

## Views from our Alpha Pods

April 2026

### Macroeconomic outlook

#### A solid start to the year was disrupted by geopolitical events in March.

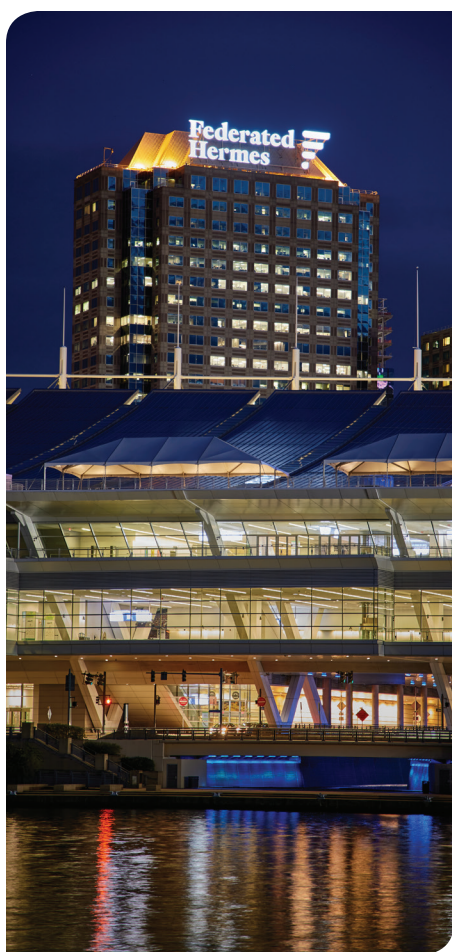
The on again/off again Iran conflict contributed to periods of heightened volatility in the first quarter, with bond markets alternating between concerns around inflation pressures and longer-term risk of slowing growth. We expect that markets will remain sensitive to both geopolitical events and macroeconomic data that may surprise.

#### Fixed income markets have the potential to be resilient.

After finishing March slightly negative as measured by the Bloomberg US Aggregate Bond Index, markets rallied into early Q2, spurred by the potential end to the war in the Middle East and signs of strength and resilience in the US economy. US economic data releases added to this dynamic, as retail sales surprised to the upside and labor market data came in sufficiently firm to offset the weakness earlier in Q1.

#### We believe that bond market equilibrium will continue to be vulnerable.

Although tariff announcements a year ago were more disruptive, current political and macroeconomic factors have the potential to tip the US economy into contraction. In the meantime, being underweight in volatile spread sectors with rich valuations seems reasonable as spread widening, with or without a recession, seems likely.



### By the numbers

Key fixed income stats and our directional expectations for the next 3 to 6 months.

	Prior data	Current data	Directional change from prior period	Our expectations
<b>Unemployment rate*</b>	4.40%	4.30%	▼	–
<b>Inflation (Core PCE YOY)**</b>	3.10%	3.00%	▼	▲
<b>Real US GDP Growth***</b>	4.40%	0.50%	▼	▲
<b>Federal Funds rate range upper bound****</b>	3.75%	3.75%	–	–
<b>2-year Treasury yield****</b>	3.38%	3.79%	▲	▼
<b>10-year Treasury yield****</b>	3.97%	4.30%	▲	▼

\*Bloomberg current as of 3/31/26, prior as of 2/28/26.

\*\*Bloomberg current as of 2/28/26, prior as of 1/31/26.

\*\*\*Bloomberg current as of 12/31/25, prior as of 9/30/25.

\*\*\*\*Bloomberg current as of 3/31/26, prior as of 2/28/26.

PCE is Personal Consumption Expenditures.

**Past performance is no guarantee of future results.**

### Alpha Pod overview

Federated Hermes' fixed income investment committees, the Alpha Pods, guide our firm's bond market views and positioning.

- Four independent pods (Duration, Sector, Yield Curve, Currency)
- Consists of portfolio managers, analysts and traders
- Monthly meetings with votes and recommendations
- Aimed at generating alpha from active management
- Security selection by portfolio managers combines bottom-up analysis with the top-down Alpha Pod input

## Opportunities in fixed income

There is a range of return opportunities within fixed income that can be sourced from a variety of risk exposures such as sector, duration and quality. Fixed income investors vary with respect to risk tolerances, investment goals and time horizons.

### Summary investment views

Based on lively committee discussions, the below themes summarize the views our Alpha Pods are using when making investment decisions.

Duration	Sector	Yield curve	Currency
Edged longer as yields have risen significantly as higher oil prices pushed markets to price out Fed easing and even to price in some tightening, creating a tactical value opportunity	The higher quality areas of fixed income, notably IG bonds have been resilient in the face of recent and rising pressures. We continue to emphasize discipline on valuation	Uncertainty over the duration of the war, and its impact on both inflation/inflation expectations as well as global growth, make it difficult to have strong conviction on how the curve will react near term	We remain structurally bearish on the USD, although expect that the weakness will be more muted than in 2025

**The sharp repricing of the UST curve has been challenging for fixed income. We continue our focus on liquidity and quality, as ongoing geopolitical risks, inflationary pressures, AI disruption, and private credit concerns could weigh on markets.**

## Alpha Pod positioning and rationale

Portfolio construction and management are the responsibility of portfolio management teams; however, the Pods provide tactical direction to each team. The below reflects the Pods' positioning following their regularly scheduled meetings, occasionally the Pods change positioning intra-meeting.

<b>Duration management</b> Moved to a slight lean long (102.5%) benchmark duration from neutral (100%)	The Pod edged longer as yields have risen significantly as higher oil prices pushed markets to price out Fed easing and even to price in some tightening, creating a tactical value opportunity. Despite high uncertainty, the pod sees scope for a near-term retracement in yields as negotiations, a potential stalemate, and emerging growth and risk-sentiment concerns could temper the inflation-driven move.
<b>Sector allocation</b> Overweight: Treasuries Neutral: MBS; IG Underweight: HY; CMBS; EMD	The credit sectors have traded in an orderly manner since the beginning of the conflict, although rising volatility has been felt as markets traded with the tone of the conflict and price of oil. The group opted not to change any recommendation this month. Our active positioning in MBS, IG, HY, EM, and CMBS leaves a residual overweight in Treasuries and agencies, which serves as funding for attractive out-of-index opportunities in our most flexible strategies.
<b>Yield curve analysis</b> Exited the steepener and returned to neutral	The Pod recommended a return to neutral, exiting both the 0.1 KR 2/10 and 0.1 KR 2/30 steepener positions. Uncertainty over the duration of the war, and its impact on both inflation (and potentially inflation expectations) as well as global growth, make it difficult to have strong conviction on how the curve will react near term.
<b>Currency management</b> Underweight: USD	In March, the US dollar rallied as a safe haven amid Middle East tensions and ineffective bond hedges, driven largely by deleveraging rather than new demand, with most committee members still expecting USD weakness depending on the trajectory of the Iran conflict.

As of 4/2/26.

Mortgage-backed securities (MBS). Emerging markets debt (EMD). Investment-grade corporates (IG). High yield (HY). Commercial mortgage-backed securities (CMBS).

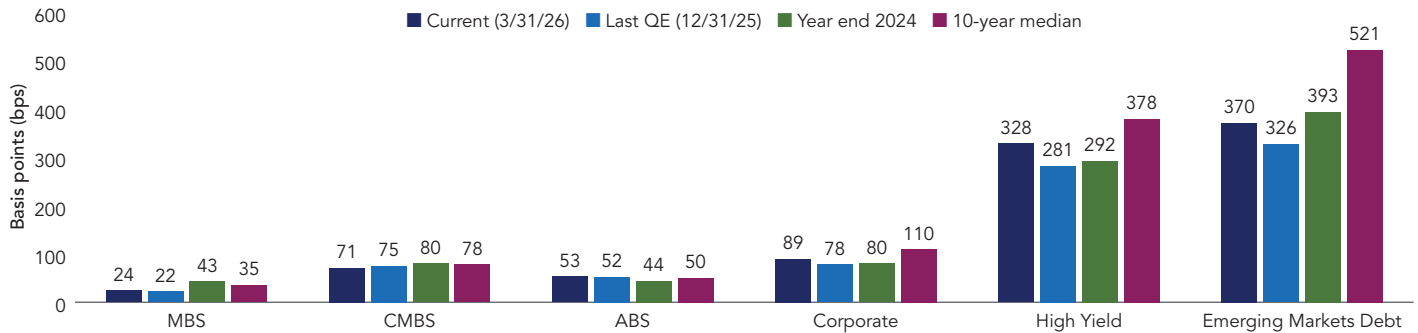
## Sector snapshot

### Spreads

The entire Treasury curve is at a 3-month low. The 2/10's and 2/30's flattened modestly, while 5/30's steepened. Credit spreads have generally moved wider on the risk off tone.

### Spread levels by sector (bps)

#### Compared to similar maturity US Treasuries



Source: Bloomberg indices (MBS, CMBS, ABS, Corporate EMD), ICE BofA (High Yield).

### A deeper dive

The Sector Pod focuses primarily on the sectors included in the Bloomberg US Universal Index. Additionally, underlying teams and portfolio managers weigh in on out of index sectors that could be used. The below provides some additional context to our overall views.

#### MBS

**Neutral:** We maintain our neutral position to MBS while we see some developments towards positive. Valuations are somewhat more attractive, but relative value across sectors is mostly stable. Nominal and option-adjusted spreads (OAS) widened in line with the cloudy environment but we don't think it is an attractive entry point yet. Volatility has also moved higher on recent risk-off.

#### CMBS

**Underweight:** We maintain our underweight positioning due to tight valuations and the overall macroeconomic uncertainty from the Iran war. The Fed will likely be on hold until the impact of the war is better understood. Higher inflation induced interest rates are negative for the Commercial Real Estate (CRE) market, but a near term end to the war could allow the US economy to return to its solid growth. CMBS delinquency rates reached a new high for this cycle, but limited new issue supply has been a positive technical.

#### Treasuries

**Residual overweight:** The process of our active sector decisions imply a suggested overweight to US Treasuries. In practice, this allocation serves as a funding source for out of index sector holdings such as trade finance, Treasury Inflation-Protected Securities (TIPS), asset backed securities and more in our most flexible strategies. The 2/10 curve was slightly flatter to start the month, while 2/30 and 5/30 were steeper.

#### IG

**Neutral:** We maintain neutral to IG as the US macroeconomic picture appears resilient, based on data release so far. We have seen strong demand for new issuance so far this year, nearly \$650B, with deals multiple times oversubscribed. Consumer confidence appears relatively stable, but employment and inflation perception will be key.

#### HY

**Underweight:** We maintain an underweight despite modest widening year to date. Spreads are off the recent lows but are still below historical medians. Rising oil prices are leading to economic concerns and negative headlines in private credit continue. We believe HY credit quality is better than private credit and loans right now.

#### EMD


**Underweight:** Emerging markets are not immune to recent events and we maintain our underweight to EMD. Fundamentals remain sound but the lack of policy clarity across countries is likely to put further pressure on credit spreads. This could ultimately have a longer lasting effect on global growth.

## Our leadership in fixed income

<p>more than</p> <h1>55 years</h1> <p>managing fixed income products</p>	<p>team of over</p> <h1>100</h1> <p>fixed income professionals</p>	<p>our portfolio managers average</p> <h1>29 years</h1> <p>in the investment industry</p>	<p>our portfolio managers average</p> <h1>21 years</h1> <p>at Federated Hermes</p>
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## Alpha Pods are chaired by seasoned leaders

Duration management	Sector allocation	Yield curve strategy	Currency management
11 voting members including Chair	10 voting members including Chair	10 voting members including Chair	7 voting members including Chair
Chaired by: <b>R.J. Gallo</b> <i>Deputy Chief Investment Officer, Global Fixed Income</i>  Outlook based on: Business cycle analysis, Valuation indicators, Global attractiveness	Chaired by: <b>Mark Durbiano</b> <i>Co-Head of Domestic High Yield Group</i>  Outlook based on: Historical spread analysis, volatility analysis	Chaired by: <b>Donald Ellenberger</b> <i>Head of Multi-Sector Strategies Group</i>  Outlook based on: Federal Reserve policy, inflation expectations, proprietary multi-factor model	Chaired by: <b>Ihab Salib</b> <i>Head of International Fixed Income Group</i>  Outlook based on: US current account/fiscal conditions, interest rate differential, expectations for growth



## For dedicated municipal bond or short duration thought leadership from our team, reach out to your Federated Hermes representative.

Forward-looking statements or projections are subject to certain risks and uncertainties. Actual results may differ from those expressed or implied.

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector. Material has been prepared using sources of information generally believed to be reliable, but its accuracy is not guaranteed.

Bond prices are sensitive to changes in interest rates, and a rise in interest rates can cause a decline in their prices.

High-yield, lower-rated securities generally entail greater market, credit/default and liquidity risks, and may be more volatile than investment grade securities.

International investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards. Prices of emerging markets securities can be significantly more volatile than the prices of securities in developed countries and currency risk and political risks are accentuated in emerging markets.

The value of some mortgage-backed securities and asset-backed securities may be particularly sensitive to changes in prevailing interest rates, and although the securities are generally supported by some form of government or private insurance, there is no assurance that private guarantors or insurers will meet their obligations.

Investment-grade securities are securities that are rated at least "BBB" or unrated securities of a comparable quality. Non-investment-grade securities are securities that are not rated at least "BBB" or unrated securities of a comparable quality. Credit ratings are an indication of the risk that a security will default. They do not protect a security from credit risk. Lower-rated bonds typically offer higher yields to help compensate investors for the increased risk associated with them. Among these risks are lower creditworthiness, greater price volatility, more risk to principal and income than with higher-rated securities and increased possibilities of default.

**2s/10s and 5s/30s spread:** The difference in yield between the 2-year and 10-year and the 5-year and 30-year Treasury bonds, respectively, is a measure of yield curve steepness.

**2s/30s steepener:** Refers to the environment or expectation that the difference between 2-year Treasury and 30-year Treasury yields is widening. Investors employing this strategy aim to benefit from their expectation that the 30-year rate will rise more than the 2-year rate or that the 2-year rate will fall more than the 30-year rate.

**Alpha:** Measures the excess returns of a fund relative to the return of a benchmark index.

**Duration:** A measure of a security's price sensitivity to changes in interest rates.

Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

**Key Rate Duration (KRD):** A measure of the sensitivity of a security or the value of a portfolio to a 1% change in yield for a given maturity.

**Yield Curve:** Graph showing the comparative yields of securities in a particular class according to maturity. Securities on the long end of the yield curve have longer maturities.

**Yield Spread:** The difference between the quoted rate of return on different debt instruments.

**Yield to Maturity (YTM):** Used to determine the rate of return an investor would receive if a long-term, interest-bearing investment, such as a bond, is held to its maturity date. It takes into account purchase price, redemption value, time to maturity, coupon yield and the time between interest payments.

**Bloomberg US Aggregate Bond Index:** Is an unmanaged index composed of securities from the Bloomberg Government/Corporate Bond Index, Mortgage-Backed Securities Index and the Asset-Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization.

**Bloomberg US Universal Index:** Is an index that represents the union of the US Aggregate Index, US Corporate High-Yield, Investment-Grade 144A Index, Eurodollar Index, US Emerging Markets Index and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment grade or below investment grade.

Indexes are unmanaged and cannot be invested in directly.

**Past performance is no guarantee of future results.**