

Strategy Update: US Core and Core Plus

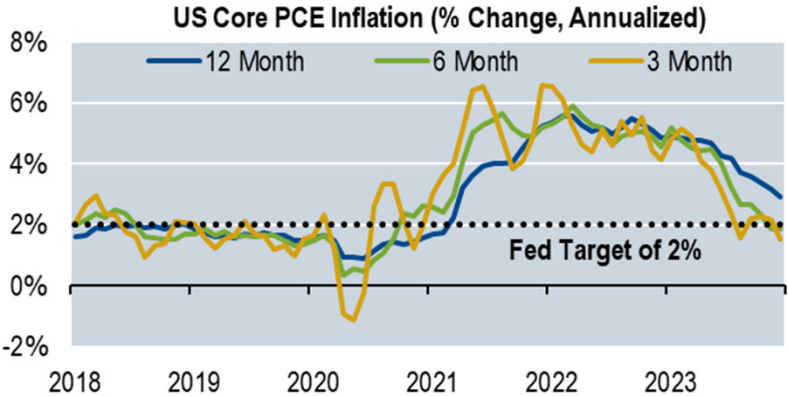
February 28, 2024

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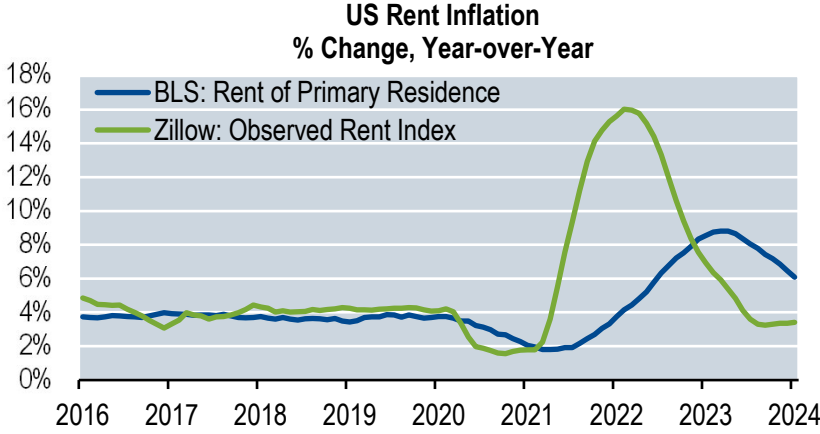
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Portfolio Manager

Core Inflation Right Around Fed's Target Recently, More Disinflation To Come

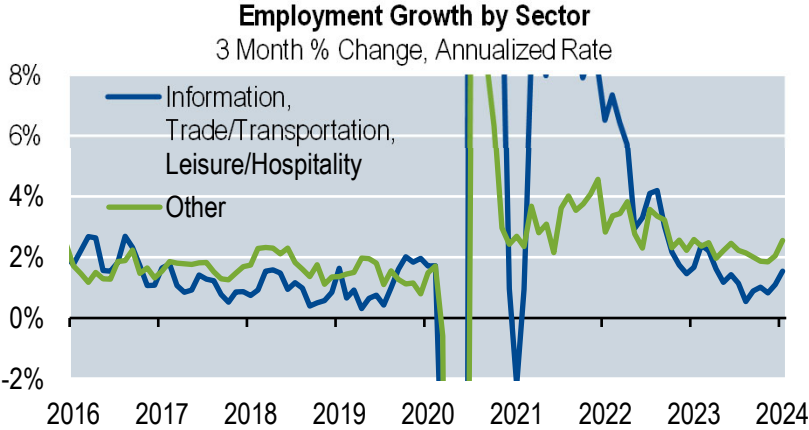
US Labor Market moving back towards balance



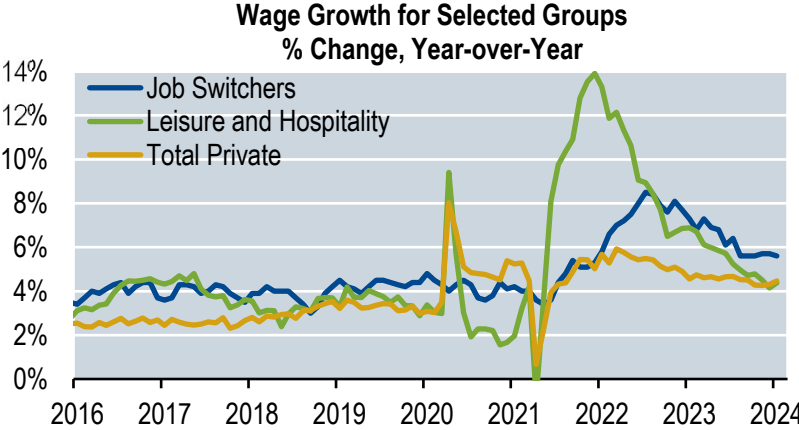
Source: Bureau of Economic Analysis, Haver Analytics. As of 31 Dec 23



Source: Bureau of Labor Statistics, Haver Analytics, Zillow. As of 31 Jan 24



Source: Bureau of Labor Statistics, Haver Analytics. As of 31 Jan 24



Source: Bureau of Labor Statistics, Atlanta Federal Reserve, Haver Analytics. As of 31 Jan 24



US Growth Moderation Likely to Continue

Tight Credit Conditions

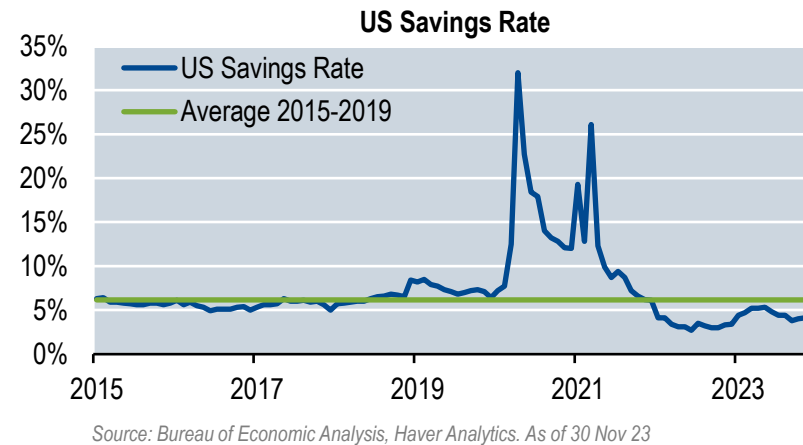
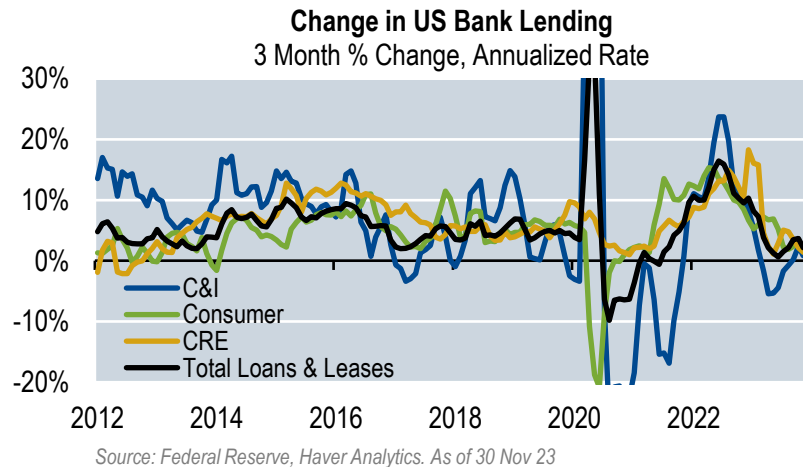
Savings Rate Likely to Rise

High Interest Rates Deter Investment

- Especially in Housing and Manufacturing

Fiscal Impulse a (Small) Drag

Reopening in Leisure/Hospitality Finished?



FOMC Discussion Turns Towards Cuts

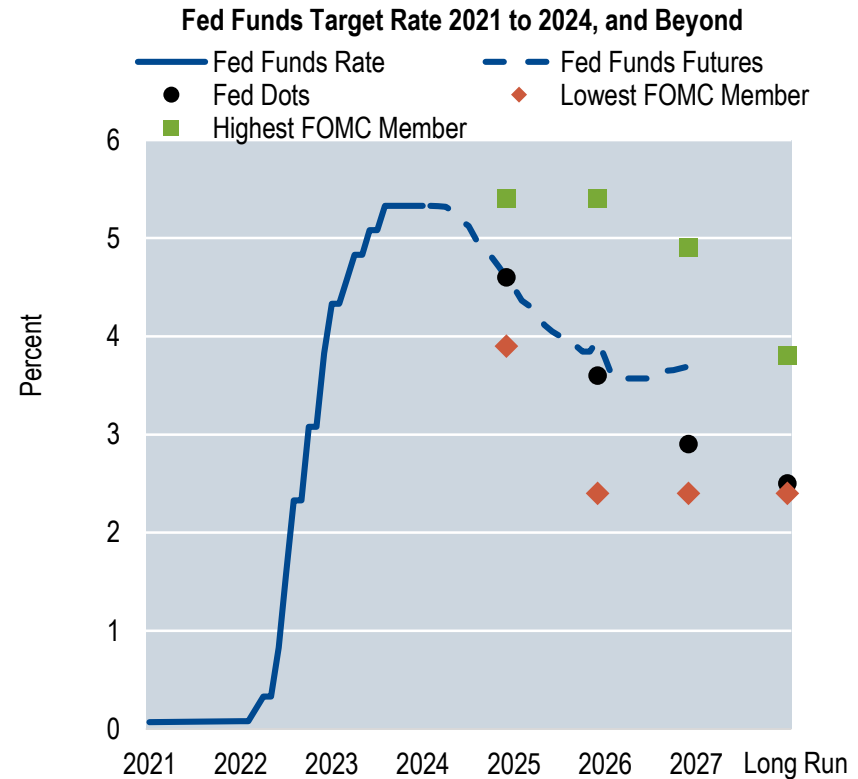
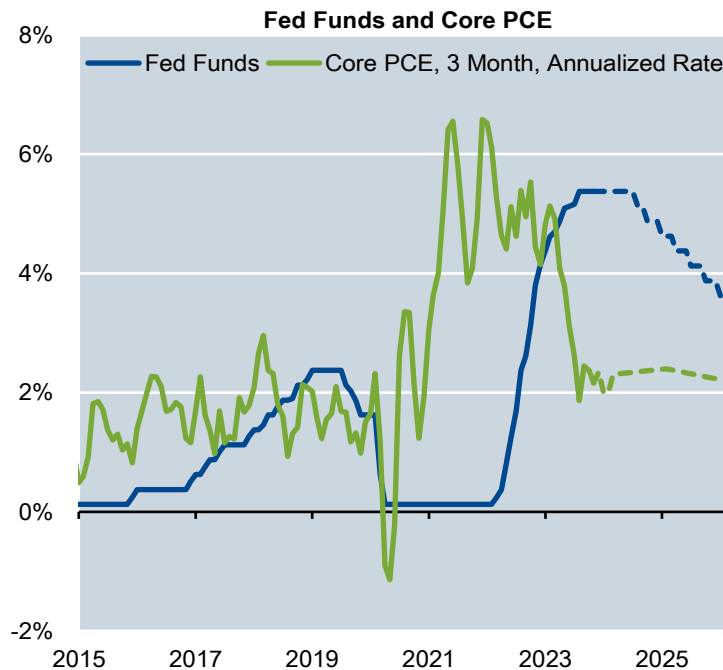
But FOMC also forecasts Fed funds remaining well above inflation rate

“The question of when will it become appropriate to begin dialing back the amount of policy restraint in place, that begins to come into view and is... **also a discussion for us at our meeting today**”

“**So, we're aware of the risk that we would hang on too long.** We know that that's a risk, and we're very focused on not making that mistake.”

“We're getting now back to the point where **both mandates are important**, and they're more in balance, too.”

– Chair Powell, Dec 13, 2023



Mortgage Credit Offers Attractive Relative Value

- While real estate prices are expected to cool from the record increases, market spreads are elevated with increased risk premiums
- During the housing boom of Covid, lending stayed conservative and single family markets remain well supported by long-term fundamentals
- Commercial real estate sector has largely been able to pass on the cost of higher interest rates in rents at hotels, apartments, and industrial properties, while the office sector faces continued headwinds from Covid

Spreads	Representative RMBS CRT Below IG*	BAML RMBS Legacy Below IG	Bloomberg Non-Agency CMBS BBB	Bloomberg US IG Corporate	Bloomberg US High Yield
31 Jan 20	178	123	250	102	390
29 Dec 23	295	267	1,120	99	323
Difference Since 31 Jan 20	117	143	870	-3	-67

4 of 5 Commercial Real Estate Sectors Fundamentally Sound

	Office	Retail	Multifamily	Industrial	Hotel
Change From 2019					
Occupancy	-4.4%	0.3%	-0.9%	-0.9%	-2.9%
Rent Growth*	0.7%	13.5%	16.1%	36.2%	16.2%
Cap Rates	1.1%	-0.3%	0.2%	0.1%	0.1%
Price Change 4-Year*	-4.9%	9.8%	17.9%	45.4%	20.7%
Loan Payoff Rate	-34.7%	-5.1%	-2.4%	N/A	24.0%

Source: Costar, Deutsche Bank, Real Capital Analytics, Western Asset. As of 31 Dec 23

*Cumulative

Source: Bloomberg, Bank of America, Western Asset. As of 29 Dec 23

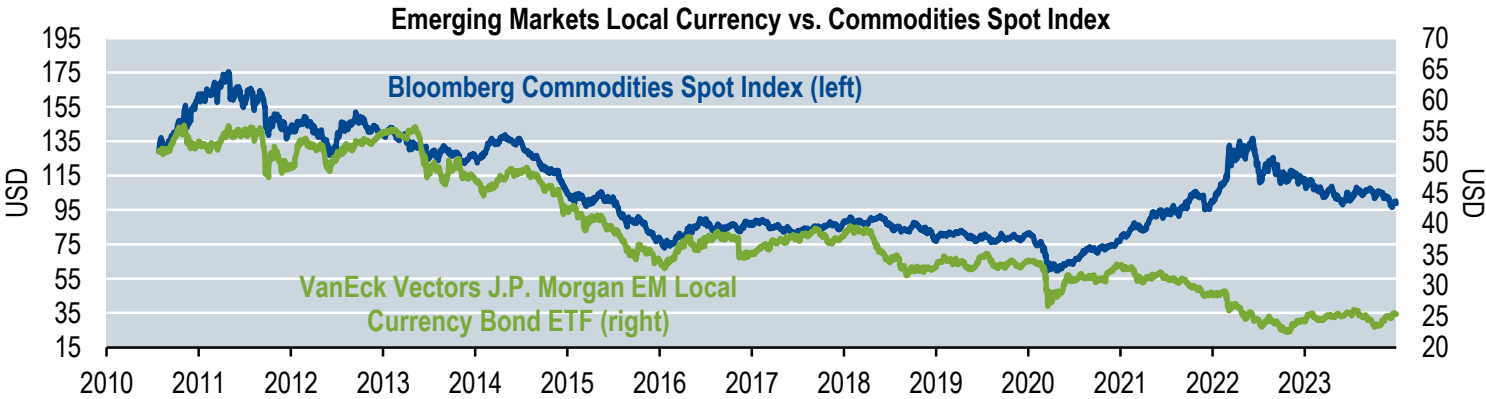
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*Representative RMBS CRT Below IG: On-the-run speed adjust spread for below investment-grade rated CRT cohort

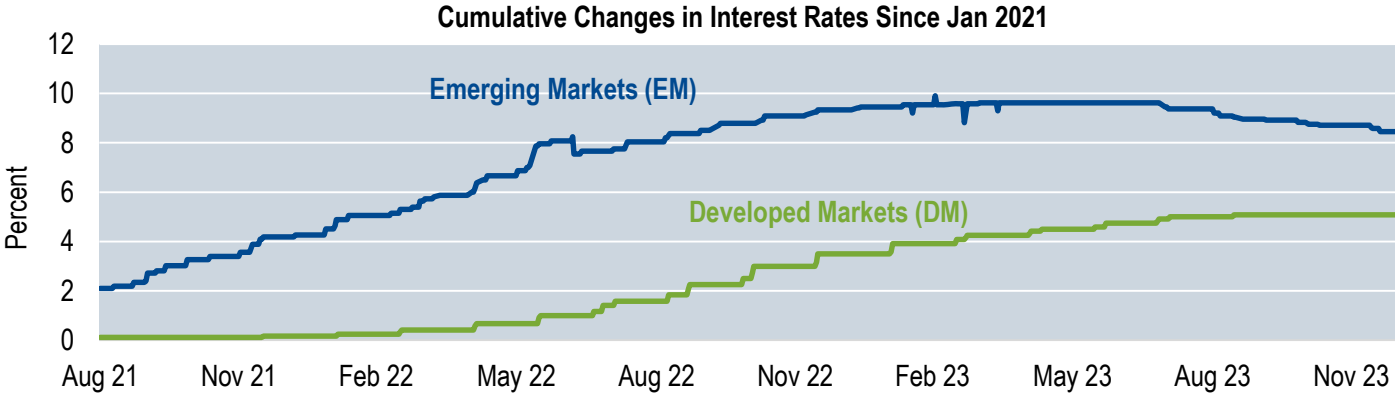
Past performance is not a reliable indicator of future results.

Emerging Markets: Fed Pivot and Moderate Global Growth are Key Drivers

Valuations near all-time lows and EM central banks have started to ease monetary policy



Source: Bloomberg. As of 29 Dec 23



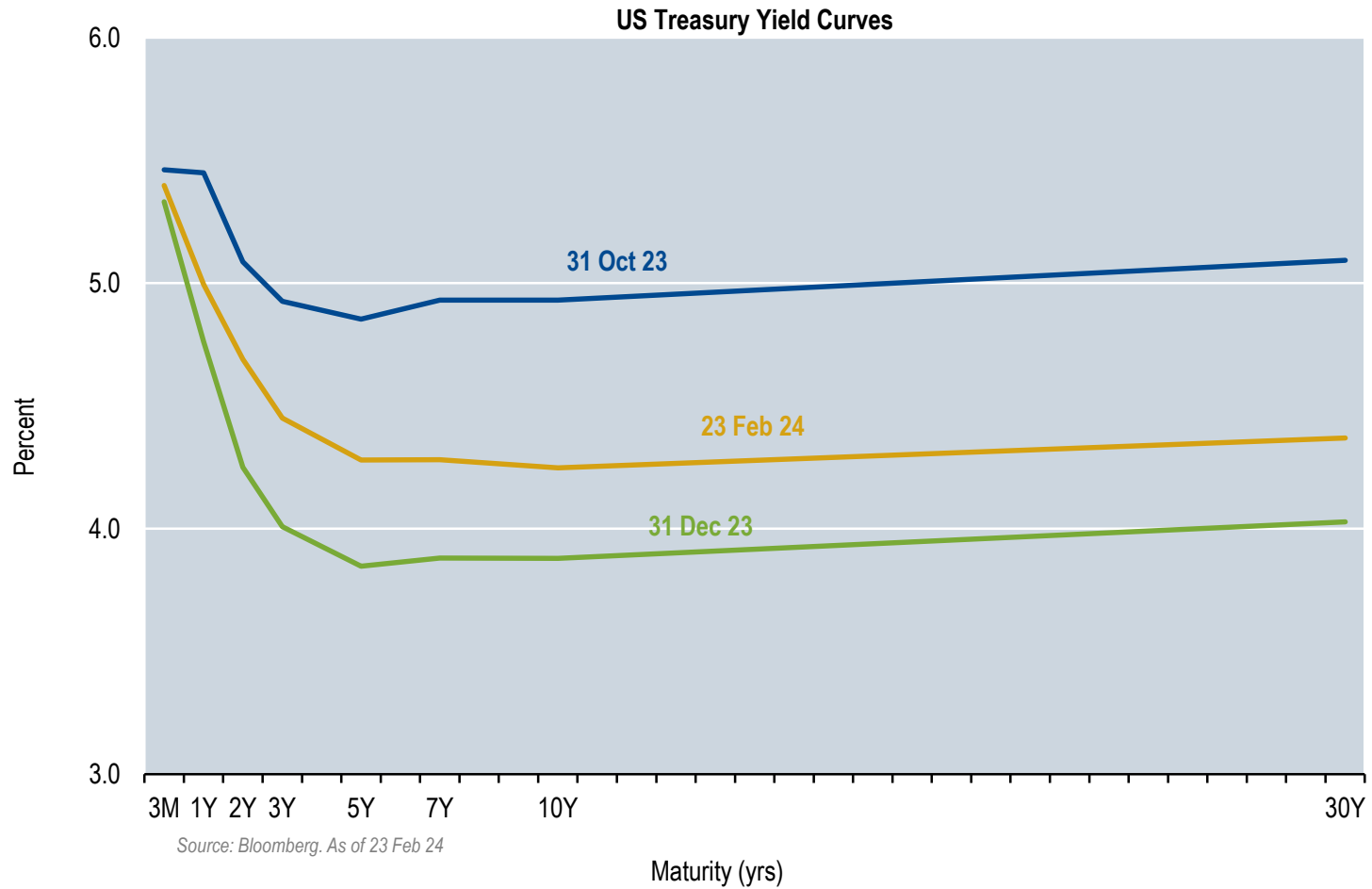
Source: Bloomberg. As of 31 Dec 23

Note: Emerging Markets (EM)=Average of Brazil, Chile, Czech Republic, Mexico, Peru and Poland; Developed Markets (DM)=Average of US, EU and UK

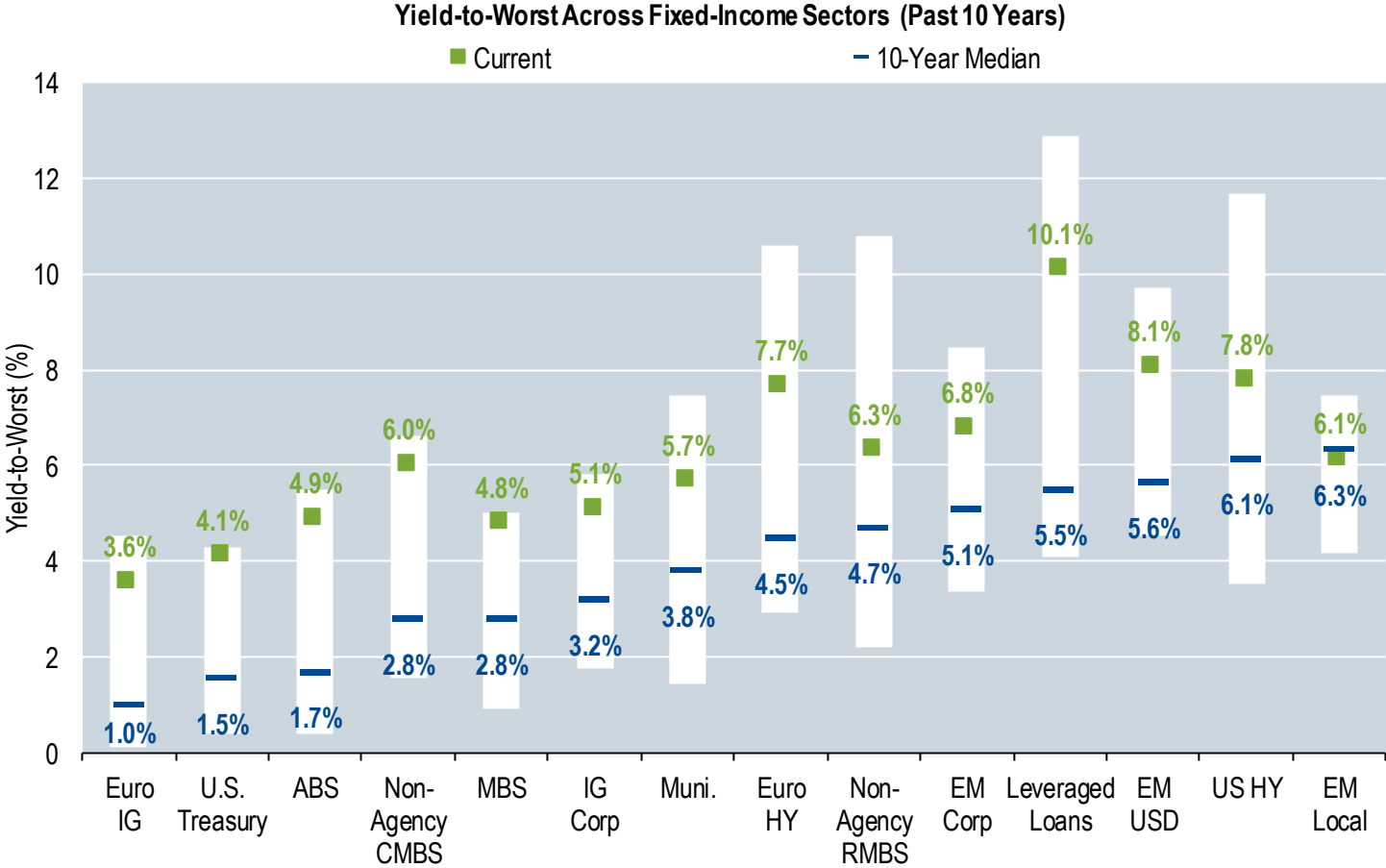


US Treasury Yield Curves

High volatility over the last few months



Fixed-Income Valuations are Historically Attractive



Source: Bloomberg, J.P. Morgan, Morningstar LSTA. As of 31 Jan 24

Peak Policy Rates Are Historically Good For Fixed-Income Returns

US Aggregate Index Returns after Fed Pause

			Bloomberg U.S. Aggregate Index Returns			
Period	Rate Hike	Event	+6mo	+1yr	+3yr	+5yr
Mar 1988 - Feb 1989	3.25%	Savings and Loan Crisis	9.4%	12.9%	12.3%	11.0%
Feb 1994 - Feb 1995	3.00%	Bond Market Massacre	8.9%	17.1%	10.2%	7.3%
Jun 1999 - May 2000	1.75%	Dot-com Bubble	7.7%	13.7%	11.1%	7.8%
Jun 2004 - Jun 2006	4.25%	Housing Bubble	5.4%	6.5%	6.6%	6.6%
Dec 2015 - Dec 2018	2.25%	Oil Price Collapse	6.0%	8.8%	5.0%	1.0%
Average	2.90%		7.5%	11.8%	9.0%	8.2%
Mar 2022 - Present*	5.25%	Inflation Spike Post COVID-19	-	-	-	-

*As of 31 Dec 23

Questions & Answers



Thank you.

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