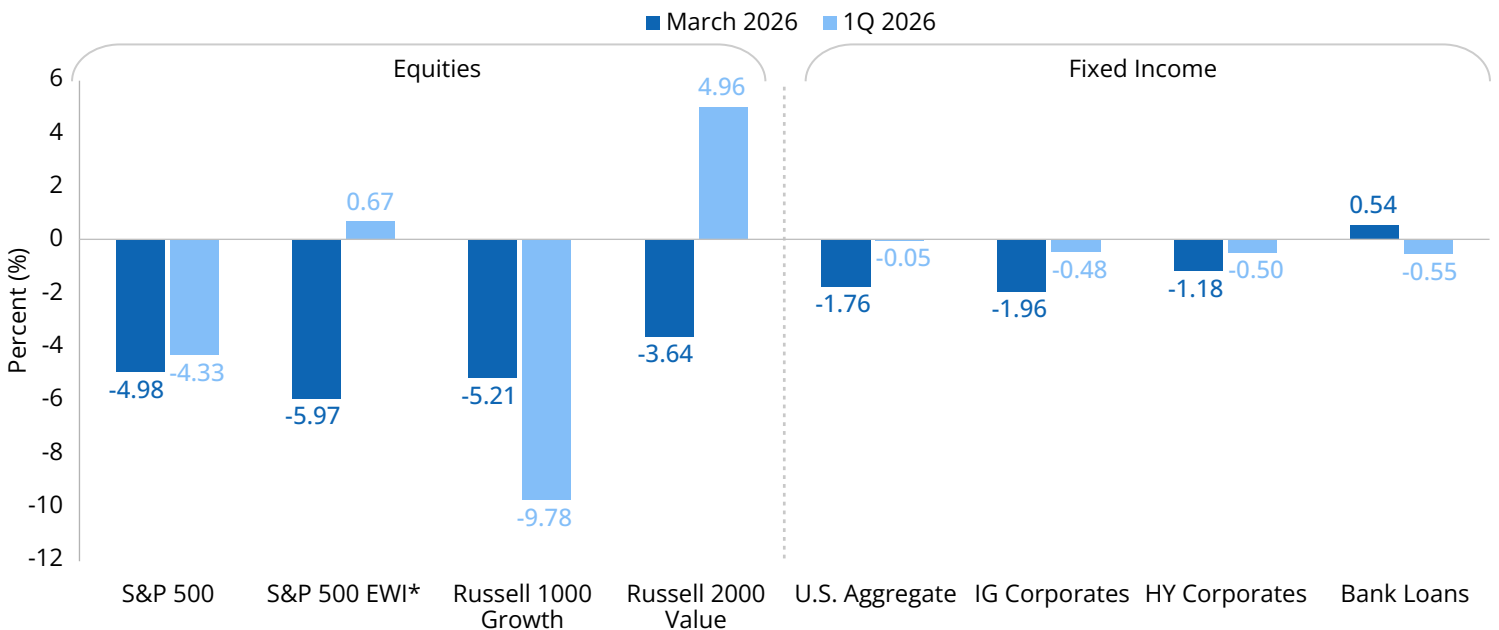


## BEYOND THE STRAIT

Plus, Aristotle Pacific CEO Dominic Nolan discusses opportunities in fixed income, the Fed's next move, market analysis, and economic trends.

*We recently sat down with Dominic Nolan, CEO of Aristotle Pacific Capital, to get his analysis of credit markets, including the implications of disruption in the global oil market and opportunities in fixed income. We conclude with a personal reflection.*

### Market Performance: Total Return



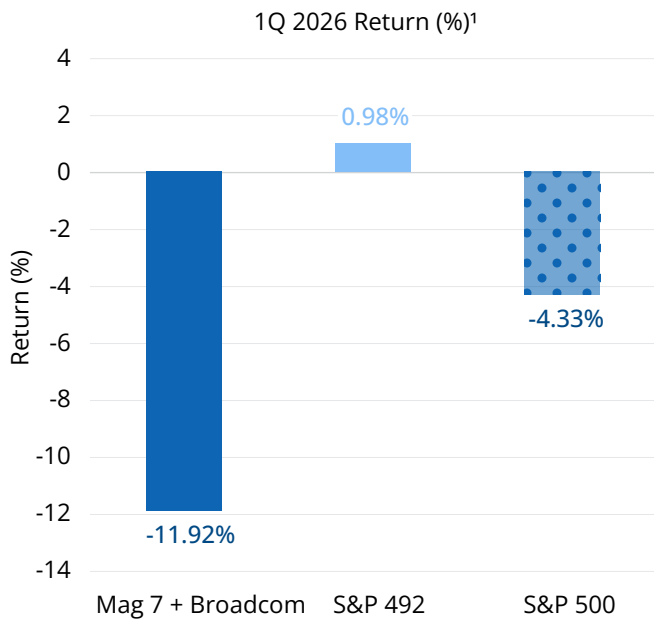
**Past performance does not guarantee future results.** Source: Morningstar as of 3/31/26. \*Equal Weight Index HY Corporates represented by Bloomberg US Corporate High Yield Index, Bank Loans represented by J.P. Morgan Leveraged Loan Index, IG Corporates represented by Bloomberg US Corporate Index, U.S. Aggregate represented by Bloomberg US Aggregate Bond Index.

### March was a difficult month for stocks and bonds. Was the poor performance all due to the Iran war?

The war was certainly the main headwind to performance. Another theme sector rotation as many equity sectors that outperformed last year have underperformed so far this year and vice versa, with small caps leading the way. The S&P 500 Index fell nearly 5% in March, briefly touching

correction territory, and is down about 4.3% for the quarter. The S&P 500 Equal Weight Index declined nearly 6% last month but was slightly positive for the quarter, as investors rotated from technology, financials, and cyclicals to industrials, energy, and materials. The Russell 1000 Growth Index declined 5.2% in March and had a horrible first quarter, down 9.8%. The Russell 2000 Value Index performed better, down 3.6% in March and up nearly 5% for the quarter.

## Mag 7 + 1: Market Falls as Mag 7 (+1) Flounders



	1Q 2026 Average Weight (%)	March 2026 1-Month Return (%)	1Q 2026 Total Return (%)
Nvidia Corporation	7.65	-1.57	-6.48
Apple Inc.	6.60	-3.93	-6.56
Alphabet Inc.	5.65	-7.75	-8.27
Microsoft Corporation	5.36	-5.75	-23.28
Amazon.com, Inc.	3.68	-0.82	-9.77
Broadcom Inc.	2.67	-2.95	-10.39
Meta Platforms, Inc.	2.40	-11.66	-13.25
Tesla, Inc.	1.99	-7.64	-17.34
<b>Contribution to S&amp;P 500 Index 1Q 2026 Performance<sup>1</sup></b>			
Magnificent 7 + Broadcom			-4.13%
Rest of the Companies in S&P 500 Index			-0.20%

**Past performance does not guarantee future results.** Source: FactSet 1/1/26 – 3/31/26, MAG 7 Companies Sorted By Average Weight.

<sup>1</sup>Mag 7+1 and S&P 492 return reflects average return while the S&P500 is the weighted average return. A full list of each fund's holdings can be found at [www.aristotlefunds.com/resources/prospectuses-reports](http://www.aristotlefunds.com/resources/prospectuses-reports) and are subject to change at anytime. Any discussion of individual companies in this presentation is not intended as a recommendation to buy, hold or sell securities issued by those companies.

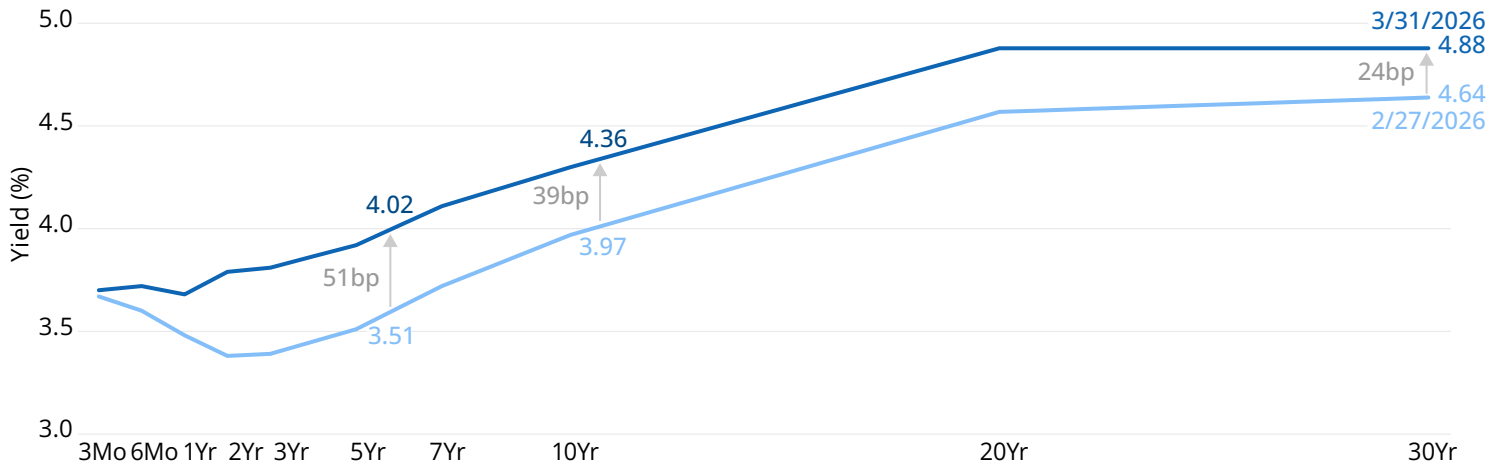
The war also affected fixed income, though less severely. The oil shock raised inflation expectations, and investors pushed yields up a bit, which drove fixed prices lower. The Bloomberg US Aggregate Bond Index declined 1.8% in March and is essentially flat for the quarter. One bright spot in March was bank loans, returning 54 basis points for the month. Their floating rates can help mitigate the consequences of higher rate moves.

### It was also a rough month for the Mag 7 + Broadcom. Any thoughts?

A confluence of headwinds has been battering these stocks, from the war to concerns related to artificial

intelligence spending and disruption of software models, with all eight stocks posting negative returns during March. Meta declined the most, down 11.7% last month, on multiple pieces of negative news: the company lost in court – along with Alphabet – over allegations that its social media platforms harmed users' mental health; it delayed the rollout of its latest AI model, code-named Avocado; and it laid off hundreds of workers, with rumors of more sweeping layoffs to come. Taking a step back, while these eight companies declined about 4% in the first quarter, the rest of the S&P 500 was down just 20 basis points (bps).

## 2025 U.S. Treasury Yield Curve Range: Shifting Rates



Past performance does not guarantee future results. Source: U.S. Treasury Daily Par Yield Curve Rates, as of 3/31/26.

### How has the war affected the U.S. Treasury yield curve?

Yields rose across the curve, roughly 25 bps on long end of the curve and about 50 bps on the shorter end, from roughly two to seven years to maturity. The 10-year point on the curve rose from just below 4% to about 4.3%. Clearly, the oil shock is raising inflation expectations and changing the market's outlook on the Fed's next move, which is why the shorter end of the curve spiked the most.

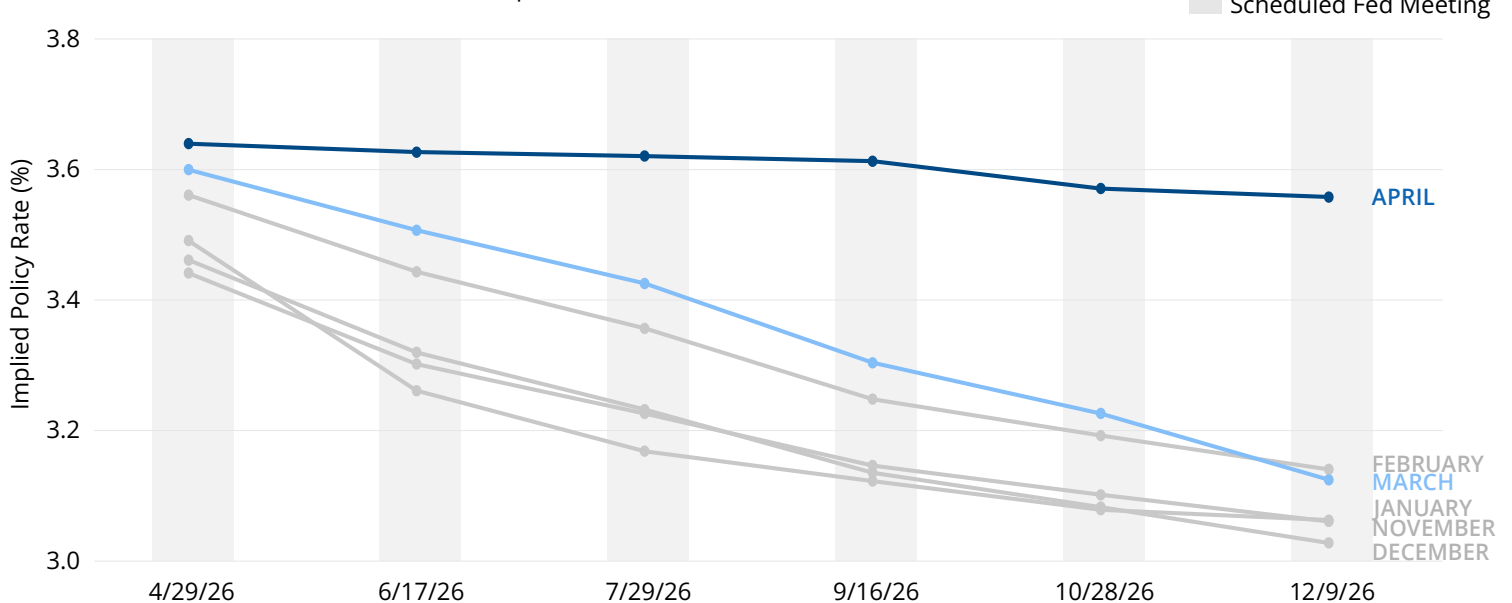
### What's next for Fed policy?

Market expectations for Fed rate cuts have quickly gone from two more this year to no cuts. That

outlook clearly reflects a hawkish reaction to the energy supply shock and potential for sticky inflation. However, it's also possible that the supply shock drags the economy into a recession and the Fed feels it must ease financial conditions with rate cuts. I think we will get a rate cut or two this year, since economic activity was slowing somewhat before hostilities began. Note that my base case is that the Trump administration finds a way to deescalate the situation or at least restore a significant amount of oil shipping through the Strait of Hormuz within the next 60 days. But I also recognize that the situation is highly fluid.

### Fed Futures: 2026 Cut Expectations Diminish

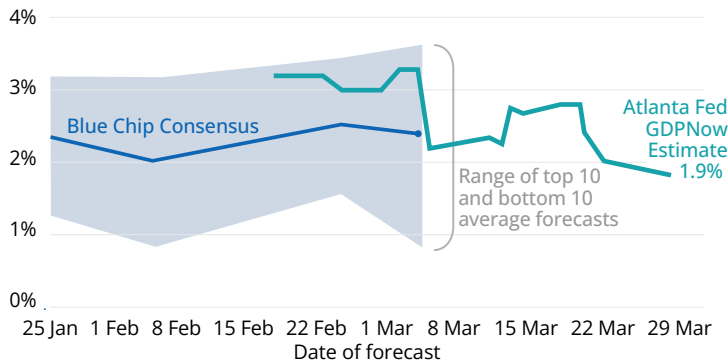
Implied Fed Funds Rate and Number of Hikes/Cuts



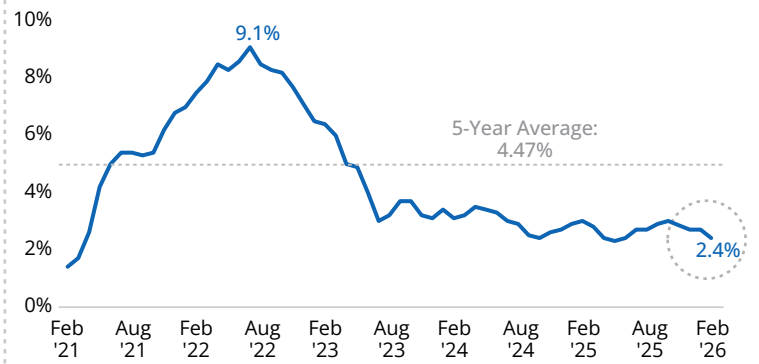
Source: Bloomberg, as of 4/1/26.

## Economic Dashboard: Slowdown, Stability, or Strength?

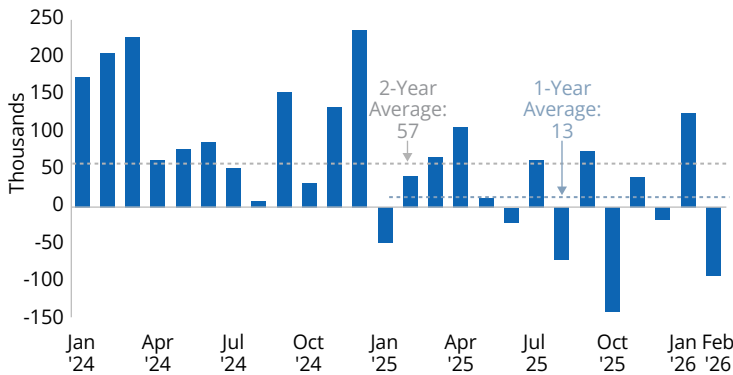
Evolution of Atlanta Fed's GDPNow Real GDP Estimate for 1Q 2026  
Quarterly percent change (Seasonally Adjusted Annualized Rate)



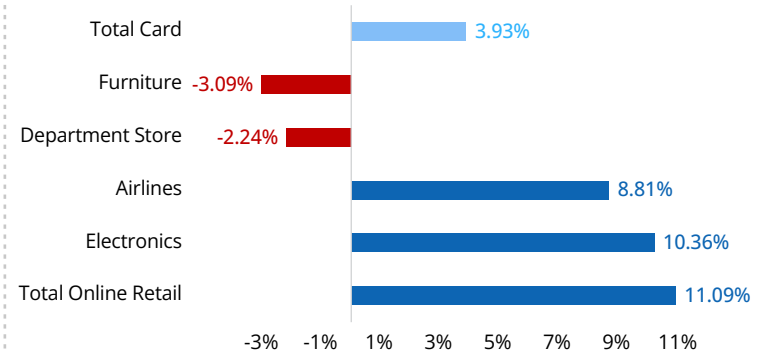
Consumer Price Index: 12-Month Percent Change  
(Not Seasonally Adjusted)



Monthly Change in Nonfarm Payrolls



Consumer Spending



Sources: GDP – Atlanta Fed, Blue Chip Economic Indicators and Blue Chip Financial Forecasts as of 4/1/26; CPI – U.S. Bureau of Labor Statistics as of 2/28/26, most recent data available as of 3/31/26; Payrolls – U.S. Bureau of Labor Statistics as of 2/28/26, most recent data available as of 3/31/26; Consumer Spending, Bank of American Consumer Spend as of 3/1/2026-3/21/2026.

### How is the economy holding up?

While macro data points to a stable economy – with inflation close to 2%, GDP growth positive, and the job market moving sideways – that data is backward-looking. It's extremely difficult to underwrite current events; I don't see a good historical precedent to use as a framework. We are rewriting history every day, and the usual macro metrics likely will be reset once the conflict with Iran is resolved. In the meantime, the big question for the global economy is: What will it take to open the Strait of Hormuz?

### That's a good segue to our special topic this month. How do you assess the struggle over the Strait of Hormuz?

Let's start with the strategic leverage points and who controls them, with the caveat that several dynamics are in play and things could change quickly. I think it's clear the U.S. and Israel have air and naval superiority and greater resources. The U.S. also has alliances that allow us to park ships and planes at allied bases in the region, and we have financial sanctions, which were affecting Iran prior to this conflict.

## Beyond the Strait: Strategic Leverage Points

### Who Holds What?

#### US/Israel

- Military superiority (air/naval power)
- Substantially greater resources
- Alliance Network (NATO, Gulf partners)
- Sanctions and global influence

#### Iran

- Control over the Strait of Hormuz
- Asymmetric economic warfare
- Low likelihood of regime capitulation
- Time to pressure oil prices



Source: New York Times, BBC, Reuters.

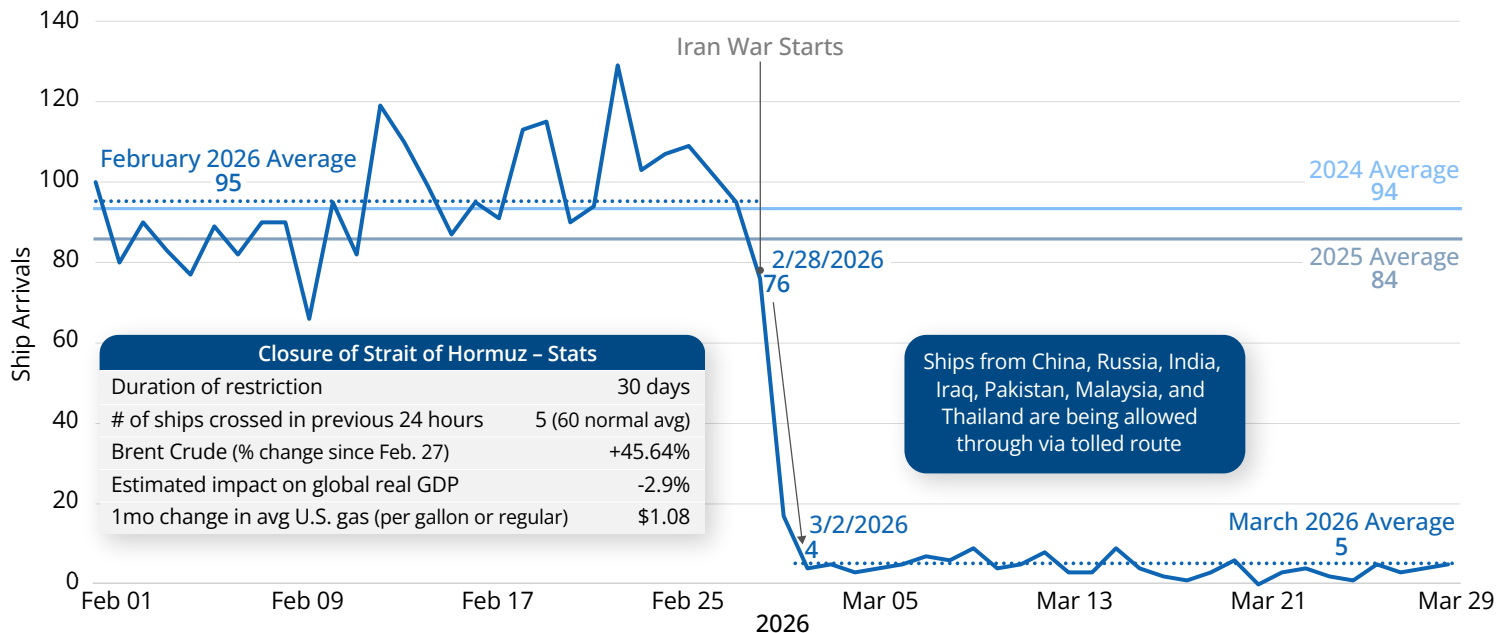
Yet the most significant leverage point is control of the strait, which is in Iran's hands. Iran also is employing asymmetric economic warfare. For example, the drones Iran is using are estimated to cost \$20,000 to \$50,000 each, while interceptor missiles used to shoot them down cost millions of dollars. There also seems to be a low likelihood of regime capitulation in Iran, which means it has time to pressure the global economy with higher oil prices. Time is on Iran's side over the next few months.

Another layer of complication: Even if the U.S. negotiates a deal with Iran, Israel could decide to continue the conflict.

### How effective has the closure of the strait been on shipping?

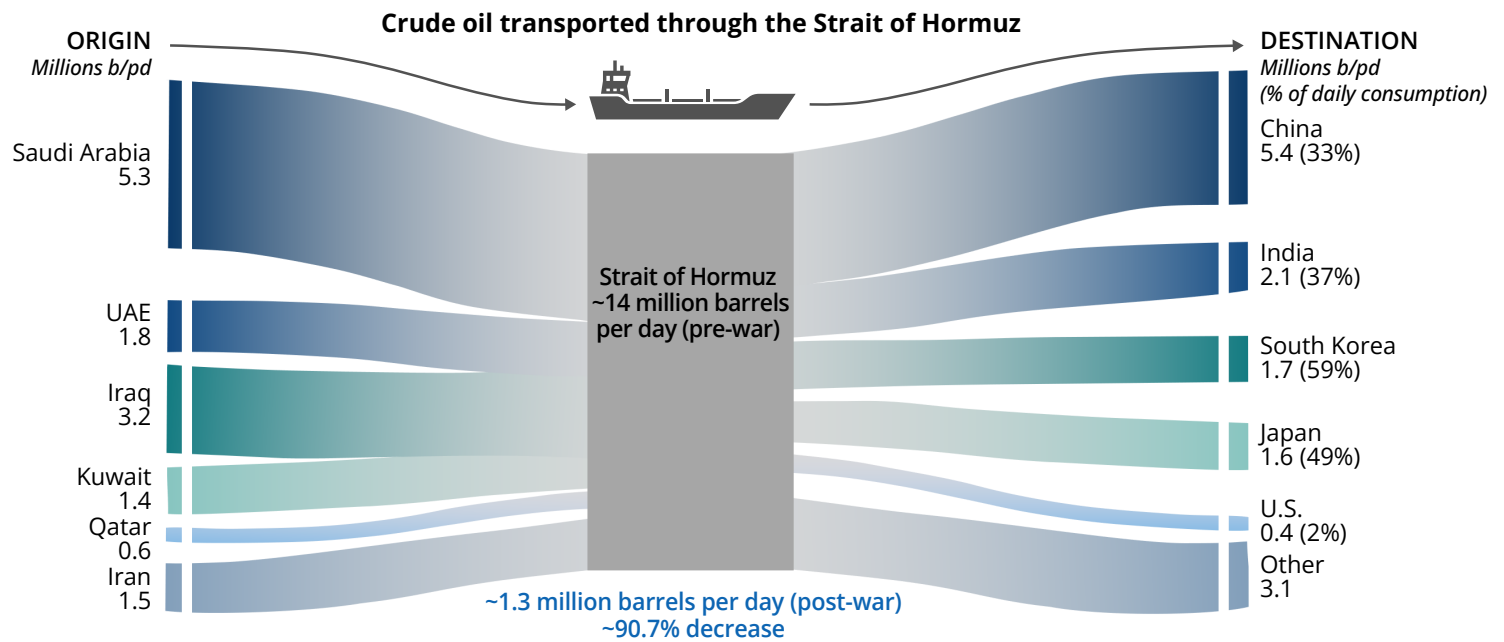
Traffic has declined over 90%. More than 80 ships traversed the strait daily on average in 2025, according to IMF Portwatch, and the U.K. Maritime Trade Operations Center noted that figure was as

## Beyond the Strait: The Iran War's Impact on Shipping Flows



Past performance does not guarantee future results. Source: IMF Portwatch; as of 31 March, Federal Reserve Bank of Dallas; represents impact to Q2 global real GDP, AAA.

## Beyond the Strait: Where The Barrels Go



**Past performance does not guarantee future results.** Source: International Energy Association and Hormuz Strait Monitor. Crude oil transported through the Strait of Hormuz is as of 6/30/2024. World oil production is as of 12/31/2025.

high as 138 vessels the day before the war. Traffic declined to about five ships a day after the war began, according to several sources, though recent press reports have noted a slight increase in the past couple of weeks, with as many as 16 ships in a day. However, that increased total is still a fraction of pre-war traffic, and those ships tend to be heading to countries in the Middle East and Asia, as well as Russia – few ships are traveling to Western countries. Also, ships are paying Iran a substantial toll to pass the strait.

### Which countries have been most acutely affected by the drop in oil exports?

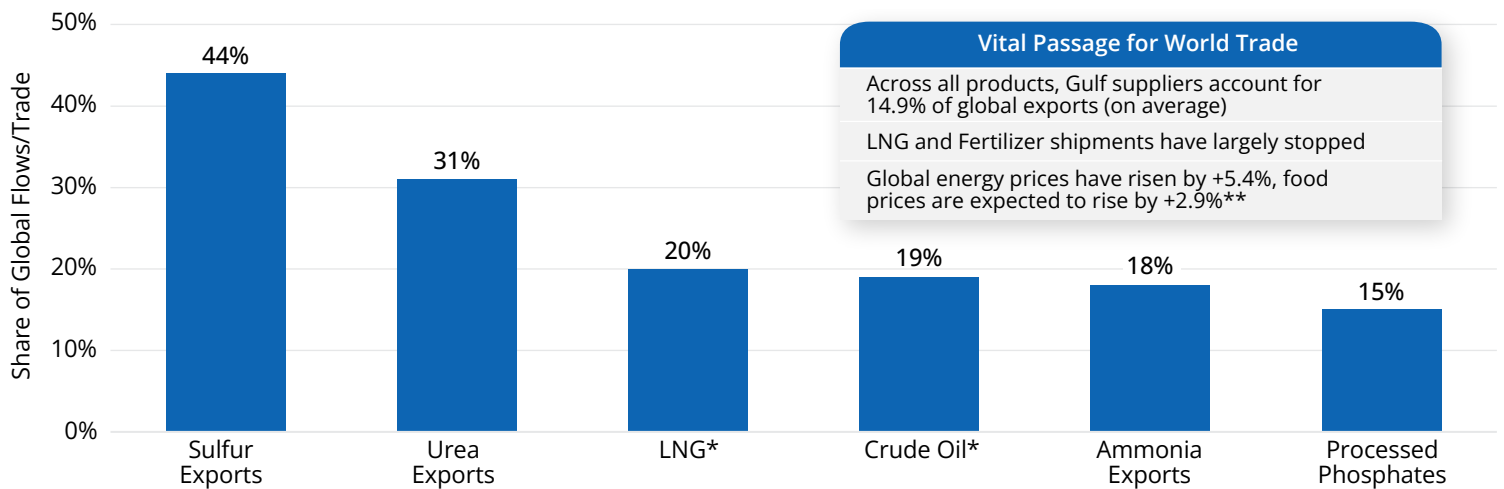
South Korea, Japan, India and China top the list of daily oil consumption of oil via the strait before the war, ranging from roughly 30% to 60% of consumption per country. The U.S.'s daily consumption from the strait was about 2%. Yet, while the U.S. is not reliant on that oil, we have seen gas prices spike at home because there is one global oil market, and a shortage in one part of the world typically affects the globe.

### Aside from higher gas prices, how else are U.S. consumers and businesses affected?

In addition to energy market disruption from the sharp decline in oil and LNG exports, a large portion of the world's fertilizer and fertilizer ingredients passed through the strait before the war. For example, strait traffic accounted for about 30% of global trade in urea, which is both a widely used nitrogen fertilizer and key ingredient in other fertilizer blends. By one estimate, roughly half of global food production depends on synthetic nitrogen.

U.S. farmers are starting spring planting season, and they are bracing for fertilizer shortages and higher prices. If it costs more to produce crops, and if fewer crops are planted because of fertilizer shortages, then consumers will pay more at the grocery store, on top of already paying more at the gas station. The fertilizer shortages will likely also raise feed costs for animals, potentially driving up prices of beef, pork, poultry and dairy products.

## Beyond the Strait: From Fuel to Fertilizer



**Vital Passage for World Trade**

Across all products, Gulf suppliers account for 14.9% of global exports (on average)

LNG and Fertilizer shipments have largely stopped

Global energy prices have risen by +5.4%, food prices are expected to rise by +2.9%\*\*

\*As of 12/31/2024 from Energy Information Administration. \*\*Increase in prices are from researchers at the Kiel Institute  
 Source: Arbor Research, as of 12/31/2025. All share amounts are approximates

### What are the long-term implications of these disruptions?

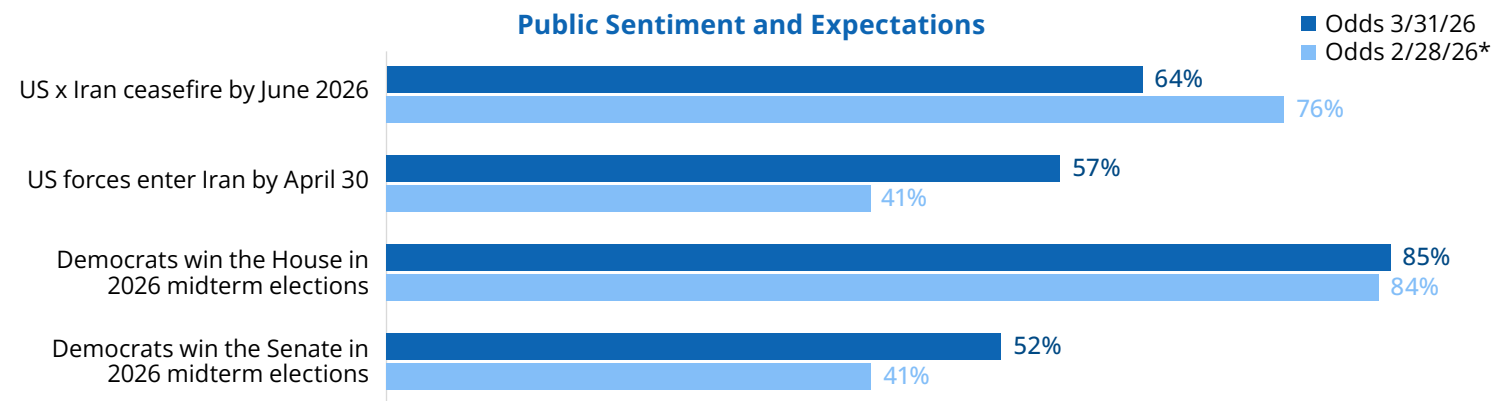
There are near-term and long-term implications. In addition to higher gas prices, near-term ramifications include a general decrease in risk taking, and I expect to see CapEx spending decline as companies wait for greater clarity on transportation costs. Inflation is getting stickier by the day, and, as we have discussed, the Fed is unlikely to cut rates further in the absence of significant economic weakening. Finally, Democrats were already favored to win the House, and now their chances of winning the Senate have increased from ~30% entering the year to about 50%. If they sweep Congress, we could see President Donald Trump's agenda muted over the final two years of his term, and perhaps more legal challenges to his administration.

Looking over the longer term, the Middle East now is destabilized, and the path forward for Iran is murky. Iran's regime could become more entrenched and combative. For instance, previously Iran's leadership seemed to believe having enriched uranium but not a nuclear weapon was enough to deter attacks on their soil. Since that premise has been proven false with these attacks, the regime could shift to a more hardline stance, seriously pursuing nuclear weapons. It's also possible the regime fails and the country fractures. There is simply too much uncertainty to feel comfortable about predicting the regime's longevity and priorities over the next few years.

In addition, companies that produce oil outside the Middle East, namely U.S. and Russian companies, should be beneficiaries of higher oil prices and the ability to transport oil freely. Also, China may benefit simply from appearing to be a stable economic and

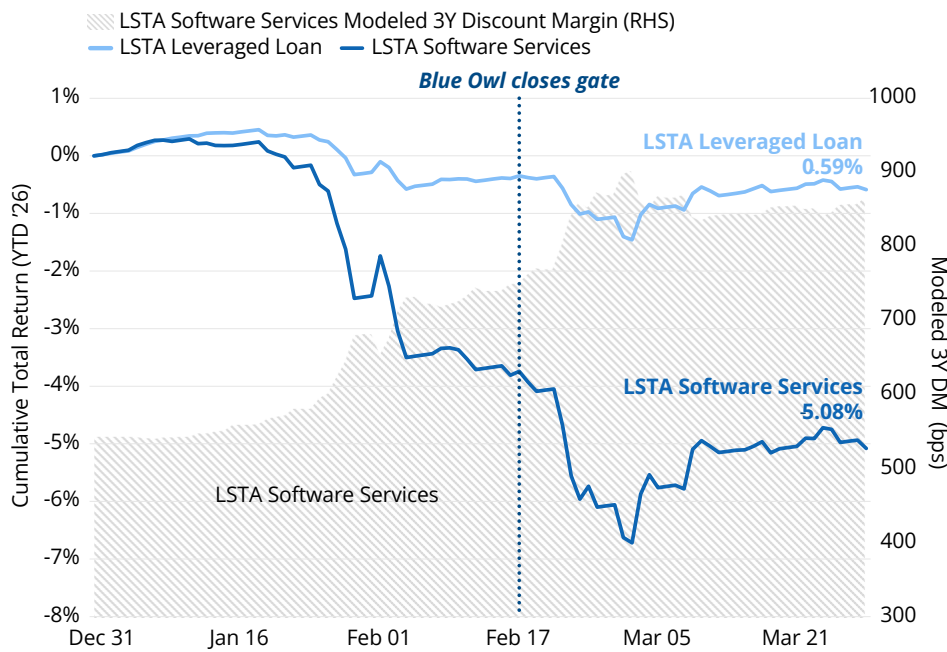
## Beyond the Strait: Looking Strait Ahead

### Public Sentiment and Expectations



\*Odds on 2/28/2026 or first trading date if after 2/28/2026. First trading dates after 2/28/2026 include: US x Iran ceasefire by June 2026 (3/2/2026), US forces enter Iran by April 30 (3/18/2026). Source: Energy Information Administration, Reuters, Polymarket, Aristotle Pacific Capital.

## Opportunities in Fixed Income: A Tale of Two Loan Markets



Top 10 Software Services Index Constituents YTD Performance*	
BMC Software Inc	-7.57%
Genesys Telecom Holdings	-4.88%
CDK Global	-16.50%
SS&C Technologies Inc	-5.51%
Proofpoint Inc	4.51%
Gainwell Acquisition Corp	-1.90%
Peraton	-8.39%
McAfee LLC	-3.87%
Sedgwick CMS Holdings	-2.65%
UKG Inc	-4.97%

Past performance does not guarantee future results. Source: Morningstar as of 3/31/2026. \*Top 10 sorted by market value as of 1/1/26.

political power. China has not come to Iran's defense and did not cancel Trump's planned Beijing visit in May. They have been relatively quiet and steady through this.

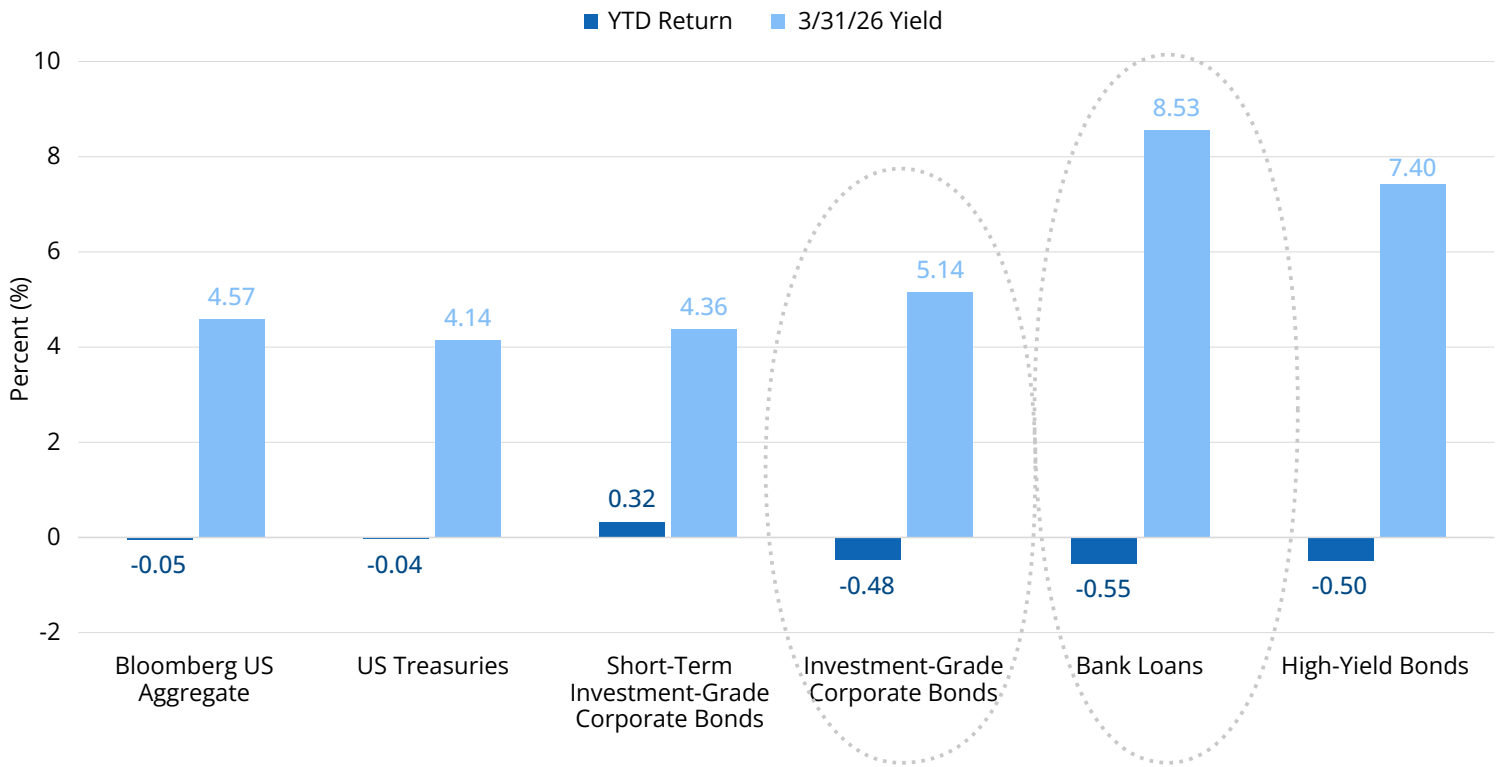
### Let's shift the discussion back to bonds. Where are you seeing opportunities in fixed income today?

Prior to the Iran war, we saw a selloff in software equities related to concerns over AI disruption of software business models. Also, first-lien loans in software, which sit at the top of the capital structure, underperformed in the first quarter, but over the last few weeks have been resilient through

as investor attention has shifted more to the implications of the war.

For some time, I have considered duration a tailwind and favored investment-grade corporate bonds. As noted at the beginning of this discussion, IG corporates underperformed in March as yields rose. However, I have also often pointed to the value of maintaining an allocation to bank loans, and they delivered a positive return last month. Bank loans are attractive for at least three reasons: they can help mitigate portfolio volatility, they offer a compelling yield of about 8.5%, and they are senior in the capital structure.

## Opportunities in Fixed Income: Fixed Income Yields and Year-To-Date Returns



**Past performance does not guarantee future results.** Source: Bloomberg and J.P. Morgan, as of 3/31/26. Yield quoted is yield-to-worst, except for Bank Loans which represents 4-year effective yield. US Treasury represented by the Bloomberg US Treasury Index. Investment-grade corporate bonds are represented by the Bloomberg US Corporate Index. Short term investment grade corporate bonds are the 1-3 year component of the Bloomberg US Credit Index. Bank loans are represented by the Morningstar LSTA Leveraged Loan Index and index components. High yield is represented by the Bloomberg US Corporate High Yield Index.

We also continue to favor IG corporate bonds, which yield around 5%, given my base case that the Strait of Hormuz allows much more traffic within the next 60 days, even if it is not fully “reopened.” If the strait is more than 50% open, yields should calm down, and duration could again become a tailwind. Of course, this outcome remains uncertain.

### Let's close with a personal reflection.

It's been an interesting month for me personally, and certainly for the world. My reflection is that behind every person, there's a story. I encourage folks to be intentional with those around them and to ask more than the typical questions. Devote some time and focus to them, and you may find that there's substantially more going on than you thought. Whether that reveals the good, bad, or ugly, I think they'll remember your effort and intention.

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## Definitions:

The **10-year Treasury note** is a debt obligation issued by the U.S. government with a maturity of 10 years upon initial issuance. It pays interest at a fixed rate every six months and pays the face value to the holder at maturity.

The **10-year Treasury yield** is the interest rate the U.S. government pays to borrow money for a decade.

The **Atlanta Fed's GDPNow** is a forecasting model that provides a "nowcast" of GDP growth.

**Bank loans** (or **floating-rate loans**) are financial instruments that pay a variable or floating interest rate. A floating rate fund invests in bonds and debt instruments whose interest payments fluctuate with an underlying interest rate level.

**Basis points**, otherwise known as bps or bips, are a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form.

A **bond** is a fixed-income instrument and investment product where individuals lend money to a government or company at a certain interest rate for an amount of time. The entity repays individuals with interest in addition to the original face value of the bond.

The **Consumer Confidence Index (CCI)** is a monthly report that measures how optimistic consumers are about the economy, labor market, and their finances.

The **Consumer Price Index (CPI)** is a measure that examines the weighted average of prices of a basket of consumer goods and services such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living.

**Consumer Sentiment** is a statistical measurement of the overall health of the economy as determined by consumer opinion.

A **coupon** or **coupon payment** is the annual interest rate paid on a bond, expressed as a percentage of the face value and paid from issue date until maturity. **Clipping coupons** refers to the practice of earning income through interest payments from bonds.

**Duration** is often used to measure a bond's or fund's sensitivity to interest rates. The longer a fund's duration, the more sensitive it is to interest-rate risk. The shorter a fund's duration, the less sensitive it is to interest-rate risk.

**Effective tariff rate** measures the actual protection afforded to domestic producers, considering tariffs on both the final product and imported inputs.

**Fed funds futures** is a tool used by traders and institutions to hedge or bet on changes in the federal funds rate, which is key to U.S. monetary policy.

The **federal funds rate** is the target interest rate set by the Fed at which commercial banks borrow and lend their extra reserves to one another overnight.

The **Federal Open Market Committee (FOMC)** is the branch of the Federal Reserve System that determines the direction of monetary policy and is responsible for raising or lowering interest rates.

**Fixed income** refers to assets and securities that pay a set level of income to investors, typically in the form of fixed interest or dividends.

**Gross Domestic Product (GDP)** is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. The **nominal GDP growth rate** compares the year-over-year (or quarterly) change in a country's economic output to measure how fast an economy is growing. **Real GDP** is GDP adjusted for inflation.

**High-yield bonds** are debt securities, also known as junk bonds, that are issued by corporations.

**Investment grade** refers to the quality of a company's credit. To be considered an investment grade issue, the company must be rated at 'BBB' or higher by Standard and Poor's or Moody's.

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## Definitions (continued):

The **Personal Consumption Expenditures Index (PCE)** is a measure of consumer spending and includes all goods and services bought by U.S. households. **Core PCE** excludes the prices of food and energy.

**Risk** is defined in financial terms as the chance that an outcome or investment's actual gains will differ from an expected outcome or return.

**Spread** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, represented by treasury bonds. Spread income refers to the additional income from this difference.

**Volatility** is a statistical measure of the dispersion of returns for a given security or market index. In most cases, the higher the volatility, the riskier the security.

**Yield** is the income returned on an investment, such as the interest received from holding a security.

A **yield curve** plots the interest rates of bonds that have equal credit quality but different maturity dates.

**Yield-to-Worst** is the lowest potential yield that can be received on a bond without the issuer defaulting.

For more insights from Aristotle Funds,  
visit [AristotleFunds.com](http://AristotleFunds.com)

*Any performance data quoted represents past performance, which does not guarantee future results. Index performance is not indicative of any fund's performance. Indexes are unmanaged and it is not possible to invest directly in an index. For current standardized performance of the funds, please visit [www.AristotleFunds.com](http://www.AristotleFunds.com).*

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