

Brandes Investment Partners Core Plus Fixed Income Strategy Notes Third Quarter 2026 (July 1 – September 30, 2026)

The Brandes Core Plus Strategy declined -2.98% (gross of fees), but outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index by 0.53%. The benchmark declined -3.51% in the quarter. Year-to-date, the strategy has outperformed the benchmark by 0.97%.

Annualized total return as of September 30, 2026	1-year	5-year	10-year
Brandes Core Plus Fixed Income Composite (net)	-1.23%	0.47%	1.60%
Brandes Core Plus Fixed Income Composite (gross)	-0.96%	0.73%	1.87%
Bloomberg U.S. Aggregate Bond Index	-1.84%	-0.64%	1.13%

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 2026 returns are preliminary, unaudited and subject to change.

Legendary boxer Mike Tyson famously stated: “Everyone has a plan until they get punched in the mouth.” The U.S. Treasury market seemingly had a plan this year to deal with inflation that has remained well above the Fed’s (Federal Reserve Bank’s) target for six years and counting, a fiscal situation that is best described as a *hot mess*, and a nearly insatiable demand for capital from corporations to fund the Artificial Intelligence (AI) buildout. The *punch* hit in the third quarter, sending Treasury yields to their highest levels since the early 2000s.

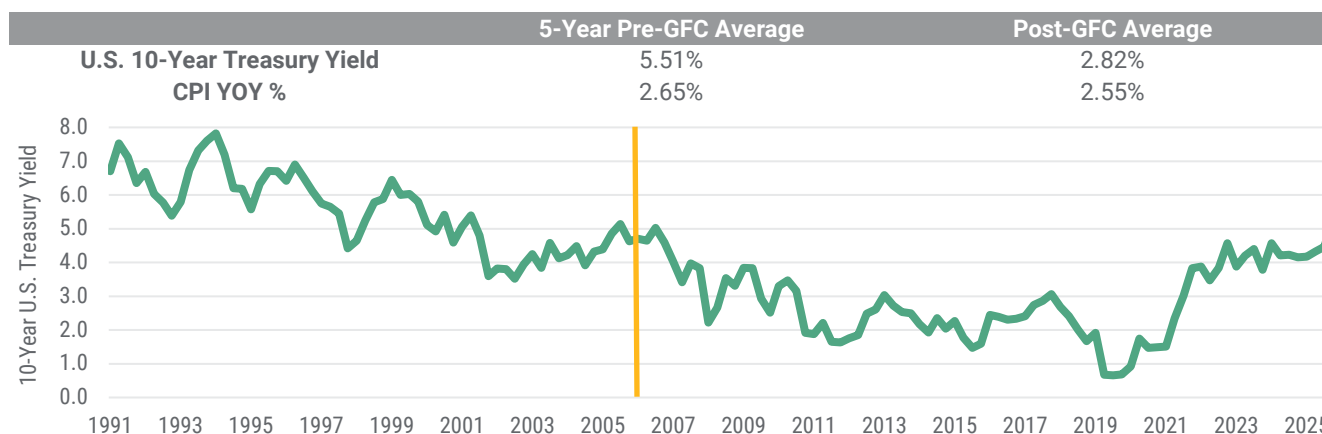
The overwhelming narrative of the quarter was the *rout* in the bond market.

We believe a key theme in the fixed income market is that nearly twenty years of unconventional monetary policy helped suppress interest rates and shape investor expectations, creating a generation of market participants with limited experience across full market and interest-rate cycles. In other words, thanks to overt central bank influence, we believe many investors may have a distorted view of what a *normal* interest rate environment should look like.

The Fed inserted itself into the markets at the outset of the Global Financial Crisis (GFC) in 2007 and turbocharged its explicit involvement in response to the COVID pandemic in 2020, leading to the 10-year Treasury yield hitting an all-time low of 0.50% in August 2020. The average yield on the 10-year Treasury bond since 2007 has been 2.87%.

If we examine the fifteen years before the GFC (as presented in Exhibit 1 below), we see that the average yield on the 10-year Treasury bond was 5.51%, with inflation averaging 2.65% during this period. What if the current bond market *rout* is merely a return to historically more *normal* levels?

Exhibit 1: Is the Current U.S. Treasury Bond "Rout" Simply a Return Towards Normal Yield Levels?



December 31, 1991 to August 31, 2026 | Source: Bloomberg. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by consumers for a market basket of consumer goods and services. Year-over-year (YOY) is a method of measuring growth that compares a statistic, such as revenue in one time period with the same time period one year earlier.

Elsewhere in fixed income markets, high yield corporate bonds and Agency mortgage-backed securities posted negative returns relative to Treasury securities while investment-grade corporate bonds held up better.

Portfolio Performance

In the third quarter, the Brandes Core Plus strategy delivered negative returns but outperformed their benchmark, the Bloomberg U.S. Aggregate Bond Index.

Security selection positively contributed to performance. Select holdings in corporate bonds provided a positive contribution to returns during the quarter, led by holdings in communications (Gray Media), technology (Sabre Global), and pharmaceuticals (Organon & Baxter International). Select holdings in banking (US Bank) and insurance (American National Group) modestly detracted from returns.

Term structure positioning was a positive factor. We maintained the duration of the strategy at approximately 94% of the benchmark throughout the quarter. Interest rates moved sharply higher across the yield curve as the market digested a deluge of corporate bond supply and the first fed funds rate increase from the Fed under the leadership of Chairman Kevin Warsh.

The strategies underweight to agency mortgage-backed securities (MBS) aided performance, as agency MBS posted their fourth worst quarter of returns relative to U.S. Treasuries over the past twenty years. Performance was also helped by our positions in multi-family Agency MBS Delegated Underwriting and Servicing bonds.

Even with considerable volatility in interest rates, yield spreads continued to hover near their tightest levels in decades. Therefore, strategy activity was modest. The strategy added new positions in Amazon Inc. (5.10% coupon, maturing 7/1/33, rated A1/AA-), Oracle Corp. (4.95% coupon, maturing 2/4/31, rated Baa2/BBB-) and Sopaipilla Investor LLC (7.534% coupon, maturing 11/30/48, rated A+).

The strategy experienced a maturity in Ford Motor Credit and we tendered our position in Baxter International Inc.

Sopaipilla Investor LLC is a project finance bond for a data center in El Paso, Texas. The primary tenant will be Meta. The project is 80% owned by Blackstone and 20% owned by Meta. The primary risks related to this bond are construction cost risk and the tenant's ability to pay for the lease. Meta is responsible for cost overruns above 5%, and if Meta decides to walk away from the lease, a residual value guarantee is triggered, effectively limiting the risk to principal for bondholders. Ultimately, we view this bond as an extension of Meta credit risk. Finally, the bond has a sinking fund, which directs lease payments toward reducing outstanding principal, further reducing risk in our view.

Outlook

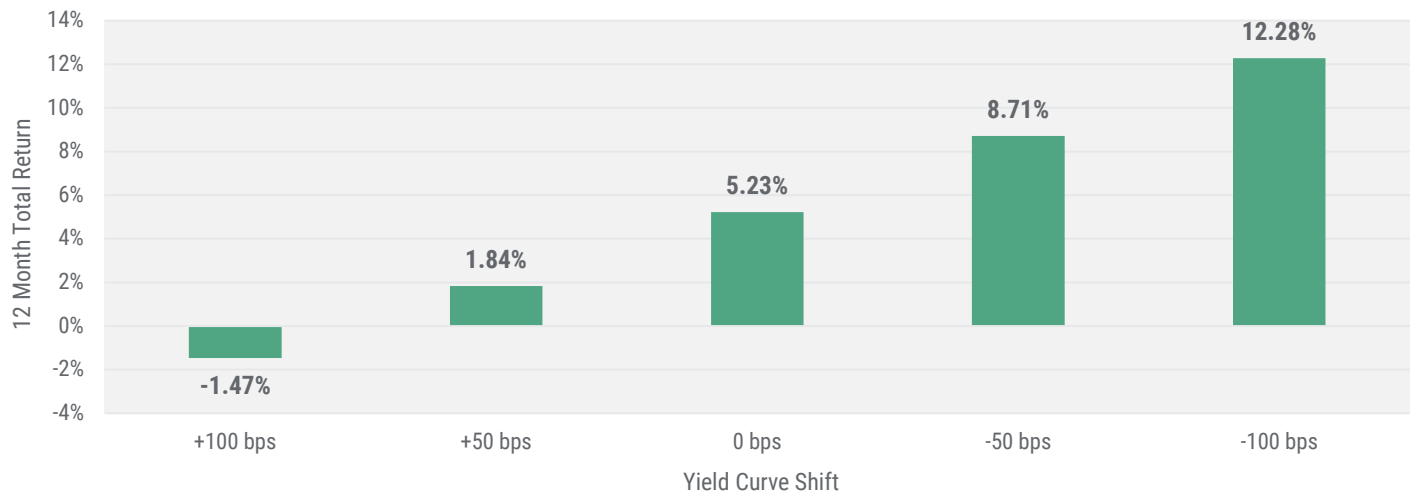
The last few years have been a difficult environment for absolute returns in fixed income. Historically, the yield on fixed income strategy has served as a cushion or shock absorber during previous bouts of interest rate volatility. With 10-year Treasury yields touching 0.50% in 2020 and averaging less than 3% since the GFC, the ability for yields to act as a stabilizer of investor returns had been reduced.

While the sharp upward move in interest rates over the course of the quarter generated another period of negative total returns, the silver lining is that yields are back to what we believe is an attractive level. Going forward, continued bouts of upward interest rate movement are likely to have a more muted impact on total returns.

To illustrate this point, Exhibit 2 presents examples of the one-year forward total expected return of the 10-year U.S. Treasury security under various shifts in the yield curve.

Exhibit 2: The Rise in Yields Has Created a Positive Asymmetric Return Profile

Projected 12 Month Total Return of 10 Year Treasury Bond



As of September 30, 2026 | Source: Bloomberg. Basis point (bps) is a unit of measurement equal to 0.01% used to describe changes in interest rates, bond yields, and investment fees.

As we enter the fourth quarter, we believe fixed income yields are attractive, but corporate and mortgage-backed bonds are not cheap. Investors—many who have not experienced yields this high—still appear to be more focused on the absolute level of yields while largely ignoring what is going on *under the hood*. We believe that successfully navigating the current market environment requires patience (don't *chase* yields) and places a premium on security selection (look *under the hood* at the underlying credit fundamentals).

Therefore, 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 are managing the strategy's duration at approximately 6% shorter than the benchmark. 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 first quarter.

We remain underweight agency mortgage-backed securities.

As we move forward, 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 believe is a relatively defensive posture.

Sincerely,

Timothy M. Doyle, CFA
Fixed Income Portfolio Manager

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

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

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