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February 9, 2023

Thank you for joining our webcast.

***Strategy Update:  
US Core and Core Plus***

*The presentation will begin shortly.*

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# Strategy Update: US Core and Core Plus

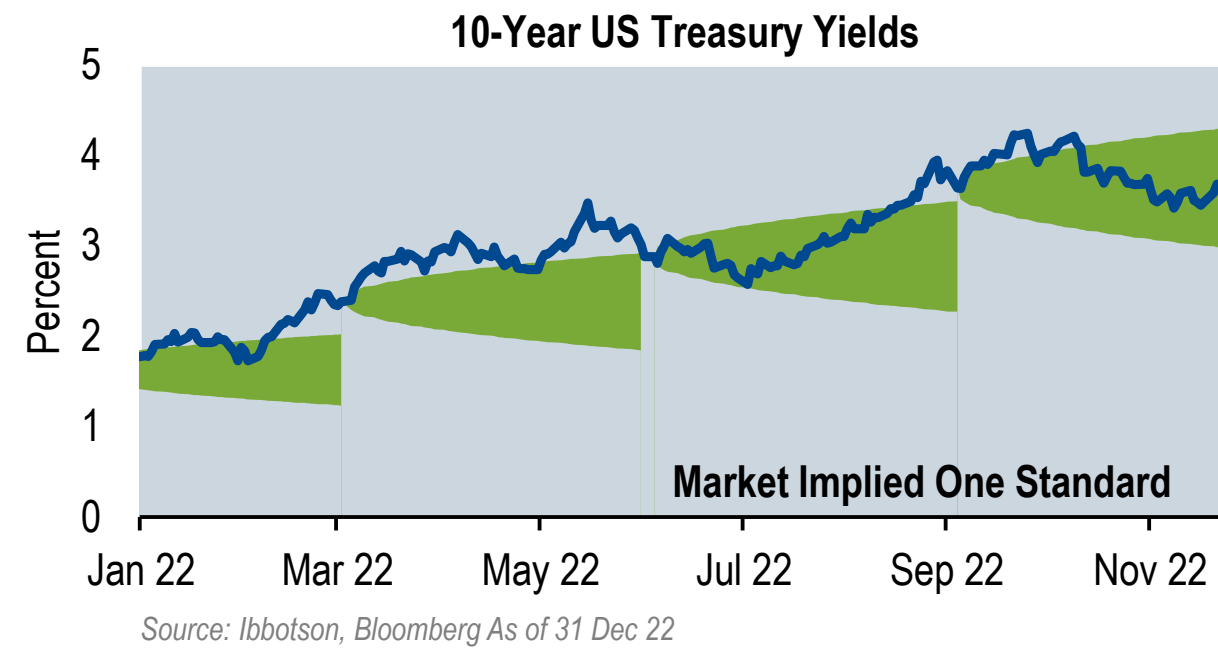
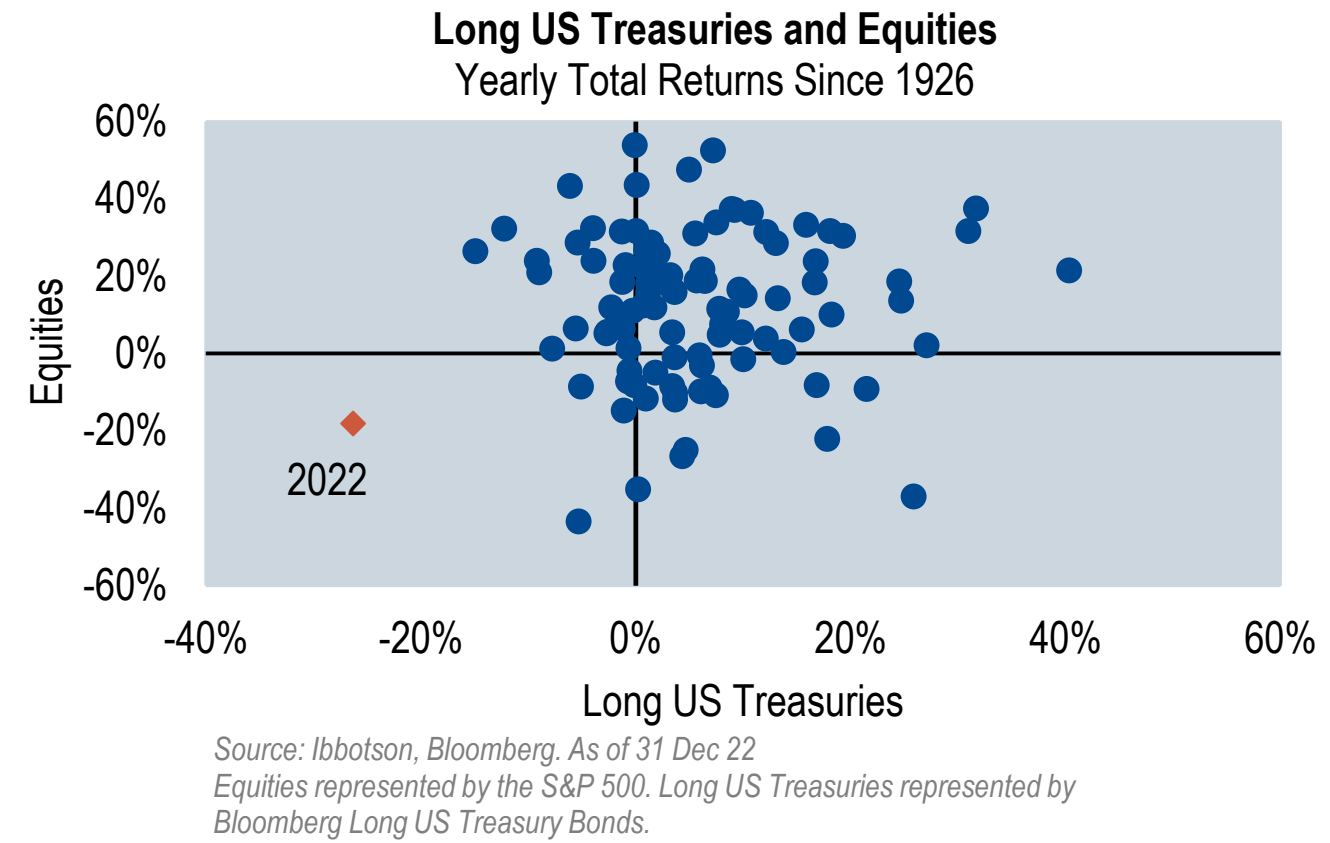
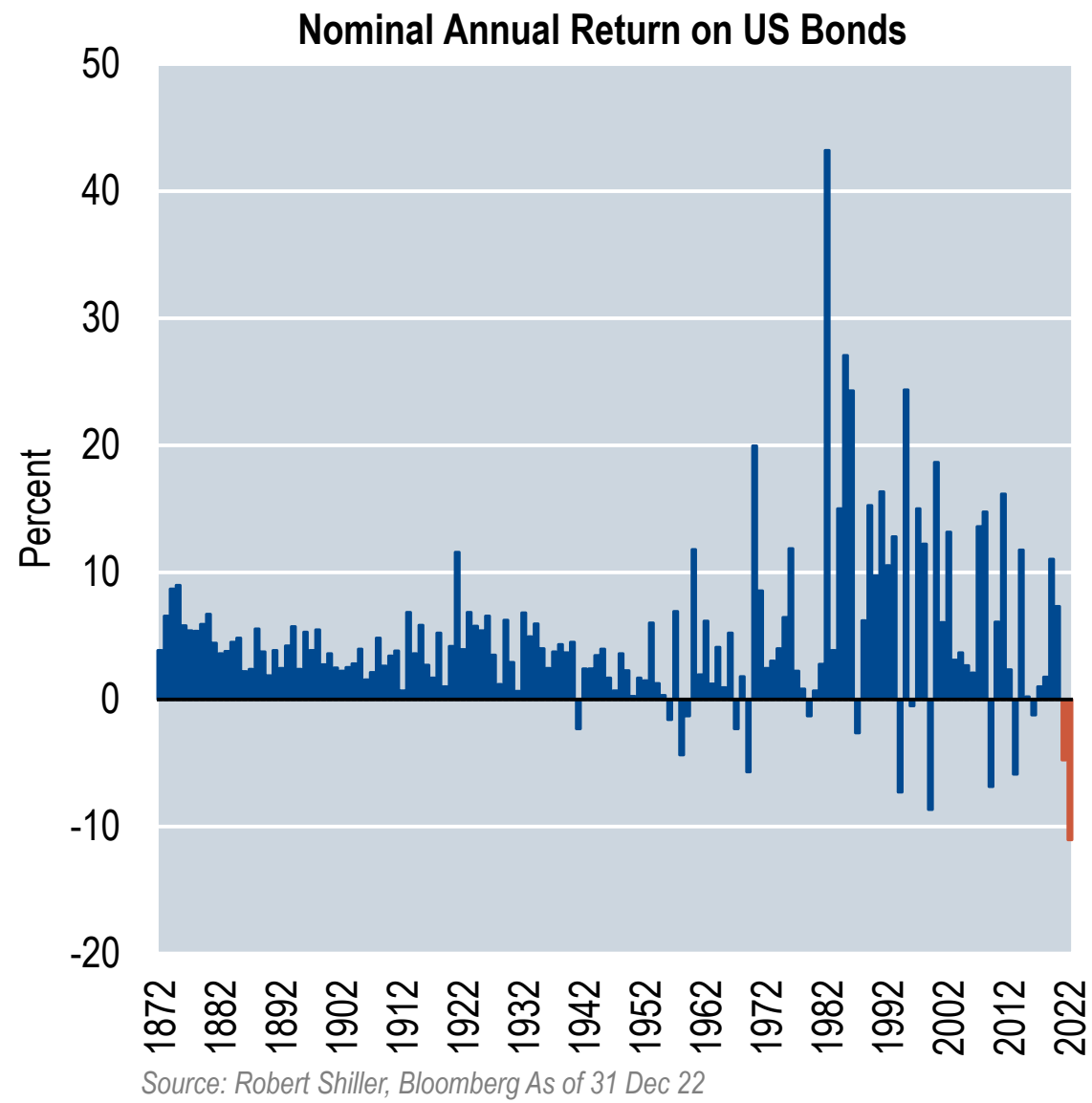
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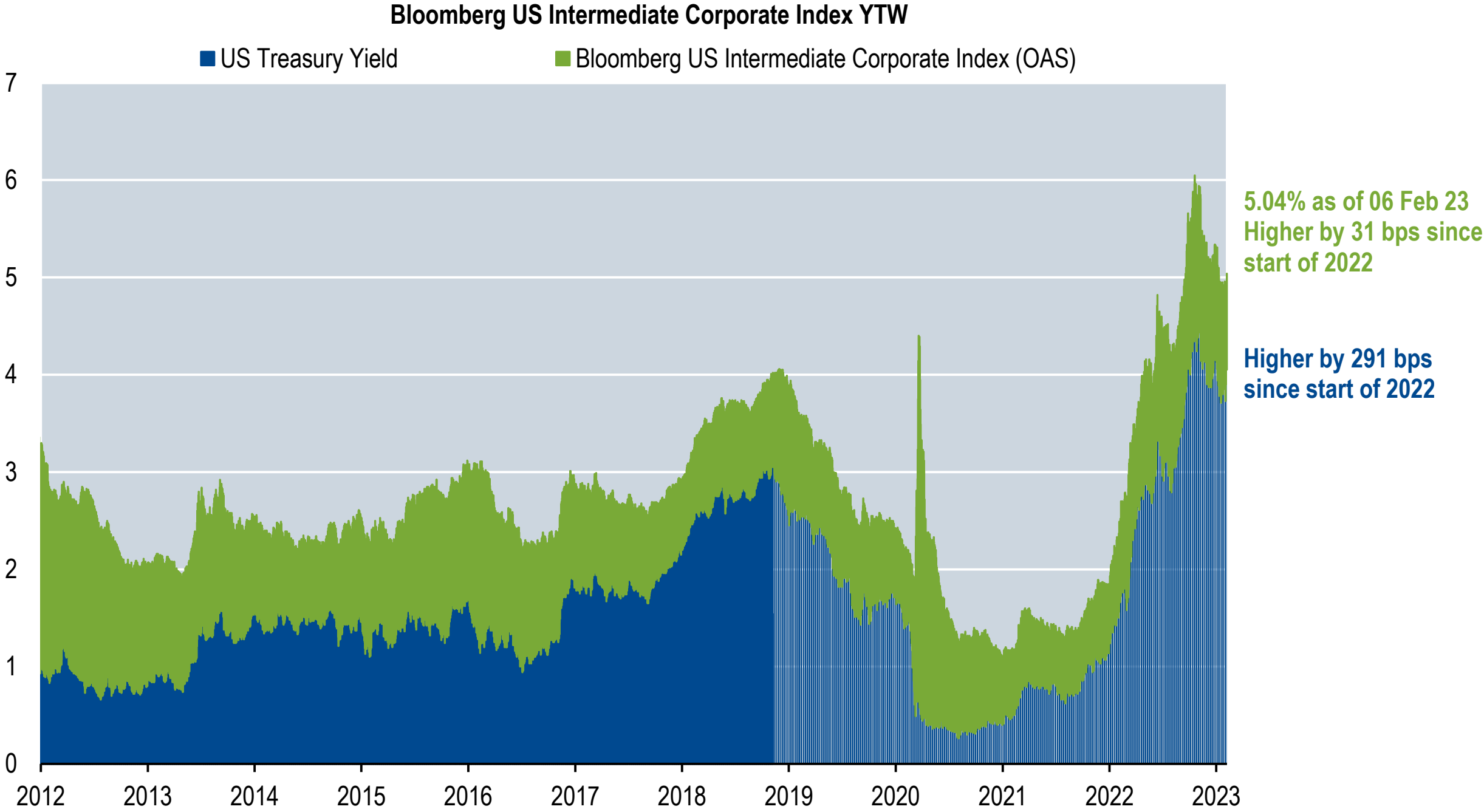
# 2022 – Year in Review

Worst year on record for US Treasury bonds; correlations broke down; volatility increased.



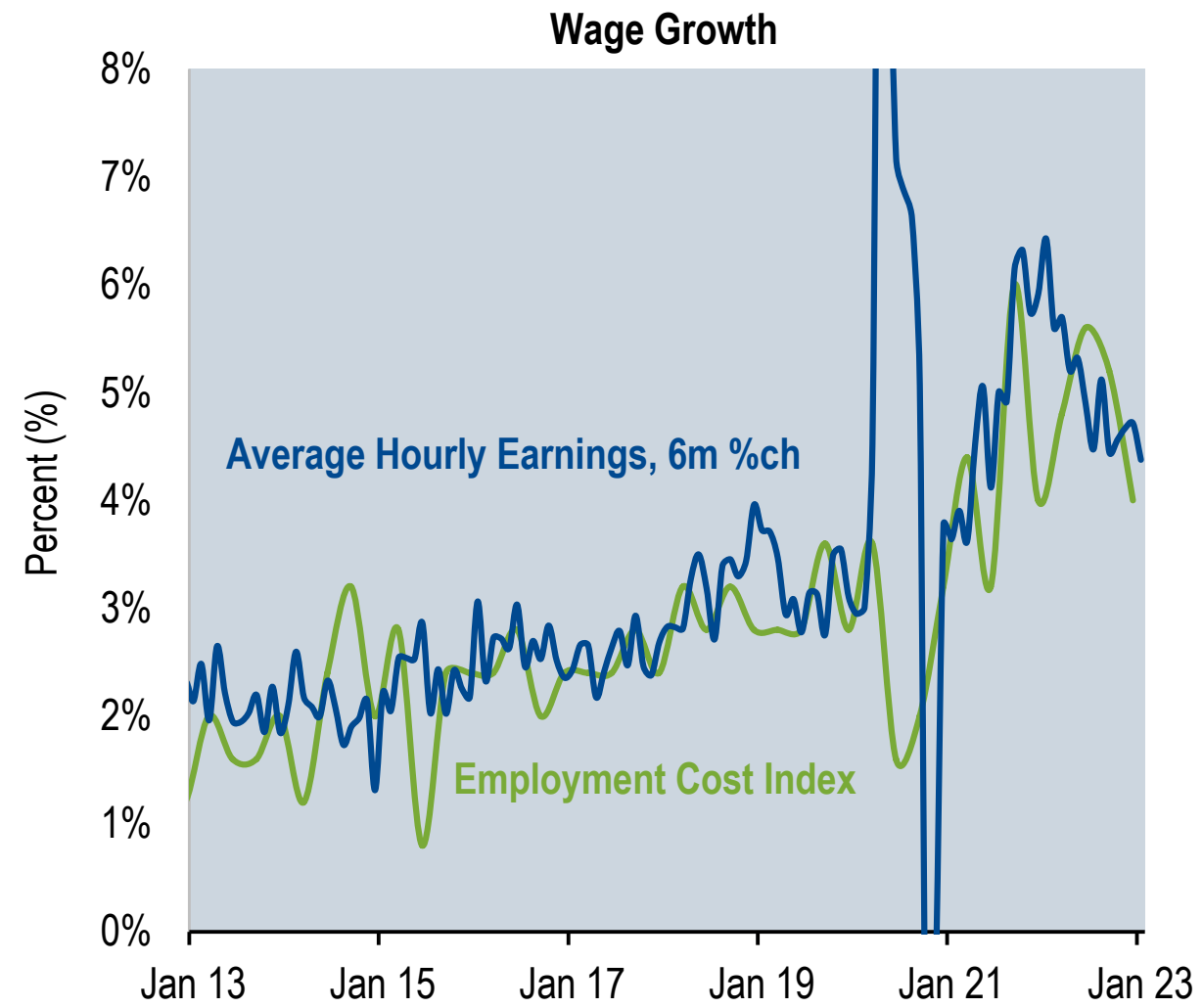
# Valuations Improved

Yields reached 6% on investment-grade bonds.

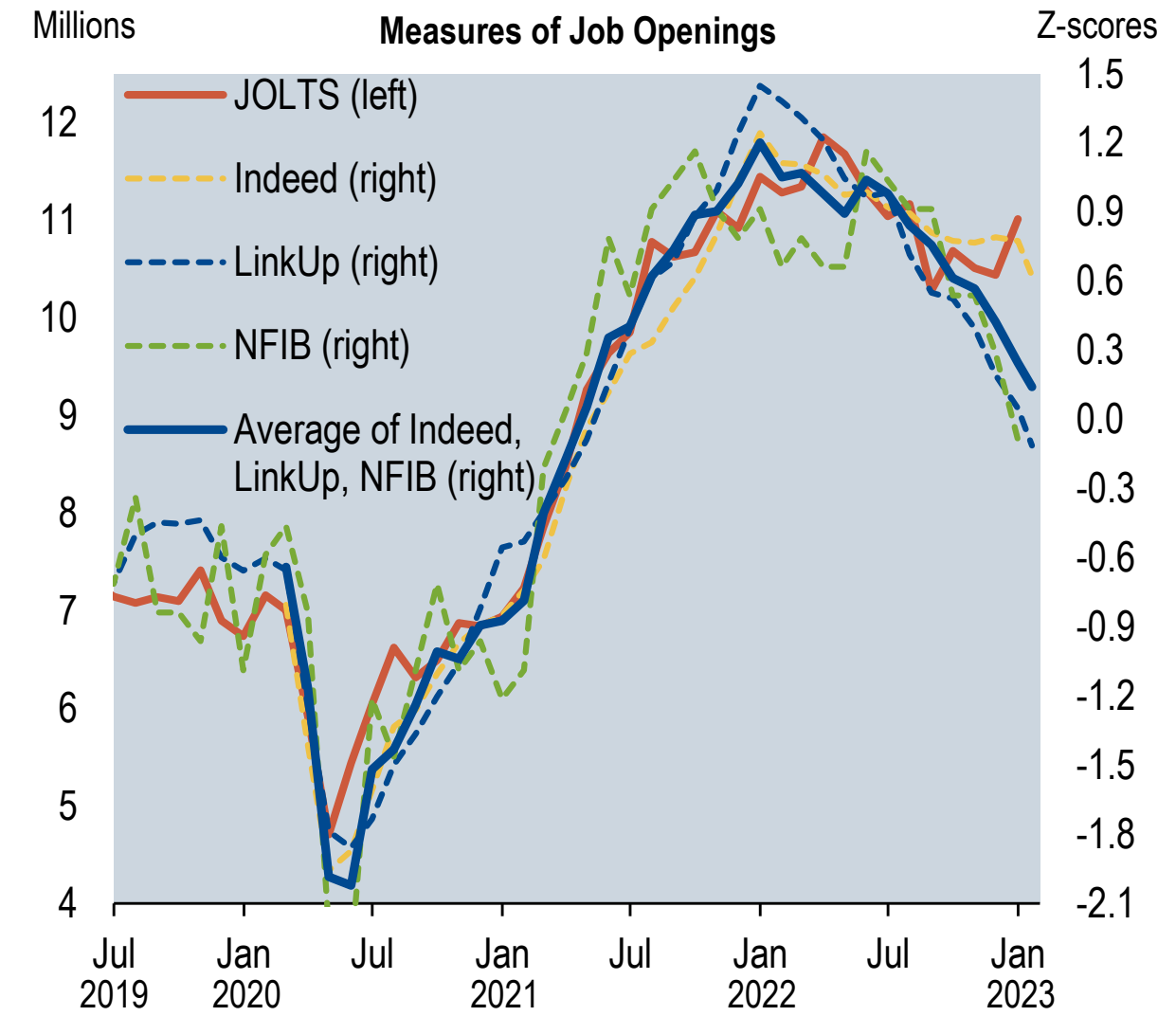


# Labor Market

Wage growth is normalizing; hiring has been strong, but openings are declining.



Source: Western Asset. As of 31 Jan 23



Source: Department of Labor, Indeed, LinkUp, NFIB, Goldman Sachs Global Investment Research. As of 31 Jan 23

# Fed Policy

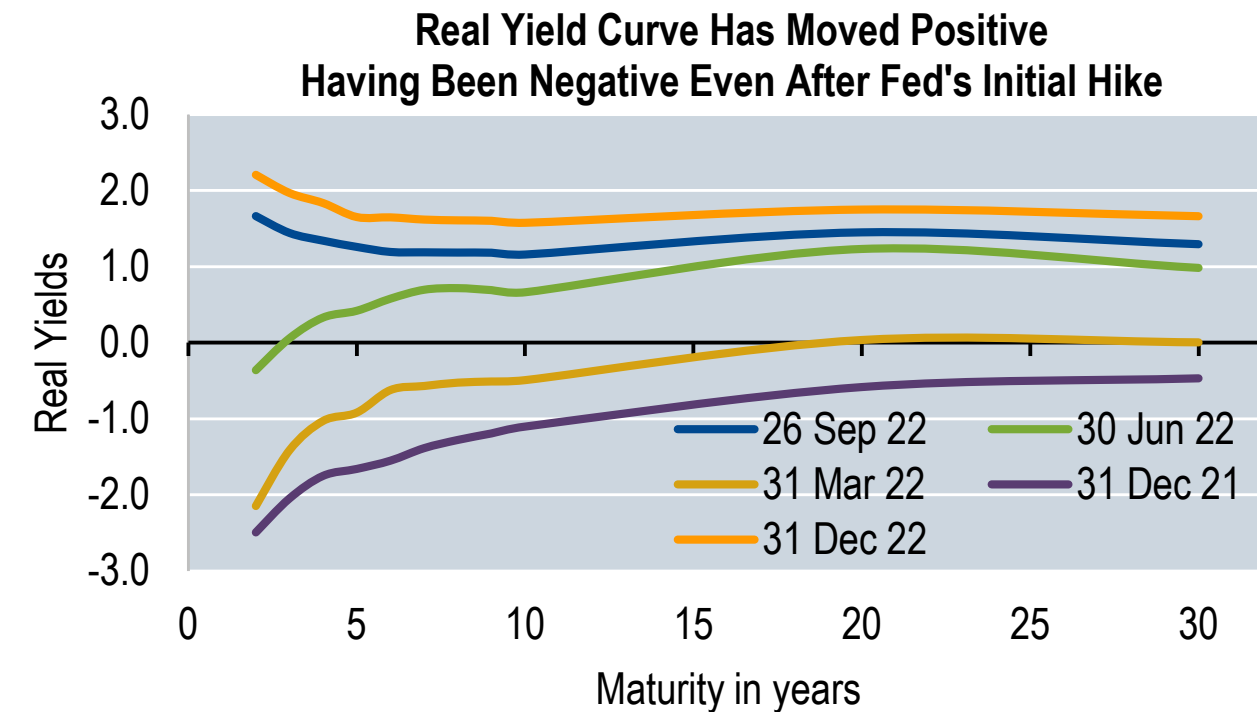
Behind the disinflation curve, policy is now restrictive.

“I will say that it is gratifying to see the disinflationary process now getting underway.”

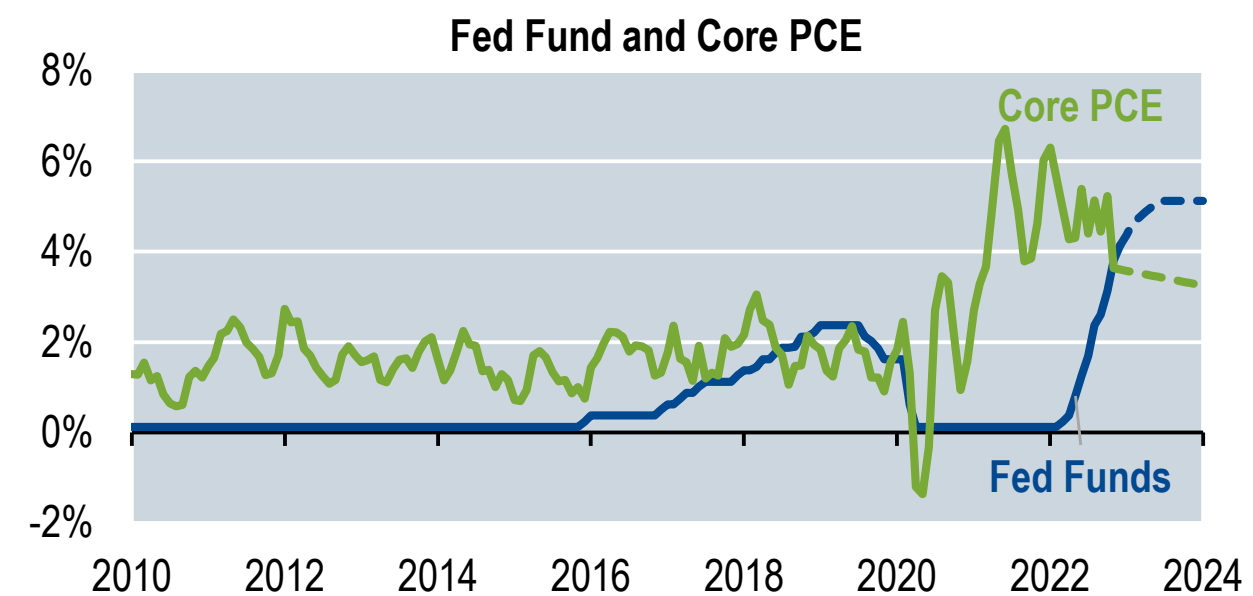
“We’re going to be cautious about declaring victory and sending signals that the game is won because we’ve got a long ways to go. It’s the early stages of disinflation”

“We’re living in a world of significant uncertainty. I would look across the spectrum of rates and see that real rates are now positive across the yield curve. I think policy is restrictive. We’re trying to make a fine judgment about how much is restrictive enough. That’s all.”

– Chair Powell, 2 Feb 23



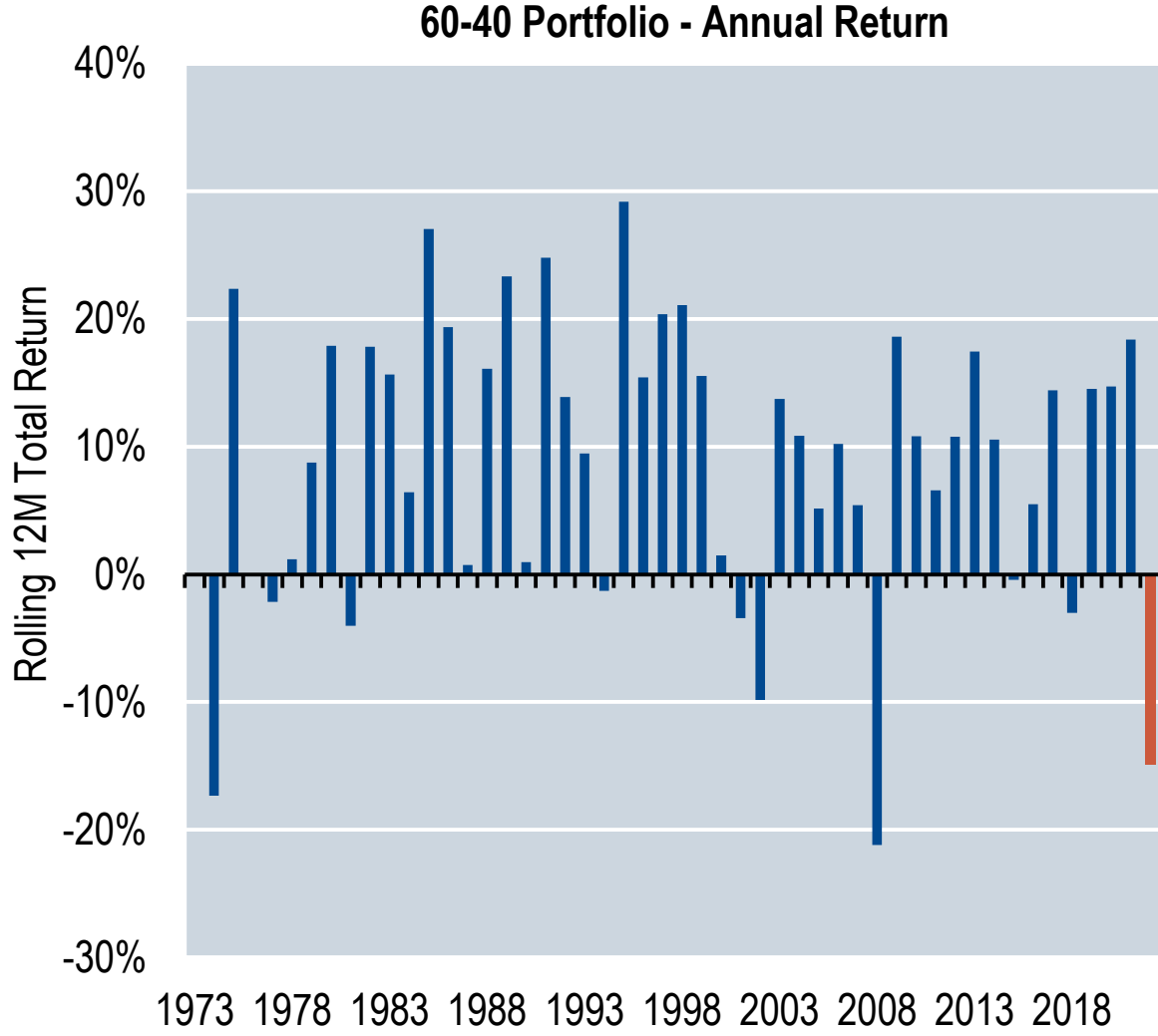
Source: Bloomberg



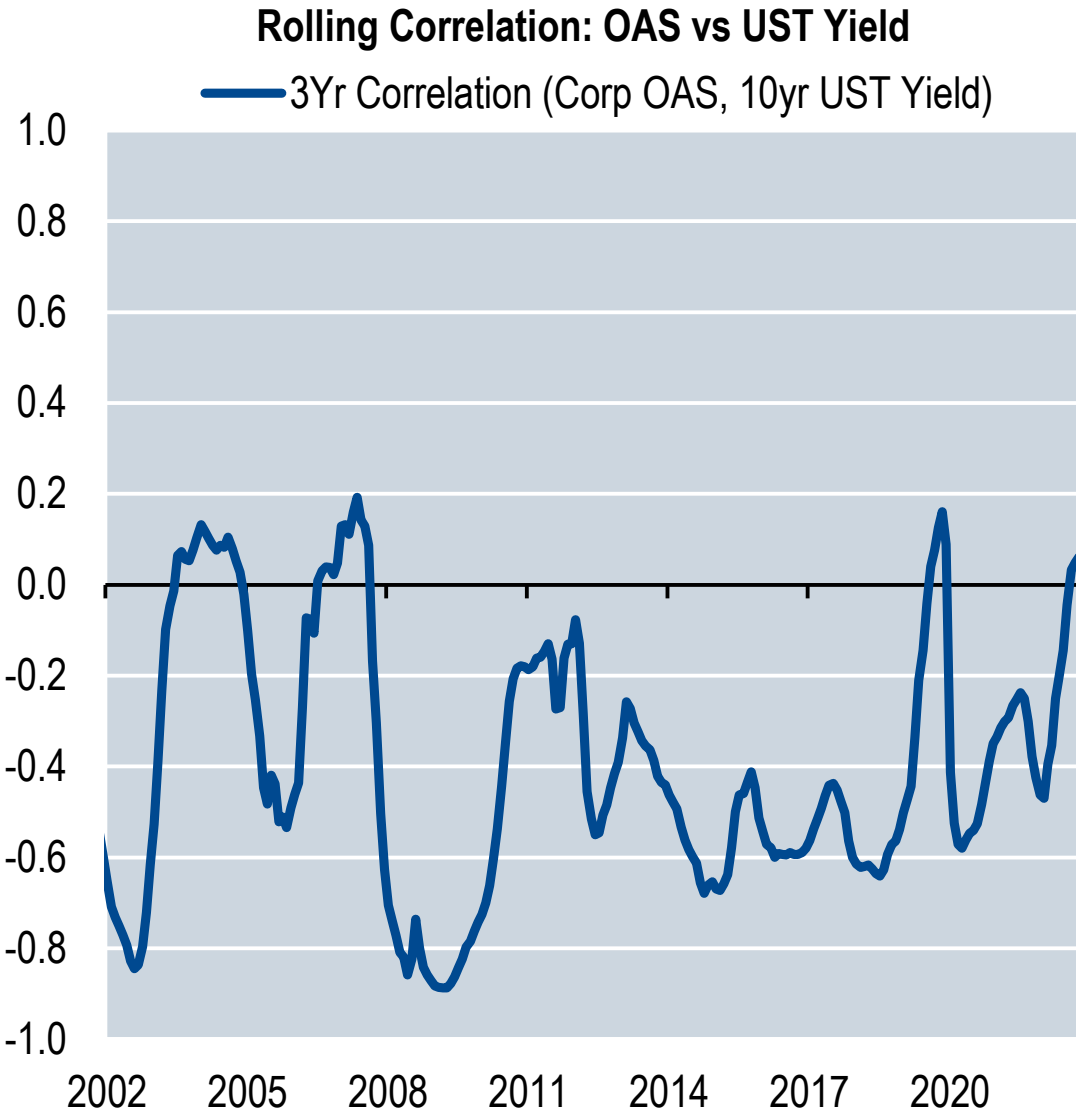
Source: Haver Analytics, Federal Reserve. As of 31 Dec 22

# Correlation Between Rates and Credit?

Growth risks contribute to negative correlation.



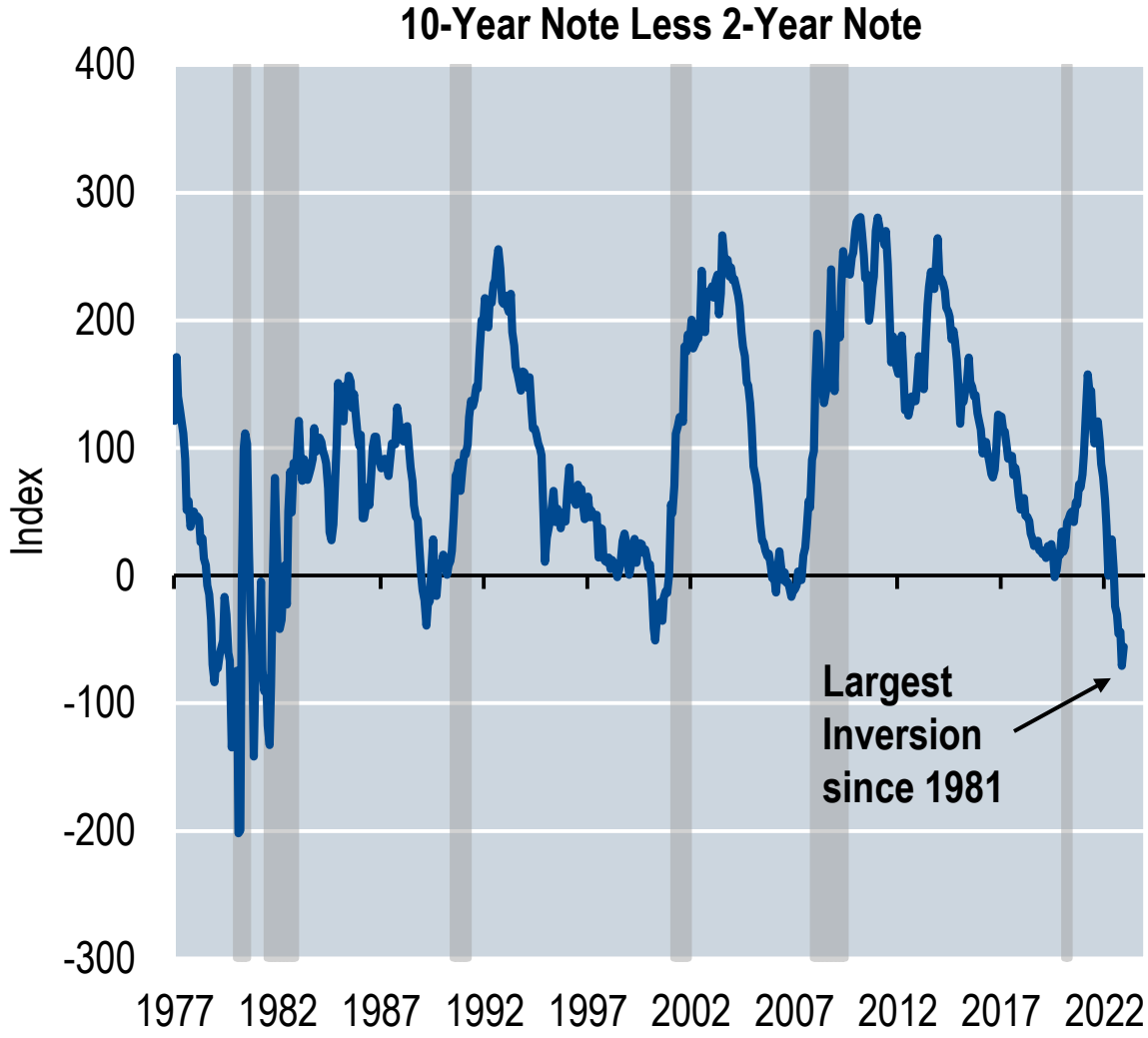
Source: Bloomberg, Western Asset  
As of 31 Dec 22



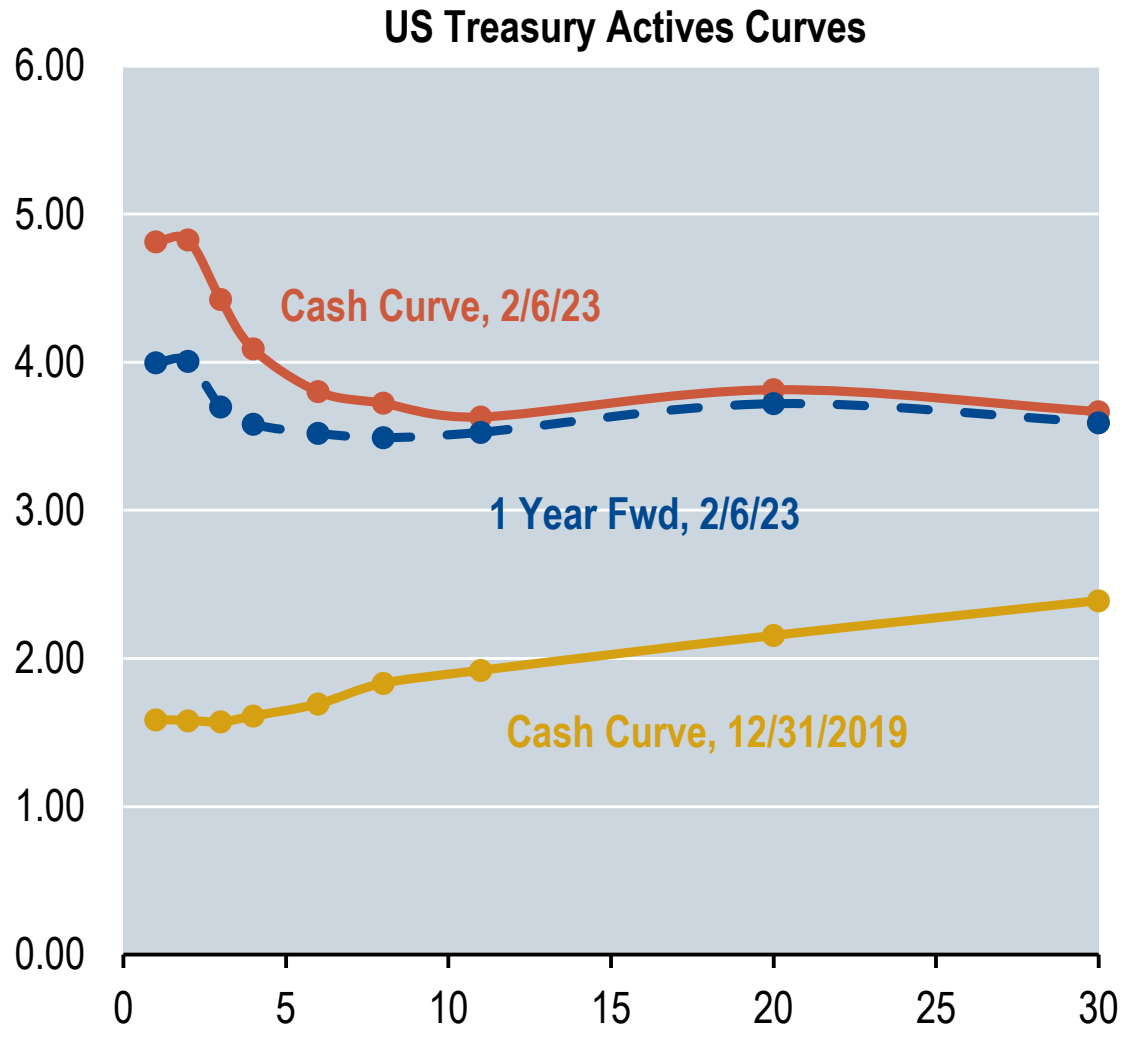
Source: Western Asset  
As of 31 Dec 22

# US Treasury Cash and Forward Curve

Curve is currently inverted; forwards are lower and steeper



Source: Bloomberg. As of 31 Dec 22

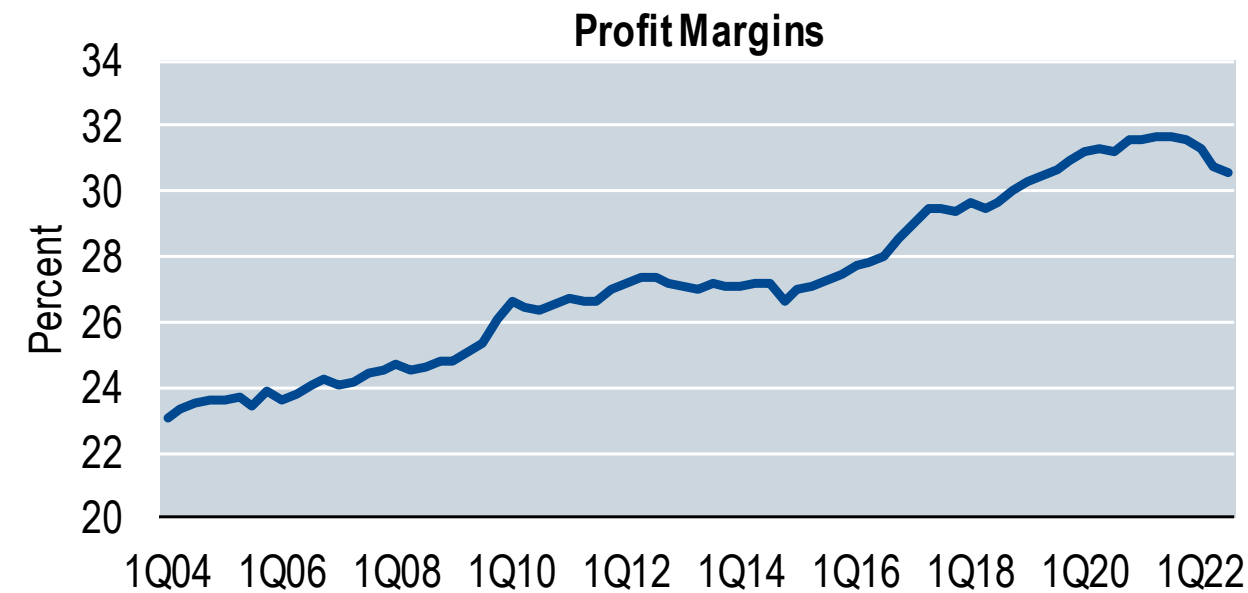


Source: Bloomberg. As of 06 Feb 23

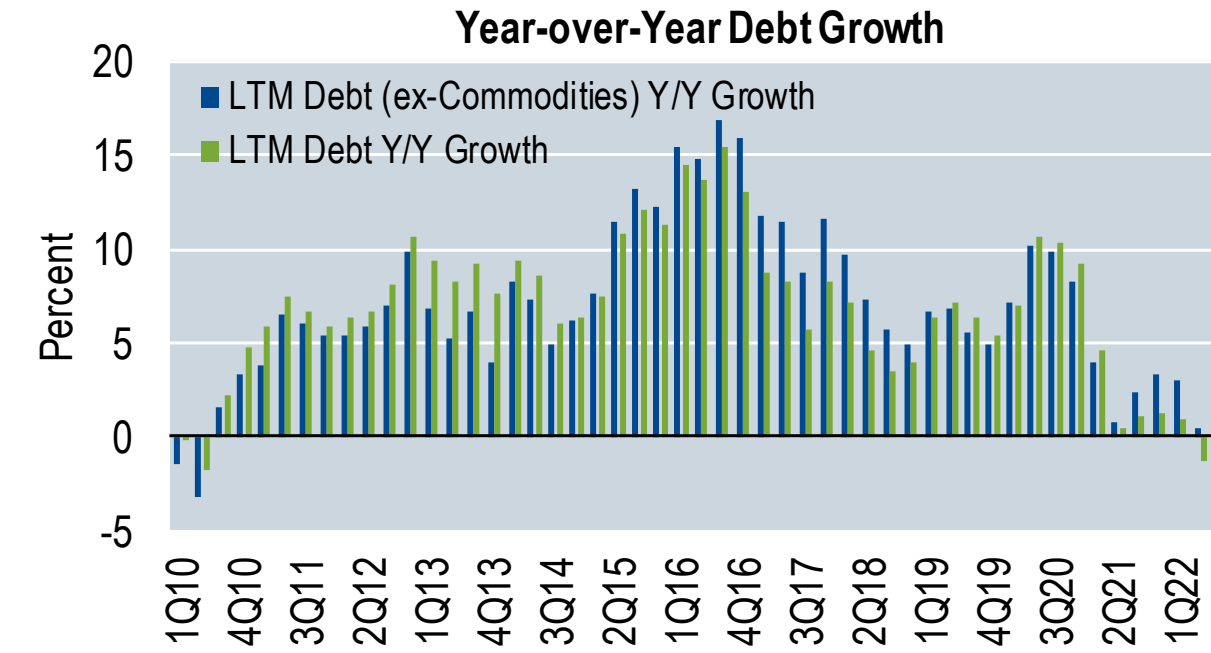


# Investment-Grade Credit

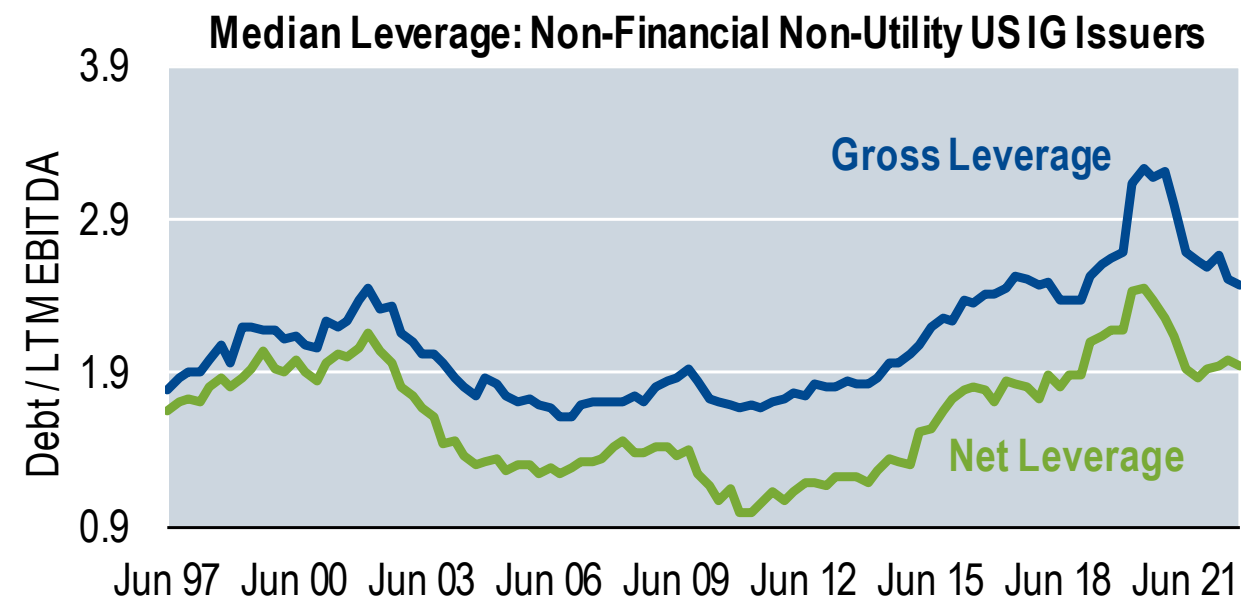
## Cash Flow and Debt Metrics are Healthy



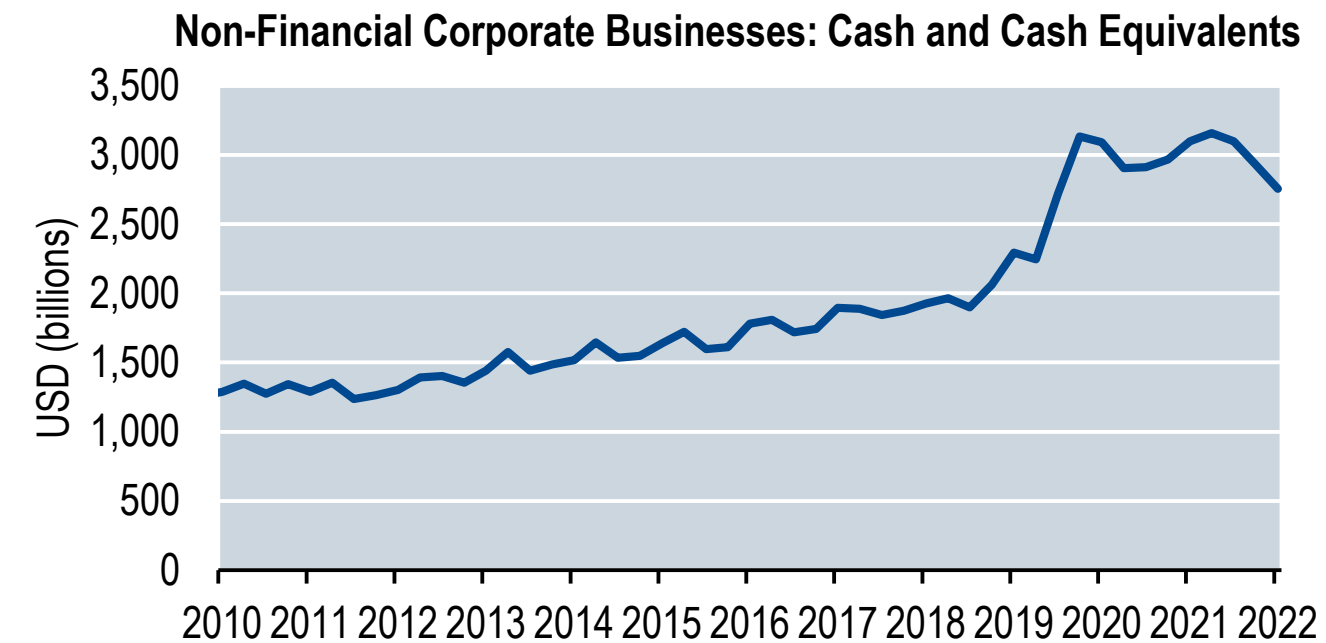
~180 Non-Financial Companies (JULI Based)  
 Weighting based on amount of debt in the benchmark  
 Source: J.P. Morgan. As of 30 Sep 22



Source: J.P. Morgan. As of 30 Sep 22



Source: BofA Global Research\*. As of 30 Sep 22



Source: Goldman Sachs, Federal Reserve. As of 30 Sep 22

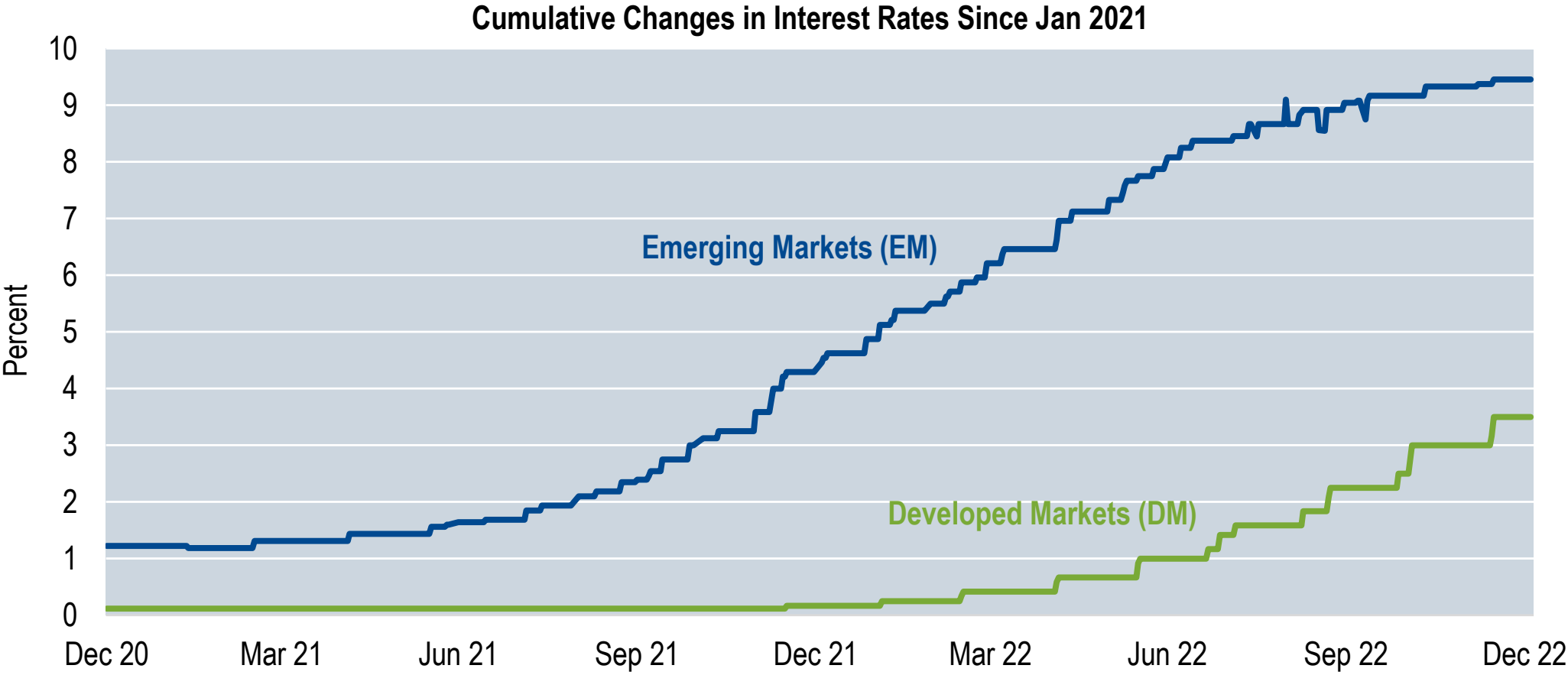
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# Emerging Markets

Following aggressive hikes in the past year and given nascent signs of abating inflation risk, the policy focus of EM central banks will likely pivot toward growth.

EM central banks are closer to the end of the tightening cycle relative to the developed world.

Adjusted for inflation, select EM local yields are attractive.



Source: Bloomberg. As of 03 Jan 23  
Note: Emerging Markets (EM)=Average of Brazil, Chile, Czech Republic, Mexico, Peru and Poland; Developed Markets (DM)=Average of US, EU and UK



**Thank you.**

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