Global Bond Fixed Income Team Views

By the Loomis Sayles Global Bond Fixed Income Team

SECTOR	OUR CURRENT VIEW	OUR ANTICIPATED STRATEGY
CREDIT		
Global Corporates	Relative credit beta has remained at the lower end of our risk spectrum as we continue to remain cautious given the potential volatile macroeconomic backdrop and rich valuations. Credit fundamentals have shown improvement in the US, but continues to remain mixed in Europe. Earnings and leverage appear to have stabilized and defaults have recently trended downwards. We remain cognizant of the risks for wider spreads in the event of a possible growth scare. Global demand for yield has driven credit spreads tighter and the risk/return profile for credit is unattractive, in our view.	We are waiting for a better opportunity to increase credit risk with valuations unattractive at current levels. Overweight communications and consumer non-cyclical on a combination of positive issuer specific stories and general defensive nature of the industries. Banking remains a top overweight given strong and stable fundamentals, but have moved higher in the capital structure of preferred banks in recent quarters. Underweight consumer cyclicals (e.g. retailers and autos).
High Yield	While forward looking loss estimates are relatively subdued, our high yield allocation remains near historic lows given the limited risk premium available and relative value versus investment grade. We remain cautious of potential stress to come from the lagged effects of the recent tightening cycle with lower quality, more interest sensitive companies the most vulnerable. We remain patient and await a better buying opportunity ahead.	We have minimal high yield corporate exposure across accounts. Where we do, investments are largely idiosyncratic, issuer specific potential "rising star" candidates. We are at or near all time lows in terms of utilization of our high yield risk budget. Note, high yield exposure includes Brazil and South Africa local rates positions.
Securitized	In Agency MBS, valuations are currently attractive and technicals have improved with a marginal uptick in bank buying combined with decreased mortgage supply. We believe residential real estate performance should be contained given a structural lack of supply, record home equity and conservative underwriting.	We are overweight high carry securitized credit, mainly in short non-agency MBS, and select aircraft ABS senior bonds. We are overweight Agency MBS on valuation and positive convexity profile.

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CURRENCY		
US Dollar view	Mindful of Fed easing cycle having the potential to create a weak US dollar trend, but we believe will require calm credit conditions. Degree of a weaker dollar may be somewhat limited given economic weakness and falling rates abroad. Possibility of a safe haven bid for the dollar amid credit event or geopolitical turmoil is supportive as well.	We are neutral to slightly underweight USD for now.
Developed	Eurozone economies still stagnating with soft manufacturing and global trade. Vulnerability to a weak China poses a risk as well, in our view. In the UK, economic momentum along with the Labour party's commanding victory in the UK general election we believe may serve as positive catalysts for capital flows. Hawkish Reserve Bank of Australia and Chinese stimulus bode well for AUD.	We are overweight GBP, AUD and underweight EUR.
Emerging	EM local currencies that we favor have limited external financing needs and high carry. Political uncertainty has tempered our optimism toward previously favored currencies (BRL). BRL – Recent actions and narrative from the Lula administration has had a major impact on volatility.	We are overweight BRL (cheap valuations, supportive external flows), although reduced from earlier in the year. We are underweight CNY on geopolitical risks, decline in goods exports, and risk of growth shortfall. We are overweight IDR on favorable carry and contained inflation and sovereign risk.
YIELD CURVES		
Duration	We believe yields will decline across the globe as the disinflation trend continues and central banks remain on their rate cutting cycles. Interest differentials and Bank of Japan (BoJ) policy normalization could drive Japanese Government Bonds (JGB) yields higher, in our view.	We neutralized our 10-year US duration overweight following the aggressive rate rally in August 2024, but tactically added back 0.25 years on recent backup. We will continue to range trade. Remain underweight 10-year JPY. We have a small underweight EUR duration offset by small long exposure to higher yielding DKK.
Local EM Markets	We believe select local EM markets are currently attractive where proactive central bank tightening has resulted in high (ex-ante) real yields and where exports assist with fiscal and trade balances.	We are overweight EM duration: S. Africa, Brazil, Mexico, and Indonesia.
KEY RISKS		
	The risk of possible growth scare leading to sharp repricing of risk assets. Further escalation in ongoing global military conflicts would shake risk sentiment Global political landscape and US presidential election could elevate fiscal concerns for many economies.	As valuations adjust, we will look for opportunities to add risk in interest rates, currency and credit.

IMPORTANT DISCLOSURE:

OUTLOOK

- The Federal Reserve met in September and cut its policy rate by 50bp, at the wide end of expectations. So, of course, the ten year Treasury Yield has sold off, increasing from 3.65% to 4.0%.
- We have subscribed to a kind of unified theory of value for both the DXY dollar index and the ten-year yield this year. Both have been highly correlated with the market outlook for future policy rates, captured by the value of the December 2025 SOFR futures contract. When the macro data (inflation and employment) show a stronger economy, the contract falls, i.e., the expected policy rate at the end of 2025 may rise. When the economy appears weaker, the contract rises, i.e., the future policy rate declines.
- Treasury yields are now higher because the September payroll report showed a robust 254,000 new jobs and the unemployment rate dropped to 4.1%. U.S. economic exceptionalism apparently persists. As a result, market consensus about policy rates at the end of 2025 have risen from under 3.0% a month ago to 3.4% currently. This effectively has dropped two interest rate cuts from the future path of the Fed policy over the coming year. Yields and the dollar both climbed accordingly. Treasury yields are less about the cuts that just happened but rather about the future cuts that may not happen at all.
- One important currency that is not in the DXY index is the Chinese Renminbi (RMB) for which we have recently witnessed dramatic change. On September 24, People's Bank of China (PBC) announced a host of interest rate cuts as well as providing at least RMB 800bn of liquidity to support equities. The media reported a further possible RMB 3 trillion in coming fiscal support for bank recapitalization, local government refinancing, and possibly direct consumption support. The CSI 300 rose 27% from its lows and futures increased after trading resumed at the conclusion of Golden Week. This was a positive for equity owners, except for the short and the underweight. We believe that China's quantitative easing policy may very well have a positive impact on the bond, stock, and housing markets.
- The short-term outlook for Chinese yuan (CNY) is bullish as index and momentum purchases of equities demonstrate capital inflows. Longer term, lower interest rates and a massive expansion of the domestic money supply could potentially be CNY-bearish if Chinese capital controls prove ineffective. We believe that in due time, this will become more transparent. In the interim, the Chinese macro economic forecast is increasing GDP expectations by 50bps or more.
- In a month, we may know the outcome of the U.S. Presidential election. Once the outcome has been determined, we believe that the USD will be bullish. If this is a contested election that we do not foresee, then for that scenario we believe that the USD would be bearish. We believe one possible explanation for the timing of the PBC for economic support is that it may strengthen the economy and sentiment around it ahead of a potential tariff shock. We believe an autumn of surprises is not yet over.

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