LOOMIS | SAYLES

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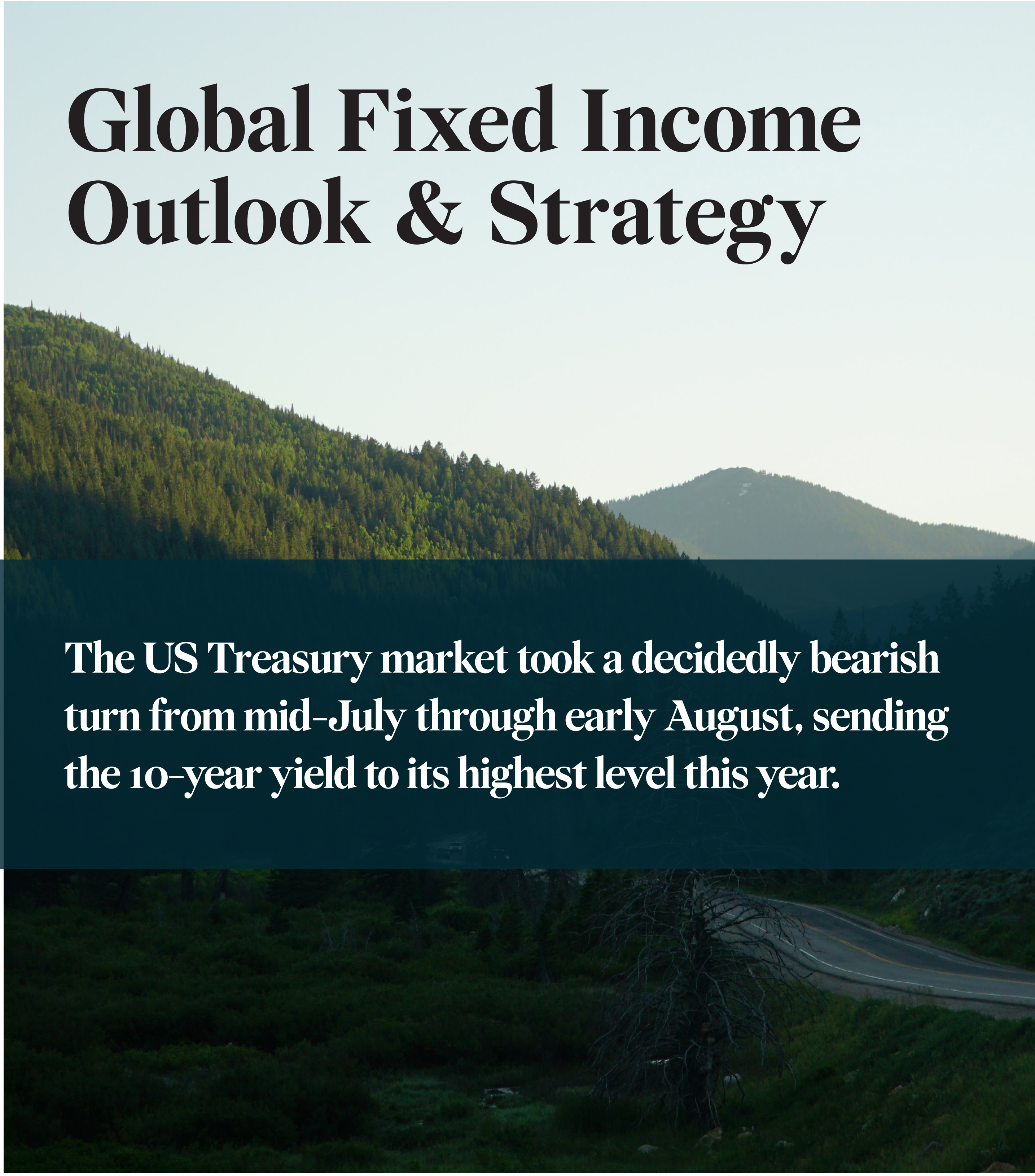

Global Fixed Income Outlook & Strategy

The US Treasury market took a decidedly bearish turn from mid-July through early August, sending the 10-year yield to its highest level this year.

Market Recap & Outlook

We do not quite see why Treasury investors became so grumpy, as the Federal Reserve hike to 5.25%-5.5% was widely expected, and a pause in policy hikes was telegraphed for the September meeting. Furthermore, the recent trends in retail inflation and payroll employment have been soft, as are industrial production and retail sales. Perhaps it was the combination of new, larger Treasury refunding announcements plus the Fitch downgrade to AA+. These may have reminded Treasury investors that the federal government deficit is nearly 6% of GDP, and the Federal Reserve is shrinking its balance sheet.

In China, more food festivals are apparently one of the policy initiatives being considered by the CCP to encourage private sector consumption, which has been weak. The private sector is being encouraged to come to the rescue of Chinese economic momentum, which has faded since the post-Covid reopening. Both the official and Caixin manufacturing PMIs are below 50. Private sector sentiment does seem fragile in our view, given that the financial media has written that talk of either capital flight or deflation by economists or analysts is now firmly discouraged. More useful may be the extension of small business tax cuts from 2022 to 2027, which we believe may add some 1% or more of GDP to potential corporate spending.

In Europe, the July Eurozone composite manufacturing PMI of 42.7 about captures the tone in industry, with the exception of aerospace, where aircraft orders at the Paris Airshow were outstanding. Aircraft aside, output is sideways. The Eurozone Q1 GDP was flat, and Q2 was 0.3%. The ECB hiked the policy rate to 3.75% as expected. Inflation is falling, but is still far above target in our view.

Our Strategy

As all three of the biggest economies in the world are either decelerating or flat, we still prefer high quality duration in fixed income markets, as we see inflation as likely to keep declining. We believe the peak in global interest rates may already be behind us, while the first cuts have occurred in emerging markets. We remain cautious on credit spreads, as slower economies should show up in weaker earnings and debt serviceability. We believe currencies may remain range-bound until more evidence of relative regional economic outperformance emerges.

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Important Disclosures

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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.

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