HARTFORDFUNDS
Our benchmark is the investor.®

The Credit Perspective: How to Navigate the Rapids in a Year of Market Crosscurrents

As conditions rapidly change, investors need to move with agility and purpose.

Insight from sub-adviser, Wellington Management

Campe Goodman, CFA
Fixed-Income Portfolio Manager

Did the first half of 2025 feel like a whitewater rafting trip you didn't sign up for? If so, you're not alone. What looked like a calm river paddle has turned into a wild ride that could've easily capsized markets and submerged the global economy. Yet the US economy has stayed afloat: Unemployment is historically low and consumers are still paddling. Corporate fundamentals in the US and beyond remain solid, with healthy cash flows, limited new debt issuance, and muted merger activity.

That said, we're not floating through calm waters. The US Federal Reserve (Fed) hasn't eased much, so monetary policy remains tight in the US while most other central banks have started to loosen the lines. Spreads[1] are wider than they were in January but still not what I'd call generous. In this environment, I'm staying cautious on risk while watching for better entry points downstream.

Looking Beyond the US

I don't expect a sharp loss of confidence in US markets, but I do think investors may start shifting their focus away from the US into other markets with more attractive potential. I'm leaning more heavily into non-US credit—specifically global high yield and emerging-markets corporates—seeking to build a more resilient portfolio in today's choppy waters.

Where Are We Spotting More Favorable Conditions?

- **European financials:** Well-capitalized and largely insulated from US trade dynamics, European banks look sturdy in turbulent waters. They may also be poised to benefit from German fiscal spending.
- **Emerging-market corporates:** Companies with limited US exposure, especially in sectors such as utilities and telecoms, can offer steady cash flows and low leverage. We're finding solid ground here.
- **Convertible bonds:** With tighter high-yield spreads, converts offer asymmetric upside. Their bond floors may help to provide protection in risk-off environments, while their equity linkage gives them strong potential in bullish scenarios. They also add exposure to tech and life sciences, sectors underrepresented in most fixed-income portfolios.

Where Are We Cautious (for Now)?

- **Long-dated investment-grade corporates:** Spreads are tight, and rising term premia[2] due to increased Treasury issuance could weigh on returns. With additional potential margin pressures from tariffs, we're cautious here.
- **Emerging-market sovereigns:** Fundamentals are solid, but the upside seems limited. We're focused on a select group of high-conviction improving credits.
- **Commercial mortgage-backed securities (CMBS):** The waters are choppy in CMBS. We're avoiding known hazards—lower-grade offices and regional malls—but in a few well-positioned areas, such as high-end New York office buildings and hotels, we see a clear opportunity.

Key Points

- The US economy has remained resilient, with strong employment and solid corporate fundamentals, despite tight monetary policy.
- Investors are shifting their focus globally and favoring non-US credit such as European banks, emerging-market corporates, and convertible bonds.
- With rising risks and tight spreads, caution remains key. This is especially true in long-dated investment-grade bonds, emerging-market sovereigns, and commercial mortgage-backed securities.

Running the Rapids Ahead

This year calls for the skills of a seasoned raft guide—adjusting as soon as conditions change, reading the currents, and ready to strike when the right course appears to emerge. A flexible, global approach can help navigate the waves while turning uncertainty into an edge. By staying nimble and broadening their horizon, investors can aim not just to stay afloat, but also to move ahead with agility and purpose in the second half of 2025.

Talk to your financial professional to learn more about fixed-income opportunities.

[1] Spreads are the difference in yields between two fixed-income securities with the same maturity but originating from different investment sectors.

[2] Risk premia is the investment return an asset is expected to yield in excess of the risk-free rate of return.

Important Risks: Investing involves risk, including the possible loss of principal. • Fixed income security risks include credit, liquidity, call, duration, and interest-rate risk. As interest rates rise, bond prices generally fall. • Investments in high-yield ("junk") bonds involve greater risk of price volatility, illiquidity, and default than higher-rated debt securities. • Mortgage-related and asset-backed securities' risks include credit, interest-rate, prepayment, and extension risk. The value of the underlying real estate of real estate related securities may go down due to various factors, including but not limited to strength of the economy, amount of new construction, laws and regulations, costs of real estate, availability of mortgages, and changes in interest rates. • Loans can be difficult to value and less liquid than other types of debt instruments; they are also subject to nonpayment, collateral, bankruptcy, default, extension, prepayment and insolvency risks. • Foreign investments may be more volatile and less liquid than US investments and are subject to the risk of currency fluctuations and adverse political, economic and regulatory developments. These risks may be greater, and include additional risks, for investments in emerging markets.

The views expressed herein are those of Wellington Management, are for informational purposes only, and are subject to change based on prevailing market, economic, and other conditions. The views expressed may not reflect the opinions of Hartford Funds or any other sub-adviser to our funds. They should not be construed as research or investment advice nor should they be considered an offer or solicitation to buy or sell any security. This information is current at the time of writing and may not be reproduced or distributed in whole or in part, for any purpose, without the express written consent of Wellington Management or Hartford Funds.

Mutual funds are distributed by Hartford Funds Distributors, LLC (HFD), Member FINRA. Certain funds are sub-advised by Wellington Management Company LLP. Wellington Management is an SEC registered investment adviser. HFD is not affiliated with any sub-adviser.