

January shifted the focus from inflation to policy and governance risks, particularly around the Federal Reserve. After three cuts at the end of 2025, markets are currently pricing roughly 50bps of easing for 2026. The Fed held rates steady in January as labor data showed tentative stabilization (payrolls +50k; unemployment down to 4.4%) and CPI (YoY) remained at 2.7%. Attention was dominated by concerns over Fed independence following a Justice Department investigation into Chair Powell as well as heightened concerns about his potential successor. At the end of January, President Trump's nomination of Kevin Warsh as Fed Chair was viewed as a relief - Warsh is seen as less supportive of deep rate cuts and more hawkish on inflation. In Canada, the BOC held rates steady at 2.25% while flagging risks from uncertain U.S. trade policy ahead of the Canada-US-Mexico free trade (CUSMA) review. U.S. and Canadian equity markets rallied slightly in January (S&P 500 +1.4%, TSX Comp +0.8%) as the shift from growth and large-cap stocks into value and small-cap stocks continued for a third straight month. Cyclical and commodity-linked sectors led the way as big tech and financial sectors lagged.

Interest rates ended the month mostly unchanged, with US 10yr treasury yields slightly weaker (rates higher) by +7bps and Canadian 10yr GoC yields slightly stronger (rates lower) by -2bps to start the new year. Curves steepened modestly again in January.

Investment grade (IG) credit markets started 2026 on strong technical footing as constructive risk sentiment and robust, well supported, new issuance dominated. Even as spreads continue to trade at post-GFC tights (most expensive levels), with much uncertainty, there is too much money looking for pockets of safety as investors diversify away from risk to start 2026. Investment-grade spreads rallied (tightened) in both the U.S. (-5bps) and Canada (-6bps) as spreads continued their move toward multi-decade lows.

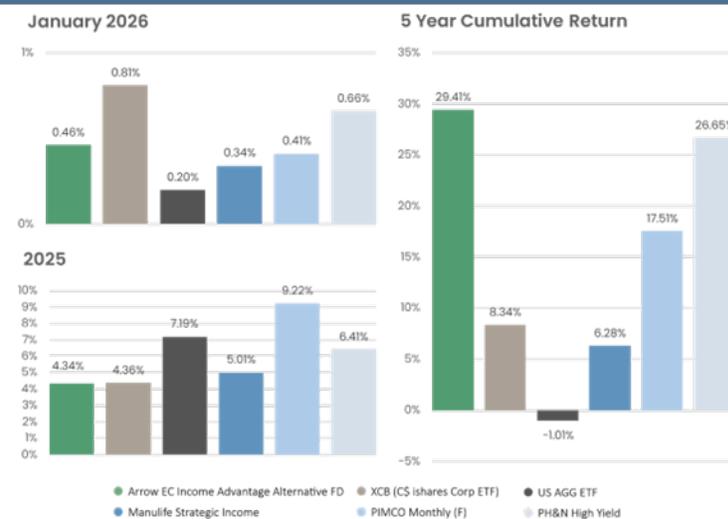
Canadian indices and traditional bond funds outperformed as Canadian rates rallied, while portfolios with credit exposure also benefited from tighter credit spreads. The investment team remains cautious on risk, favouring high-quality, liquid, and short-dated exposure at current levels. Despite this defensive positioning, the East Coast strategy delivered a highly compelling return for investors, as illustrated in the chart to the right.

Investor inflows into taxable bond funds rose sharply in 2025 (with approximately \$490 billion of inflows according to Morningstar), with investment-grade (IG) corporate funds typically representing the largest component of this category. High-yield funds also attracted over \$1 billion of inflows during the year. All-in yields remained compelling across IG and HY credit markets, and both asset classes benefited from the end-of-year asset rotation away from technology and other crowded growth segments.

In contrast, while private credit funds experienced substantial inflows in the first three quarters of 2025 (with Morningstar reporting roughly \$40 billion through September), late-year estimates pointed to approximately \$7–8 billion of net outflows. Notably, Blackstone's \$79 billion flagship private credit fund saw \$2.1 billion of redemptions in late 2025. Credit quality concerns, lower return expectations, and liquidity constraints were most frequently cited as drivers of these redemptions. Sentiment was further pressured by multiple fund write-downs in Q4, including BlackRock TCP Capital Corp., which reported a 19% decline in NAV linked to troubled investments across six portfolio companies.

Fixed Income Returns¹

Morningstar: Monthly, YTD 2025, and 5yr Cumulative Returns (%)



Source: Morningstar Direct, ArrowEC Income Advantage Alternative FD, Blackrock: Index iSharesETFs (XCB, AGG), PIMCO Monthly Fund (F), Manulife Strategic Income Fund (F), PH&N High Yield Bond Fund (F)

East Coast investors are familiar with the investment team’s long-standing concerns regarding private credit. The absence of daily mark-to-market valuation can create the appearance of smoother, less volatile performance, but this opaque pricing does not reflect economic reality and can obscure underlying risks. Investors can never fully understand the value of their investment at any point in time. By contrast, the East Coast portfolio is priced daily using independent third-party mark-to-market valuations. As experience shows, liquidity and transparency are often underappreciated until they are most needed.

Bank Loans to NDFIs Have Grown Dramatically
 FDIC Report “2025 Risk Review”

Bank Size by Total Assets (\$ Billions)				
Year	Over \$250B	\$100-\$250B	\$10-100B	Under \$10B
NDFI Loans as a Percent of Total Loans				
2010	1%	1%	1%	0%
2024	12%	10%	5%	1%
NDFI Loans as a Percent of Tier 1 Capital				
2010	8%	7%	5%	1%
2024	60%	63%	33%	5%

According to Morgan Stanley research, U.S. private credit lending grew by 50% between 2020 and 2025, reaching an estimated \$3 trillion and surpassing both the public U.S. high-yield bond market and the broadly syndicated loan market in size. Given this rapid expansion, any significant deterioration in the private credit sector could have meaningful spillover effects across financial markets.

At the same time, the growth of these alternative assets, particularly private credit and private equity, has driven substantial increases in bank lending to Non-Depository

Financial Institutions (NDFIs). These private lending funds have become an increasingly critical part of the banking ecosystem. Since the Global Financial Crisis, bank lending to NDFIs has grown at a 22% compound annual growth rate (CAGR), according to the FDIC.

As shown in the table above, among the largest banks (those with over \$250 billion in assets), loans to Non-Depository Financial Institutions (NDFIs) increased from 1% to 10% of total loans between 2010 and 2024. Over the same period, these exposures grew from 8% to 60% of Tier 1 capital. NDFIs now represent a materially larger share of risk exposure within the banking system. To be clear, loans to NDFIs are typically secured by collateral with conservative advance rates, providing an initial layer of loss protection. Historically, these exposures have also carried more favorable credit performance than many traditional commercial loans.

The concern is that a meaningful rise in loan losses or write-downs - particularly given the relatively short history of bank lending to some NDFIs - could pose risks to bank balance sheets. Moreover, underwriting standards within the NDFI sector are generally less stringent than those applied by regulated banks, which has contributed to the sector’s rapid growth over the past decade. Banks extending credit to NDFIs also lack full transparency into the underlying lending decisions made by those institutions.

Liquidity and transparency are always important, but they are especially critical in the current environment, which appears to be late in the credit cycle. Risk premiums are compressed, leaving investors inadequately compensated for the underlying risk of many investments and asset classes. While recent credit events may ultimately prove to be isolated incidents, there is little margin for error. In today’s elevated valuation environment, pricing provides virtually no cushion to absorb losses or write-downs. As a result, even modest credit deterioration could have an outsized impact on investor returns.

The East Coast Strategy invests in investment-grade (IG) corporate bonds, which are among the most liquid fixed income securities in the market. These bonds trade in an active secondary market, and independent third-party custodians provide daily pricing and valuation, ensuring transparency and liquidity. The investment team remains comfortable with the portfolio’s recent defensive positioning while aiming to generate a consistent monthly income for investors. The portfolio’s average credit quality is high (A-), reflecting a deliberate decision not to reach for incremental yield when compensation for additional risk is insufficient. At current valuation levels, preserving capital and maintaining flexibility remain our primary objectives.

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative Ser FD	4.51	6.94	5.29	6.04	4.16

Returns as of January 31, 2026

¹Source: Morningstar Direct: Arrow EC Income Advantage Alternative (Series FD), iShares Core Canadian Corporate Bond Index ETF (XCB), iShares U.S. Aggregate Bond Index ETF (AGG), PIMCO Monthly Fund (F), Manulife Strategic Income Fund (F), PH&N High Yield Bond Fund (F).

The inception date of the Arrow EC Income Advantage Alternative Fund (formerly East Coast Investment Grade Income Fund) was April 26, 2012. On June 26, 2020, the East Coast Investment Grade Income Fund (TSX: ECF.UN) was converted from a closed end fund into an open-end alternative mutual fund, renamed Arrow EC Income Advantage Alternative Fund and delisted from the TSX. Details of the conversion are outlined in the information circular which is available at www.sedar.com. Unitholders of Fund had their units redesignated as Series FD Units.

Commissions, trailing commissions, management and performance fees and expenses all may be associated with mutual fund and exchange-traded fund (ETF) investments. Please read the prospectus and Fund Facts for Arrow EC Income Advantage Alternative Fund carefully before investing before investing. Unless otherwise indicated, the indicated rates of return are the historical annual compound total returns net of fees and expenses payable by the fund (except for figures of one year or less, which are simple total returns) including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds and ETFs are not guaranteed, their values change frequently and past performance may not be repeated. You will usually pay brokerage fees to your dealer if you purchase or sell securities of an ETF on recognized Canadian exchanges. If the securities are purchased or sold on these Canadian exchanges, investors may pay more than the current net asset value when buying securities of the ETF and may receive less than the current net asset value when selling them.

The rates of return are used only to illustrate the effects of the compound growth rate and are not intended to reflect future values or returns on investment in an investment fund.

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The comparison presented is intended to illustrate the historical performance of Arrow EC Income Advantage Alternative Fund as compared with the historical performance of a widely quoted market index or a weighted blend of widely quoted market indices or other investment funds. There are various important differences that may exist between the Fund and the stated indices or other investment funds that may affect the performance of each. The objectives and strategies of the Fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indices. Indexes are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indices. Certain statements contained in this communication are based in whole or in part on information provided by third parties and Arrow Capital Management has taken reasonable steps to ensure their accuracy. Market conditions may change which may impact the information contained in this document. Published February 2026.