fed will remain patient and is well-positioned to react to any increases in inflation or deterioration of labor markets.
- Market sentiment continued to worsen in March. The University of Michigan's Consumer Sentiment index fell to the lowest level since July of 2022 while one-year inflation expectations also jumped significantly to 5.0%, representing the highest level since November of 2022.
- The month-over-month change in the Core Personal Consumption Expenditures Index ("PCE"), which is the Fed's preferred measure of inflation, increased at the fastest pace in over a year. Prices on durable goods, which are items expected to last several years, rose at the fastest pace since September 2022. This is particularly noteworthy because these price increases occurred prior to the implementation of any tariffs.
- Non-farm payrolls in March significantly exceeded expectations and grew by 228,000 jobs while the unemployment rate ticked up slightly to 4.2%. While the releases continue to point to a steady labor market, it was largely overshadowed by the tariff news earlier in April.

ECONOMIC IMPACT ON PORTFOLIO

- U.S. Treasury yields between six months and seven years declined in March and were led lower by deteriorating growth expectations over the intermediate-term. Meanwhile, the yield on the 10-year U.S. Treasury was essentially unchanged. In early April, yields fell significantly across the curve in response to tariff news.
- Yields on 3-month, 2-year, and 10-year U.S. Treasuries ended the quarter at 4.30%, 3.88%, and 4.21%, respectively. The move lower in yields resulted in positive fixed income returns for the quarter.
- Portfolio Impact: We will continue to maintain portfolio durations near 100% of benchmarks given the ongoing rate and policy uncertainty and the attractive level of absolute yields. Also, we continue to prefer a bulleted structure for longer-duration strategies as we expect the Treasury yield curve to steepen further. A reduction in the supply of U.S. Treasury Bills continues to put downward pressure on the money market yield curve. Meanwhile, credit spreads in the short end of the curve have eased, though existing supply has tightened up heading into quarter-end.

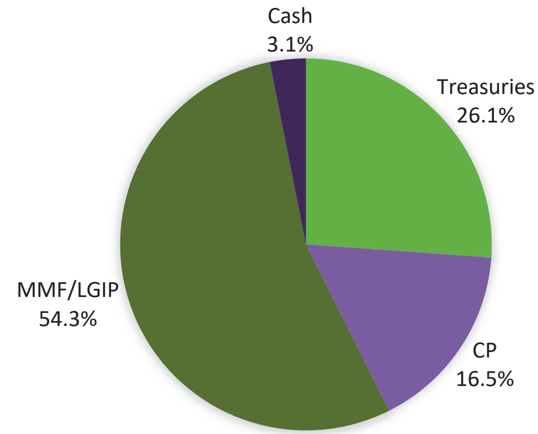
Portfolio Snapshot

Overall Portfolio Composition Summary

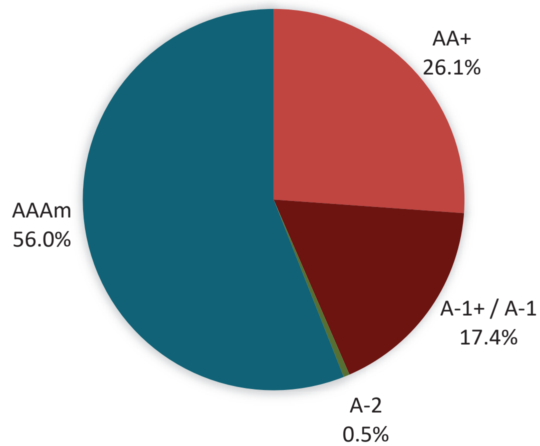
PORTFOLIO STATISTICS

Invested Amount	$1.183 Billion
Duration	0.24 Years
Yield at Cost	4.18%
Yield at Market	4.28%

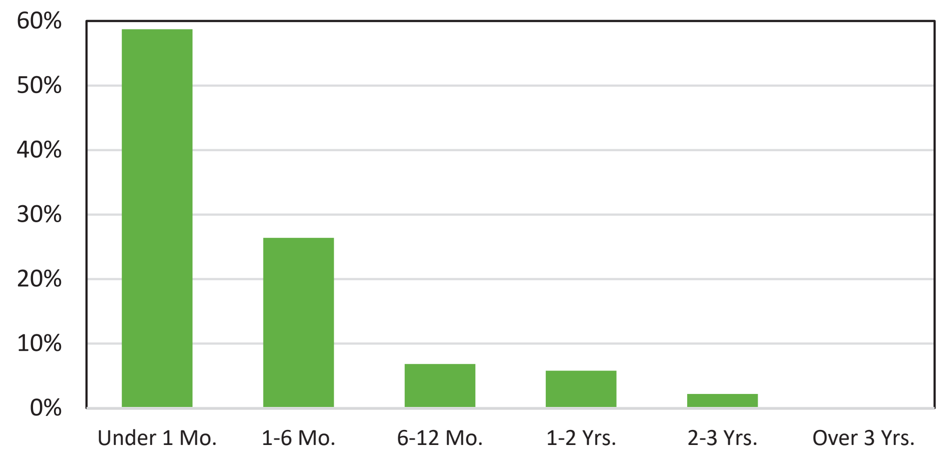
SECTOR ALLOCATION



CREDIT QUALITY



MATURITY DISTRIBUTION



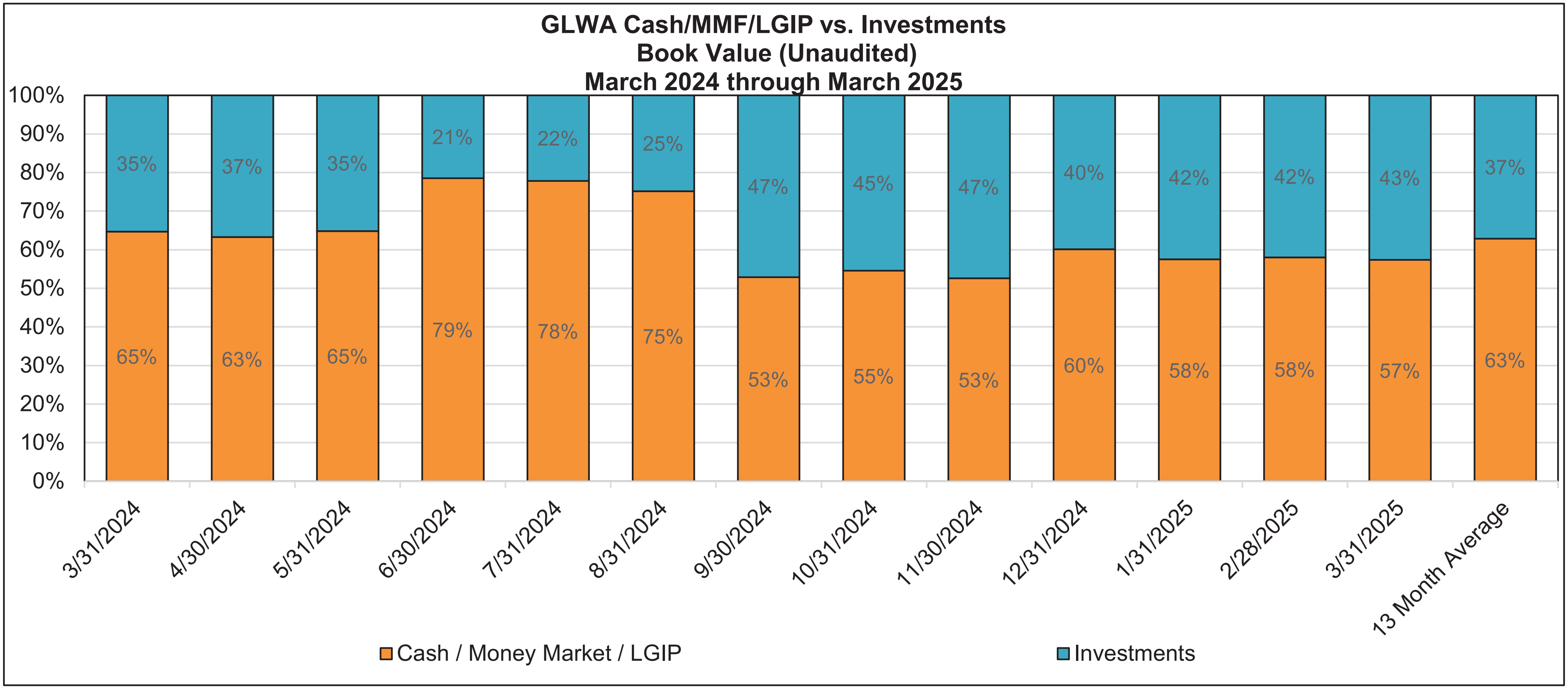
Accounts like the Flint Security Deposit and Retainage accounts which are not owned by GLWA are not included in this report.

Portfolio Snapshot

Portfolio Mix – Cash / Money Market vs. Investments

- GLWA's liquidity requirements fluctuate each month based on operational requirements, capital funding, and debt payments. Based on a review of historical activity and refinement of cash flow projections, GLWA has continually tried to balance the allocation of the portfolio's holdings to cash & money market accounts versus the allocation to investments for the portfolio holdings.

- The chart below compares the monthly allocation of the portfolio holdings to the 13-month average. The allocation between cash and investments will vary each month based on liquidity requirements. For March of 2025, around 57% of the overall portfolio was invested in cash, LGIP, and/or overnight money market fund accounts. This is slightly lower than the level seen in previous months and is reflective of the impending Fed rate cuts expected by the market.



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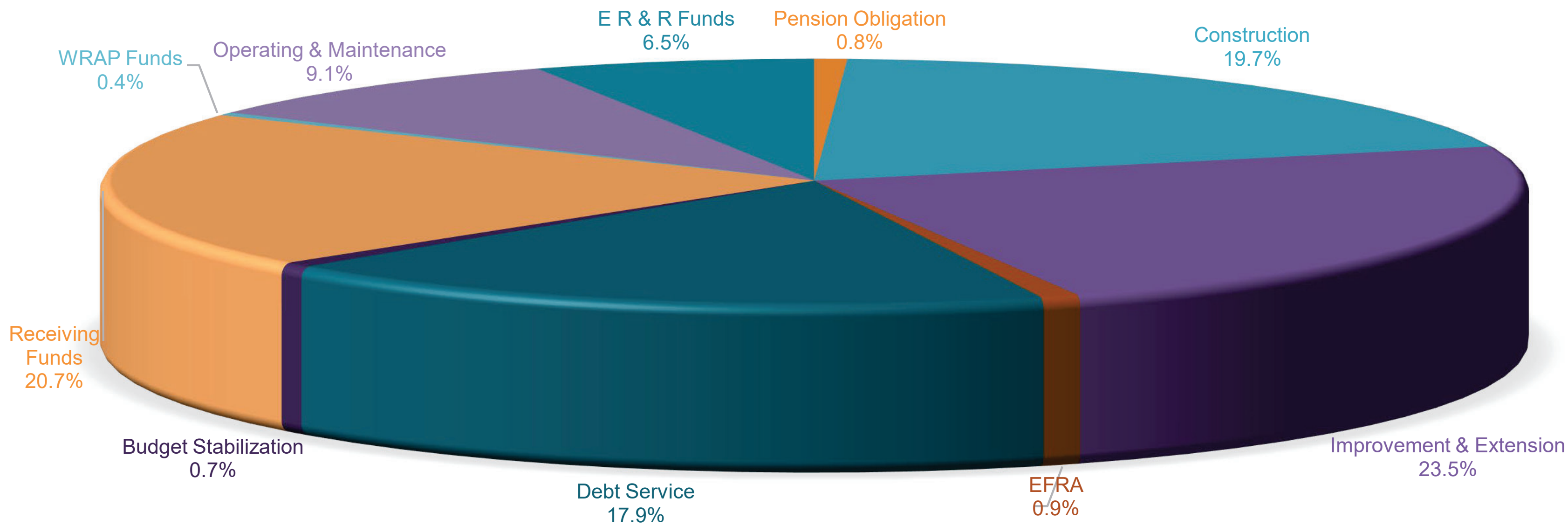
Portfolio Snapshot

Investments – By Account Purpose



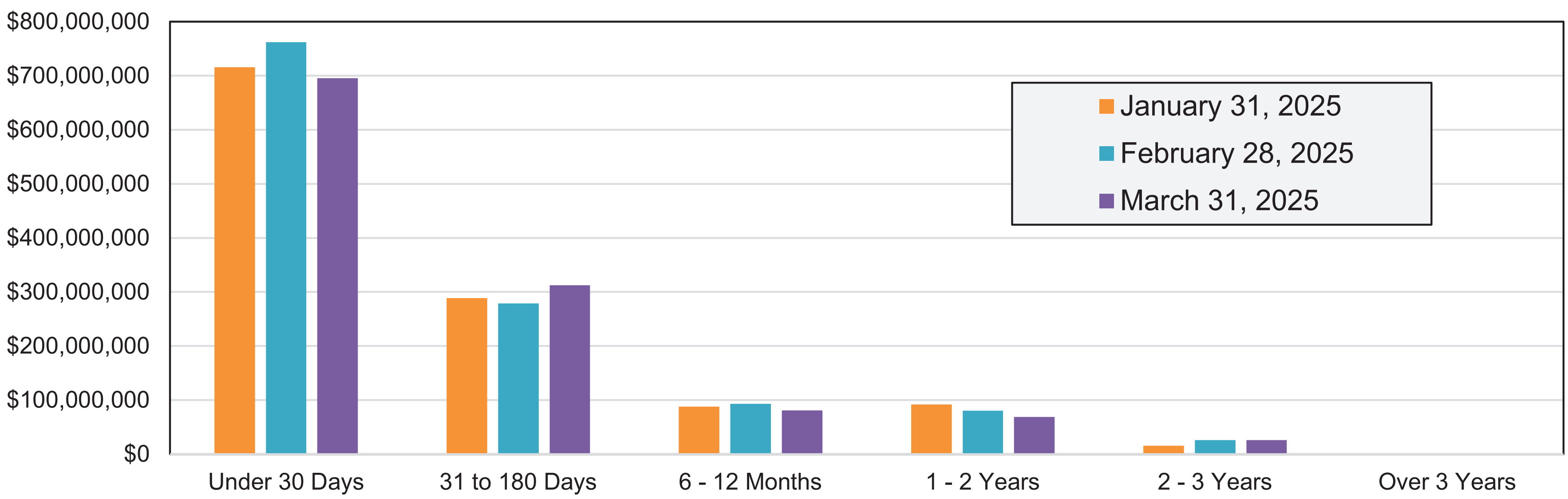
Account Purpose		Value Market	Allocation %	Cost Yield at	Market Yield at	Duration	Strategy
Improvement & Extension	$	277,721,076	23.5%	4.07%	4.27%	0.401 Years	Cash Flow Driven
Receiving Funds (includes lockbox account)	$	244,619,357	20.7%	4.20%	4.20%	0.003 Years	Short-Term
Construction Bond Funds	$	233,378,716	19.7%	4.36%	4.38%	0.020 Years	Cash Flow Driven
Debt Service	$	211,949,716	17.9%	4.35%	4.38%	0.261 Years	Short-Term
Operating & Maintenance	$	107,976,508	9.1%	4.19%	4.19%	0.003 Years	Short-Term
Extraordinary Repair & Replacement Funds	$	76,500,092	6.5%	3.55%	4.16%	1.372 Years	Long-Term
Evergreen Farmington Regional Account	$	10,241,132	0.9%	3.55%	3.55%	0.003 Years	Short-Term
Pension Obligation Funds	$	8,967,214	0.8%	4.48%	4.49%	0.160 Years	Short-Term
Budget Stabilization Funds	$	7,705,309	0.7%	3.64%	4.16%	1.305 Years	Long-Term
WRAP Funds	$	4,588,614	0.4%	4.23%	4.23%	0.003 Years	Short-Term
Total	**$**	**1,183,647,734**	**100.0%**	**4.18%**	**4.28%**	**0.244 Years**	

Accounts like the Flint Security Deposit and Retainage accounts which are not owned by GLWA are not included in this report.

Portfolio Snapshot

Investments – By Maturity

Maturity Distribution		January 31, 2025	%		February 28, 2025	%		March 31, 2025	%
Under 30 Days	$	715,592,933	59.6%	$	762,218,569	61.4%	$	695,294,079	58.7%
31 to 180 Days		288,881,278	24.1%		279,092,572	22.5%		312,379,297	26.4%
6 - 12 Months		88,109,015	7.3%		92,963,528	7.5%		81,020,163	6.8%
1 - 2 Years		91,955,630	7.7%		80,489,687	6.5%		68,779,401	5.8%
2 - 3 Years		15,865,634	1.3%		26,102,891	2.1%		26,174,795	2.2%
Over 3 Years		-	0.0%		-	0.0%		-	0.0%
Totals	**$**	**1,200,404,490**	**100.0%**	**$**	**1,240,867,246**	**100.0%**	**$**	**1,183,647,734**	**100.0%**



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Portfolio Snapshot

Investment Accounts – Yield at Cost & Market

	As of March 31, 2025		As of December 31, 2024	
	YTM @ Cost	YTM @ Market	YTM @ Cost	YTM @ Market
Bank Deposits				
Bank A	0.01%	0.01%	0.01%	0.01%
Bank C	3.35%	3.35%	3.39%	3.39%
Sub-Total Bank Deposits	**2.12%**	**2.12%**	**2.20%**	**2.20%**
Money Market Funds / LGIPs				
Local Government Investment Pool	4.39%	4.39%	4.49%	4.49%
Trust Money Market Fund	4.23%	4.23%	4.37%	4.37%
Money Market Fund	4.23%	4.23%	4.37%	4.37%
Sub-Total MMF / LGIPs	**4.30%**	**4.30%**	**4.42%**	**4.42%**
Investment Portfolios				
Sewage SR Debt Serv 5403	4.35%	4.43%	4.38%	4.56%
Sew 2nd Debt Serv 5403	4.34%	4.33%	4.41%	4.41%
Sew SRF Debt Serv 5410	4.37%	4.38%	4.63%	4.45%
Sewage ER & R	3.47%	4.17%	3.04%	4.54%
Sewer Improvement & Extension	3.95%	4.29%	4.12%	4.49%
Sewer Pension Obligation	4.47%	4.49%	4.61%	4.67%
Sewer Budget Stabilization Fund	3.63%	4.16%	3.19%	4.53%
Sewer Bond Fund	4.25%	4.37%	4.39%	4.51%
Water SR Debt Ser 5503	4.35%	4.35%	4.42%	4.48%
Water 2nd Debt Serv 5503	4.33%	4.33%	4.41%	4.41%
Water SRF Debt Serv 5575	4.38%	4.38%	4.66%	4.45%
Water ER & R	3.65%	4.15%	3.31%	4.50%
Water Improvement & Extension	4.00%	4.30%	4.20%	4.52%
Water Pension Obligation	4.50%	4.49%	4.63%	4.65%
Water Budget Stabilization Fund	3.63%	4.16%	3.17%	4.54%
Water Bond Fund	0.00%	0.00%	4.56%	4.85%
Sub-Total Investment Portfolios	**4.08%**	**4.31%**	**4.11%**	**4.52%**
Grand Total	***4.18%***	***4.28%***	***4.26%***	***4.42%***

YTM @ Cost is the expected return, based on the original cost, the annual interest receipts, maturity value and the time period from purchase date to maturity, stated as a percentage, on an annualized basis. YTM @ Market is the rate of return, based on the current market value, the annual interest receipts, maturity value and time period remaining until maturity, stated as a percentage, on an annualized basis.

Portfolio Snapshot

Peer Analysis Comparison

- The comparison agencies included in the list below were selected based on type and/or other non-performance-based criteria to show a broad range of water entities/utilities; this peer group list does not represent an endorsement of any of the public agencies or their services.
- The overall yield of GLWA's aggregate portfolio compares somewhat similarly to those of other short-term market indices (i.e., the S&P LGIP index and the 3-month U.S. Treasury index), despite the volatility of short-term interest rates and the limited ability in managing assets to a longer-term strategy.
- GLWA does have some limitations and unique constraints related to its ordinance and covenants that restricts the potential for a longer duration portfolio when compared to other similar water agencies.

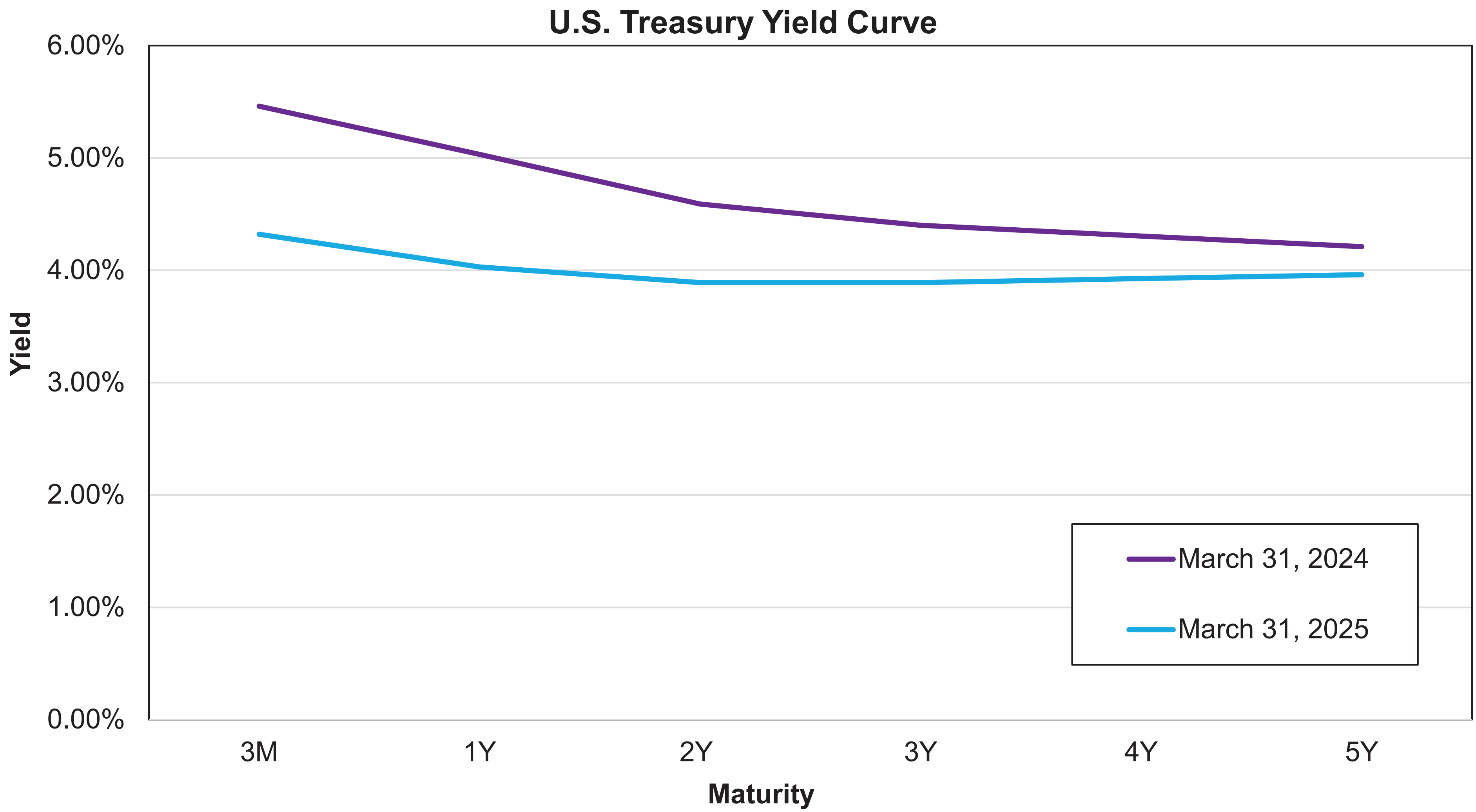
	As of March 31, 2025			
	Market Value	*YTM @ Market*	*Effective Duration*	*Weighted Average Maturity*
GLWA				
Great Lakes Water Authority	$1,183,647,734	4.28%	0.24 Years	92 Days
Short/Intermediate-Term Indices				
S&P Rated Government Investment Pool Index		4.34%	0.08 Years	30 Days
BoA / ML 3-Month Treasury Index		4.33%	0.15 Years	55 Days
BoA / ML 6-Month Treasury Index		4.24%	0.40 Years	146 Days
BoA / ML 1-Year Treasury Index		4.12%	0.88 Years	321 Days
BoA / ML 1-3 Year Treasury Index		3.94%	1.75 Years	639 Days
BoA / ML 1-5 Year Treasury Index		3.93%	2.48 Years	905 Days
Peer Analysis (Water Entities / Utilities)				
District of Columbia Water & Sewer Authority, DC	$177,135,991	4.08%	1.65 Years	678 Days
DuPage Water Commission, IL	$134,804,160	4.18%	2.37 Years	1,222 Days
Fairfax County Water Authority, VA	$196,531,869	4.16%	1.83 Years	725 Days
Metro Wastewater Reclamation District, CO	$218,693,033	4.03%	2.51 Years	989 Days
Metropolitan Water District of Southern California, CA	$892,808,240	4.28%	1.71 Years	746 Days
Philadelphia Water Department, PA	$270,405,398	4.26%	0.93 Years	356 Days
San Bernardino Valley Municipal Water District, CA	$366,268,572	4.10%	1.67 Years	662 Days
Tohopekaliga Water Authority, FL	$149,457,756	4.24%	1.69 Years	862 Days
Truckee Meadows Water Authority, NV	$56,560,322	4.29%	1.31 Years	514 Days

The BoA / ML indexes are unmanaged indexes tracking on-the-run Treasuries. These indexes are produced and maintained by Bank of America / Merrill Lynch & Co. Yield to maturity is the rate of return, based on the current market value, the annual interest receipts, maturity value and time period remaining until maturity, stated as a percentage, on an annualized basis.

Portfolio Snapshot - Market Overview and Outlook

U.S. Treasury Yields Lower Across the Curve

- Treasury yields have fallen on the shorter end of the curve during the last quarter, with the 2 and 5-year yields dropping as more signs have emerged that the economy may be slowing. Yields continue to experience intra-day volatility with the curve steepening and flattening daily as investors grapple with a steady stream of headlines and their potential implications for the future. The front end of the curve remains inverted.



Portfolio Snapshot

Monthly Investment Income

(Book Value in 000's)

FY 2025 INVESTMENT INCOME BY MONTH (Unaudited)

Month	Interest Earned During Period *(in thousands)*	Realized Gain / Loss *(in thousands)*	Investment Income *(in thousands)*
July 2024	$4,774.3	$0.0	$4,774.3
August 2024	$4,448.3	$0.0	$4,448.3
September 2024	$4,661.9	$4.0	$4,665.9
October 2024	$4,538.4	$0.0	$4,538.4
November 2024	$4,153.8	$0.0	$4,153.8
December 2024	$4,217.5	$0.0	$4,217.5
January 2025	$3,982.4	$0.0	$3,982.4
February 2025	$3,620.4	$0.0	$3,620.4
March 2025	$3,881.6	$0.0	$3,881.6
FY 2025 Y-T-D	***$38,278.7***	***$4.0***	***$38,282.7***

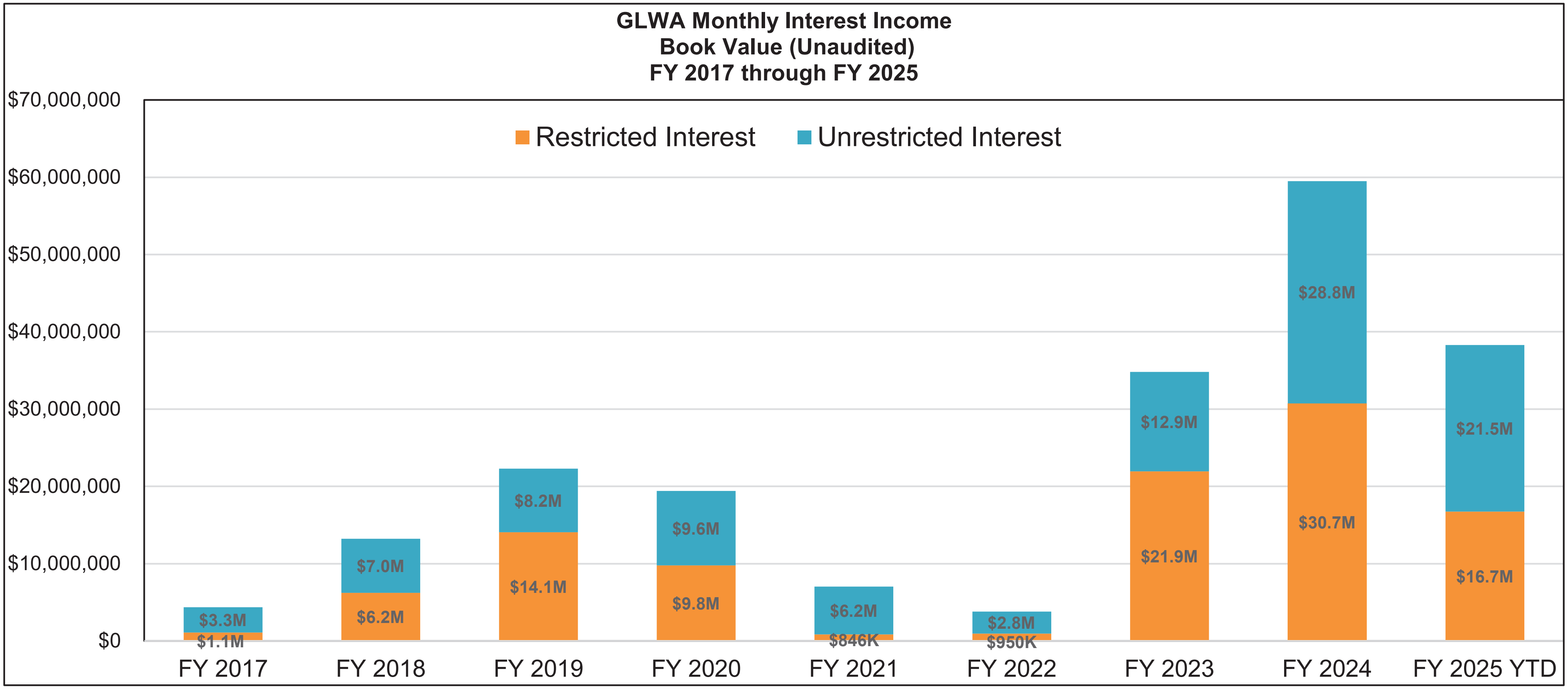
** The realized gain in September of 2024 was due to the sale of an investment in the Sewer SRF account to fund Debt Service payment. The sale of this security resulted in a slight realized gain.*

These figures are based upon actual interest earned and posted to the Authority's various accounts via book value and does not include any earnings credit rate tied to the Authority's bank deposits.

Portfolio Snapshot

Year-Over-Year Investment Income

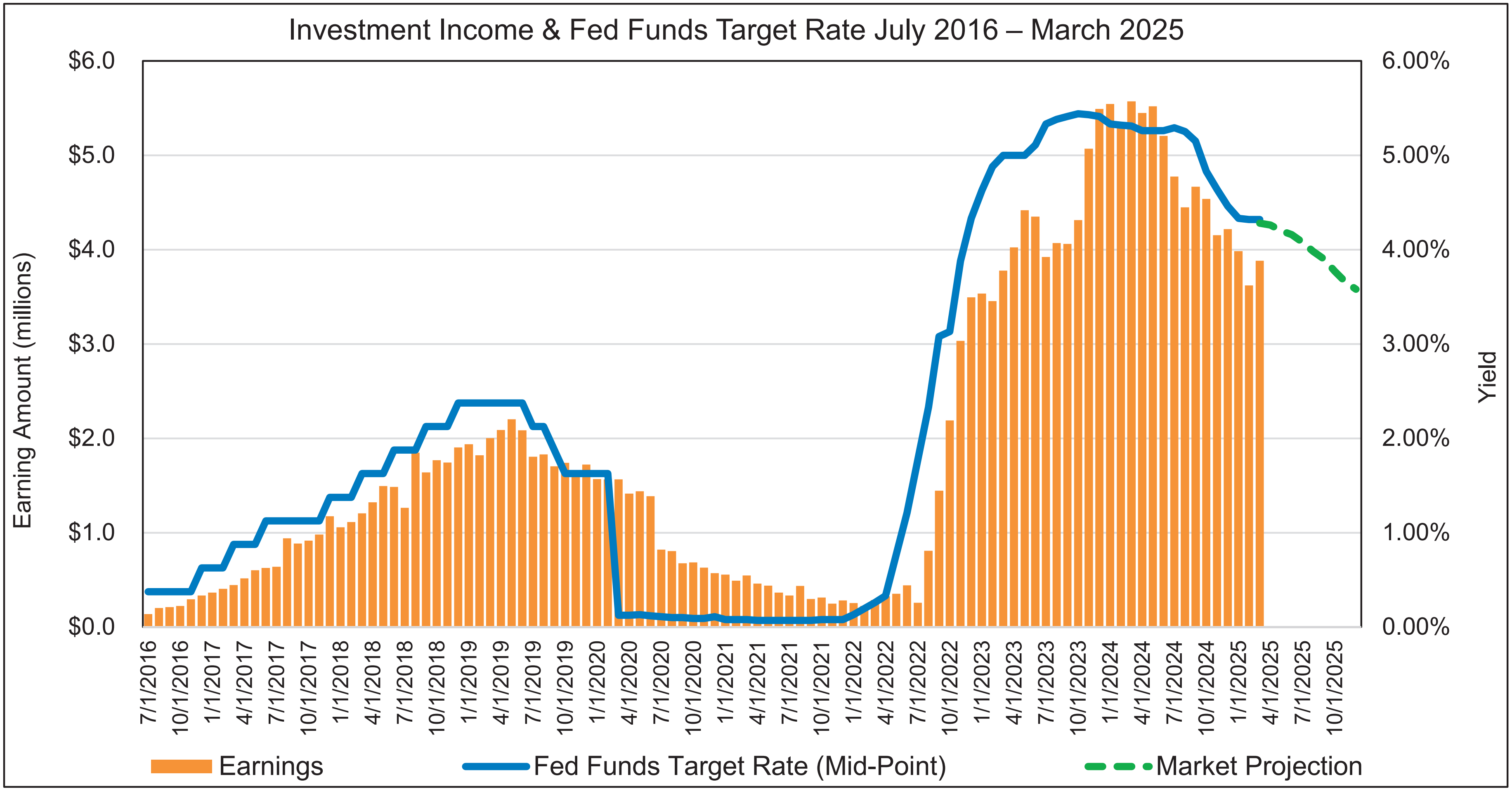
- GLWA earned $38.3 million in investment income for the first nine months of fiscal year 2025 on a book value basis compared to $43.3 million for the first nine months of fiscal year 2024.
- Based on current market assumptions, projected total investment income for fiscal year 2025 is forecasted to be $49.0 million compared to the $59.5 million in earned in FY 2024 (for both restricted fund income and unrestricted fund income combined) as the market continues to expect the Federal Reserve to cut overnight rates over the next several months.



Portfolio Snapshot

Monthly Investment Income Compared to Fed Funds Rate

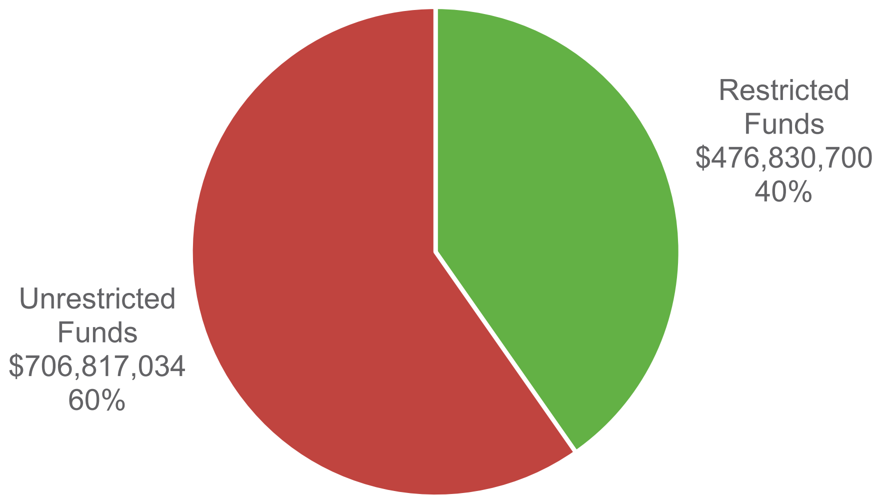
- At least 50% of the GLWA portfolio is designated for obligations that are 12 months or less. As a result of the short-term duration of GLWA's portfolio, it is heavily impacted by changes in the Fed Funds rate; the chart below shows that GLWA's income has consistently followed the trend of the Fed Funds rate.
- Continued strength in the jobs market leaves the Fed with some comfort in their current position and their ability to wait for further clarity on incoming data before they move. While two rate cuts in calendar year 2025 still seem likely, inflation risk from soaring tariffs, amidst a healthy jobs market, could pressure the Fed to be even more cautious. On increased concerns that high inflation may be persistent, the Fed may be reluctant to cut rates. To combat inflation, the Fed might maintain higher interest rates for an extended period, delaying any rate cuts until later in the 2025 calendar year.



Portfolio Snapshot

Allocation and Income by Fund Type

Bank Balance as of March 31, 2025



July 2024 – March 2025 Interest Earnings

Restricted Principal and Restricted Interest
Construction Bond Funds
Debt Reserves
Debt Service
Evergreen Farmington Regional Account

Unrestricted Principal Unrestricted Interest
Extraordinary Repair & Replacement Funds
Improvement & Extension
Operating & Maintenance
Receiving Funds (includes lockbox account)

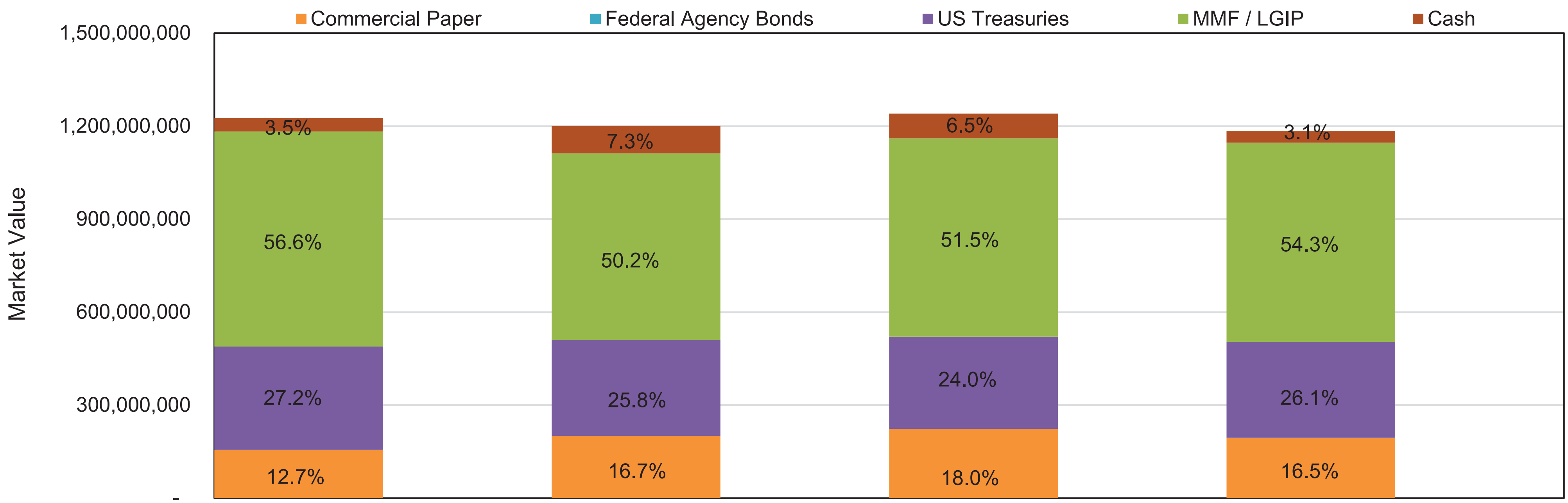
Note: Interest in I&E accounts is sent to the Receiving Funds and can be used for operations; DWSD's portion of the Receiving Funds is restricted and held in trust.

Restricted Principal Unrestricted Interest
Budget Stabilization Funds
Pension Obligation Funds
WRAP Funds

Note: Interest is sent to the Receiving Funds and can be used for operations

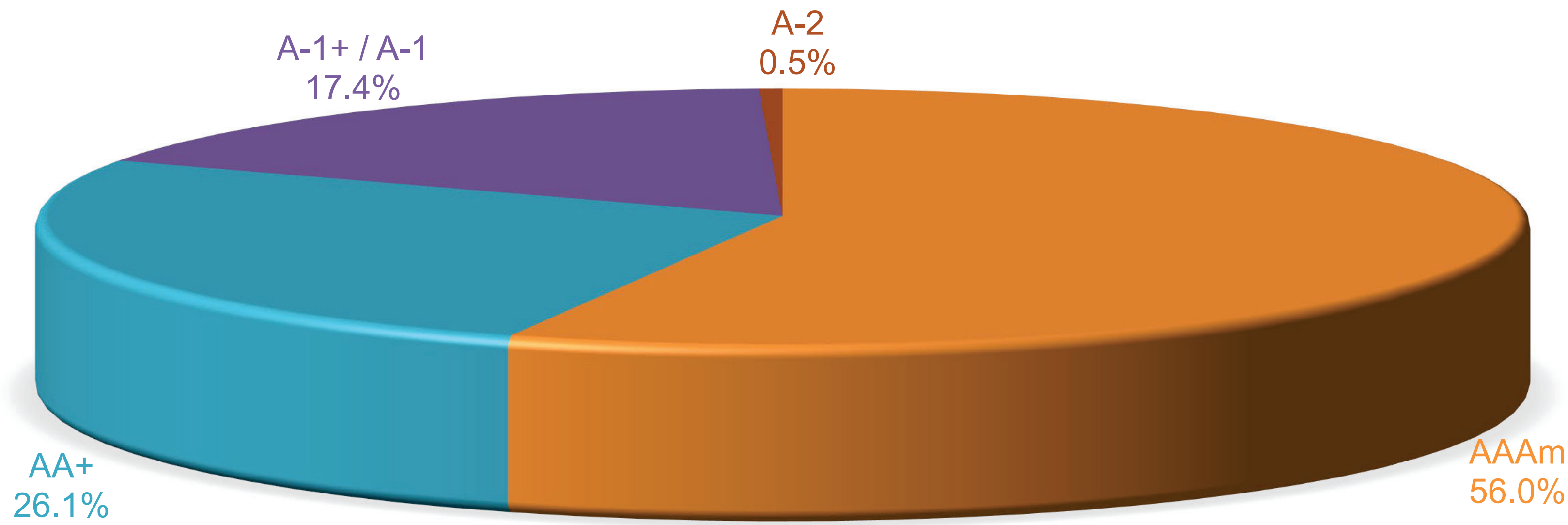
Portfolio Snapshot

Investments – By Security Type



Security Type	December Market Value	December Asset Allocation	January Market Value	January Asset Allocation	February Market Value	February Asset Allocation	March Market Value	March Asset Allocation
Commercial Paper	155,456,466	12.7%	200,330,069	16.7%	223,064,286	18.0%	195,077,358	16.5%
Federal Agencies	-	0.0%	-	0.0%	-	0.0%	-	0.0%
U.S. Treasuries	333,138,317	27.2%	309,634,956	25.8%	298,274,465	24.0%	309,333,902	26.1%
MMF / LGIP	694,086,819	56.6%	602,336,911	50.2%	639,046,776	51.5%	642,242,938	54.3%
Cash	43,319,053	3.5%	88,102,554	7.3%	80,481,720	6.5%	36,993,536	3.1%
Total	**1,226,000,655**	**100.0%**	**1,200,404,490**	**100.0%**	**1,240,867,246**	**100.0%**	**1,183,647,734**	**100.0%**

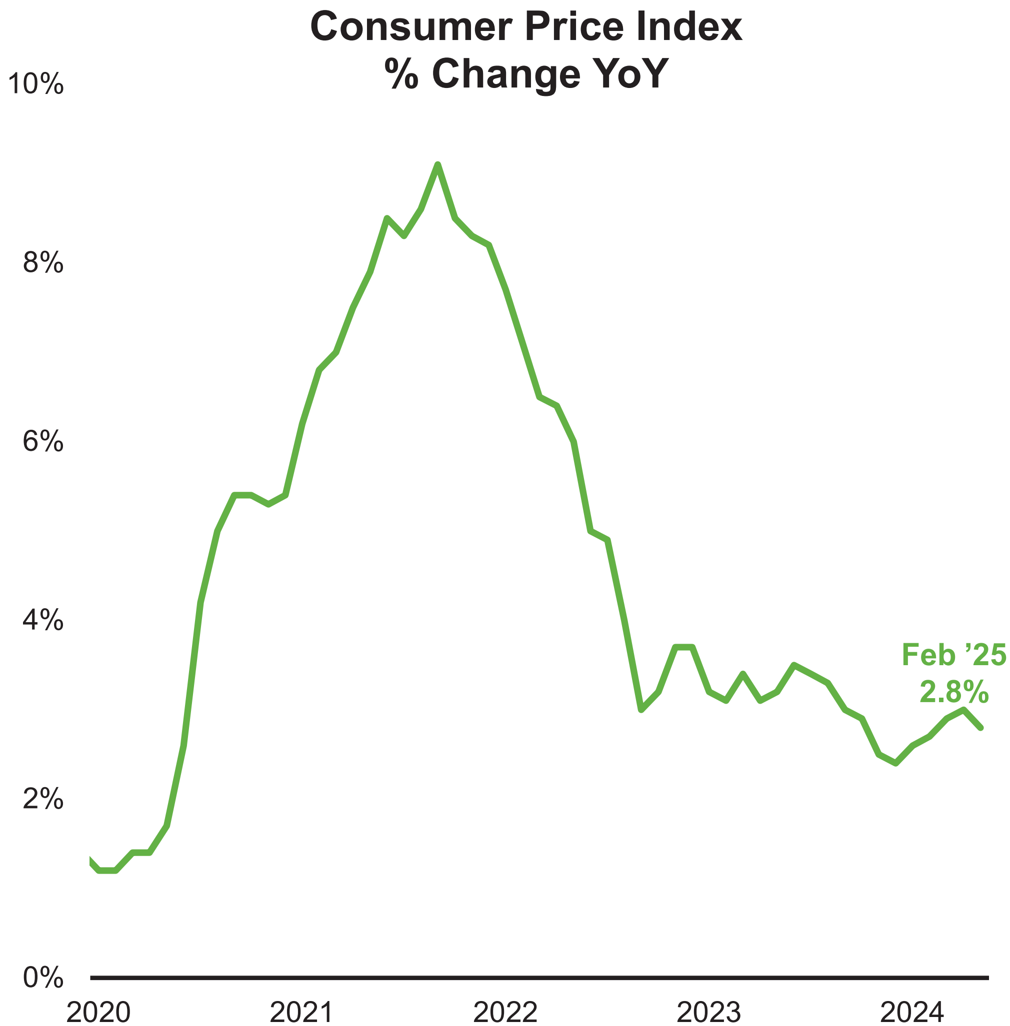
Portfolio Snapshot
Investments – By Credit Quality

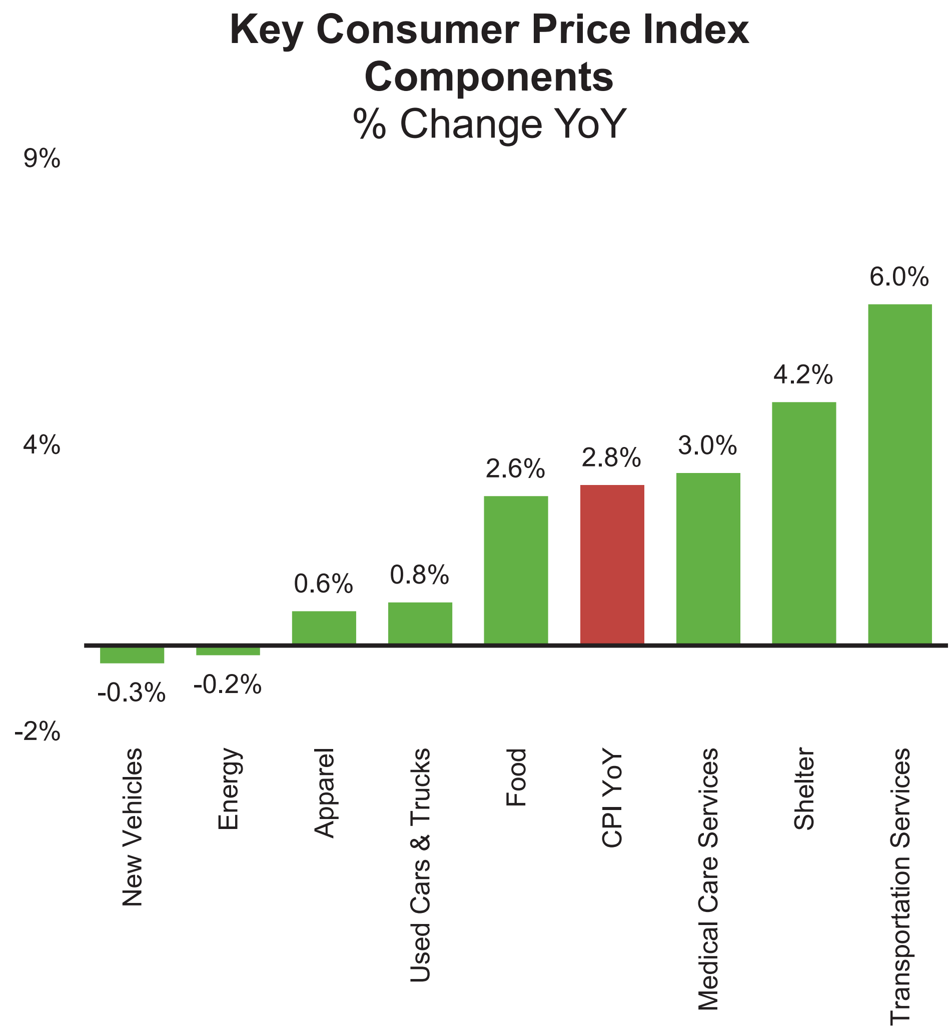


Credit Quality	Market Value	Asset Allocation
Ratings		
AAAm	662,691,104	56.0%
AA+	309,364,747	26.1%
A-1 + / A-1	205,493,985	17.4%
A-2	6,097,898	0.5%
NR	-	0.0%
Totals	**1,183,647,734**	**100.0%**

Appendix I:
Economic Update

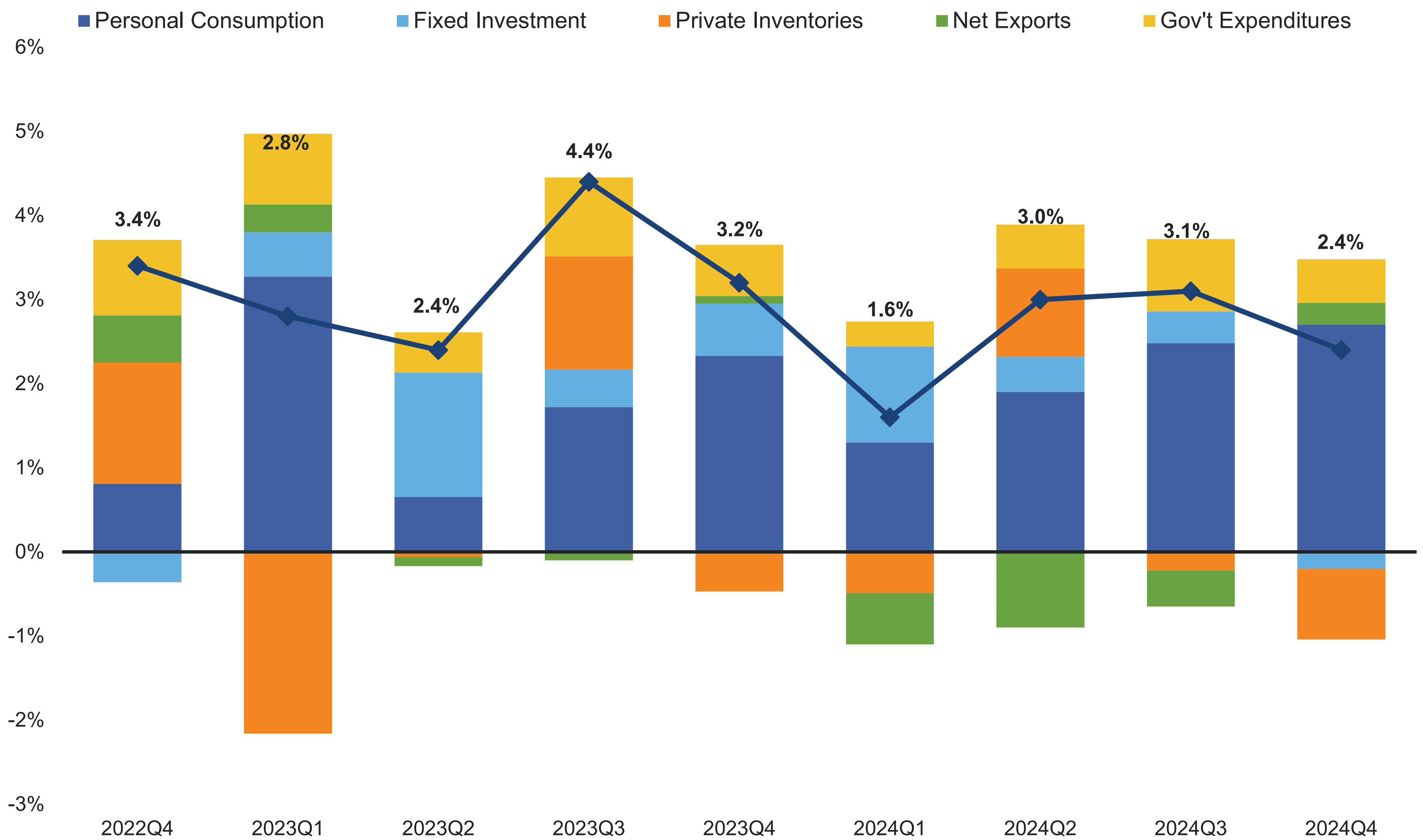
Consumer Price Index





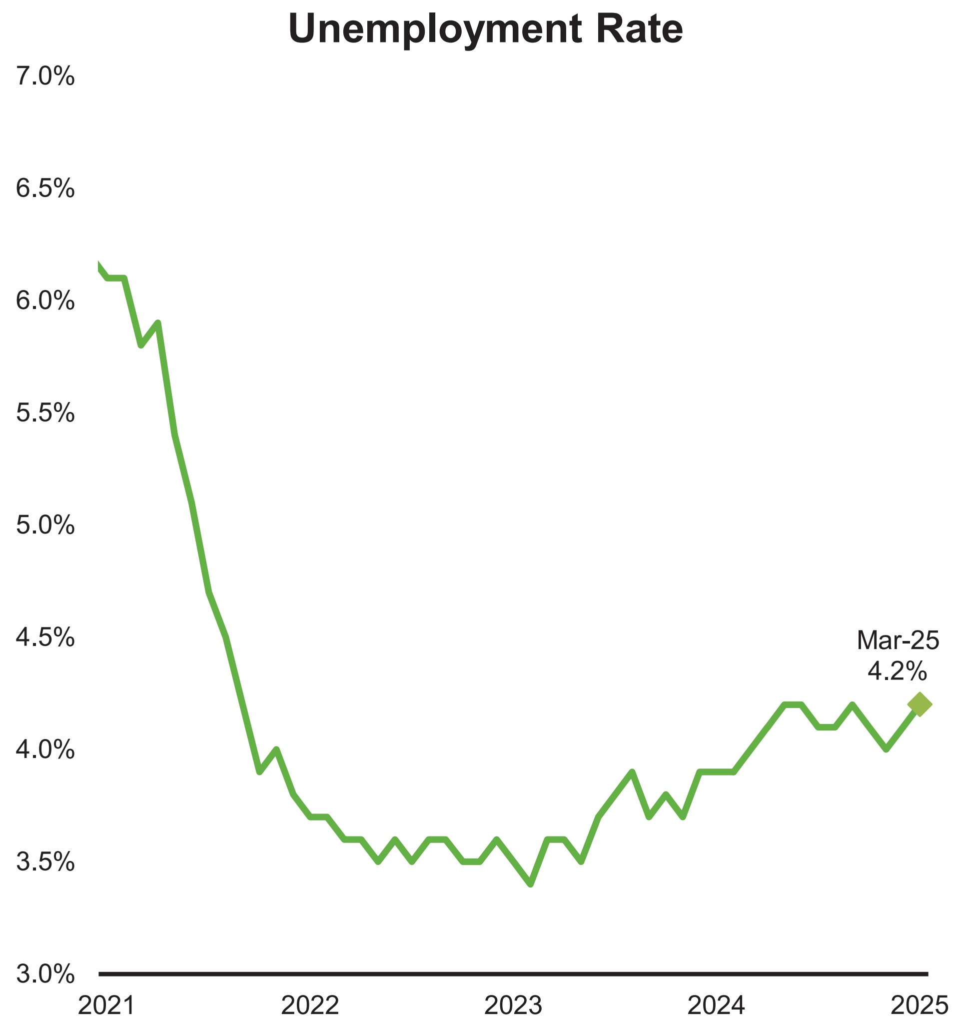
Source: Bloomberg Finance L.P., as of February 2025.

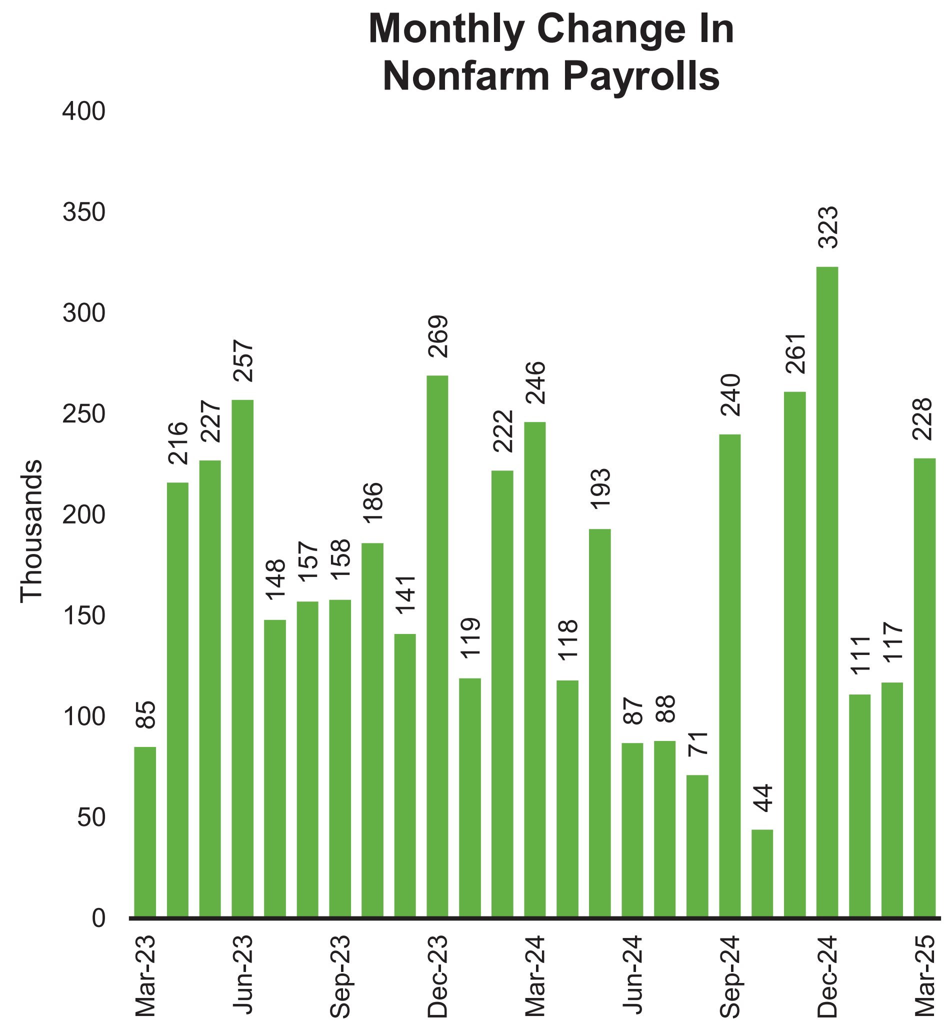
U.S. Real GDP Contributors and Detractors



Source: Bloomberg Finance L.P., Bureau of Economic Analysis, as of March 2025.

Labor Market Sends Mixed Signals

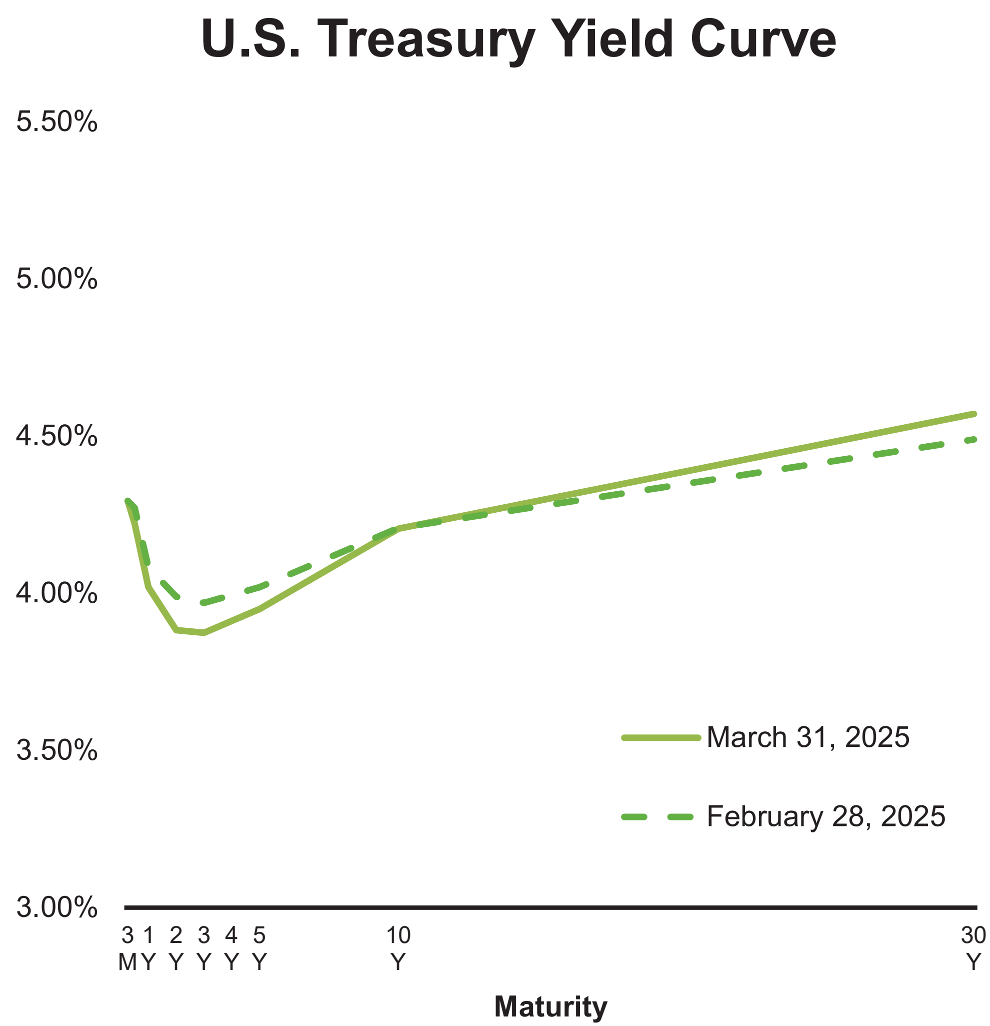




Source: Bureau of Labor Statistics. Bloomberg Finance L.P., as of March 2025. Job openings and monthly change in nonfarm payrolls as of March 2025. Data is seasonally adjusted.

Treasury Yield Curve

	2/28/2025	3/31/2025	Change
3 month	4.29%	4.30%	+0.01%
6 month	4.28%	4.23%	-0.05%
1 year	4.27%	4.03%	-0.24%
2 year	3.99%	3.89%	-0.10%
3 year	3.97%	3.88%	-0.09%
5 year	4.02%	3.95%	-0.07%
10 year	4.21%	4.21%	--
30 year	4.49%	4.57%	+0.08%



Source: Bloomberg Finance L.P., as of 2/28/2025 and 3/31/2025, as indicated.

Fixed Income
Market Overview and Outlook

FIXED INCOME MARKET – ECONOMIC HIGHLIGHTS

- The first quarter of 2025 was characterized by uncertainty and worsening consumer sentiment due to the volatile rollout of the new administration's policies
  - Pro-growth fiscal policies proposed on the campaign trail including tax cuts and deregulation have yet to be realized, leaving rapidly changing tariff policy to weigh on growth prospects
  - Escalating trade tensions from tariffs have increased the probability of a U.S. economic recession in 2025
- Progress towards the Federal Reserve's (the "Fed") 2.0% target remains stalled with goods inflation moving higher even before tariff policies were enacted
  - Fed Chair Powell noted economic data has not yet reflected tariffs and reiterated it will be difficult to directly project the impact of these policies on prices
  - Tariff concerns among consumers appear to be rising, as expectations for inflation over the next 12 months reached their highest levels since early 2023
- The labor market remains surprisingly resilient with both initial jobless claims and the unemployment rate at historically low levels; additionally, monthly job gains continue to keep pace with labor force growth
  - With quits and hiring rates low, any acceleration in job layoffs may possibly result in job seekers remaining unemployed for longer
  - Federal job cuts and funding freezes could impact the hiring plans of sectors such as healthcare and higher education which rely on government funding; the impact of immigration policy remains unknown
- Sentiment has meaningfully deteriorated as consumers expect higher prices and weaker labor market conditions as tariffs weigh on the pace of economic growth
  - A material deterioration of labor market conditions remains the biggest risk factor to consumer spending
  - Other headwinds include slower real wage growth and a reduced willingness and ability to spend as prices move higher due to tariffs

Fixed Income
Market Overview and Outlook

FIXED INCOME MARKET – ECONOMIC HIGHLIGHTS

- The Fed left the overnight policy rate range unchanged at 4.25% – 4.50%
  - While the Fed's updated March "dot plot" continues to suggest 50 basis points of rate cuts in 2025, Fed Chair Powell indicated there is heightened risk and more uncertainty due to the new administration's policies
- U.S. inflation readings remained "sticky" during the past quarter and did not show meaningful progress towards the Fed's 2.0% target
  - Goods inflation, which had been a detractor from inflation, increased at the beginning of the year and will continue to be a headwind given the expected impact of tariffs on goods prices
  - Core CPI, which excludes the volatile food and energy components, remained above 3.0% and ended the quarter at 3.1% annualized year-over-year while headline CPI sits at 2.8%
- U.S. Treasury yields moved lower in response to deteriorating growth expectations over the near term
  - While the Fed held rates steady over the quarter, futures markets are pricing in four 25 basis point rate cuts for 2025
  - The yield on the 2, 5, and 10-year Treasuries ended the quarter at 3.88%, 3.95%, and 4.21%, and this represents a decline of 36 basis points, 43 basis points, and 36 basis points, respectively; the 3-mo nth Treasury was relatively unchanged given no rate cuts from the Fed
  - As a result of lower yields, U.S. Treasury indexes generated positive total returns for the quarter
- Excess returns were mixed across investment grade sectors as wider economic uncertainty opened the door for modest spread widening off recent lows despite strong investor demand
  - Federal Agency spreads remained low and rangebound throughout the quarter, as Agencies produced modestly negative excess returns; issuance remained light and incremental income from the sector is near zero
  - Short-term credit (commercial paper) yields on the front end fell in response to downward pressure from a paydown in the supply of U.S. Treasury Bills; yield spreads tightened over the quarter in response to moderated issuance and strong demand

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