

Brandes Investment Partners
Core Plus Fixed Income Strategy Notes
First Quarter 2026 (January 1 – March 31, 2026)

The Brandes Core Plus Strategy rose 0.05% net of fees and 0.12% gross of fees, and outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, which declined –0.05% in the quarter.

Annualized total return as of March 31, 2026	1-year	5-year	10-year
Brandes Core Plus Fixed Income Composite (net)	3.99%	1.28%	2.29%
Brandes Core Plus Fixed Income Composite (gross)	4.28%	1.54%	2.56%
Bloomberg U.S. Aggregate Bond Index	4.35%	0.31%	1.70%

Past performance is not a guarantee of future results. One cannot invest directly in an index. Returns include reinvestment of all dividends and are reduced by any applicable foreign withholding taxes, without provisions for income taxes, if any.

The year got off to a relatively benign start. Interest rates drifted downwards as the market was anticipating that the Fed (Federal Reserve Bank) would continue to move the fed funds rate lower. Yield spreads began the year near the tightest levels in several decades but continued to move lower. Economic data was largely positive, and equity markets generally moved sideways.

However, as Ron Burgundy famously said¹, “that escalated quickly” as markets were forced to digest the joint United States and Israeli military invasion of Iran on February 28. Energy prices skyrocketed, interest rates moved sharply higher, and equities moved lower. Nevertheless, while there was certainly an uptick in corporate bond market volatility, investment-grade yield spreads only moved modestly wider.

The Iran conflict and the subsequent rise in energy prices served to stoke fears of inflation. Historically, energy price disruptions have tended to be short-lived; and thus, have not meaningfully affected inflation. While this may still be the case, the conflict has led to significant energy infrastructure damage in the Middle East. Assuming the conflict is resolved soon, as seems possible, and energy prices decline, they will likely decline to a higher baseline than before this conflict began. Additionally, inflation has been above target for over five years running, making it more difficult to assume that the public will continue to shrug off shocks as *one-off* events.

The other big story of the first quarter was rising concern about stress in the private credit market. First there were stories of valuation concerns as several high-profile private credit managers slashed the value of some loans from near par value to zero during the quarter. Next, the stories shifted to redemption requests by jittery investors that far exceeded the quarterly thresholds set by their managers.

Whether the stress being experienced in the private credit market bleeds into the public corporate bond market in which we operate remains to be seen, but the concerns around private credit should not be a surprise. An enormous amount of money has flooded into the sector in the past few years, which has led to relaxed underwriting standards and capital extended to companies that in our view, probably did not deserve it. The lack of liquidity and transparency in this market only serves to increase investor anxiety. The fact that there are *gates* to prevent a larger exodus is a feature and not a bug and could serve to mitigate the stress from becoming a systemic issue.

Portfolio Performance

In the first quarter, the Brandes Core Plus strategy delivered positive returns and outperformed their benchmark, the Bloomberg U.S. Aggregate Bond Index.

Security selection contributed to performance from an overall perspective. Select holdings in corporate bonds provided a positive contribution to returns during the quarter, led by holdings in technology (Sabre Global, Iron Mountain, and Alphabet), banking (US Bank, Goldman Sachs, and Bank of America), and pharmaceuticals (Organon). Select holdings in communications (Univision & Gray Media) and retail (Kohl’s Corp.) modestly detracted from returns.

Term structure positioning was modestly positive. We moved strategy duration from 91% of the benchmark at the beginning of the period to 94% toward the end of the quarter. Interest rates moved upward after the Iran conflict began, and the market's outlook shifted from an expectation of two Fed rate cuts in 2026 to a steady fed funds rate throughout the year, as inflation concerns moved back to the forefront.

The strategies underweight to agency mortgage-backed securities (MBS) detracted from returns as agency MBS was among the best-performing taxable fixed income asset classes during the period.

With an uptick in market volatility from mid-February through to the end of the quarter, we were able to add what we believe are several high-quality corporate bonds at attractive levels. The strategy added new positions in Alphabet Inc. (4.10% coupon, maturing 2/15/31, rated Aa2/AA-), Goldman Sachs (5.049% coupon, maturing 7/23/30, rated A2/BBB+), JPMorgan (5.14% coupon, maturing 1/24/31, rated A1/A), Bank of America (5.162% coupon, maturing 1/24/31, rated A1/A-), and PNC Financial (4.075% coupon, maturing 1/26/29, rated A3/A-).

Additionally, the strategy added new positions in two FNMA DUS (Fannie Mae's Delegated Underwriting and Servicing program) securities rated Aa1/AA+. FNMA DUS securities are backed by multifamily real estate (i.e. apartment complexes, senior living facilities, and student housing). The primary difference between a FNMA DUS security and an agency residential mortgage-backed security (agency MBS) is that the former has strict penalties for principal prepayments while the latter does not. As a result of greater prepayment certainty, FNMA DUS bonds have historically typically been offered at a lower yield spread than agency MBS. That is not currently the case; therefore, we were able to add two securities that offer exposure to the mortgage market with minimal credit risk and negligible prepayment risk.

Finally, we added to our existing holding in pharmaceutical company Organon's first-lien bond (4.125% coupon, maturing 4/30/28, rated Ba2/BB). Organon's most significant drug by revenue comes off patent in 2030, and as the window of patent protection shortens, that has been weighing on that company's whole bond complex. In our view, the security we own exhibits a distinctly different (i.e. better) credit profile than the other bonds in the company's capital structure. Our holding matures well before the company's *patent cliff*, is a secured bond, and is the nearest to maturity in the capital structure. Additionally, during the quarter, the company was subject to takeover rumors by a higher rated entity – in which event our holding would likely be called. The bond's call price is higher than our purchase price during the quarter. Therefore, a takeover would likely be a positive development for our position. The strategy experienced a maturity in Bank of America and a call of positions in T-Mobile, VMware Inc, and Sealed Air.

Outlook

As we shift to the second quarter, while it is difficult to see through all the "noise" in the market, the underlying fundamentals of the investment landscape are reasonably healthy. The U.S. economy is in decent shape: the labor market has seen some moderation, but the unemployment rate remains low, and while consumers are dealing with energy price shocks, it has not hit overall consumer spending yet. Public company balance sheets are sound, and more companies are beating earnings expectations than are missing them.

There has, however, been a rise in shocks to the system during the first quarter. We have already discussed the effect of the Iran conflict and the ongoing stress in the private credit market. The other looming issue that has been building since the blowout government spending at the start of the COVID pandemic is the U.S. government's fiscal situation.

As we have discussed in the past, both U.S. government spending and debt relative to GDP are near the highest levels since World War II and we see this issue getting worse. The population is aging - adding pressure to healthcare and Social Security entitlement costs. At the same time, the immigration crackdown and falling birth rates are causing the supply of labor to stagnate, compromising the funding needed for entitlement programs. The "One Big Beautiful Bill Act" reduced corporate and personal income taxes. The Supreme Court struck down the Trump administration tariffs, possibly leading to a need to refund the revenue that was raised. Finally, by some estimates, the Iran conflict is costing the U.S. about \$1 billion per day.

The market has paid scant attention to U.S. government spending and rising debt, but it remains a risk factor that we believe deserves attention.

In summary, we believe fixed income yields are attractive, but corporate and mortgage-backed bonds are not cheap. The rise in yields over the past few years has largely been driven by the rise in underlying Treasury rates. Yield spreads, the extra compensation investors receive over U.S. Treasuries, are lower. Even with a modest rise in yield spreads over the past month, the corporate bond market remains largely priced to perfection today, placing a premium on security selection in our view.

We continue to tilt the Brandes Core Plus strategy into what we believe is a defensive posture to mitigate some of the market uncertainty and potential for widening yield spreads. We believe that this remains a risk. Accordingly, the strategy continues to favor shorter-maturity corporate bonds and those that we believe exhibit strong, tangible asset coverage. We continue to manage duration carefully, and this was approximately 6% shorter than the strategies benchmark at quarter end. We have a meaningful allocation to U.S. Treasuries, and if market uncertainty and volatility continue to cause credit fundamentals to become mispriced relative to our estimates of intrinsic value, we will look to redeploy some of those Treasury holdings thoughtfully and effectively, as we did in the early part of March to take advantage of opportunities at that time.

While we added two new securities during the period, we remain underweight agency mortgage-backed securities.

As we move forward, we remain optimistic about the prospects for the Brandes Core Plus strategy, although we believe prudence dictates that we continue our search for value in a measured and deliberate manner while continuing to tilt the strategy to what we view as a relatively defensive posture.

Sincerely,



Timothy M. Doyle, CFA
Fixed Income Portfolio Manager

¹ From the 2004 film "Anchorman: The Legend of Ron Burgundy"

For term definitions, please refer to: <https://www.brandes.com/termdefinitions>.

For index definitions, please refer to: <https://www.brandes.com/benchmark-definitions>.

The Bloomberg U.S. Aggregate Bond Index is a broad based benchmark that measures the investment grade, U.S. dollar denominated, fixed rate taxable bond market. This index is a total return index which reflects the price changes and interest of each bond in the index. The benchmark returns are not covered by the report of independent verifiers. "BLOOMBERG®" and the Bloomberg indices listed herein (the "Indices") are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the Indices (collectively, "Bloomberg") and have been licensed for use for certain purposes by the distributor hereof (the "Licensee"). Bloomberg is not affiliated with Licensee, and Bloomberg does not approve, endorse, review, or recommend the financial products named herein (the "Products"). Bloomberg does not guarantee the timeliness, accuracy, or completeness of any data or information relating to the Products.

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