Great Lakes Water Authority

Investment Performance Report – June 2025

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Executive Summary

PORTFOLIO RECAP

- Safety – The aggregate portfolio is diversified amongst cash, bank deposits, U.S. Treasuries, 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.

- 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 June 30, 2025, approximately 68% of the funds were held in cash and money market accounts maturing overnight, with a majority of the funds allocated to July 1st debt obligations.

- Return – The overall yield at market decreased to 4.24% as of June 30, 2025, versus 4.28% as of March 31, 2025. The lower yield is reflective of the expectation of the Federal Reserve to reduce borrowing costs and continue their easing cycle. GLWA earned over $50.3 million (unaudited) in investment income for the entirety 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 2026 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 6/30/25)*	Yield @ Market *(as of 6/30/25)*
Deposit Accounts	$13,606,450	$13,606,450	1.76%	1.76%
Trust Money Market Fund	$421,392,714	$421,392,714	4.17%	4.17%
Money Market Fund	$7,876,670	$7,876,670	4.19%	4.19%
Local Government Investment Pool	$576,581,899	$576,581,899	4.35%	4.35%
Managed Funds	$479,483,884	$479,357,213	4.09%	4.23%
JUNE 2025 TOTALS:	***$1,498,941,617***	***$1,498,814,945***	***4.19%***	***4.24%***
PREVIOUS QUARTER TOTALS:	*$1,183,973,193*	*$1,183,647,734*	*4.18%*	*4.28%*

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 4.18% as of 3/31/2025 to 4.19% as of 6/30/2025.
- The total portfolio had a market yield of 4.24% at the end of June, compared to 4.28% as of March 31, 2025. Yield at market represents what the market would provide in return if the portfolio was purchased on June 30, 2025 (versus purchased in prior months / years); the lower yield is a result of the expectation of the Fed to cut overnight interest rates in the near future.
  - We utilize a variety of investment sectors, and because of that, this 4.24% yield at market as of 6/30/2025 is slightly lower than in the prior quarter due to tightening credit spreads and the relatively slight decline in overnight and short-term yields.

PORTFOLIO PERFORMANCE – PROJECTIONS

- GLWA earned over $50.3 million (unaudited) in investment interest income from both restricted and unrestricted resources for fiscal year 2025 (as of June 30, 2025) on a book value basis.
- The fiscal year 2025 period earnings were slightly higher than budgeted expectations, mainly due to the Federal Reserve's wait-and-see approach with regards to monetary policy.

** 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

- As expected, at the meeting held on June 18th, the Federal Reserve (the "Fed") held the target range for the overnight rate unchanged at 4.25% to 4.50%. In its press release, the Fed noted uncertainty has diminished since April but remains elevated. During the press conference, Fed Chair Jerome Powell noted that the effect, size, and duration of tariffs are all highly uncertain and that warrants the Fed remaining on hold as it continues to observe the data, as the Fed currently sees a high inflation path and lower growth.
- The Fed's "dot plot" continued to show a median expectation of 50 basis points of rate cuts over the remainder of the year while its Summary of Economic Projections showed a weaker outlook for both gross domestic product ("GDP") and PCE inflation. Fed Chair Powell emphasized the divergence of views across the committee noting eight members called for two cuts in 2025 while seven members project none.
- Increasing geopolitical tension in the Middle East adds to the already uncertain outlook. While the ceasefire has eased immediate concerns, future flare-ups may pressure domestic inflation through higher oil and energy prices.
- The final read of first quarter calendar year 2025 GDP showed consumers spending at their slowest pace since the first quarter of calendar year 2022. The large pullback in spending amid strong income and wage growth likely represents consumer caution due to the uncertainty caused by tariffs. Future spending will remain a key area of focus for economic resilience.
- The June jobs report surprised the market to the upside with 147,000 new jobs created while the unemployment rate dipped to 4.1%. However, these figures masked underlying softness in the labor market as job growth in the private sector rose at the slowest pace in over six months and the decline in the unemployment rate was driven by a drop in labor force participation.
- The core Personal Consumption Expenditures ("PCE") index, the Fed's preferred measure of inflation, rose by a modest 0.2% over the prior month. This marks the third straight month of benign inflation readings, but the future impact of tariffs remains uncertain and supports the Fed's patience before it resumes cutting rates.

ECONOMIC IMPACT ON PORTFOLIO

- Yields on 3-month, 2-year, and 10-year U.S. Treasuries ended the quarter at 4.29%, 3.72%, and 4.23%.
- Fixed income indices produced positive returns for June due to lower yields across the curve. Recent Fed projections for rate cuts maintained a median forecast of two cuts in 2025, but the uncertainty regarding when and if these cuts will occur adds to market uncertainty.
- Portfolio Impact: We expect to maintain portfolio durations at or slightly above 100% of benchmarks given the ongoing rate and policy uncertainty, and the rebound in the absolute yield levels from their early-May lows. Spreads on Federal Agencies remain quite narrow with no significant changes or new issuance expected in the near term. We will maintain low allocations in favor of other sectors. Also, we will closely monitor developments related to the potential privatization efforts of Fannie Mae and Freddie Mac. On the short end of the yield curve, debt ceiling dynamics have reduced U.S. Treasury Bill supply and has applied modest downward pressure on yields. We are closely monitoring maturities around the Treasury's "X-date," which is currently projected to be mid-August or September. Meanwhile, credit spreads on the short end of the curve have stabilized during the last month, allowing selective attractive adds across tenors.

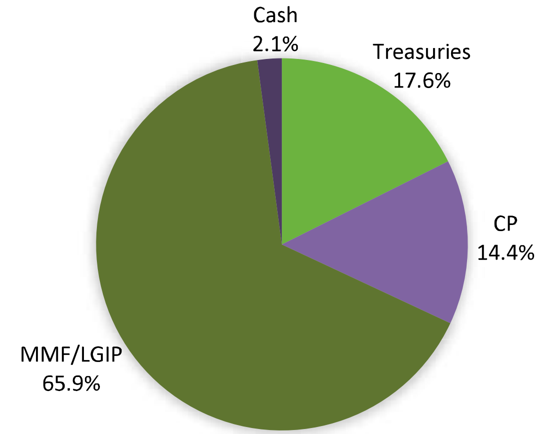
Portfolio Snapshot

Overall Portfolio Composition Summary

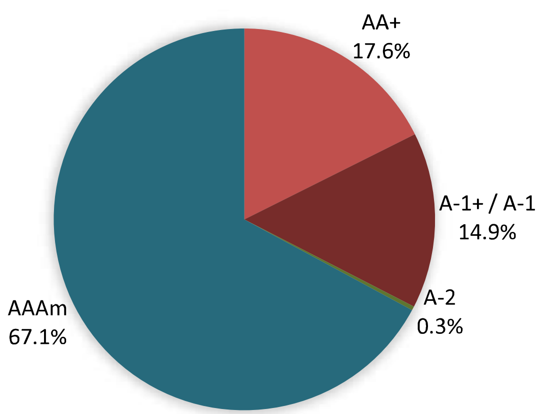
PORTFOLIO STATISTICS

Invested Amount	$1.498 Billion
Duration	0.13 Years
Yield at Cost	4.19%
Yield at Market	4.24%

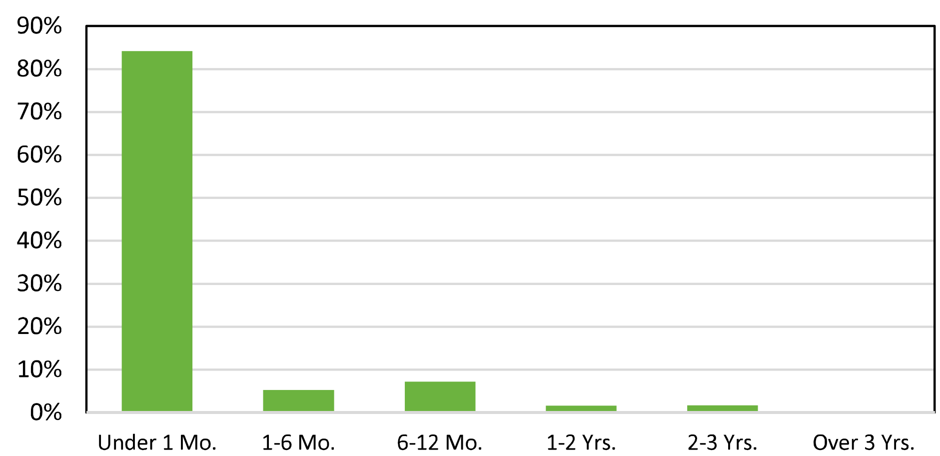
SECTOR ALLOCATION



CREDIT QUALITY



MATURITY DISTRIBUTION



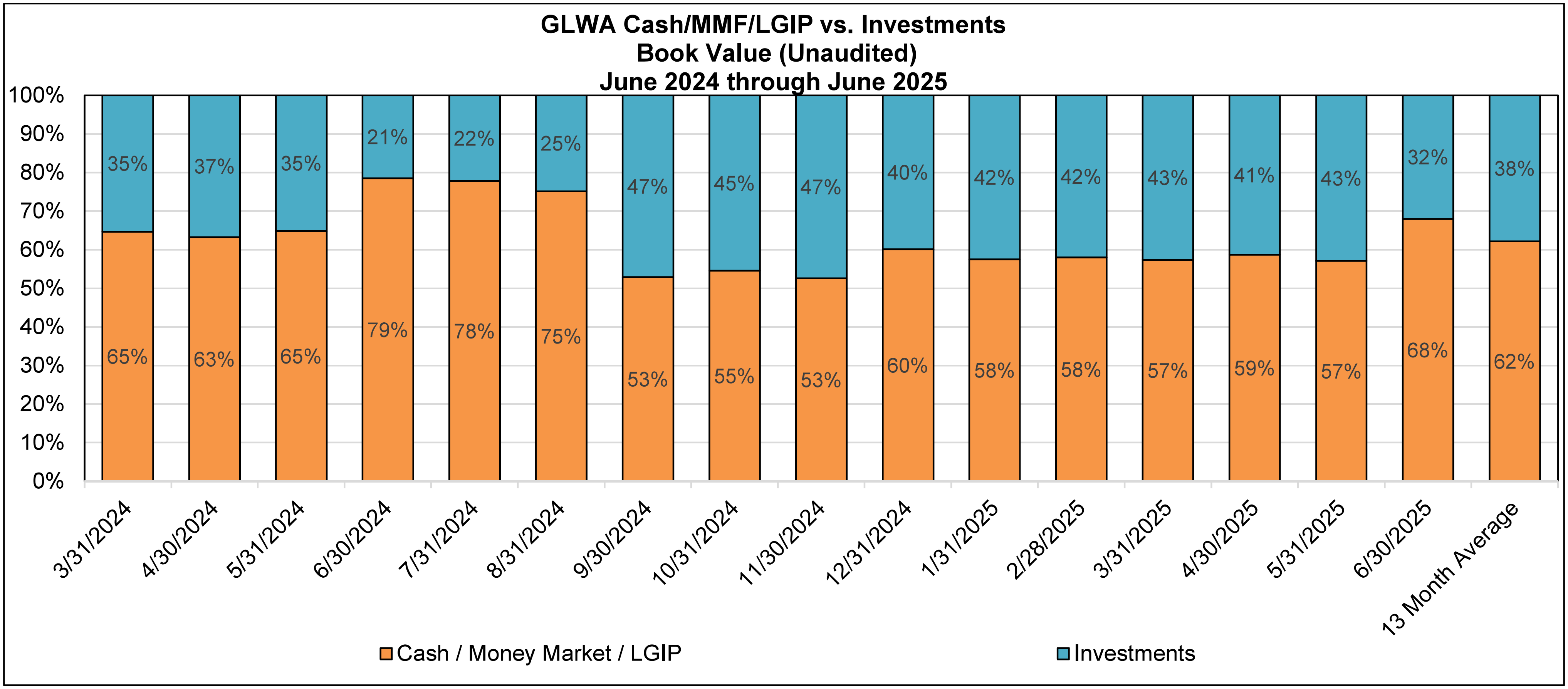
Accounts like the Flint Security Deposit and Retainage accounts which are not owned by GLWA are not included in this report.

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.

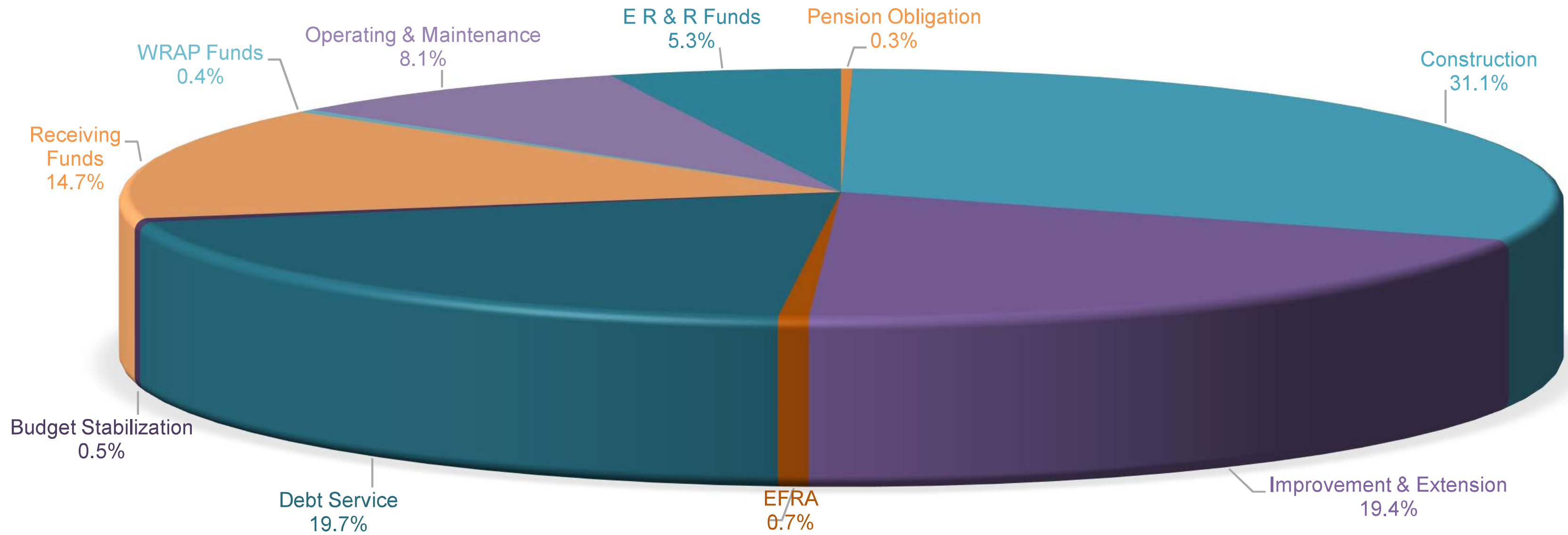
- The chart below compares the monthly allocation of the portfolio holdings to the 13-month average. The allocation between cash and investments will vary each month based on liquidity requirements. For June of 2025, about 68% of the overall portfolio was invested in cash, LGIP, and/or overnight money market fund accounts. This level is normal for the June time-period due to upcoming debt obligations and is also reflective of the inverted yield curve.



Accounts like the Retainage account which are not owned by GLWA are not included in this report.

Portfolio Snapshot

Investments – By Account Purpose

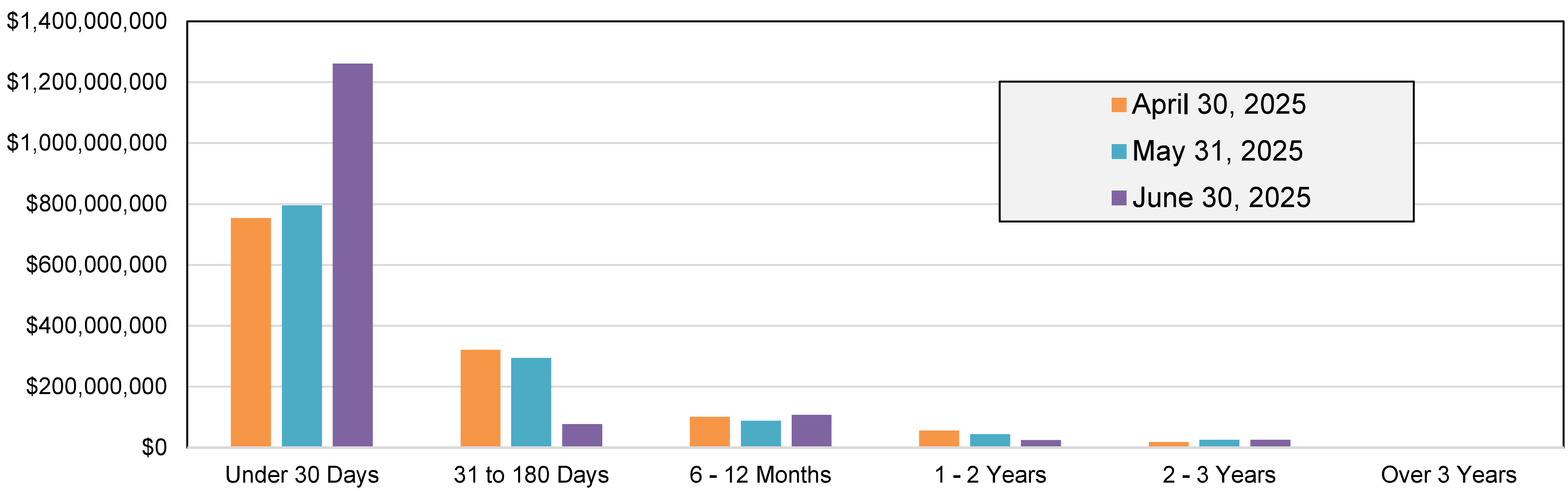


Account Purpose		Value Market	Allocation %	Cost Yield at	Market Yield at	Duration	Strategy
Construction Bond Funds	$	465,440,146	31.1%	4.35%	4.35%	0.003 Years	Cash Flow Driven
Debt Service	$	295,000,586	19.7%	4.32%	4.30%	0.024 Years	Short-Term
Improvement & Extension	$	290,801,325	19.4%	3.99%	4.20%	0.248 Years	Cash Flow Driven
Receiving Funds (includes lockbox account)	$	219,592,808	14.7%	4.16%	4.16%	0.003 Years	Short-Term
Operating & Maintenance	$	121,495,264	8.1%	4.23%	4.23%	0.003 Years	Short-Term
Extraordinary Repair & Replacement Funds	$	79,332,384	5.3%	3.81%	3.99%	1.329 Years	Long-Term
Evergreen Farmington Regional Account	$	10,163,282	0.7%	3.13%	3.13%	0.003 Years	Short-Term
Budget Stabilization Funds	$	7,538,476	0.5%	3.85%	4.04%	1.111 Years	Long-Term
WRAP Funds	$	5,609,495	0.4%	4.17%	4.17%	0.003 Years	Short-Term
Pension Obligation Funds	$	3,841,179	0.3%	4.17%	4.17%	0.003 Years	Short-Term
Total	**$**	**1,498,814,945**	**100.0%**	**4.19%**	**4.24%**	**0.130 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		April 30, 2025	%		May 31, 2025	%		June 30, 2025	%
Under 30 Days	$	753,928,328	60.2%	$	796,221,092	63.7%	$	1,261,243,163	84.1%
31 to 180 Days		322,177,850	25.7%		294,460,861	23.6%		78,271,173	5.2%
6 - 12 Months		100,718,077	8.0%		88,798,228	7.1%		108,448,931	7.2%
1 - 2 Years		56,376,842	4.5%		44,215,061	3.5%		24,856,467	1.7%
2 - 3 Years		19,428,774	1.6%		25,851,758	2.1%		25,995,211	1.7%
Over 3 Years		-	0.0%		-	0.0%		-	0.0%
Totals	**$**	**1,252,629,870**	**100.0%**	**$**	**1,249,547,000**	**100.0%**	**$**	**1,498,814,945**	**100.0%**



Accounts like the Retainage account which are not owned by GLWA are not included in this report.

Portfolio Snapshot

Investment Accounts – Yield at Cost & Market

	As of June 30, 2025		As of March 31, 2025	
	YTM @ Cost	YTM @ Market	YTM @ Cost	YTM @ Market
Bank Deposits				
Bank A	0.01%	0.01%	0.01%	0.01%
Bank C	2.81%	2.81%	3.35%	3.35%
Sub-Total Bank Deposits	**1.76%**	**1.76%**	**2.12%**	**2.12%**
Money Market Funds / LGIPs				
Local Government Investment Pool	4.35%	4.35%	4.39%	4.39%
Trust Money Market Fund	4.17%	4.17%	4.23%	4.23%
Money Market Fund	4.19%	4.19%	4.23%	4.23%
Sub-Total MMF / LGIPs	**4.27%**	**4.27%**	**4.30%**	**4.30%**
Investment Portfolios				
Sewage SR Debt Serv 5403	4.35%	4.29%	4.35%	4.43%
Sew 2nd Debt Serv 5403	4.35%	4.30%	4.34%	4.33%
Sew SRF Debt Serv 5410	4.35%	4.40%	4.37%	4.38%
Sewage ER & R	3.74%	3.98%	3.47%	4.17%
Sewer Improvement & Extension	3.80%	4.23%	3.95%	4.29%
Sewer Pension Obligation	0.00%	0.00%	4.47%	4.49%
Sewer Budget Stabilization Fund	3.83%	4.03%	3.63%	4.16%
Sewer Bond Fund	0.00%	0.00%	4.25%	4.37%
Water SR Debt Ser 5503	4.35%	4.32%	4.35%	4.35%
Water 2nd Debt Serv 5503	4.35%	4.31%	4.33%	4.33%
Water SRF Debt Serv 5575	4.36%	4.40%	4.38%	4.38%
Water ER & R	3.87%	3.98%	3.65%	4.15%
Water Improvement & Extension	3.80%	4.23%	4.00%	4.30%
Water Pension Obligation	0.00%	0.00%	4.50%	4.49%
Water Budget Stabilization Fund	3.83%	4.04%	3.63%	4.16%
Water Bond Fund	0.00%	0.00%	0.00%	0.00%
Sub-Total Investment Portfolios	**4.09%**	**4.23%**	**4.08%**	**4.31%**
Grand Total	***4.19%***	***4.24%***	***4.18%***	***4.28%***

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.

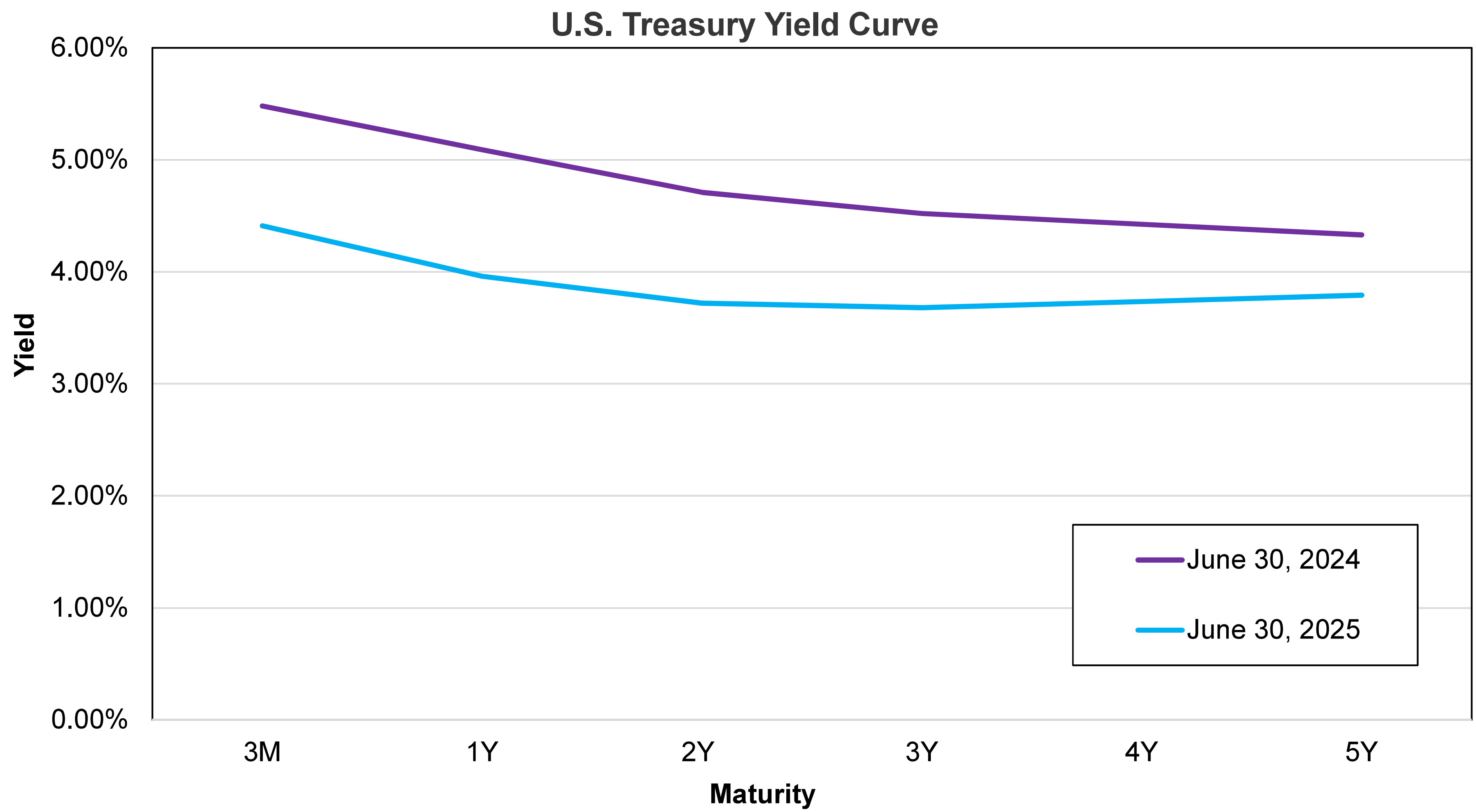
	As of June 30, 2025			
	Market Value	*YTM @ Market*	*Effective Duration*	*Weighted Average Maturity*
GLWA				
Great Lakes Water Authority	$1,498,814,945	4.24%	0.13 Years	50 Days
Short/Intermediate-Term Indices				
S&P Rated Government Investment Pool Index		4.29%	0.08 Years	30 Days
BoA / ML 3-Month Treasury Index		4.42%	0.15 Years	55 Days
BoA / ML 6-Month Treasury Index		4.26%	0.40 Years	146 Days
BoA / ML 1-Year Treasury Index		4.07%	0.88 Years	321 Days
BoA / ML 1-3 Year Treasury Index		3.80%	1.76 Years	642 Days
BoA / ML 1-5 Year Treasury Index		3.77%	2.48 Years	905 Days
Peer Analysis (Water Entities / Utilities)				
District of Columbia Water & Sewer Authority, DC	$179,550,055	3.92%	1.64 Years	671 Days
DuPage Water Commission, IL	$161,944,222	4.12%	1.99 Years	1,019 Days
Fairfax County Water Authority, VA	$212,830,064	4.04%	1.74 Years	688 Days
Metro Wastewater Reclamation District, CO	$220,024,656	3.85%	2.51 Years	994 Days
Metropolitan Water District of Southern California, CA	$999,454,231	4.18%	1.55 Years	695 Days
Philadelphia Water Department, PA	$270,405,398	4.26%	0.93 Years	356 Days
San Bernardino Valley Municipal Water District, CA	$372,200,983	3.97%	1.68 Years	669 Days
Tohopekaliga Water Authority, FL	$151,338,118	4.10%	1.69 Years	867 Days
Truckee Meadows Water Authority, NV	$47,727,562	4.04%	1.43 Years	557 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

- The yield curve for the past year, as noted in the chart below, is generally in the same shape with yield tenors from three months to five years shifting slightly lower. U.S. Treasury yields have fluctuated but ultimately have remained range-bound. Fed Chairman Powell did emphasize a cautious approach amid economic uncertainty during the last FOMC meeting which has helped to lower volatility.



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
April 2025	$4,008.5	$0.0	$4,008.5
May 2025	$4,076.0	$0.1	$4,076.1
June 2025	$3,974.3	($9.2)	$3,965.1
FY 2025	***$50,337.5***	***($5.1)***	***$50,332.4***

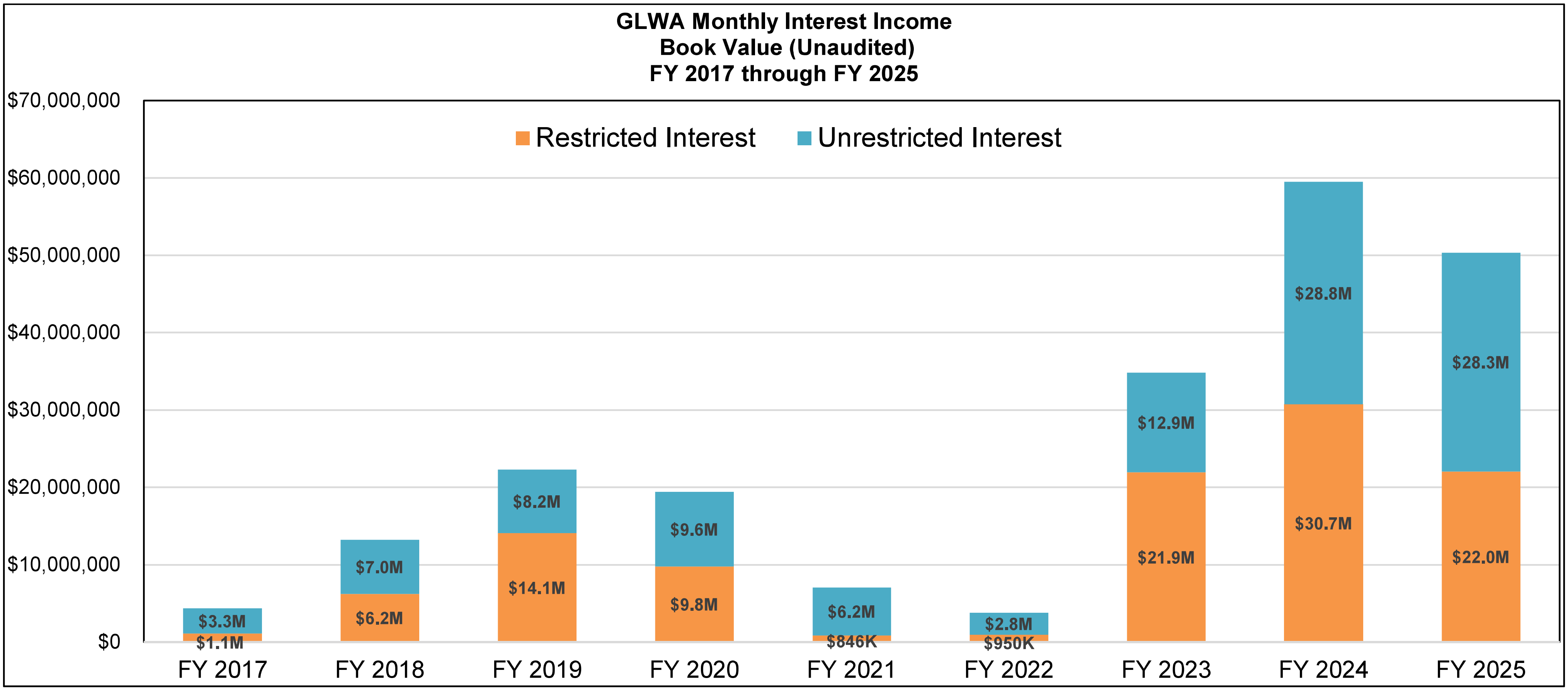
** The realized gain in September of 2024 was due to the sale of an investment in the Sewer SRF account to cover a payment shortfall. The sale of this security resulted in a realized gain. The realized gain in May of 2025 was due to the sale of investments in the Pension Obligation accounts in relation to recent budget amendments and revised calculations. The realized loss in June of 2025 was due to a liquidation of a security in the Sewer Junior SRF account to provide cash for the closing transfers in relation to the 2025 bond sale.*

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 $50,337,549 in investment income for the entirety of fiscal year 2025 on a book value basis compared to $59,498,929 for all of fiscal year 2024.

- Based on current market assumptions, even with the addition of assets and proceeds from GLWA's recent bond fund issue, projected total investment income for fiscal year 2025 is expected to be less than what was seen in FY 2025 as rate cuts from the Federal Reserve could be on the table at the their next several meetings. It should also be noted that two rate cuts are already priced in for calendar year 2025 with additional cuts slated for the next couple of years, ending with a terminal Fed Funds rate at around 3.00%.

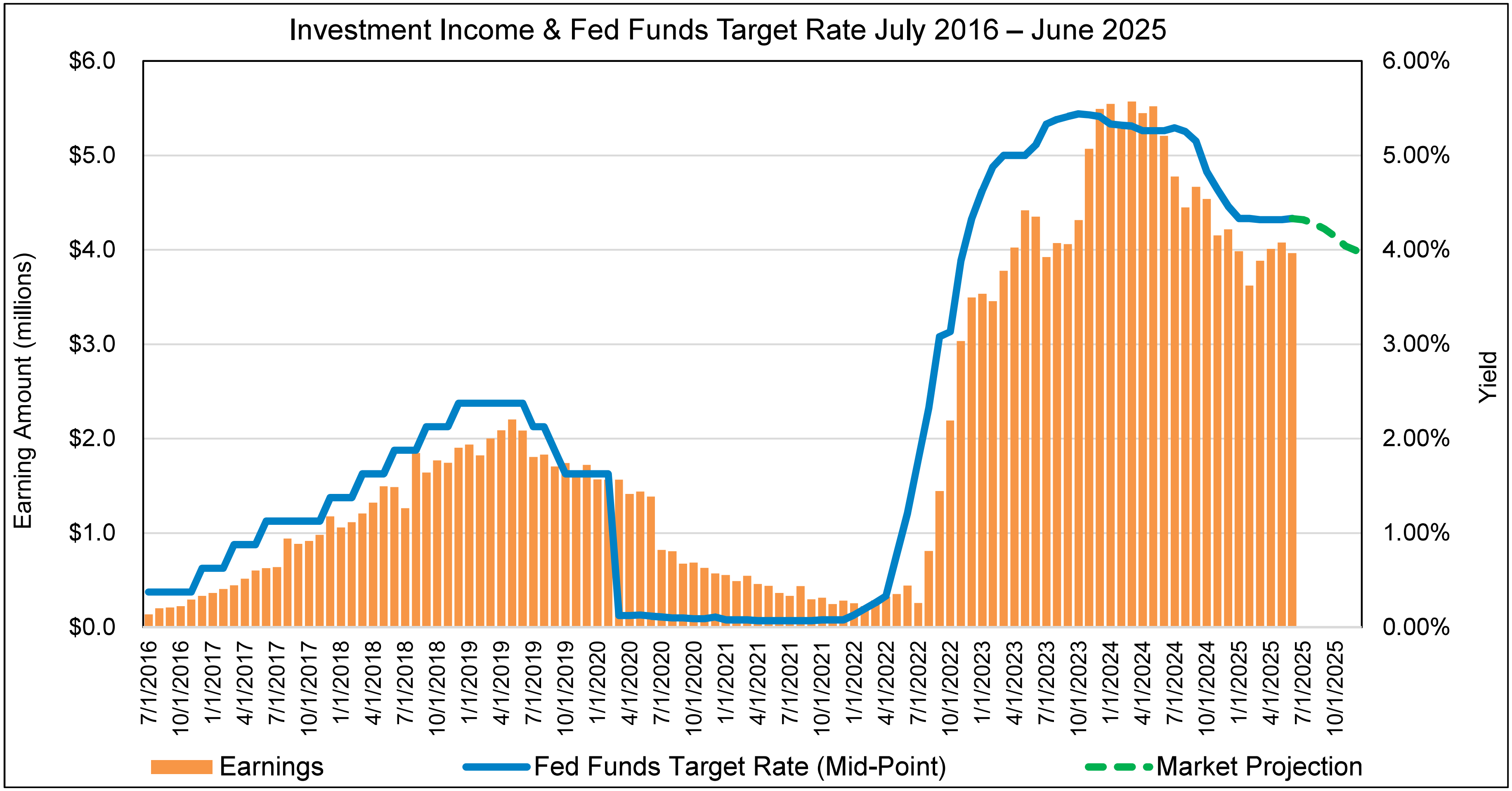


Portfolio Snapshot

Monthly Investment Income Compared to Fed Funds Rate

- At least 50% or more 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 Federal Funds target rate; the chart below illustrates that GLWA's income has consistently followed the trend of the Fed Funds rate.

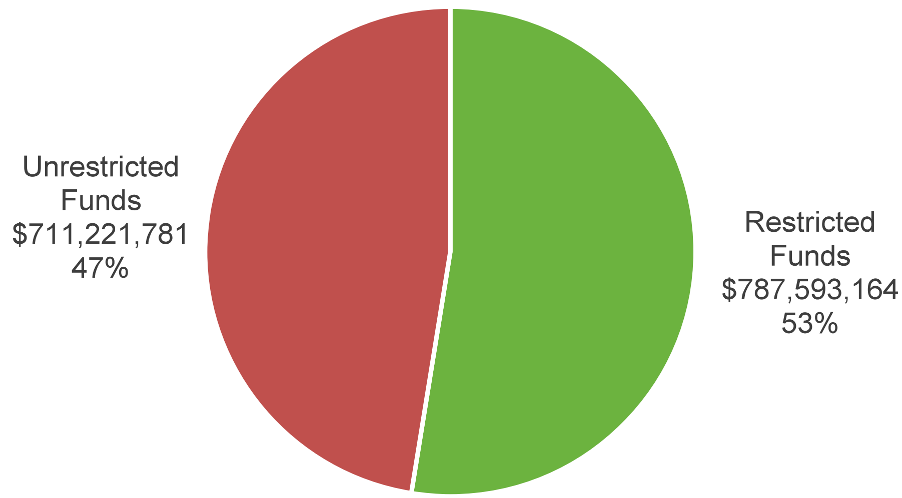
- The weak July jobs gains with sharp revisions in prior months, together with other signs that the private sector spending and investment has slowed, leaves the Fed in a bind. Signs of tariff-driven inflation will make it difficult for the Fed to cut in September, especially since the unemployment rate remains low. Still, the Fed may point to their playbook and stick to their "wait and see" approach before they cut rates.



Portfolio Snapshot

Allocation and Income by Fund Type

Bank Balance as of June 30, 2025



July 2024 – June 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)

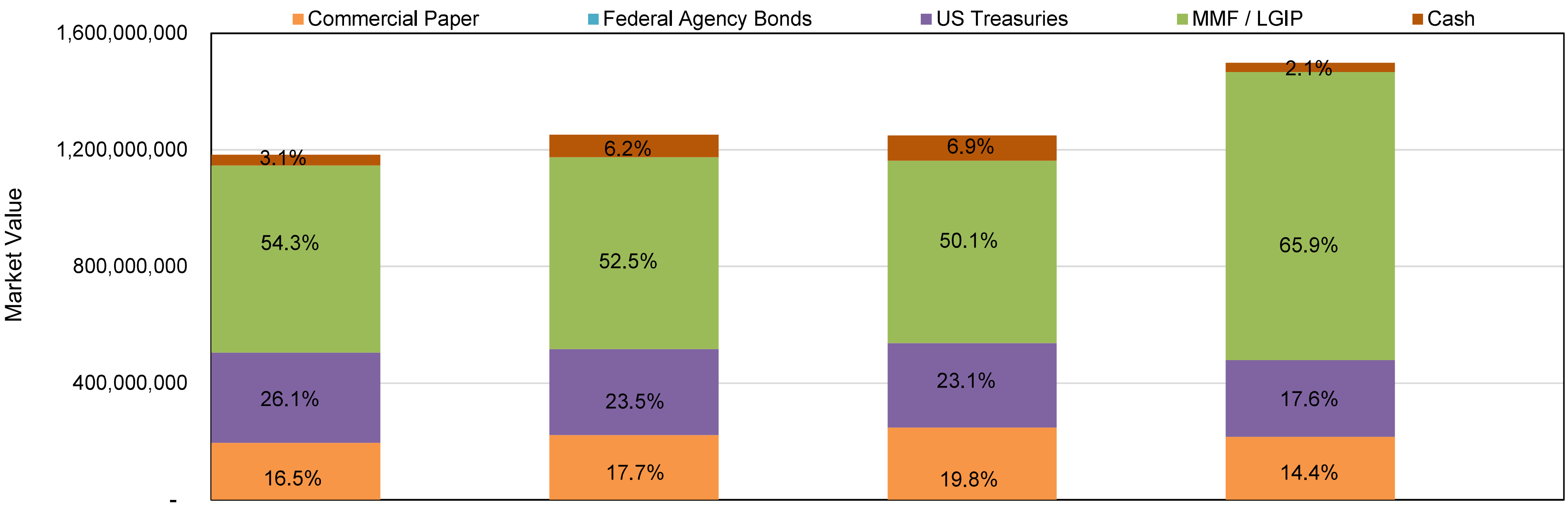
Note: Interest in I&E accounts is sent to the Receiving Funds and can be used for operations; DWSD's portion of the Receiving Funds is restricted and held in trust.

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

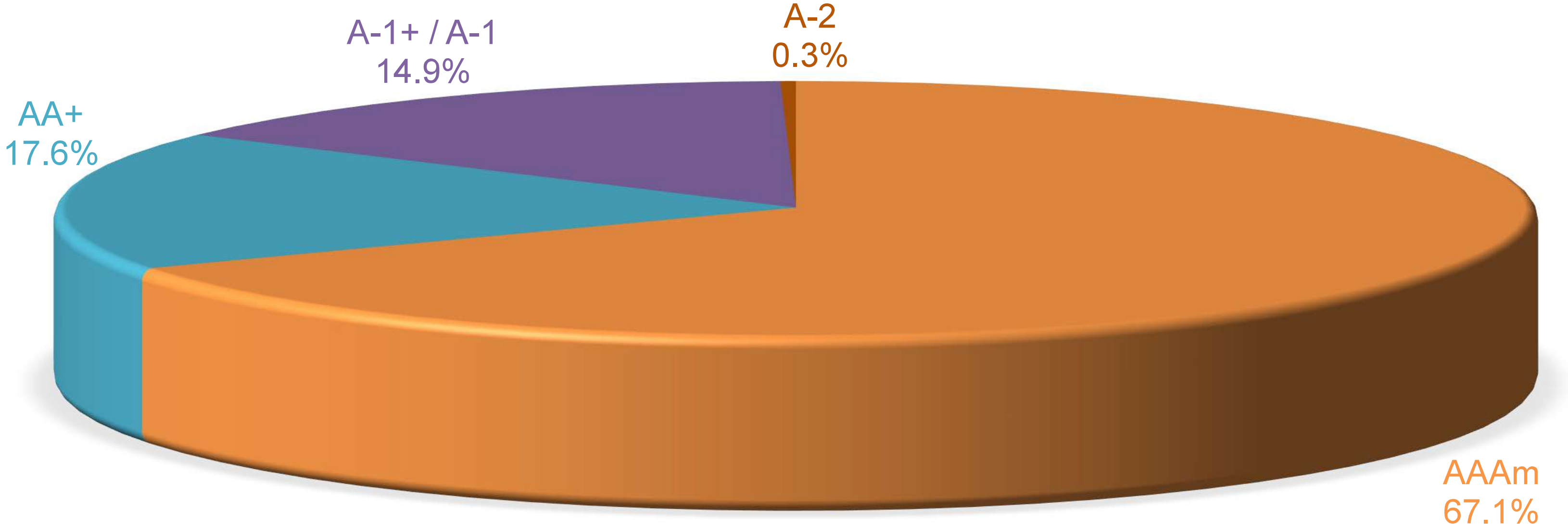
Investments – By Security Type



	March		April		May		June	
Security Type	**Market Value**	**Asset Allocation**	**Market Value**	**Asset Allocation**	**Market Value**	**Asset Allocation**	**Market Value**	**Asset Allocation**
Commercial Paper	195,077,358	16.5%	222,295,271	17.7%	247,959,930	19.8%	215,100,917	14.4%
Federal Agencies	-	0.0%	-	0.0%	-	0.0%	-	0.0%
U.S. Treasuries	309,333,902	26.1%	294,748,219	23.5%	288,446,909	23.1%	264,248,085	17.6%
MMF / LGIP	642,242,938	54.3%	657,613,888	52.5%	626,396,912	50.1%	987,408,971	65.9%
Cash	36,993,536	3.1%	77,972,492	6.2%	86,743,249	6.9%	32,056,972	2.1%
Total	**1,183,647,734**	**100.0%**	**1,252,629,870**	**100.0%**	**1,249,547,000**	**100.0%**	**1,498,814,945**	**100.0%**

Portfolio Snapshot

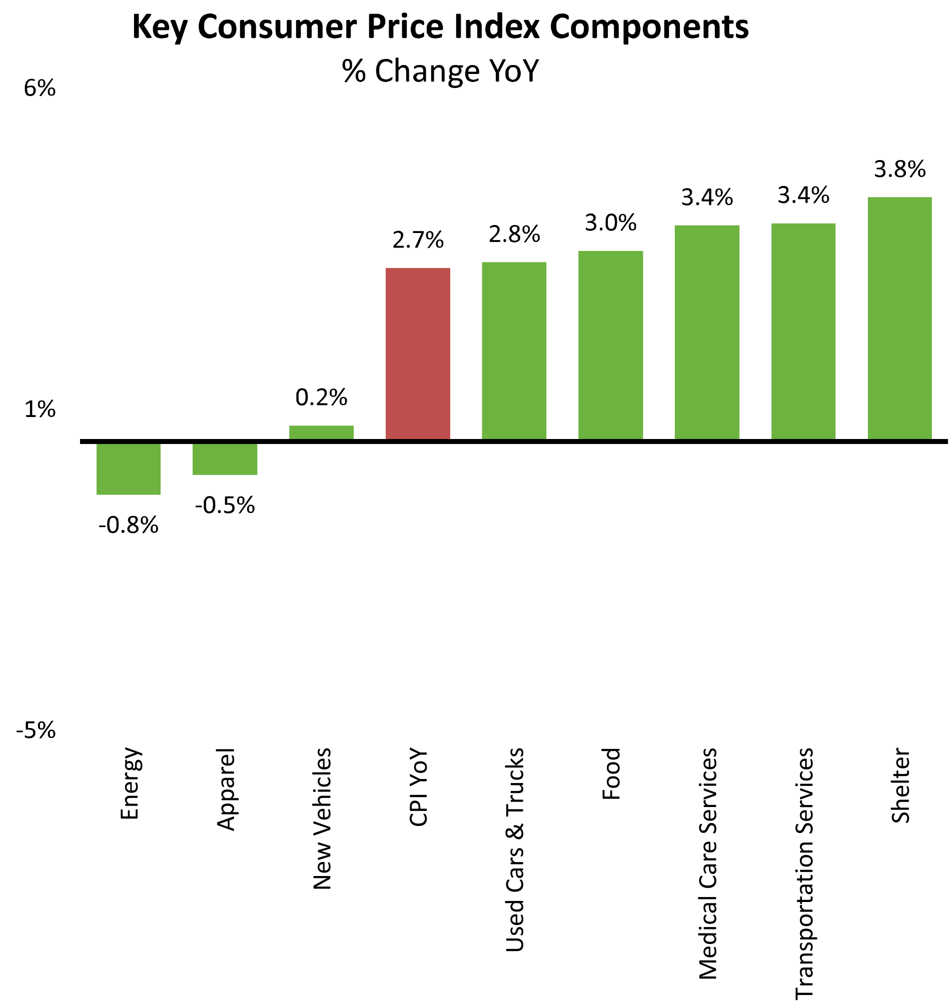
Investments – By Credit Quality



Credit Quality	Market Value	Asset Allocation
Ratings		
AAAm	1,005,851,283	67.1%
AA+	264,258,250	17.6%
A-1 + / A-1	223,584,729	14.9%
A-2	5,120,684	0.3%
NR	-	0.0%
Totals	**1,498,814,945**	**100.0%**

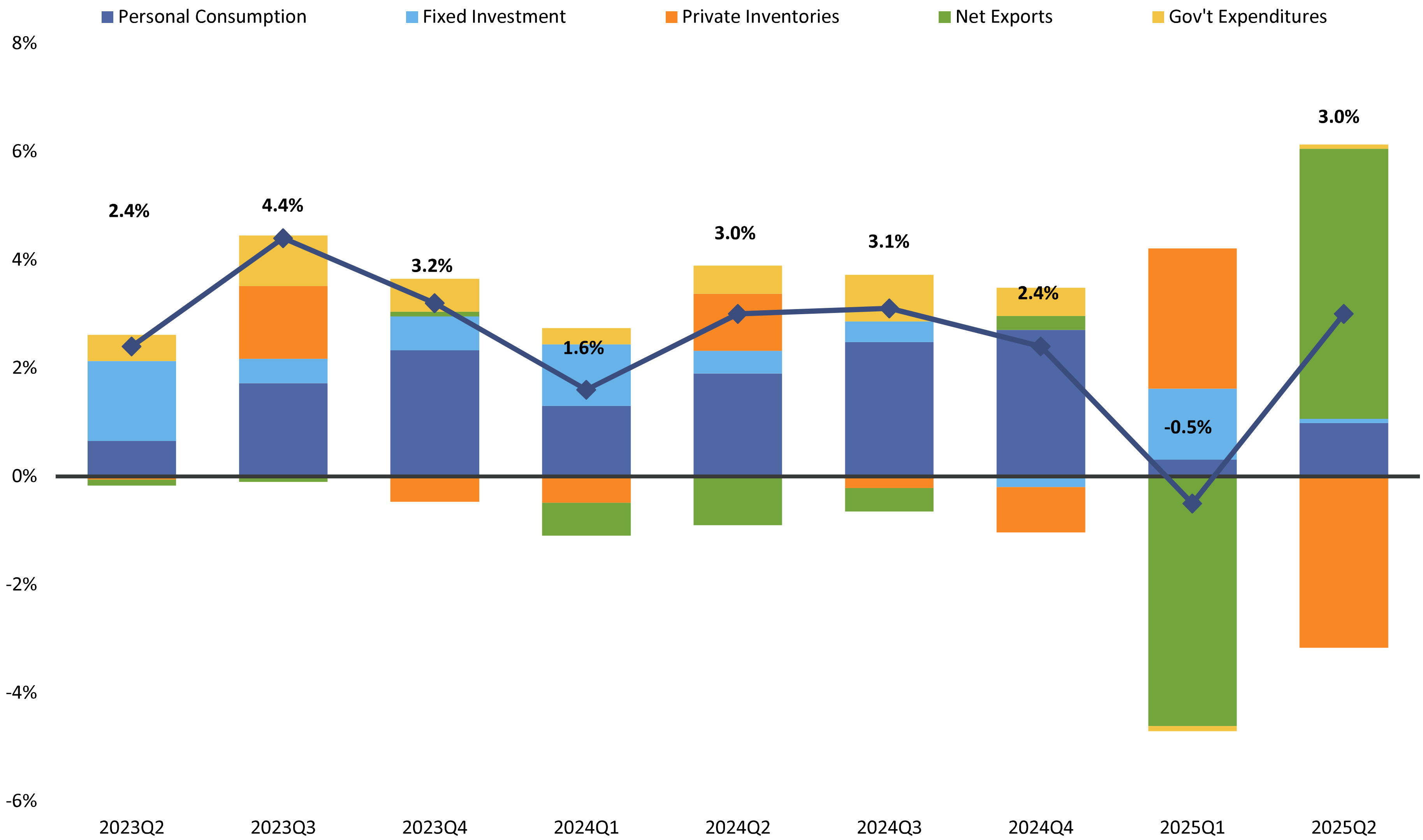
Appendix I:
Economic Update

Consumer Price Index



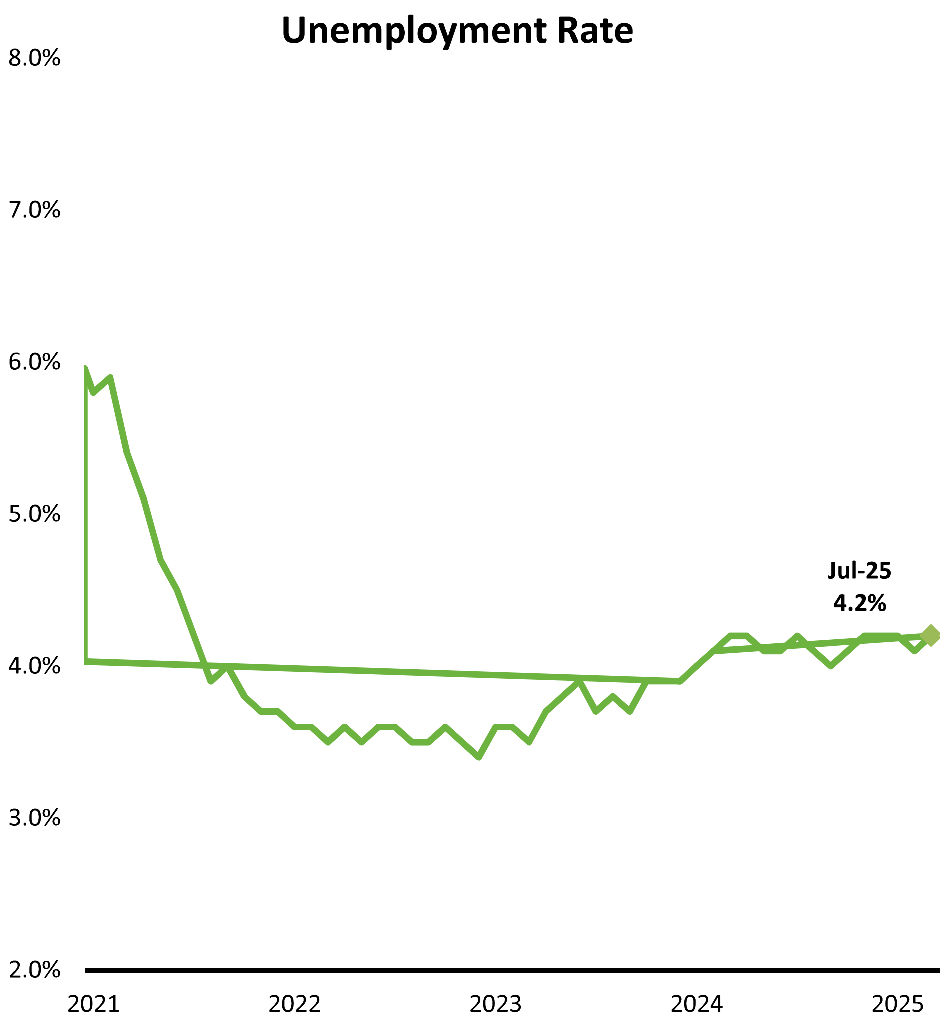
Source: Bloomberg Finance L.P., as of June 2025.

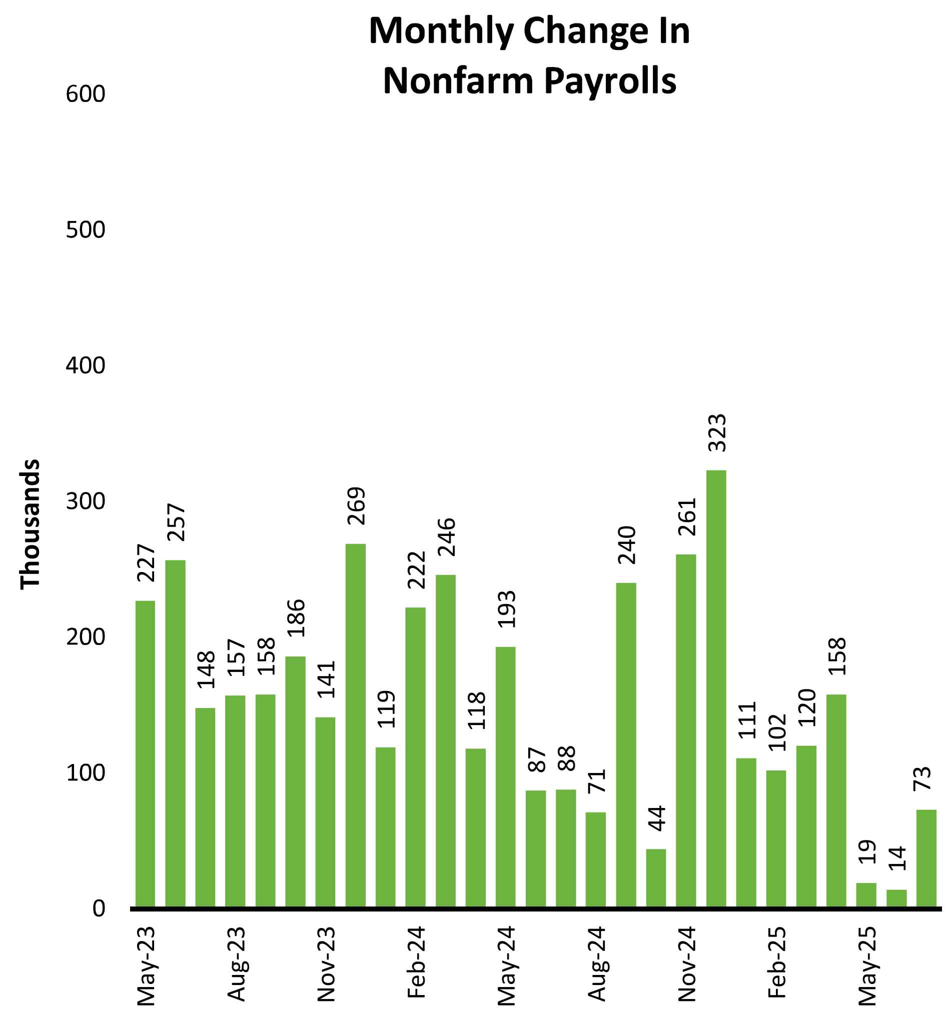
U.S. Real GDP Contributors and Detractors



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

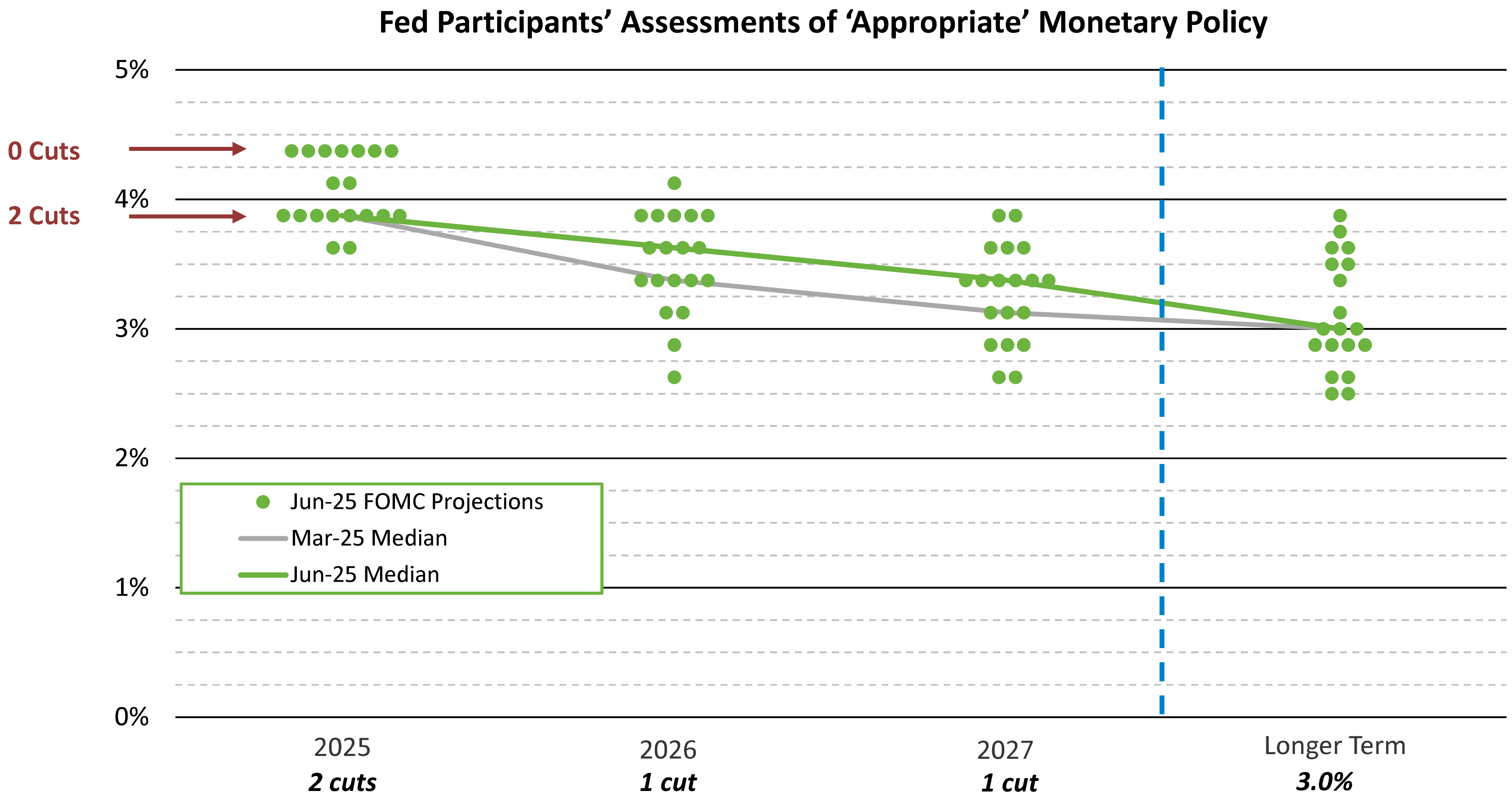
Labor Market Sends Mixed Signals





Source: Bureau of Labor Statistics. Bloomberg Finance L.P., as of July 2025. Monthly change in nonfarm payrolls as of July 2025. Data is seasonally adjusted.

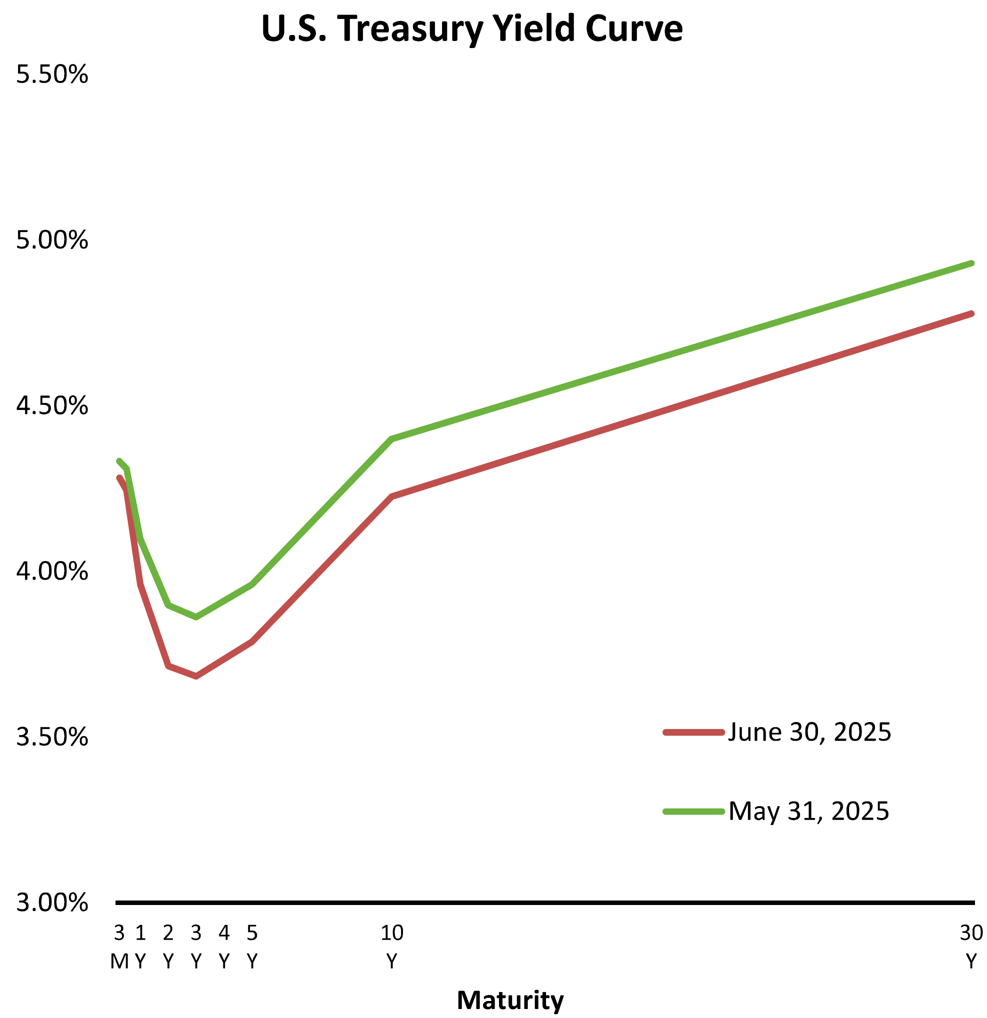
Fed's Latest "Dot Plot" Shows Divergent Views



Source: Federal Reserve; Bloomberg Finance L.P. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the Federal Funds rate at each year-end. As of June 2025.

Treasury Yield Curve

	6/30/2025	5/31/2025	Change
3 month	**4.28%**	**4.33%**	-0.05%
1 year	**3.96%**	**4.10%**	-0.14%
2 year	**3.72%**	**3.90%**	-0.18%
3 year	**3.68%**	**3.86%**	-0.18%
5 year	**3.79%**	**3.96%**	-0.17%
10 year	**4.23%**	**4.40%**	-0.17%
30 year	**4.78%**	**4.93%**	-0.15%



Source: Bloomberg Finance L.P., as of 6/30/2025 and 5/31/2025, as indicated.

Fixed Income
Market Overview and Outlook

FIXED INCOME MARKET – ECONOMIC HIGHLIGHTS

- The second quarter of 2025 was characterized by growing uncertainty as markets reacted to the volatile rollout of tariffs that were larger than expected
  - Markets reacted negatively during the first two weeks of the quarter and experienced the largest declines since the onset of the Covid pandemic
  - The rest of the quarter was marked by equity and bond markets recovering to pre-tariff levels on constructive trade negotiations and stable economic data
- Inflation remained relatively benign but is expected to increase in the second half of the year as tariff-related cost pressures begin to emerge
  - The timing, extent, and duration of these pressures are unknown
- The Federal Reserve (the "Fed") left the overnight policy rate unchanged at 4.25% – 4.50%
  - The Federal Open Market Committee's ("FOMC") "dot plot" continues to suggest 50 basis points in rate cuts by the end of 2025, although there is a divergence of views as eight members are calling for two rate cuts in 2025 and seven are calling for none
  - Fed Chair Powell noted that the Fed would likely be in a position to begin cutting rates again were it not for the unknown impact of tariffs, but the resilient economic data supports the Fed's wait-and-see approach
  - The official dot plot continues to project two cuts for the remainder of the calendar year and as a result, the yield curve steepened over the quarter as rates rose on the very long end and fell in the intermediate-term
  - The 30-year rose to 4.78% while the 2-year ended at 3.72%; cash markets currently provide higher yields than the 2-year Treasury
- Trade deals have not been finalized with a variety of important partners and while continued trade negotiations may end the tariff uncertainty in the intermediate term, many questions have not yet been resolved and their possible effects on inflation remain unclear

Fixed Income
Market Overview and Outlook

FIXED INCOME MARKET – ECONOMIC HIGHLIGHTS

- Continued geopolitical risk and trade relations remain areas of concern for the markets
  - Conflict in the Middle East has the potential to impact energy prices, a consequence that the market briefly saw before the ceasefire between Israel and Iran
- The U.S. Treasury yield curve steepened over the quarter
  - The front end of the yield curve moved lower amid expectations for Fed rate cuts while longer-dated tenors rose on concerns regarding the longer-term impacts of the proposed federal reconciliation bill
- The 3-month U.S. Treasury was relatively unchanged given no rate cuts from the Fed while 2 and 5-year Treasuries fell by 15 – 16 basis points to 3.72% and 3.80%, respectively
  - In addition, the 2-year traded over a wide 60 basis point range during the quarter, highlighting the elevated volatility
  - The 10-year Treasury increased by 2 basis points to 4.23% while the 30-year Treasury increased by 16 basis points to 4.78% as investors demanded more yield to make investments further out the curve
- Short and intermediate-duration U.S. Treasury indices generated positive total returns for the quarter
  - The ICE BofA 2, 5, and 10-year U.S. Treasury indices returned 1.11%, 1.66%, and 0.98% for the quarter, while the shorter-duration ICE BofA 3-month U.S. Treasury index returned 1.04%
- Excess returns were strong across investment grade sectors as the spread widening experienced in April reversed following trade news and resilient economic data
  - Federal Agency spreads remained low throughout the quarter as the sector produced slightly positive excess returns for the quarter; issuance remained light and the incremental income from the sector is near zero
  - Short-term credit (commercial paper) yields on the front end of the yield curve rose slightly in response to the approaching “X-Date” (estimated date for the Treasury to exhaust funds under the debt ceiling) while yields fell modestly on the long end as demand shifted into longer-term Treasury notes; yield spreads tightened over the quarter in response to moderated issuance and strong demand

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