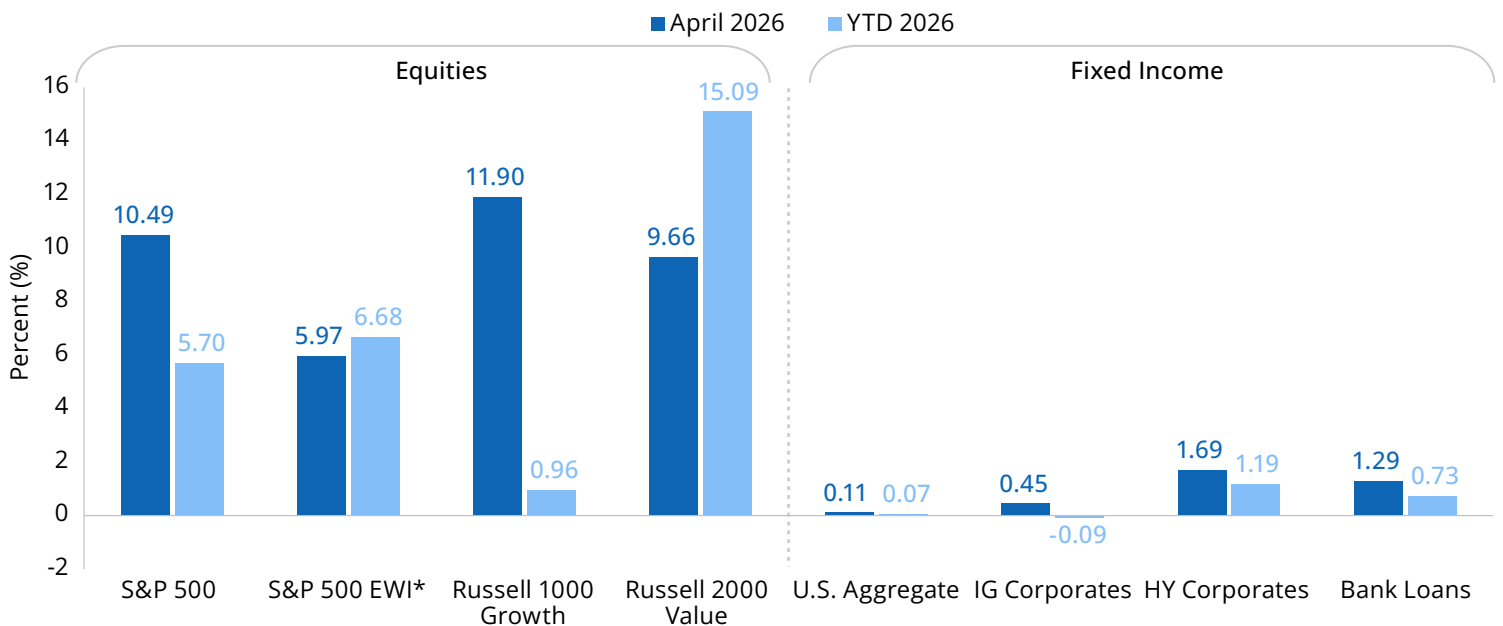


## GUIDANCE AMONG THE VOLATILITY

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

*We recently sat down with Dominic Nolan, CEO of Aristotle Pacific Capital, to get his analysis of credit markets, his view of the Fed's next move, and his insights on how companies are navigating elevated market and geopolitical volatility. We conclude with a personal reflection.*

### Market Performance: Total Return



**Past performance does not guarantee future results.** Source: Morningstar as of 4/30/26. \*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.

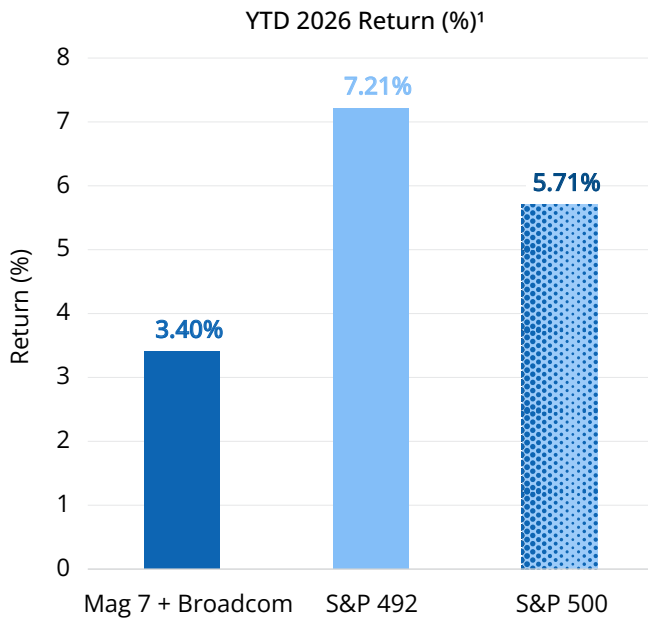
### April was a strong month for stocks and bonds. What happened?

First, a de-escalation in geopolitical tensions led to a “relief” rally. Second, earnings were generally above expectations, which we will discuss in more detail. Those developments contributed to the S&P 500 Index gaining nearly 10.5% in April, bringing its year-to-date return to 5.7%. The S&P 500 Equal Weight Index rose nearly 6% in April and is up 6.7% for the year. The Russell 1000 Growth Index stood out in April, gaining nearly 12%, though for the year

it is up about 1%. The Russell 2000 Value Index also had a strong April, with a 9.7% rise, and it has climbed more than 15% year to date. So, across the board, equities gained in April.

Fixed income was largely flat in April, with the Bloomberg US Aggregate Bond Index up less than 1% for the month and year to date. High yield performed better, gaining 1.7% in April and more than 1% year to date, while bank loans returned 1.3% in April and 73 basis points (bps) for the year so far.

## Mag 7 + 1: The Mag Still Lags



	YTD 2026 Average Weight (%)	April 2026 1-Month Return (%)	YTD 2026 Total Return (%)
Nvidia Corporation	7.72	14.43	7.01
Apple Inc.	6.58	6.92	-0.09
Alphabet Inc.	5.67	33.52	22.48
Microsoft Corporation	5.27	10.16	-15.49
Amazon.com, Inc.	3.74	27.27	14.83
Broadcom Inc.	2.75	34.87	20.85
Meta Platforms, Inc.	2.39	6.95	-7.22
Tesla, Inc.	1.94	2.66	-15.14
<b>Contribution to S&amp;P 500 Index YTD 2026 Performance</b>			
Magnificent 7 + Broadcom			1.40%
Rest of the Companies in S&P 500 Index			4.30%

**Past performance does not guarantee future results.** Source: FactSet 1/1/26 – 4/30/26, 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 any time. Any discussion of individual companies in this presentation is not intended as a recommendation to buy, hold or sell securities issued by those companies.

### Thoughts on the Mag 7 + Broadcom?

They all had a positive month, with AI optimism continuing to drive returns. Broadcom led the group, returning nearly 35% in April on news that it will develop [MP1.1] and supply custom AI chips for Google and additional computing capacity to Anthropic. Interestingly, while Meta was up nearly 7% in April and reported its biggest year-over-year quarterly revenue jump in nearly five years, investors remain wary about the level of capex. Citing a rise in costs, Meta increased its projected capital spending for the year by \$10 billion, to a new range of \$125 billion to \$145 billion.

### U.S. Treasury yields rose across intermediate and long maturities in April. What drove rates higher?

Markets are adjusting to the supply shock. The Iran war began more than two months ago, and investors have recently been realizing that shortages in materials and energy are likely to persist. In addition, the economy is performing better than many had expected, considering geopolitical

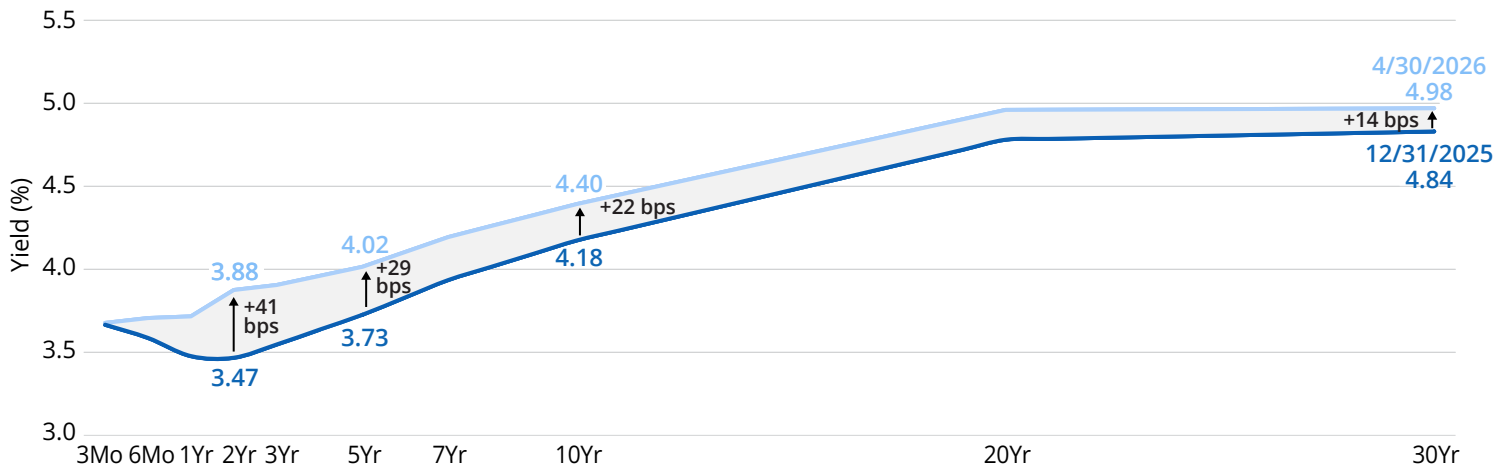
uncertainty, the software correction in markets, and concerns over a potential "AI bubble." These factors are leading to a public mindset of higher growth and higher inflation, which drove the yield curve about 40 bps higher for two-year maturities and close to 15 bps higher for 30-year maturities.

### There were numerous Federal Reserve headlines last month from the Kevin Warsh nomination to the April FOMC meeting. How does this translate into future Fed policy?

I don't think anyone expects a rate hike this year. On the likelihood of rate cuts by year end, market analyst forecasts range from three cuts to zero. I think the Fed will cut once or twice, but we'll see – a lot can change.

Markets seemed to have digested well Warsh's Senate confirmation hearings. I believe Warsh is planting a flag on the Fed remaining independent, and under his leadership, I expect the Fed will reduce its balance sheet and evolve its communications.

## U.S. Treasury Yield Curve Range: Yields Move Higher Across All Maturities



Past performance does not guarantee future results. Source: U.S. Treasury Daily Par Yield Curve Rates, as of 4/30/26.

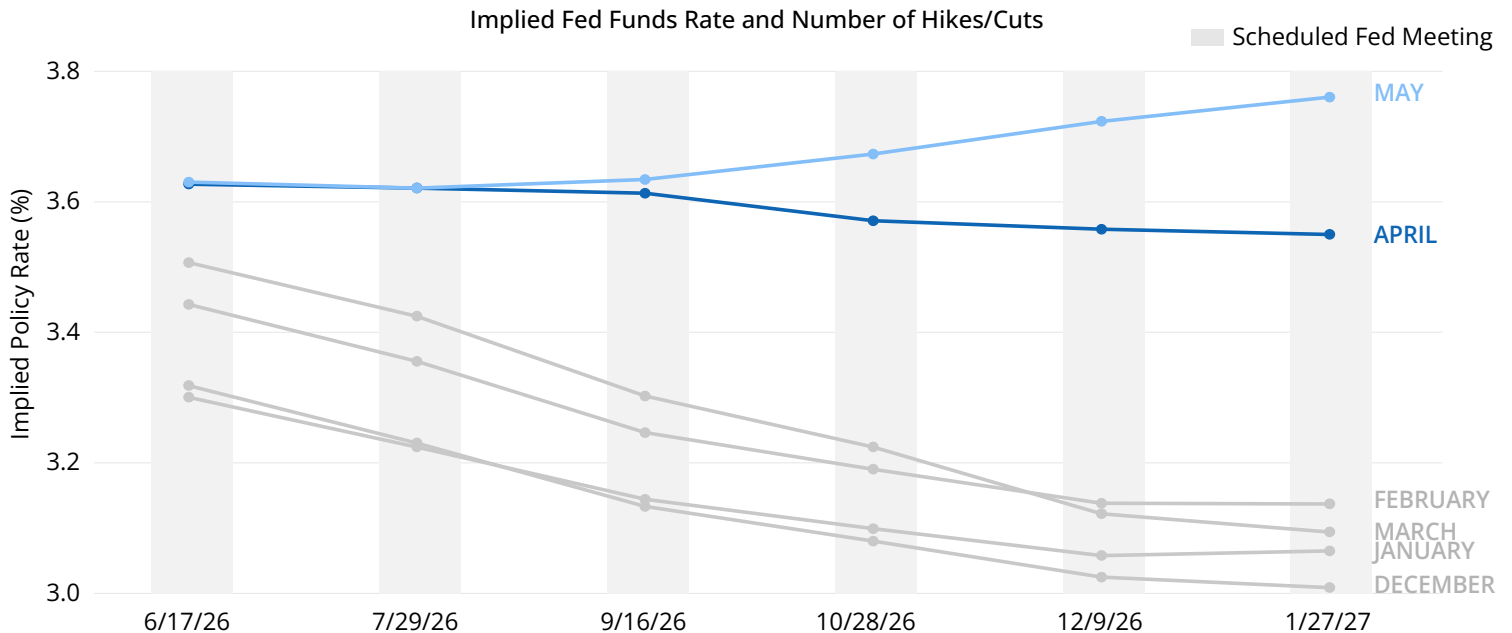
## What can we learn from the latest economic data?

The overarching theme is that economic activity was disrupted by the supply shocks and now is resetting. In addition, the economy continues to demonstrate resilience. While it is early in the second quarter as we have this conversation, the Atlanta Fed’s GDPNow “live” estimate for economic growth this quarter is 3.7%[MP3.1], indicating solid growth. Other estimates vary, but I think we can safely say the economy is expanding at roughly a 3% real rate and 4% to 5% nominal rate. Meanwhile, other key data is mixed. U.S. inflation is back above 3% due to the spike in

energy prices, and nonfarm payrolls have bounced around so far this year.

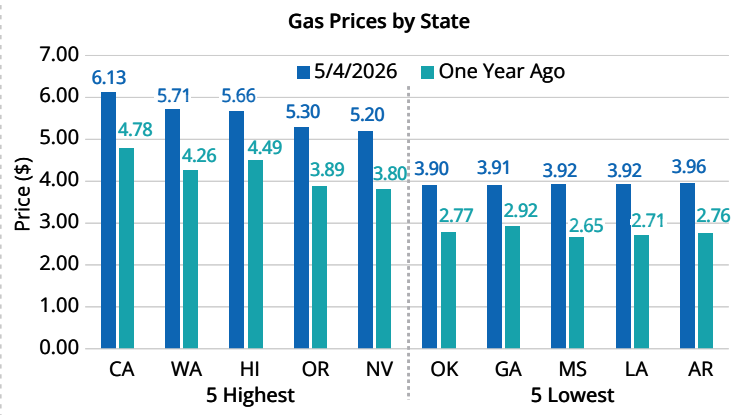
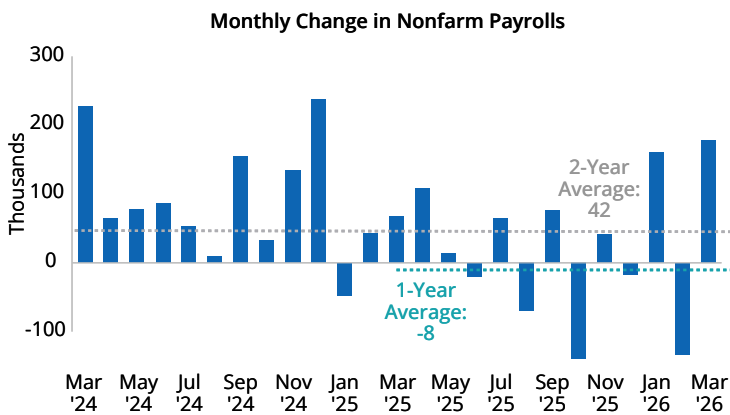
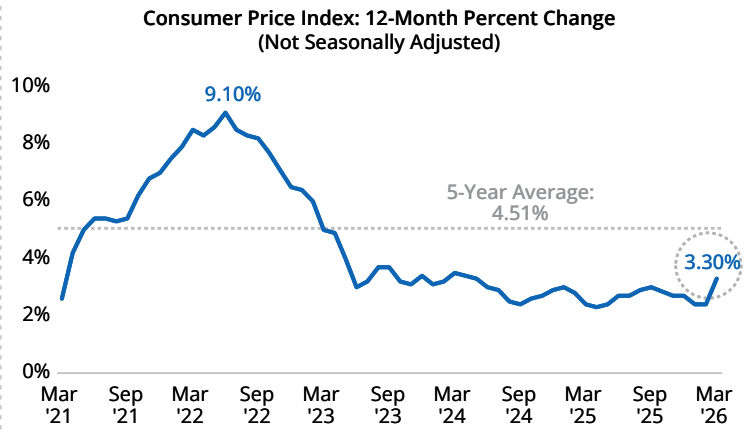
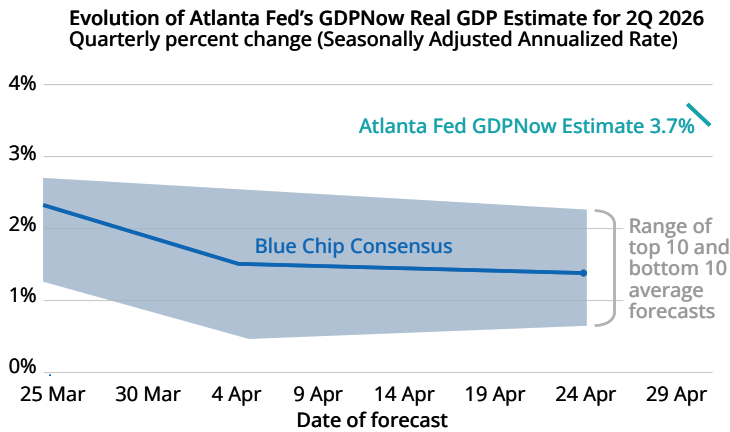
Underneath the headline jobs numbers, I think we are seeing some interesting trends. I believe we are seeing a shift from white-collar to industrial hiring, which is potentially a positive trend for the country. Also, certain sectors are hiring, including healthcare, construction and logistics. Demographics are driving healthcare employment, while the AI boom and industrialization, such as from onshoring manufacturing, are driving much of the expansion in construction and logistics. Also, while we have seen the news reports about layoffs at tech firms

## Fed Futures: Higher For Longer



Source: Bloomberg, as of 5/4/26.

## Aristotle Funds' Economic Dashboard: Disrupted and Resetting



Sources: GDP – Atlanta Fed, Blue Chip Economic Indicators and Blue Chip Financial Forecasts as of 5/5/26; CPI – U.S. Bureau of Labor Statistics as of 3/31/26, most recent data available as of 5/4/26; Payrolls – U.S. Bureau of Labor Statistics as of 3/31/26, most recent data available as of 5/4/26; Gas Prices – AAA as of 5/4/26.

such as Meta and Amazon, folks should keep in mind those companies dramatically grew their workforces over the past several years and now are trimming a relatively small portion of their total employees as they find a new equilibrium.

Finally, we are keeping an eye on the implications of high gas prices. It's too early to say how much this will ultimately affect inflation and economic activity, but it is worth noting that the longer this goes on, the worse the effects will likely be.

### Let's shift to our special topic. With the first quarter defined by rapid advancements in AI technology and potentially the largest supply shock since COVID, how are companies navigating volatility? What are earnings releases telling us so far?

For the 89% of S&P 500 companies that have reported earnings as of May 8, 84% issued a positive

earnings surprise and 80% a positive revenue surprise, based on a summary from FactSet[MP4.1]. Further, their blended earnings growth rate year-over-year was 27.7%, which will be the highest since 2021 if that figure holds when all companies have reported. These companies are overdelivering.

However, the supply chain shock could significantly affect future earnings. Thus far, there is nearly an equal balance of companies [MP5.1] reporting negative guidance for the second quarter versus the mean expectation of analysts as there are those reporting positive guidance. Even if that shifts definitively positive as more companies report, numerous companies clearly are facing or expecting headwinds.

While time will tell if the supply shock disrupts these companies, so far, I think the key takeaways are that our biggest companies generally remain quite profitable, productivity is increasing, the AI infrastructure trend is real, and the economy is doing well.

## Earnings Season So Far: Key Metrics and Trends Across S&P 500 Companies



### SCORECARD

**63%** of S&P 500 companies have reported

**84%** have reported a positive EPS surprise

**81%** have reported a positive revenue surprise



### EARNINGS GROWTH

**27.1%** year-over-year blended earnings growth rate for the S&P 500, as of 1Q26

*Would mark the highest earnings growth rate reported since 4Q21 (32.0%)*



### SALES EARNINGS

**7.5%** as of January 1

**9.0%** as of April 1

**10.5%** as of May 5



### GUIDANCE

**23** S&P 500 companies have issued positive EPS guidance

**28** S&P 500 companies have issued negative EPS guidance

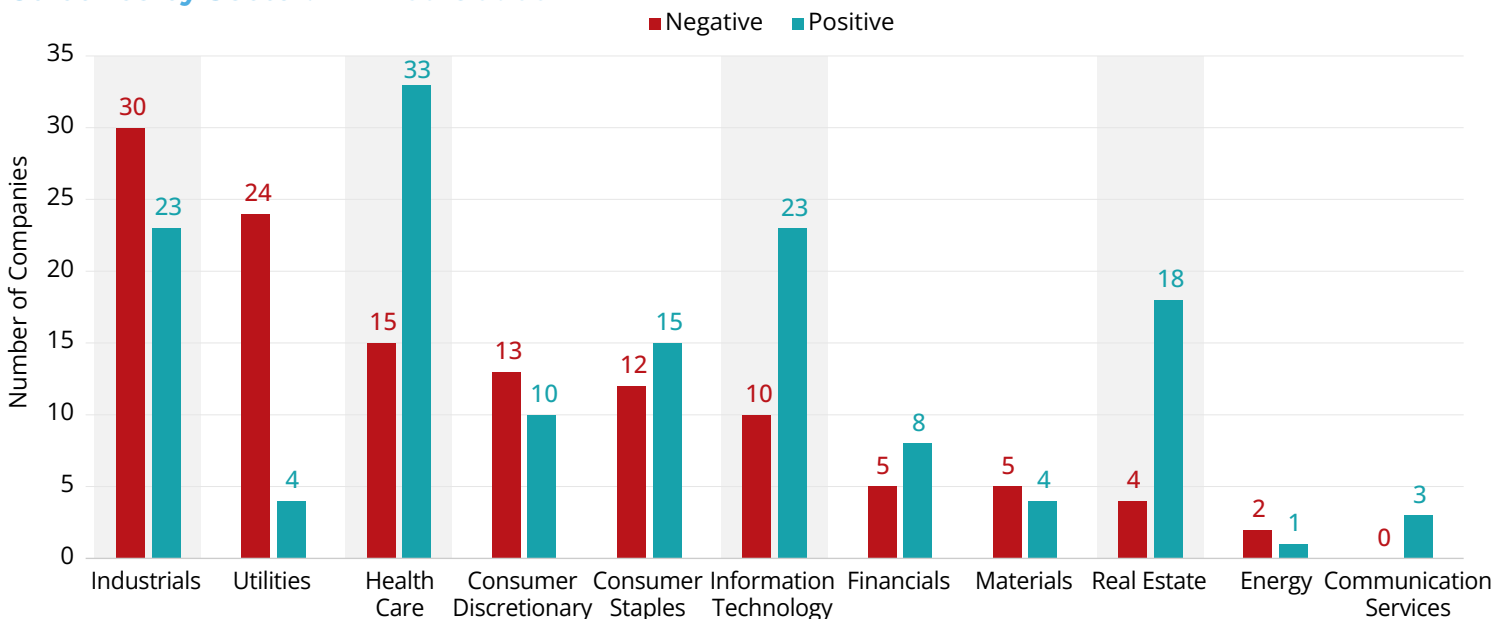
Source: FactSet, as of 5/1/26.

## What can we discern from sector outlooks?

Companies in different sectors are expecting significant disparities in performance. Looking at full guidance for the fiscal year 2026/2027 as of May 8[MP6.1], utilities overwhelmingly have issued negative guidance vs. analysts' expectations – 24 negative company forecasts versus four positive

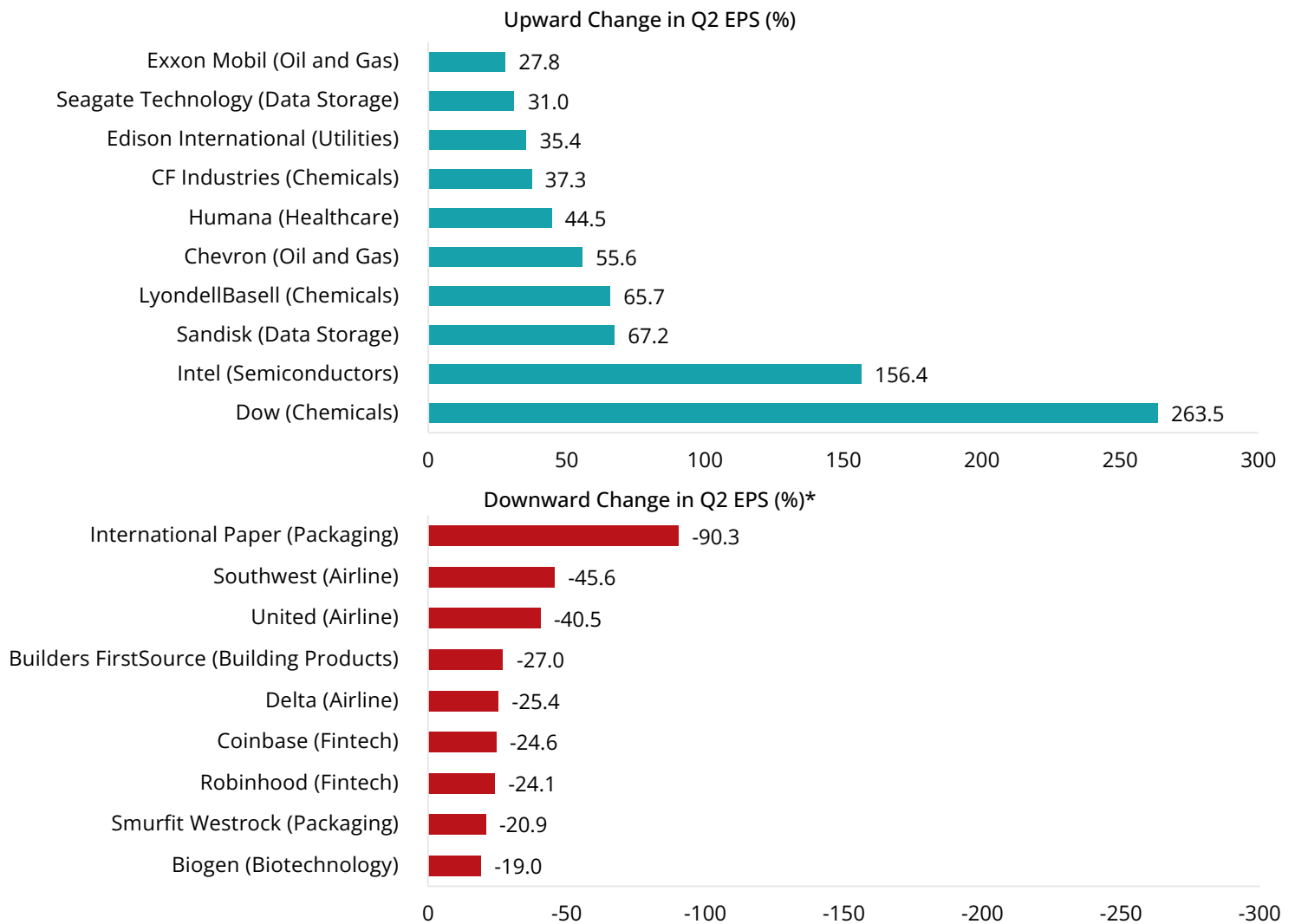
ones – and the picture is mixed in industrials with slightly more positive than negative. Consumer discretionary, materials and energy also tilted negative, though their total number of companies are smaller. On the opposite end of the spectrum, most S&P 500 companies in healthcare, consumer staples, information technology, real estate, and financials expect earnings to surpass mean analysts' forecasts in the second quarter.

## Guidance by Sector: A Mixed Outlook



Source: FactSet, as of 5/1/26.

## Earnings Revisions Split: Positive EPS Revisions Are Widespread, Downside Concentrated



Source: FactSet as of 5/1/2026.

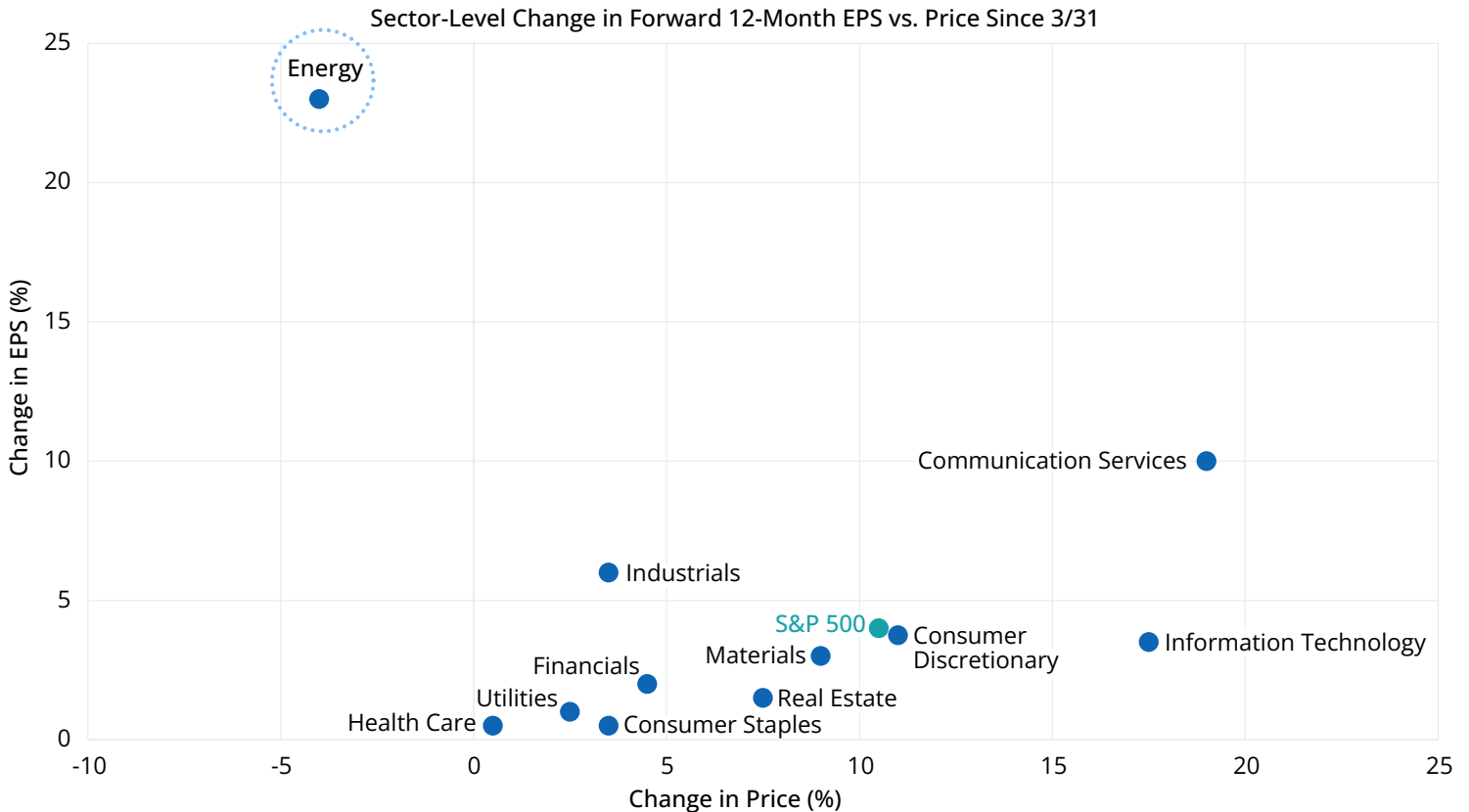
\*Boeing was an outlier and removed from chart, with a -2,501.8% change in Q2 EPS.

### Are individual companies standing out?

Two chemical companies that had cut dividends within the past year due [MP7.1]to a decline in their cash – Dow and LyondellBasell – have recently reported large gains in expected second quarter 2026 earnings, as the supply shock drives up petrochemical prices and they can produce them far from the Strait of Hormuz. In contrast, companies

in certain other sectors have a harder time passing through costs to customers. For example, travelers generally buy plane tickets in advance, so there is a delay before airlines can raise prices, and even then, they carefully test what their customers will tolerate. That helps explain the demise of Spirit and large declines in second-quarter earnings guidance from Southwest, United, and Delta.

## Sector Performance vs. Forward Earnings: Market Gains Outpaced Underlying Earnings Improvements



Past performance does not guarantee future results. Source: FactSet as of 5/1/2026. Sector classifications are based on the S&P 500 as defined by GICS.

### Have investors come around to the unloved energy sector?

The short answer is no. While energy companies raised their 12-month earnings forecasts in April, their stock prices drifted down a bit. This suggests investors see the increase in earnings as likely temporary because the increase in energy prices is likely temporary. In addition, I imagine there are many Wall Street veterans scarred from the debt-financed shale boom of the early 2010s that turned to a debt bust when oil prices declined.

Still, I expect even after some kind of lasting resolution to the Iran war occurs, oil prices will settle higher than they were before the conflict. The question is what energy companies will do with their cash windfalls – increase dividend payments, invest in exploration etc. To be sure, we should invest in energy infrastructure in this country. While the shine has worn off energy alternatives, I think nuclear and solar are still important for meeting long-term energy needs – they are worth investing in.

## Earnings Commentary: Strong Growth and Future Challenges

“Today Apple is proud to report our best March quarter ever, with revenue of \$111.2 billion and double-digit growth across every geographic segment”

– *Tim Cook, Apple*

“Based solely on the demand currently received for 2027, the supply-to-demand gap for 2027 is set to widen even further than in 2026”

– *Kim Jaejune, Samsung*

“Industry-wide memory shortage and price increases are likely to define the overall scale of the handset industry through the fiscal year”

– *Cristiano Amon, Qualcomm*

“The growth is just starting, and there is no company better positioned to serve and transform the global electricity system than GE Vernova Inc. Since our spin, we launched with a \$116 billing backlog. We have grown this backlog to \$163 billion with an 80% increase in our equipment backlog at considerably better margins”

– *Scott Strazik, GE Vernova*

“We’ve got supply chains that have to be restored. We’ve got infrastructure that has to be back in place.... It’s a 25- to 30-day transit time out of the Gulf. We’ve got a lot of things that have to happen for these supply chains to come back”

– *Rich Sumner, Methanex*

“Given the increased inflation we are seeing in the business, particularly in asphalt, we recently announced another price increase effective June 1st”

– *Brian Chambers, Owens Corning*

“This quarter’s performance underscores our agility in capitalizing on better product mix, accelerating enterprise SSD deployments, and strengthening market demand dynamics, all at a time when the critical role that our products play in powering AI and the world’s technology is being recognized”

– *David Goeckeler, Sandisk*

### Last question on this topic: Is there anything we should take away from CEO comments on earnings calls?

Several CEO comments emphasize the points shared earlier about strong current earnings, with some companies facing headwinds due to the supply shock. Tim Cook, for example, said “Apple is proud to report our best March quarter ever, with revenue of \$111.2 billion and double-digit growth across every geographic segment.” The number speaks for itself: \$112 billion is a monster revenue figure for a single quarter.

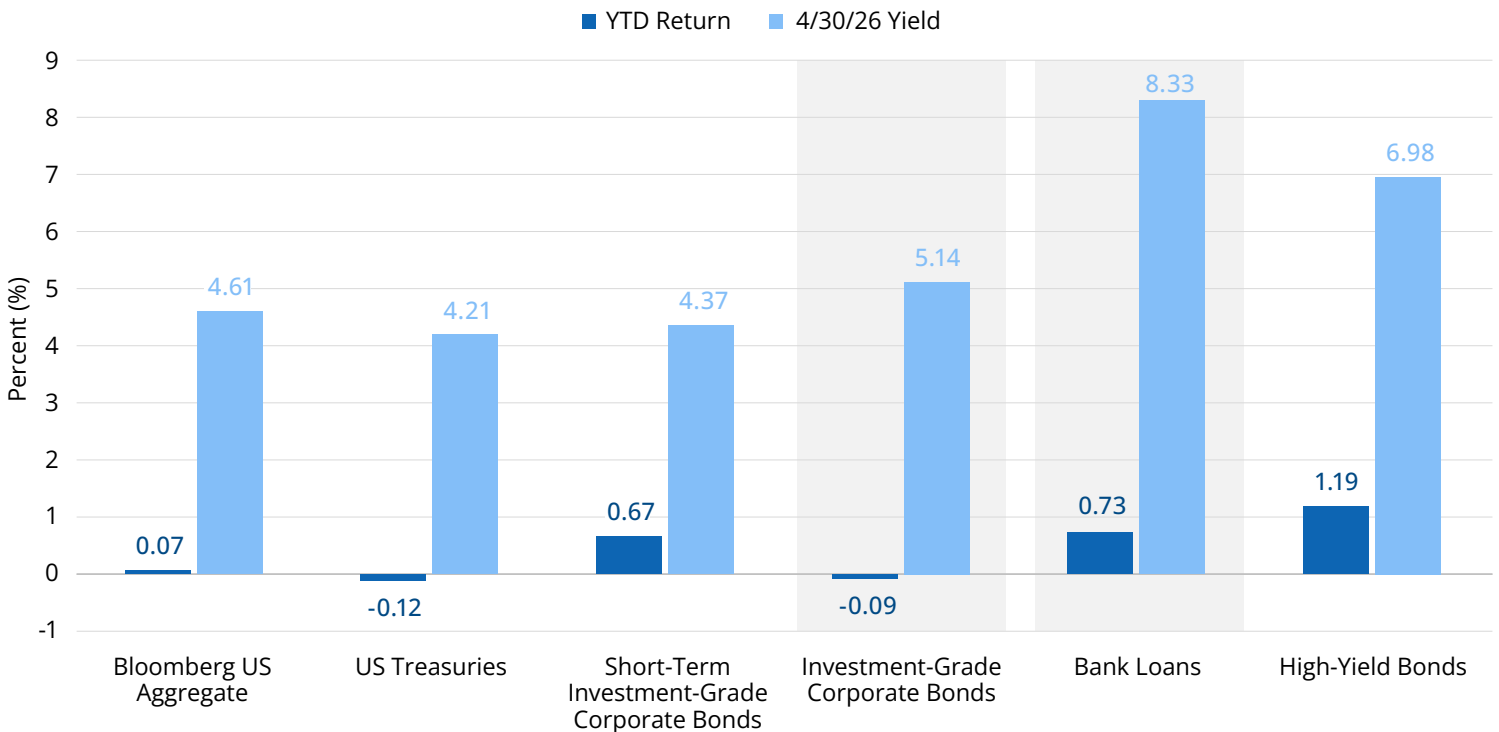
Yet, that quote is a look backward. Looking forward, Qualcomm CEO Cristiano Amon said, “Industry-wide memory shortage and price increases are likely to

define the overall scale of the handset industry through the fiscal year.” Note that certain raw materials needed for memory chips are blocked by the closure of the Strait of Hormuz.

In another example, Methanex CEO Rich Sumner said, “We’ve got supply chains that have to be restored. We’ve got infrastructure that has to be back in place.... it’s a 25 to 30-day transit time out of the Gulf. We’ve got a lot of things that have to happen for these supply chains to come back.”

Thus, every day the Strait of Hormuz is shut, it just pushes out inflation. I expect for hardware, food, and other affected items, we are likely to see elevated prices for the rest of the year.

## Fixed Income Yields and Year-to-Date Returns



**Past performance does not guarantee future results.** Source: Bloomberg and J.P. Morgan, as of 4/30/26.

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.

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

I'll start with high level trends and then drill down to asset classes. My base case is interest rates will remain elevated for a while longer. If the de-escalation with Iran holds, that geopolitical stability would be good for spreads. As I have said, I believe the AI build out is real regardless of whether valuations are justified. Finally, credit conditions are fine, but with spreads tight, credit markets don't have much cushion to weather significant negative shocks.

With that backdrop in mind, I remain very positive on investment-grade credit. By the end of April, IG bonds were offering yields of about 5%, and their credit risk generally is low. In addition, since no one can be sure where interest rates will be in the future, there is an argument for an allocation to floating-rate bank loans. Bank loans had a positive return in the first quarter, which was challenging for fixed income, and they were yielding more than 8%.

Finally, there is a case for high yield bonds, which had a strong first quarter relative to the other fixed income sectors. Investors could consider shorter-maturity HY bonds, which could benefit if the Fed cuts rates at least once this year, which I expect.

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

I have heard a lot lately about kids going through the college admissions process. My son is now 23, and he was 17 when he went through the process, which was difficult. Also, my daughter went through it just a couple years ago. I said to them, you are so different today than you were at 17. Whether you like it or not, colleges consider your 17-year-old or 16-year-old self. The level of ups and downs that these high school seniors go through is unfortunate. We often tell our kids that things are rarely as good as they seem or as bad as they seem, and I say that is especially true for this process. I recommend harnessing whatever opportunity you get and learning from it. But don't let the colleges' judgment of you at 16 or 17 stay with you.

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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.

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