Global Fixed Income Team Views

By the Loomis Sayles Global Fixed Income Team

SECTOR	OUR CURRENT VIEW	OUR ANTICIPATED STRATEGY
CREDIT		
Global Corporates	We remain cautious on credit given tight valuations as highlighted by our risk premium models. Fundamentals are favorable on balance, with tech spending driving growth in the US. Earnings in Europe are improving as well. Technicals have remained solid but lower yields could become a headwind.	We remain overweight credit beta, but modestly so, justified by solid fundamentals and technicals. Portfolios are positioned well to take advantage of any spread widening that may occur. In the meantime we continue to look for mispriced securities and take advantage of industry and cross currency relative value opportunities. We remain overweight communications and tech on a combination of positive issuer specific stories and general defensive nature of the industries. Banking has remained a top overweight. Underweight consumer cyclicals (e.g. retailers and autos).
High Yield	While forward looking loss estimates are relatively subdued, our high yield allocation has remained low given the limited risk premium available and relative value versus investment grade. The value proposition for high yield improved somewhat in early Q2 but quickly evaporated and high yield risk premia has remained well below historic average overall and for this stage of the credit cycle.	We established positions in select BB names early in Q2 at wider spreads and continue to look for mispriced opportunities. Still, we remain low in HY corporates relative to history on tight valuations. Note, high yield exposure includes Brazil and South Africa local rates positions.
Securitized	A variety of factors are expected to continue driving increased rate volatility (including US fiscal dynamics, inflation and Federal Reserve path uncertainty) which is typically negative for MBS. In addition, uncertainties persist regarding regulatory changes under the new administration. In ABS, select deals exhibit strong deal structures and short, attractive, high quality carry. We've been particularly focused on Euro consumer backed ABS for carry opportunities in strong deal structures with high quality collateral.	Underweight agency MBS to free up capital for higher spread opportunities. Overweight high carry securitized credit, mainly in short non-agency MBS, select aircraft ABS senior bonds and EUR consumer backed ABS.

SECTOR	OUR CURRENT VIEW	OUR ANTICIPATED STRATEGY
CURRENCY		
US Dollar	The dollar faces numerous headwinds: twin deficits, moderation in U.S. growth, more growth-supportive fiscal and monetary policies abroad, still expensive valuation, and fading U.S. exceptionalism. Although a resilient consumer and continued GDP growth, among other things, we believe could act as a ballast.	Underweight USD, but less so than when the quarter started.
Developed	While an infrastructure and defense spending ramp up led by Germany may be slow to materialize as an economic boost, we believe Western Europe's resilience in the face of a dent in the global trade environment is likely to be greater than what we would have assumed coming into 2025. JPY benefitting from more competitive rates globally and resilient safe-haven demand.	Overweight EUR, JPY, AUD, SEK.
Emerging	EM and global trade-sensitive economies still could struggle to attract sizable capital flows but select currencies benefit from high carry, cheap valuations and fiscal improvement (BRL). There is scope for broad Asia FX strength amidst the weak USD outlook.	Overweight BRL. Underweight CNY on geopolitical risks, decline in goods exports, and risk of growth shortfall.
YIELD CURVES		
Duration	Overall inflation has remained above the central bank's 2% longer-run goal. Meanwhile domestic data continues to beat expectations. While fiscal uncertainty in Japan remains, we believe much is already priced in the market and the yield curve remains steep.	Neutral US duration. We expect to be nimble regarding US duration and look to range trade on sizeable rate moves. Modest long JPY duration.
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.	Overweight EM duration: S. Africa, Brazil.
KEY RISKS		
	Unexpected distortions from uncertainty and trade policy could see a rising number of stressed corporations raise risk of a broader credit cycle downturn. Pullback in tech equities could have negative knock-on effect to the broader economy. Changes to the fiscal, trade, and immigration landscape in such a short period creates potential volatility revealing unpredictable areas of stress. Geopolitics: any change (ceasefire or escalation) in the Ukraine, Middle east, or other conflicts will have market implications.	As valuations adjust, we will look for opportunities to add risk in interest rates, currency and credit.

OUTLOOK

- The US government shutdown has left investors with a data gap, as the statisticians at the Bureau of Labor Statistics are classified as inessential workers. September payroll and unemployment data are unpublished. Total Federal layoffs may be about 700,000-750,000 employees, and the length of the disruption is unknowable. If the shutdown lasts a month or more, the unemployment rate could reach approximately 4.6%-4.7%, but there will be no one to tell us.

- With public data unavailable, markets are expected to focus on private data. For the labor markets, these include ADP, Homebase, Revelio, and Indeed. These currently show a mixed picture, with ADP showing private employment down for the past two months. Indeed, which skews towards small business shows a stronger picture, but on net the view is of a low hire, low fire labor market going sideways. The Chicago Federal Reserve thinks the unemployment rate is about flat at 4.3% before the shutdown effect.

- Private inflation data is equally mixed. Truflation is benign, running at about 2% year-over-year, though its sample may be skewed towards goods. Separately, ISM Services Prices Paid is trending higher and can be a leading indicator of broader inflation trends. We suspect that inflation is also more or less sideways: not breaking higher, as much of the tariff shock has been absorbed for the time being in margin compression but not decelerating much either. Two high profile price pressures are the price of beef, as prior drought has reduced herd size, and the cost of electricity, which is being pushed higher by soaring data center demand.

- The Federal Reserve will have to make policy in a partial data vacuum. We suspect that if the shutdown is still in effect at the next Fed meeting the obvious economic and labor market damage from the shutdown will lead to another 25bp cut. Congress and the White House seem to have found a new and highly unpleasant way to get the Fed to cut rates.

- We expect data centers, AI and machine learning capital expenditures to be the most powerful positive drivers of economic growth in the next year or two. Bullish expectations for these industries also dominate equity values. In turn, wealth effects may be aiding high end consumer sentiment. Moody's Economics has claimed that 49% of US consumption is by the richest 10% of Americans. The US economy is now sometimes described as K-shaped, with the top half of the letter doing extremely well, but the bottom half experiencing a much more precarious reality. Q3 GDP was relatively strong according to the Atlanta Fed GDPNow estimate, but once more we may not know for a while.

- Mexico's new import tariffs are the first pushback we have seen against the global export surge from Asian countries diverting manufacturing exports away from the US into other markets. This export diversion is large and extremely important for sustaining Asian, and notably Chinese GDP growth this year, as domestic consumption still looks feeble, in our view. We believe it also has the benefit of exporting disinflation to emerging markets destinations. This has encouraged us to hold duration in local markets expected to benefit.

IMPORTANT DISCLOSURE:

This marketing communication is provided for informational purposes only, per your request, and should not be construed as investment advice. Investment decisions should consider the individual circumstances of the particular investor. Any opinions or forecasts contained herein reflect the subjective judgments and assumptions of the Global Fixed Income team only and do not necessarily reflect the views of Loomis, Sayles & Company, L.P. Investment recommendations may be inconsistent with these opinions. There is no assurance that developments will transpire as forecasted and actual results will be different. Information, including that obtained from outside sources, is believed to be correct, but Loomis Sayles cannot guarantee its accuracy. This information is subject to change at any time without notice.

KEY RISKS Credit Risk, Issuer Risk, Interest Rate Risk, Liquidity Risk, Non-US Securities Risk, Currency Risk, Derivatives Risk, Leverage Risk, Counterparty Risk, Prepayment Risk and Extension Risk.

Commodity, interest and derivative trading involves substantial risk of loss.

Markets conditions are extremely fluid and change frequently.

Diversification does not ensure a profit or guarantee against a loss.

Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return. Past performance is no guarantee of future results.

OUTLOOK

- Mexico's case may be unique, given its U.S.-Mexico-Canada Agreement (USMCA) membership and the need to curry favor with the US, which does not wish to see Mexico become a Chinese re-export venue. But the broader issue of export saturation is systemic and will be a factor in many countries' trade policy decisions.

- With the US stock market and the US economy increasingly dominated by the AI investment theme, the case for non-US global fixed income seems particularly strong. If AI growth and earnings expectations do disappoint, i.e., if AI is a bubble, we would expect the resulting crash in values to be a deflationary shock, lowering US growth, equity returns, yields and the US dollar. For investors heavily invested in an AI accelerationist future, nondollar fixed income looks to be a compelling hedge.

8509424.1.1