

Webcast Summary



Michael Buchanan
Deputy Chief Investment Officer



Robert Abad
Product Specialist

The Year in Review, a Look Ahead

While 2019 was marked by continual anxiety—about Brexit, US-China trade, Fed actions, a potential US recession, and political and social unrest around the world—it's ultimately shaping up to be an incredible year for fixed-income investors. In his year-end webcast, Deputy Chief Investment Officer Michael Buchanan sat down with Product Specialist Robert Abad to recap the highlights of this dynamic year and provide a glimpse of what we see ahead in 2020.

2019 in Review

- Despite a fair amount of general market pessimism early in the year, we believed global growth would prove to be resilient.
- We thought the much-hyped threat of recession in the US was unwarranted, and as the year wore on the narrative of impending doom faded.
- We viewed the Federal Reserve (Fed) as being too hawkish after raising rates in late 2018. Its stance changed and resulted in three 25 basis point cuts in 2019.
- Our long-held belief that inflation would remain low, both in the US and globally, lent further support to our expectation that central bank accommodation would continue.
- Given our view that fundamentals remained solid at the start of 2019, we identified the weakness seen in December 2018 as making valuations even more compelling and positioned our portfolios accordingly.
- The general investment strategy we pursued over the year was to overweight spread product, complemented with duration.

2020 Macro Drivers

- We believe slow, steady global growth will be likely throughout 2020.
- Manufacturing data appears to be stabilizing, further supporting our view for global growth.
- We think it's unlikely that growth rates will rise above expectations, given that it took 10 years of accommodative policy to get only to where we are today with cumulative growth below what was seen during previous recoveries.

2020 Investment Risks

- We expect to see greater market volatility overall, driven by uncertainty surrounding trade, social unrest and politics.
- US political risk will likely increase with the presidential election in 2020; our informal poll during the webcast had 72% predicting that Republicans will retain the White House.
- There are also fears that the economy could be running too hot, which could eventually cause rates to rise. However, we don't think this is the most likely scenario, especially given the secular headwinds of deteriorating demographics and rising sovereign debt loads.

- We anticipate that idiosyncratic risks will rise as spreads are tighter and opportunities may become harder to identify. But, Western Asset has a very large, global platform to help us take advantage of a more challenging market.

2020 Investment Opportunities

- **High-yield:** Overall, high-yield looks attractive, but not across the board. We think there will be attractive opportunities in CCC high-yield, but only on an issue-by-issue basis.
- **Bank loans:** Given their underperformance in 2019, we think bank loans will benefit from the fundamental strength seen in corporate credit. Western Asset is especially well positioned to benefit from primary issuance, given our ability to influence issue terms.
- **CLOs:** We think in general CLOs are currently very cheap. BBB CLOs on average have traded about 80%-85% of the high-yield market. BB CLOs are also above normal ranges, offering approximately 200% of the yield found in high-yield. We don't think this opportunity will last much longer.
- **Structured products:** We expect record issuance in 2020, and we like the opportunities we see both in residential and commercial issues as well as in credit risk transfer notes (CRTs). Here also we can influence the structuring of deals, including the collateral and call structures.
- **EM:** We remain very constructive on EM and like that its leverage is fairly low. We continue to favor the opportunities we see in local currency-denominated EM.

Q&A Highlights

- Western Asset has a strong voice with regard to how primary issue deals are structured. But, there are times when the secondary market is more appealing. We are able to remain agile and can be responsive to the relative value of the primary market when that value is skewed in our favor.
- The current market environment is fairly unique and does not resemble another time in recent investing memory, with strong fundamentals continuing to favor markets. We're 10 years into an economic recovery, but not yet seeing widespread indicators of credit excess. As a result, we see continued runway in the credit cycle.

Past results are not indicative of future investment results. This publication is for informational purposes only and reflects the current opinions of Western Asset. Information contained herein is believed to be accurate, but cannot be guaranteed. Opinions represented are not intended as an offer or solicitation with respect to the purchase or sale of any security and are subject to change without notice. Statements in this material should not be considered investment advice. Employees and/or clients of Western Asset may have a position in the securities mentioned. This publication has been prepared without taking into account your objectives, financial situation or needs. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation or needs. It is your responsibility to be aware of and observe the applicable laws and regulations of your country of residence.

Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários Limitada is authorised and regulated by Comissão de Valores Mobiliários and Banco Central do Brasil. Western Asset Management Company Pty Ltd ABN 41 117 767 923 is the holder of the Australian Financial Services Licence 303160. Western Asset Management Company Pte. Ltd. Co. Reg. No. 200007692R is a holder of a Capital Markets Services Licence for fund management and regulated by the Monetary Authority of Singapore. Western Asset Management Company Ltd is a registered Financial Instruments Business Operator and regulated by the Financial Services Agency of Japan. Western Asset Management Company Limited is authorised and regulated by the Financial Conduct Authority ("FCA"). This communication is intended for distribution to Professional Clients only if deemed to be a financial promotion in the UK and EEA countries as defined by the FCA or MiFID II rules.