

Active Insights Podcast with CS McKee: “It's best we take one step forward and be patient and get really a better handle on just how long this uptick in inflation will last.”

Diane Merritt:

Welcome to North Square Investments Active Insights podcast. North Square Investments is dedicated to bringing differentiated active investment strategies to financial advisors and investors through our multi-boutique asset management platform.

Today, Mark Goodwin, Chief Executive Officer of North Square Investments, and Brian Allen, Senior Vice President and Chief Investment Officer with CS McKee, will discuss the fixed income market and the active management approach of North Square McKee Bond Fund.

CS McKee is an affiliate of North Square and a sub-advisor for the North Square McKee Bond Fund, ticker [NMKYX](#).

Mark and Brian, we look forward to your discussion.

Mark Goodwin:

Thanks, Diane. As you mentioned, at North Square we seek out best-in-class active managers for our platform, and our partners at CS McKee have a proven approach to delivering total return through active fixed income strategies.

Brian, can you discuss your investment strategy and approach for the McKee Bond Fund?

Brian Allen:

Sure. McKee Bond Fund is a purely investment-grade, U.S. Dollar-denominated, no-derivative, so one-hundred percent cash investment vehicle, which can be deemed maybe a bit old-school by today's standards, but it was born out of an investment philosophy and process that started in its earliest stages 50 years ago.

And with the proliferation of funds over time, we as a balanced manager continue to think of investment-grade fixed income and quality and liquidity as providers of diversification and liquidity and a very solid part of any balanced portfolio.

Mark Goodwin:

Thank you, Brian.

Brian, the Federal Reserve is expected to begin easing rates. Inflation has been steady but above the 2% target while Federal deficits are challenging and the new administration has shifted various policies. Where do you see the fixed income markets currently and what's your outlook for the rest of 2025 and into 2026?

Brian Allen:

For the balance of this year, we'll see one more data point on job growth in early September. One more inflation report prior to the FOMC (Federal Open Market Committee) meeting on September 17th. We get some indication as to whether or not the low numbers we saw last month and the very steep revisions to payroll growth in the previous two months, (whether) that's the new trend or an aberration. It would give us, I think enough room given the comments from Chair Powell at Jackson Hole, room to cut the Federal Funds rate by 25 basis points and we'll hopefully wait and see as we get to December.

They'll at least be on hold after September's meeting through to December and get a better read on where inflation is really headed. And we've seen plenty of push from the White House to cut rates and I think the Fed, in sticking to its mandate, obviously concerned about the slowdown of payroll growth, but there is lingering inflation in the services sector and we're beginning to see some goods inflation in general. Some from tariffs and some from continued activity, consumer activity in the market.

So, it's best, I think, we take one step forward and be patient and get really a better handle on just how long this uptick in inflation will last. It's been referred to as a one-time event. I think most recently that's turned into an extended one-time event, so we will be well into next year before we really see the full pressure on the consumer from increases in tariff rates.

Mark Goodwin:

Thank you, Brian. Are you finding valuations to be broadly at attractive levels or does this vary across the various segments of the fixed income market?

Brian Allen:

We're actually a little cautious at this point. I think the Corporate market for one has done well. Interest rate spreads are at levels we haven't seen in the last twenty-plus years. I think at any point, even predating 2008. And obviously we did see tighter spreads if you go back to the mid-nineties, 1997 in particular. But all things considered, spreads are fairly tight.

Obviously, the stock market's doing well. Corporate profits in the second quarter came in better than expected, though expectations had been downgraded to a very low level. But given the amount of supply in the market and the demand for anything with yield and high quality, I think that market is pretty fully valued. We have seen some intermittent value in the Mortgage market that's been our one overweight in a sector that we don't typically overweight.

For most of this year as we thought that it was relatively attractive and certainly against the backdrop, concerns about a possible slowdown if not recession, but we'd be better off and certainly safer in adding value in the Mortgage market. And that joins our perpetual overweight to Agency Debentures, whereas always spikes in volatility give us the opportunity to capture fairly attractive yields for spreads. And with April, in particular, seeing the peak in volatility in fixed income.

Mark Goodwin:

Thanks, Brian. Given your comments on the tightening and spreads. Where are you seeing the best opportunities to put new capital to work on the portfolio?

Brian Allen:

In the same sectors on a more cautious basis, we have, I think like others, moved up in quality. The Asset-backed market, we are always an investment grade buyer, if not double and triple A- (rated securities) only. But we really can't ignore the deterioration in consumer credit quality, certainly credit cards and auto loans, in particular. Some of the subprime have seen some, not drastic, but I would say significant moves in charge-offs and delinquencies.

So we are very aware of the fact that the economy consumer base in general tends to be of two worlds, in one who in the upper decile of earnings power who have been net savers who owned a home prior to 2020 have seen their net worth, their fortunes, have certainly increased markedly due to the strength in both the stock market and the housing market.

And for those who are going to be earlier, younger, and earlier in their career and have been net borrowers, then borrowing rates on credit cards have gone up. Certainly, most basic necessities, apartment rents, cost of food, and car insurance have gone up. And if you haven't participated in the rally in hard assets vis-à-vis homeownership and/or had money in the stock market, it's been a different outcome.

So, the economy continues to eke out modest gains in terms of overall growth, but wage growth is still positive to inflation, but that gap is narrowing. So, it makes for an even greater challenge for the Fed trying to balance working for the benefit of the overall economy when there's such a dispersion in participants within the economy.

Mark Goodwin:

Brian, how are you currently positioned in the portfolio of the McKee Bond Fund, either with respect to duration or cash position? I know you mentioned that you're in a cautious mode at the moment, but just give us a broad sense of what that means for the Fund itself.

Brian Allen:

On duration, we've been a little more tactical recently when we've seen extremes in the 10-Year, 30-Year reaching 5.0% or when supply comes to market and causes temporary dislocation, be that in Corporate Credit or in Treasuries. And the one trend I'll say has been in mind and in position on and off throughout the year has been a steepening in the yield curve. We're still working off the rather drastic inversion from two and three years ago.

And we began this year with the spread and yield between the 5-Year Treasury and the 30-Year Treasury, and that's one of our more common benchmarks. That, as well as the 2-Year/10-Year spread. But the 5-Year/30-Year spread, which is material to an aggregate broad portfolio benchmark, that has steepened from 39 basis points (0.39%) to begin the year to, today, touching 120 basis points (1.20%).

That was our target from the end of the second quarter this year. So, we are just about ready to move the other direction on a tactical basis.

We still think overall, though, that the steepening trend will continue. And I think in this environment in particular, should the Fed ease repeatedly and the thought may be that there is some, again, pressure to do so, but I think it has only been a year since the first big move from last year with the 50 basis point (0.50%) reduction in Fed funds and we saw the market actually increase in yields as a result.

So I think we have plenty of concerns about inflation and the Fed, if we really want to manage market volatility and keep rates, keep the market, as true to the fundamentals as possible that the Fed should tread slowly and we don't need to see an accelerated further steepening of the yield curve.

One sector that obviously has suffered a bit in the last few years, housing. And certainly, affordability is a problem. Rates where they are, and mortgage rates in particular where they are, the Fed getting a little too gung-ho cutting rates, if anything, will drive yields on the ten-year part of the curve higher and that certainly wouldn't do to the housing market any favor.

Mark Goodwin:

Thank you, Brian. Do you have any key concerns or risks that could cause a significant shift in your market outlook? And likewise, the way you position the portfolio, be it consumers being stretched, increasing credit card defaults, or anything else that's weighing on your mind.

Brian Allen:

Market enthusiasm. I'm mostly now talking about the stock market. We are in the greed phase, if you will. Obviously, leadership in the stock market is fairly narrow when looking at the Russell 1000 Index or the S&P 500 Index. So, we're very alert to changes in leadership there.

Thankfully, we've seen increased breadth in the market over the last few months, so there's some staying power there. Technically the stock market is in good shape from a fundamental point of view, it is when you think a little overvalued. But any sudden change there certainly can cause a sort of spillover effect. Hopefully we don't see anything like a repeat of April and where selling begets further selling and then you see a spike in volatility and maybe a more significant sell-off in equities than we think is fair.

And then inflation. We're always back to the thought that if inflation does begin to feed on itself and inflation expectations happen to go north right along with the data in the short run, that feedback loop can be a problem for certainly the bond market, the long end of the bond market. And then of course the valuations that are applied to the stock market if that were to come to pass.

But again, we would see... I think the Retail sector would suffer. And again, that top decile I referred to earlier that accounts for so much, frankly, a little north of 50.0% of retail sales, we'd see quite a bite in discretionary spending, certainly more than we've seen so far. And then we'll see a little more active Fed. I'm sure we're the top two right now is just industrial enthusiasm, sentiment, and looming inflation.

Mark Goodwin:

Those are great insights, Brian. Changing gears, how do you see an active fixed income strategy like the North Square McKee Bond Fund being best positioned in the diversified portfolio of an individual investor?

Brian Allen:

Well, in today's market in particular, with so many levers to pull in terms of duration and yield curve response to volatility in the market, I think there should be no question that a Fund like McKee Bond Fund is better than a passive approach. Certainly, performance characteristics complement the stock market very well.

We're very much focused on principal preservation, as well as providing liquidity and diversification for a balanced portfolio. And unlike others in our universe of competition, our Fund is always 100% investment grade. It is always a cash market vehicle only. We don't undertake leverage of any sort. And frankly, that's complimented by the fact that we are, in the grand scheme of things, with seven billion dollars of assets under management in the fixed income world. We're nimble. We've got a highly experienced team in one location. We're in active contact throughout the day, every day.

And our ability to respond quickly to these dislocations that occur in the market, especially in periods of high volatility that produces very strong risk-adjusted performance numbers over the long term.

Mark Goodwin:

Brian, thank you for joining me today. This has been a great discussion as always.

Brian Allen:

My pleasure. Thank you.

Thank you for tuning into our North Square Active Insights podcast. For more information on North Square Investments, our partners and investment solutions, please visit our website at www.northsquareinvest.com.

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Principal Risks of Investing, North Square McKee Bond Fund: Risk is inherent in all investing including an investment in the Fund. An investment in the Fund involves certain principal risks, including, among others: Fixed Income Securities Risk, Interest Rate Risk, Market Risk, Credit Risk, Liquidity Risk, Duration Risk, Mortgage-Backed and Asset-Backed Securities Risk, Negative Convexity Risk, U.S. Government Obligations Risk, Management and Strategy Risk, and Sector Focus Risk. Summary descriptions of these and other principal risks of investing in the Fund are set forth in the Fund's prospectus. Before you decide whether to invest in the Fund, carefully consider these risks associated with investing in the Fund, which may cause investors to lose money. There can be no assurance that the Fund will achieve its investment objective. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Please see the Fund's prospectus for additional risk disclosures.

Past performance does not guarantee future results. Click [here](#) for standardized performance information.

Definitions of terms used in this podcast:

The **yield curve** shows the interest rates that buyers of government debt require in order to be willing to lend their money over various periods of time — whether overnight, for one month, 10 years or even longer. An **inverted yield curve** is considered to be unusual; it reflects bond investors' expectations for a decline in longer-term interest rates, typically associated with recessions.

A yield **spread** is the difference between yields on differing debt instruments of varying maturities, credit ratings, issuers, or risk levels. A yield spread is calculated by deducting the yield of one instrument from the other. This difference is most often expressed in basis points (bps) or percentage points.

Basis points, otherwise known as “bps,” 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% (100 basis points = 1.0 percent).

Duration is defined as the average maturity of all bond payments, where each payment is weighted by its value. In fixed income investing, duration is an essential tool for risk management, as it measures the sensitivity of an asset price to movements in yields.

The **Russell 1000 Index** is a key stock market benchmark, representing the 1,000 largest U.S. companies by market capitalization. It's a subset of the broader Russell 3000 Index and is considered a bellwether index for large-cap investing.

The **S&P 500 Index** is a list of 500 of the largest public companies in the U.S. These companies are the biggest and most important companies in the country, and represent a broad cross-section of the economy. The index, which is weighted by market capitalization, is considered to be one of the best gauges of U.S. equities, the stock market, and the American economy.

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by calling 855-551-5521. Please read the prospectus carefully before you invest.

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