



Thank you for joining Western Asset's *Markets on Edge* webcast featuring Deputy CIO Michael Buchanan in conversation with Product Specialist Robert Abad.



Robert Abad

The presentation will begin shortly.



Michael Buchanan

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**Next Webcast: 4Q Market & Strategy
Update with CIO Ken Leech
Thursday, September 26, 2019**

Register now at westernasset.com

Markets on Edge

September 19, 2019

Michael Buchanan
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Robert Abad
Product Specialist

Markets Unsettled by a Growing Number of Interconnected Risks

2018

- US growth/inflation risk
- Fed hawkishness
- US-China trade tension
- BBB (fallen angels) risk
- North Korea
- Brexit under May

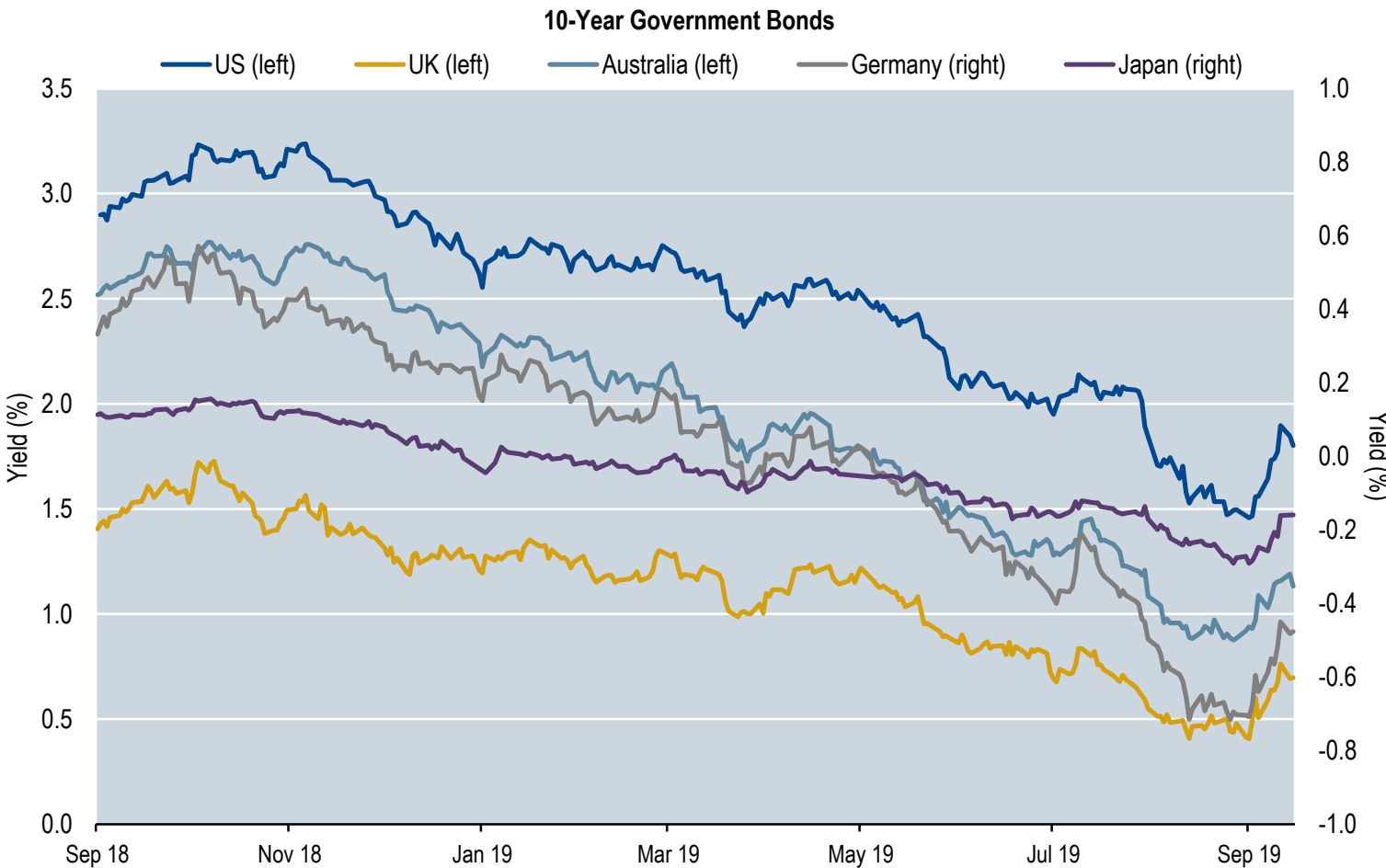
2019

- US recession risk
- Fed policy error
- Global trade tension
- End of credit cycle
- China/Hong Kong
- Brexit under Johnson
- Eurozone slowdown
- Negative yield contagion
- Saudi Arabia/oil markets
- Repo market turbulence

2020

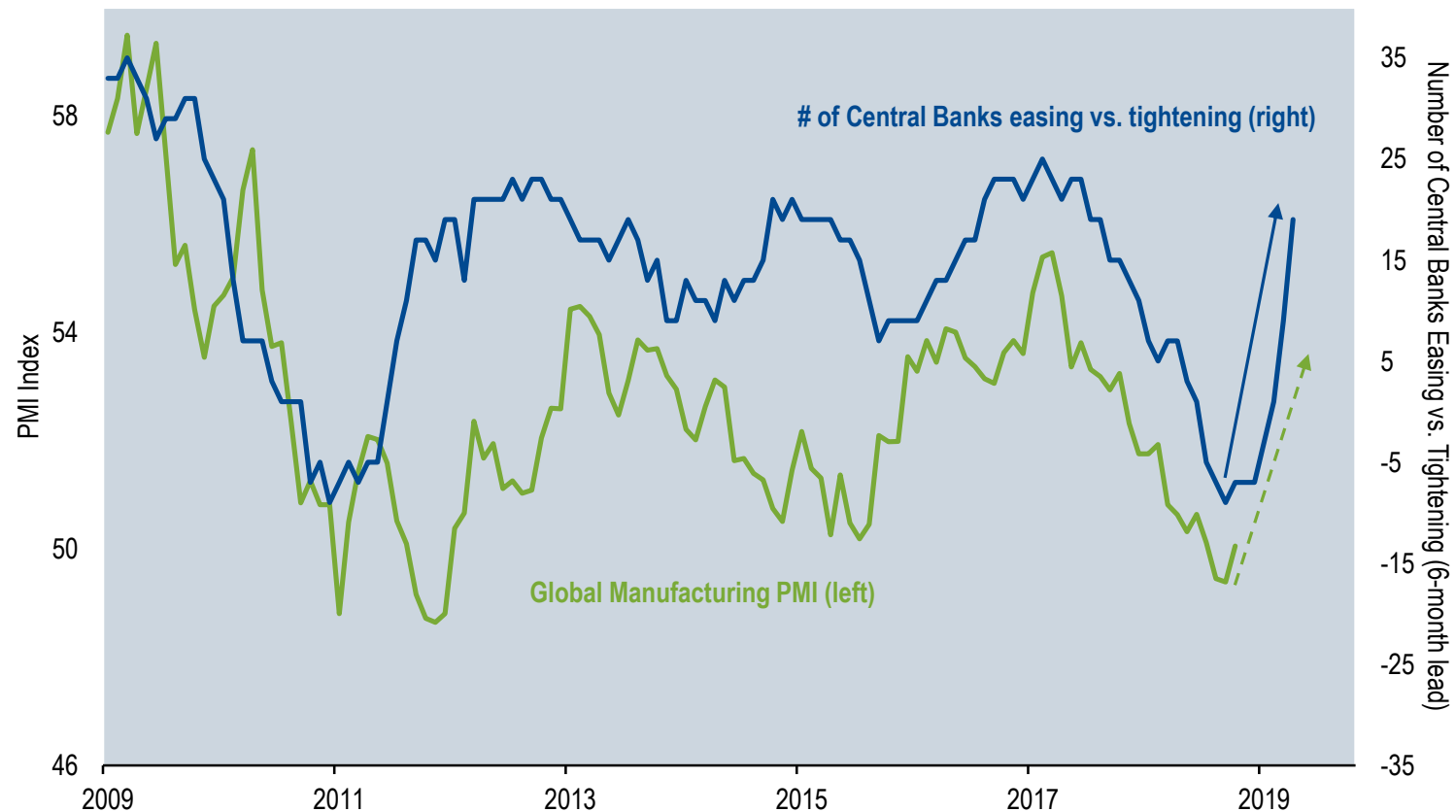


Herd Mentality in the Global Rate Markets



Source: Bloomberg Barclays. As of 17 Sep 19

Global Growth Could Receive a Boost From More Stimulus



Source: J.P. Morgan. As of 30 Aug 19

US Recession Risk is Not Supported by the Fundamental Data

Start of Recession	Yield Curve	Manufacturing	Inflation	Jobs Activity	Housing Activity	Credit Activity	Earnings
Nov 1973	↓	↓	↓	↓	↓	–	↓
Jan 1980	↓	↓	↓	↓	↓	–	↓
Jul 1981	↓	↓	↑	↑	↓	–	↓
Jul 1990	↓	↓	↓	↓	↓	↓	↓
Mar 2001	↓	↓	↓	↓	↔	↓	↓
Dec 2007	↓	↓	↓	↔	↓	↓	↓
Present	↓	↔	↑	↑	↔	↑	↔

↓ Recessionary
 ↑ Expansionary
 ↔ Neutral

Credit Cycle Fears Have Been Alive and Kicking for Awhile

2012 – “Junk Bonds: Wall Street’s Newest Bubble?”

2013 – “Fed Governor Raises the Specter of a Bubble in Junk Bonds”

2014 – “... there could be another two years to go before this cycle comes to its natural end”

2015 – “The evidence we have compiled leads us to conclude that, indeed, a bubble is building, specifically in the leveraged finance market ...”

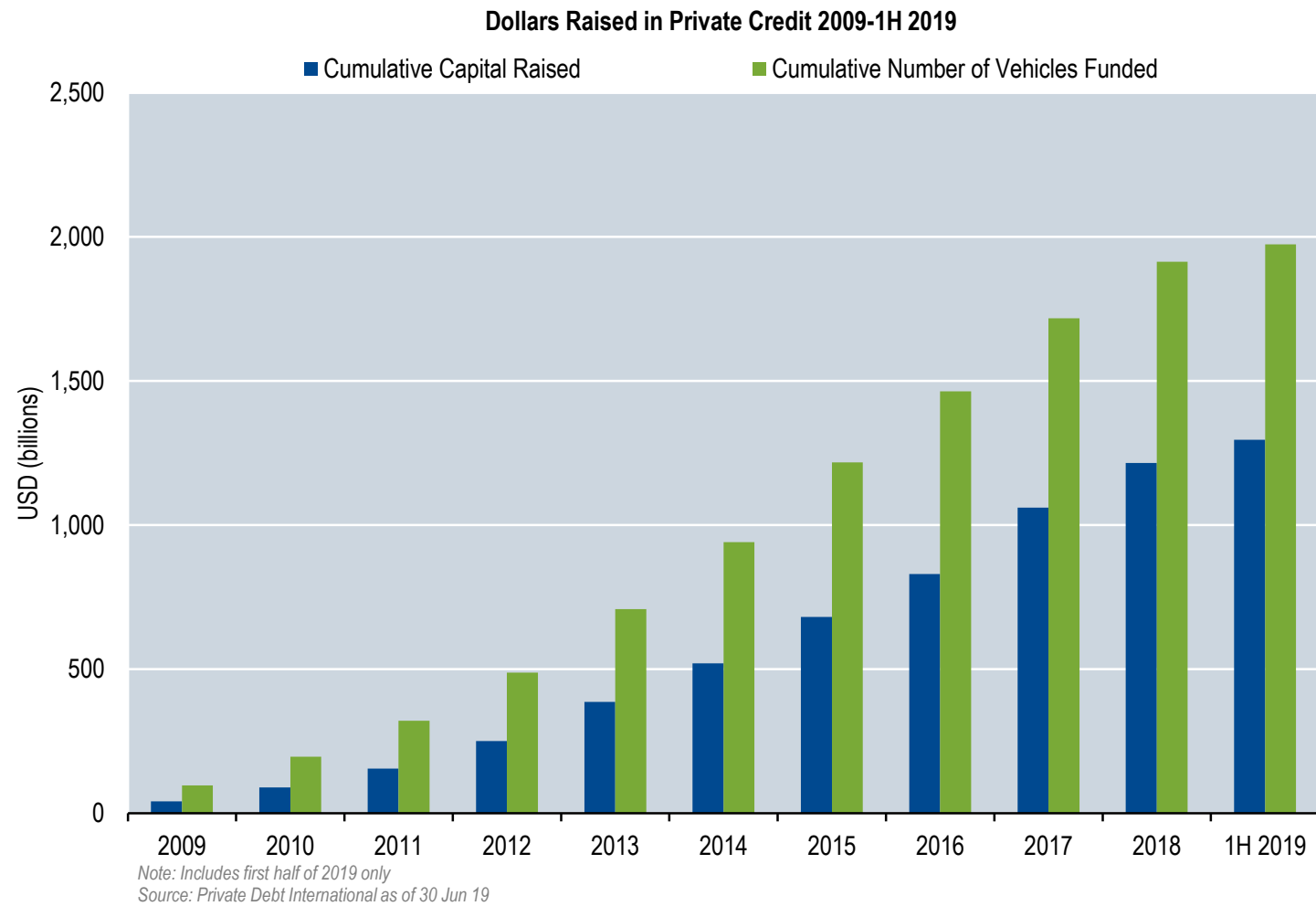
2016 – “... we're starting to enter the late stages of the credit cycle”

2017 – “Six signs we are near the end of the credit cycle”

2018 – “Insane junk bond bubble ... the price of garbage on Wall Street keeps going up”

2019 – “Swelling US corporate debt raises risk of global financial meltdown”

New Sources of Middle Market Financing Can Help Extend the Credit Cycle



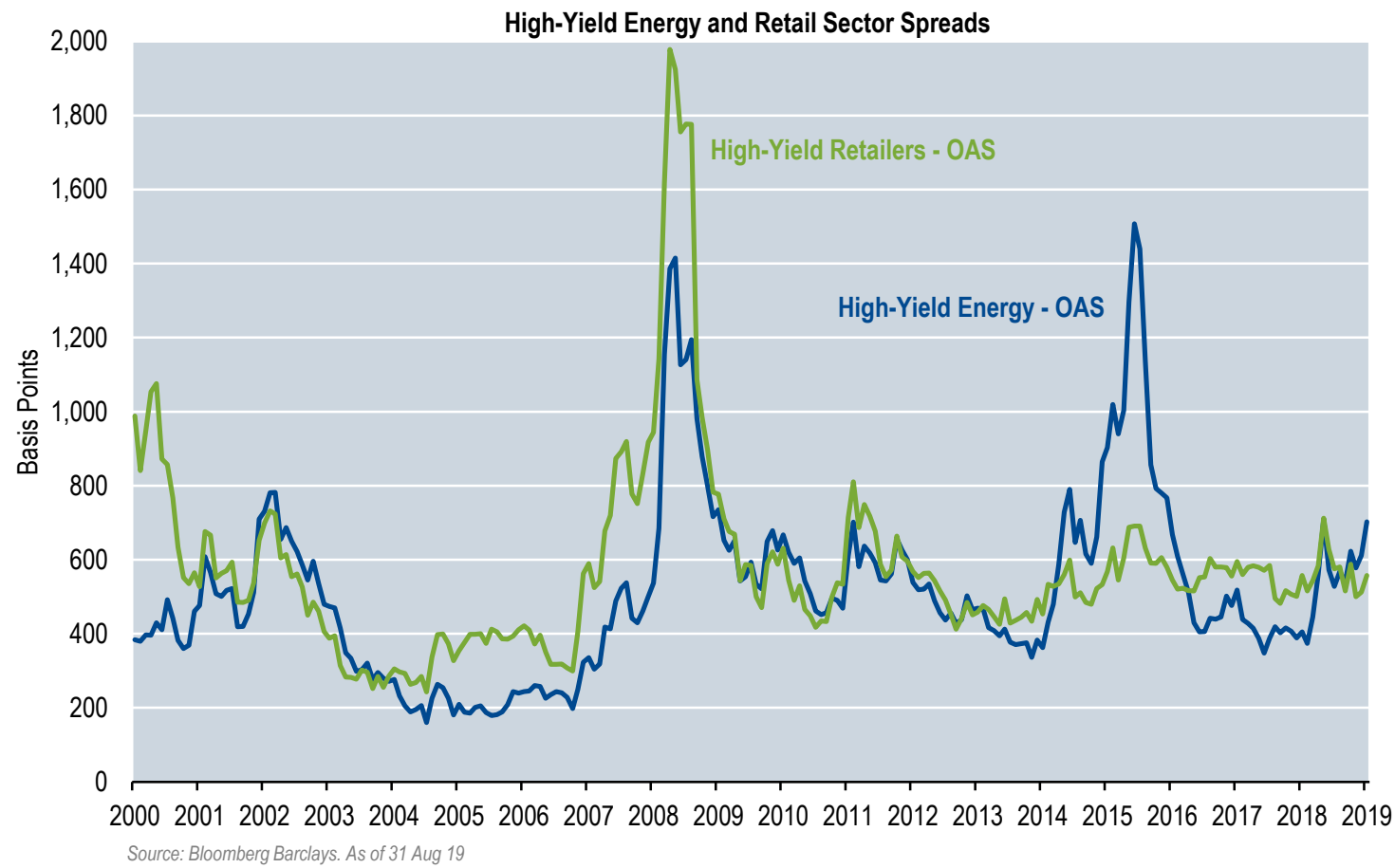
No Indication of Near-Term Avalanche of BBB Downgrades

15 Largest BBB Issuers

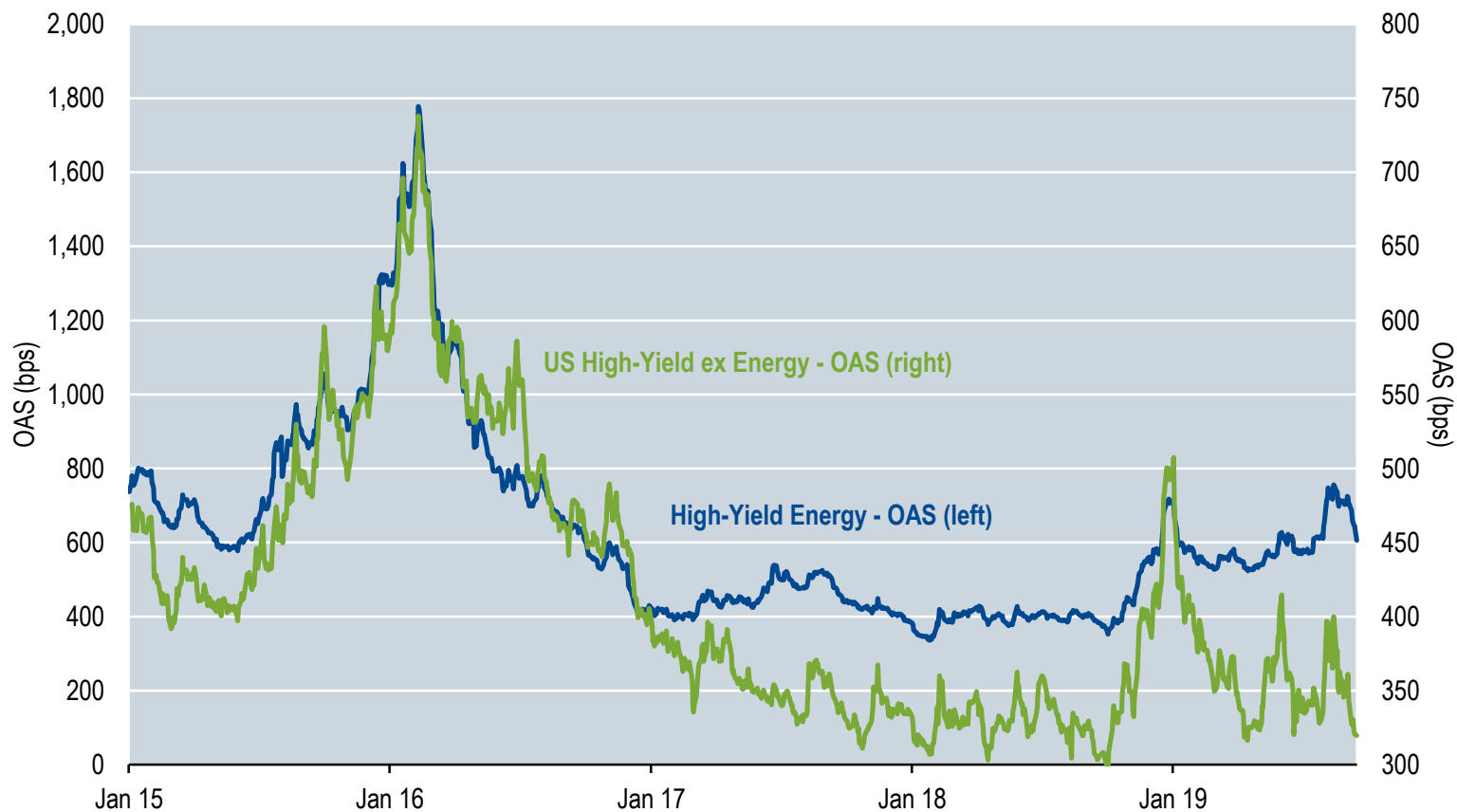
	Ticker	Company Name	Index Rating	Total IG Index Debt, (USD, billions)	US IG Index Weight (%)	Industry	Leverage Trend	Management Explicitly Stated Leverage Target
1	T	AT&T	Baa2	\$99.6	1.6	Wireline	Lower	Yes
2	VZ	Verizon Communications	Baa1	\$73.1	1.2	Wireline	Lower	Yes
3	CVS	CVS Health	Baa2	\$66.2	1.1	Health Care	Lower	Yes
4	ABIBB	Anheuser-Busch Inbev	Baa1	\$64.1	1.0	Food & Beverage	Lower	Yes
5	GE	General Electric	Baa1	\$45.4	0.7	Diversified Manufacturing	Lower	Yes
6	GM	General Motors	Baa2	\$41.2	0.7	Automotive	Stable	No
7	CHTR	Charter Communications	Baa3	\$37.7	0.6	Cable Satellite	Stable	Yes
8	ABBV	Abbvie	Baa2	\$33.2	0.5	Pharmaceuticals	Stable	No
9	F	Ford Motor	Baa2	\$33.1	0.5	Automotive	Higher	No
10	CI	Cigna	Baa2	\$32.7	0.5	Health Care Insurance	Lower	No
11	ETP	Energy Transfer	Baa3	\$29.9	0.5	Midstream	Lower	Yes
12	UTX	United Technologies	Baa1	\$29.3	0.5	Aerospace/Defense	Lower	No
13	KMI	Kinder Morgan	Baa2	\$26.6	0.5	Midstream	Lower	Yes
14	AMGN	Amgen Inc	Baa1	\$25.0	0.4	Pharmaceuticals	Stable	No
15	BATSLN	British American Tobacco	Baa2	\$24.9	0.4	Tobacco	Lower	Yes

Source: Bloomberg, Western Asset. As of 18 Mar 19

“Mini-Cycles” Can Also Help Extend the Broader Credit Cycle

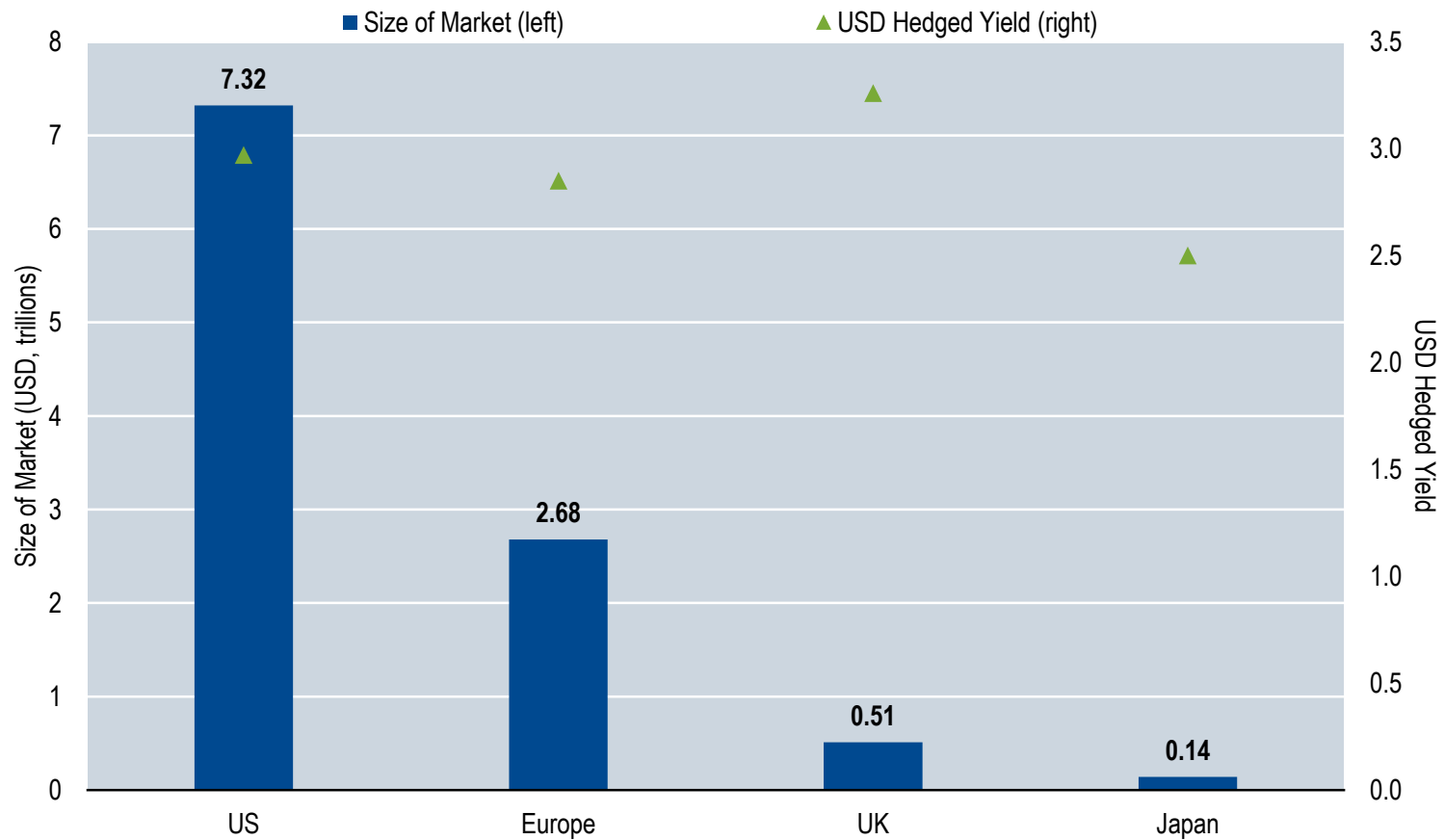


The Energy Sector Has Decoupled From the Broader High-Yield Market



Source: Bloomberg Barclays. As of 16 Sep 19

US Credit Markets Offer Yield, Size and Liquidity



Source: Bloomberg Barclays. As of 12 Sep 19

How Should Portfolios Be Positioned at This Stage of the Credit Cycle?

	Early (Recovery)	Mid (Expansion)	Late (Downturn)	Recession (Repair)
IG Corporates	●	●	●	●
HY Corporates	●	●	●	●
Bank Loans	●	●	●	●
EM Debt	●	●	●	●
Structured Credit	●	●	●	●
Governments	●	●	●	●



Thank you.

Risk Disclosure

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