Pioneer US Securitized Credit Opportunities Strategy

Performance Update and Market Commentary | March 31, 2025

Investment Philosophy

Pioneer US Securitized Credit Opportunities Strategy is an alternative credit strategy that seeks attractive total returns by investing in high yielding mortgage-backed securities and asset-backed securities. Though the strategy lacks a correlated benchmark, our credit focus creates a risk-return profile that serves as a complement or substitute to conventional credit sectors, such as US high yield. However, the Strategy's bottom-up approach to finding value across US securitized sectors has resulted in low correlations to traditional asset classes. The Strategy seeks to avoid interest rate risk and does not employ financial leverage.

Performance Review

	1-Month	3-Month	Year-to-Date	1-Year	3-Year	5-Year	10-Year	Since Inception[1]
Pioneer US Securitized Credit Opportunities Strategy (Gross USD Composite)	0.15%	2.40%	2.40%	10.04%	8.75%	13.60%	7.21%	8.73%
Pioneer US Securitized Credit Opportunities Strategy (Net USD Composite)	0.10%	2.24%	2.24%	9.33%	8.08%	12.95%	6.58%	7.95%

[1]Performance inception is October 1, 2009

Performance prior to April 1, 2025 occurred while the portfolio management team was affiliated with a prior firm. Such members of the portfolio management team were responsible for investment decisions at the prior firm and the decision-making process has remained intact. Gross-of-fees returns are presented before management and custodial fees but after any transaction costs. The composite net-of-fees returns reflect net of model fees and are calculated in the same manner as gross of fee returns using the Time Weighted Rate of Return method. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size.

Past performance is no guarantee of future results.

Market Review

- Risk assets began the first quarter of 2025 on a positive note, continuing the rally that followed the November 2024 election, fueled by optimism, regarding the economic outlook, especially the potential for reduced regulations and lower taxes. The rally reversed late in February 2025, as the Trump administration announced new tariffs on imported goods that were greater-than-expected, both in scope and size. Market participants responded by lowering expectations for near-term economic growth and raising expectations for inflation.
- In this environment, the yield curve steepened, as 5-year yields declined 43 basis points and 30-year yields were only 20 basis points lower.
- The Bloomberg US Treasury Index posted a 2.92% for the first quarter of 2025, while the Bloomberg US Aggregate Index lagged Treasuries with a 2.78% return.
- Bloomberg US Corporate Investment Grade Index returned 78 basis points less than comparable Treasuries, as the index spread widened by 14 basis points to end the first quarter of 2025 at 94 basis points.
- Securitized credit sectors also lagged behind Treasuries, though to a lesser extent than corporate bonds. Agency mortgage-backed securities was the best-performing spread sector within the Bloomberg US Aggregate Index, with the Bloomberg US MBS Index returning 3.06%, that was only 7 basis points worse than comparable Treasuries.
- The plus sectors all posted positive returns, but lagged the performance of comparable Treasuries:
  - US high yield returned +1.00%, as measured by the Bloomberg US High Yield Index
  - Leveraged loans returned +0.46%, as measured by the Morningstar LSTA US Leveraged Loan Index
  - Emerging markets sovereign debt returned 2.08%, as measured by the Bloomberg Emerging Markets Sovereign Index
  - Emerging markets corporates returned 2.71%, as measured by the Bloomberg Emerging Markets Corporate Index
- Meanwhile, the US dollar (DXY Index) was 4.10% lower for the first quarter of 2025, while oil prices were roughly unchanged.

Performance Attribution

- Pioneer US Securitized Credit Opportunities Strategy had a gross USD return of 0.15% for the month, and a net return of 0.10%. Year-to-date, the Strategy has a gross USD return of 2.40%, and a net return of 2.24%.
- For the first quarter of 2025, securitized credit performance was generally positive. Securitized credit has generally underperformed high quality, long-duration, benchmarks, such as the Bloomberg US Aggregate Index, due to its lower duration stance, and outperformed deep credit indices, such as the ICE BofA US High Yield Corporate Index, due to less widening in credit spreads.
- All major sectors benefitted from high all-in yields, as income was generally the largest component of returns.
- Most sectors benefitted from spread tightening early in 2025, before experiencing volatility and spread widening towards the end of March 2025.
- The short end of the yield curve fell in response to expectations of more dovish Federal Reserve policy, which benefitted fixed-rate securities.
- There were no major detractors, though securities with lower credit ratings experienced spread widening towards the end of the first quarter of 2025.

Market Outlook and Positioning

- Late last year, the US economy appeared to be headed for a remarkable soft landing. Domestic inflation was poised to continue its descent to the Federal Reserve's 2% target without a significant rise in unemployment. However, the macroeconomic outlook has changed significantly over the past couple months, as the reality of higher US import tariffs is extrapolated into higher prices and lower inflation-adjusted spending in upcoming quarters. Inflation remains well above the Federal Reserve's target, and proposed tariffs will likely push prices higher in the near term. We do not expect the Federal Reserve to raise rates in response to higher inflation, as Chairman Powell and other Federal Reserve officials view tariffs as having a transitory impact on inflation that does not justify tighter monetary policy. More likely, inflation pressures will just lead the Federal Reserve to delay further cuts in the Federal Funds target rate. The Federal Open Market Committee will also likely be less willing to preemptively lower rates to avoid a growth slowdown. Committee members will likely need to see significant labor market weakness or other clear signs of a US recession before materially cutting the policy rate. With elevated policy uncertainty and greater risk of the Federal Reserve falling behind the curve to prevent a recession, the odds of a recession have materially increased.
- A higher risk of recession justifies higher yields on credit-sensitive bonds, relative to Treasuries, and we remain cautious on credit exposure, despite the recent widening of spreads.
- It has been some time since the market experienced significant downside volatility. Ongoing tariff negotiations may continue to cause spread widening in credit sectors.
- We entered 2025 defensively positioned and remain relatively defensively positioned through an up-in-quality tilt and a high level of diversification[2] and liquidity. We will be looking for opportunities to selectively reposition the portfolio after rapidly changing relative market segment valuations.

[2]Diversification does not assure a profit or protect against loss.