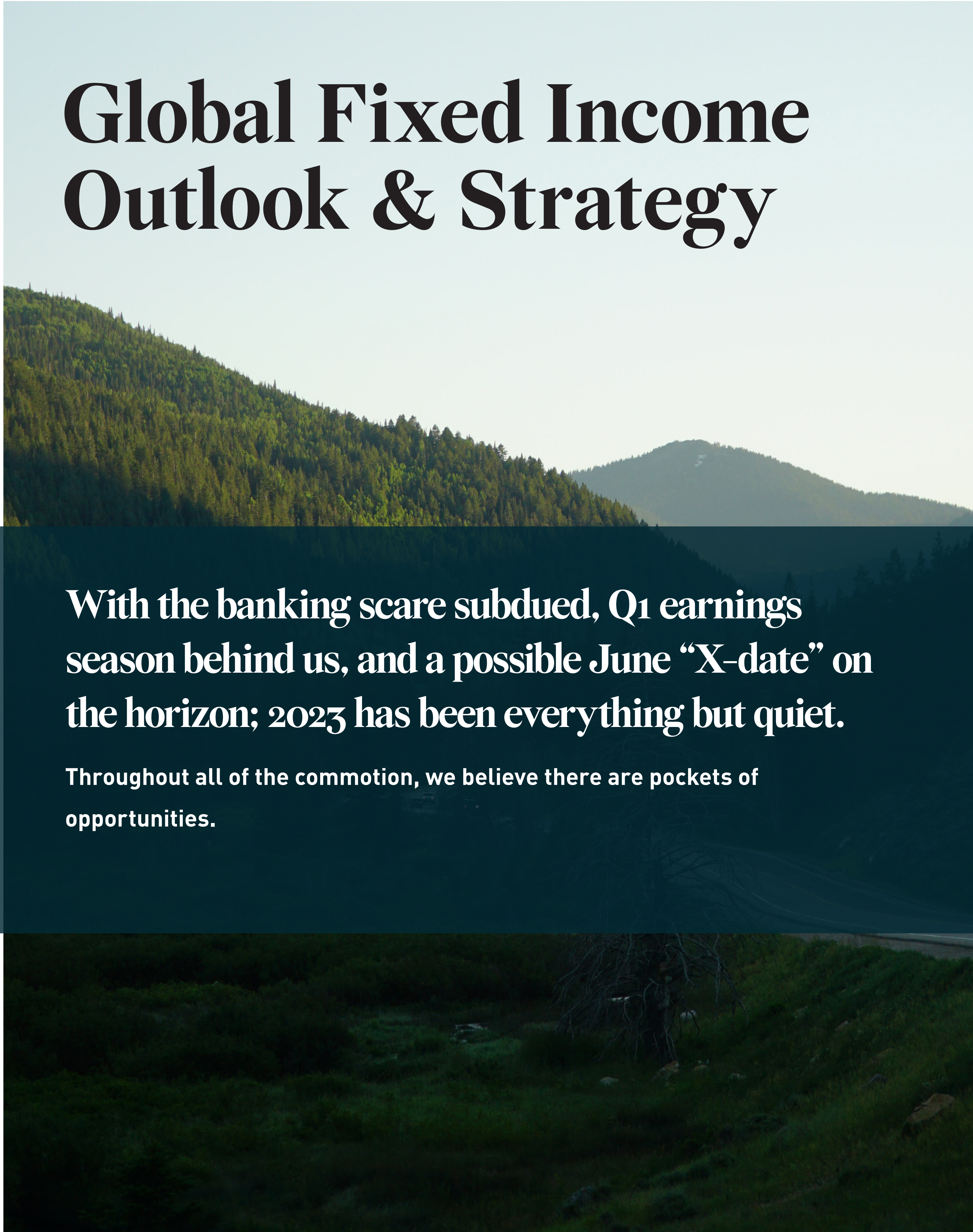
LOOMIS | SAYLES

APRIL 2023



Global Fixed Income Outlook & Strategy

With the banking scare subdued, Q1 earnings season behind us, and a possible June "X-date" on the horizon; 2023 has been everything but quiet.

Throughout all of the commotion, we believe there are pockets of opportunities.

Outlook

The month of April brought a welcomed moderation in banking sector anxiety and resulting volatility. The fate of First Republic Bank and other regional US banks remain a market focus, but fear has subsided for now given reported stability in small bank deposits (besides the persistent broad migration toward more competitively yielding money market funds) and resulting reduced uptake of the US Fed's Discount Window and Bank Term Funding Program. Sales of the FDIC's acquired SVB assets, especially US MBS, has been absorbed with limited fallout. Nevertheless, an act of Congress may still be needed to limit casualties given the scale of uninsured deposits and unrealized losses on regional lender balance sheets.

Speaking of Congress, news of lower April tax receipts implies a possible June "X-date" when Treasury cash balances will likely fall short of meeting US cash liabilities. We anticipate negotiations will challenge proposed time deadlines, but with agreement ultimately reached -- possibly via a temporary nose-dive in equity prices. At least we have the banking crisis averted, for now. The market focus has shifted to the economic consequences of reduced bank lending appetite in our view. The highly anticipated ECB Bank Lending Survey and Fed Senior Loan Officer Survey results confirmed recession-like tightening in lending standards, not to mention declining loan demand. However, the readings for both were only marginally worse than Q1 levels. We believe there is no need to be concerned, but the base case remains.

Sharply higher policy rates combined with an inverted yield curve has typically been painful for smaller banks, and we believe this time will be no different. Small banks lend to small businesses, and small businesses do a lot of hiring in the US. The NFIB Small Business Optimism survey, as well as its capex intentions survey, point toward recessionary conditions. The Russell 2000 index and US Corporate high yield spreads are both about unchanged YTD, but as hard data eventually gives a whiff of a hard-landing then risk premia should adjust. Despite this quarter's earnings season confirming a technical "earnings recession," S&P EPS surprised at nearly 7% better than the 9%+ drop initially expected. Similarly, the three-month average gain in US Non-Farm Payrolls decelerated further to 222,000, but insufficient to nudge the unemployment rate off its 3.4% lows. Talk of economic resilience continues for now.

March inflation data reported in April showed persistence in above-target inflation at the core level across Europe, Japan, and the US. The BoE and ECB retain more flexibility to rely on forward-looking inflation forecast in deciding when to pause their rate hiking cycles, but we believe their inflation problem remains acute and inflation objectives will dictate more policy rate hikes. While we believe a potential Fed pause and narrower relative policy rates should be supportive of non-USD currencies, odds will also be rising for a risk averse scramble for dollars if a US hard landing sends ripples globally. April trade for China reinforced the narrative that China's reopening boom will be mostly a domestic story. Large China trade surpluses seen in 2022 on the back of weak import demand are still evident and surging travel during the Golden Week holiday looks like further evidence a domestic-focused rebound with limited global growth dividends.

Our Strategy

Ten- year yields in USD and EUR seem about "fair" to us, and we expect these key markets to be largely range-bound, with a possible exception for volatility around a US debt ceiling event. We like EM Local duration, though central bank pivots may come more slowly than markets are anticipating in our view. In currency, we believe an eventual Fed pivot and shallow US recession could be dollar-bearish, but it is difficult to become very dollar bearish given a recessionary base case. In credit, we continue to believe that patience in adding will be rewarded as fundamentals and valuations increasingly reflect the policy and credit cycle. Private sector balance sheet resilience, healing supply chains, and auto or housing sector upside surprises are among the risks to our view. Of course, if a debt ceiling crash nukes the equity market for a time as it did in 2011, the potential buying opportunity for credit may emerge more quickly.

AUTHORS

DAVID ROLLEY, CFA

VP, Portfolio Manager

Important Disclosures

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. Investing involves risk including possible loss of principal.

There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return. Actual accounts have the potential for loss as well as profit.

Past performance is no guarantee of future results. Past market experience is no guarantee of future results.

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.

This marketing communication is provided for informational purposes only and should not be construed as investment advice. Any opinions or forecasts contained herein reflect the subjective judgments and assumptions of the authors 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. Data and analysis does not represent the actual or expected future performance of any investment product. 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. Market conditions are extremely fluid and change frequently.

For Institutional Use Only. Not For Further Distribution.