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April 26, 2023

Thank you for joining our webcast.

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

The presentation will begin shortly.

Julien A. Scholnick, CFA
Portfolio Manager



Travis M. Carr, CFA
Product Specialist





Strategy Update: US Core and Core Plus

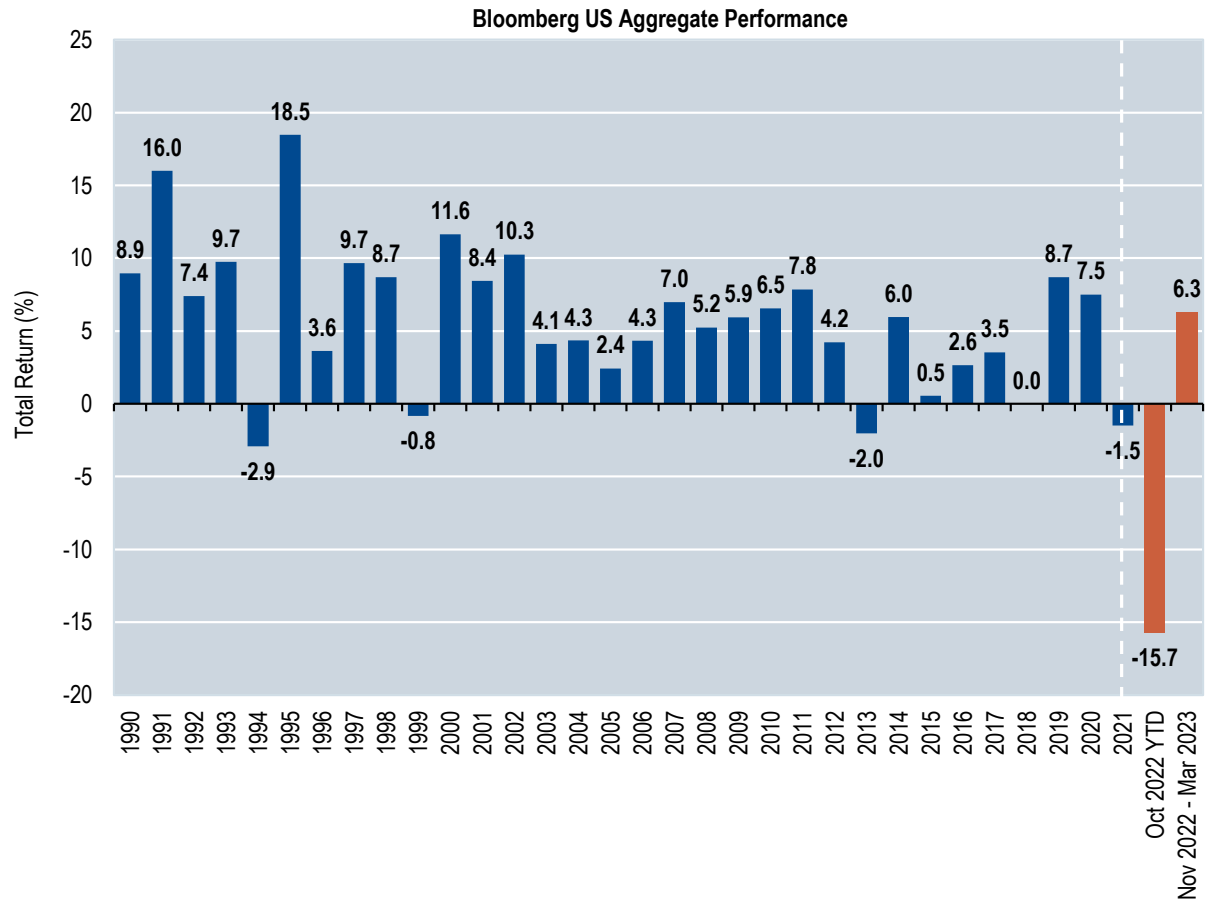
April 26, 2023

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Bloomberg US Aggregate Index – Annual Performance

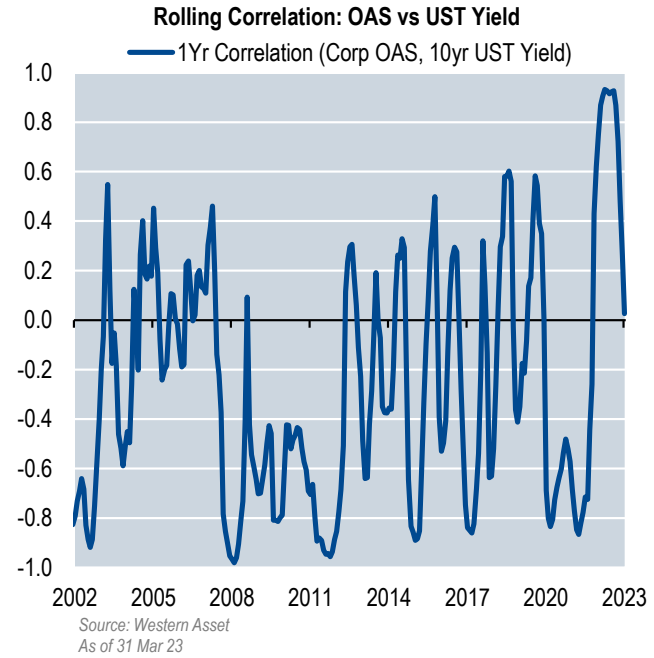
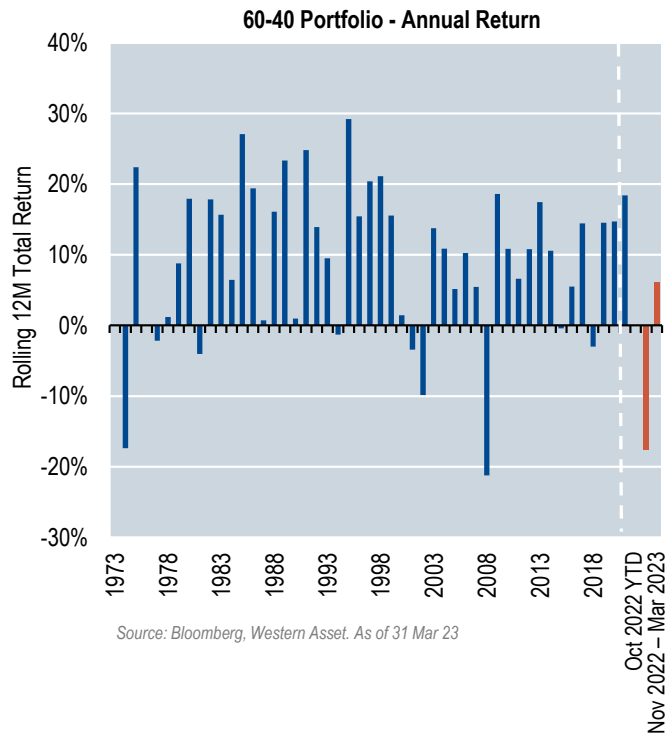
March 31, 2023



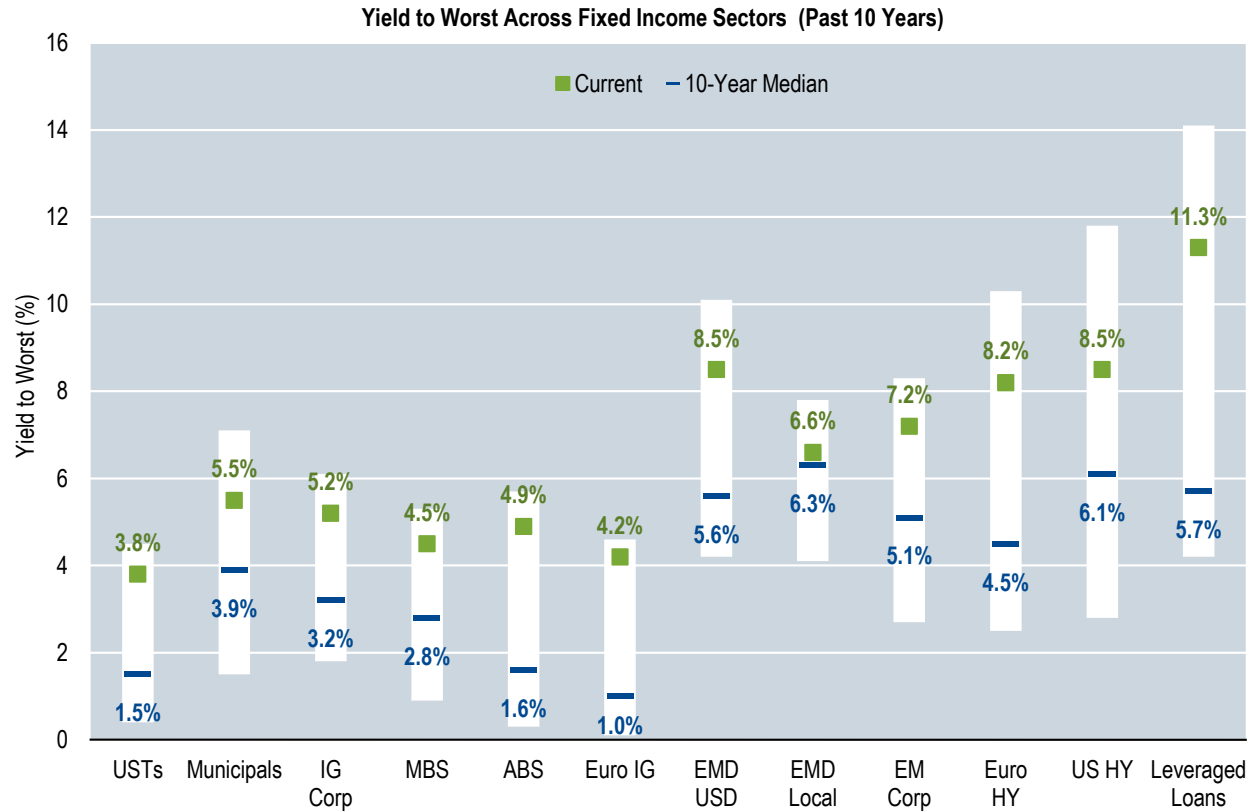
Source: Bloomberg

Correlation Between Rates and Credit

Growth risks contribute to negative correlation.



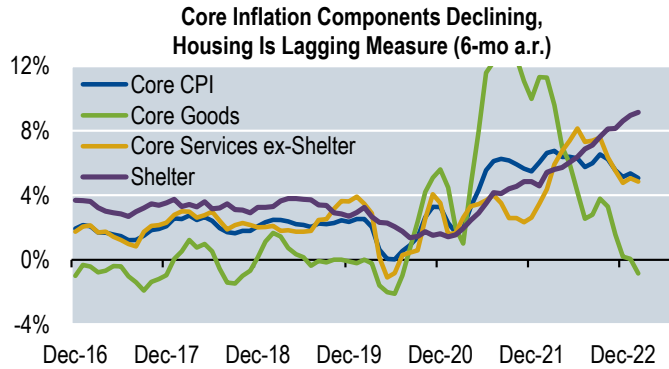
Fixed Income Valuations



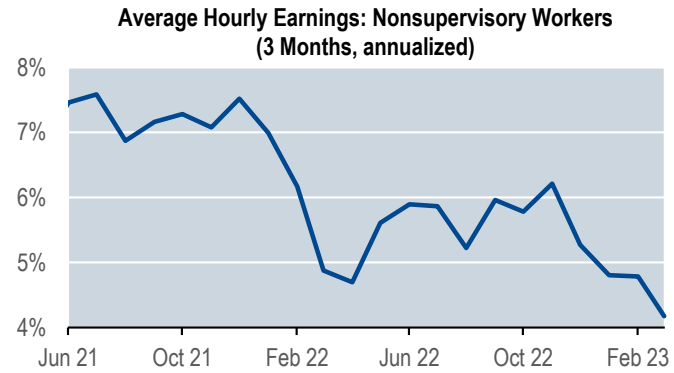
Source: Source: Bloomberg, FactSet, J.P. Morgan Credit Research, J.P. Morgan Asset Management. Indices used are Bloomberg except for emerging market debt and leveraged loans: EMD (USD): J.P. Morgan EMIGLOBAL Diversified Index; EMD (LCL): J.P. Morgan GBI-EM Global Diversified Index; EM Corp.: J.P. Morgan CEMBI Broad Diversified; Leveraged loans: JPM Leveraged Loan Index; Euro IG: Bloomberg Euro Aggregate Corporate Index; Euro HY: Bloomberg Pan-European High Yield Index. Yield-to-worst is the lowest possible yield that can be received on a bond apart from the company defaulting. All sectors shown are yield-to-worst except for Municipals, which is based on the tax-equivalent yield-to-worst assuming a top-income tax bracket rate of 37% plus a Medicare tax rate of 3.8%. Guide to the Markets
As of 31 Mar 23

A Bumpy Process of Getting Inflation Back Down to 2%

But there are some signs of improvement in supply chains and wages are decelerating.



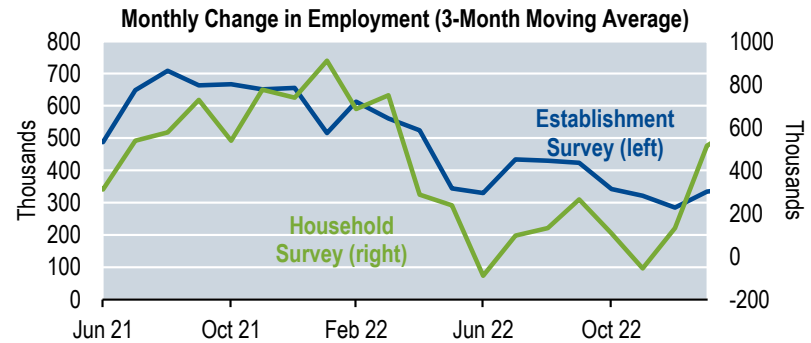
Source: Bureau of Labor Statistics. As of 28 Feb 23



Source: Federal Reserve. As of 31 Mar 23



Source: Haver Analytics. As of 31 Mar 23



Source: Haver Analytics. As of 31 Mar 23

March FOMC Meeting

Focus on financial stability; limited scope for rate cuts

Financial Stability:

“The Federal Reserve working with the Treasury Department and the FDIC took decisive actions to protect the U.S. economy and strengthen public confidence in our banking system. These actions demonstrate that all depositors' savings in the banking system are safe.”

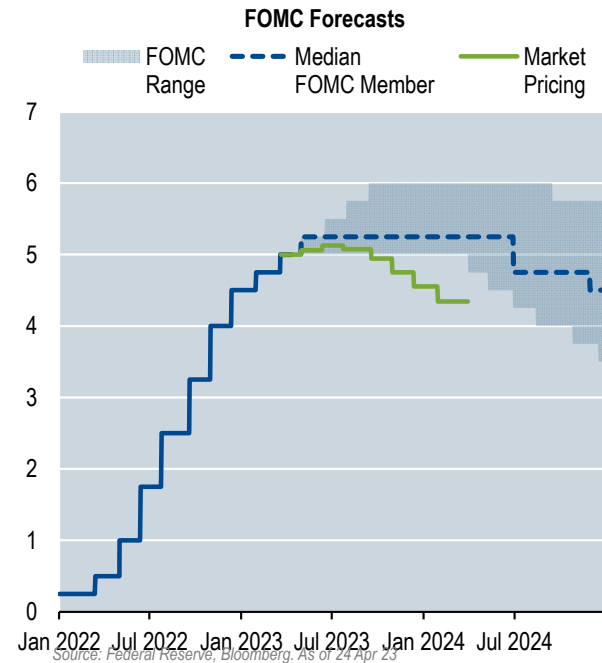
“Our banking system is sound and resilient with strong capital and liquidity.”

Limited Scope for Rate Cuts:

“Inflation remains too high, and the labor market continues to be very tight. My colleagues and I understand the hardship that high inflation is causing, and we remain strongly committed to bringing inflation back down to our 2% goal.”

“In that most likely case, participants don't see rate cuts this year. They just don't.”

– Fed Chair Powell, 21 Mar 23

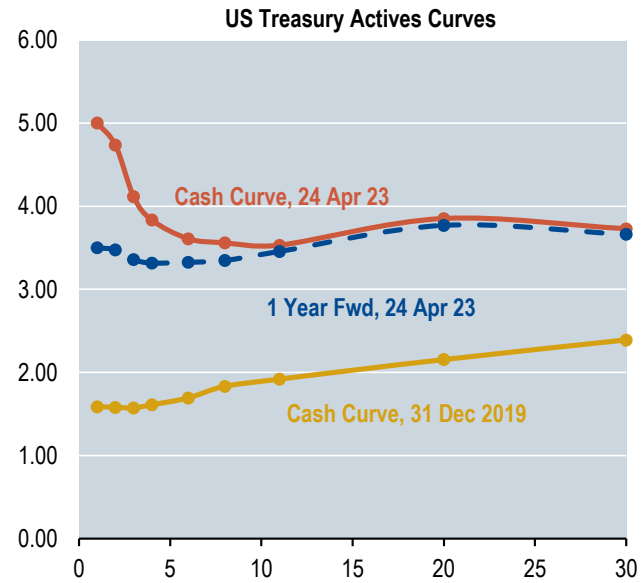


US Treasury Cash and Forward Curve

Curve is currently inverted; forwards are lower and steeper.



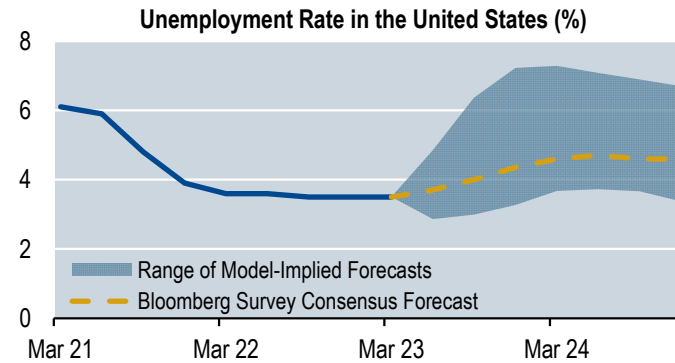
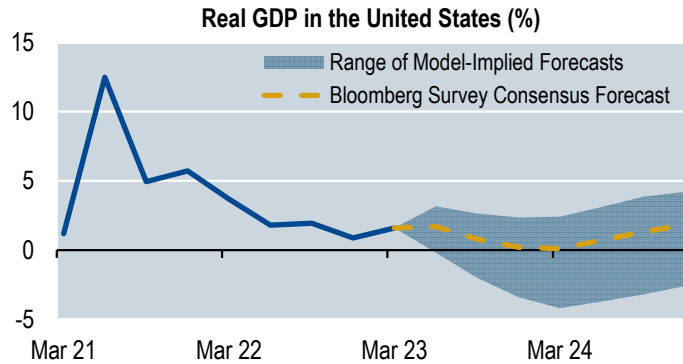
Source: Bloomberg. As of 31 Mar 23



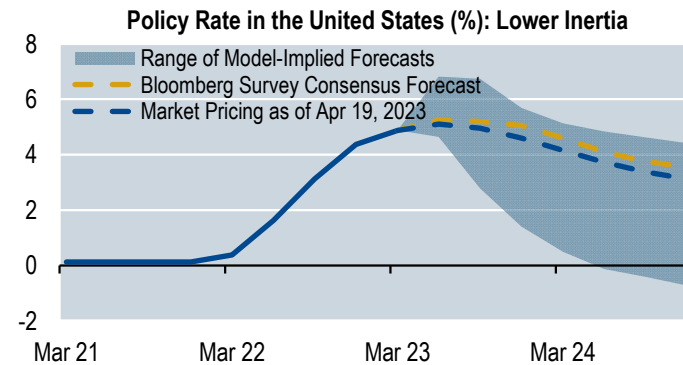
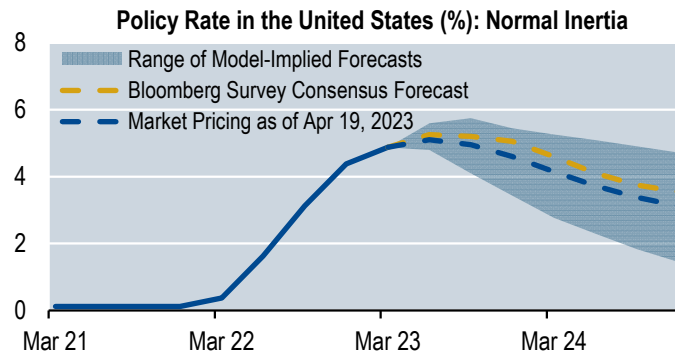
Source: Bloomberg. As of 24 Apr 23

Range of Outcomes More Skewed to the Downside

Fundamental concerns growing



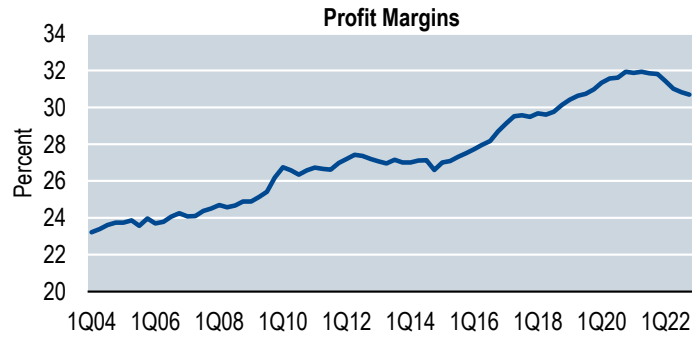
In a recession scenario policy should fall more quickly than currently priced in



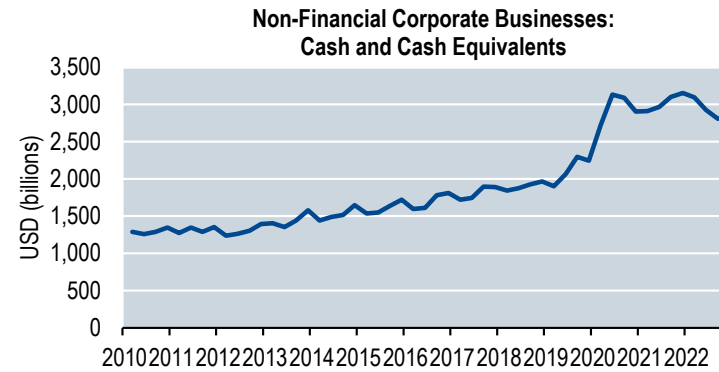
Source: GS MarketStrats. As of 19 Apr 23. Past performance not indicative of future results.

Investment-Grade Credit

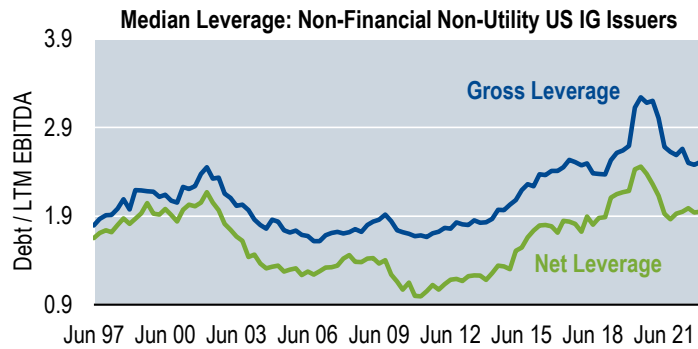
Cash Flow and Debt Metrics are Healthy



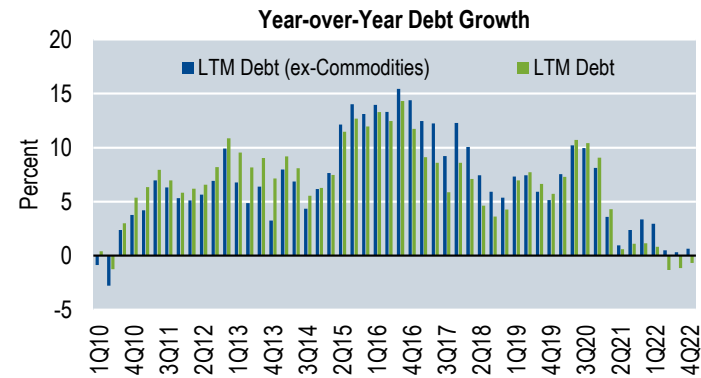
~180 Non-Financial Companies (JULI Based)
 Weighting based on amount of debt in the benchmark
 Source: J.P. Morgan. As of 31 Dec 22



Source: Goldman Sachs, Federal Reserve. As of 31 Dec 22



Source: BofA Global Research*. As of 31 Dec 22



Source: J.P Morgan. As of 31 Dec 22

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The Two Tiers of the US Banking System

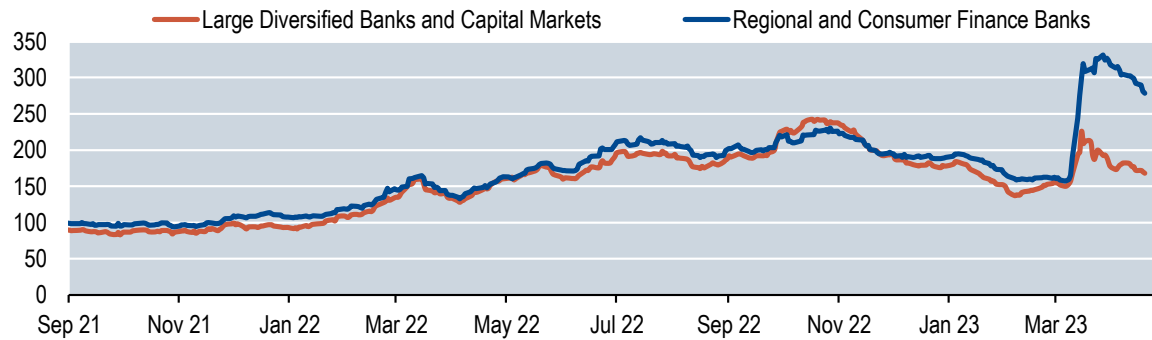
We prefer large US banks over regionals.

Expectations:

- Large banks will get stronger while weaker regionals will consolidate
- Regulation (and issuance) will increase for regional banks
- Regional bank ratings will come under pressure

	Regulatory Scrutiny	Balance Sheet Strength	Deposit Mix	Interest Rate Risk	Current Market Confidence
Large US Banks	High	Very High	Diversified, Low Risk	Low	High
Regional US Banks	Moderate	Moderate	Narrow, Medium Risk	Medium	Low

Large Bank vs Regionals OAS Spread

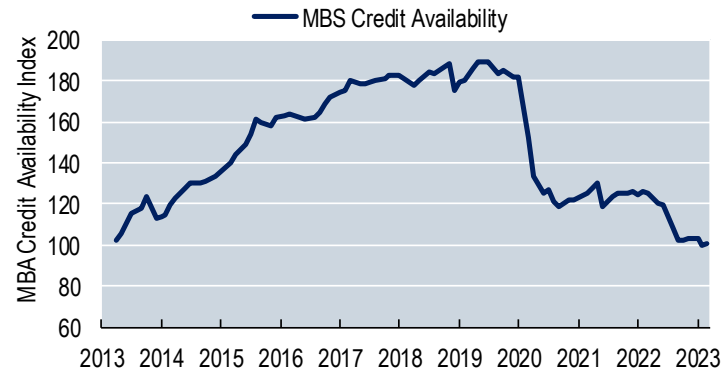
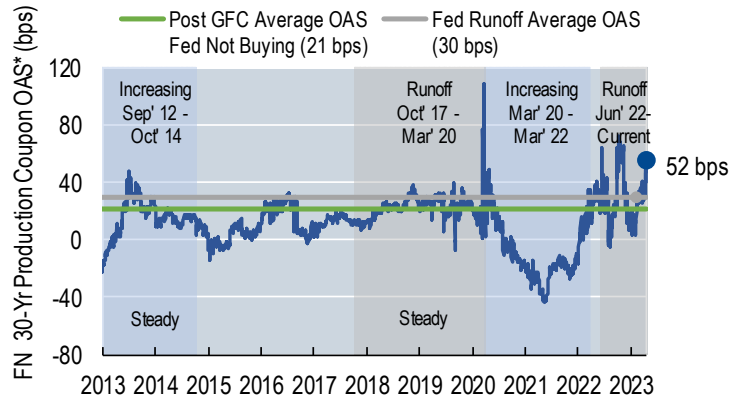
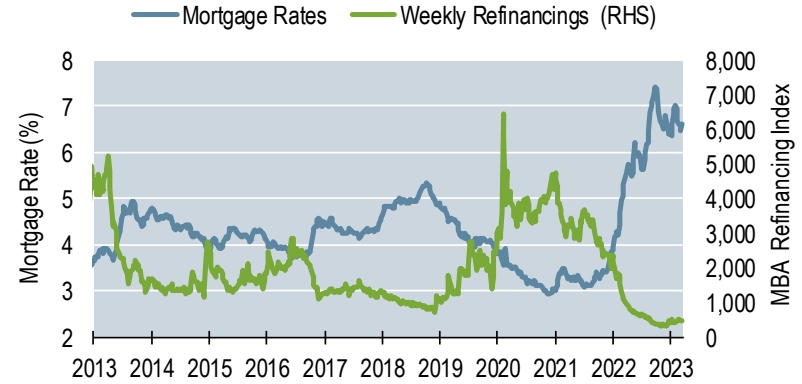
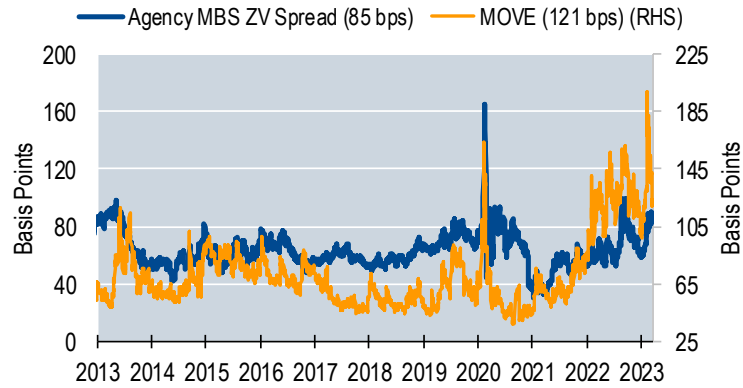


Source: Western Asset, Deutsche Bank, Bloomberg Finance LP
As of 19 Apr 23

N.B. This chart uses an average of \$1G bank issuers' cash bonds maturing in 5-10 years that were issued before 8/31/21

"Large Diversified Banks and Capital Markets" make up 79% of the \$1G bank index and "Regional and Consumer Banks" make up 7% of the \$1G bank index

Agency MBS Currently Offer Attractive Fundamental Value



Source: Bloomberg, Yield Book, Mortgage Bankers Association. As of 19 Apr 23
 Refi Index and Mortgage Rate as of 13 Apr 23
 MBS Credit Availability Index as of 31 Mar 23

Questions & Answers



Thank you.

Risk Disclosure

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