



Our Firm:

Boyd Watterson Asset Management, LLC is an SEC-registered investment advisory firm with approximately \$19.8 billion of assets under management.⁽¹⁾ 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.

⁽¹⁾As of September 30, 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

Our Offices:

Headquarters

Cleveland, OH	1301 East 9th Street Suite 2900 Cleveland, OH 44114 (216) 771-3450
Main Phone	

Atlanta, GA	3284 Northside Parkway NW Suite 480 Atlanta, GA 30327
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Bloomfield Hills, MI	121 West Long Lake Road Suite 350 Bloomfield Hills, MI 48304
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Chicago, IL	One North Wacker Drive Suite 4025 Chicago, IL 60606
-------------	---

Denver, CO	1200 17th Street Suite 600 Denver, CO 80202
------------	---

New York, NY	1330 Avenue of the Americas, Floor 28 New York, NY 10019
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Tampa, FL	101 East Kennedy Boulevard Suite 1490 Tampa, FL 33602
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Washington, DC	905 16th Street, NW Suite 450 Washington, DC 20006
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West Hartford, CT	71 Raymond Road Office 202 West Hartford, CT 06107
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Boyd Watterson Investment Outlook

October 2026

The Macro View

The third quarter of 2026 reinforced a theme that has come to define the year; the U.S. economy continues to grow at a healthy pace, while inflation remains elevated and increasingly sensitive to developments in the Middle East. After a brief reprieve early in the summer, renewed hostilities between the United States and Iran undermined a fragile ceasefire, sending energy prices higher once again. We believe energy remains the single most important variable for the economic outlook, with significant implications for growth, inflation, and the path of monetary policy. Against this backdrop, the Federal Reserve tightened monetary policy in September, delivering its first policy rate increase since July 2023, a notable departure from market expectations earlier in the year.

Performance for Periods Ending September 30, 2026

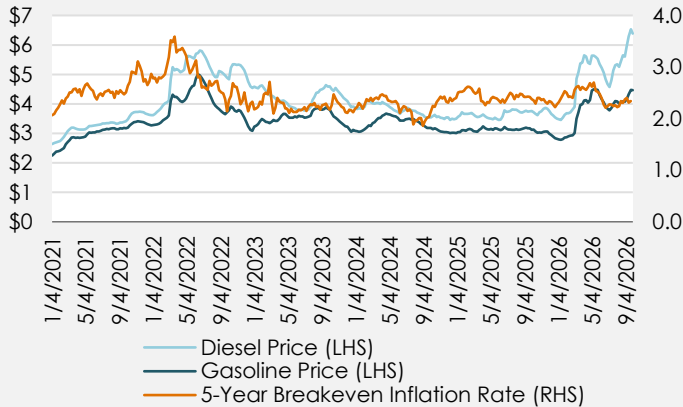
	QTD	YTD	1-Year	3-Year	5-Year
2-Year Treasury	-0.24	0.26	1.35	3.76	1.47
10-Year Treasury	-5.17	-5.15	-4.36	2.34	-2.70
Bloomberg Aggregate	-3.51	-2.91	-1.84	4.06	-0.64
Corporate Investment Grade	-3.75	-2.78	-2.04	5.13	-0.23
Corporate High Yield	-1.84	0.00	1.36	7.89	3.55
Leveraged Loans	2.03	3.42	4.65	7.11	6.12
Mortgage Backed Securities	-4.14	-3.02	-1.48	4.56	-0.39
S&P 500	2.30	12.75	15.74	22.89	13.79
MSCI EAFE	0.81	10.33	15.69	18.40	9.32

Data as of September 30, 2026. Source: Interactive Data, Bank of America/Merrill Lynch/Bloomberg.

Economic growth has remained resilient, supported in large part by sustained investment in artificial intelligence. Following modest growth in the second quarter, third-quarter GDP growth is currently tracking above 3.5%, according to the Atlanta Fed's GDPNow model. Technology investment made a meaningful contribution to year-over-year GDP growth in the second quarter, and the largest technology companies remain on pace to invest heavily throughout the remainder of this year and beyond, primarily in data centers. Absent an exogenous shock to the AI ecosystem, we expect this investment cycle to provide meaningful support to headline growth in the quarters ahead. Outside of the AI-driven investment cycle, other areas of the economy have shown uneven momentum, particularly among lower-income households and smaller businesses.

Inflation remains the economy's most enduring challenge, with energy costs emerging as an increasingly important driver. Headline CPI was elevated in August at 3.4%, with gasoline accounting for more than one quarter of that year-over-year increase. Higher gasoline prices function as a tax on discretionary spending, and with average hourly earnings growth running below the pace of headline inflation, the strain falls disproportionately on lower-income households, reinforcing the "K-shaped" dynamic.

Market-Based Inflation Signals

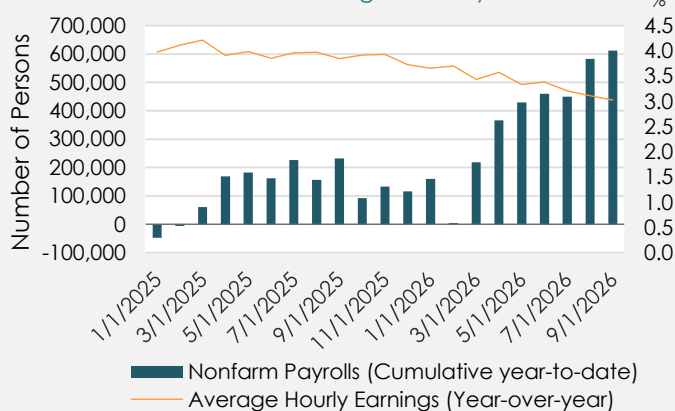


Data as of September 30, 2026. Source: Macrobond.

Diesel may prove to be the more consequential inflation story, with retail prices reaching a record high in September. Producer prices also moved higher year-over-year in August, as an increase in diesel prices accounted for a significant share of the monthly rise in goods prices. Because diesel is a key input into the cost of transporting goods, persistently high prices leave producers with a difficult choice: absorb higher costs and accept further pressure on margins, or attempt to pass those costs through to consumers, potentially weakening demand. Finally, beyond energy prices, supply and demand dynamics related to AI are also contributing to inflationary pressures, as data center demand has increased prices for memory chips, processors, and electricity.

The labor market, meanwhile, has not shown signs of material weakness. Payroll growth through August is running ahead of last year's pace, the unemployment rate held steady at 4.1%, and layoffs remain subdued. With the supply of and demand for labor generally balanced, the Fed shifted its attention toward the inflation side of their dual mandate.

Consumer Earnings and Payrolls



Data as of September 30, 2026. Source: Macrobond.

In September, the FOMC voted unanimously to raise the federal funds rate by 25 basis points. Chairman Warsh set the stage for the rate hike at the Jackson Hole Symposium, characterizing the economy as being at full employment while describing the inflation data as more concerning. Following the meeting, he emphasized that although the Fed cannot single-handedly stop oil price shocks, it has a role in keeping those pressures from broadening. The Committee's median projection now reflects one additional rate increase this year, a path that we view as appropriate given the persistence of inflationary pressures.

The November midterm elections also warrant attention, as a potential shift in congressional control could increase the risk of gridlock and slow the pace of fiscal spending. We would not expect such an outcome to materially affect economic momentum in the near term, although the longer-term implications remain uncertain.

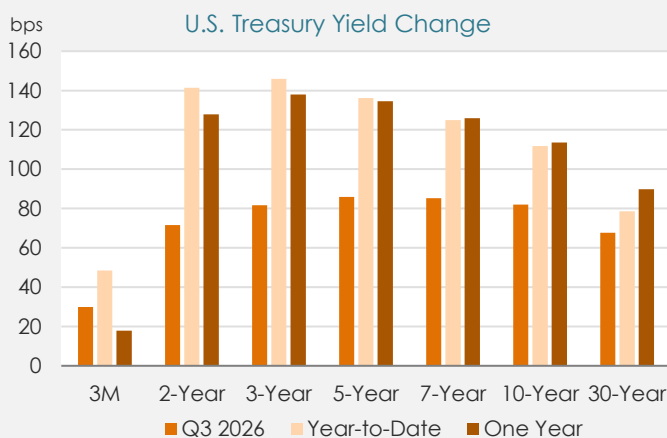
Overall, these dynamics leave the U.S. economy on solid footing, supported by continued AI-driven investment and a stable labor market. We believe inflation remains the key uncertainty with energy prices and broader geopolitical developments likely to play an outsized role in determining its trajectory and the course of monetary policy. While we expect inflation to remain elevated in the near term, we anticipate these pressures should begin to ease in the first part of next year, as slowing momentum in underlying CPI components and market-based signals suggest runaway inflation is unlikely. Against this backdrop, further Fed tightening is likely, but markets appear to be pricing in a more aggressive path than is warranted by the underlying economic outlook.

Fixed Income

Higher interest rates emerged as a defining theme across financial markets during the third quarter. Inflation proved more persistent than many expected, while a deteriorating fiscal outlook, surging gasoline and diesel prices, and the elevated financing needs associated with the massive AI infrastructure buildout added to upward pressure on interest rates. Furthermore, the U.S. economy continued to show resilience despite considerable uncertainty, while labor market conditions remained broadly balanced. Against this backdrop, the Federal Reserve remained focused on bringing inflation back toward its target while weighing the evolving risks to the broader economy. With progress on inflation stalled, the FOMC delivered a 25-basis point rate hike late in the quarter, its first tightening of monetary policy since July 2023. Equally important, Chair Warsh's comments following the meeting were hawkish, as were those of several Committee members in the days that followed, driving market expectations for as many as four additional rate hikes over the coming year.

Interest rate volatility remained elevated throughout the third quarter as investors navigated a shifting mix of economic data, geopolitical developments, FOMC commentary, and growing concerns over the U.S. fiscal outlook. In this context, fixed income investors became increasingly focused on the

government's plans to fund the expanding budget deficit and the potential implications for both the level of interest rates and the shape of the yield curve. Rising long-term Treasury yields, increasing debt service costs, and total government debt surpassing \$40 trillion, culminated in Treasury Secretary Bessent announcing an expansion of the Treasury buyback program focused on maturities between 10- and 30-years. While the initial reaction was a brief decline in long-term interest rates, the move proved to be short lived. The size of the buyback program was not seen as large enough to have a sustained impact, while the continued rise in oil prices kept investors focused on inflation and how far the FOMC might need to tighten policy to contain it. More broadly, the repricing of Fed policy expectations pushed the 2-year Treasury yield up 72 basis points during the quarter, while elevated inflation and government debt concerns resulted in a 68 basis point rise in the 30-year Treasury yield. Consequently, the yield curve, as measured by the spread between 2-year and 30-year Treasury yields, flattened for the third consecutive quarter, narrowing by 63 basis points year-to-date.



Data as of September 30, 2026. Source: Bloomberg.

Risk assets in the fixed income markets were relatively resilient despite elevated levels of geopolitical, macroeconomic, and monetary policy uncertainty. Investment grade (IG) corporate bonds generated modestly negative excess returns relative to similar duration Treasuries. With all-in index yields surpassing 6%, demand remained strong despite high levels of new issuance, which totaled more than \$1.67 trillion year-to-date, up 31% from the same period last year according to Bloomberg. Within the IG corporate market, BBB-rated bonds outperformed A- and AA-rated bonds from a quality perspective, while short-term bonds led across the maturity spectrum. High yield (HY) corporate bonds posted more pronounced negative excess returns, with single-B rated issuers the least negative among the three rating cohorts. Risk aversion was more evident in CCC-rated bonds, which significantly underperformed as spreads widened over 200 basis points during the quarter.

Excess returns across securitized sectors were mixed. Asset-backed securities led the group as spreads tightened by 8 basis points during the quarter. Commercial mortgage-backed securities also generated positive excess returns, while agency mortgage-backed securities underperformed Treasuries due to the rise in interest rates.

With heightened uncertainty continuing to weigh on the bond market, our portfolio positioning reflected only modest changes with respect to duration and sector positioning. We began the third quarter with a modestly long duration position across all active strategies, based on the expectation that the Fed may remain on hold for the remainder of the year. When it became clear that inflation was proving to be stickier than originally anticipated and that the Fed would likely increase rates, we reduced the size of our long duration bias. While the current level of interest rates may present a more attractive opportunity to add duration, we believe the range of factors that could push rates higher warrants a patient approach.

The Core and Intermediate Strategies continued to reflect a bulleted maturity structure, with an emphasis on maturities in the intermediate portion of the yield curve. We continue to believe markets are pricing in too much additional Fed tightening, which could eventually lead to a steeper yield curve as front-end interest rates retrace some of this quarter's increase. However, we expect this steepening to unfold over time, given the uncertainty surrounding the timing and magnitude of any adjustment to front-end rates.

From a sector positioning perspective, we added to agency mortgage-backed securities in the Core strategies late in the quarter, as the increase in interest rates resulted in wider spreads. Similarly, we increased our allocation to asset-backed securities, as single-A and BBB-rated tranches presented more compelling valuations in shorter maturities, particularly when compared to similar maturity corporate bonds. Finally, we maintained an overweight to corporate bonds while remaining cautious about adding exposure given the richness of current valuations. As noted earlier, IG corporate bonds have all-in yields above 6%, however, nearly eighty-five percent of that yield comes from the underlying Treasury, highlighting that credit spreads remain on the tighter side of their historical range.

Looking ahead, we expect the U.S. economy to remain resilient, although several risks could alter the near-term trajectory of growth, interest rates, credit spreads, and monetary policy. At the same time, we believe the rise in interest rates this year has created a more attractive opportunity for fixed income investors, with yields near their highest levels in over two decades. As a result, the relatively flat yield curve allows investors to capture these higher yields without taking on significant duration, or interest rate risk. As we move into the fourth quarter, we will be monitoring geopolitical events, the mid-term elections, energy costs, and the outlook for Federal Reserve interest rate policy and adjust our positioning as opportunities arise.

Real Estate

The macroeconomy saw significant change in the third quarter of 2026 as interest rates on both the short and long end of the yield curve rapidly rose throughout the quarter and ended with the expectation of more rate increases to come. Higher oil prices caused by the war with Iran and the increased inflation caused by those higher costs resulted in markets driving up interest rates on the long end of the curve to levels not seen since 2007. This rapid rise in rates (more than 80 bps in Q3 alone on the ten-year) is likely to negatively impact commercial real estate as it is among the most interest-rate sensitive industries. Already, it has slowed transaction activity and is expected to cause more stress for real estate owners facing maturities in the coming months. Many borrowers with 2021 and 2022-vintage loans will likely need to sell or refinance in the coming months with lowered valuations and higher costs of debt and many are expected to default on those loans, which may bring a new round of distress to the market right as it appeared the real estate market was at the start of a recovery.

With the exception of the rapid rise in rates, commercial real estate is on fairly strong footing heading into the fourth quarter. A healthy job market has fueled more demand for space across all of the asset classes and high construction costs have kept a lid on supply for the foreseeable future. Market fundamentals continue to improve or hold steady in each of the sectors, most notably in the office sector where the supply has decreased and demand has picked up with more employers requiring more time in the office. Debt markets are liquid and loans are available with lenders having righted their balance sheets over the past few years. After several years of stasis, lenders have sought to grow their portfolios which has resulted in more competition and tighter spreads for financing. Even with this positive backdrop, higher interest rates have the potential to increase debt servicing costs and raise required discount and cap rates for investors, which may negatively impact valuations of properties.

Boyd's funds are not immune to capital markets impacts but they are insulated from the worst impact. Boyd's fund valuations are generally carried at higher cap rates than core funds and are therefore less sensitive to rate movements than core funds, which are carried at lower cap rates. Additionally, Boyd's funds generate most of their returns from income and are not as reliant on appreciation for generating return, which will buoy Boyd's funds returns in a flat to negative appreciation environment. This income reliance also makes the valuations less sensitive to rate movements than the competition as it is less reliant on a higher residual value than value-add and opportunistic players. Additionally, Boyd has used fixed-rate financing across the board in its funds and has little vulnerability to short-term rate increases. Overall, this market environment favors income-oriented funds like Boyd's with strong credit, strong balance sheets and access to capital, and Boyd's funds are well-positioned to weather any disruption caused by higher rates.

Equities

The U.S. equity market advanced during the third quarter, although gains moderated following the strong rebound in the second quarter. The S&P 500 gained 2.30% during the quarter, while the NASDAQ also posted a positive return and the Dow declined. Equity markets benefited from strong corporate earnings and resilient economic growth, but rising Treasury yields and concerns about inflation and the outlook for monetary policy weighed on performance, particularly toward the end of the quarter.

Market leadership shifted during the quarter, with Energy emerging as the strongest-performing sector, gaining approximately 17%, supported by higher oil prices. Technology, Health Care, and Communication Services also generated strong returns. In contrast, Utilities, Industrials, Consumer Discretionary, Real Estate and Consumer Staples declined during the quarter. Market breadth weakened late in the quarter, with the equal-weighted S&P 500 underperforming the capitalization-weighted index by over 4.00%.

Growth stocks outperformed value stocks during the quarter, despite the significant increase in longer-term interest rates. Investor demand remained concentrated in companies with strong earnings growth prospects, particularly technology and AI-related companies. The strength of growth stocks contributed to relatively narrow leadership within the broader equity market.

Performance across market capitalizations was mixed during the quarter. Large-cap stocks benefited from continued strength among several of the largest technology-oriented companies, while mid and smaller companies generated negative returns as they faced increasing pressure from higher interest rates and tighter financial conditions.

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