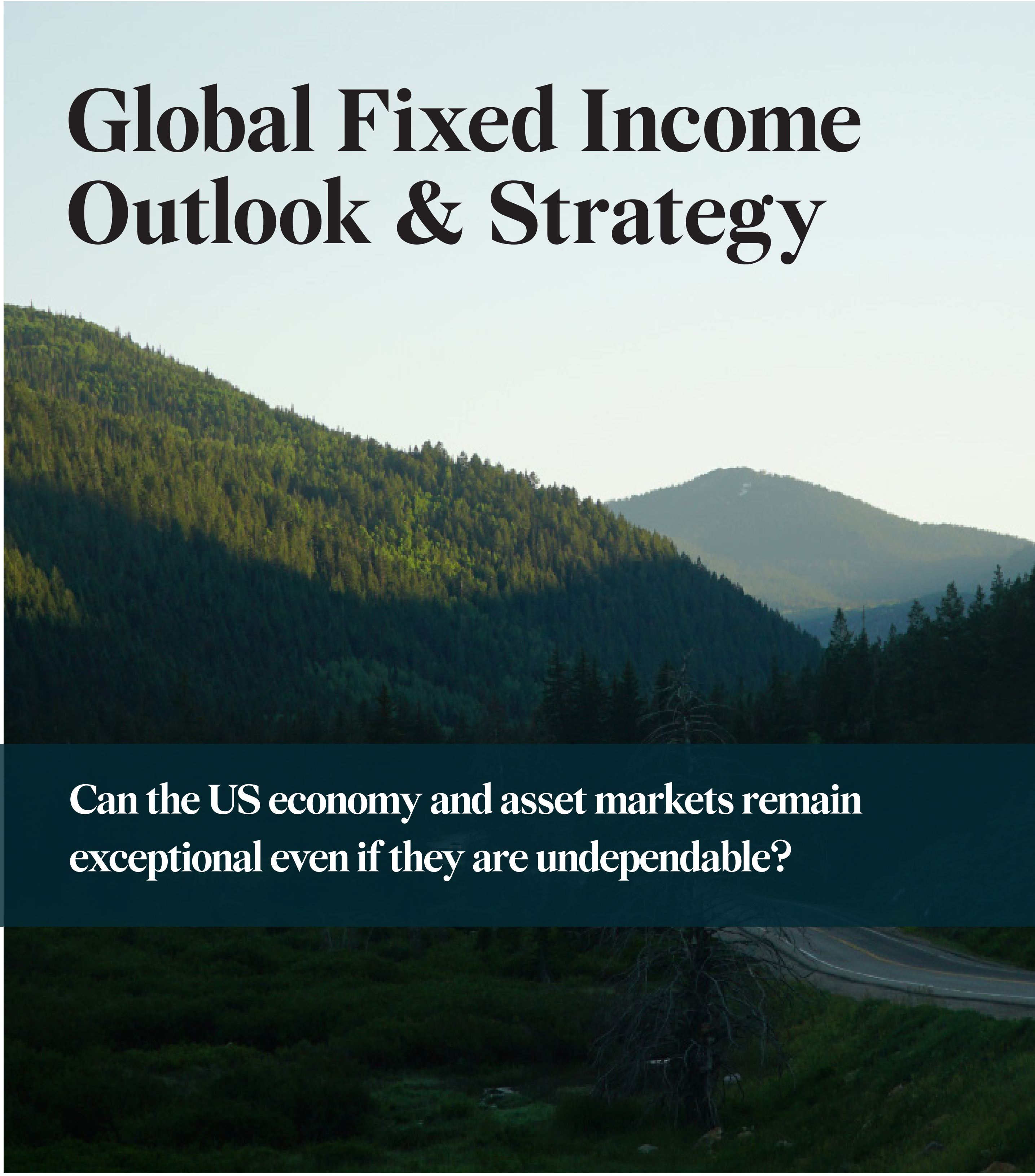
LOOMIS | SAYLES

MAY 2025

Global Fixed Income Outlook & Strategy



Can the US economy and asset markets remain exceptional even if they are undependable?

Market Recap & Outlook

Apparently we are both, to judge from recent panel comments at the Milken Institute Conference in Beverly Hills. After the plunge in equities that followed the Liberation Day tariff rollout, the stock market has regained both poise and value. Tariffs are paused and confused, we guess, though the 145% tariff on (some) Chinese exports may still exist.

Future economic challenges may be greatest from uncertainty effects, rather than the fiscal tightening originally announced, which seems to be shrinking, in our view. The hard data are still fine, despite a zero first quarter GDP release. This was, we believe, a statistical artifact as booming imports were incompletely offset by inventories, which are sampled separately. April had a positive payroll employment gain of 177,000 and an unemployment rate of 4.2%.

Maybe it is too soon? Ship loadings in China are down, and import-dependent retailers are alarmed. CEO guidance has turned cautious everywhere but in Tech, where AI driven revenues are strong. Oil prices have dropped below $60 per barrel for West Texas Intermediate (WTI), a combination of demand fears and increased supply from OPEC+.

We found the most interesting break in April correlations for fixed income investors took place in Treasuries, not equities. The tariff shock was seen as recessionary, and SOFR futures yields fell. But ten-year Treasury yields rose, breaking a multi-year correlation. Buyers' strike? Higher term premium? Vigilantes? Apparently the basis trade did not fall apart, but we suspect that other levered holders may have been forced sellers, possibly holding longs in advance of hoped-for relaxation of bank capital rules. Neither equities nor Treasuries currently are pricing anything like a recession, but perhaps it is just early.

What is hurting USD? Unlike equities, the US Dollar Index has not rebounded, and weakness has been spreading from EUR and JPY crosses to smaller currencies, notably TWD and MYR lately. We believe that neither US exceptionalism nor US dependability is being taken for granted by international investors. Liberation Day seems to have been a catalyst to reconsider their overweight to US assets, in our view. Even if there has been little selling, desired hedge ratios look to be moving up.

Unpredictability is a feature, not a bug, of the new administration, and some critics and risk managers have gone much further, talking of a new and fundamental lack of trust in administration intentions. So what of exceptionalism? We believe tech exceptionalism seems intact for now, despite the challenge of competing inexpensive large language models. Growth prospects look more challenged. Labor force growth should slow, given the immigration crackdown, in our view. Productivity growth is to be enhanced by deregulation and faster permitting, but we believe this will face the headwind of tighter fiscal policies at some point. Government debt is simply too large for fiscal stimulus to be sustained as in the past, in our view.

Our Strategy

In summary, higher risk premia for US assets seem entirely warranted by the combination of anticipated slower growth and more erratic and possibly challenging policies. We remain USD bears.

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.

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.

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 market experience is no guarantee of future results.

For Institutional Use Only. Not For Further Distribution.

SAIF5148f6xk