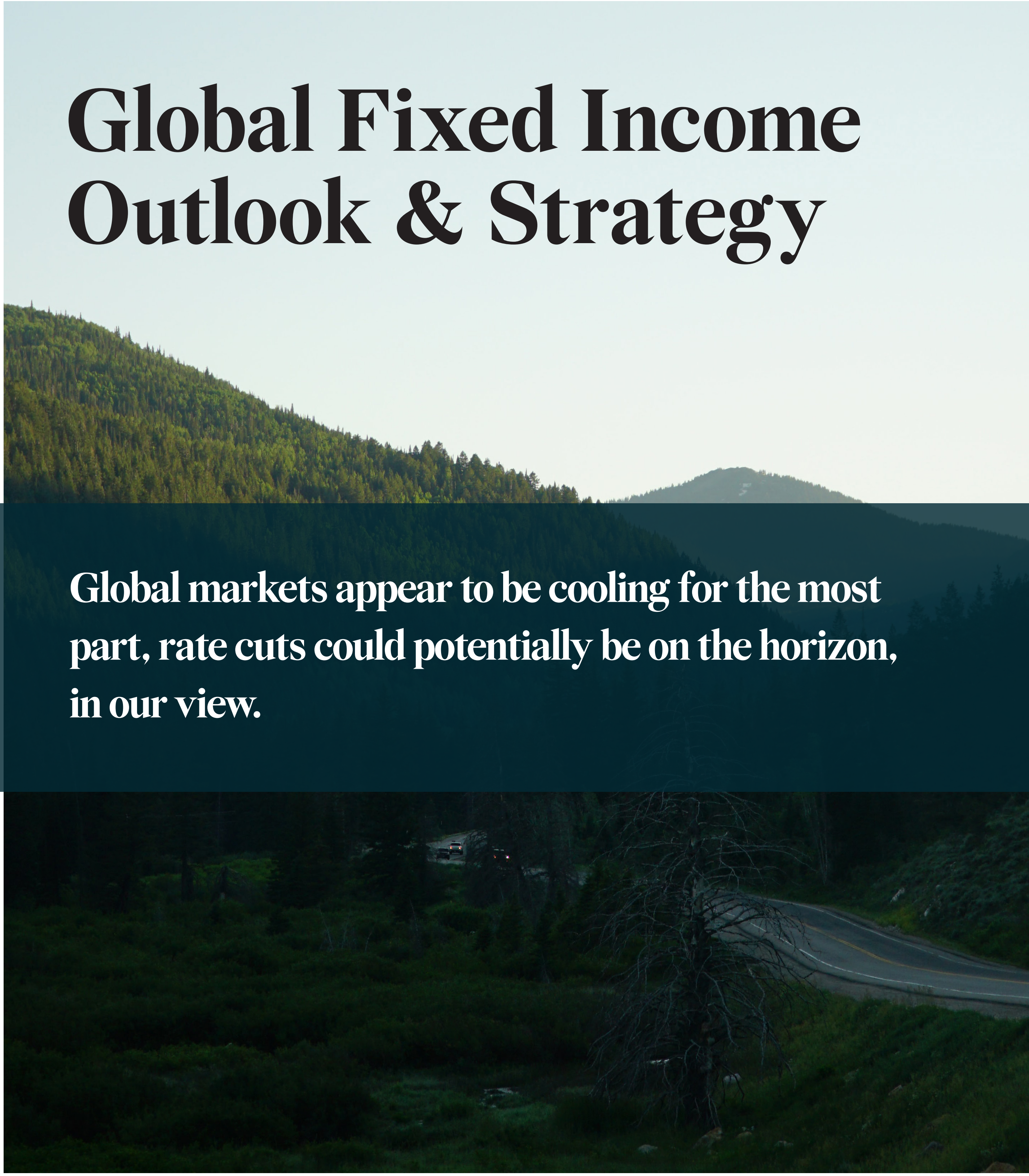
LOOMIS | SAYLES

MARCH 2024

Global Fixed Income Outlook & Strategy

Global markets appear to be cooling for the most part, rate cuts could potentially be on the horizon, in our view.



Market Recap & Outlook

Prospects for global economies and fair value in bond markets did not change much this month. We continue to see the key 10-yr US Treasury yield as range-bound near 4.0%. US GDP appears to be growing at about 2.0%, in line with its full-employment trend, though retail sales bear watching after two weak consecutive months, in our view. Services inflation and wage inflation continue to fall slowly. This stickiness has led some forecasters to push back the timing of a first cut in policy rates by the Federal Reserve (Fed). We still see this coming about mid-year in either June or July.

As goods inflation and commodity prices have been well behaved lately, we believe that the key to further inflation progress is the services inflation trend, which in turn depends on wage trends and productivity. The Atlanta Wage Tracker metric for wage growth is falling, but still reads at 5.0% year-over-year. This tends to follow the quits rate, which has also been falling, so we see the gradual cooling of the US labor market continuing this year. We also note, a softer US labor market is also indicated by a rise in the unemployment rate to 3.9% and weak household employment survey data.

The Eurozone has seen similar slow inflation declines, and Consumer Price Index (CPI) inflation is actually lower than the US. A cut by the European Central Bank (ECB) before the Fed seems possible in our view, particularly because the E-zone growth trend is nearer 1% than 2%.

We believe Japan looks set to go in the other direction, with a near-term hike in the policy rate from -0.1% to perhaps plus 0.1%. We believe, this 20bp hike could come at the next Bank of Japan (BoJ) meeting or later this spring, but rhetoric from policymakers seems to be preparing Japanese markets for the end of negative interest rates.

Chinese policymakers have set a growth target of 5% for GDP in 2024. This will take some work or luck, as consumer sentiment has been undermined by negative wealth effects from declines in both property and equity prices, in our view. Losses in wealth management products and pay cuts across many finance and civil service jobs we noted have also weighted on sentiment. We see numerous pockets of innovation and high growth in China, but these tend to be smaller than the massive property drag. We still expect to see a substantial monetary expansion via lines of credit from People's Bank of China (PBOC) to policy banks, which could potentially extend loans to stressed local governments and their local government financing vehicles (LGFVs). However, recent guidance to banks to reduce their standby credit guarantees on LGFV bonds pushes in the other direction, and bears watching, in our view.

Our Strategy

In this low volatility, range-bound situation, we have done little to change portfolio strategy: we remain duration neutral ex-yen, credit cautious, and still look for a gradually weaker USD once the Fed actually begins their rate cutting cycle.

AUTHOR

DAVID ROLLEY, CFA

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.

Markets are extremely fluid and change frequently.

Past performance 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.