

# Macro Opportunities Strategy Update —The Impact of Global Optimism

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# Macro Opportunities

## Why Now?

**We believe Macro Opportunities is favorably positioned to realize attractive absolute and excess returns in the year ahead.**

- **Over time, as the backdrop of receding inflation continues, short rates should eventually be reduced.**
- **The prospect of lower rates supports our favorable outlook for a broad variety of fixed-income sectors.**
- **Macro Opportunities' overall long duration positioning should benefit as the disinflationary process accelerates.**
- **Concentrated themes of short USD versus select developed and emerging market countries as well as financial and industrial credit exposure support a base case of slower but positive US and global growth with decelerating inflation.**
- **Current positive carry of 5.5% aids ability to maintain overweight positions to high-conviction themes.**
- **In the event of a Fed policy error, Macro Opportunities' long-dated duration is favorably positioned if the Fed needs to cut rates to stimulate growth.**

**Disinflation ongoing but uneven**

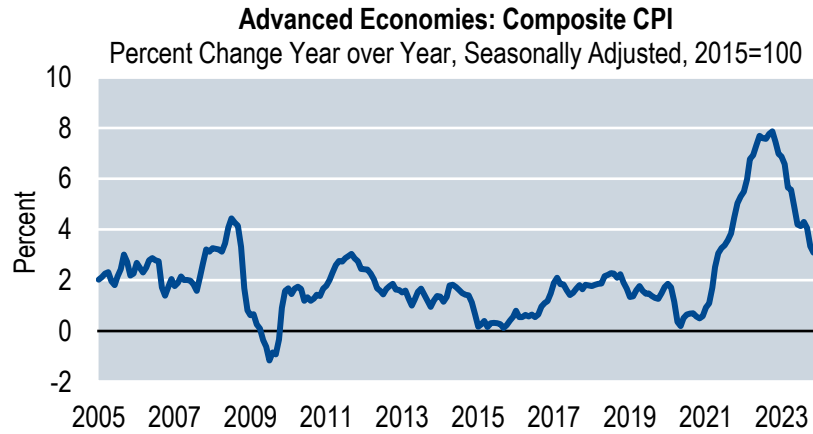
**Central banks will ease policy to normalize real interest rates**

**Economy has remained resilient, but is set to slow**

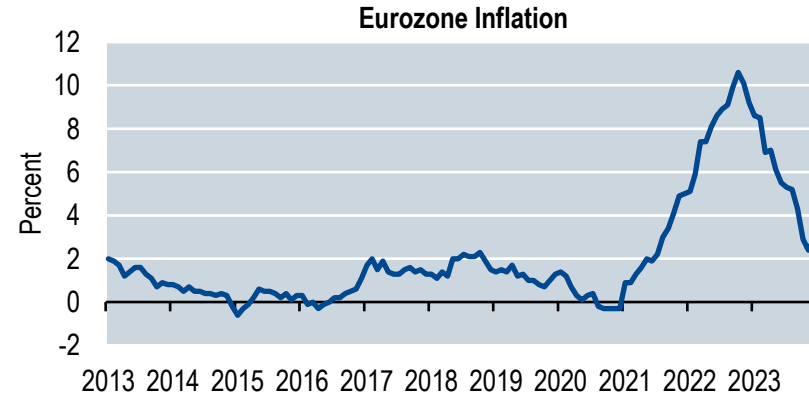
## **Fixed-income outlook**

- US growth will slow but should avoid recession
- Global growth has downshifted and China is now a source of deflation
- US Core PCE already near Fed target
- Global inflation will continue to recede
- The US dollar will weaken moderately
- Emerging markets—particularly in Latin America—should outperform
- Central Banks will need to pivot policy adroitly
- Spread sectors are still attractive but the outlook is clouded by macro risk
- Geopolitical uncertainty continues to add to volatility

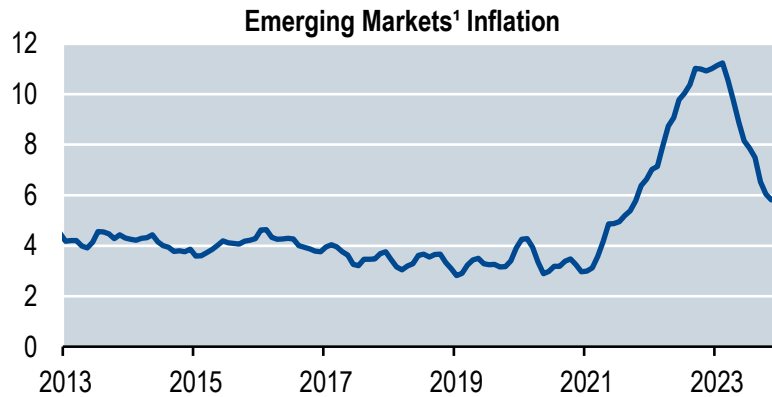
# Global Disinflation Is Broad-Based and Ongoing



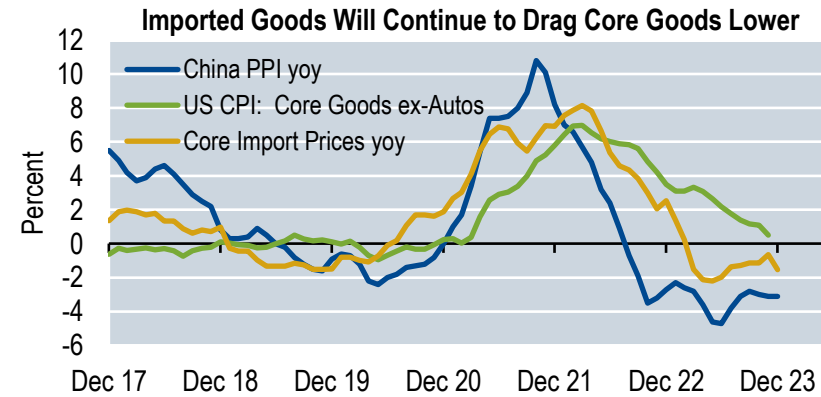
Source: Haver Analytics. As of 30 Nov 23



Source: Bloomberg. As of 31 Dec 23



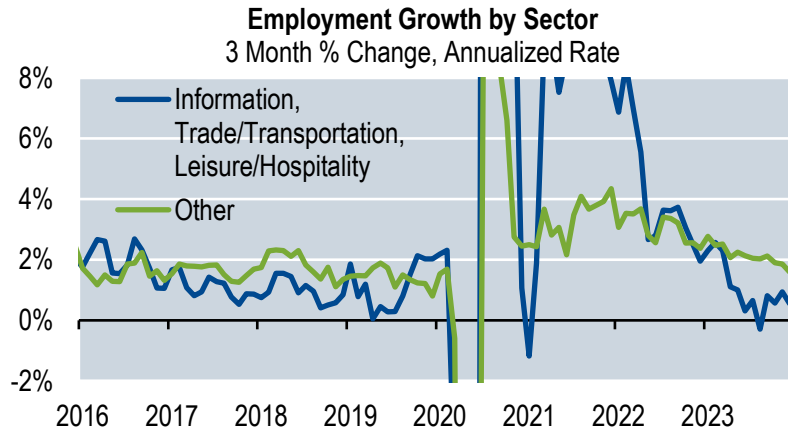
Source: Bloomberg, Western Asset. As of 30 Nov 23  
<sup>1</sup>EM = Brazil, Mexico, Colombia, Chile, South Africa, India, Indonesia and Poland



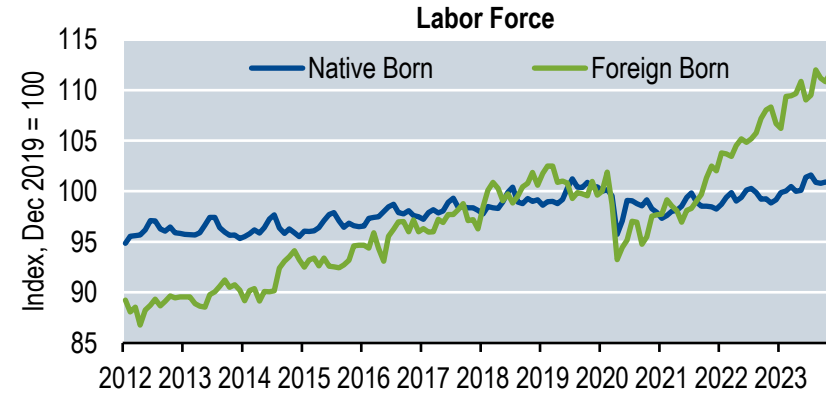
Source: Bureau of Economic Analysis. As of 31 Dec 23  
\*US CPI as of 30 Nov 23

# US Labor Market Moving Back Towards Balance

Demand moderating, supply improving



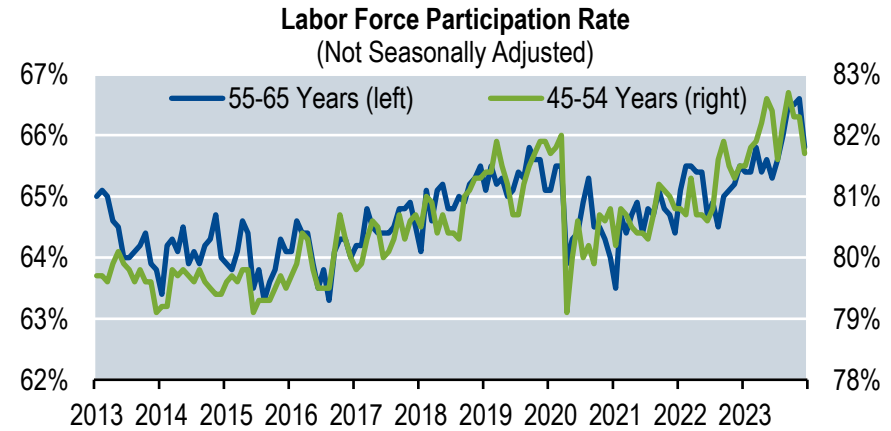
Source: Bureau of Labor Statistics, Haver Analytics. As of 31 Dec 23



Source: Bureau of Labor Statistics, Haver Analytics. As of 31 Dec 23



Source: Bureau of Labor Statistics, Haver Analytics. As of 30 Nov 23



Source: Bureau of Labor Statistics, Haver Analytics. As of 31 Dec 23

# US Growth Moderation Likely to Continue

**Tight Credit Conditions**

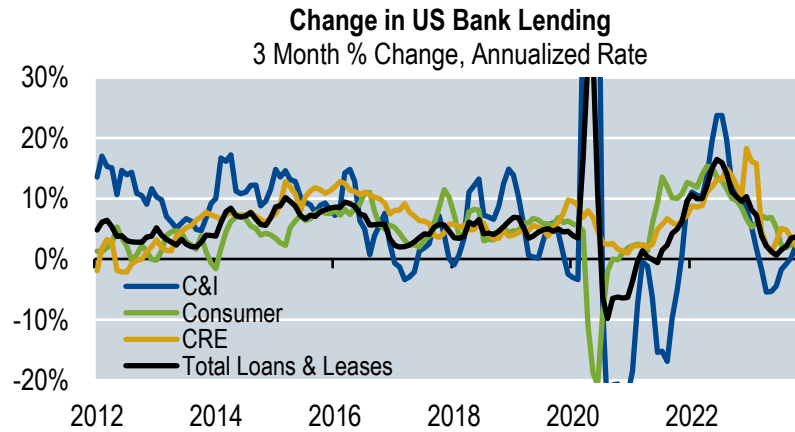
**Savings Rate Likely to Rise**

**High Interest Rates Deter Investment**

- Especially in Housing and Manufacturing

**Fiscal Impulse a (Small) Drag**

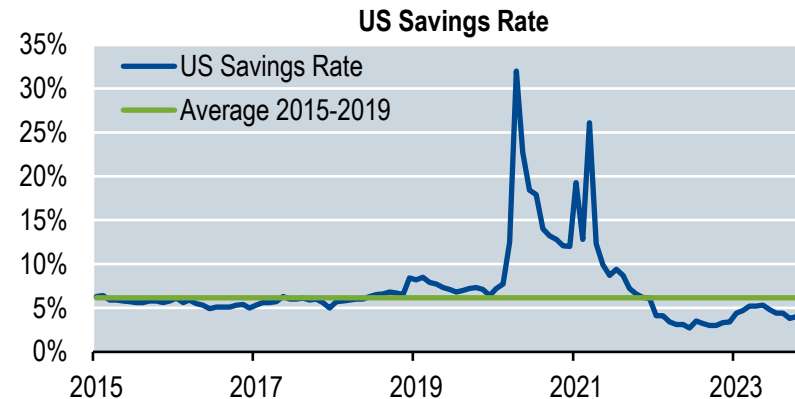
**Reopening in Leisure/Hospitality Finished?**



Source: Federal Reserve, Haver Analytics. As of 30 Nov 23



Source: Bloomberg. As of 09 Jan 24



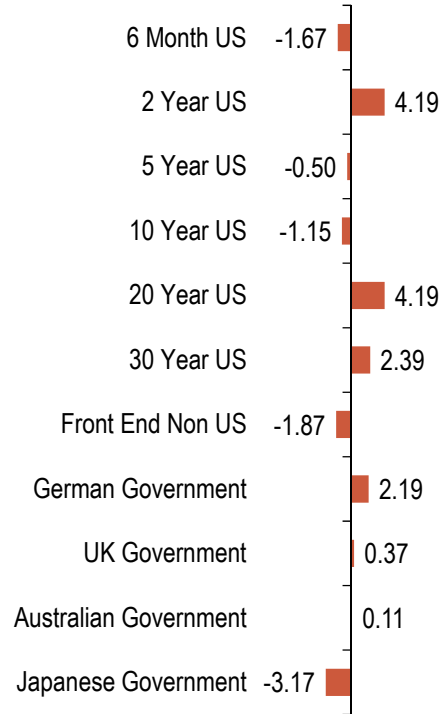
Source: Bureau of Economic Analysis, Haver Analytics. As of 30 Nov 23

# Sector Exposure

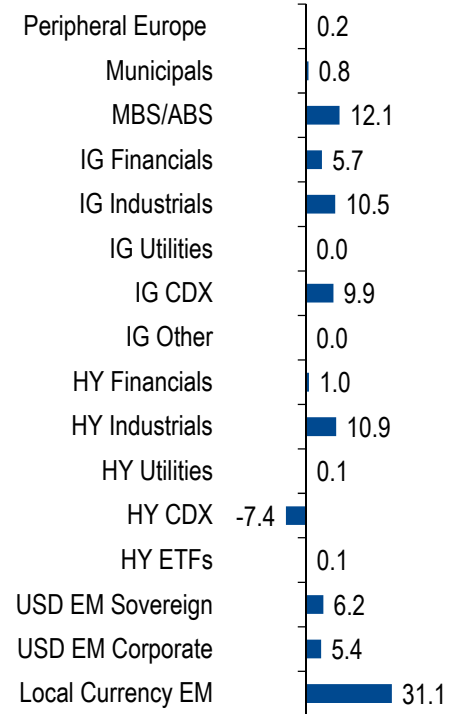
## Macro Opportunities

December 31, 2023

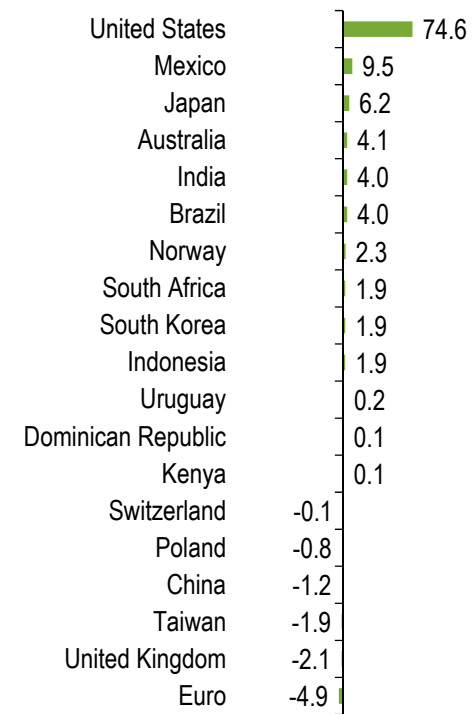
Major Key Rate Duration (yrs)



Sector Exposure (%)

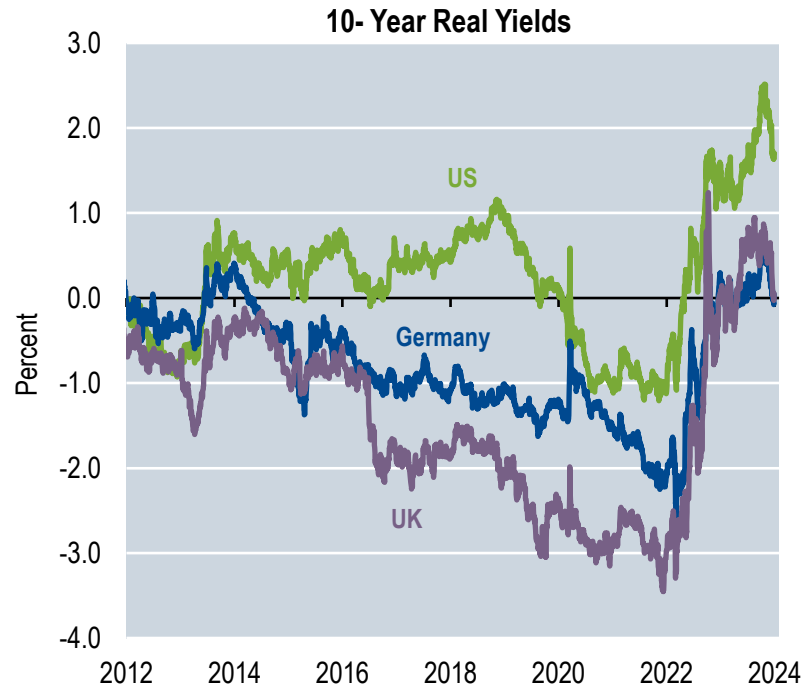


Currency (%)

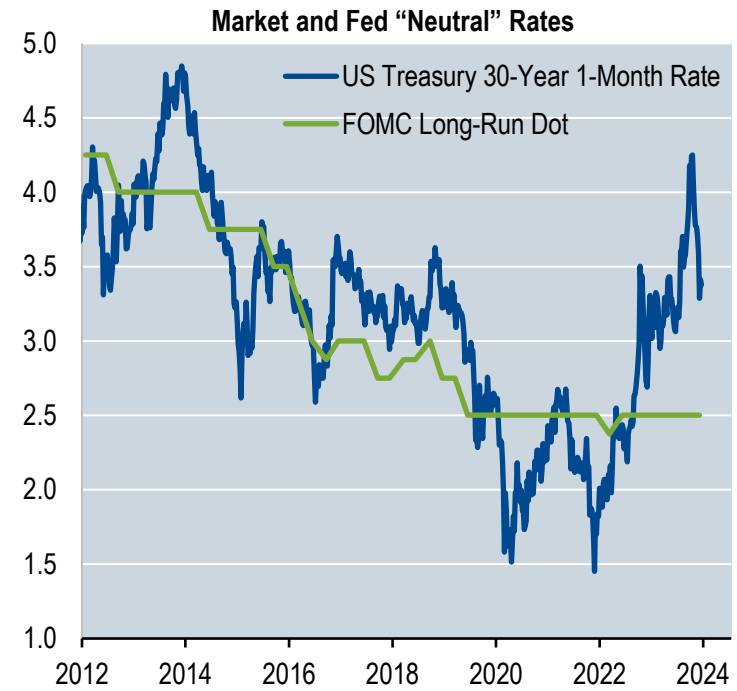


Source: Western Asset.  
Sectors subject to change. Data may not sum to total due to rounding.

# Interest Rates Remain Elevated



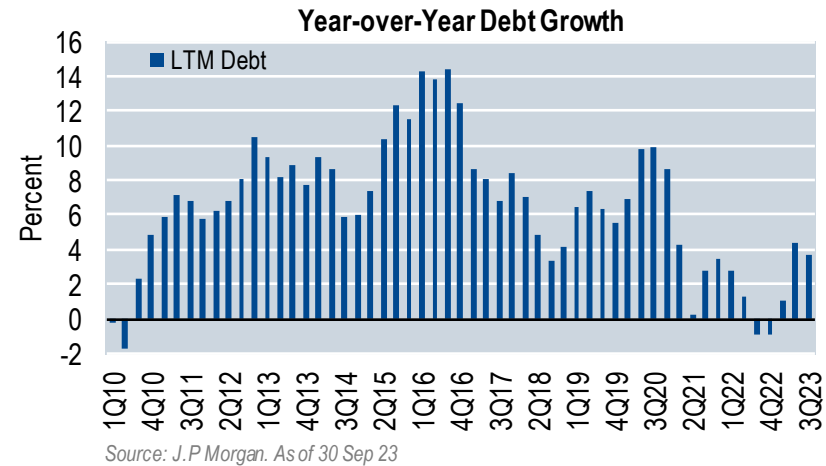
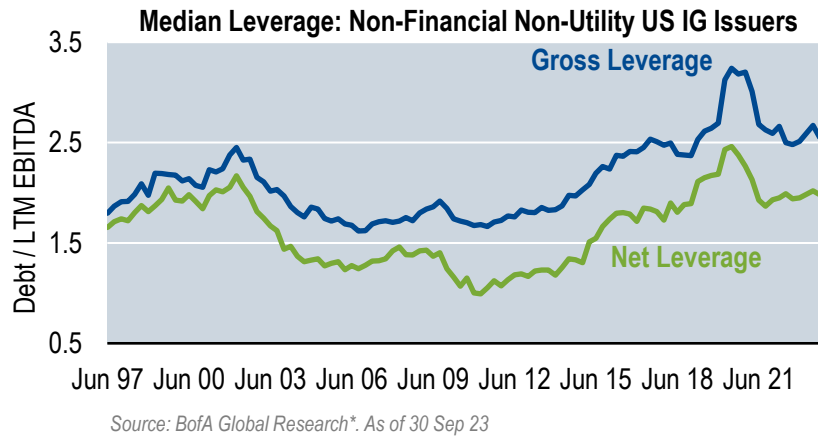
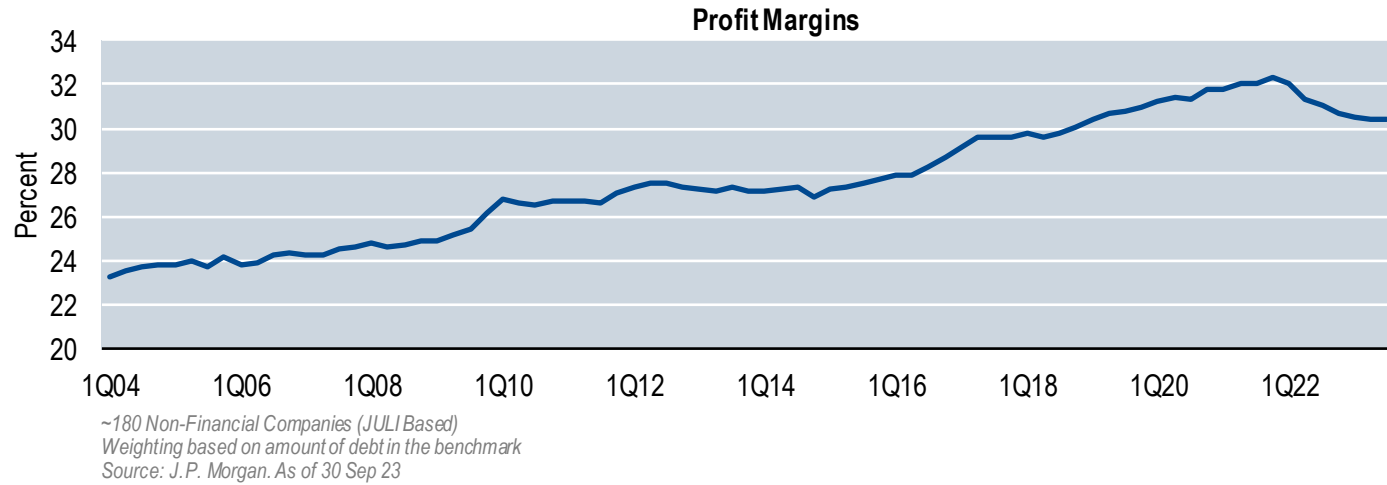
Source: Bloomberg. As of 31 Dec 23



Source: Bloomberg. As of 31 Dec 23



# Corporates Have Solid Cash Flow and Debt Metrics



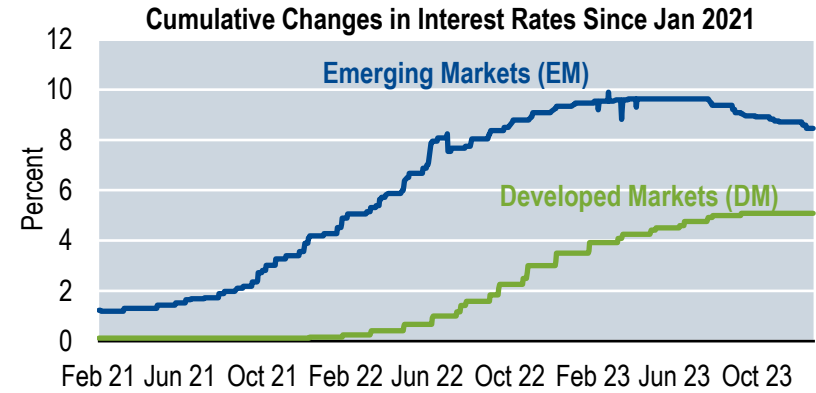
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# The USD and Commodities: Key Emerging Market Drivers

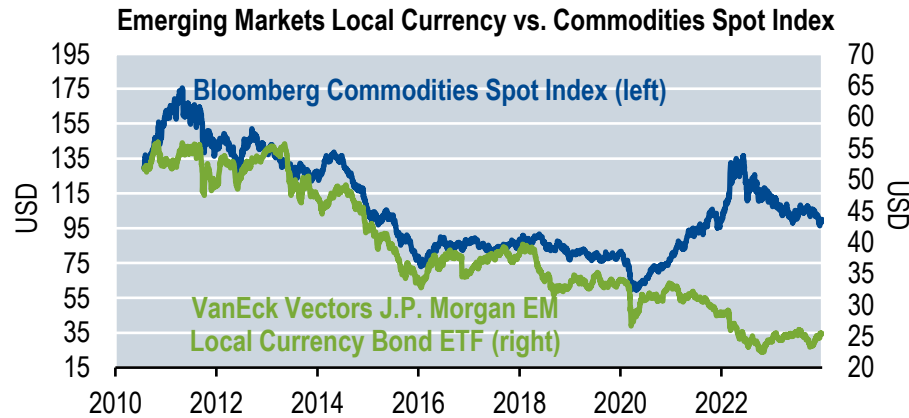
- EM central banks are closer to the end of the tightening cycle relative to the developed world
- USD relative strength and commodity prices are both inputs into EM economic conditions and returns
- A Fed pause coupled with moderate economic growth bodes well for EM



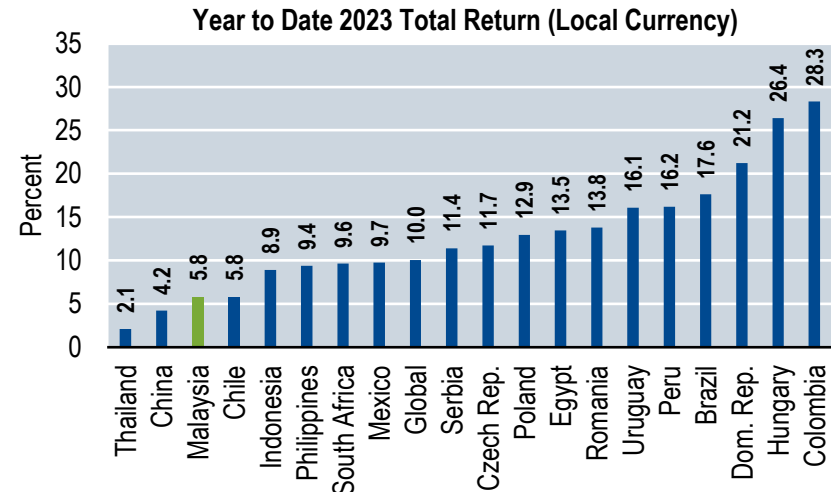
Source: Bloomberg. As of 31 Dec 23  
 Note: The US Dollar Index is the value of the US dollar relative to a basket of foreign currencies



Source: Bloomberg. As of 31 Dec 23  
 Note: Emerging Markets (EM)=Average of Brazil, Chile, Czech Republic, Mexico, Peru and Poland; Developed Markets (DM)=Average of US, EU and UK



Source: Bloomberg. As of 29 Dec 23

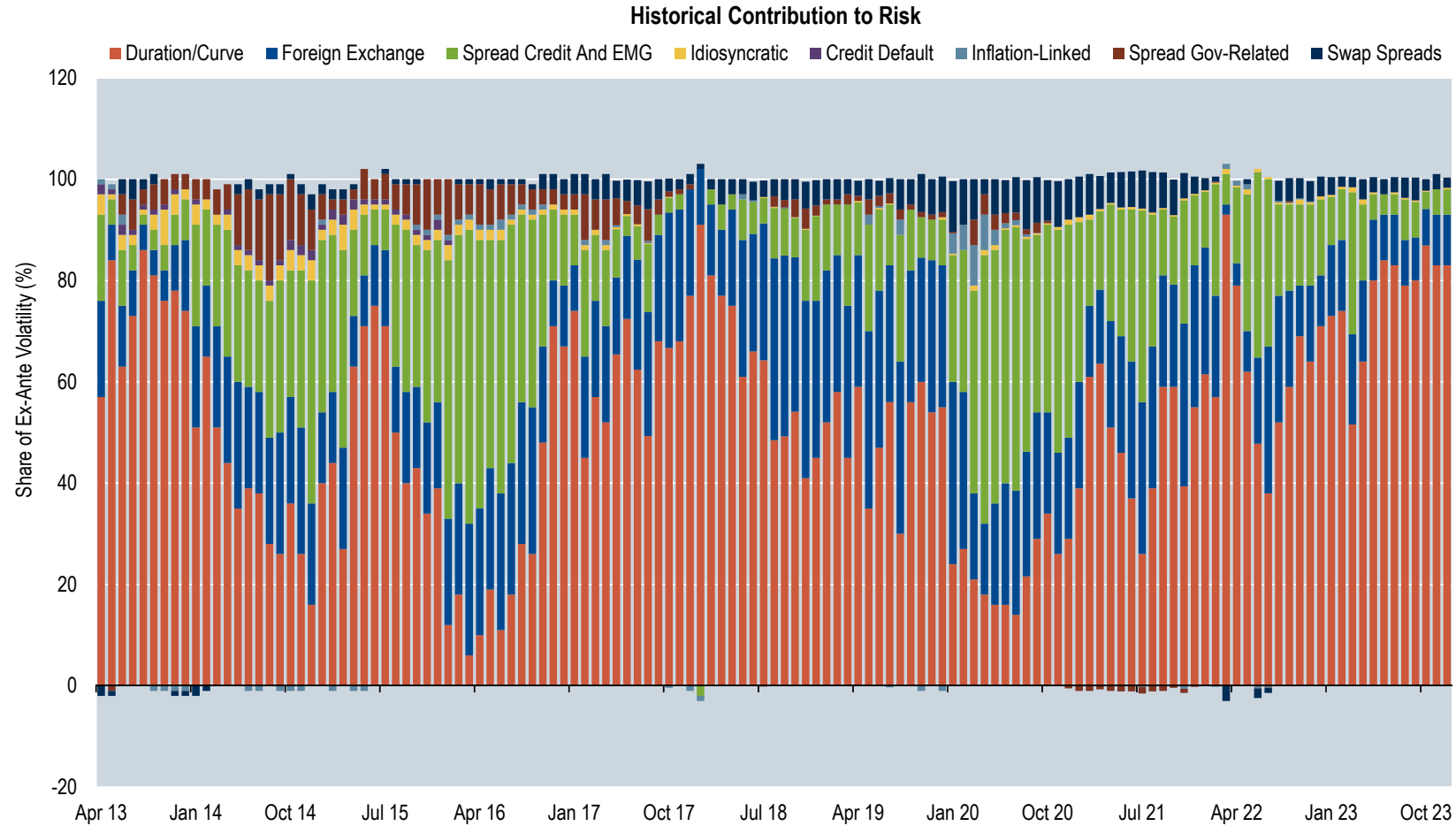


Source: J.P. Morgan. As of 31 Dec 23

# Historical Contribution to Risk

## Macro Opportunities Ex-Ante Volatility

April 30, 2013 – December 31, 2023



Source: Bloomberg, Western Asset

Note: Barclays POINT through 31 Jan 16 and Western Asset from 01 Feb 16 to present

Past performance does not predict future returns.

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**Thank you.**

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