



## Credit Markets Improve as Fed Holds Firm—Is Your Portfolio Positioned?

Robert Keller, CFA, CAIA, Portfolio Manager

### Talking points:

#### 1. Trade Policy Shift Signals Economic

**Optimism:** The U.S.- China tariff suspension and fewer expected Fed cuts suggest a softer trade stance and growing confidence in avoiding recession, with the Fed likely to maintain a higher-for-longer rate policy.

#### 2. Credit Spreads Reflect Reduced Default

**Risk:** Tightening Investment Grade (IG) and High Yield (HY) bond spreads indicate declining default concerns, supported by improved economic sentiment and renewed optimism following recent trade developments.

#### 3. The Pacer Pacific Asset Floating Rate High Income ETF (FLRT) May Be Positioned for

**Outperformance:** The FLRT strategy may be positioned to benefit from elevated interest rates and narrow credit spreads, potentially offering higher yields with reduced risk in a more stable economy.

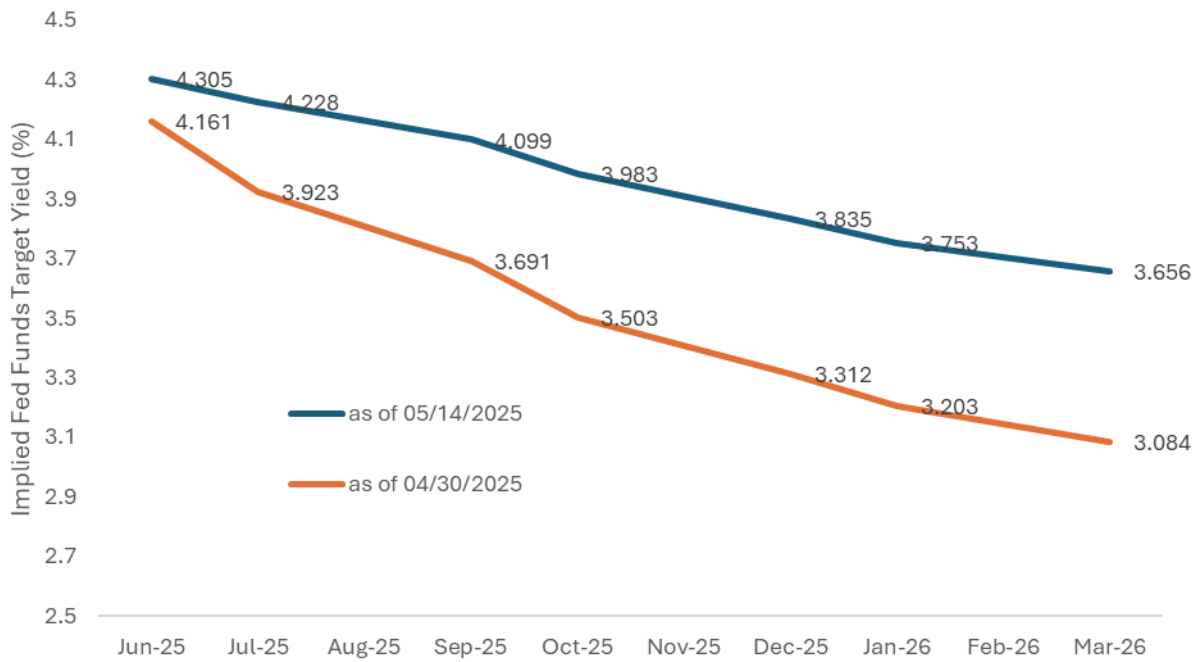
### Commentary:

The easing of trade tensions between the U.S. and China provides investors with a clear signal that the Trump administration is adopting a softer approach to the clashes that recently disrupted global markets. With optimism building that the U.S. economy may avoid a recession and inflation expectations easing, traders now anticipate the Federal Reserve will lower rates twice in 2025, down from expectations for three cuts just last week, according to Bloomberg.

The weekend suspension of most tariffs between the U.S. and China has suddenly made trade policy appear much closer to the optimistic outlook seen in early April. Goldman Sachs announced that it now anticipates the first rate cut will take place in December, revising its forecast from last week, when they projected the first rate cut would occur in July.



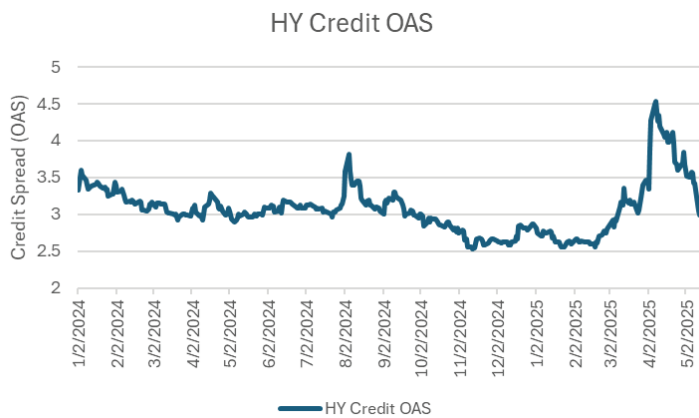
## Implied Fed Funds Target Rate (%)



	Jun-25	Jul-25	Sep-25	Oct-25	Dec-25	Jan-26	Mar-26
as of 05/14/2025	4.305	4.228	4.099	3.983	3.835	3.753	3.656
as of 04/30/2025	4.161	3.923	3.691	3.503	3.312	3.203	3.084

Source: Bloomberg, Pacer Advisors.

**High Yield Bond Credit Option-Adjusted Spread (OAS)**  
12/31/2023 to 05/14/2025



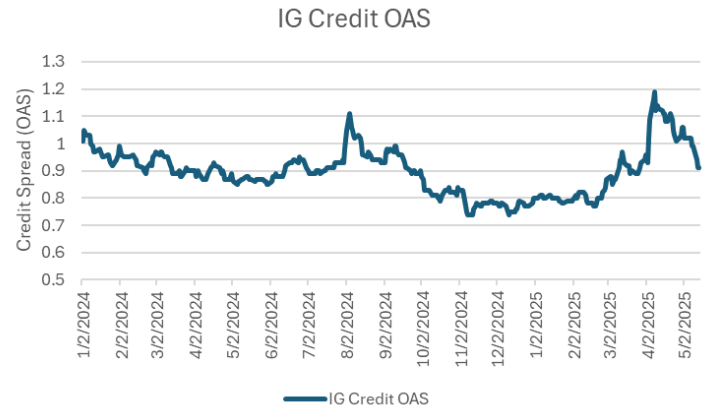
Source: Bloomberg, Pacer Advisors.

During periods of economic stress, credit spreads typically widen as investors become concerned about the increased likelihood of default, often driven by weaker economic activity. This heightened risk leads to fears that issuers may struggle to meet their debt obligations, potentially failing to honor debt covenants tied to their borrowing costs. Conversely, in times of economic growth, credit spreads tend to compress. As default concerns subside, supported by positive economic activity, investors regain confidence in issuers' ability to meet their debt obligations, which in turn drives the narrowing of spreads. We have seen this compression trend play out recently, particularly following this weekend's positive developments in trade talks.

The FLRT ETF and other variable-rate products have the potential to be particularly attractive in the current environment based on two key tailwinds. It's important to note the yield on these variable-rate products is composed of two components: a risk-free variable rate tied to the Secured Overnight Financing Rate (SOFR) (which is indirectly linked or associated to the Federal Funds rate) and a spread that compensates investors for default risk and liquidity risk associated with owning these bonds.

First, markets now expect a higher-for-longer rate environment to keep interest rates elevated for an extended period. This higher rate backdrop supports higher all-in yields for these products, which may contribute positively to performance. Second, narrowing credit spreads—driven by a more favorable investor outlook on default risk—further enhance the appeal of these investments. As confidence in an issuer's ability to meet their bond obligations strengthens,

**Investment Grade Credit Option-Adjusted Spread (OSA)**  
12/31/2023 to 05/14/2025



Source: Bloomberg, Pacer Advisors.

investor demand is likely to increase. This shift reflects rising optimism that the U.S. economy can avoid a recession, supported in part by easing trade tensions and reduced tariff pressures.

**Summary:**

Through the FLRT ETF, investors gain exposure to bonds potentially offering higher, more attractive yields with reduced default risk. As the investing adage goes, the goal is to achieve greater returns with less risk. Given the renewed optimism about the U.S. economic outlook, FLRT may offer a compelling opportunity—delivering more predictable income with the potential for enhanced total returns.

**PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. YOU CANNOT INVEST DIRECTLY IN AN INDEX.** There is no guarantee that this investment strategy will succeed, the strategy is not an indicator of future performance and investment results may vary. The investment strategy presented is not appropriate for every investor and individual clients should review with their financial advisors the terms and conditions and risk involved with specific products or services.

**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 may be obtained by visiting [www.paceretfs.com](http://www.paceretfs.com) or calling 1-877-337-0500. Please read the prospectus carefully before investing.**

An investment in the Funds is subject to investment risk, including the possible loss of principal. Pacer ETF shares may be bought and sold on an exchange through a brokerage account. Brokerage commissions and ETF expenses will reduce investment returns. There can be no assurance that an active trading market for ETF shares will be developed or maintained. The risks associated with this fund are detailed in the prospectus and could include factors such as floating rate loan risk, CLO risk, asset-backed securities risk, CMBS risk, high yield securities risk, fixed income risk, foreign securities risk, market risk, ETF risks, liquidity risk, privately issued securities risk, management risk, and sector risk.

**Option-Adjusted Spread (OAS)** is a measure of the difference between the yield of a bond and the yield of a risk-free benchmark, specifically accounting for the impact of embedded options like call options or prepayment rights. It helps to assess the true yield of a bond, particularly those with features that allow the issuer to redeem the bond before maturity.

**The Secured Overnight Financing Rate (SOFR)** is a benchmark interest rate used in the US dollar market, particularly for derivatives and loans. It's a risk-free rate based on actual overnight repo transactions, backed by US Treasury securities.

Pacer Advisors, Inc. is the fund advisor. Aristotle Pacific Capital, LLC (formerly Pacific Asset Management LLC) serves as investment sub-advisor to the Fund.

The Fund is the successor to Pacific Global Senior Loan ETF, a series of Pacific Global ETF Trust, and its investment performance as a result of the reorganization of the Predecessor Fund into the Fund at the close of business on October 22, 2021. In addition, the Pacific Global Senior Loan ETF was the successor to the investment performance of AdvisorShares Pacific Asset Enhanced Floating Rate ETF, a series of AdvisorShares Trust, as a result of the reorganization of the series of AdvisorShares Trust into a series of Pacific Global ETF that occurred on December 27, 2019 (together, the “Predecessor Fund”). The Predecessor Fund commenced operations on February 18, 2015.

From the Predecessor Fund’s inception to October 22, 2021, the Predecessor Fund invested at least 80% of its net assets (plus any borrowings for investment purposes) in senior secured floating rate loans. After the reorganization, the Fund invests at least 80% of its net assets (plus any borrowings for investment purposes) in senior secured floating rate loans and other adjustable rate securities. Other than each Fund’s respective 80% policy and the associated risks with investing in adjustable rate securities, the Funds had similar investment objectives, strategies, and policies.

© 2025, Pacer Financial, Inc., All rights reserved.

Not FDIC Insured | May Lose Value | Not Bank Guaranteed

Distributor: Pacer Financial, Inc., member FINRA, SIPC, an affiliate of Pacer Advisors, Inc.