



**Our Firm:**

Boyd Watterson Asset Management, LLC is an SEC-registered investment advisory firm with approximately \$19.5 billion of assets under management.<sup>(1)</sup> Over the last 90+ years, Boyd Watterson and its predecessor companies have successfully managed a broad range of fixed income and real estate strategies for institutions and individuals alike.

With a focus on the management of money and a dedication to the satisfaction of our clients' expectations, we offer the benefits of a boutique firm but with the resources usually attributable to a much larger asset management firm.

<sup>(1)</sup>As of March 31, 2026. Including real estate assets managed in separately managed accounts and advisory-only unified managed accounts (UMA). SEC registration does not constitute an endorsement of the Firm by the SEC nor does it indicate that the Firm has a particular level of skill or ability.

For information about Boyd Watterson's investment strategies, insights, philosophy and teams, please visit our website, [www.boydwatterson.com](http://www.boydwatterson.com)

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**The Macro View**

The year began with a favorable economic backdrop: inflation expectations were easing, the growth outlook remained positive, and the Federal Reserve was widely expected to resume cutting interest rates later in the year. On February 28, the United States and Israel launched coordinated military strikes against Iran, triggering retaliatory attacks across the Gulf region and severely disrupting traffic through the Strait of Hormuz, a key shipping route that carries approximately 20 percent of global oil supply. Brent crude oil prices surged from approximately \$72 per barrel before the conflict to above \$100, while domestic gasoline prices increased by more than 30 percent on a year-to-date basis. Due to significant global trade disruption and increased market volatility, we believe the clearest takeaway is that the range of possible economic outcomes has widened significantly since our prior Outlook. The duration and severity of this war will have far-reaching ramifications across many key economic indicators throughout 2026.

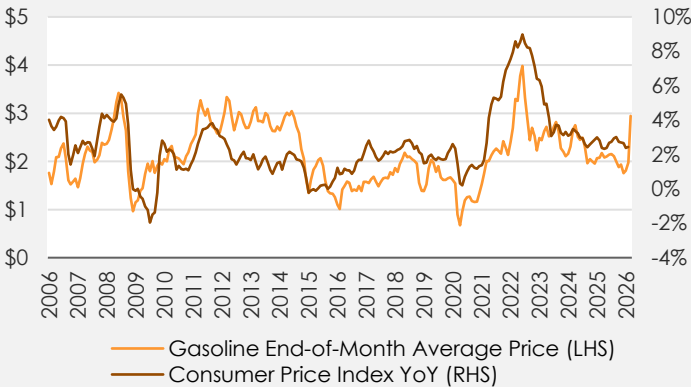
Performance for Periods Ending March 31, 2026					
	QTD	YTD	1-Year	3-Year	5-Year
2-Year Treasury	0.23	0.23	3.47	3.62	1.47
10-Year Treasury	-0.11	-0.11	3.56	1.64	-1.12
Bloomberg Aggregate	-0.05	-0.05	4.35	3.63	0.31
Corporate Investment Grade	-0.42	-0.42	4.85	4.94	0.95
Corporate High Yield	-0.53	-0.53	6.94	8.46	4.20
Leveraged Loans	-0.47	-0.47	4.79	8.02	5.85
Mortgage Backed Securities	0.58	0.58	5.81	4.20	0.41
S&P 500	-4.33	-4.33	17.80	18.32	12.06
MSCI EAFE	-1.24	-1.24	21.27	13.62	7.91

Source: Interactive Data, Bank of America/Merrill Lynch/Bloomberg. As of March 31, 2026.

Prior to the war in Iran, growth measures suggested a rebound from Q4 2025 GDP of 0.5%, with the Atlanta Fed's GDPNow Q1 2026 estimate at 3% as of the end of February. Energy price spikes have introduced meaningful downside risk to growth and upside risk to inflation, reducing the GDPNow growth estimate to just 2% one month into the war. Higher gasoline prices are likely to offset the expected boost from tax refunds, weighing on discretionary spending particularly among lower-income households. Prolonged volatility across commodities and financial markets may also slow capital markets activity and capex spending, pressuring sectors such as AI and private credit. If the conflict endures or intensifies, supply chain disruptions could continue to extend beyond energy into fertilizer and technology inputs, further weighing on growth.

Inflation dynamics were stable at the start of the year, with the Consumer Price Index (CPI) registering 2.4% year-over-year in January and February, while core CPI held steady at 2.5%. However, this data predates the oil supply shock and is widely viewed as a snapshot of the pre-war economy. We believe the surge in crude oil prices alone could push headline CPI back above 3.0%, even as shelter costs trend lower. The combination of tariff-driven producer price pressures and an energy supply shock create a challenging inflation backdrop, which raises stagflation concerns for the first time since the initial stages of the post-pandemic recovery.

## Consumer Inflation and Gasoline Prices

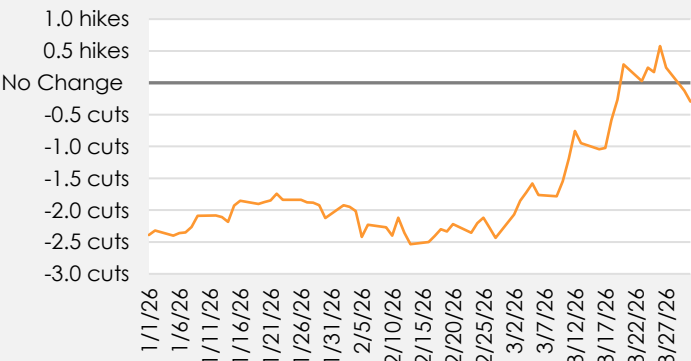


Data as of March 31, 2026. Source: Macrobond.

On the jobs front, revisions to population estimates have reduced both the labor force and overall employment levels. Against this backdrop, the employment outlook remains mixed with reduced demand for labor met by a corresponding decline in labor supply, resulting in a relatively stable unemployment rate in recent months. However, if higher energy costs begin to weigh on corporate profit margins and hiring intentions, labor market softening could accelerate.

The FOMC voted 11-1 in March to hold the federal funds rate steady at 3.50% to 3.75%, with Governor Stephen Miran providing the sole dissent in favor of a rate cut. The Committee's updated median economic projections reflected an increase in its GDP growth estimate to 2.4% and its inflation projection to 2.7% for 2026, while the 'dot plot' showed a median projection for just one rate cut in 2026 and one additional cut in 2027. Market-based expectations have shifted more sharply, from anticipating two rate cuts to expecting nearly zero in 2026. The conversation has shifted from "when" the FOMC will cut rates to "if" they will cut rates this year, a stark departure from the expectations that prevailed entering the quarter.

## Number of Rate Hikes/Cuts Expected by December 2026 FOMC Meeting



Data as of March 31, 2026. Source: Bloomberg

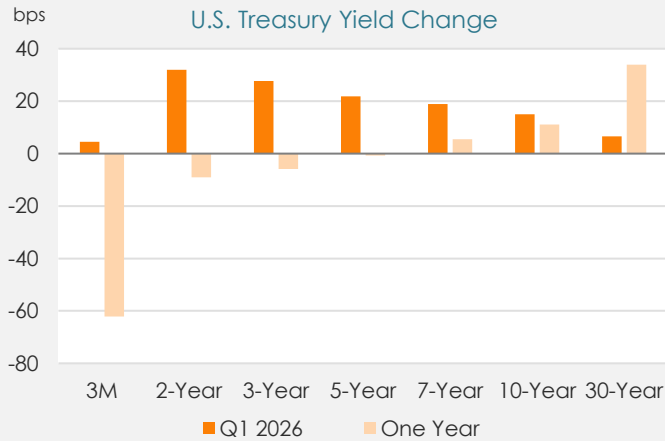
While downside risks have increased, hard economic data has yet to show a sharp contraction. The outlook for growth, inflation, and monetary policy will likely depend on the duration and severity of the war in Iran. The Fed faces a familiar dilemma: the potential need to support a weakening labor market while simultaneously confronting a supply-driven inflation shock that could prove persistent. Our base case assumes a relatively short conflict or de-escalation in the coming months. This would allow oil prices to stabilize and the pre-conflict economic trajectory to resume, with the FOMC delivering on its rate cut projection later in the year. However, a prolonged war could raise recession risks through higher energy prices, weaker consumer confidence, and tighter financial conditions.

## Fixed Income

What began as a constructive backdrop for fixed income investors in 2026 quickly gave way to a more volatile and uncertain environment, driven by geopolitical escalation, rising concerns about AI-driven disruption, and a sharp repricing of macro risks. While January was relatively uneventful, February marked the beginning of escalating volatility and uncertainty for bond investors. A steady flow of headlines about rapid advances in artificial intelligence (AI) sparked concerns about its disruptive potential, initially focused on software companies. Those AI concerns have since broadened to include its impact across the economy, most notably the labor market. Private credit felt the brunt of the negative sentiment, with valuations of many business development companies (BDCs) and alternative asset managers declining due to concerns surrounding their software lending exposures. Further complicating the landscape, March was dominated by the United States' and Israel's decision to undertake military action against Iran. The immediate market impact was significant, as rapid repricing of risk reflected rising concerns about higher inflation, slower growth, and a dramatic shift in Federal Reserve policy expectations.

Over the course of February, interest rates exhibited significant volatility, ending the month lower across the yield curve, as AI disruption and private credit concerns fueled increasing uncertainty over the longer-term ramifications they could have on the various business models and the economy broadly. March saw a reversal of that trend, as the war in Iran took center stage, driving interest rates higher. Often during times of geopolitical unrest, U.S. Treasuries are viewed as a safe-haven asset, with stronger demand driving yields lower. However, the war's destructive impact on Middle East energy infrastructure, along with the effective closure of the Strait of Hormuz, pushed Brent Crude oil prices up more than 70% per barrel in the first quarter, fueling stagflation concerns as higher energy prices threaten both inflation and growth. The prospect of rising inflation prompted a repricing of FOMC policy expectations, with markets shifting from nearly two and half cuts at the start of 2026, to only a small probability of one rate cut by year-end. This shift in monetary policy expectations drove Treasury rates at the front end of the yield curve over 40 basis points higher in March, while long-term

Treasury rates increased roughly 30 basis points amid increasing concerns over weakening economic growth. These shifting dynamics led to a significant flattening of the yield curve during the quarter, as the yield differential between two-year and thirty-year Treasury yields declined 25 basis points, ending the quarter at 112 basis points.



Data as of March 31, 2026. Source: Bloomberg.

The volatile landscape throughout the first quarter resulted in a mixed bag for both total and excess returns across the primary sectors of the fixed income market. Despite the disruptive impact of the events during the quarter, the repricing of risk assets was more measured than investors may have expected in this type of environment. The heightened volatility and uncertainty, coupled with over \$630 billion of new investment grade (IG) corporate bond issuance, resulted in IG corporate bond spreads widening only 11 basis points during the quarter, while high yield corporate bond (HY) spreads were 47 basis points wider. As a result, both the IG and HY corporate bond sectors posted negative excess returns relative to similar duration U.S. Treasuries. The securitized sectors fared better, with agency mortgage-backed, commercial mortgage-backed, and asset-backed securities all generating positive total and excess returns. Despite higher interest rates and elevated volatility, agency mortgage-backed securities posted the strongest excess returns across the corporate bond and securitized sectors in the first quarter.

Considering the uncertain and unpredictable economic outlook resulting from the war with Iran, we avoided making any oversized bets in the portfolios with respect to our four alpha drivers. At the same time, heightened interest rate volatility drove active duration management, leaving portfolios with a near neutral to modestly long duration bias across our active strategies. Additionally, despite the sharp flattening of the yield curve during the quarter, we maintained the bulleted maturity structure in our Core and Intermediate strategies, as we expect the steepening trend to resume in the coming months.

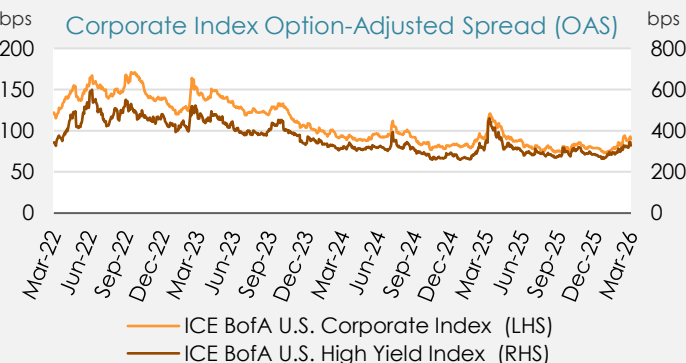
Our sector positioning was generally unchanged during the quarter. We maintained a modest overweight allocation to corporate bonds in all strategies, with a focus on short-to-intermediate term maturities, and an underweight allocation to longer-maturity credit. Furthermore, amid the risk of AI disruption across various segments of the economy, we have placed added emphasis on careful security selection. Lastly, we modestly increased our overweight allocation to agency mortgage-backed securities in the Core-based strategies and continued to favor asset-backed securities relative to U.S. Treasuries across all strategies.

Looking ahead, we anticipate remaining active in managing duration, reflecting both elevated volatility and our view that markets will once again revert to pricing in at least one FOMC interest rate cut later this year. Importantly, we believe we have ample dry power to add risk to our portfolios but will remain patient until we gain stronger conviction on the macroeconomic outlook before pursuing potential future opportunities.

## Real Estate

The first quarter of 2026 started off strong with a stable, growing economy, stable interest rates, increased market liquidity, improving fundamentals, and little new supply coming online. However, as the quarter was coming to a close, market conditions started to deteriorate due to the war with Iran which was launched mid-quarter. Oil prices have spiked, leading to fears of inflation. Interest rates have subsequently risen and now there is some thought that the Fed is more likely to hike interest rates rather than lower them. Though not directly impacted by the fighting, this changing macro backdrop may have a significant impact on pricing in the real estate market, with the cost of debt spiking 40-50 bps which may put upward pressure on cap rates.

Despite these headwinds, real estate looks to be a potential safe harbor amidst the noise of the war and a shakier economic backdrop. Equities have become quite volatile, and the private credit market has shown signs of cracks, resulting in significant redemptions from prominent credit funds in recent months. In many ways, the situation for funds in the private credit market resembles what real estate has gone through over the past four years since interest rate hikes began. Real estate now stands to potentially benefit from this disruption as capital is reallocated to it. With valuations already written down by approximately 20% across the board



Data as of March 31, 2026. Source: Bloomberg - ICE BofA Bond Indices.

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and with market conditions remaining fairly healthy, Boyd is expecting more capital to start flowing in real estate's direction.

Boyd believes the current market backdrop sets up well for its real estate funds to outperform its benchmark. Boyd's funds are leased to government and government-related tenancy, and the government's credit provides stability of cash flow in a less certain environment. Appreciation in the real estate market is expected to be somewhat limited, with income returns generating most of the expected total returns. Boyd believes this environment also favors its funds, which generally generate higher income returns than core funds. With some doubts creeping into the market regarding private credit and the equity market, government-leased real estate is likely to be seen as a safe harbor, potentially creating capital flows to the Boyd funds, which will create more liquidity and more opportunities to acquire accretive deals in today's market.

## Equities

U.S. equity market returns were broadly negative for the first quarter of 2026, driven by the war in Iran and the resulting increase in oil prices, coupled with higher inflation expectations and the realization that interest rate cuts would not materialize until much later in the year, if at all. The S&P 500 Index declined 4.33% for the period, while the Nasdaq Composite Index fell 6.96%, driven by a pullback in technology and financial stocks. Energy related stocks were the top performers in the S&P 500 Index, increasing 38.25% during the quarter.

Value stocks outperformed growth in the quarter, delivering modest gains while growth stocks declined sharply. The S&P 500 Value Index rose 0.02%, while the S&P 500 Growth Index fell 8.12%.

Interestingly, Mid-Cap and Small-Cap stocks generated positive returns for the quarter, while Large Cap stocks were negative. The Morningstar Mid-Cap ETF gained 1.14%, the Morningstar Small-Cap ETF increased 0.40%, while the Morningstar Large-Cap ETF was down 4.57%.

Looking ahead, the outlook for equities is tied closely to the resolution of the war in Iran. The longer the war continues, the greater chance that inflation moves higher, which could negatively impact economic activity and increase the likelihood of a rate cut later this year. Conversely, a near-term resolution to the war would likely lead to a rotation back into risk assets, supporting a rebound in equity markets.

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