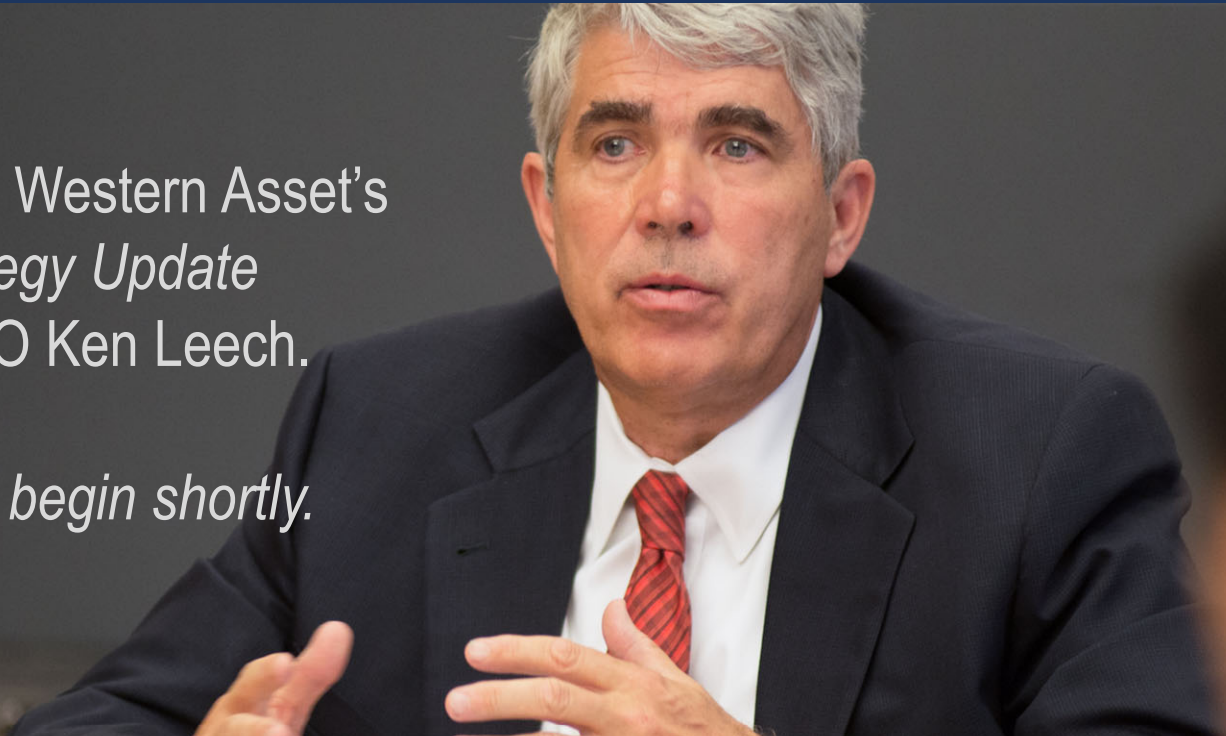


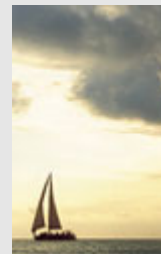


Thank you for joining Western Asset's
3Q20 Market & Strategy Update
webcast featuring CIO Ken Leech.

The presentation will begin shortly.



Follow us on social media!



Shocks & Bonds

Insights to help investors navigate market volatility amid the COVID-19 pandemic.
westernasset.com/covid-19



3Q20 Market and Strategy Update

July 9, 2020

Ken Leech
Chief Investment Officer

2Q20 Developments

Uncertainty over the COVID-19 virus decreased considerably

Global economic contraction was violent and unprecedented

But economic reopening(s) has proceeded more quickly than originally anticipated

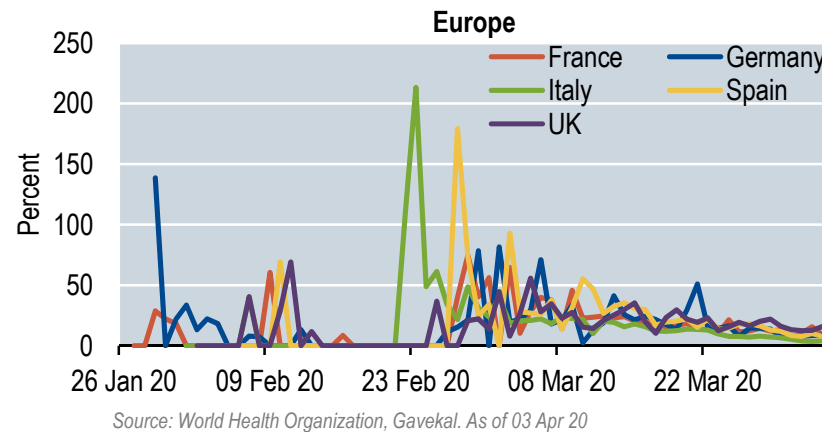
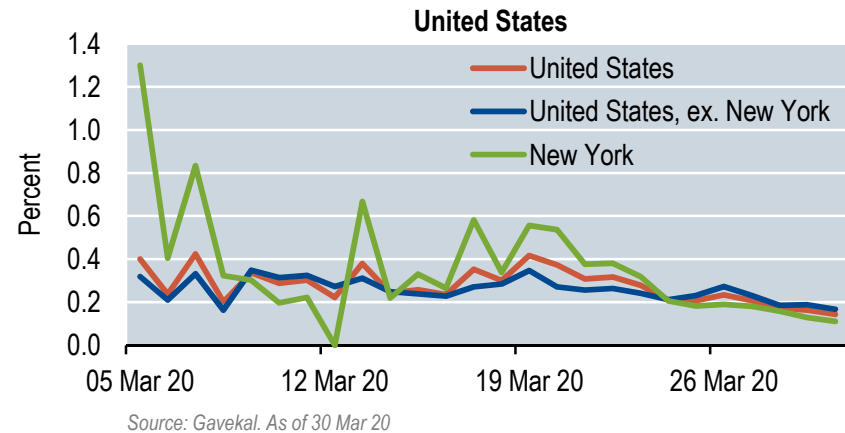
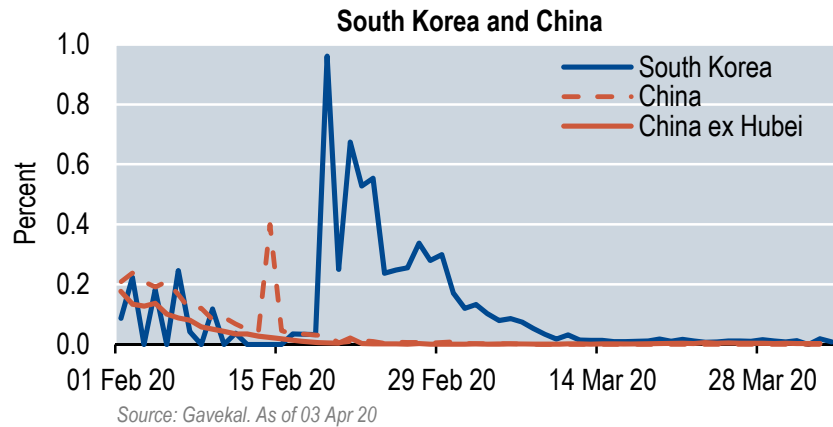
Global policy support — monetary and fiscal — has been “Shock and Awe”

Sovereign bond yields are pinned at historical lows

Risk assets and spread products have rebounded forcefully

The Virus Map Is Looking Similar Globally

Jolt of Confirmed COVID-19 Cases (Change in Growth Rates)



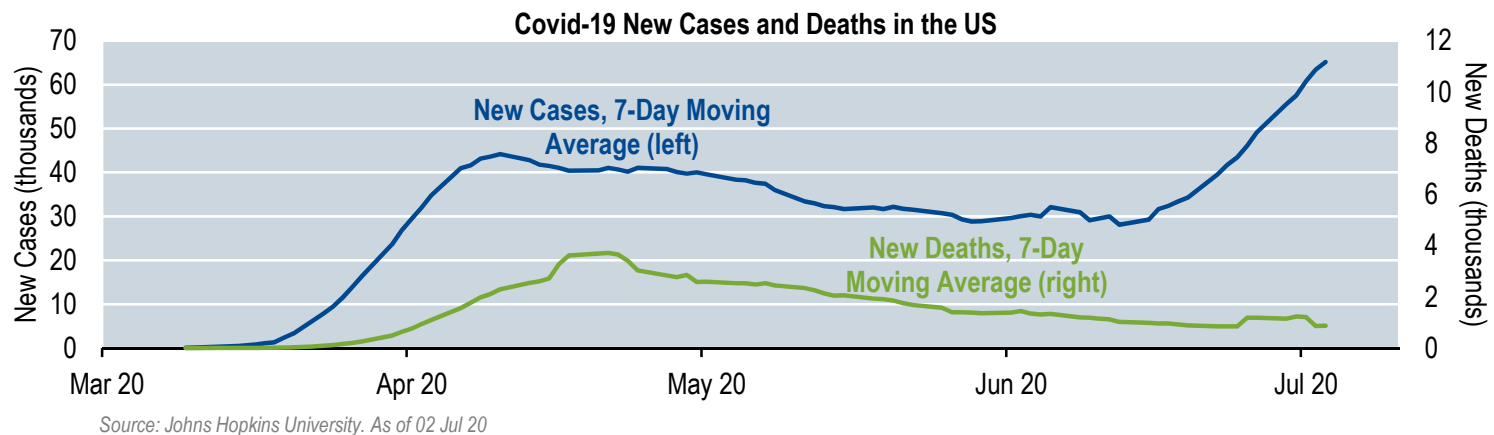
Renewed COVID Surge – Cases Are Increasing but Deaths Have Declined by 90%

Treatments have improved dramatically

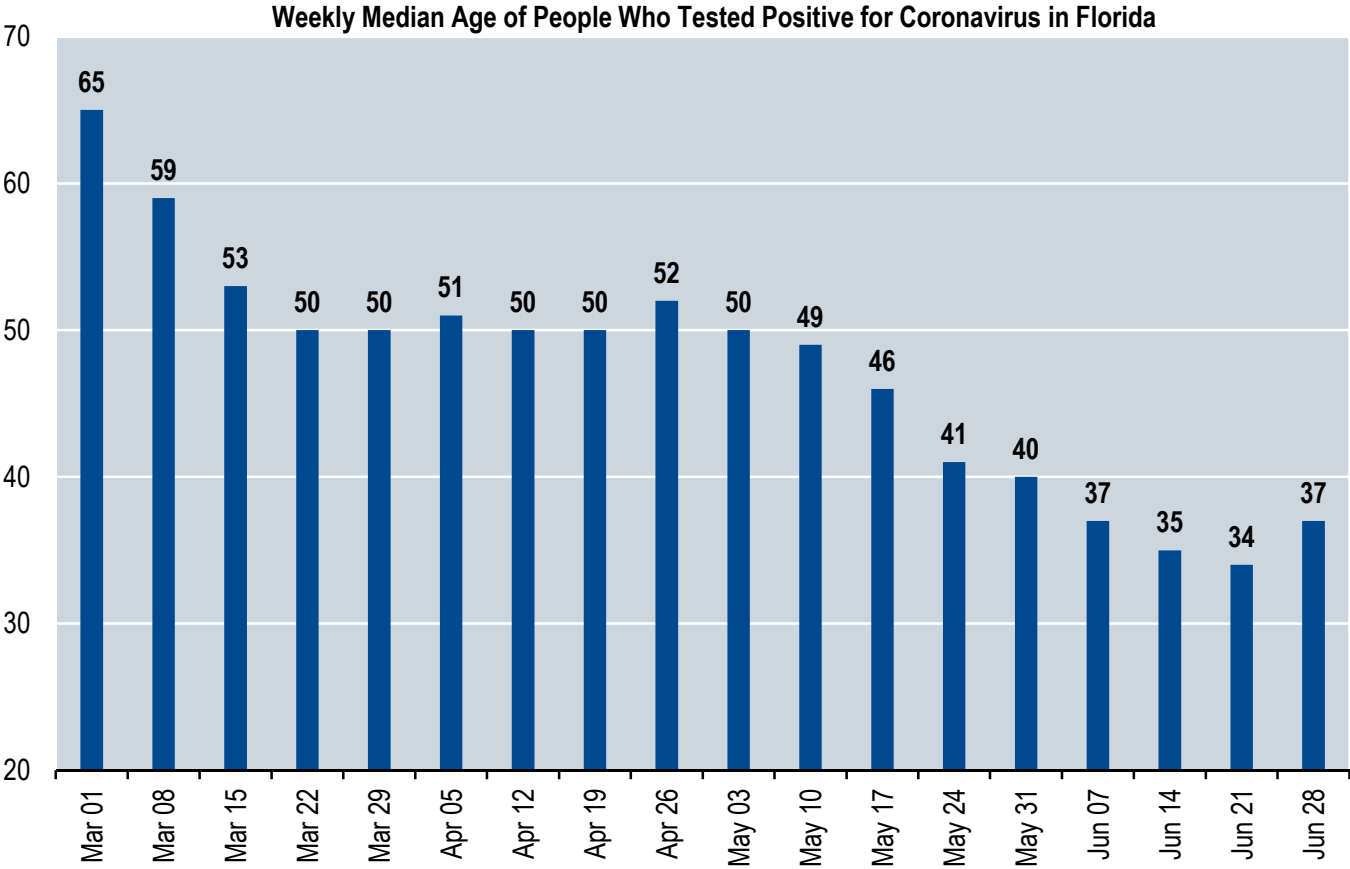
Surge in cases implies more cautious consumer behavior

Diminished death rate suggests renewed lockdowns are unlikely

Vaccine hopefulness — no news is good news

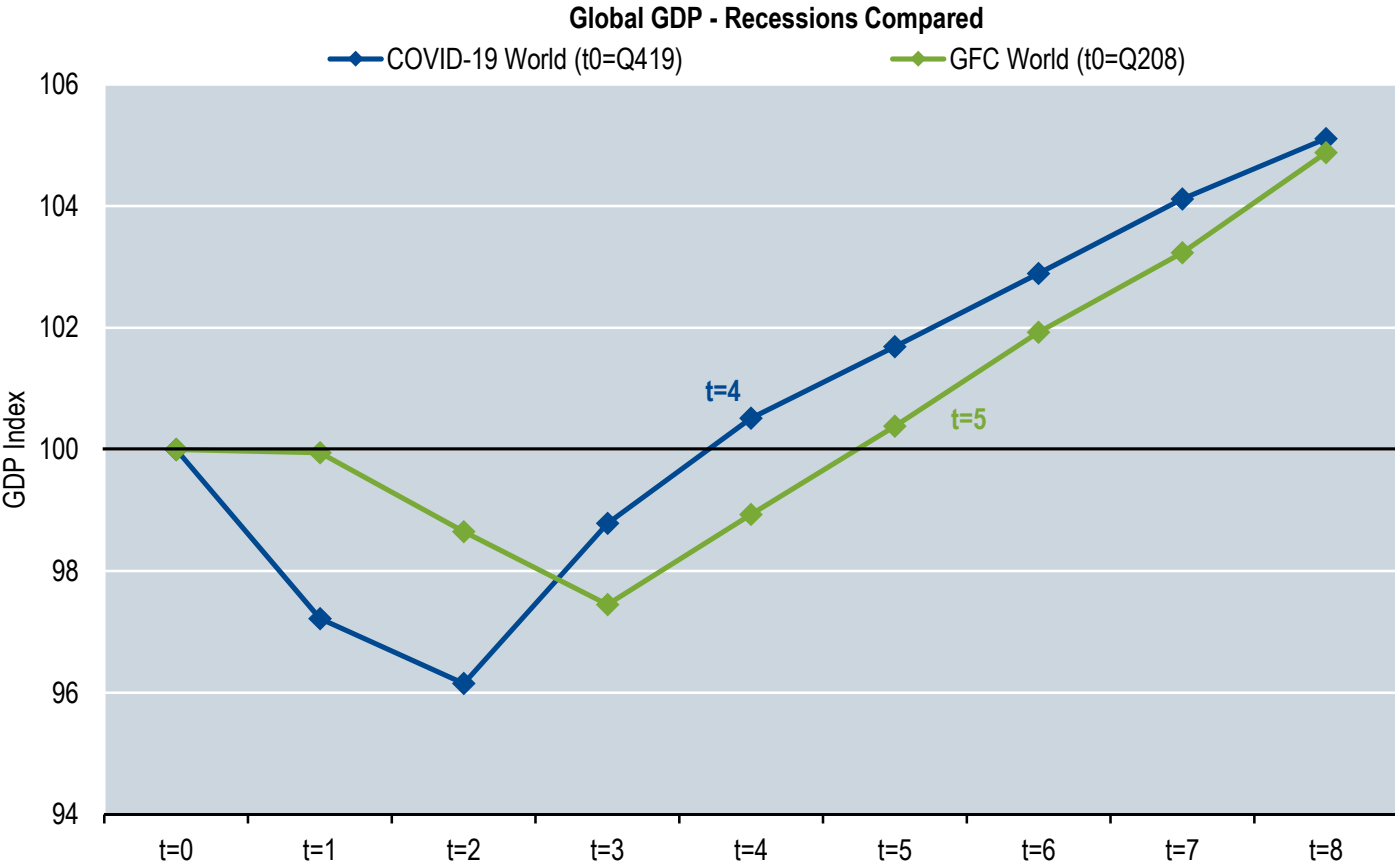


Average Age of New Coronavirus Cases Dropping Steadily



Source: Florida Department of Health

How Well Will the Global Economy Hold Up?



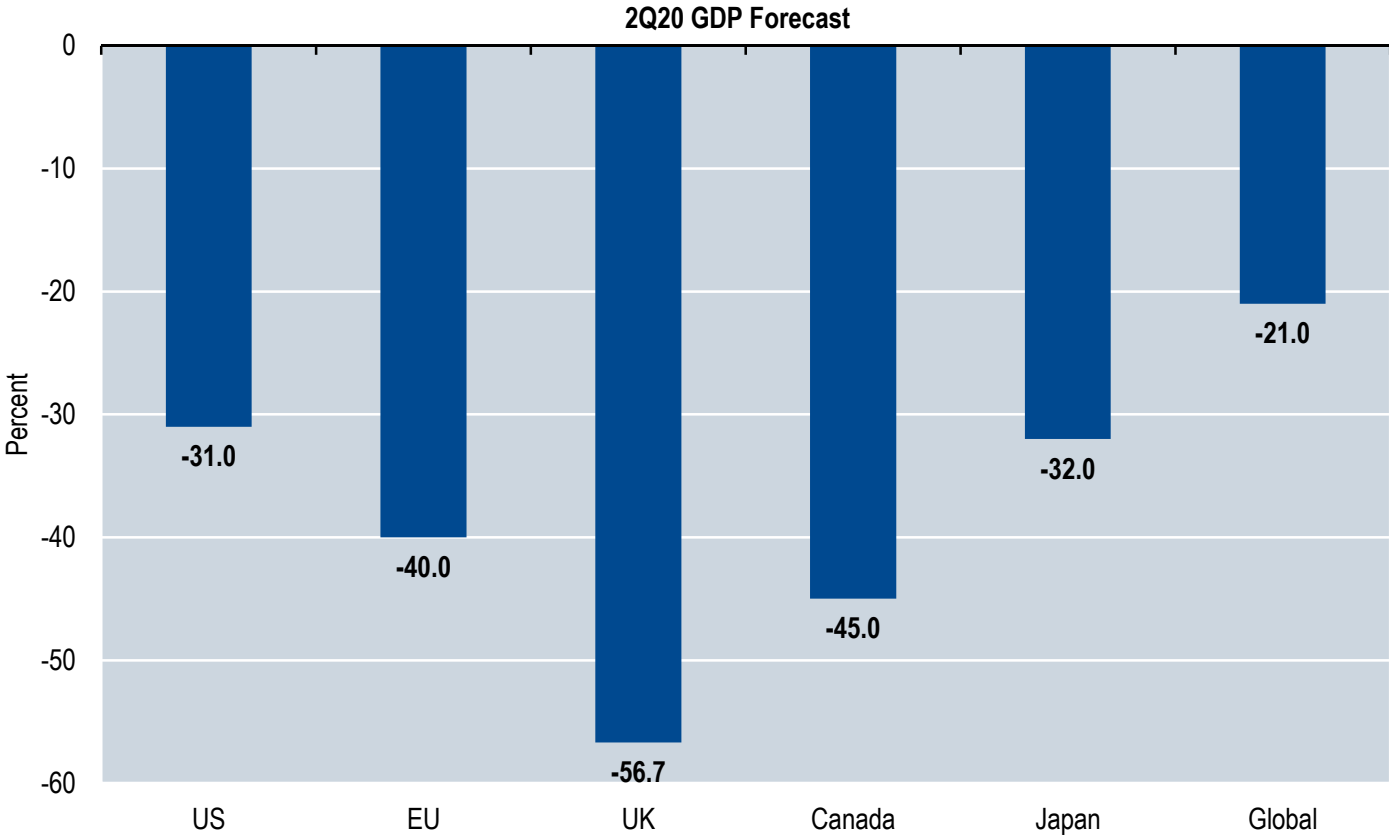
Source: UBS, Haver, JP Morgan. As of 31 Mar 20

The Downside Economic Stress Is Enormous



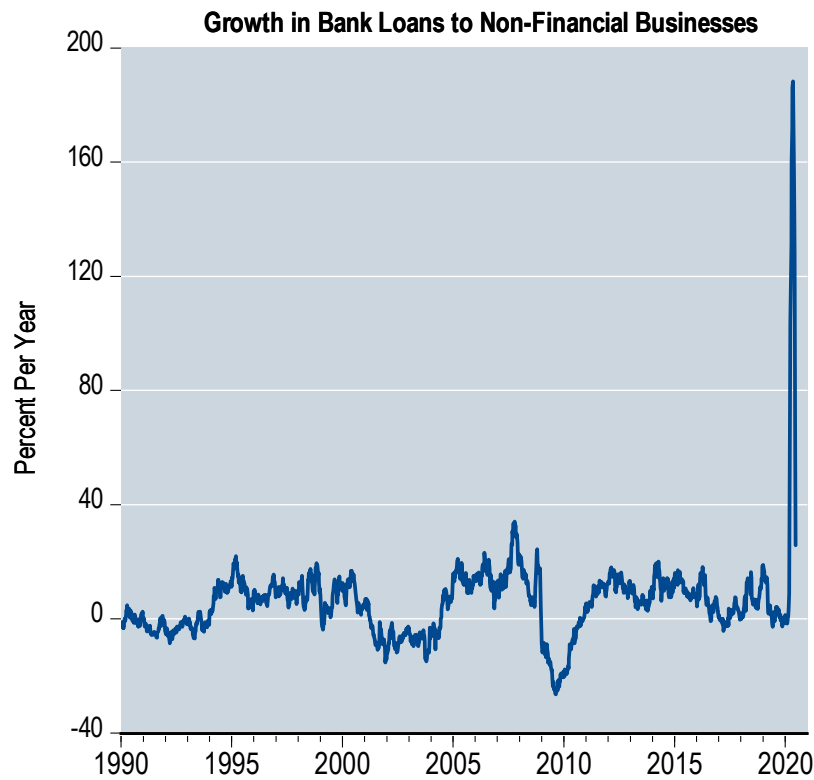
Source: U.S. Bureau of Labor Statistics. As of 31 May 20

GDP Forecasting — Guessing?

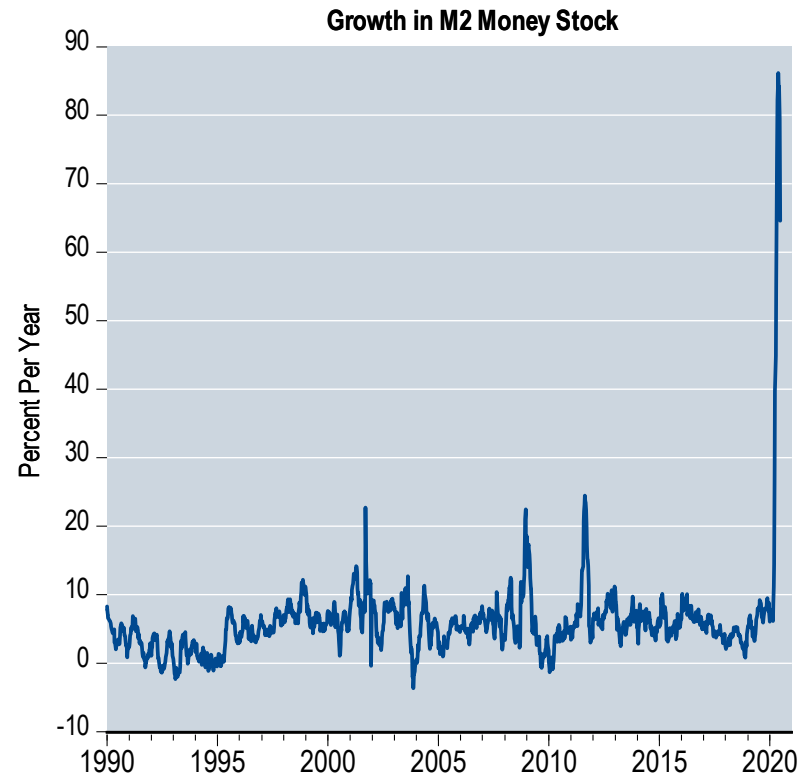


Source: J.P. Morgan
*J.P. Morgan forecast for 2Q20, quarter over quarter, seasonally adjusted annual rate

The Fed's Monetary Response Has Been Astounding in Both Size and Immediacy



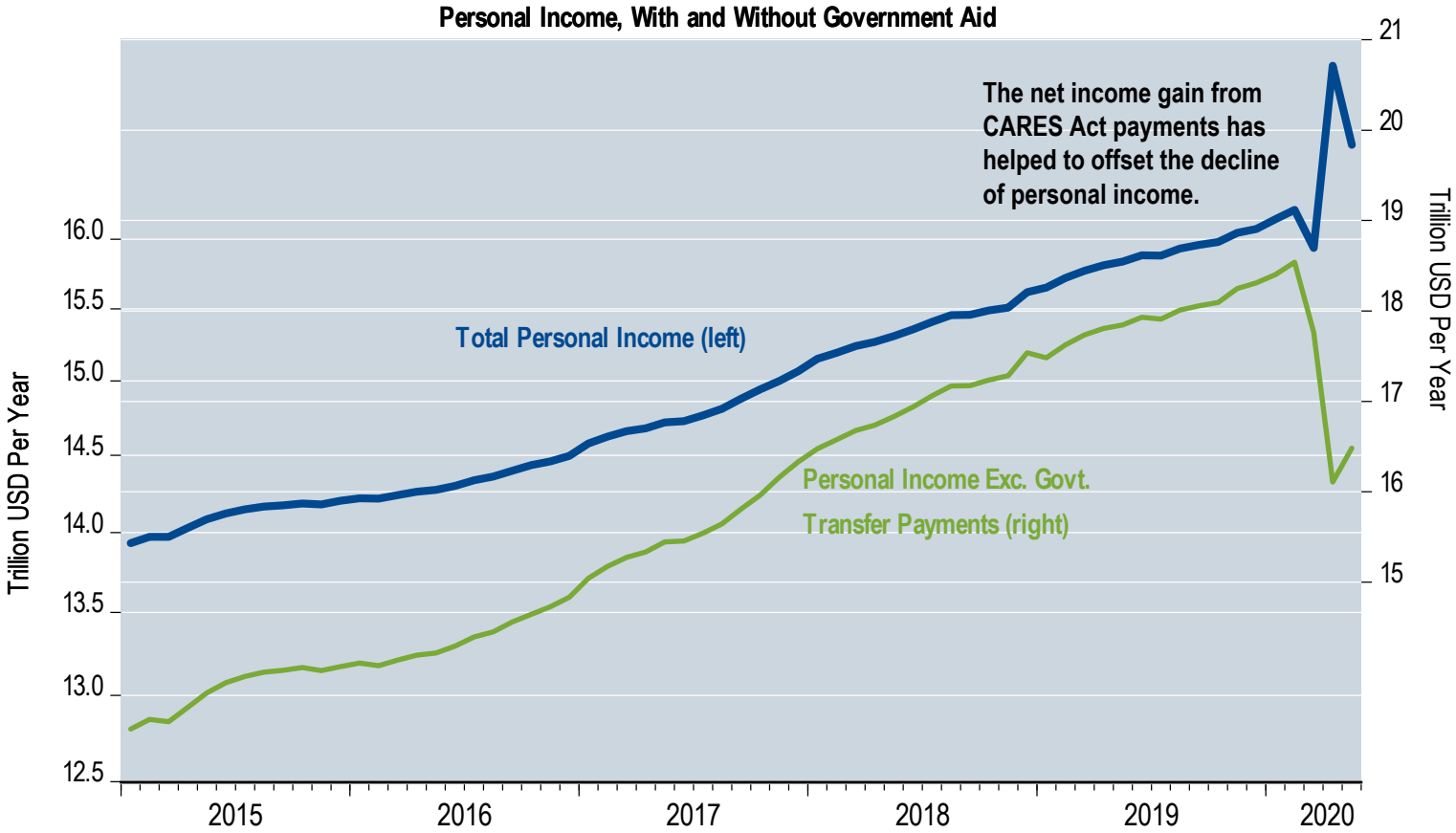
Source: Federal Reserve Board. As of 22 Jun 20
13-Week Annualized Growth Rate



Source: Federal Reserve Board. As of 22 Jun 20
13-week Annualized growth rate

Government Support to Households Has Already Been Massive

Government direct support to households via the CARES Act and extended unemployment compensation to turn personal income growth positive.

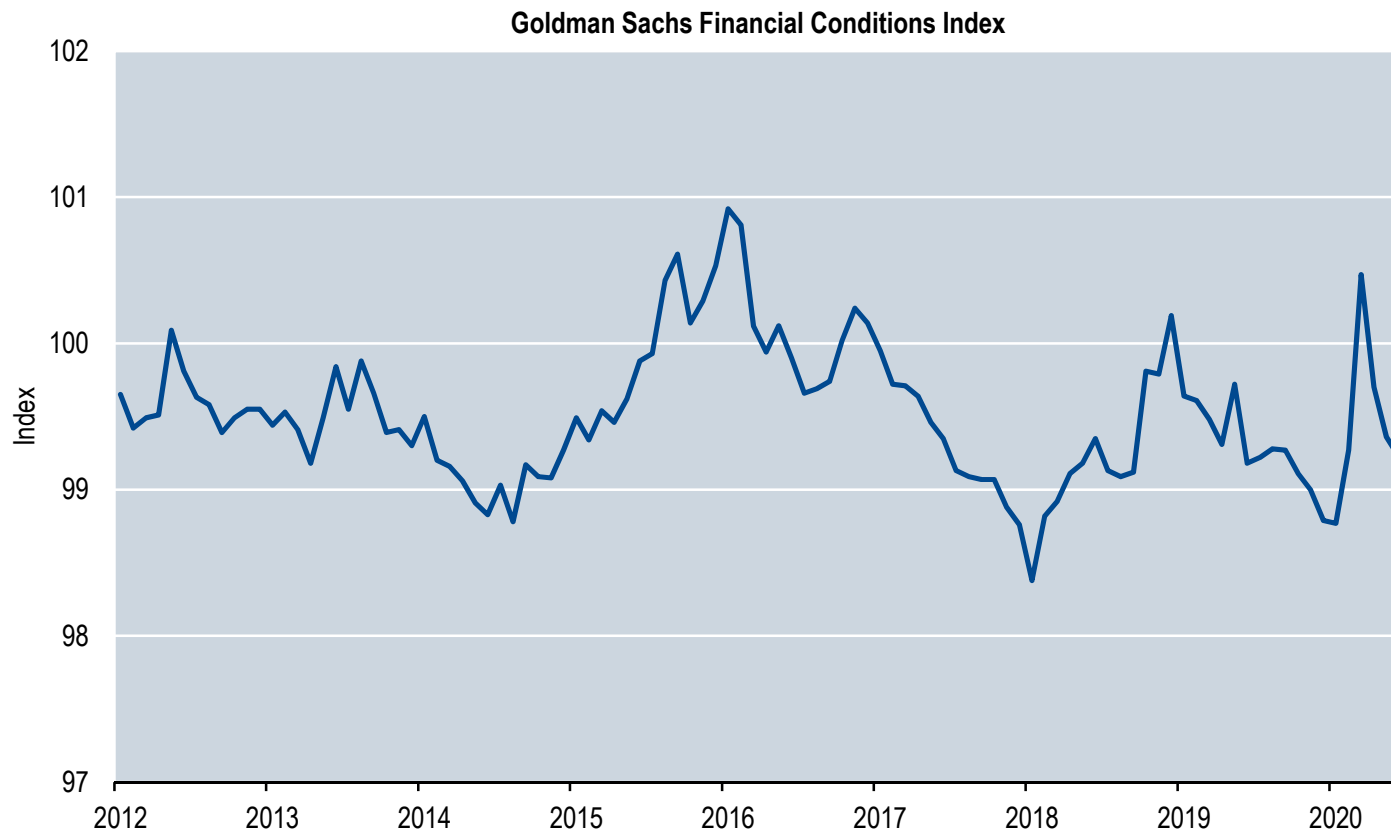


Source: Bureau of Economic Analysis. As of 31 May 20

Financial Conditions Have Improved Sharply

“We will increase our holdings of Treasury and agency mortgage-backed securities over coming months at least at the current pace... **Those purchases are clearly also supporting highly accommodative financial conditions**, and that's a good thing, so that's why we're doing that.”

- Chair Powell, June 10, 2020 FOMC Press Conference

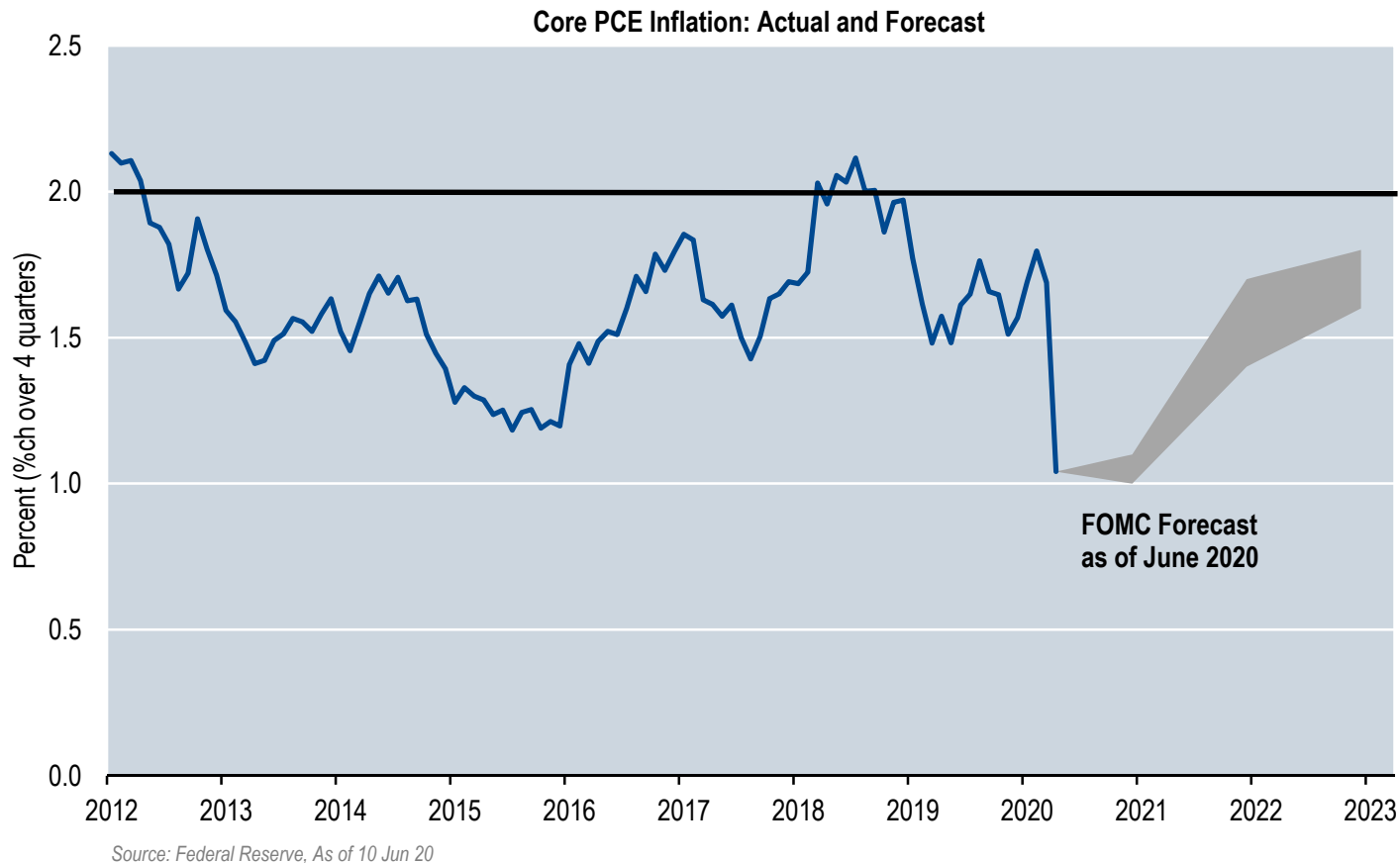


Source: Bloomberg. As of 30 Jun 20

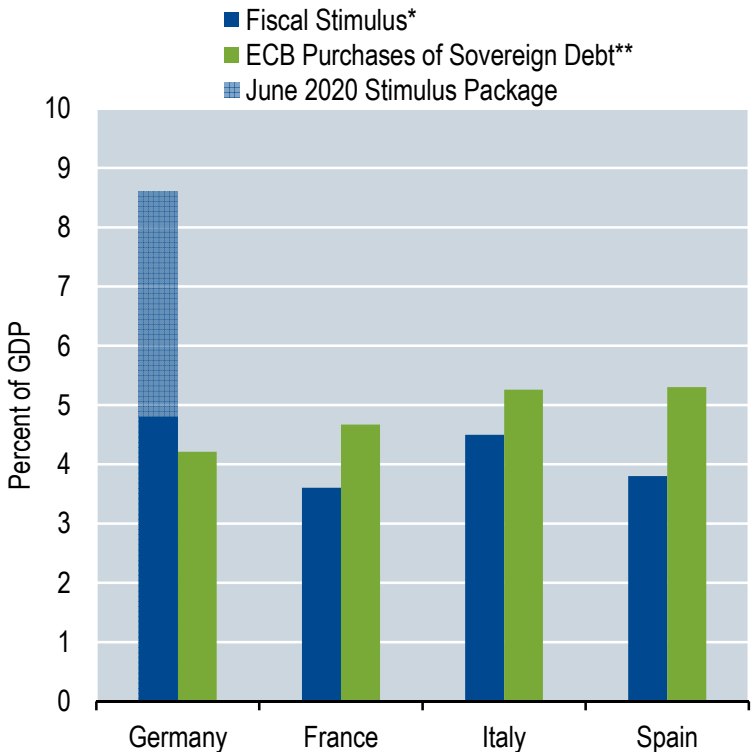
Fed Will Be Very Slow to Raise Rates

“So, again, we're -- we're not thinking about raising rates. **We're not even thinking about, thinking about raising rates.** So, what we're thinking about is -- is providing support for this economy.”

- Chair Powell, June 10, 2020 FOMC Press Conference

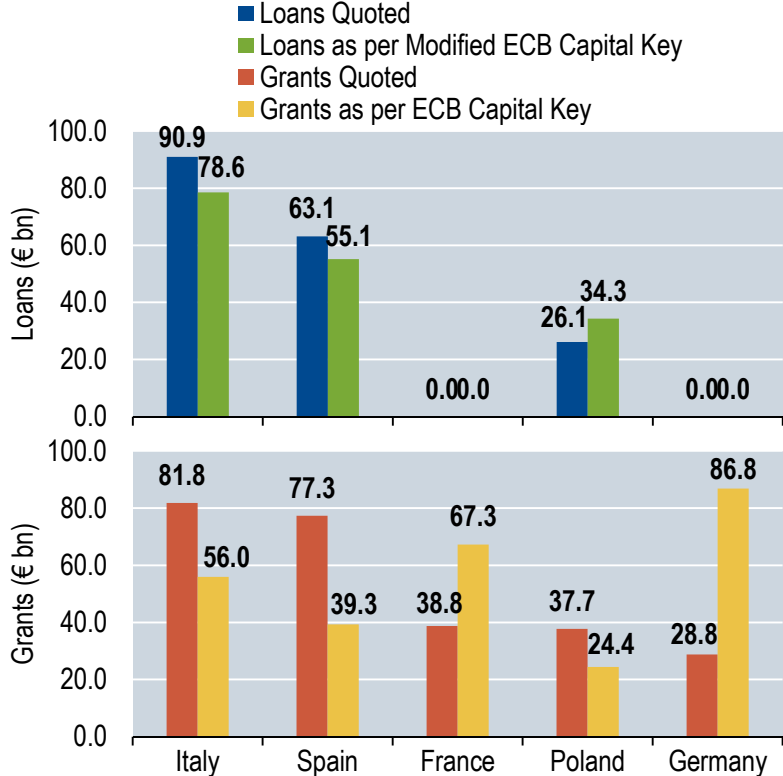


Europe Responds Forcefully



Source: Western Asset calculations. As of 10 Jun 20
 *Appropriations; does not include contingent liabilities such as guarantees.
 **Very approximate
 Western Asset estimates/calculations based off published data by the European Central Bank.

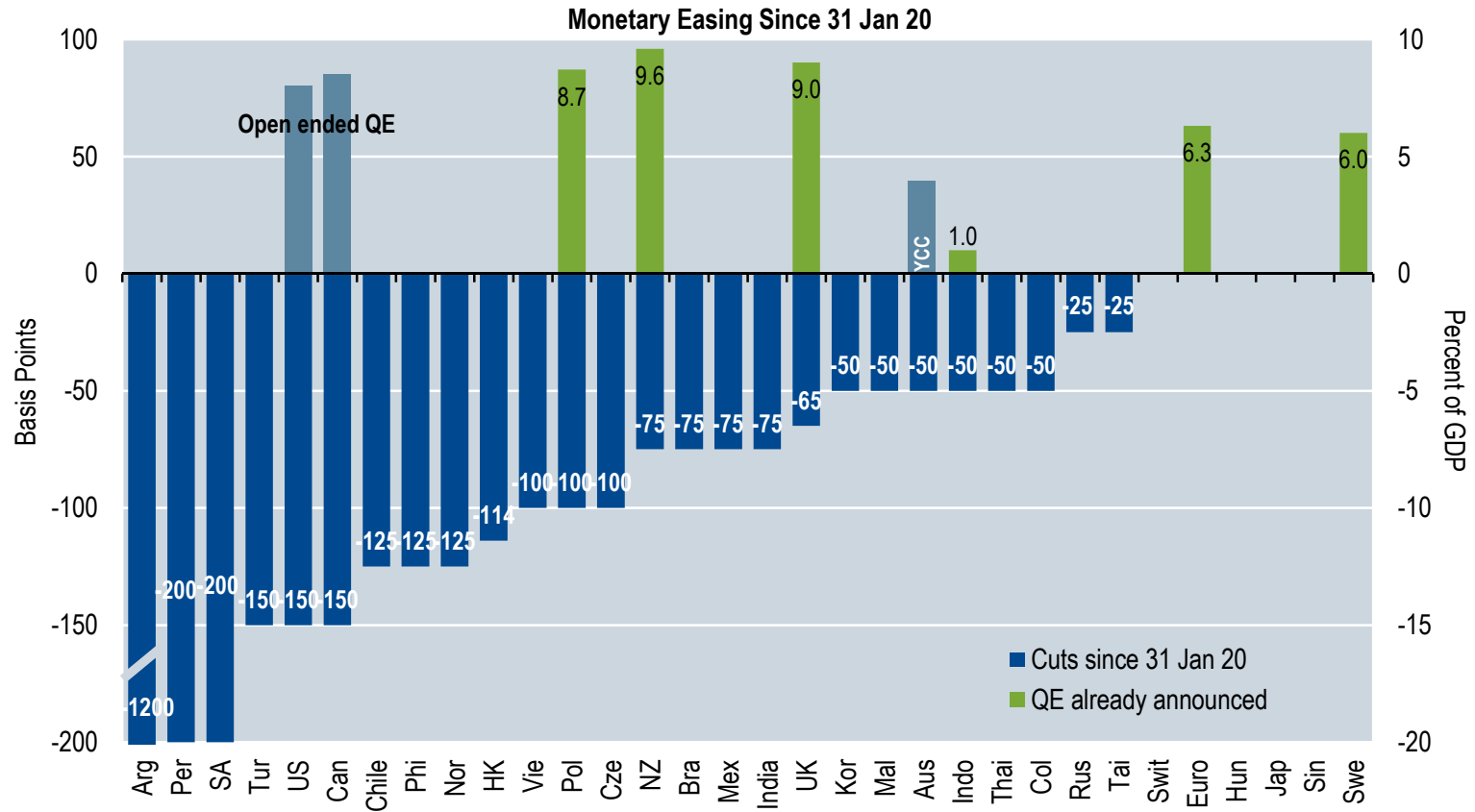
Next Generation EU - Where Does The Money Go?



Source: ECB, European Commission, FAZ, Western Asset. As of 31 May 20.
 Western Asset estimates/calculations based off published data by the European Central Bank.

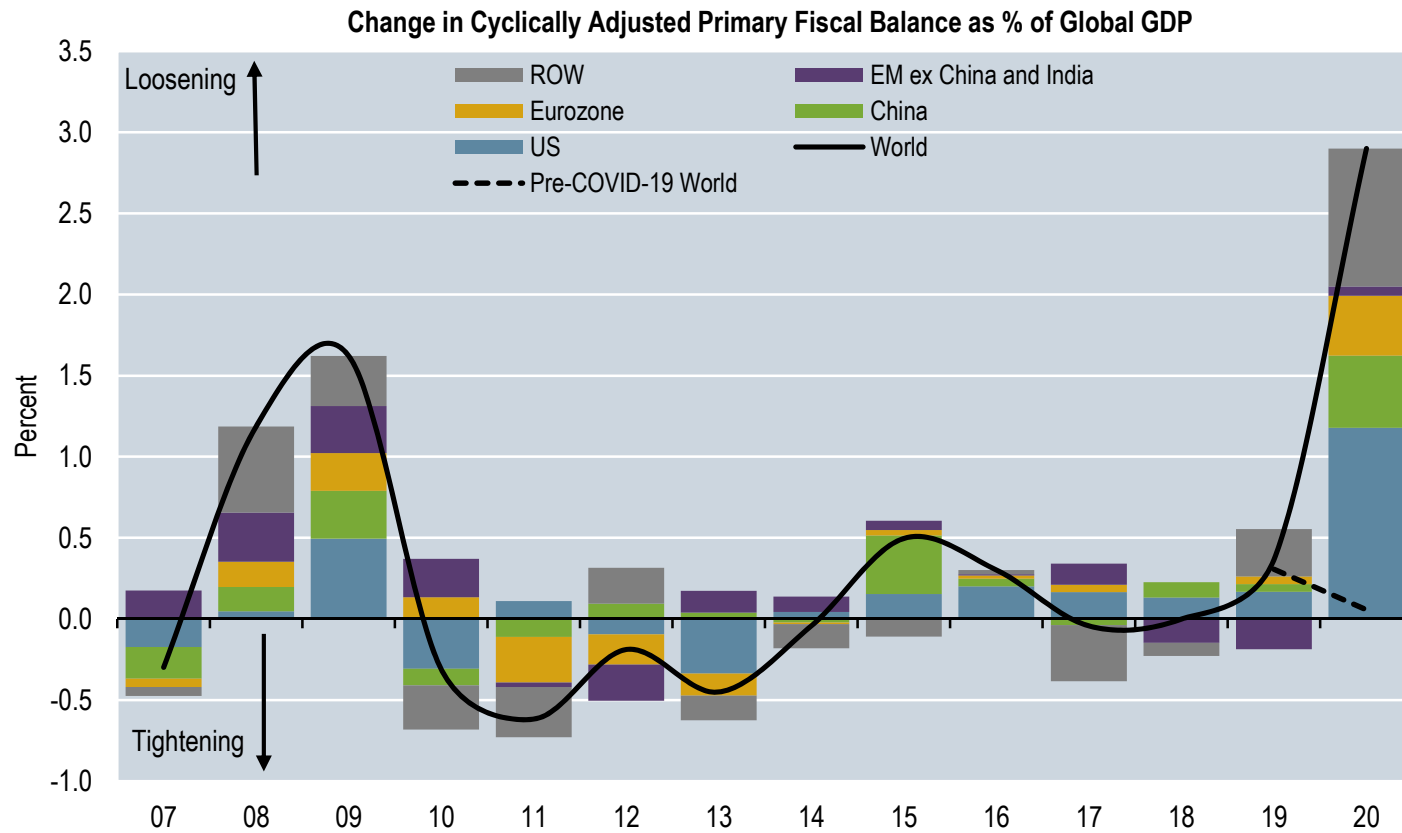


There Has Been a Tidal Wave of Monetary Easing



Source: UBS, Haver. As of 17 Apr 20

Will the Enormity of Global Stimulus Prove Sufficient?



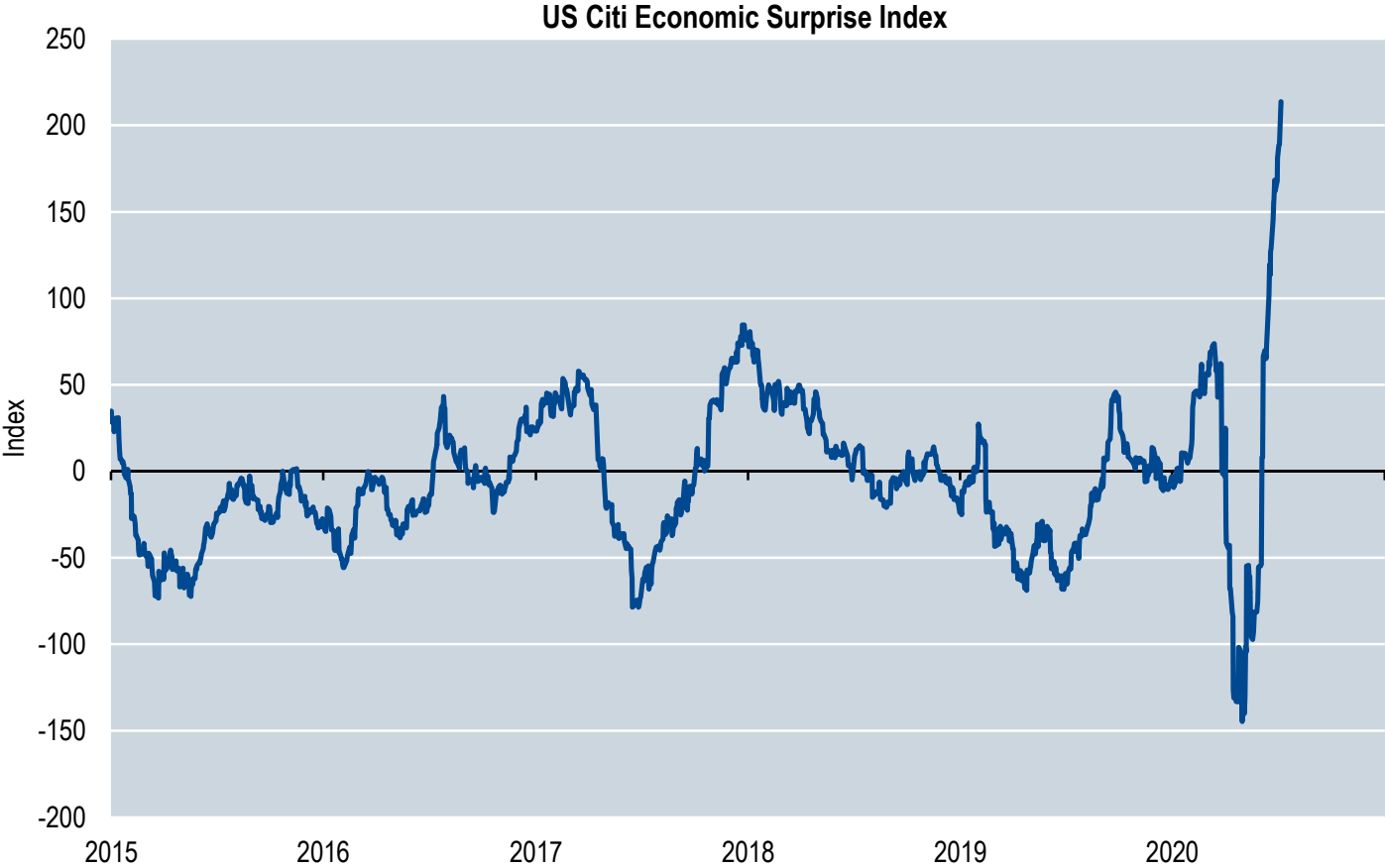
Source: UBS, Haver, European Commission, CBO. As of 31 Mar 20

Economic Uncertainty Is Spectacularly High

	Estimate	2020	2021	2022
GDP	High	-0.6	6.7	6.6
	Low	-9.5	0.4	1.5
Core PCE	High	2.5	2.5	2.8
	Low	-0.1	0.3	0.8
Unemployment Rate	High	12.7	11.6	9.7
	Low	7.5	4.5	3.4
Consumption	High	2.4	10.1	7.0
	Low	-11.8	-0.1	1.4
Investment	High	-3.2	13.6	21.6
	Low	-31.6	-8.0	2.5

Source: Bloomberg

Early Reopening Economic Signs Have Been Optimistic

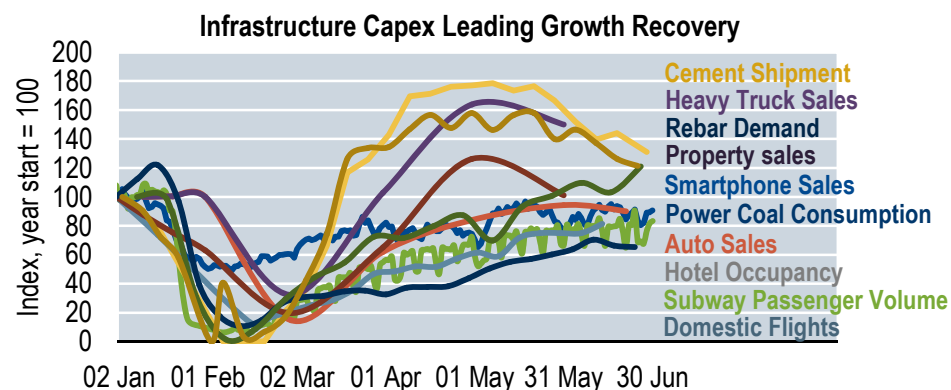


Source: Bloomberg. As of 06 Jul 20

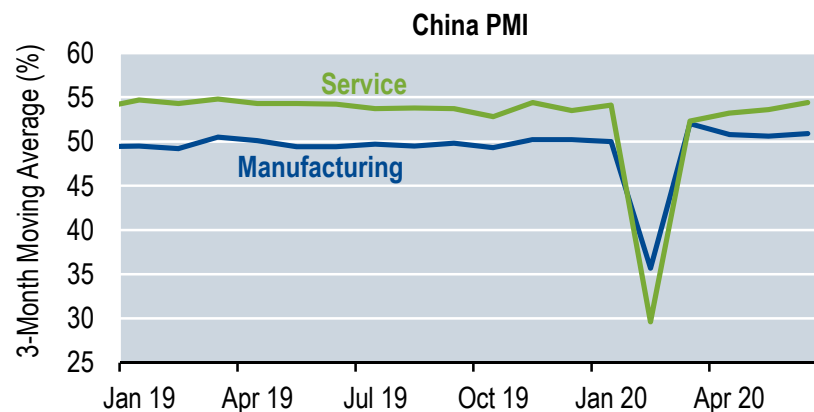
China's Recovery Is Picking Up Steam

Spread of COVID-19 largely arrested

- The pandemic-induced economic shock in China is coming to a close:** China had the ability to arrest the 1st wave of COVID-19 infections. The low reservoir of active cases, and use of non-pharmaceutical interventions (e.g., intensive testing, contact tracing, quarantine and mobility restrictions) have been successful in arresting the 2nd wave of virus flare-ups.
- China's recovery is picking up steam:** While the road will be bumpy, government support measures to stimulate the economy have underpinned the recovery, and growth is expected to have turned positive in 2Q20. China continues to have sufficient headroom to implement fiscal and monetary measures to maintain growth momentum.
- Key vulnerability to China's post COVID-19 economic recovery lies on the external front.** The pandemic has led to overseas demand destruction, supply chain disruption and nationalization amid a backdrop of increasing US-China geopolitical tensions.



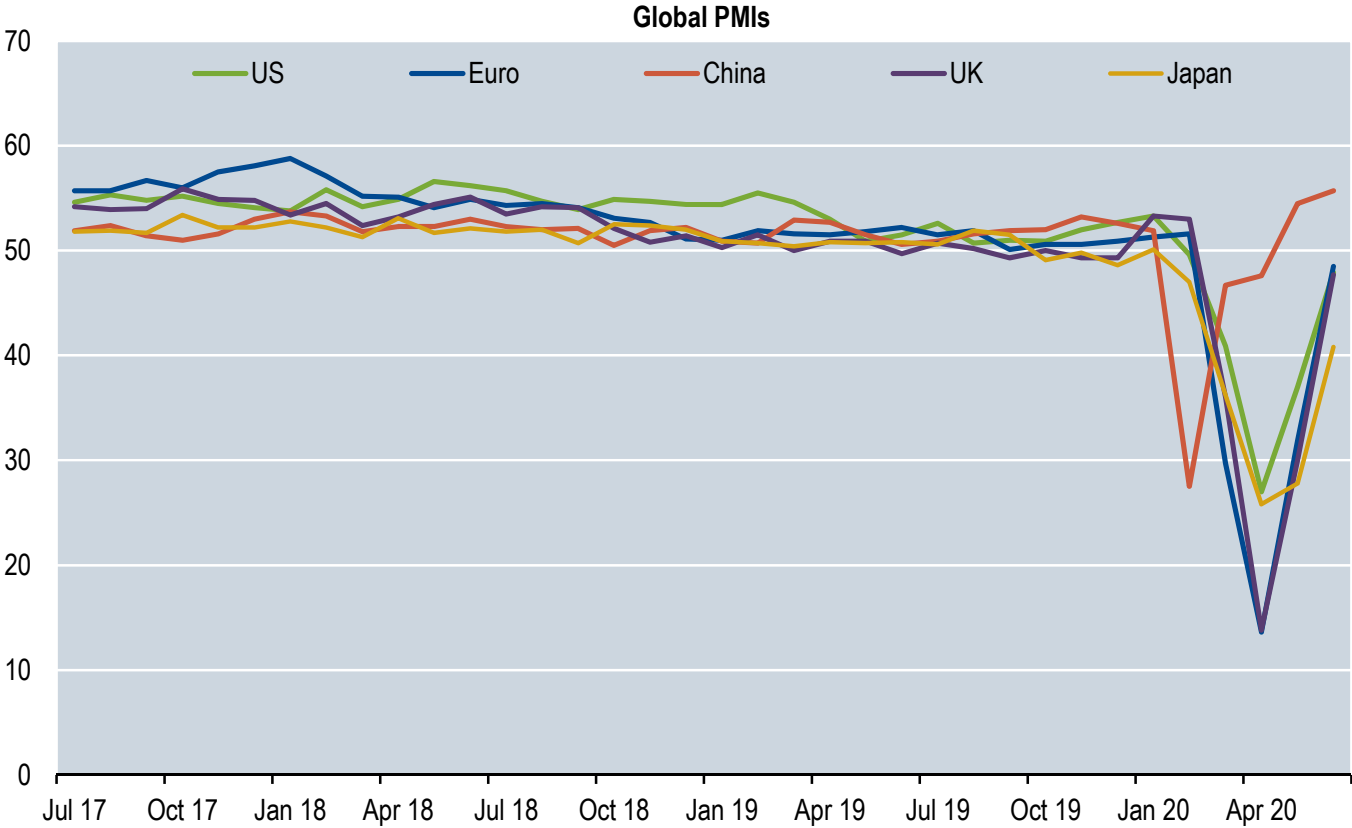
Source: CEIC, Wind, STR, CPCA, Company Data, TravelSky, Morgan Stanley Research. As of 30 Jun 20



Source: Bloomberg. As of 30 Jun 20

The above reflects current opinions of Western Asset and are subject to change with market conditions. As of 30 Jun 20

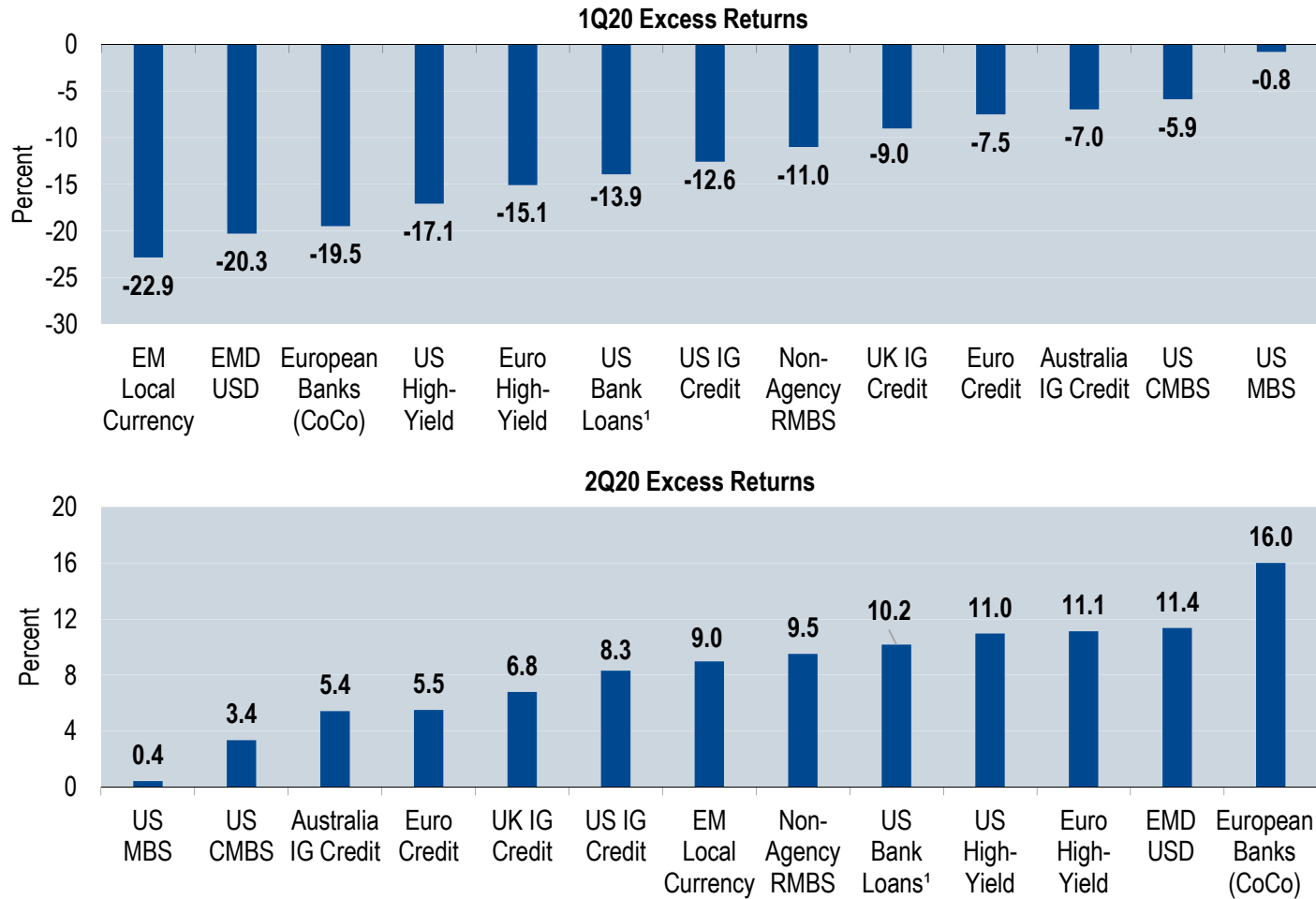
The Global Road to Recovery Appears to Have Started



Source: Bloomberg. As of 30 Jun 20

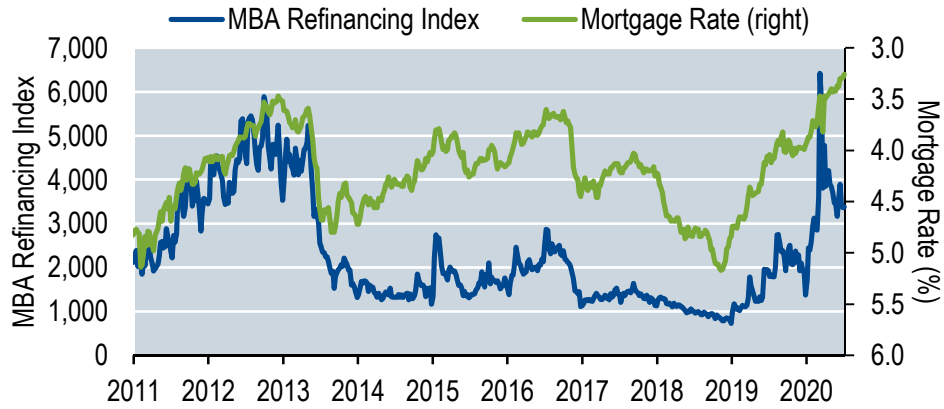
A Tale of Two Quarters

Spread Sector Excess Returns – 1Q20 vs. 2Q20

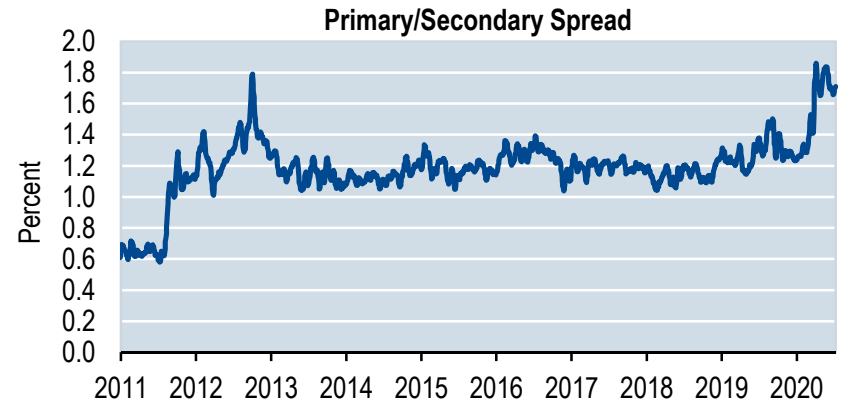


Source: Bloomberg Barclays, J.P. Morgan, S&P Global Market Intelligence, a division of S&P Global Inc, Western Asset
¹S&P/LSTA Performing Loans Index excess return vs. 3-Month LIBOR

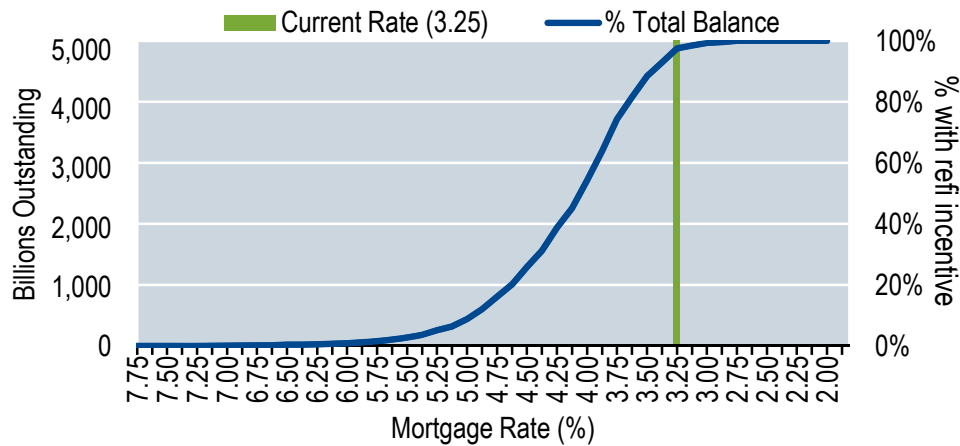
Prepayment Risk Is Accelerating



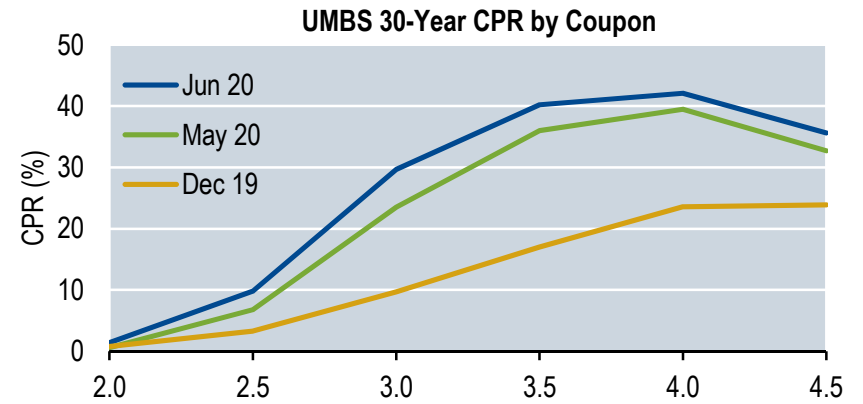
Source: MBA, Bloomberg. As of 07 Jul 20



Source: Bloomberg. As of 07 Jul 20



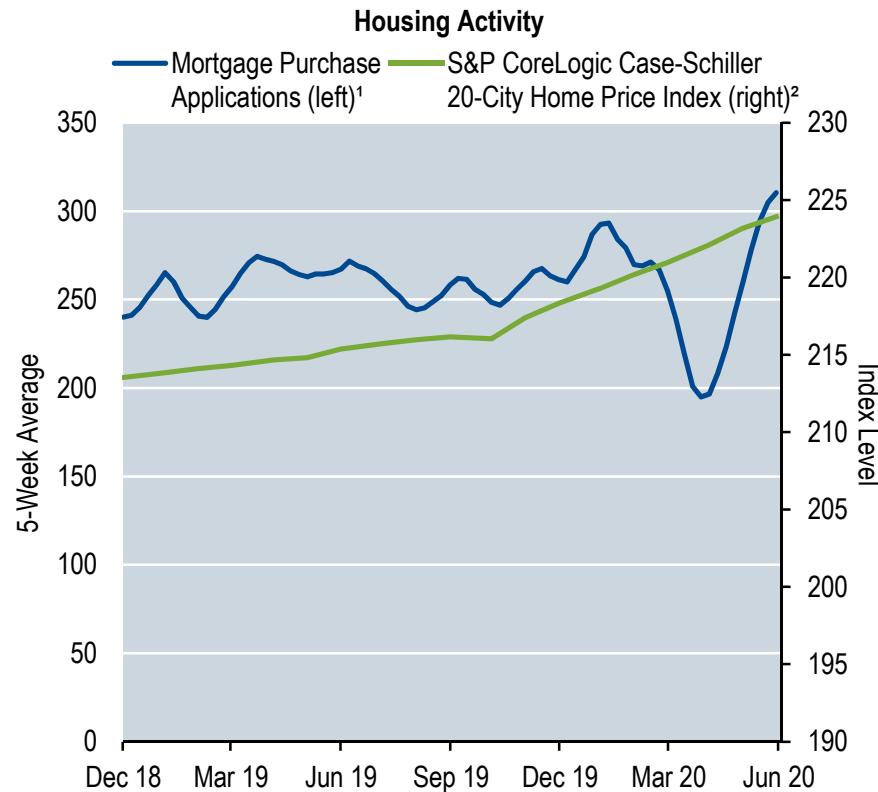
Source: CPRCDR, Mortgage Bankers Association, Western Asset. As of 06 Jul 20



Source: CPR CDR. As of 30 Jun 20

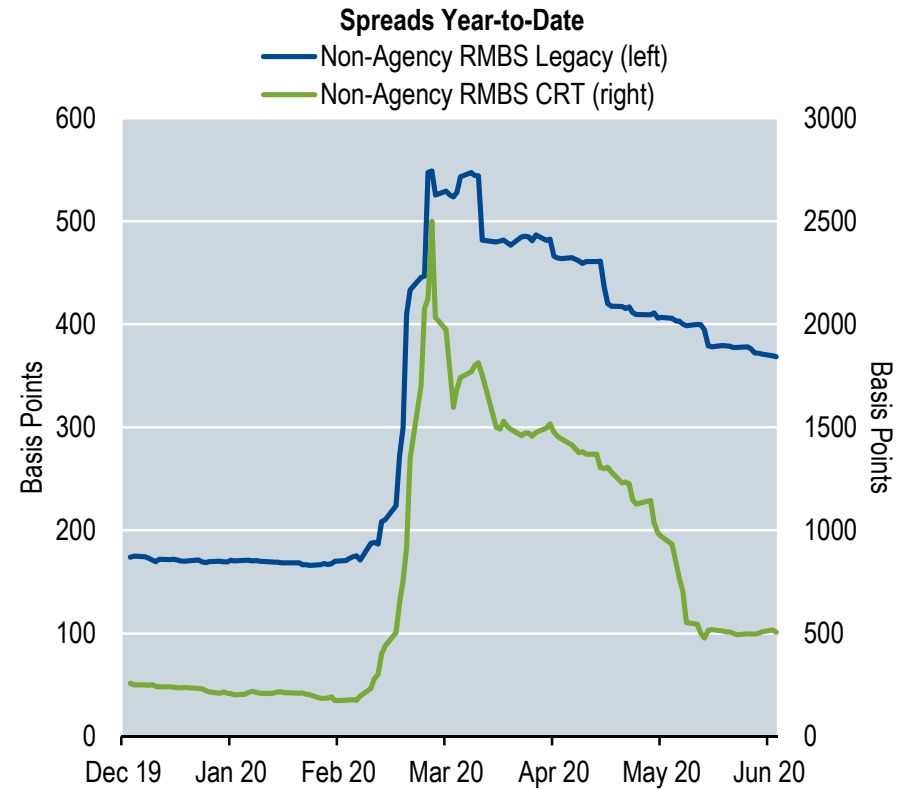
Housing Market Recovery Path

Housing has experienced a V-shaped recovery but spreads have lagged due to continued uncertainty and less direct Fed intervention.



¹Source: Bloomberg, MBA. As of 26 Jun 20

²Source: S&P CoreLogic Case-Schiller. As of released date 29 Jun 20

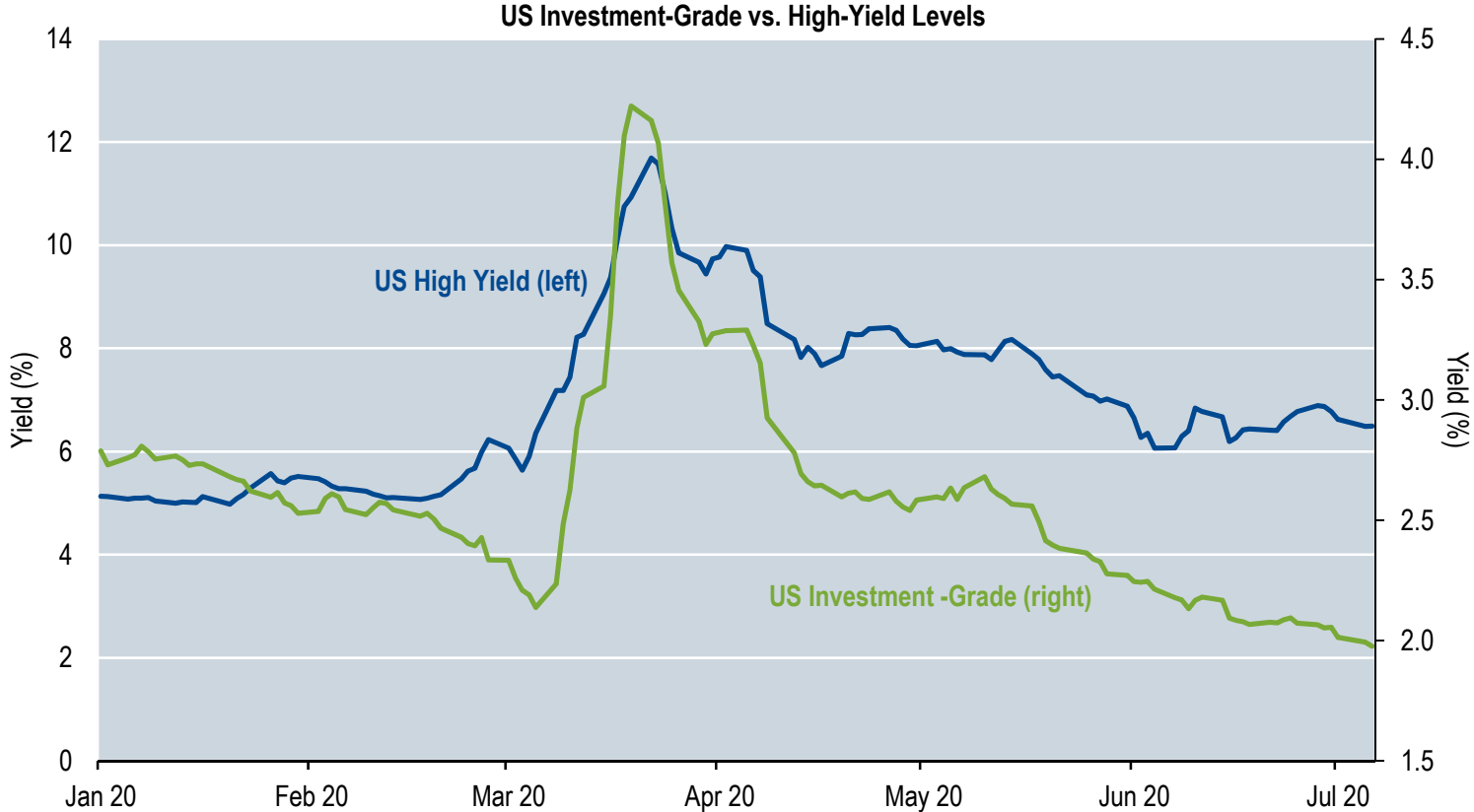


Source: Bloomberg Barclays, J.P. Morgan. As of 30 Jun 20

Investment-Grade as “Cornerstone Investment”

“The pace of purchases is based upon an array of measures of corporate bond market functioning ... If these measures indicate sustained improvement **to levels at or near those prevailing prior to the COVID-19 dislocation**, SMCCF purchases are expected to slow notably and, in some cases, could pause entirely. If those measures subsequently indicate a deterioration in market functioning, however, SMCCF purchases would be expected to increase.”

– NY Federal Reserve, Corporate Credit Market Facility FAQ, June 29, 2020



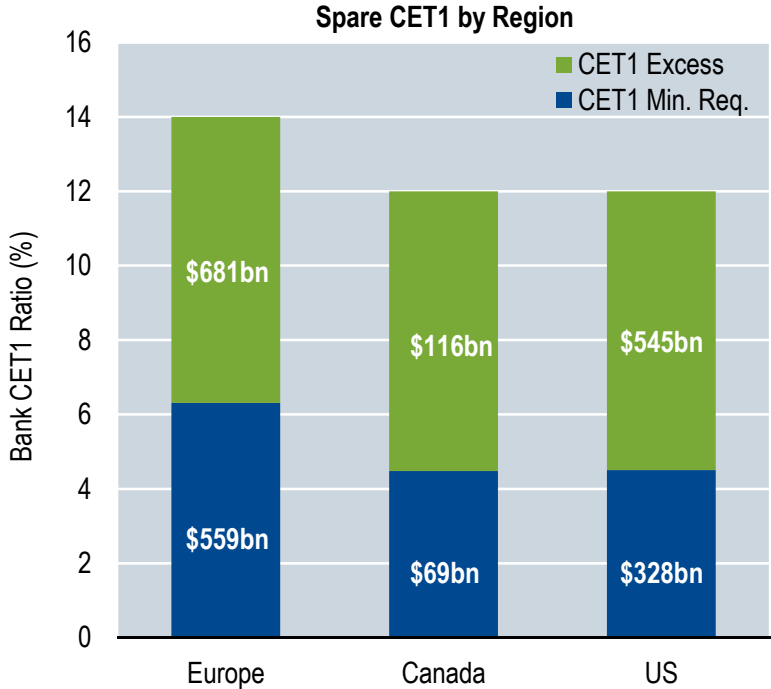
Source: Bloomberg Barclays. As of 07 Jun 20

Banks Are Well Capitalized

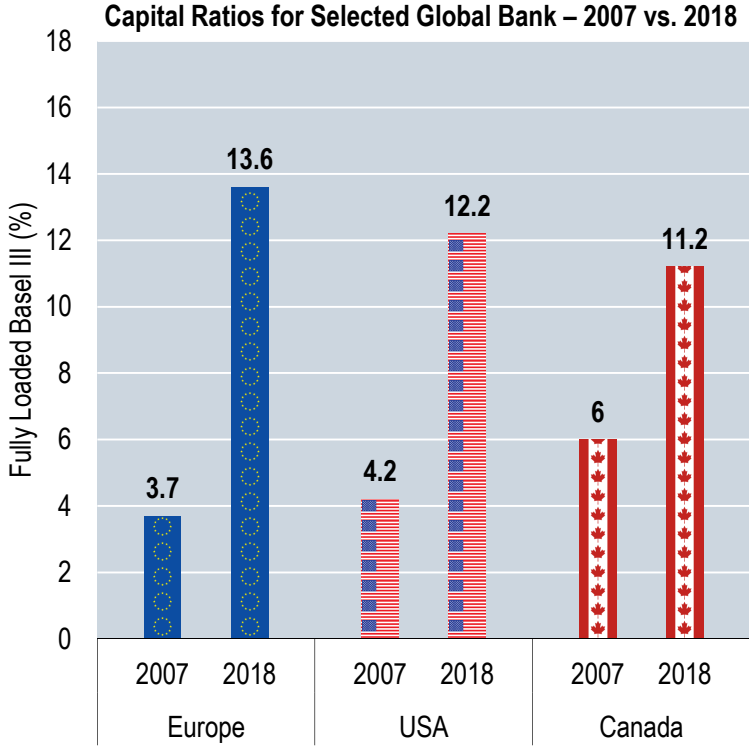
CET1 levels are more than double that of the minimum requirements and banks have 2-4x the amount of capital relative to 2007

Global regulatory landscape and conservative stress tests over last decade have made banking a stronger, safer and simpler industry

Fiscal and monetary stimulus combined with limited shareholder payouts should provide balance sheet support in economic downturn



Source: BNP Paribas; Bank Annual Reports and Quarterly Updates 2019.
As of 19 Mar 20
Number of banks in sample: Europe 39, Canada 7, US 12

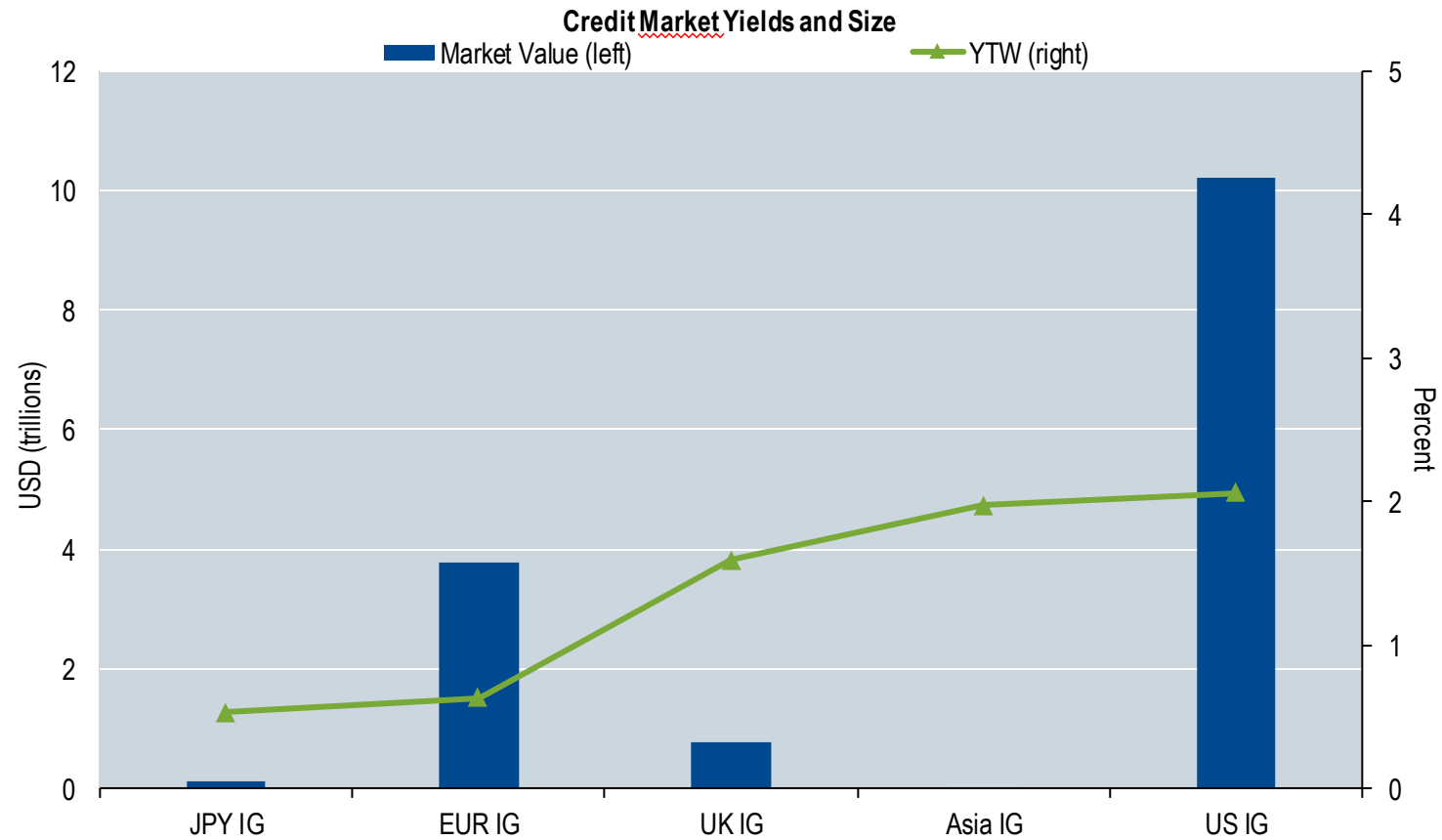


Source: BNP Paribas. As of 28 Feb 19



US Credit Markets Offer Both Attractive Yield and Size

Relative to other mature markets, US credit markets are attractive to a global investor.



Source: Bloomberg Barclays. As of 07 Jul 20
Bloomberg Barclays Global Credit Index by Currency

High-Yield Appears Selectively Attractive

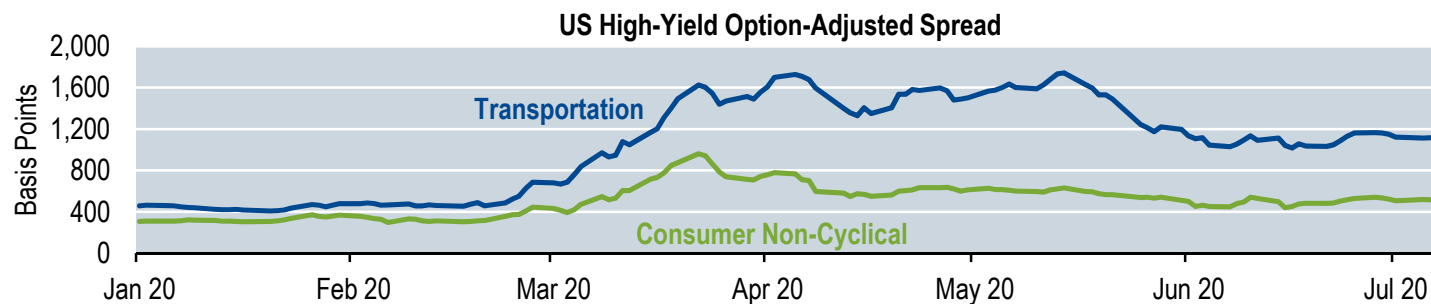


Bloomberg Barclays U.S. High-Yield Index OAS: +589 bps

Recovery Rate: 30%	Year 1	Year 2	Year 3	Year 4	Year 5
Annual Default Rate	8.1%	8.1%	8.1%	8.1%	8.1%
Cumulative Default Rate	8.1%	15.5%	22.3%	28.6%	34.3%

Recovery Rate: 40%	Year 1	Year 2	Year 3	Year 4	Year 5
Annual Default Rate	9.4%	9.4%	9.4%	9.4%	9.4%
Cumulative Default Rate	9.4%	17.8%	25.5%	32.5%	38.8%

Source: Bloomberg Barclays, Western Asset. As of 07 Jul 20

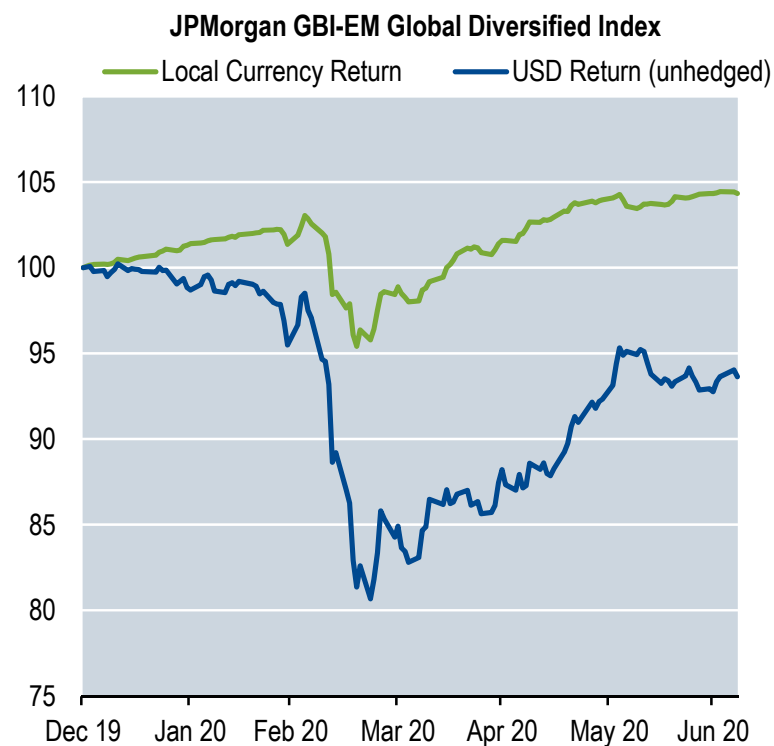


Emerging Markets: Containing Downside Growth Risk Is Overriding Priority

Aggressive policy ease will anchor rates, while EM FX acts as macro relief valve

	Policy Rate Ease	
	Current (%)	YTD Rate Change (%)
Brazil	2.25	-2.25
Chile	0.50	-1.25
Colombia	2.50	-1.75
Indonesia	4.25	-0.75
Malaysia	2.00	-1.00
Mexico	5.00	-2.25
Peru	0.25	-2.00
Philippines	2.25	-1.75
Poland	0.10	-1.40
Russia	4.50	-1.75
South Africa	3.75	-2.75
Turkey	8.25	-3.75

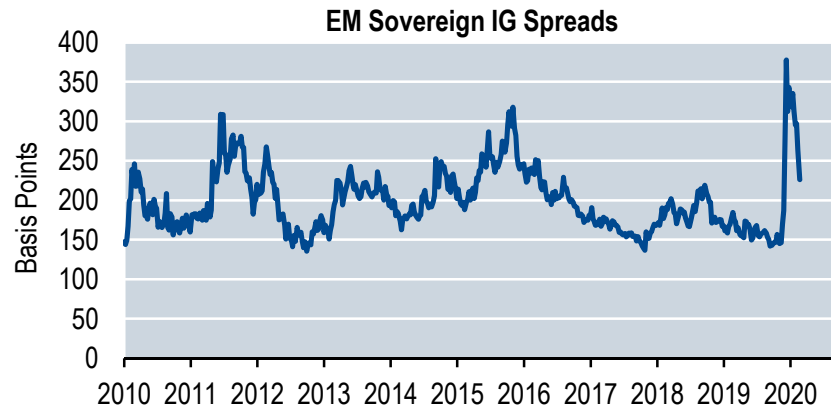
Source: Bloomberg. As of 07 Jul 20



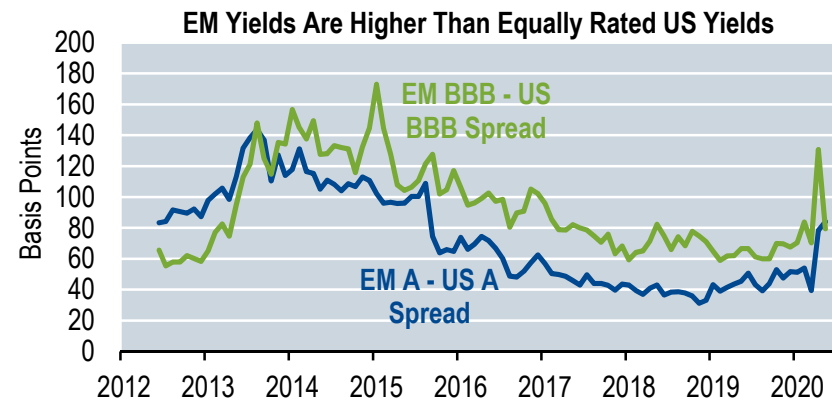
Source: J.P. Morgan. As of 07 Jul 20

High Quality EM Appears Attractive

EM Hard Currency Debt Offers Value on Both Absolute and Relative Basis

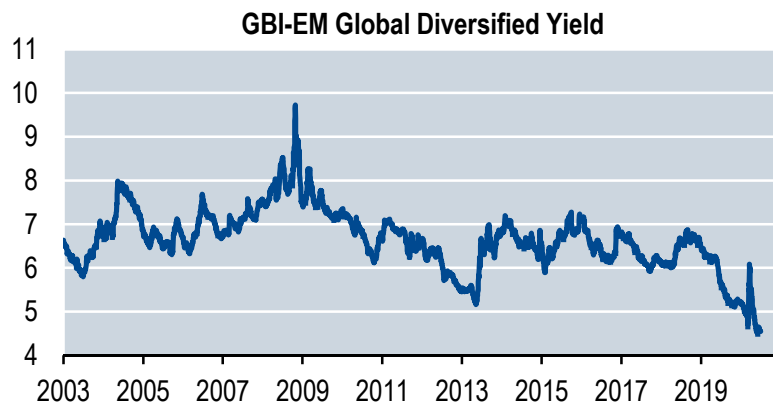


Source: J.P. Morgan. As of 31 May 20

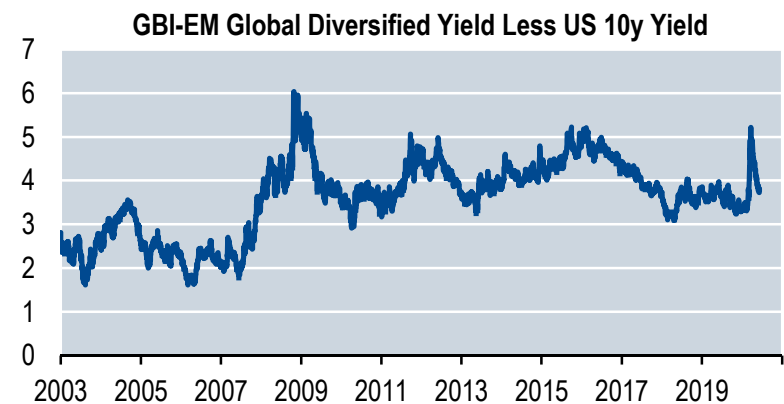


Source: Bloomberg Barclays, J.P. Morgan. As of 31 May 20

EM Local Market Yields are Still at Attractive Levels

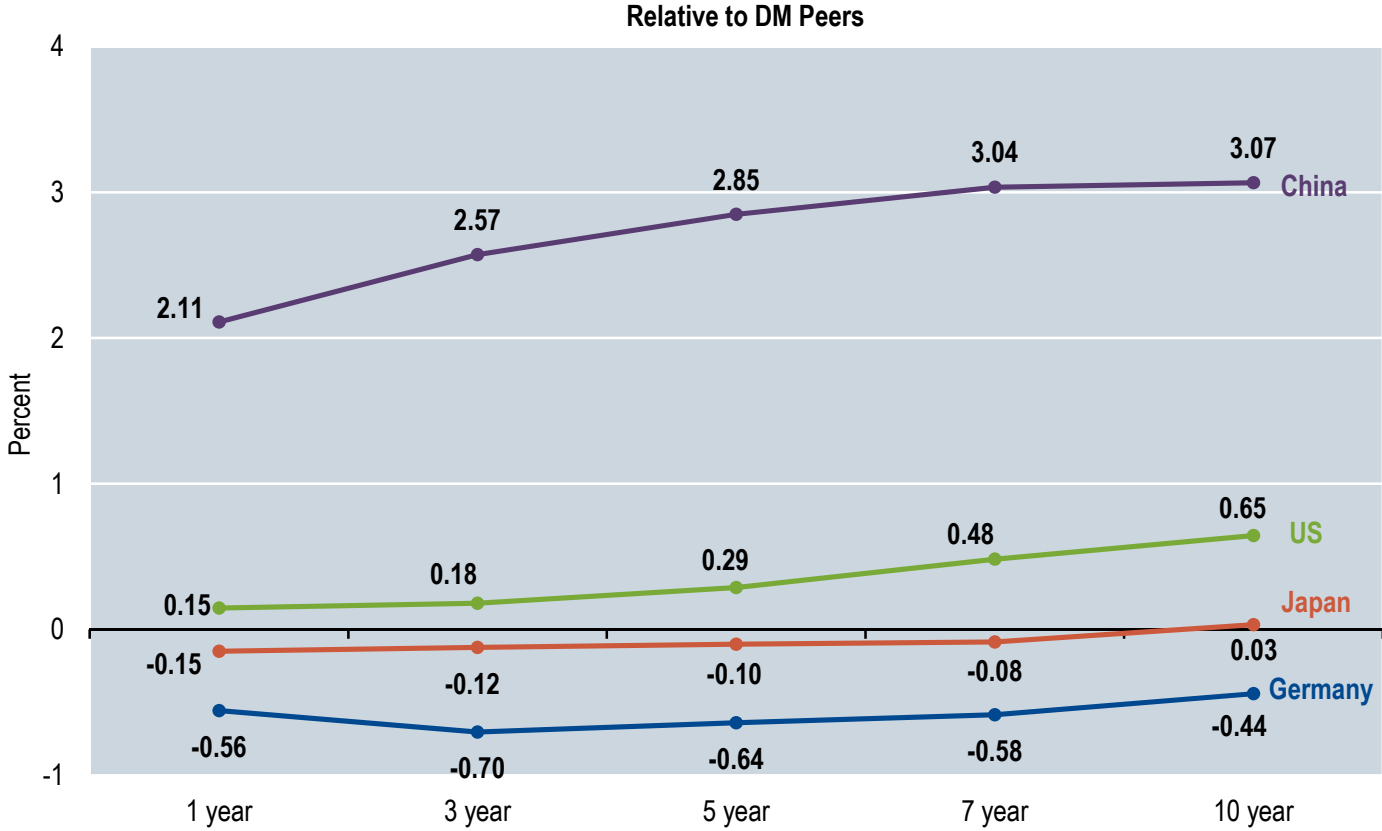


Source: Bloomberg. As of 30 Jun 20



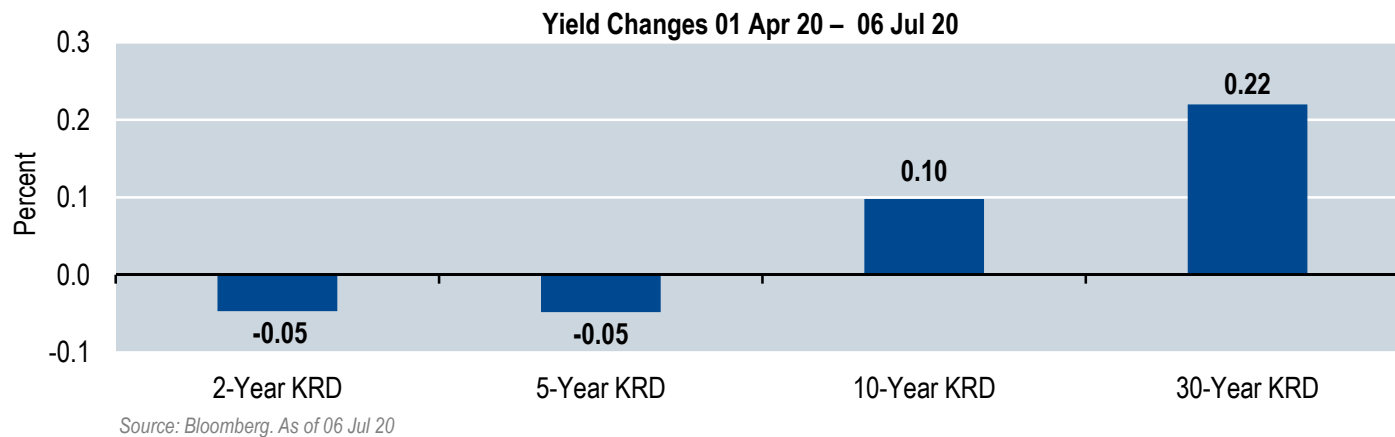
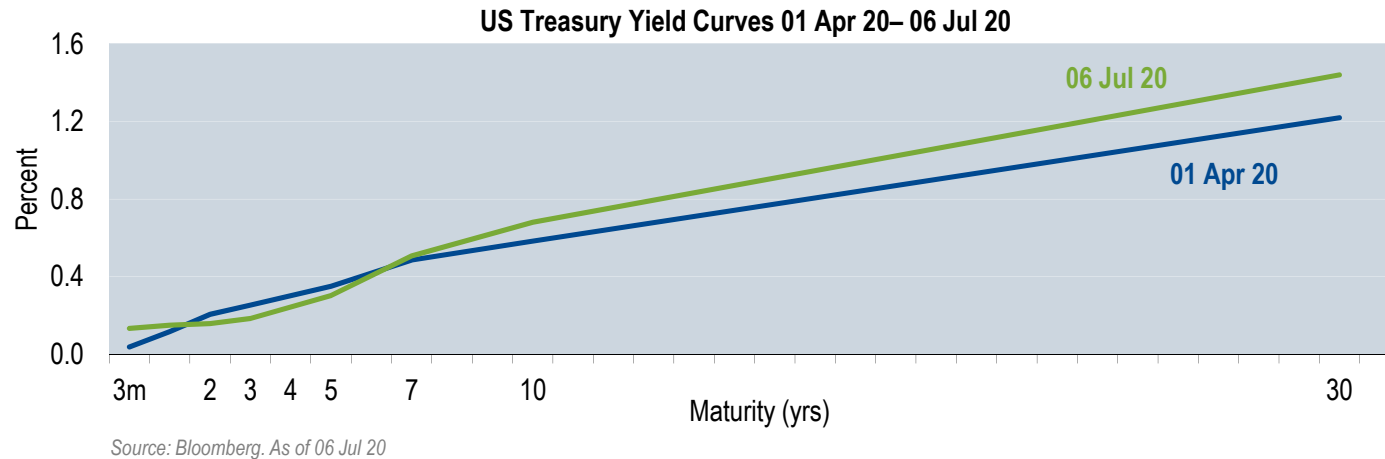
Source: Bloomberg. As of 30 Jun 20

China Local Onshore Bonds Offer Attractive Valuations

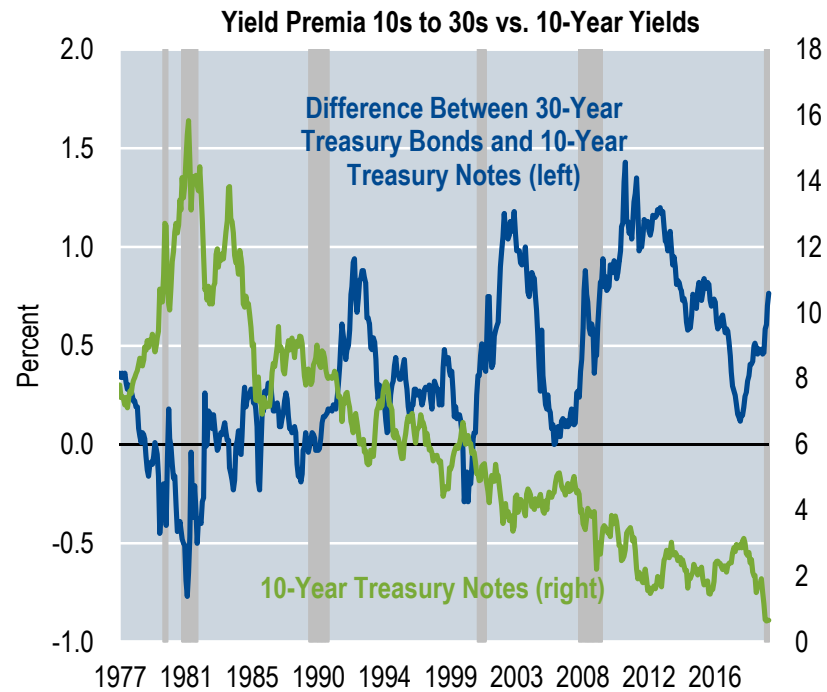


Source: Bloomberg. As of 08 Jul 20

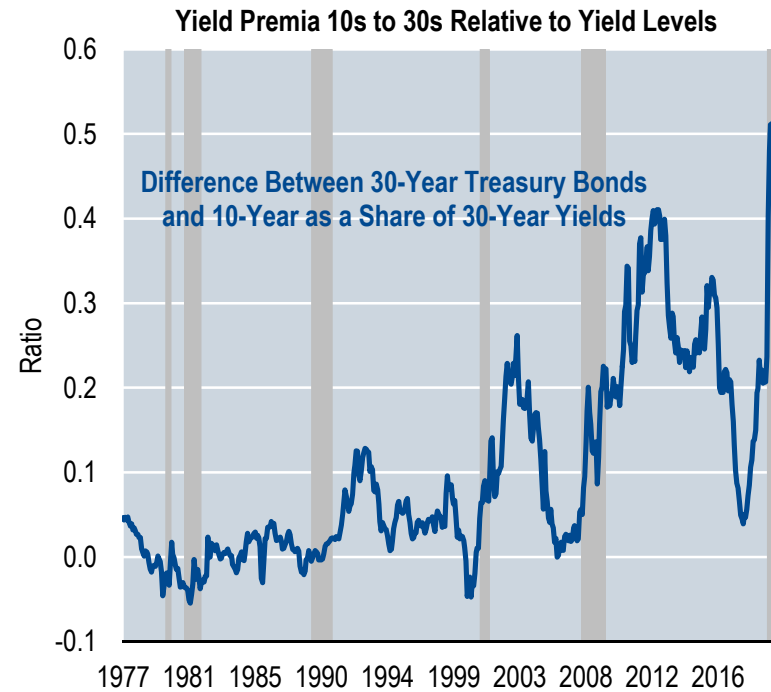
US Treasury Yields



Long Maturity US Treasury Yield Curve Flatteners Present Interesting Hedging Opportunities



Source: Moody's, Federal Reserve, Bloomberg. As of 30 Jun 20
Shaded areas indicate recessions.



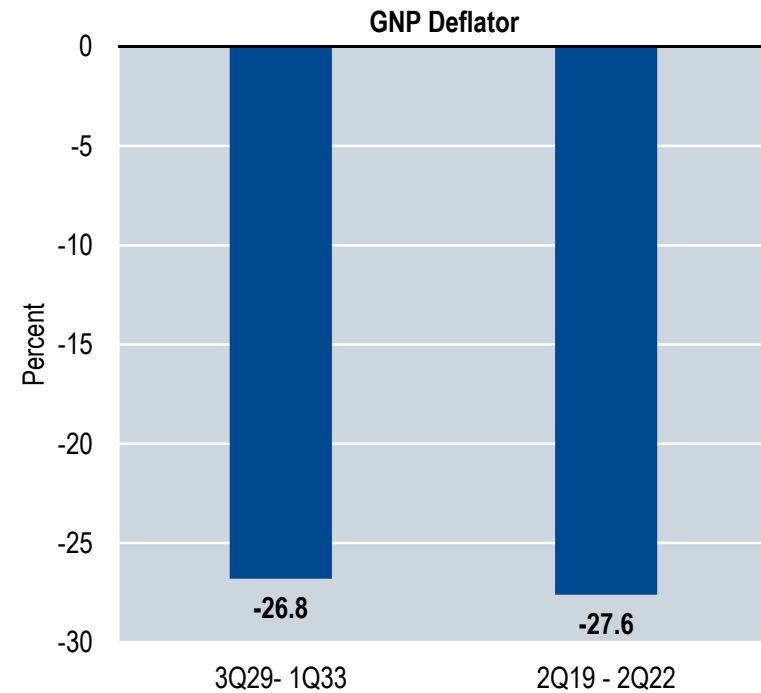
Source: Moody's, Federal Reserve, Bloomberg. As of 30 Jun 20
Shaded areas indicate recessions.

Inflation Uncertainty Is Extreme

Virtually inconceivable inflationary monetary and fiscal policies are being unleashed into a seemingly deflationary abyss

10-Year Breakeven Inflation (%)	
Australia	1.11
Canada	0.84
Germany	0.69
Japan	-0.03
US	1.40

Source: Bloomberg. As of 08 Jul 20



Source: National Bureau of Economic Research

Outlook

Second Half 2020

Coronavirus-related growth setbacks have meaningfully reduced global and US growth

Incipient global recovery appears to be gaining traction

The medical battle will take time and prolonged efforts; recent developments are encouraging

US and global inflation rates are expected to be very subdued

Central banks will remain extraordinarily accommodative

Fiscal policy should continue to ramp up to provide relief efforts

Even after recovery begins, central banks are expected to keep rates ultra low

Spread products ultimately should be primary beneficiaries of recovery

The timing and slope of eventual recovery remain the largest uncertainties

Questions & Answers



Thank you.

Risk Disclosure

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