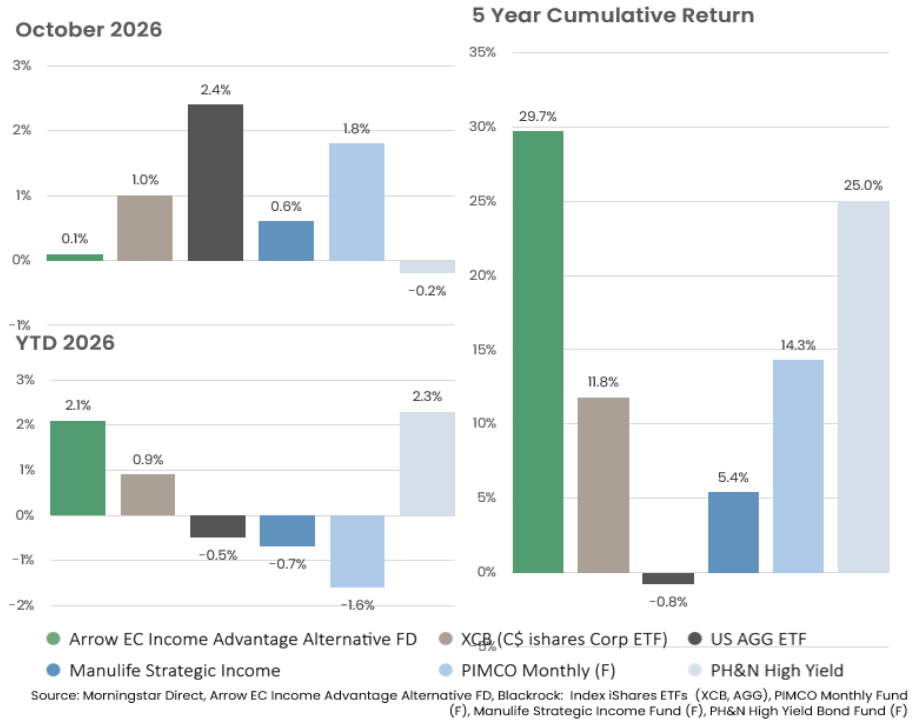
ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND
october 2026

Arrow Capital Management Inc.

Equity markets rotated in October as investors questioned whether heavy AI spending will pay off, despite strong third-quarter earnings. The Nasdaq 100 fell 6.6% and technology 8.3%, as hyperscaler cash flow pressure and higher financing costs for leveraged AI companies weighed on the largest index weights, pulling the S&P 500 down 0.9%. Beneath the surface, the equal-weight S&P 500 rose 5.0% as energy (+13.9%), consumer staples (+10.9%), utilities (+10.1%) and health care (+9.8%) each gained about 10%. Chip-heavy markets outside the U.S. fell furthest, with semiconductors down about 15%. The sell-off acted as a growth shock and drew investors into bonds.

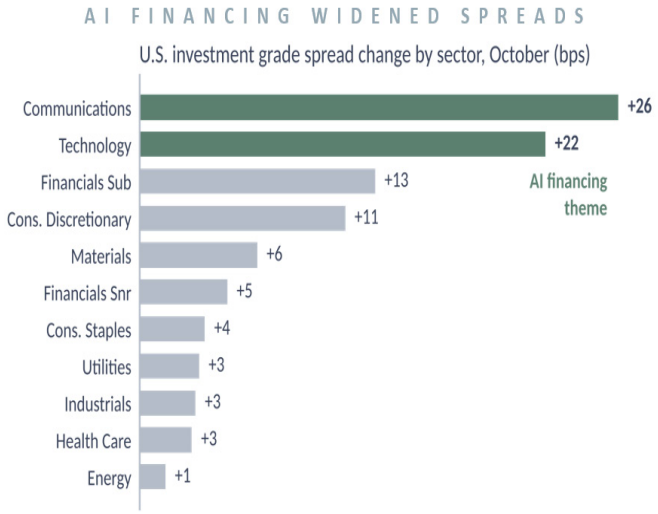
The 10yr U.S. Treasury yield fell 36 basis points (bps) to 4.93%, retracing about two-thirds of September's 53bps rise, and the 10yr Government of Canada yield fell 20bps to 3.80%. The Federal Reserve held at 3.75%–4.00% with two dissents in favour of a 25bps hike, while the Bank of Canada raised its policy rate by 25bps to 2.50%, despite weak data.

Fixed Income Returns[1]



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

While credit did not share in the gains, the pressure was confined to specific sectors. Investment grade (IG) spreads in both the U.S. and Canada widened +9bps on the month, with the movement led by communications and technology as the financing needs of AI companies spilled over into the bond market. All-in yields remain attractive, at 5.7% for U.S. IG and 4.5% for Canadian IG. U.S. high yield spreads widened +29bps to 340bps, with the weakness concentrated in the lowest-rated credits.



Source: Bloomberg; U.S. investment grade sector OAS, September 30 to October 30, 2026

The credit quality gap widened sharply as stronger credit quality outperformed weaker credit quality: CCC-rated spreads widened +109bps on average, against +18bps for BB-rated spreads. The same quality gap was visible within IG credit, where BBB-rated spreads widened +13bps against +6bps for single-A. East Coast's emphasis on high-quality, liquid holdings has proven especially valuable in markets like October. As spreads continue to widen, spread levels better compensate for risk.

East Coast finished October with a positive return in a month when fixed income gains were exclusively driven by rates, not credit spreads. East Coast remains well ahead of both Canadian corporate and U.S. aggregate bond benchmarks year to date, reflecting positive carry from selective, high-quality portfolio holdings.

The chart at left shows U.S. investment grade sector spread moves in October. Communications widened +26bps and

technology +22bps as the financing needs of AI companies reached the bond market. Microsoft's $25bn bond issuance required a concession to clear, and the additional spread premium investors demand to hold 30yr hyperscaler bonds over the 30yr IG average widened +27bps, rising from +49bps to +76bps.

This dispersion matters for investors. Outside the AI financing theme, spread weakness was more muted and fundamentals have held up, while current all-in yields near 5.7% remain well above mid-year levels providing compensation to investors.

Rates have been the main source of volatility in fixed income so far in 2026. October introduced a second source, as heavy AI-related bond issuance pushed credit spreads wider while Treasury yields rallied. We expect market volatility to continue into year-end. High all-in yields should continue to support demand for investment grade credit, and wider spreads are beginning to create opportunities. The team remains focused on risk-adjusted investments that provide investors with steady income and capital preservation. East Coast remains positioned to add credit selectively as pricing continues to improve.

As always, we welcome any questions or comments you may have for our team.

Thank you,
The East Coast Team

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative - Ser FD	2.47	5.91	5.34	5.12	4.04

Returns as of October 31, 2026

[1]Source: 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 redes¬ignated 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 November 2026.