



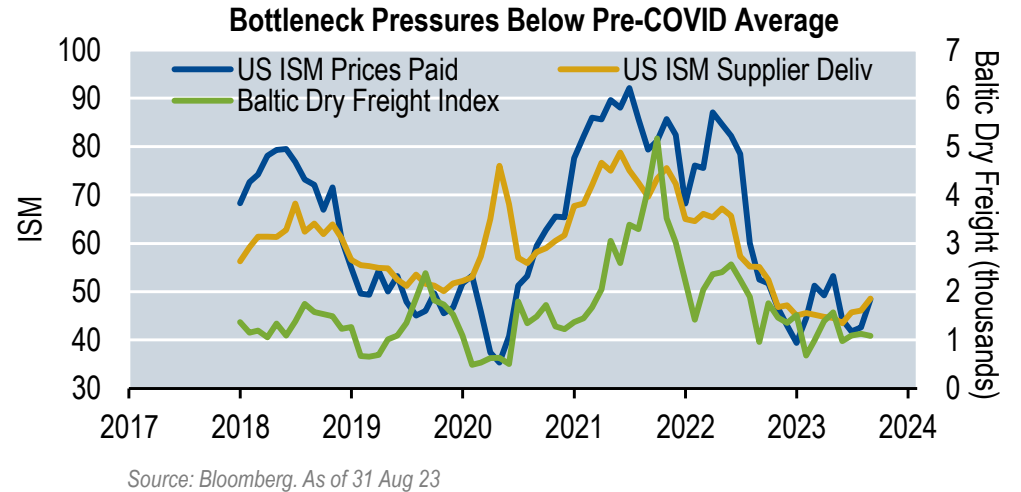
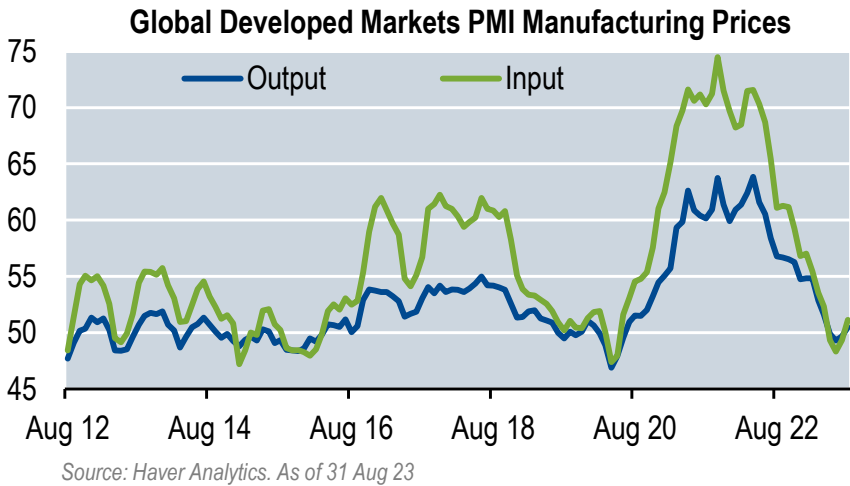
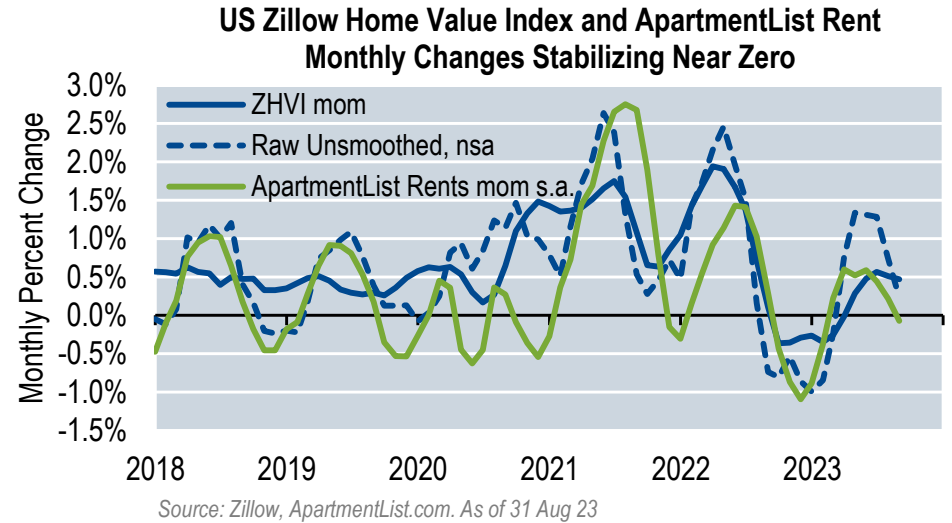
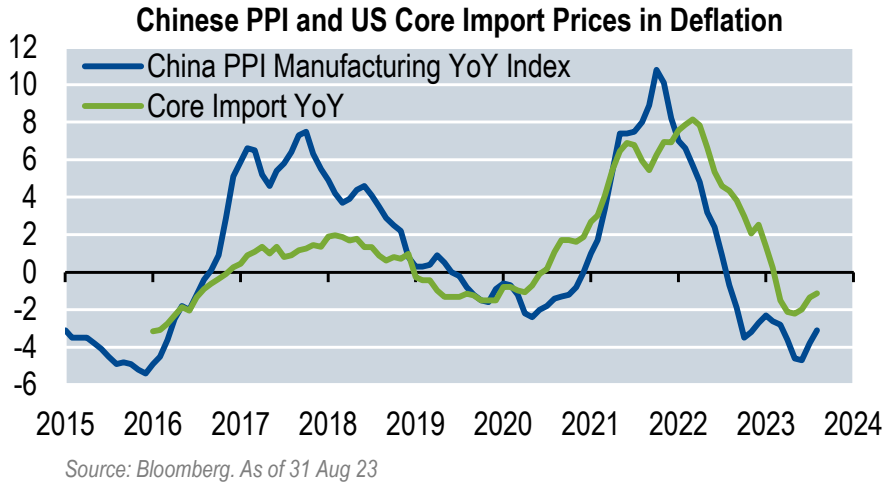
Strategy Update: US Core and Core Plus

October 31, 2023

John L. Bellows, PhD, CFA
Portfolio Manager

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Product Specialist

Global Inflation Is Broadly Declining



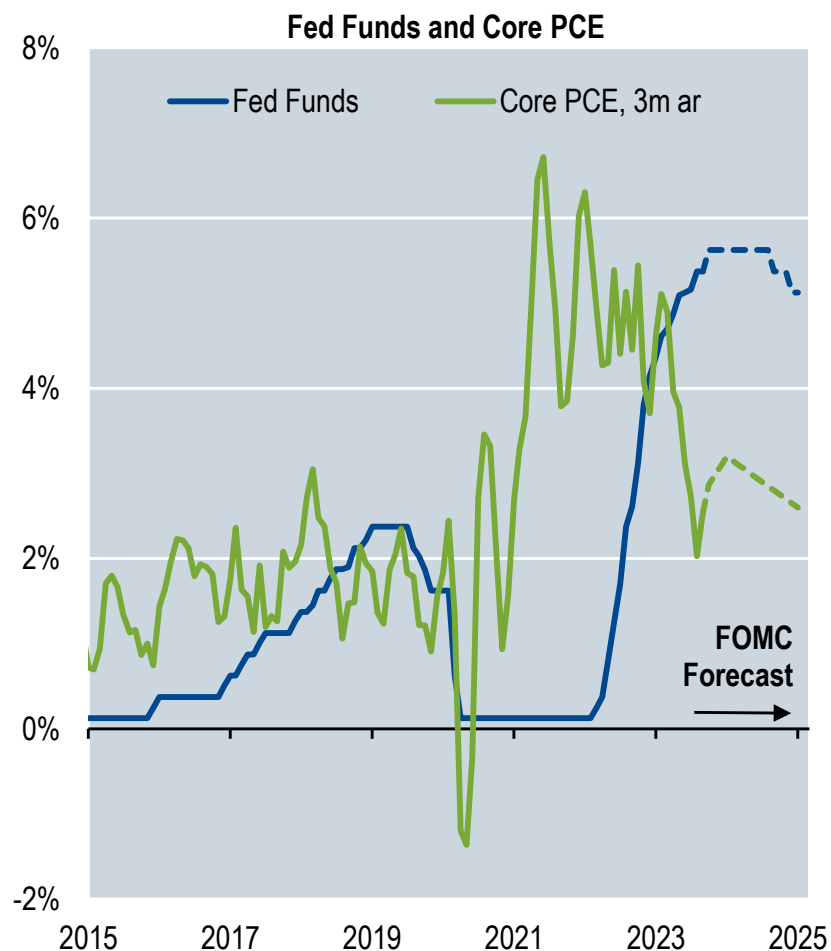
FOMC Expects Restrictive Policy for an Extended Period

Projections Are “Highly Uncertain”

“We see the current stance of monetary policy as restrictive, putting downward pressure on economic activity, hiring, and inflation.”

“These projections, of course, are not a Committee decision or plan...No one will look back at this and say, hey, we made a plan. It's not like that at all. **These are estimates made a year in advance that are highly uncertain, and that's how it is**”

– Chair Powell, Sep 20, 2023

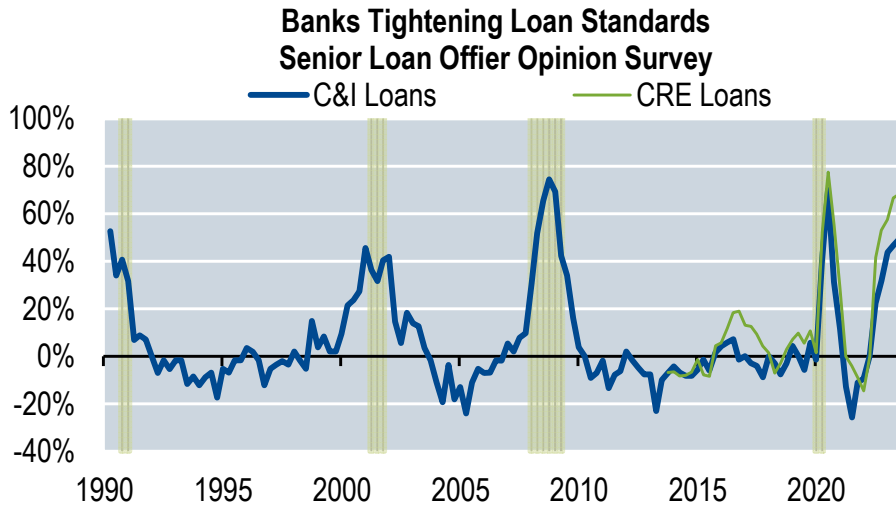


Source: Federal Reserve, U.S. Bureau of Economic Analysis, Haver Analytics.
As of 30 Sep 23

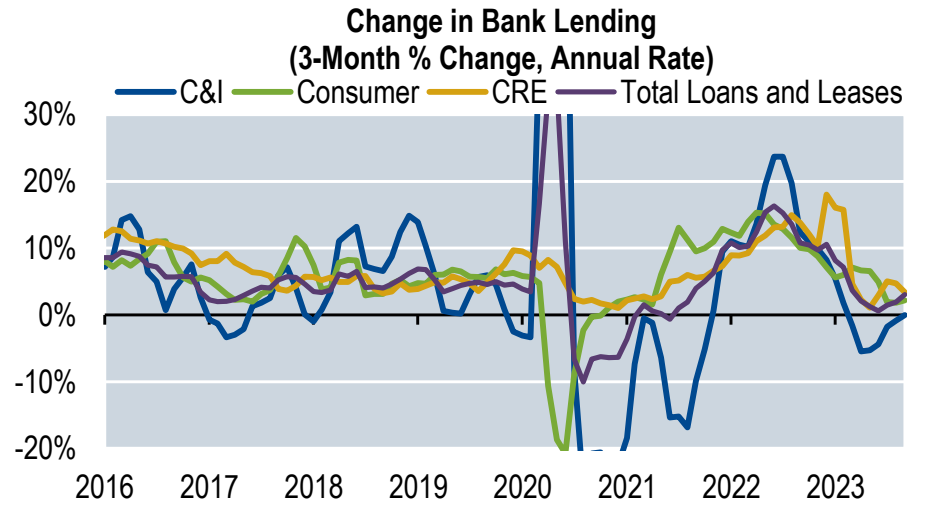
Financial Conditions Are Tightening; Higher Rates Are Slowing Activity

“Beyond changes in interest rates, bank lending standards have tightened, and loan growth has slowed sharply.”

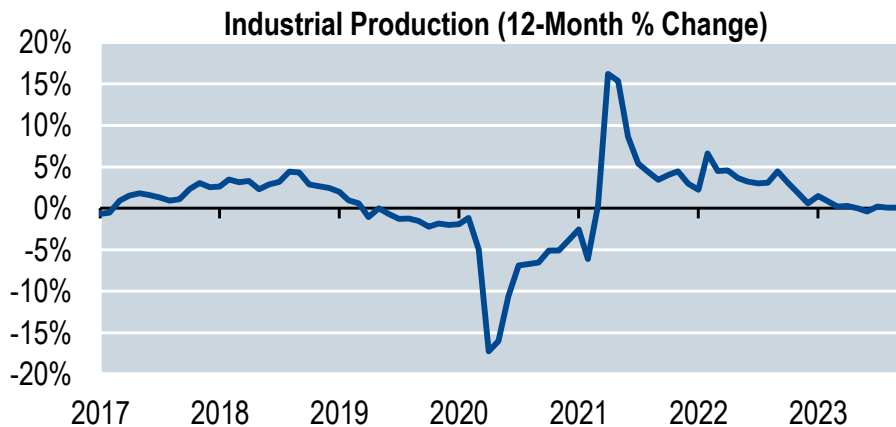
– Chair Powell, Aug 23, 2023



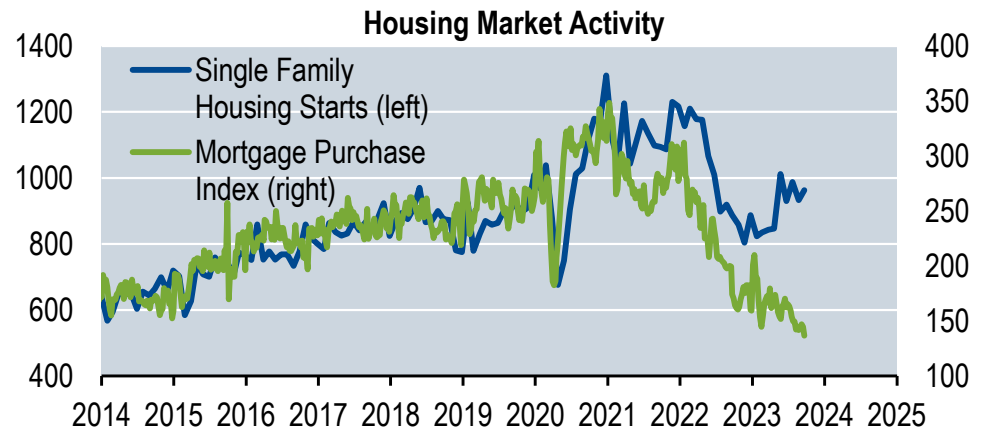
Source: Bloomberg, Federal Reserve, Haver Analytics. As of 30 Sep 23



Source: Bloomberg, Federal Reserve, Haver Analytics. As of 30 Sep 23

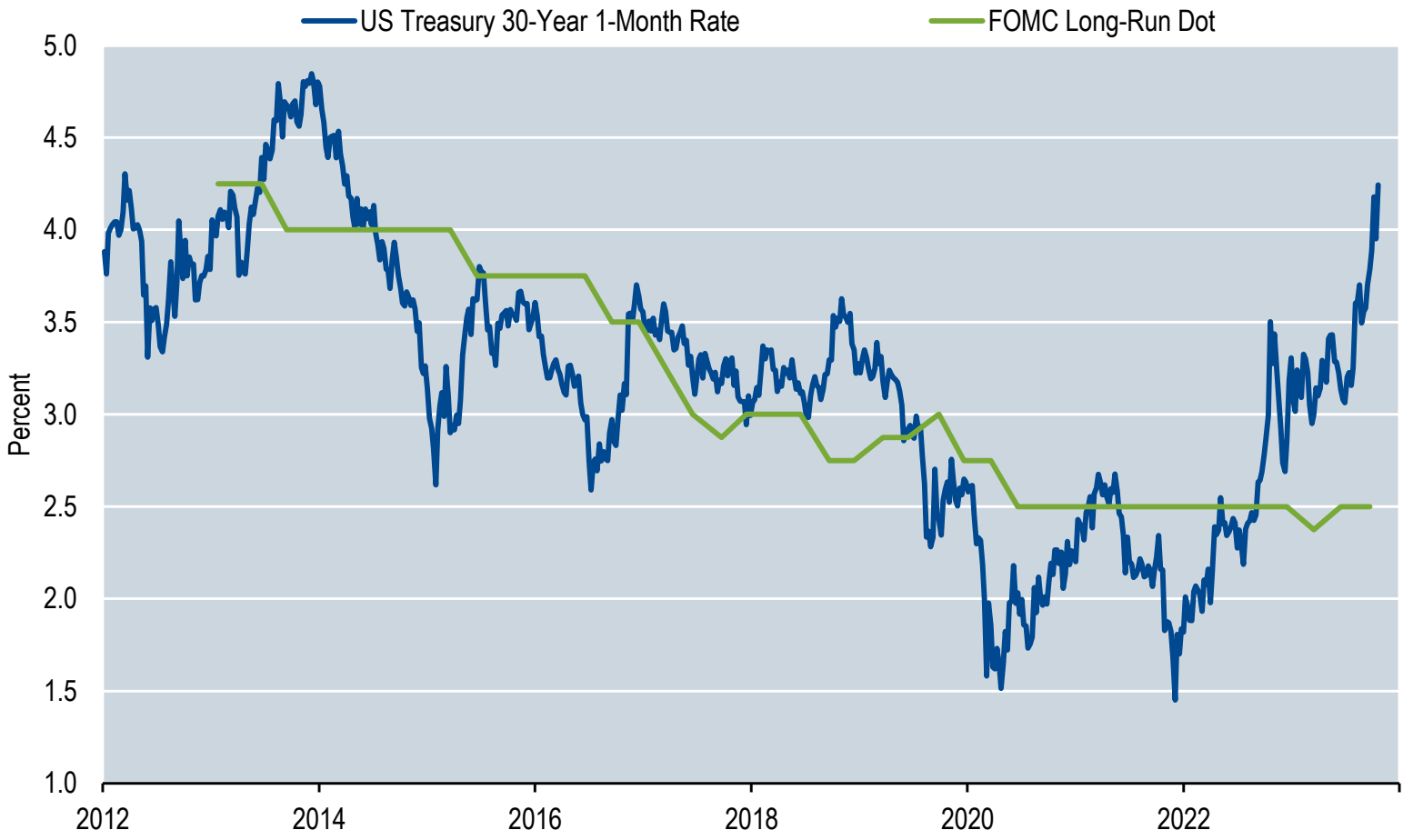


Source: Federal Reserve, Haver Analytics. As of 30 Sep 23



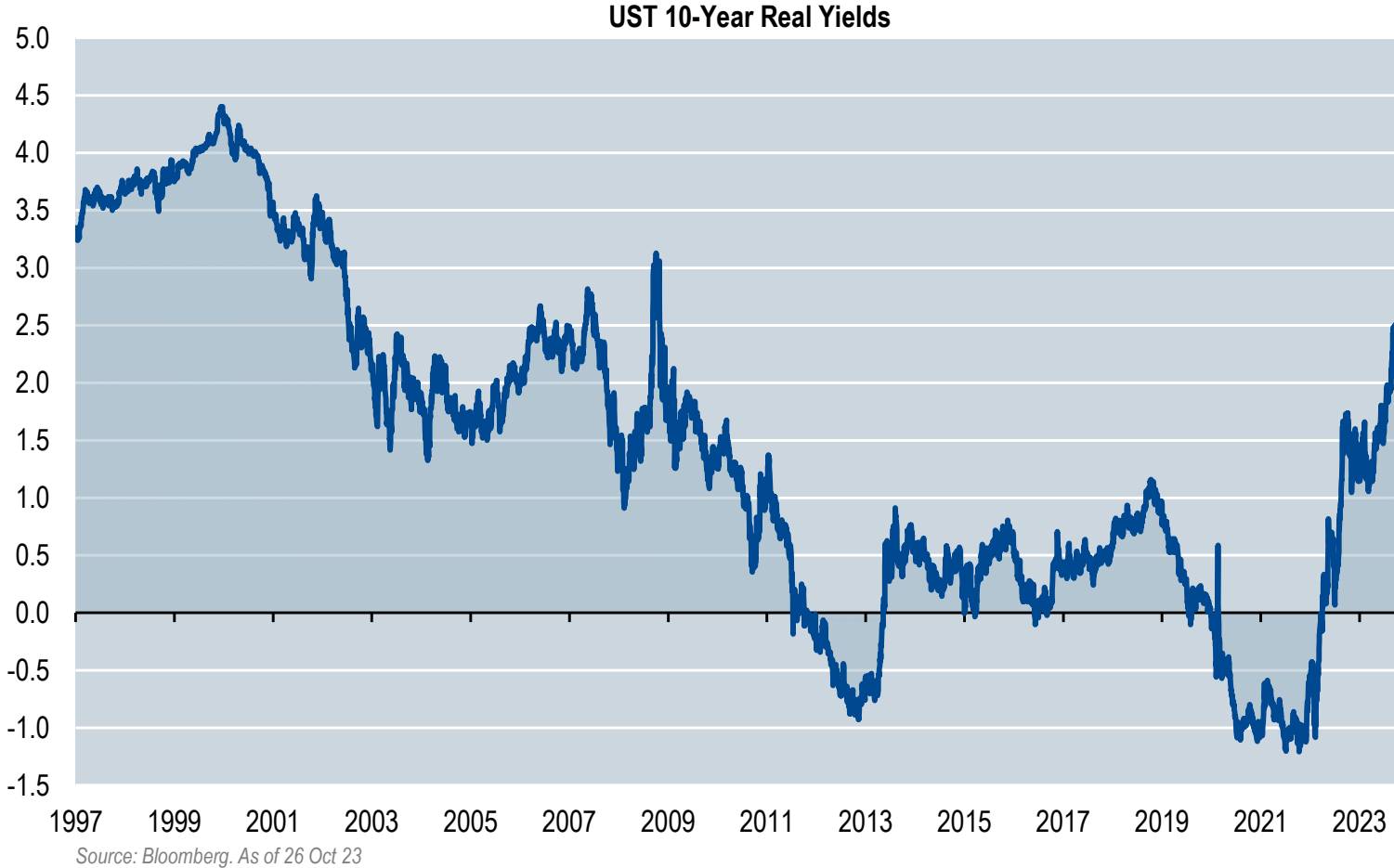
Source: Census, Mortgage Bankers Association of America, Haver Analytics. As of 30 Sep 23

Long-Run Market Rates Are Substantially Above FOMC Estimates

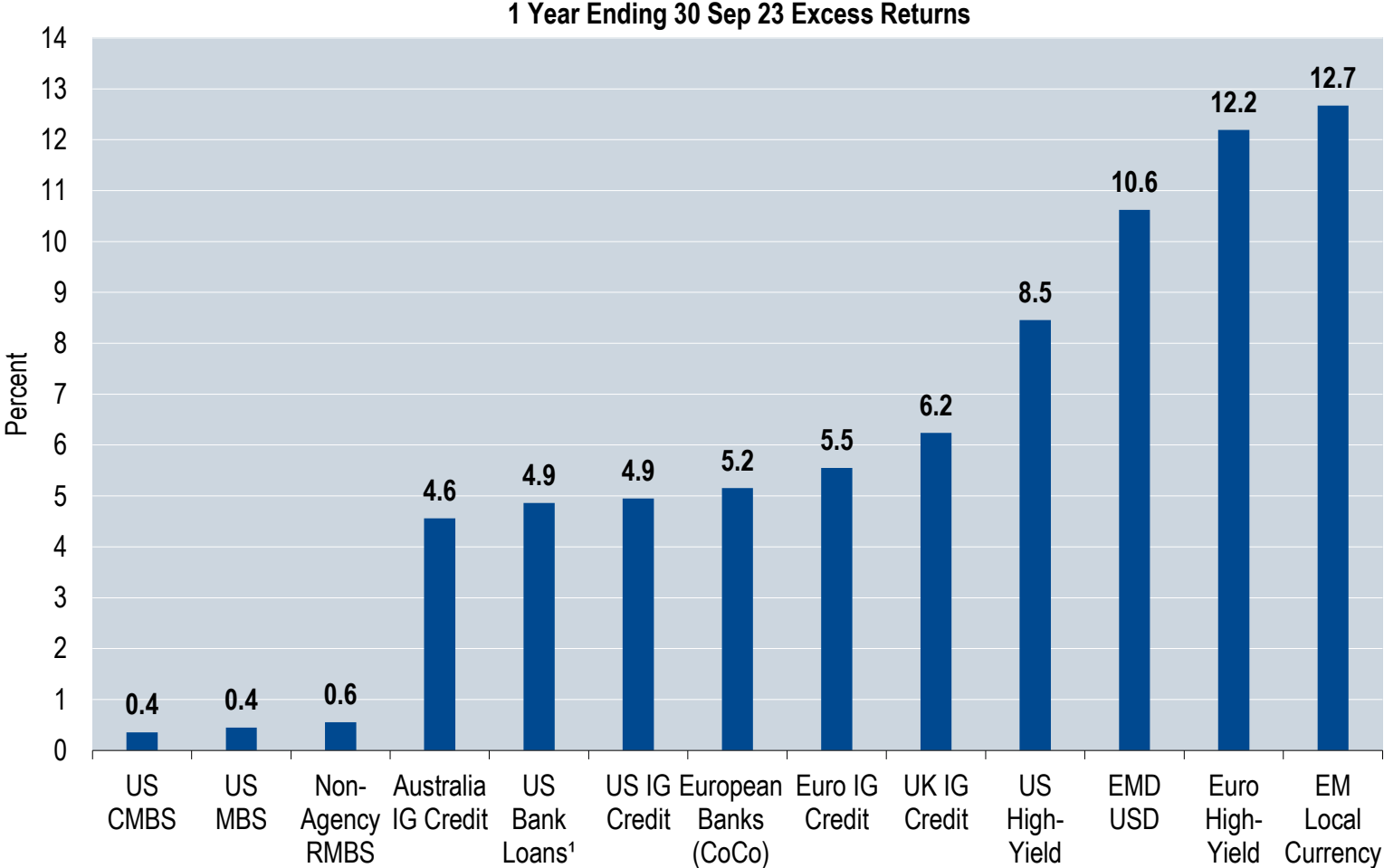


Source: Bloomberg. As of 20 Oct 23

UST 10-Year Real Yield Now Back to Pre-Global Financial Crisis Levels



Spread Sector Excess Returns



Source: Bloomberg, Citi, J.P. Morgan, S&P Global Market Intelligence, a division of S&P Global Inc, Western Asset. ¹S&P/LSTA Leveraged Loan Total Return Index excess return vs. 3-Month LIBOR. As of 30 Sep 23
 Past performance is not a reliable indicator of future results.



Portfolio Themes

Duration – Maintain long duration position

- Rates are outright attractive
- Will also act as diversifier in risk-off move

Income – High quality carry

- IG credit
- Agency MBS

Value – Attractive prices vs. fundamentals

- Emerging markets
- Energy
- Structured products

The above reflects current opinions of Western Asset and are subject to change with market conditions. As of 26 Oct 23



Thank you.

Risk Disclosure

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