



Global Bond Fixed Income Team Views

By the Loomis Sayles Global Bond Fixed Income Team

| SECTOR | OUR CURRENT VIEW | OUR ANTICIPATED STRATEGY |
|--------------------------|---|---|
| CREDIT | | |
| Global Corporates | <p>Relative credit beta has remained at the lower end of our risk spectrum as we continue to remain cautious given the potential volatile macroeconomic backdrop and rich valuations. Credit fundamentals are mixed with solid US earnings while Europe remains weaker. We are keeping a close eye on default trends as rates remain elevated. We remain cognizant of the risks for wider spreads in the event of a possible growth scare.</p> <p>Global demand for yield has driven credit spreads tighter and the risk/return profile for credit is unattractive.</p> | <p>We are waiting for a better opportunity to increase credit risk with valuations unattractive at current levels. We believe regulatory changes and M&A are likely to create opportunities in certain industries (e.g. financials, healthcare, energy, defense)</p> <p>Overweight communications and tech on a combination of positive issuer specific stories and general defensive nature of the industries. Banking remains a top overweight given strong and stable fundamentals, but have moved higher in the capital structure of preferred banks in recent quarters.</p> <p>Underweight consumer cyclicals (e.g. retailers and autos)</p> |
| High Yield | <p>While forward looking loss estimates are relatively subdued, our high yield allocation has remained near historic lows given the limited risk premium available and relative value versus investment grade. We continue to remain cautious of potential stress to come from the lagged effects of the recent tightening cycle with lower quality, more interest sensitive companies the most vulnerable. We remain patient and await a better buying opportunity ahead.</p> | <p>We have minimal high yield corporate exposure across accounts. Where we do, investments are largely idiosyncratic, issuer specific potential “rising star” candidates. We are at or near all time lows in terms of utilization of our high yield risk budget. Note, high yield exposure includes Brazil and South Africa local rates positions.</p> |
| Securitized | <p>In Agency MBS, valuations are attractive and technicals have improved with a marginal uptick in bank buying combined with decreased mortgage supply.</p> <p>Residential real estate performance should be contained given a structural lack of supply, record home equity and conservative underwriting, in our view.</p> | <p>Overweight high carry securitized credit, mainly in short non-agency MBS, and select aircraft ABS senior bonds.</p> <p>Overweight Agency MBS on valuation and positive convexity profile.</p> |



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| CURRENCY | | |
| US Dollar view | US dollar valuation is unattractive but its hard to find a catalyst for non-dollar strength. The continuing trend of US exceptionalism, potential protectionist trade policies and safe haven status amid possible geopolitical escalation are dollar positive. | Neutral to slightly underweight USD |
| Developed | <p>Eurozone economies still stagnating with soft manufacturing and global trade. We believe vulnerability to a weak China poses a risk as well.</p> <p>In the UK, economic momentum along with the Labour party's commanding victory in the UK general election may serve as positive catalysts for capital flows, in our view.</p> | Overweight GBP, underweight EUR |
| Emerging | <p>EM local currencies that we favor have limited external financing needs and high carry.</p> <p>Brazil - Recent actions and narrative from the Lula administration has had a major impact on volatility.</p> | <p>Overweight BRL (cheap valuations, supportive external flows)</p> <p>Underweight CNY on geopolitical risks, decline in goods exports, and risk of growth shortfall.</p> <p>Overweight IDR on favorable carry and contained inflation and sovereign risk.</p> |
| YIELD CURVES | | |
| Duration | <p>We expect yields to decline across the globe as the disinflation trend continues and central banks remain on their rate cutting cycles. Although low policy rates in Europe could converge toward neutral and fiscal concerns argue for more term premium.</p> <p>Interest differentials and Bank of Japan (BoJ) policy normalization could drive JGB yields higher, in our view.</p> | <p>Pared our 10-year US duration overweight remaining just slightly long via US TIPS.</p> <p>Remain underweight 10-year JPY.</p> <p>Underweight EUR duration</p> |
| Local EM Markets | We believe select local EM markets are currently attractive where proactive central bank tightening has resulted in high (ex-ante) real yields and where exports assist with fiscal and trade balances. | Overweight EM duration: S. Africa, Brazil, Mexico, and Indonesia. |
| KEY RISKS | | |
| | <p>We believe there is risk of possible growth scare leading to sharp repricing of risk assets.</p> <p>Geopolitics: Any change (ceasefire or escalation) in the Ukraine, Middle East, or other potential conflicts will have market implications, in our view.</p> <p>We view expansionary fiscal, trade, and immigration policy narratives are all potential catalysts for volatility.</p> <p>We see concentration risk in US large cap equities</p> | As valuations adjust, we will look for opportunities to add risk in interest rates, currency and credit. |

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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.*

Commodity, interest and derivative trading involves substantial risk of loss.

Markets 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 performance is no guarantee of future results.

OUTLOOK

- Global bond markets are not having a happy new year. US Treasury sentiment turned distinctly bearish in the first two weeks of January, amplified by a blow-out US payroll release. The US economy apparently produced a quarter of a million new jobs in December. US growth exceptionalism persists.
- Stepping back from the payroll data, the bond markets seem to be pricing two different risks, in our view. Core inflation has lately plateaued in the US, and with buoyant underlying growth, prospects for future Federal Reserve policy cuts have faded into the distance.
- Separately, US fiscal policy has become less predictable, but very possibly more stimulative, in our view. The incoming Trump administration has a majority in both houses of Congress, and we typically see most policy initiatives announced in the first three months of an incoming administration. We believe that immigration deportation could affect low end labor markets as well as potential deregulatory initiatives, tax cuts, and tariff hikes. Risk markets seem most concerned about tariffs, but the scale, scope, and timing of these are all unknown for now. The incoming administration inherits a difficult fiscal position, with close to full employment and a federal budget deficit that is 7% of the GDP. We believe that at least some of the recent back-up in yields is the result of a higher fiscal risk premium.
- Two longer term trends are supportive of bond valuations, however. US productivity seems to have increased post-pandemic, and the quits rate continues to fall. We believe this has been a good leading indicator of wage growth and that nominal wage inflation still looks likely. This is supported as well by ongoing declines in wage inflation measured by the Atlanta Fed Wage Tracker and the Employment Cost Index. The next Fed policy move may still be a cut, but maybe not for a while, in our view.
- Elsewhere, European growth is negligible, and policy is paralyzed by governance instability in Germany and France. Chinese domestic growth has remained weak, but we note that a weakening Chinese yuan (CNY) is coexisting with a trillion-dollar trade surplus. With local bond markets reflecting deflation risks, or even Japanification of the economy, we look for a significant increase in debt monetization of local government liabilities over time.
- US credit spreads have benefited from credit ETF inflows attracted by yields, not spreads. At these higher yields, this looks set to continue unless equities fail to cooperate, in our view. The principal threat to credit spreads, in our view, would seem to come from earnings disappointments, either via tariff damage or yield-driven increases in capital costs.
- We are broadly neutral USD duration as current 10-year yields of about 4.75% may balance fiscal risks with the inflation outlook for now. However, we may see more short term USD strength and credit weakness. We suspect that initial tariff headlines will be more unsettling for risk markets than current pricing suggests.

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