LOOMIS | SAYLES

MAY 2024

# Global Fixed Income Outlook & Strategy

Is everything awesome again? After a Q1 bond bear market, followed by a mid-April inflation mini-panic that sent the 10yr Treasury yield to 4.70%, spiked VIX and weakened equities, a benign April payroll report released on May 3 seems to have rekindled risk appetite and steadied market nerves, in our view.

# Market Recap & Outlook

April's 175,000 new payroll jobs figure marked a significant deceleration from prior 300,000 monthly readings. This immediately followed a lower-than-expected 1.6% US GDP outturn for Q1 2024. April's average hourly earnings fell to 3.9% year-over-year from 4.1% previously. Together, we see that the latest data has revived the soft landing scenario for the US economy. VIX dropped, the S&P is flirting with its highs, and the 10yr Treasury yield has fallen back to 4.45%, a 25bp decline in two weeks. US investment grade spreads tightened to a new low for the year at 85bp. Even the Bank of Japan's two-day intervention to stop the yen from weakening through 160 per USD seems to be working, in our view. Awesome indeed.

Awesomeness may be more evident in public than in private markets. We have previously reflected that when interest rates were zero or negative in real terms, private equity seemed extremely attractive, in our view, for which it paid to borrow. Now that rates are materially positive in inflation-adjusted terms, we would expect private credit to be more fashionable. Now we see that it pays to lend. The latest Q1 performance data seems to be bearing this out. Private credit returns exceeded private equity returns for the past two quarters, according to State Street, as quoted on Bloomberg. Anecdotally, we believe that fixed charge coverage and enterprise value have weakened for many private companies, hence the vogue for "continuation funds", which are another way of saying "we can't sell these companies now without losing money". We view these stressed firms are a stealth drag on the economy, as they will have to emphasize cost control rather than spending for expansion.

Loomis Sayles Research continues to expect that the US economy will grow this year at about 2%, while core inflation gradually subsides. The recent spike in services inflation had a big insurance component, which we attribute to premium hikes following payout losses in the auto and property sectors. These were the result of past inflation, particularly for autos and parts. As used car prices have lately declined, we hope that insurance inflation will also slow. Separately, we expect housing rents to soften in reaction to the large number of new multifamily units coming onto the market. This should permit, we think, a pair of policy rate cuts, beginning in September.

# Our Strategy

The wild card for our outlook is likely again to be fiscal policy. We were surprised/appalled last year when monthly Federal deficits jumped to over 8% of GDP in June and July. The latest reading, for March, is 5.9%. The Federal Reserve's job would be easier if this figure shrinks, in our view. If government deficits reaccelerate like last year, we would expect a new inflation spike (at full employment, new spending can only drive up prices) and an end to awesomeness.

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.***