Western Asset

Strategy Update: Macro Opportunities

September 21, 2023

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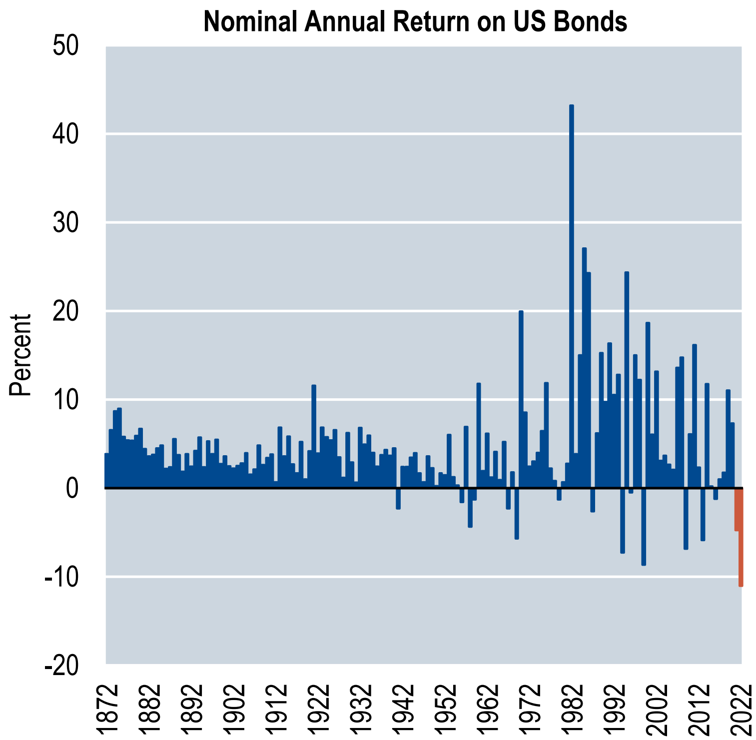
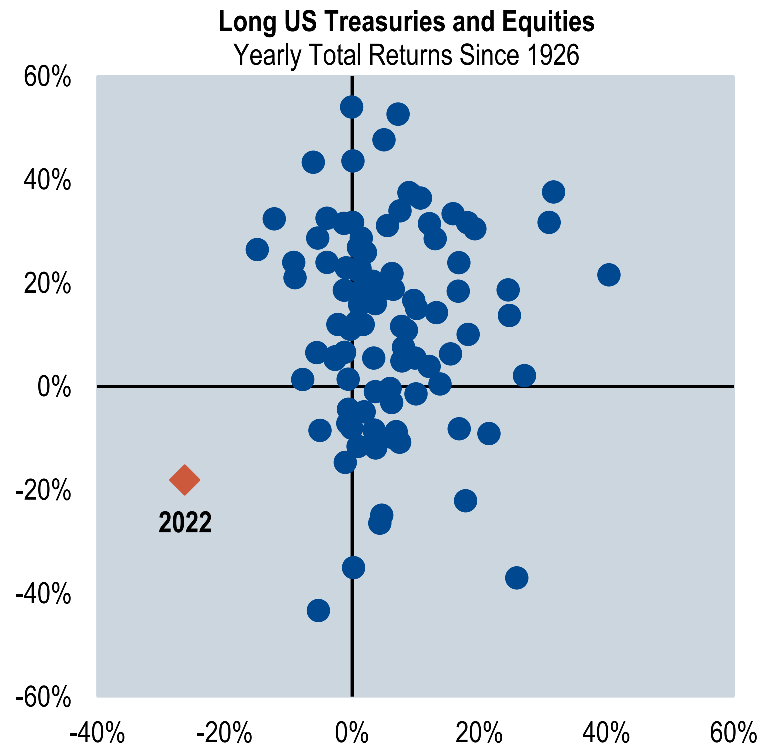
2022 – Year in Review

Worst Year on Record for US Treasury Bonds



Source: Robert Shiller, Bloomberg As of 31 Dec 22



Source: Ibbotson, Bloomberg As of 31 Dec 22

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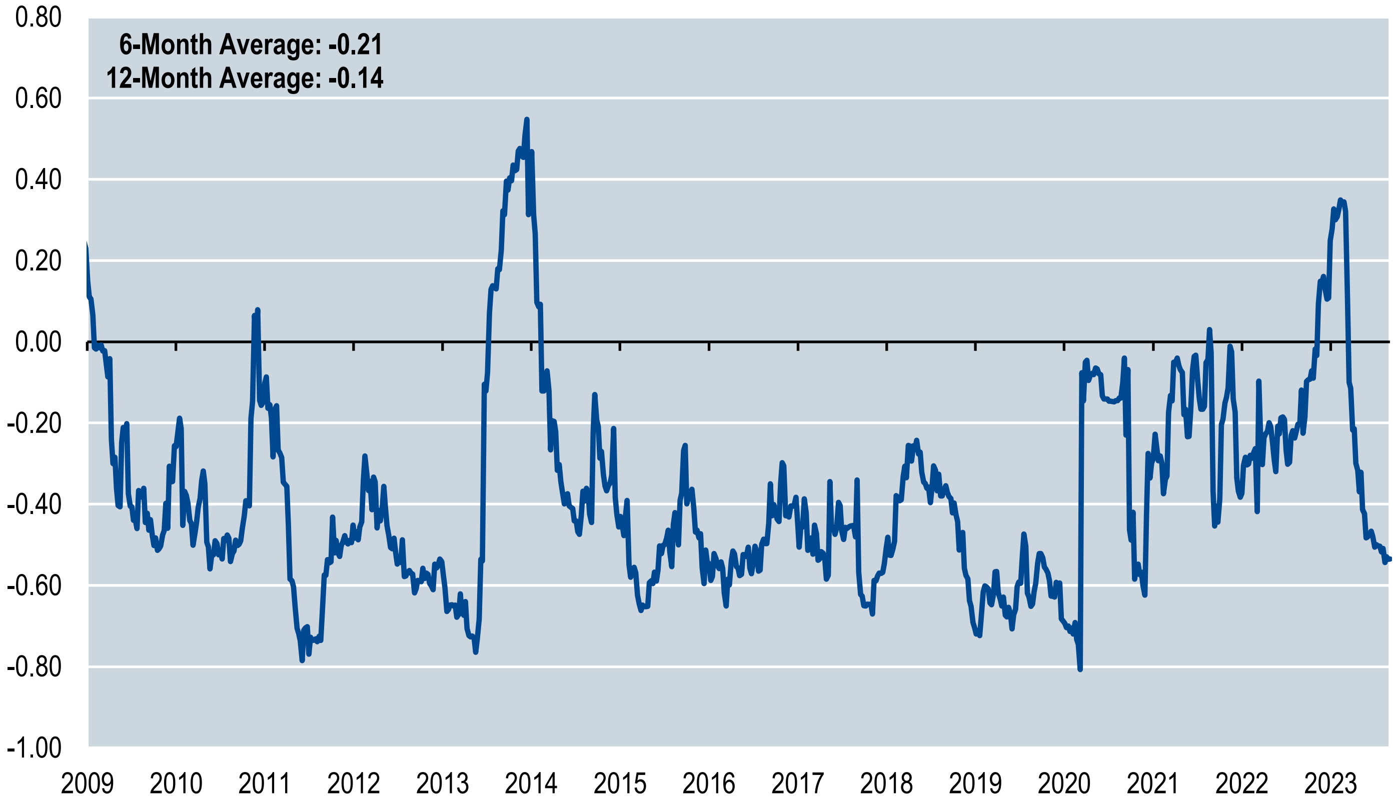
Correlation of US Treasury Yields and Investment-Grade OAS



Source: Bloomberg, Western Asset. As of 01 Sep 23
Weekly data, trailing 26 weeks

2023 Outlook

Disinflation ongoing but uneven

Fed tightening near end

Economy has remained resilient in part due to renewed fiscal stimulus

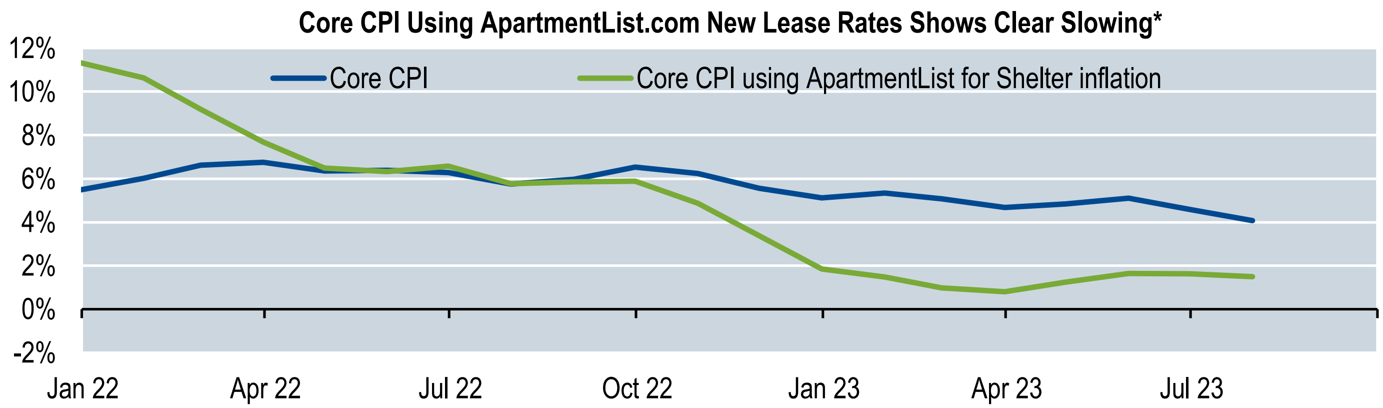
Current banking stress extremely complex but not systemic

Fixed-income outlook

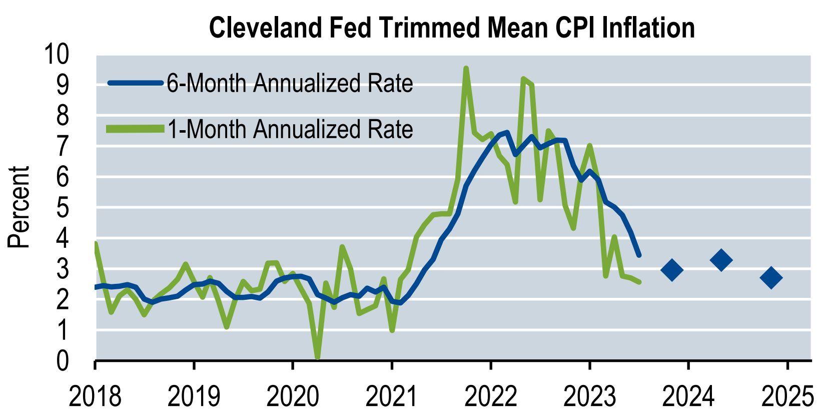
- US growth will slow but should avoid recession
- Global growth has downshifted and China is now a source of deflation
- Global inflation will continue to recede
- The dollar will weaken moderately
- Emerging markets–particularly in Latin America–should outperform
- Central bank overtightening is a meaningful risk
- Spread sectors are still attractive but the outlook is clouded by macro risk
- Geopolitical uncertainty continues to add to volatility

The above reflects current opinions of Western Asset and are subject to change with market conditions. As of 25 Aug 23

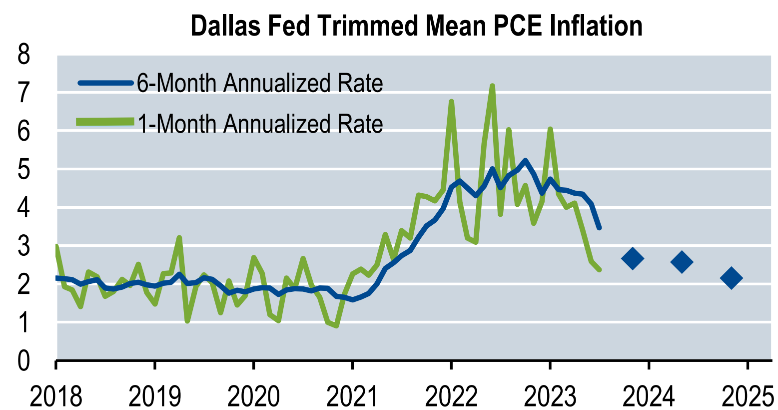
Inflation Trending Lower—Persistent but Uneven



Source: BLS, ApartmentList.com, Western Asset calculations. As of 31 Jul 23
**6-month annualized rate*



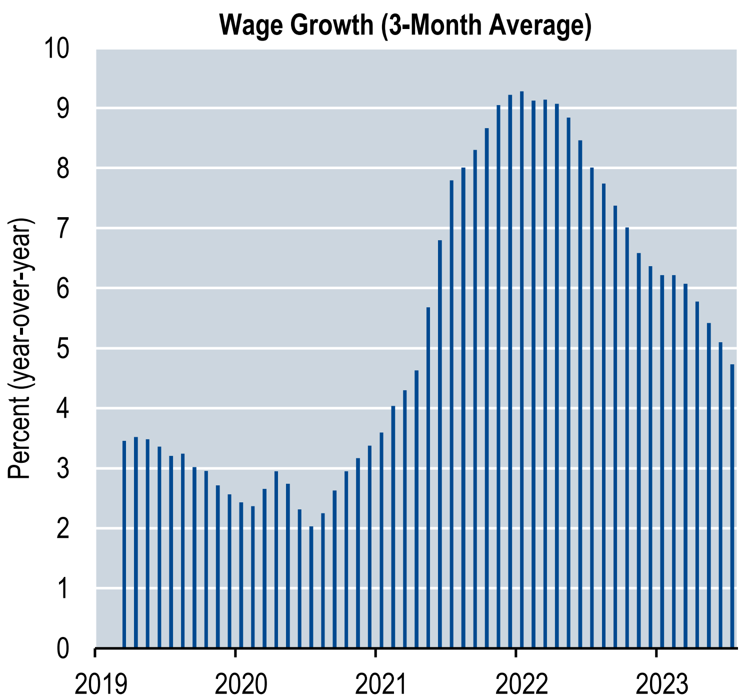
Source: Goldman Sachs, Haver Analytics. As of 31 Jul 23
Markers indicate forecast for 6-month annualized core CPI in 2023H2/, 2024H1 and 2024H2.



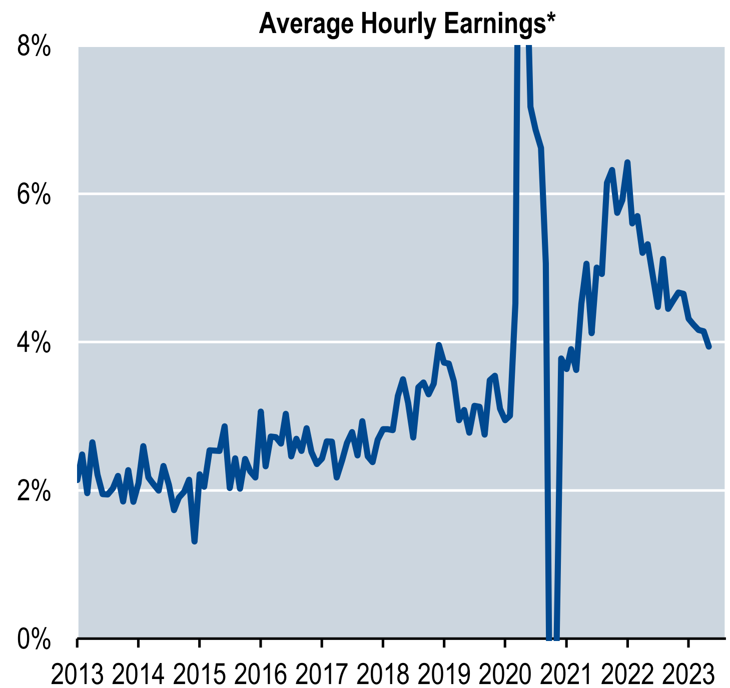
Source: Goldman Sachs, Haver Analytics. As of 31 Jul 23
Markers indicate forecast for 6-month annualized core CPI in 2023H2/, 2024H1 and 2024H2.

Labor Market Loosening and Wage Growth Moderating

Quits rate close to pre-Covid level. Job openings declining.



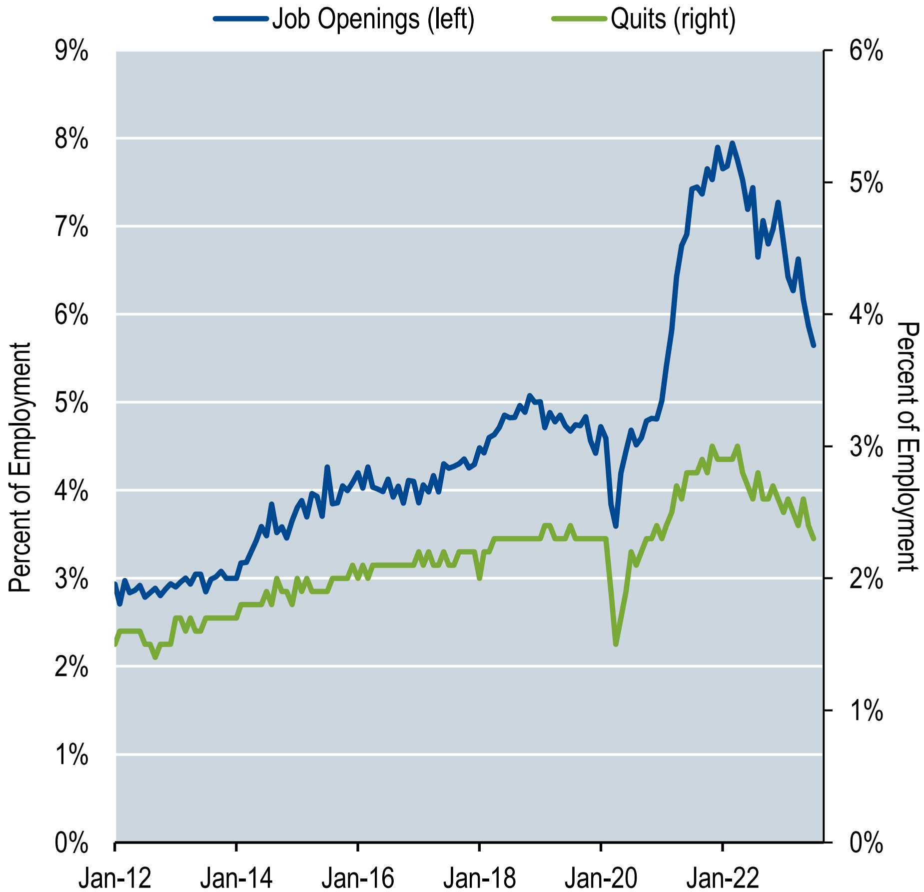
Source: Hiring Lab. As of 31 Jul 23



Source: Bureau of Labor Statistics. As of 31 May 23
**6-Month percent change, annual rate*

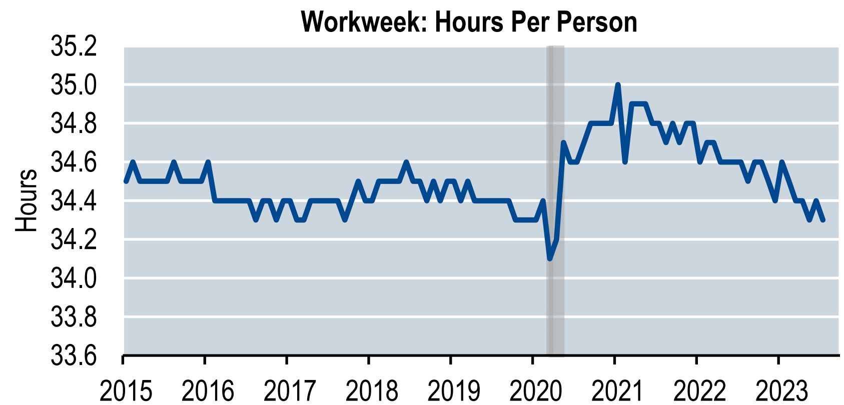
Labor Demand Moderating

Job openings declining. Aggregate hours work normalizing.



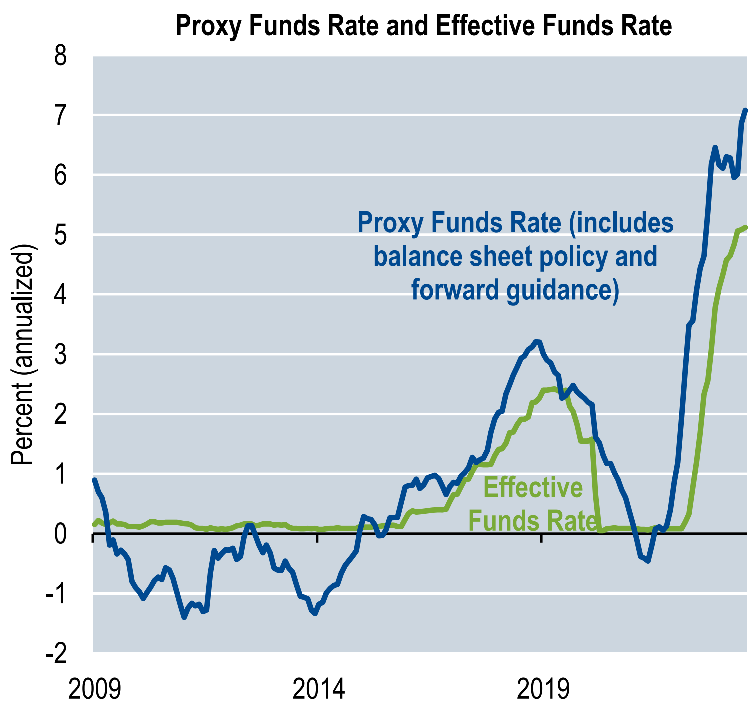
Source: Bureau of Labor Statistics, Haver Analytics. As of 31 Jul 23

Source: Goldman Sachs . As of 31 Jul 23
**Average of NFIB, Dallas Fed manufacturing, Dallas Fed services, Richmond Fed Manufacturing, Richmond Fed services, NY Fed services, and Kansas City Fed services, scaled to 6-month annualized average hourly earnings.*

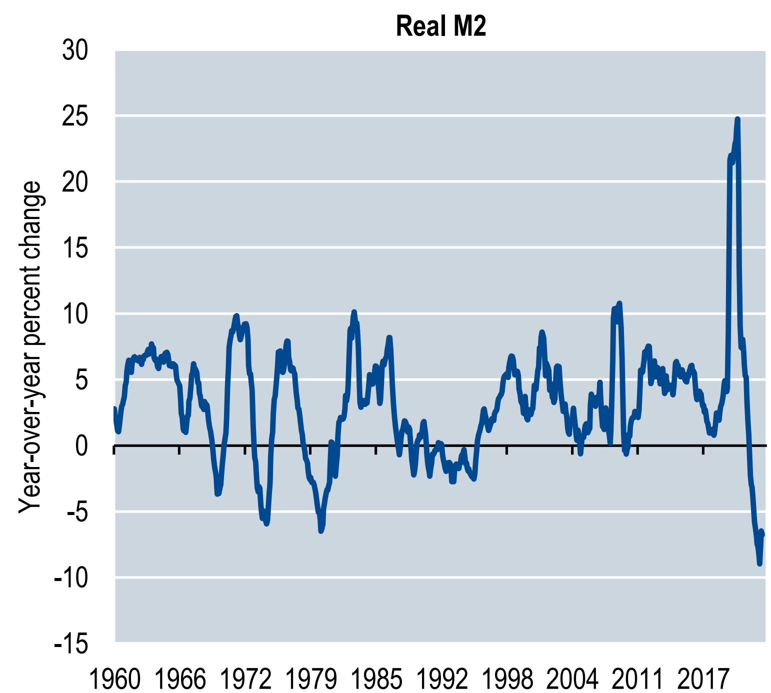


Source: Bureau of Labor Statistics, Haver Analytics. As of 31 Jul 23

Monetary Policy Is Already Tighter Than It Looks



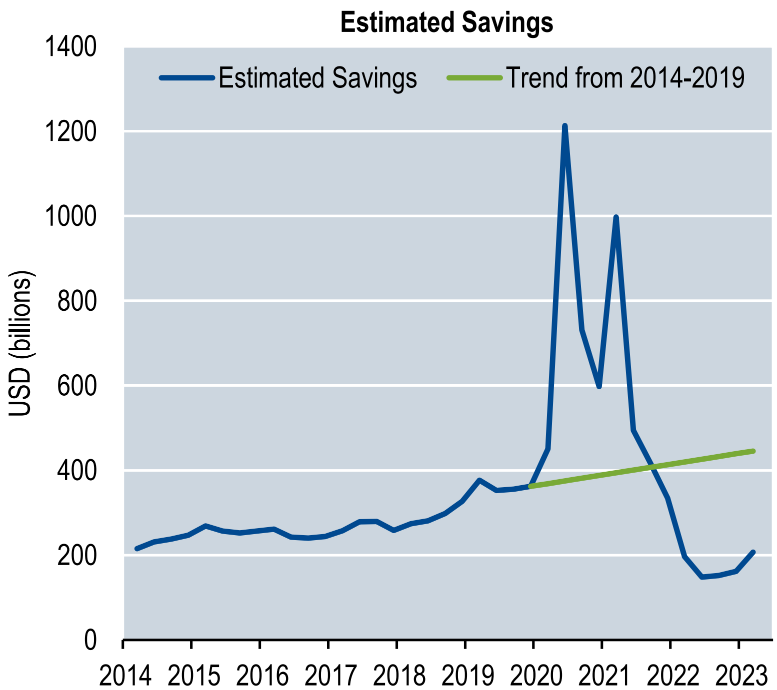
Source: Federal Reserve, Freddie Mac, The Bond Buyer, Moody's, Choi et al. (2022). As of 31 Jul 23
Proxy Funds Rates uses public and private borrowing rates and spreads to infer the broader stance of monetary policy. When the Federal Open Market Committee uses additional tools, such as forward guidance or changes in the balance sheet, these policy actions affect financial conditions, which the proxy rate translates into an analogous level of the federal funds rate.



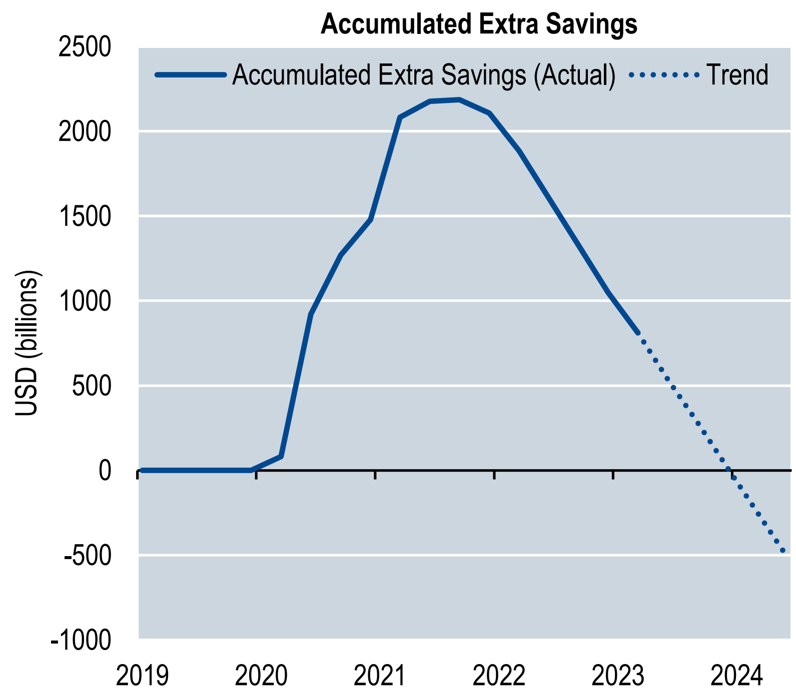
Source: Federal Reserve. As of 31 Jul 23

Consumers Under Pressure

Extra savings accumulated due to Covid policies are being depleted



Source: Bloomberg, Western Asset. As of 20 Mar 23



Source: Bloomberg, Western Asset. As of 20 Mar 23

The USD and Commodities: Key Emerging Market Drivers

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

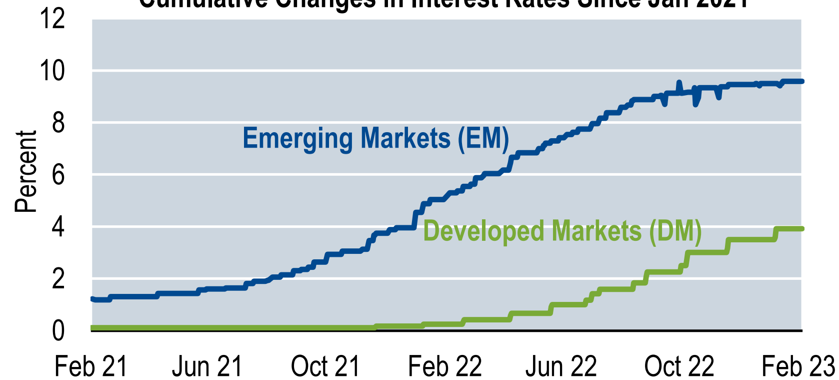
USD relative strength and commodity prices are both inputs into EM economic conditions and returns.

A Fed pause combined with China reopening bodes well for EM

US Dollar Index

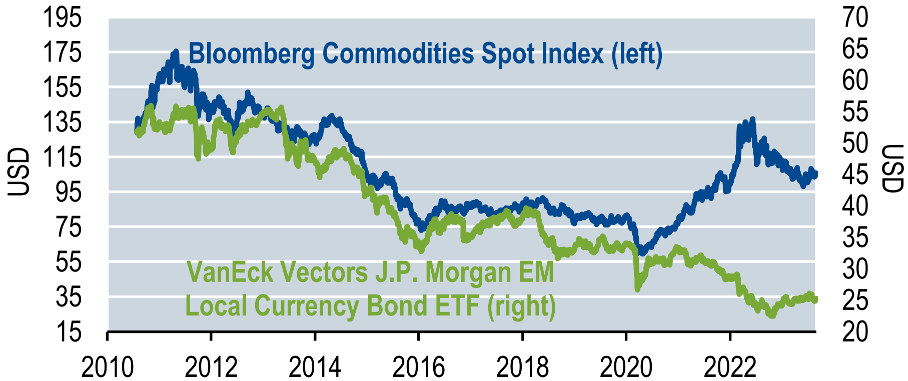
Source: Bloomberg. As of 30 Jun 23
Note: The US Dollar Index is the value of the US dollar relative to a basket of foreign currencies

Cumulative Changes in Interest Rates Since Jan 2021



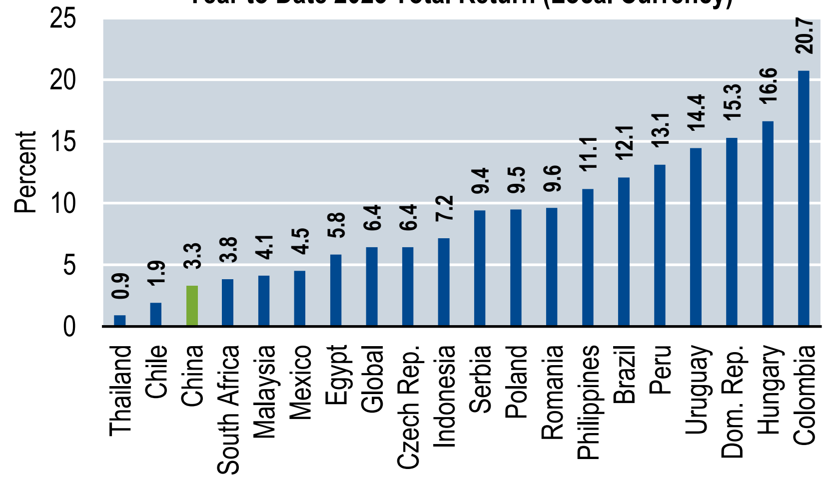
Source: Bloomberg. As of 01 Mar 23
Note: Emerging Markets (EM)=Average of Brazil, Chile, Czech Republic, Mexico, Peru and Poland; Developed Markets (DM)=Average of US, EU and UK

Emerging Markets Local Currency vs. Commodities Spot Index



Source: Bloomberg. As of 29 Aug 23

Year to Date 2023 Total Return (Local Currency)



Source: J.P. Morgan. As of 31 Aug 23

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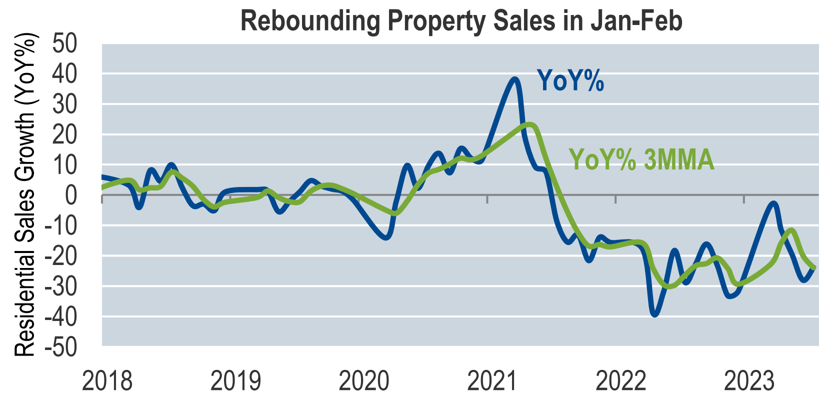
China Outlook: Cyclical Rebound, Secular Concerns

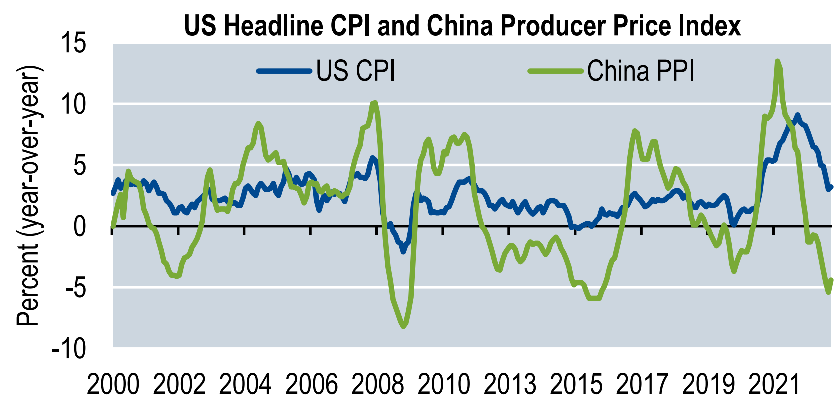
- Consumption will be a key growth driver, although the trend in China remains unimpressive
- Broad policy accommodation should nonetheless remain intact until the economy is on strong footing
- Support for property market should help contain further fallout from current market doldrums

Source: Citibank. As of 31 Dec 22



Source: Bloomberg. As of 31 Jul 23

Source: Bloomberg. As of 30 Jun 23



Source: Bloomberg. As of 31 Jul 23

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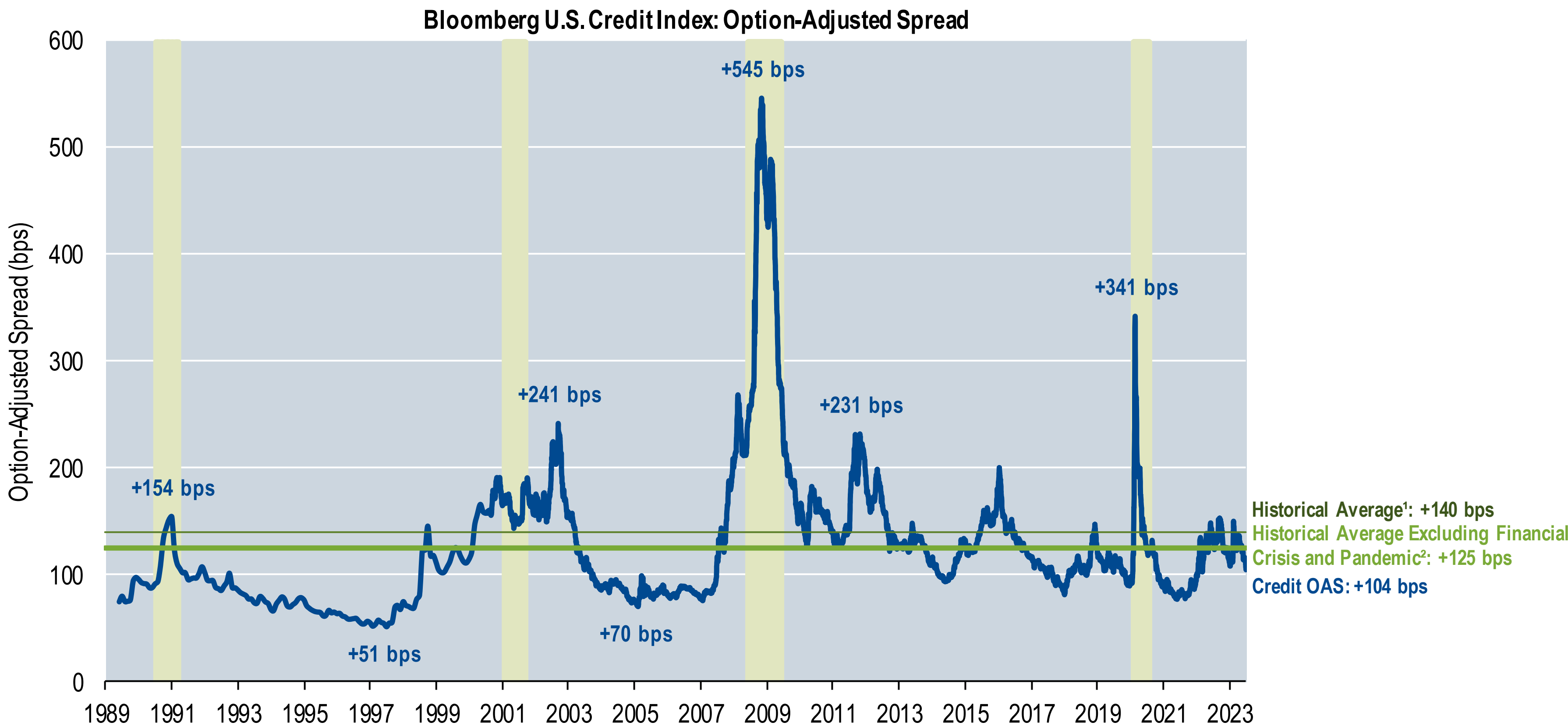
Valuation: US Credit "Fair" at +104 OAS

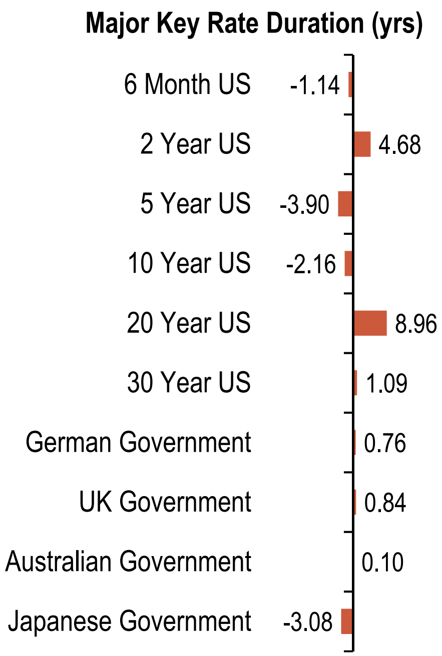


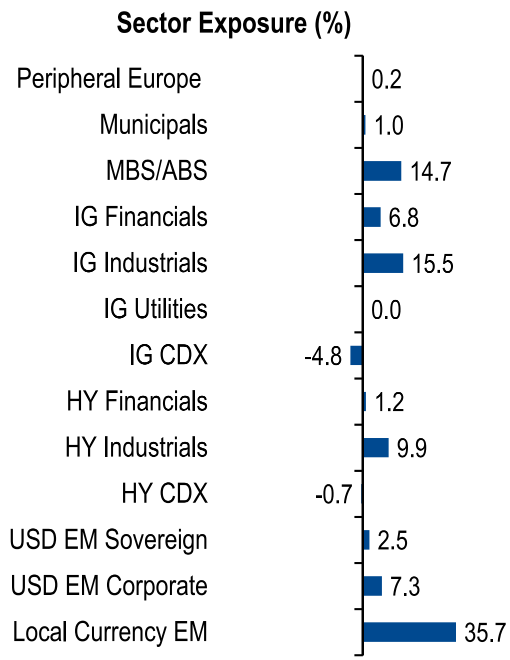
Source: Bloomberg. As of 31 Jul 23
Periods of recession highlighted in yellow

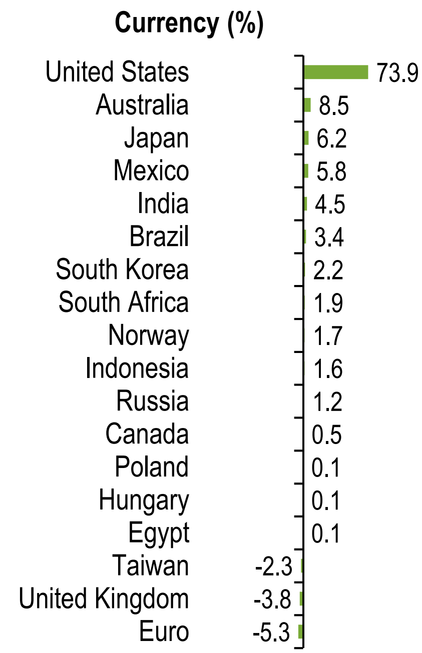
Sector Exposure

Macro Opportunities

August 31, 2023







Source: Western Asset.
Sectors subject to change. Data may not sum to total due to rounding.

Macro Opportunities

Why Now?

We believe Macro Opportunities is favorably positioned to realize attractive absolute and excess returns in the year ahead.

- **Over time, as the backdrop of receding inflation continues, short rates will eventually be reduced.**
- **The prospect of lower rates supports our favorable outlook for a broad variety of fixed-income sectors.**
- **Macro Opportunities' overall long duration positioning should benefit as the disinflationary process accelerates.**
- **Concentrated themes of short USD vs select developed and emerging countries as well as financial and industrial credit exposure support a base case of slower but positive US and global growth with decelerating inflation.**
- **Current positive carry in excess of 7% aids ability to maintain overweight positions to high-conviction themes.**
- **In the event of a Fed policy error, Macro Opportunities' long dated duration is favorably positioned if the Fed needs to cut rates to stimulate growth.**

Source: Western Asset.

Questions & Answers

Thank you.

Risk Disclosure

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