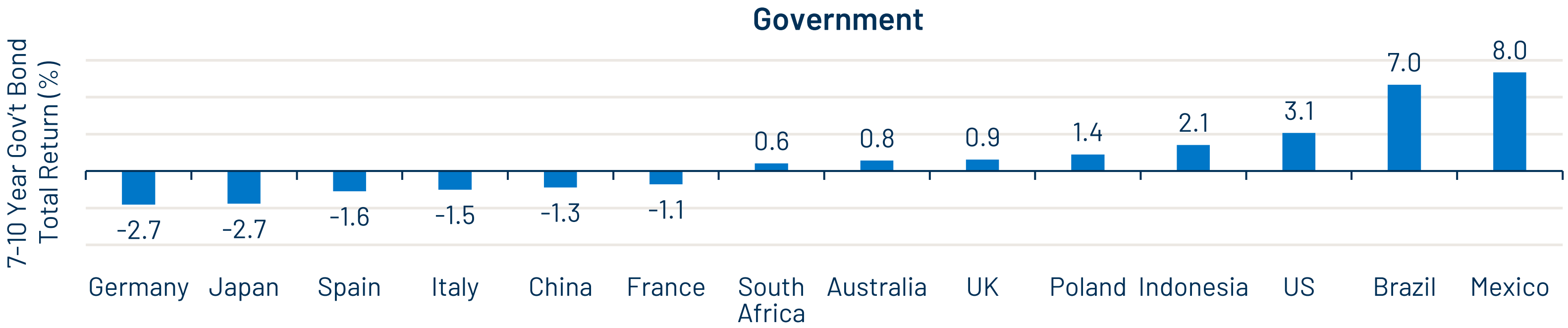
March 26, 2025

2Q25
Market & Strategy Update

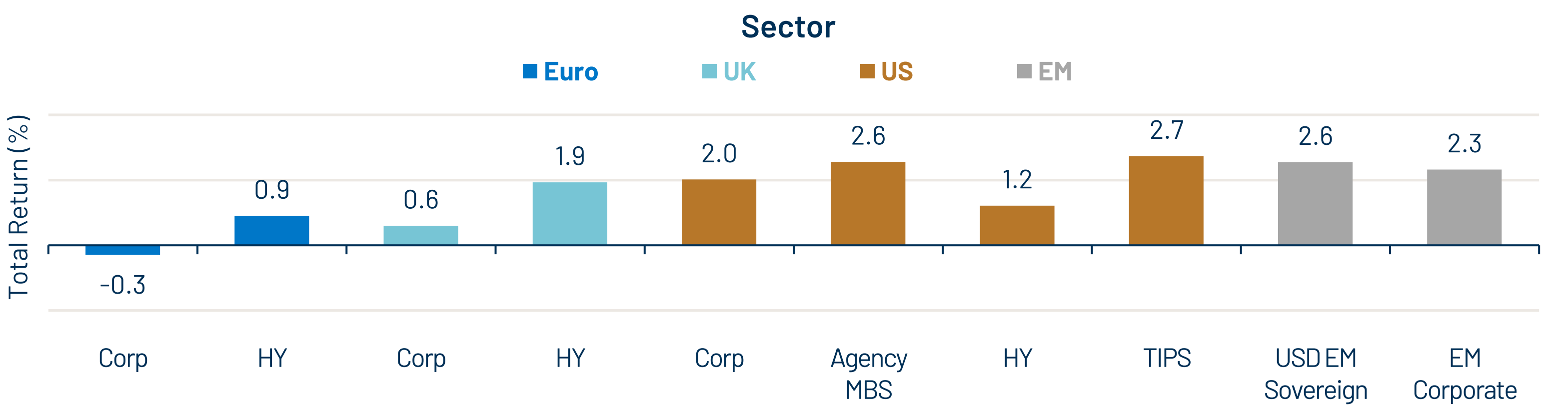
Michael Buchanan, CFA
Chief Investment Officer

Catherine Matthews
Global Product Specialist

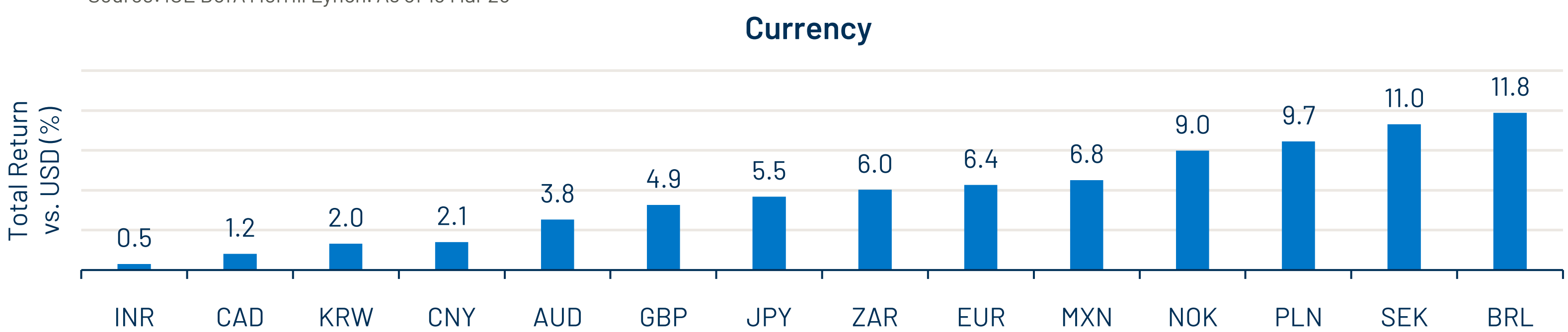
Year-to-Date 2025 Global Fixed-Income Returns



Source: Bloomberg, J.P. Morgan. As of 18 Mar 25
Country returns for China, Indonesia and South Africa are of the all maturity country index.



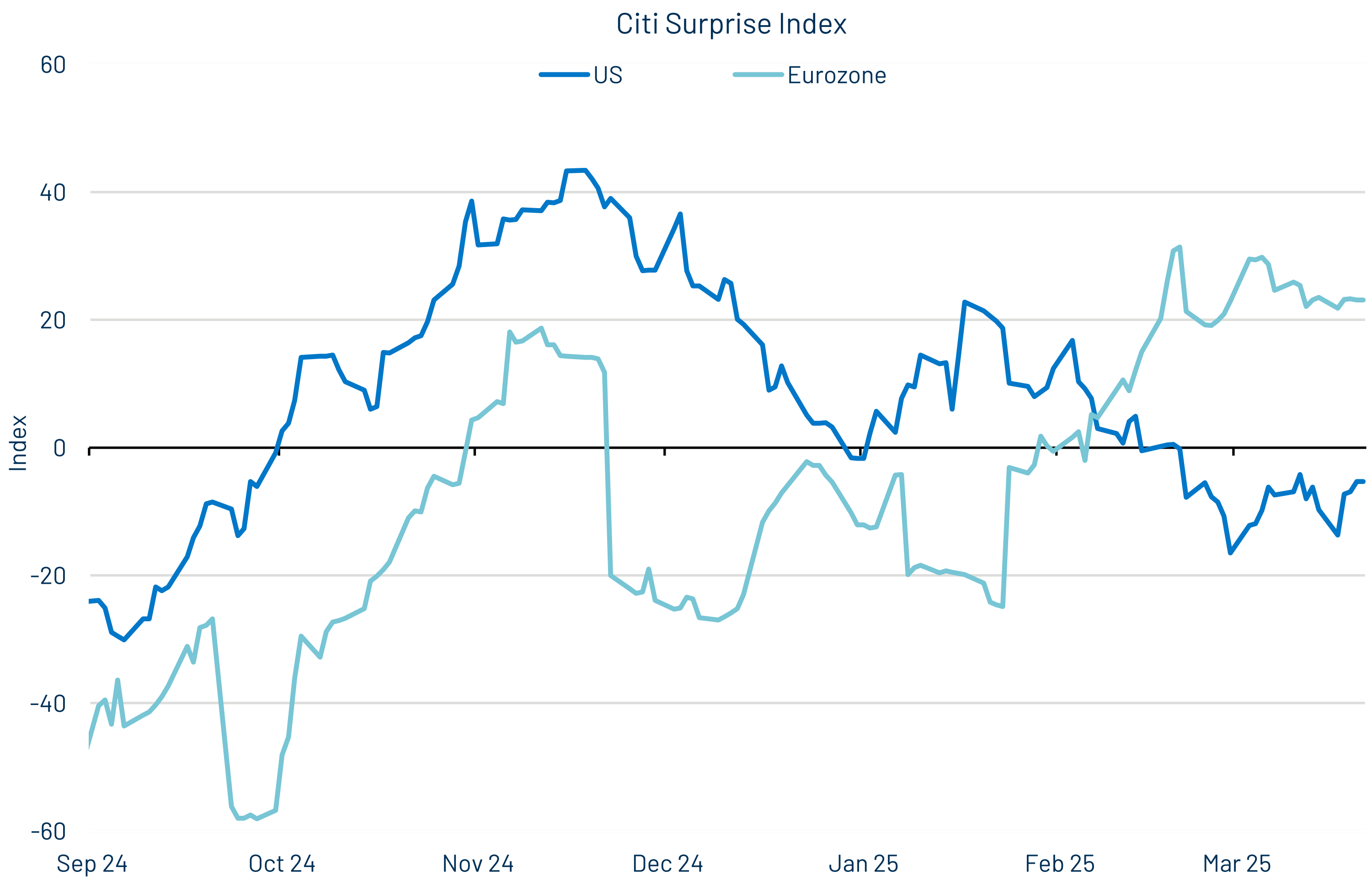
Source: ICE BofA Merrill Lynch. As of 18 Mar 25



Source: Bloomberg. As of 18 Mar 25

Economic Data Surprised…

…to the downside in the US but showed improvement in the eurozone

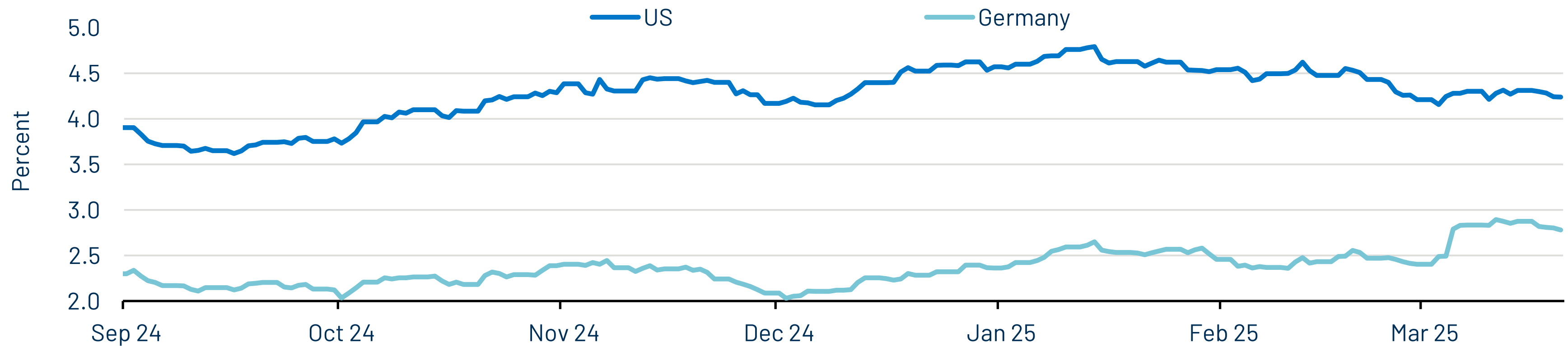


Source: Bloomberg. As of 20 Mar 25

The above reflects current opinions of Western Asset, which are subject to change with market conditions

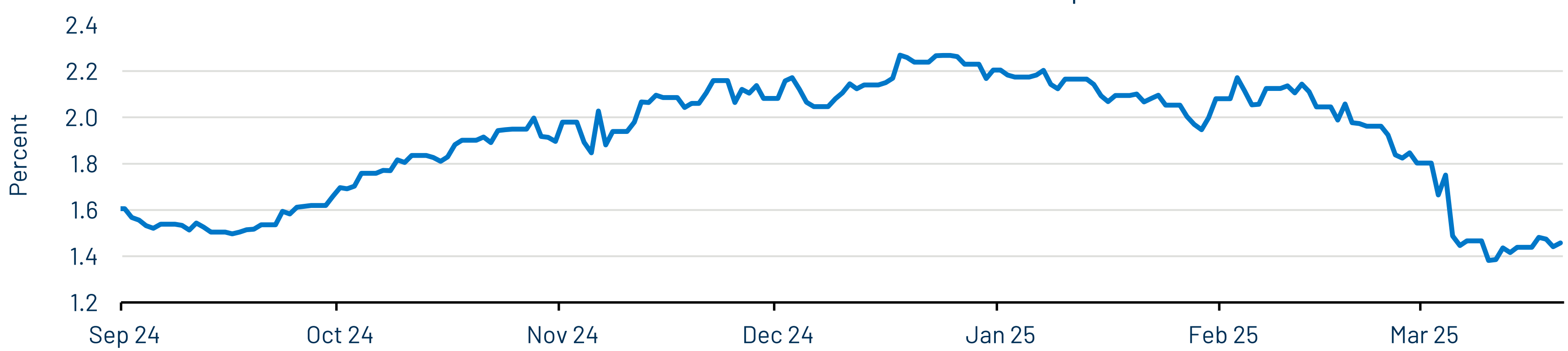
US vs. Germany

10-Year US vs. German Government Bond Yield



Source: Bloomberg. As of 20 Mar 25

10-Year US vs. German Government Bond Spread



Source: Bloomberg. As of 20 Mar 25

Global Outlook

Global growth converging, with US exceptionalism waning

Further progress on inflation expected

Growth and inflation outlook clouded by tariff uncertainty

Downside risks to the US labor market have increased

Policy rates will be cut further despite crosscurrents from growth and inflation

US policy initiatives may lead to bouts of volatility and opportunities

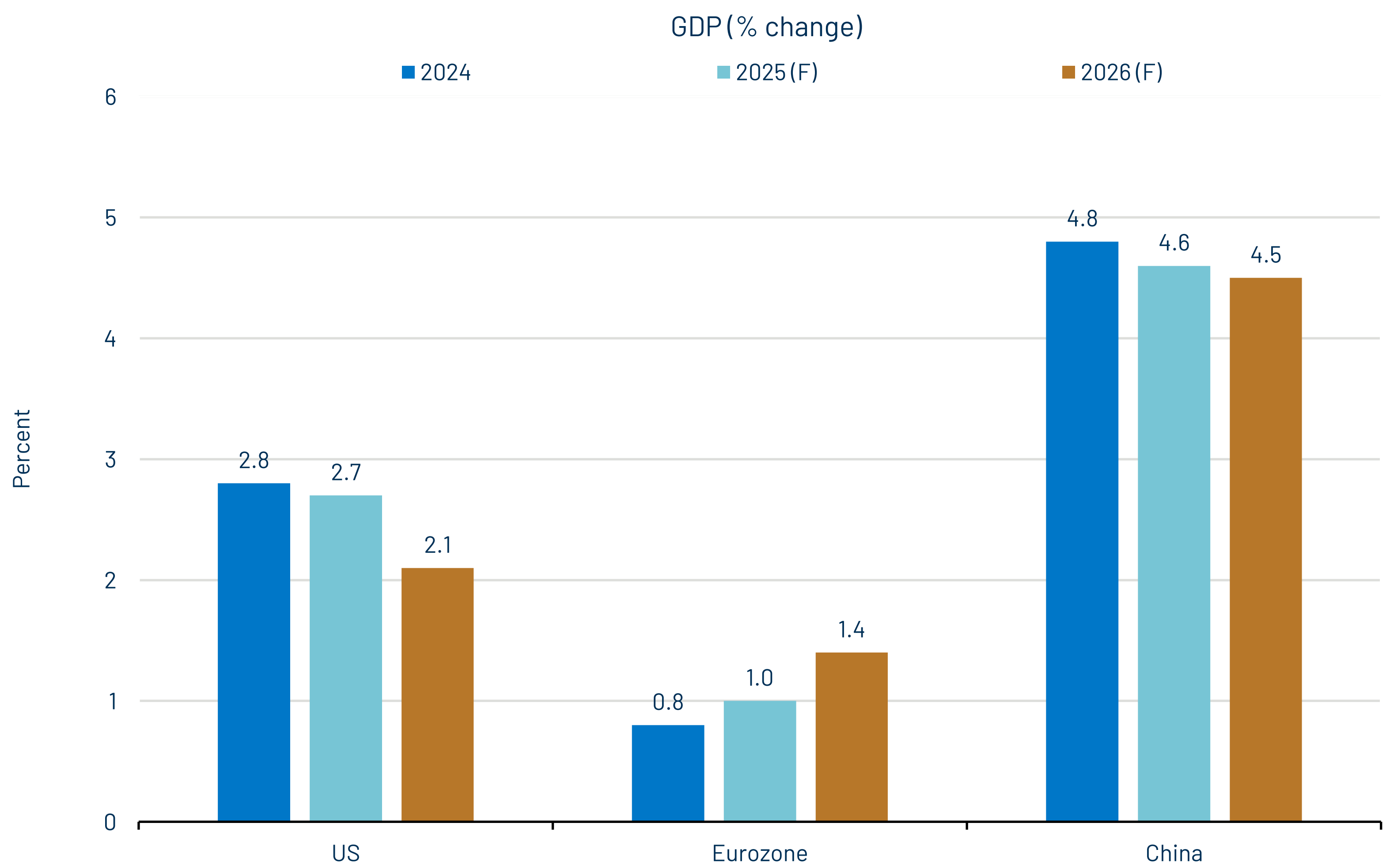
Fixed-income implications

- Yield curves will steepen given global fiscal concerns
- Spread sector fundamentals are generally healthy
- Corporate spread sectors are still trading tighter than their historical averages
- Pockets of opportunities in developed market rates
- US Treasuries provide important diversification to spread sectors

As of 26 Mar 25. The above reflects current opinions of Western Asset, which are subject to change with market conditions.

Global Economic Expectations

US exceptionalism waning



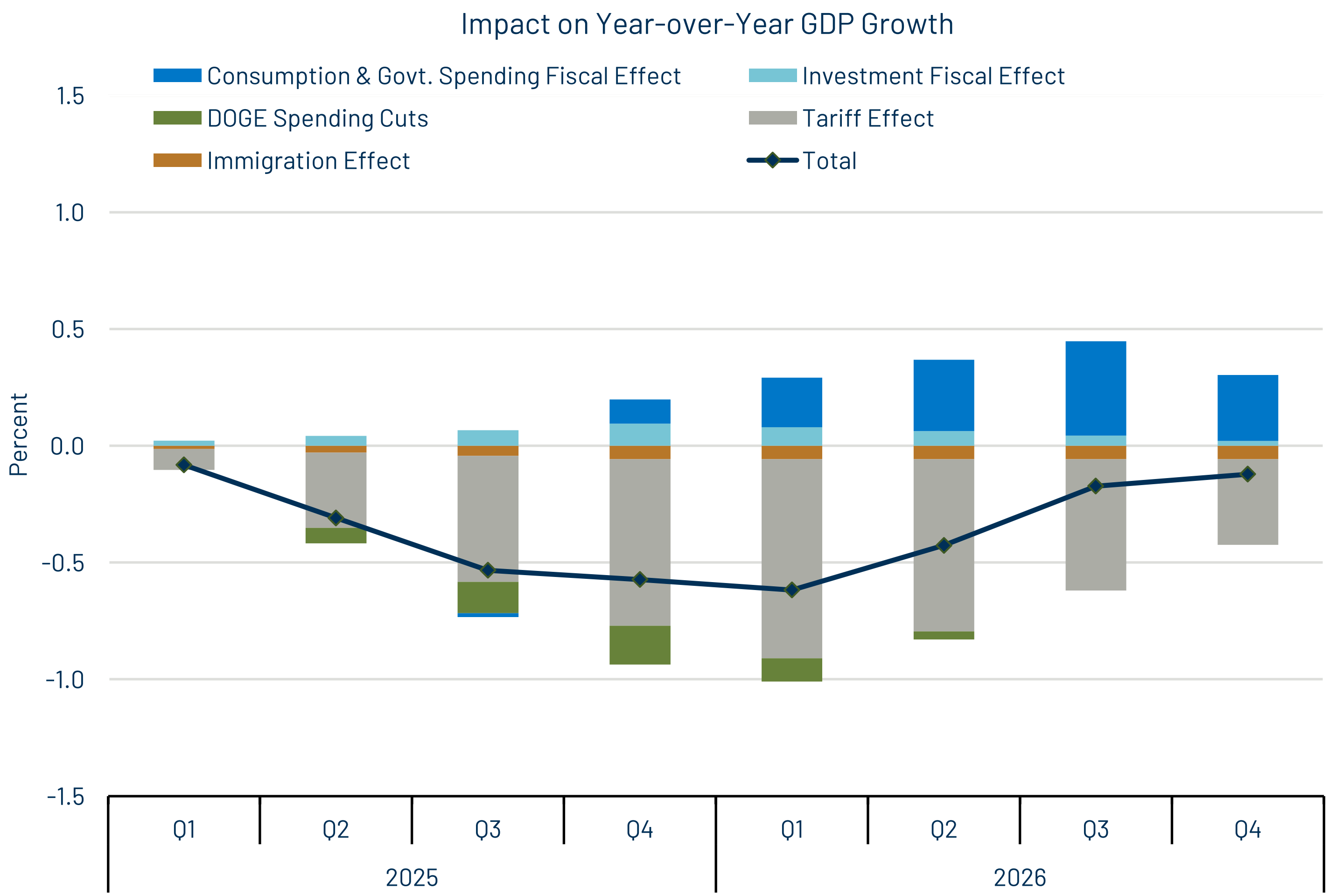
Source: OECD Economic Outlook, Interim Report March 2025

The above reflects current opinions of Western Asset, which are subject to change with market conditions

Offsetting Impacts to GDP Growth

Tariff impacts set to be front-loaded

- Tariffs weigh on growth
- Tax cuts and regulatory easing will provide some offset
- Near-term net impact to be growth negative, but should moderate over time



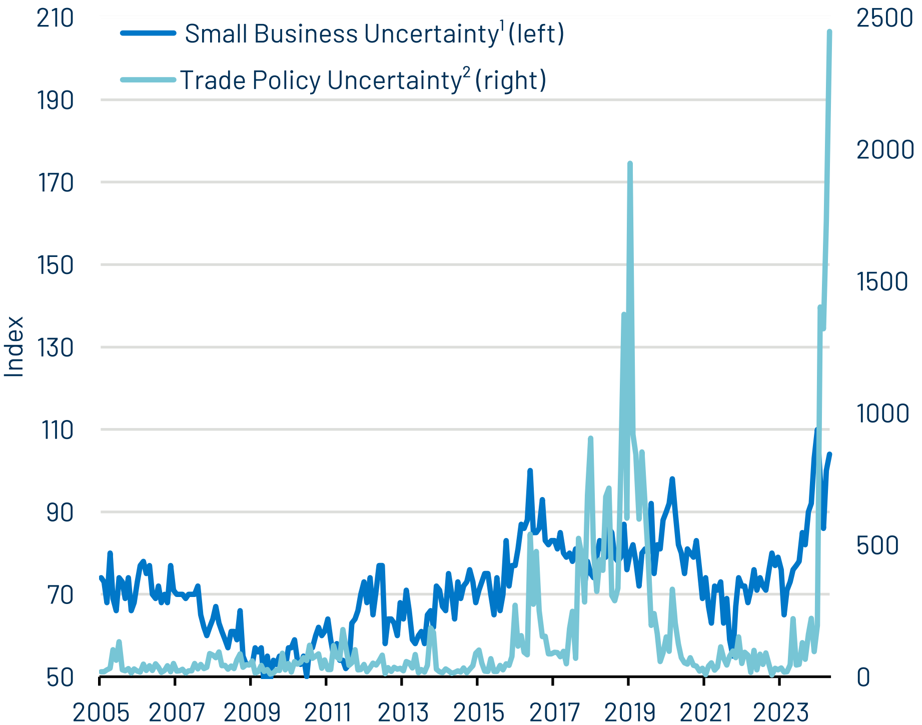
Source: Goldman Sachs

The above reflects current opinions of Western Asset, which are subject to change with market conditions

US Labor Market

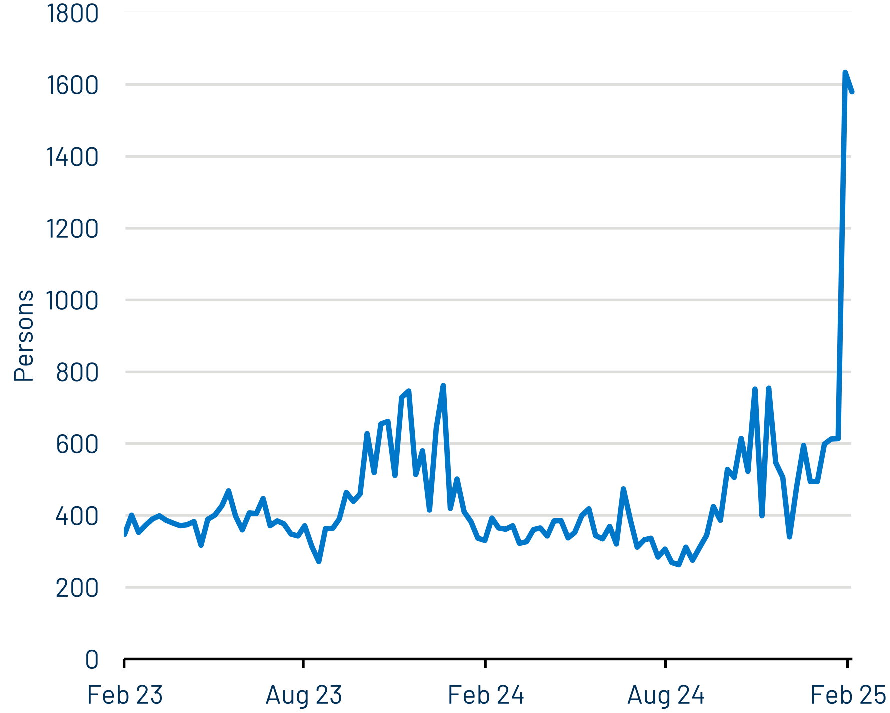
Downside risks to jobs and growth have increased with DOGE layoffs, business uncertainty due to tariff policy, and slowing immigration

Trade Policy Uncertainty and Small Business Uncertainty are High



Source: Bloomberg, Haver. As of 28 Feb 25
[1]NFIB Small Business Uncertainty Index. [2]Categorical US Economic Policy Uncertainty Index: Trade Policy (1985-10=100, right)

US Initial Claims - Federal Employees



Source: Bloomberg. As of 28 Feb 25

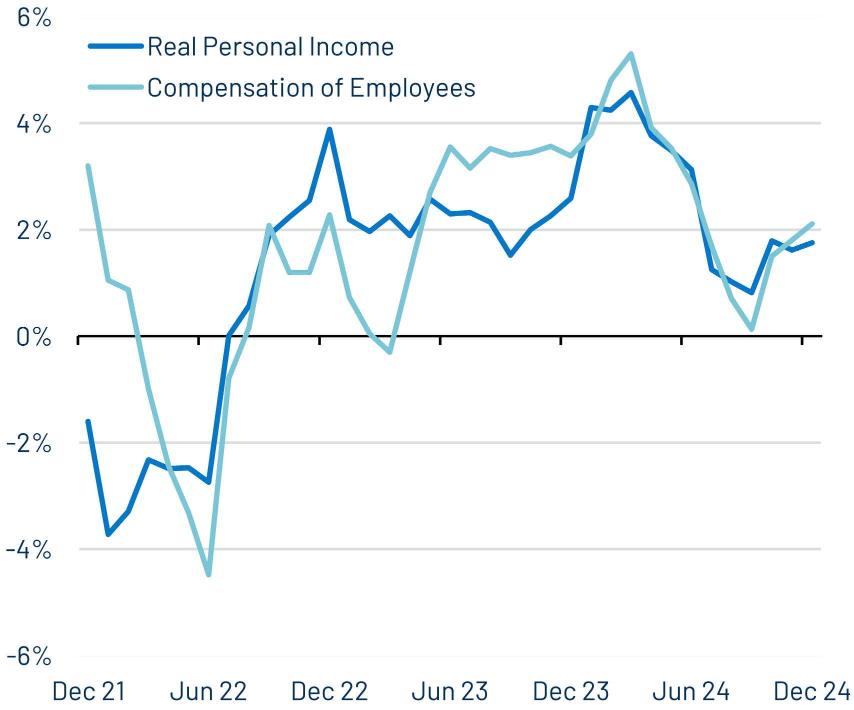
The above reflects current opinions of Western Asset, which are subject to change with market conditions

US Consumption

Despite growth concerns, outlook is underpinned by continued strong personal income growth

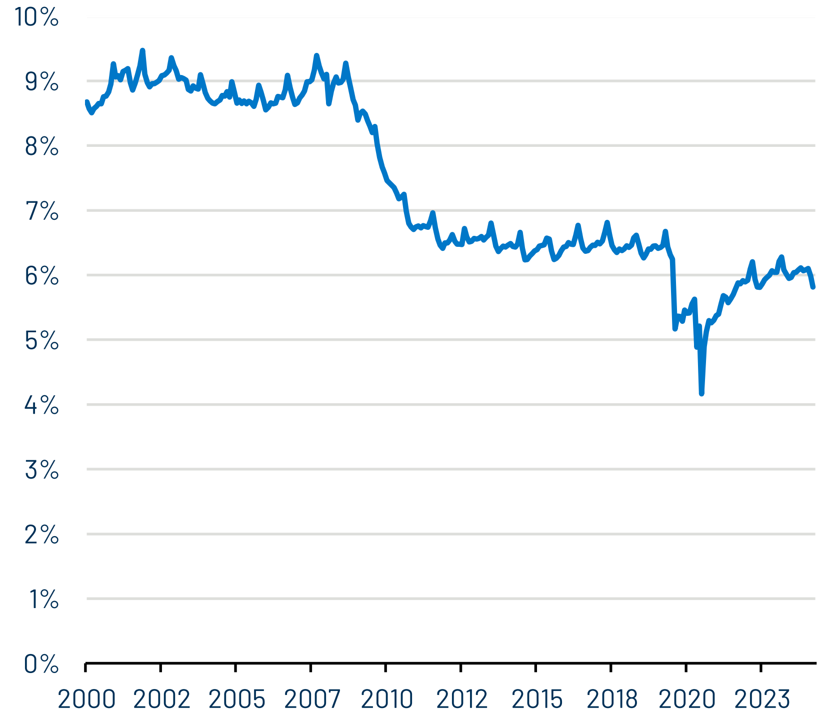
- Real incomes have remained healthy
- Wage compensation has picked up, but productivity has improved

Real Personal Incomes Rebounding – 6-Month a.r.



Source: Bureau of Economic Analysis. As of 31 Jan 25

US Revolving Consumer Credit as a Percent of Personal Disposable Income



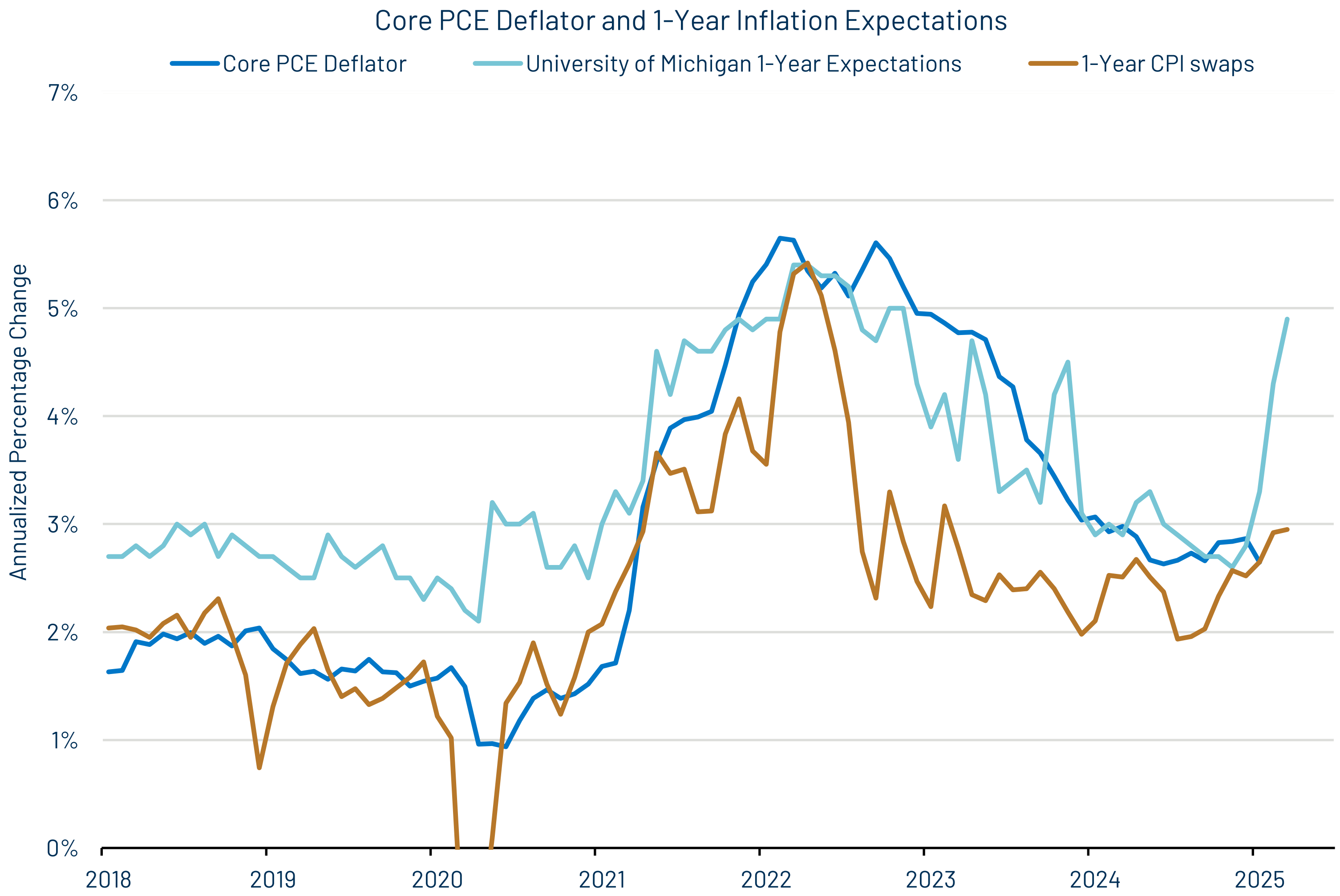
Source: Bloomberg. As of 31 Jan 25

The above reflects current opinions of Western Asset, which are subject to change with market conditions

US Inflation

The path to 2% core inflation has been slow and arduous

- Policy initiatives adding uncertainty

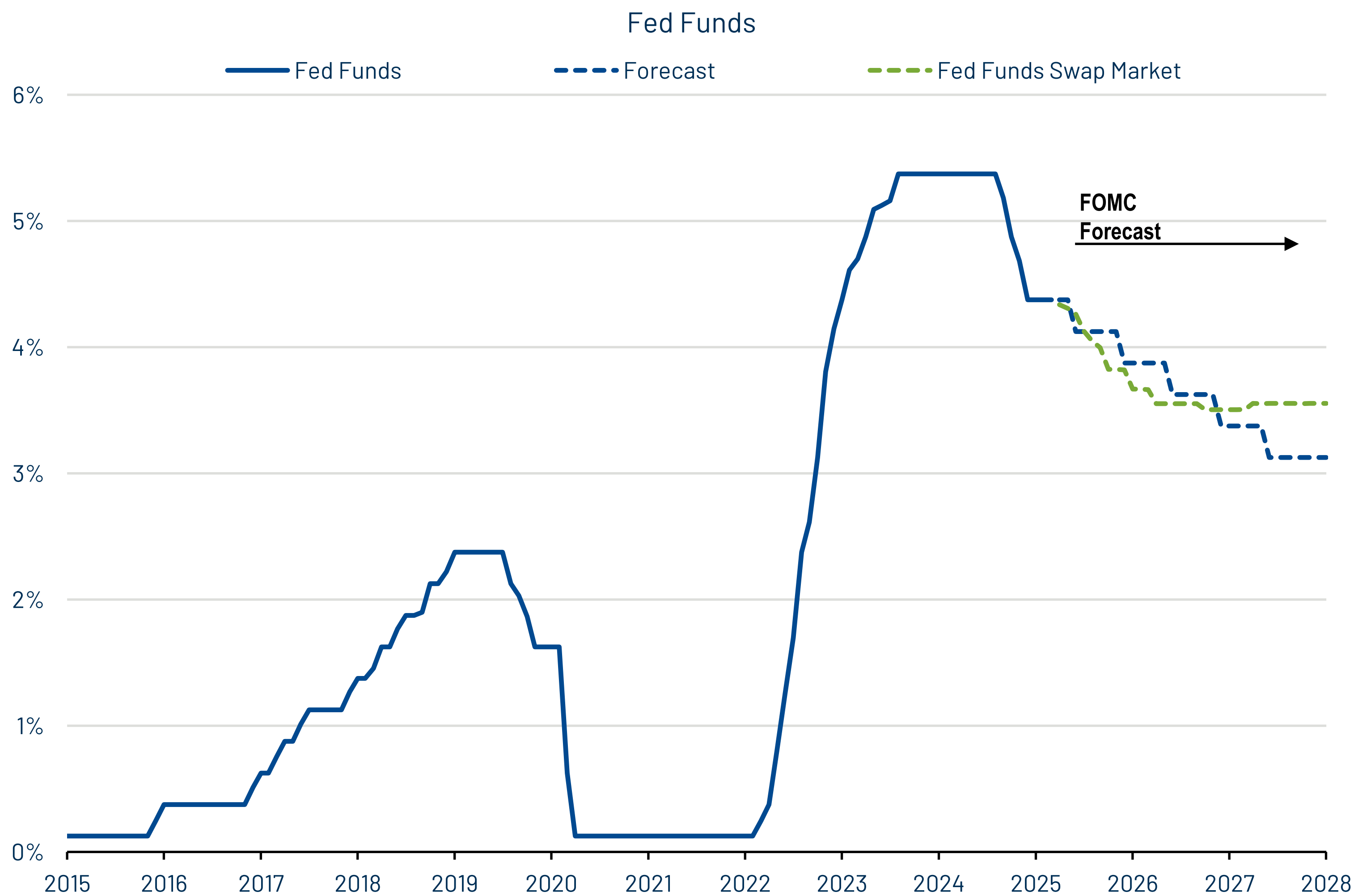


Source: BEA, Bloomberg, Western Asset calculations. As of 31 Jan 25. University of Michigan survey through March 2025

The above reflects current opinions of Western Asset, which are subject to change with market conditions

US Interest Rates

Timing is uncertain. Direction is not.

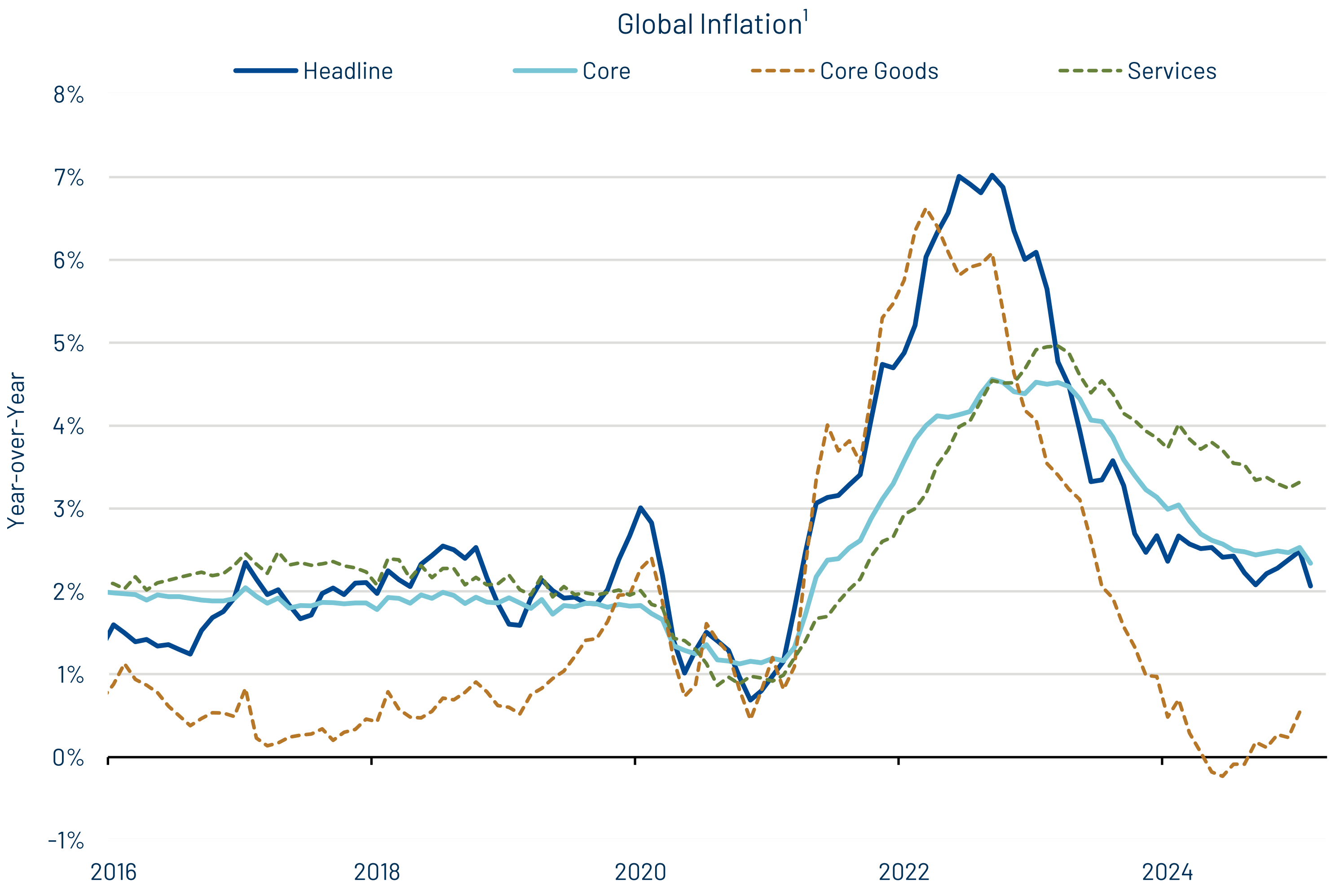


Source: Federal Reserve, Haver Analytics. As of 19 Mar 25
There is no assurance that any projection, estimate or forecast will be realized.

The above reflects current opinions of Western Asset, which are subject to change with market conditions

Global Disinflation Trend Is Slowing

Services inflation remains sticky. Tariffs present additional uncertainty



Source: Citigroup, Haver Analytics. As of 28 Feb 25

[1]Headline and core cover 15 economies; goods and services cover 12 economies. Readings for February are estimates using available data that comprises > 70% of the aggregate

The above reflects current opinions of Western Asset, which are subject to change with market conditions

Eurozone: Fiscal Boost, Tariff Fears and Ukraine Hope

Fiscal boost supports growth and confidence

Fiscal Boost

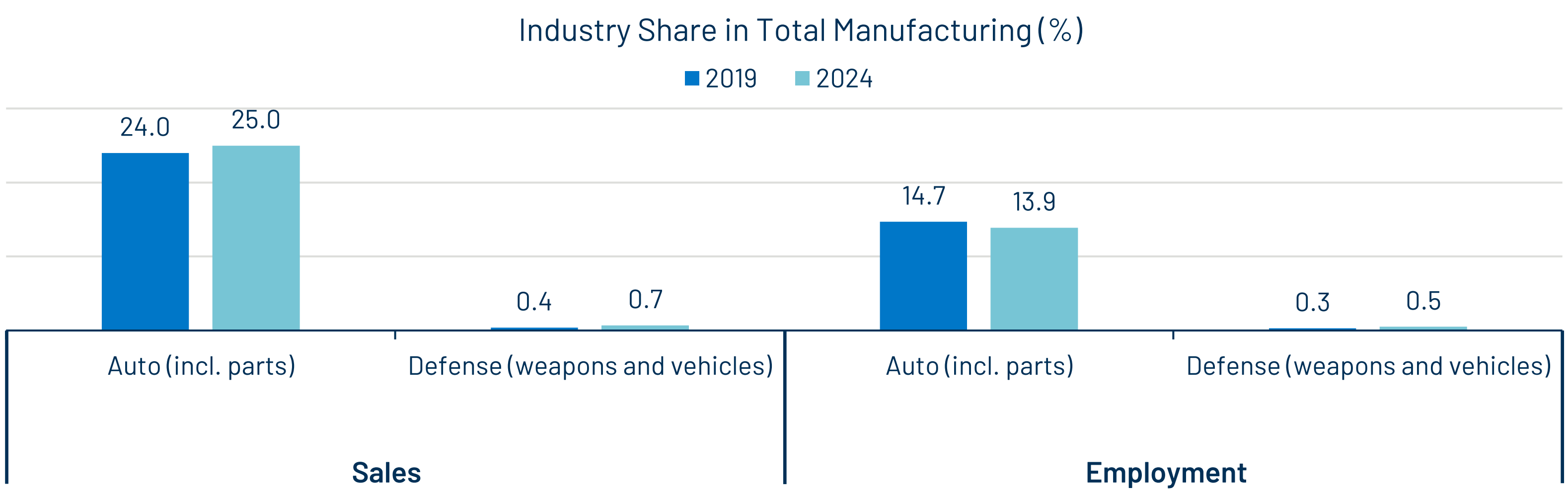
- Positive growth impact will be slow to build especially as defense spending has a low multiplier and high overseas procurement

Tariff Fears

- Negative growth impact is quite front loaded with uncertainty hindering investment for both the US and the eurozone

Ukraine

- A fragile ceasefire agreement will be costly via defense spending but a plan which leads to a longer lasting peace agreement will reduce eurozone energy costs



Source: Haver Analytics

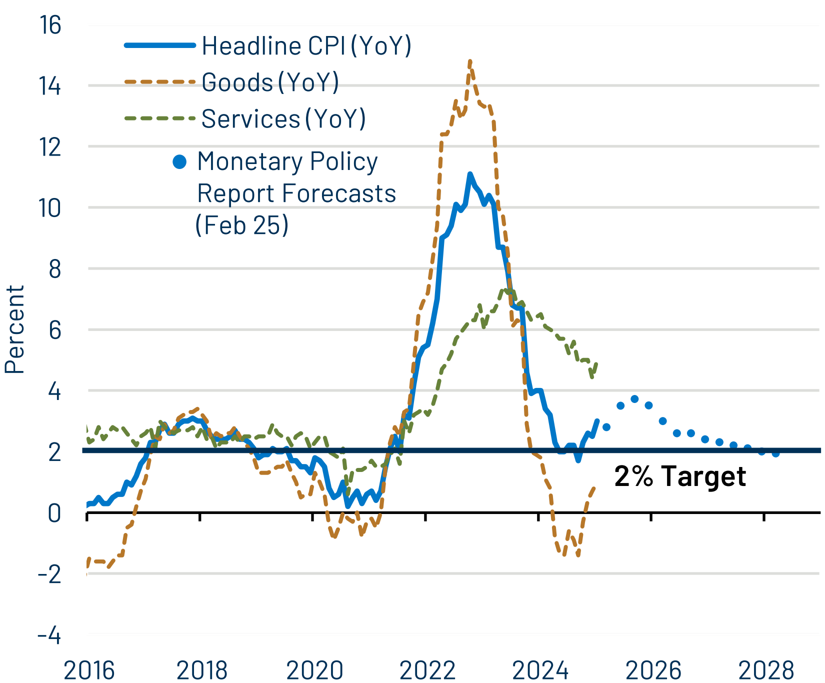
The above reflects current opinions of Western Asset, which are subject to change with market conditions

United Kingdom

"A gradual and careful approach to the further withdrawal of monetary policy restraint is appropriate" – BoE, Feb 2025

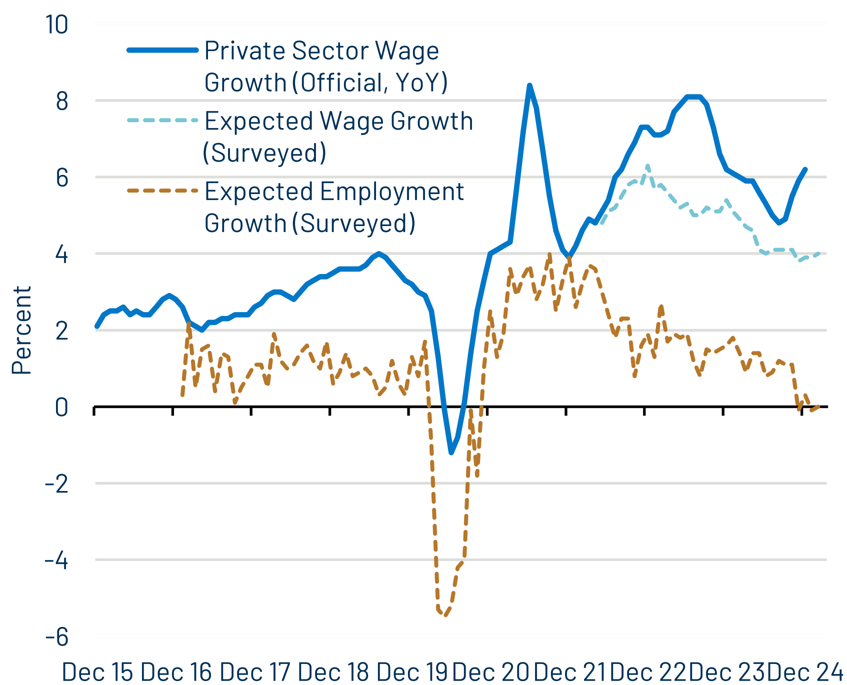
- Energy-related base effects will lift headline inflation, but domestic price pressures are easing
- Official wage growth is high, but at odds with other indicators
- The BoE to cut by more than the market is discounting

UK Inflation Year-over-Year



Source: Office for National Statistics, Bloomberg, Bank of England. As of Mar 25

Further Loosening and Wage Growth Normalization Expected



Source: Office for National Statistics, BoE Decision Maker Panel. As of Mar 25

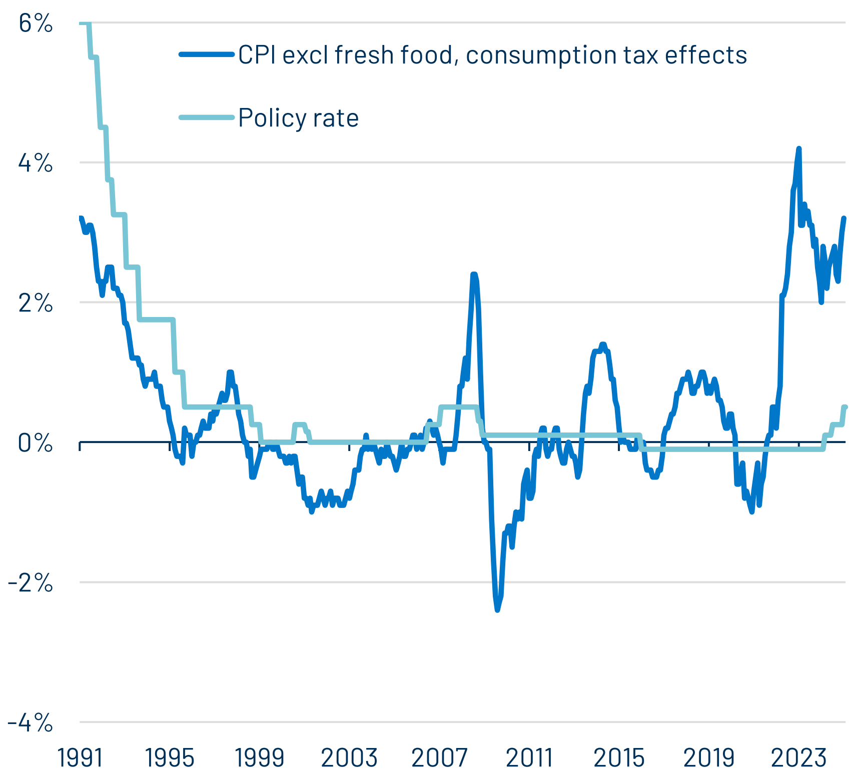
The above reflects current opinions of Western Asset, which are subject to change with market conditions

Japan

Higher wages along with higher inflation forecasts strongly suggest Japanese yields need to rise in the long run

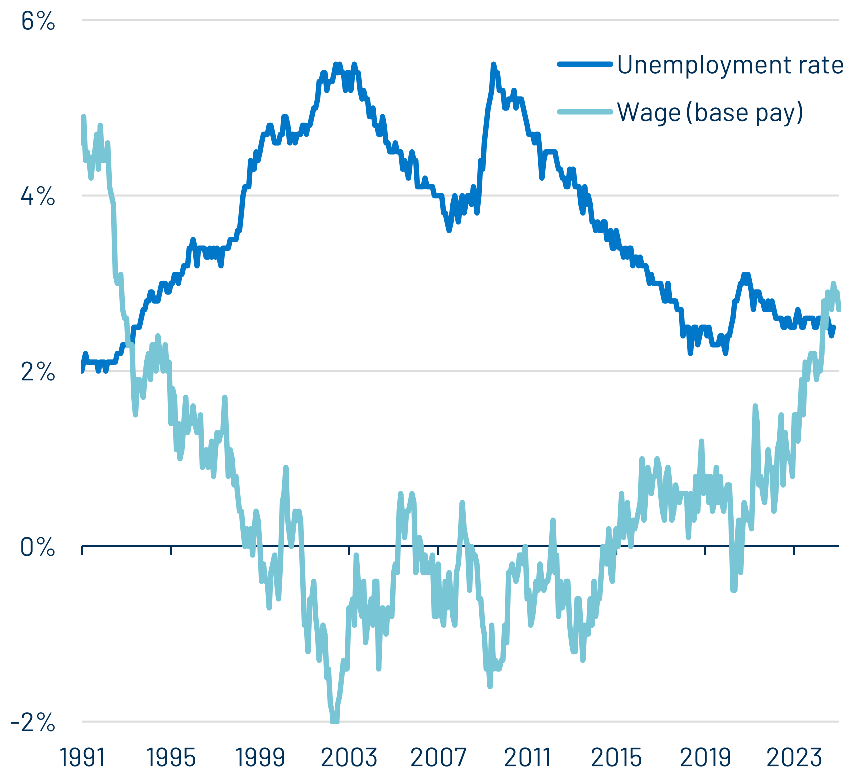
- The BoJ will tighten policy to normalize real interest rate
- Base pay increased 3.0% YoY, the highest level since September 1992, due mainly to a structural labor shortage

Policy Rate



Source: Bloomberg. As of 28 Feb 25

Wage



Source: Bloomberg, Western Asset. As of 31 Jan 25

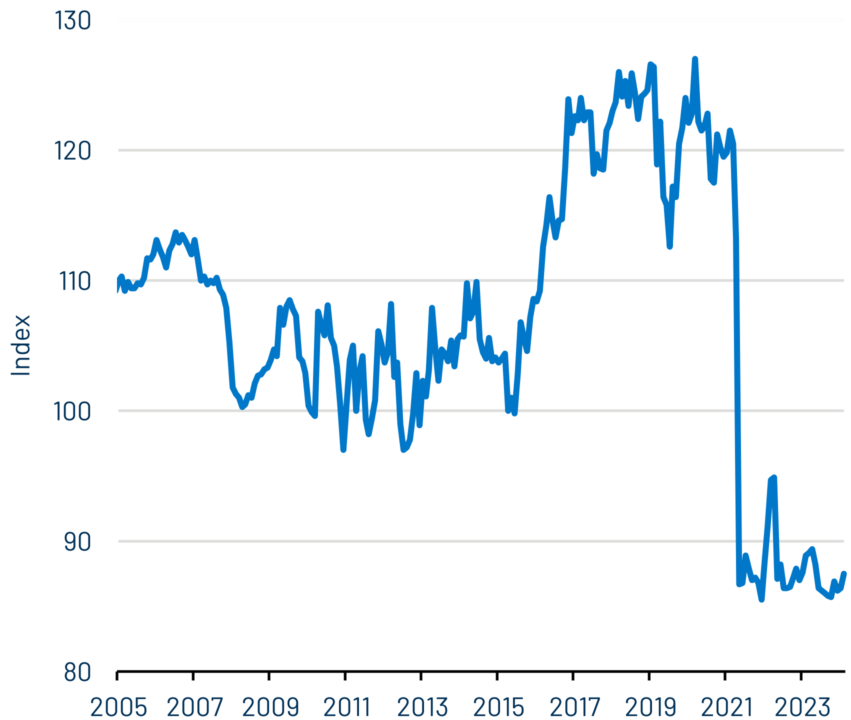
The above reflects current opinions of Western Asset, which are subject to change with market conditions

China

Deflationary pressures remain and confidence is weak, but sentiment is improving

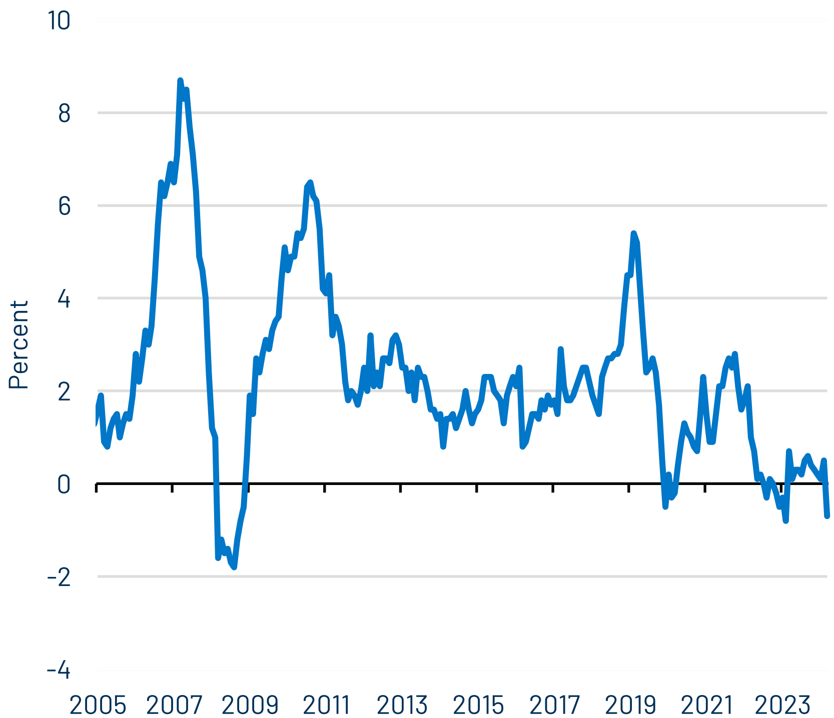
- Due to structural challenges, as well as policy and property sector malaise, confidence remains weak
- As a result, China is facing deflation not inflation

Chinese Consumer Confidence



Source: Bloomberg. As of 31 Jan 25

China YoY CPI

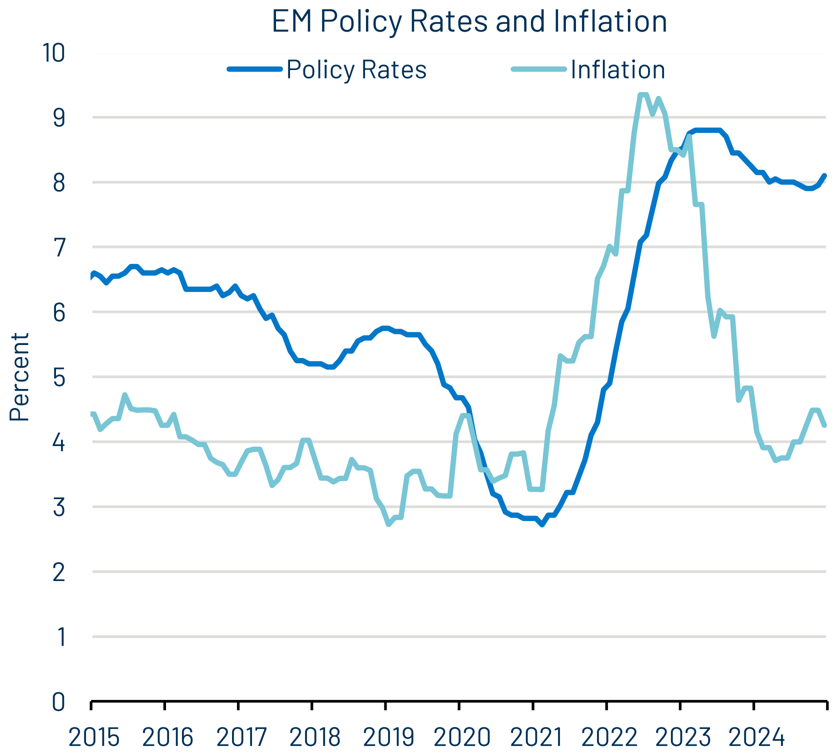


Source: Bloomberg. As of 28 Feb 25

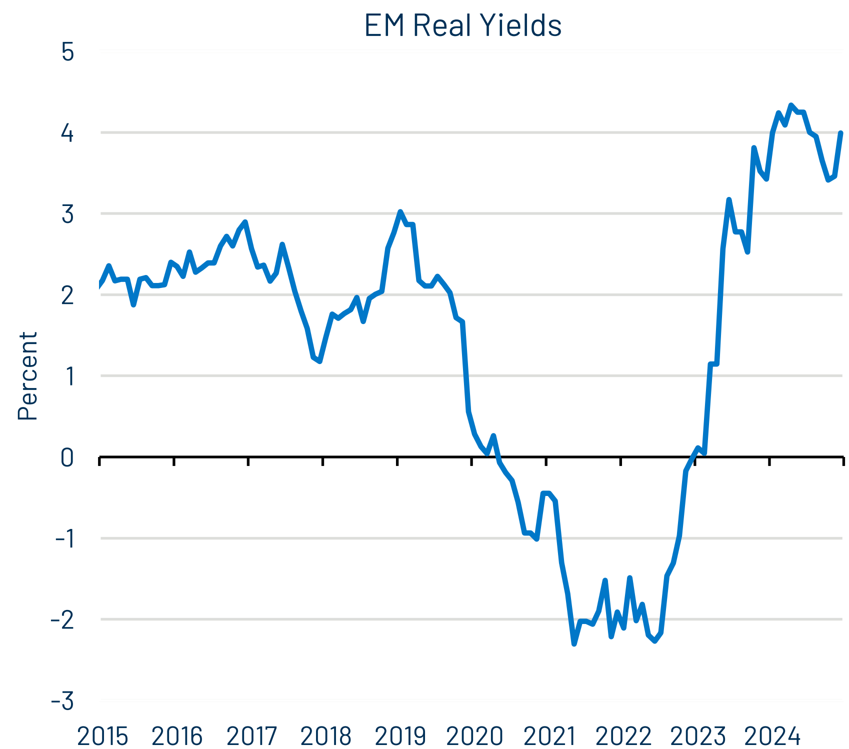
The above reflects current opinions of Western Asset, which are subject to change with market conditions

Emerging Markets

EM inflation has normalized, and real yields remain high. Political and trade concerns are in focus



Source: Bloomberg. As of 31 Dec 24

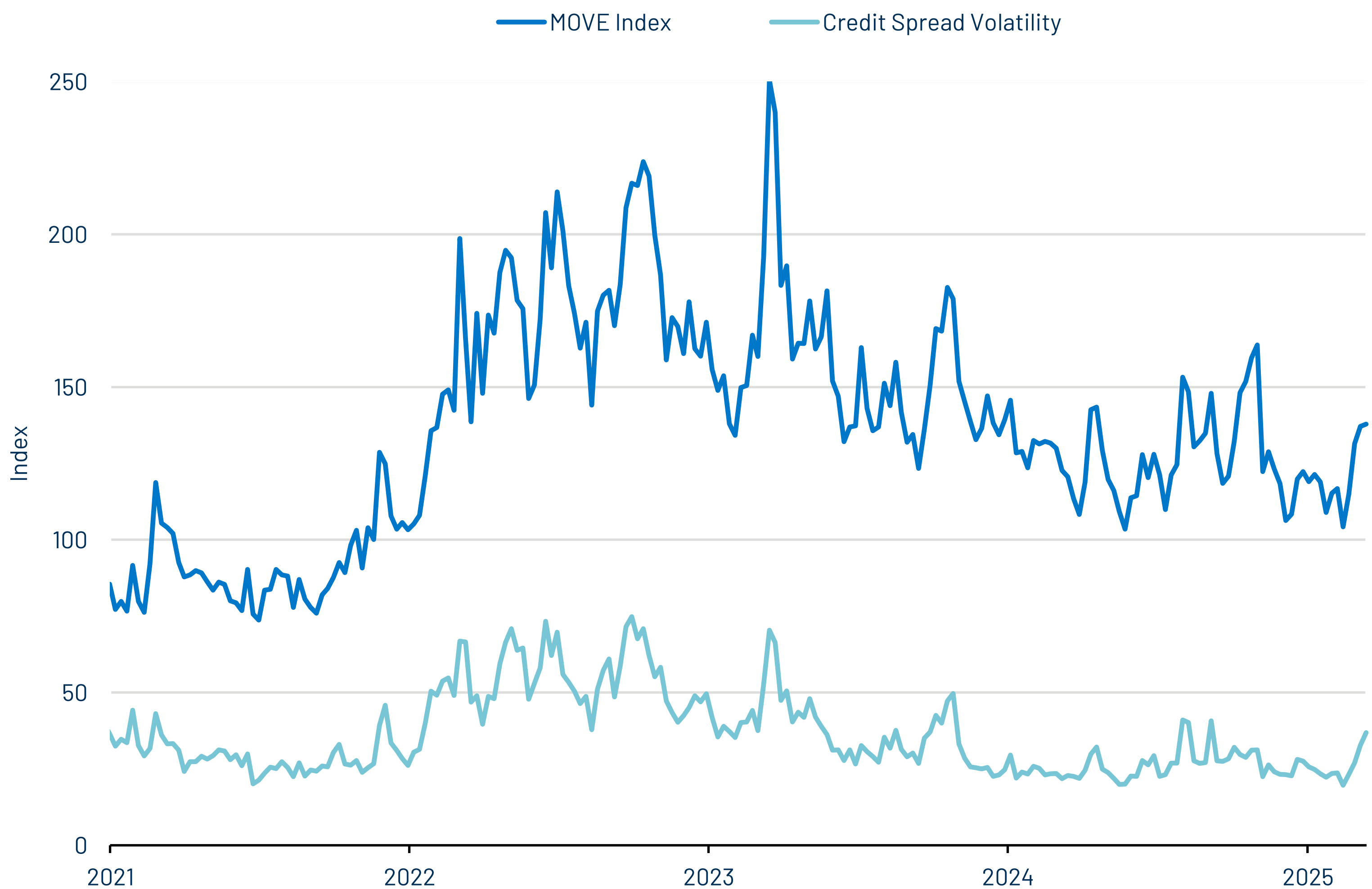


Source: Bloomberg. As of 28 Feb 25

The above reflects current opinions of Western Asset, which are subject to change with market conditions

Volatility Will Create Opportunities in 2025

Spread sector and interest rate volatilities have diverged



Source: Bloomberg. As of 14 Mar 25

The above reflects current opinions of Western Asset, which are subject to change with market conditions

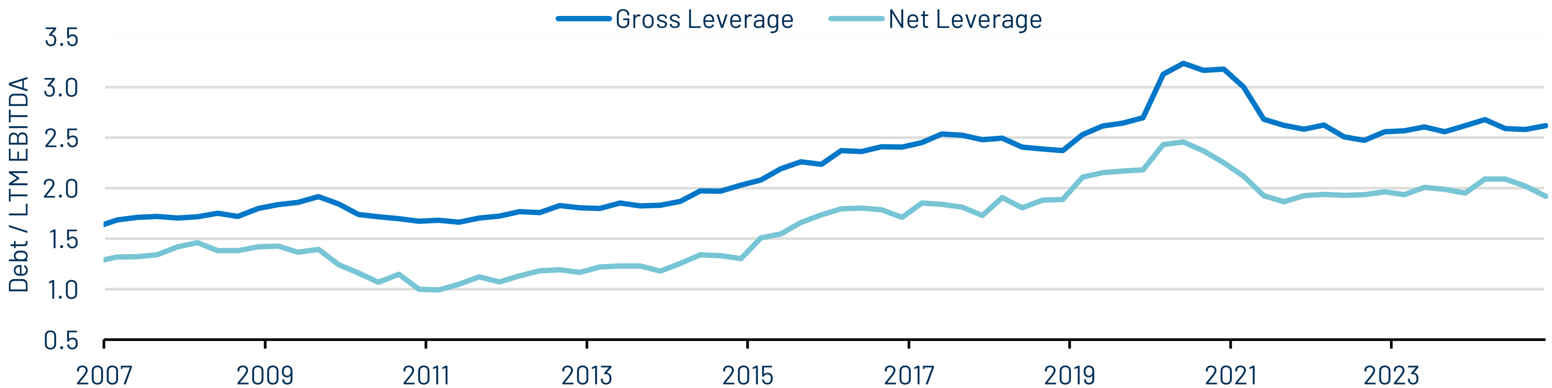
Investment-Grade Credit

Fundamentals resilient but spreads are tight

Bloomberg U.S. Credit Index: Option-Adjusted Spread

Source: Bloomberg. As of 24 Mar 25
Periods of recession highlighted in grey
[1]Average based on monthly data from 30 Jun 89 – 31 Jul 00, and daily end of business days from 15 Aug 00 to current
[2]Excludes data from 01 Dec 07 – 30 Jun 09, 01 Feb 20 – 31 Aug 2

Median Leverage: Non-Financial Non-Utility US IG Issuers

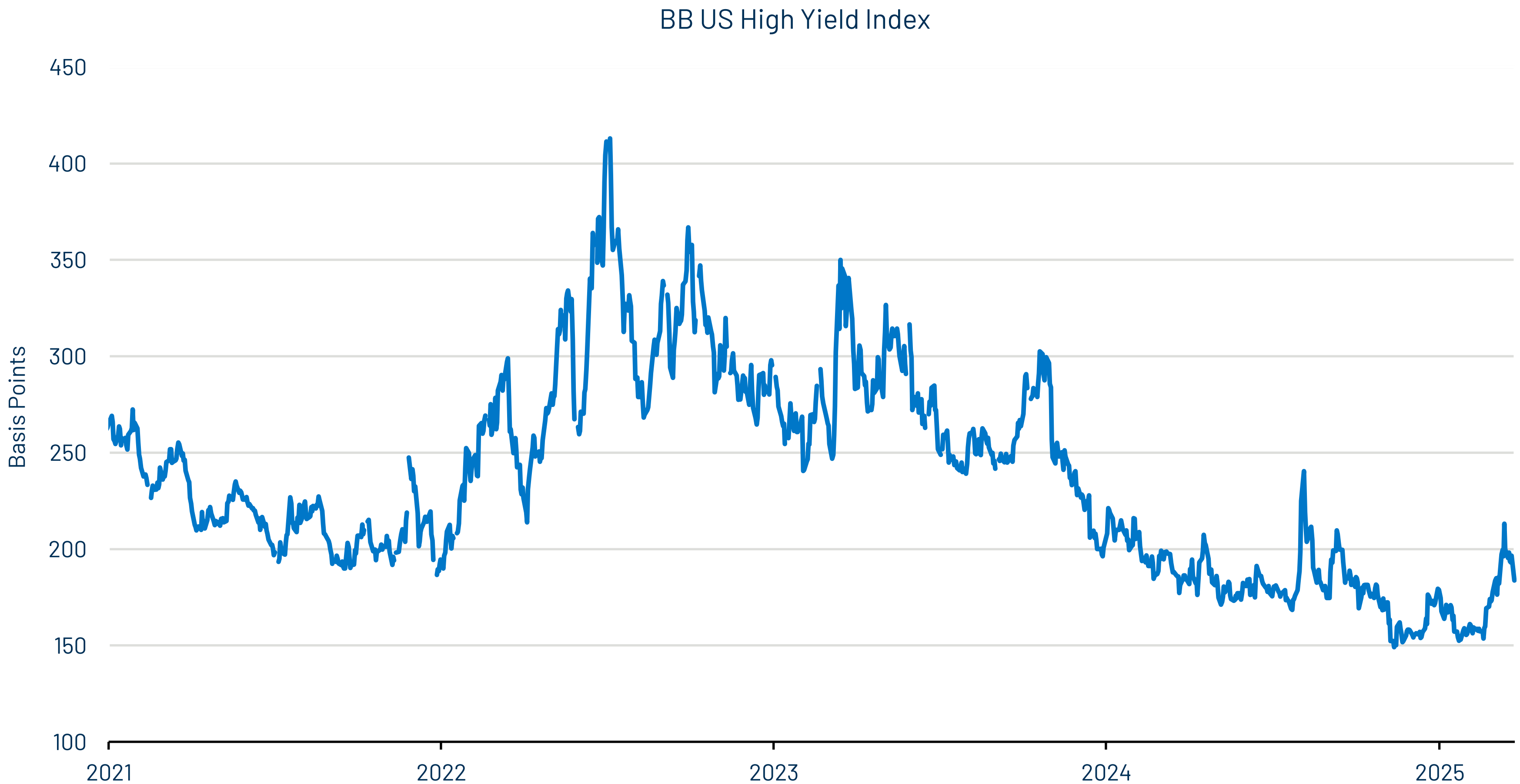


Source: BofA Global Research*. As of 31 Dec 24

The above reflects current opinions of Western Asset, which are subject to change with market conditions

High Yield

Fundamentals resilient. High yield corporates should weather slower growth without meaningful issues



Source: Bloomberg. As of 24 Mar 25

OAS	18 Feb 25	13 Mar 25	24 Mar 25
BB/B US High Yield	191	261	229
BB US High Yield	154	213	184

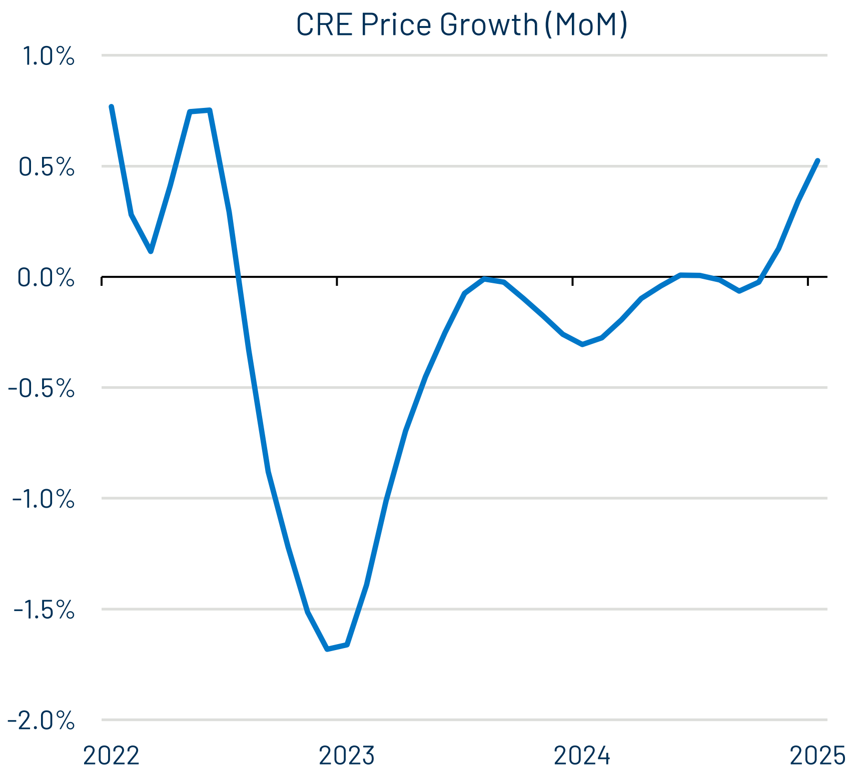
Source: Bloomberg. As of 24 Mar 25

The above reflects current opinions of Western Asset, which are subject to change with market conditions

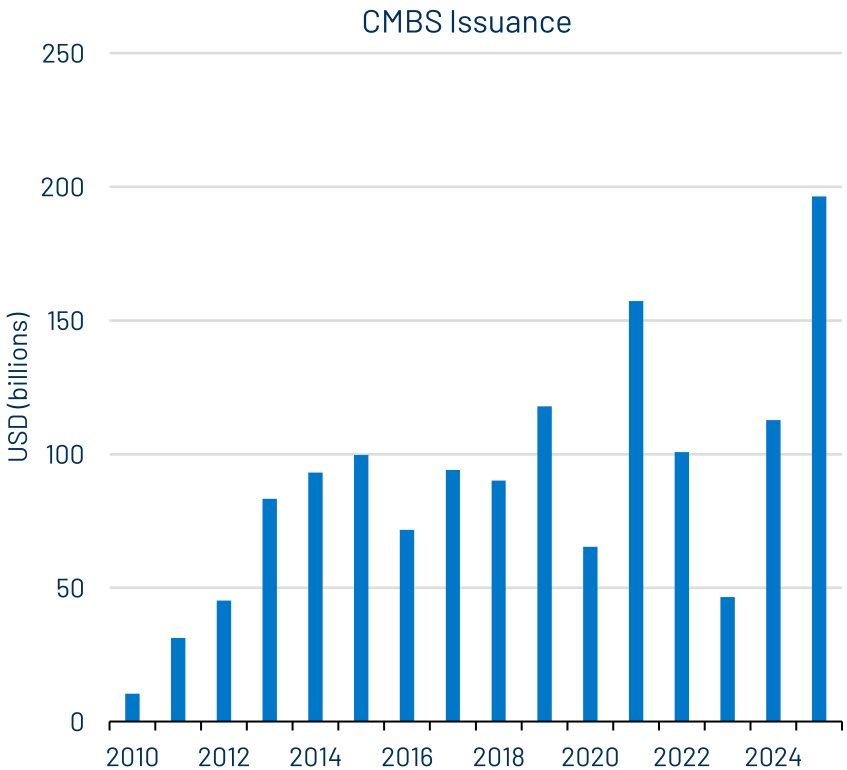
Commercial MBS

Commercial Real Estate price growth accelerating, CMBS issuance healthy, spreads compelling

Single A CMBS vs. BBB Corp Spread	
Current	+341
10-Year Average	+163



Source: MSCI. As of 28 Feb 25



Source: JP Morgan. As of 28 Feb 25
*Annualized YTD 2025

The above reflects current opinions of Western Asset, which are subject to change with market conditions

Global Outlook

Global growth converging, with US exceptionalism waning

Further progress on inflation expected

Growth and inflation outlook clouded by tariff uncertainty

Downside risks to the US labor market have increased

Policy rates will be cut further despite crosscurrents from growth and inflation

US policy initiatives may lead to bouts of volatility and opportunities

Fixed-income implications

- Yield curves will steepen given global fiscal concerns
- Spread sector fundamentals are generally healthy
- Corporate spread sectors are still trading tighter than their historical averages
- Pockets of opportunities in developed market rates
- US Treasuries provide important diversification to spread sectors

As of 26 Mar 25. The above reflects current opinions of Western Asset, which are subject to change with market conditions.

Questions & Answers

Western Asset

A Franklin Templeton Company

Risk Disclosure

Past performance does not predict future returns. These materials should not be deemed to be a prediction or projection of future performance.

These materials are intended for investment professionals including professional clients, eligible counterparties, and qualified investors only.

These materials have been produced for illustrative and informational purposes only. These materials contain Western Asset's opinions and beliefs as of the date designated on the materials; these views are subject to change and may not reflect real-time market developments and investment views.

Third party data may be used throughout the materials, and this data is believed to be accurate to the best of Western Asset's knowledge at the time of publication, but cannot be guaranteed. These materials may also contain strategy or product awards or rankings from independent third parties or industry publications which are based on unbiased quantitative and/or qualitative information determined independently by each third party or publication. In some cases, Western Asset may subscribe to these third party's standard industry services or publications. These standard subscriptions and services are available to all asset managers and do not influence rankings or awards in any way.

Investment strategies or products discussed herein may involve a high degree of risk, including the loss of some or all capital. Investments in any products or strategies described in these materials may be volatile, and investors should have the financial ability and willingness to accept such risks.

Unless otherwise noted, investment performance contained in these materials is reflective of a strategy composite. All other strategy data and information included in these materials reflects a representative portfolio which is an account in the composite that Western Asset believes most closely reflects the current portfolio management style of the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio shown may differ from other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite are available upon request.

Statements in these materials should not be considered investment advice. References, either general or specific, to securities and/or issuers in the materials are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendation to purchase or sell such securities. Employees and/or clients of Western Asset may have a position in the securities or issuers mentioned.

These materials are not intended to provide, and should not be relied on for, accounting, legal, tax, investment or other advice. The recipient should consult its own counsel, accountant, investment, tax, and any other advisers for this advice, including economic risks and merits, related to making an investment with Western Asset. The recipient is responsible for observing the applicable laws and regulations of their country of residence.

Founded in 1971, Western Asset Management Company is a global fixed-income investment manager with offices in Pasadena, New York, London, Singapore, Tokyo, Melbourne, São Paulo, Hong Kong, and Zürich. Western Asset is a wholly owned subsidiary of Franklin Resources, Inc. but operates autonomously. Western Asset is comprised of six legal entities across the globe, each with distinct regional registrations: Western Asset Management Company, LLC, a registered Investment Adviser with the Securities and Exchange Commission; Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários Limitada is authorized and regulated by Comissão de Valores Mobiliários and Brazilian Central Bank; Western Asset Management Company Pty Ltd ABN 41 117 767 923 is the holder of the Australian Financial Services License 303160; Western Asset Management Company Pte. Ltd. Co. Reg. No. 200007692R is a holder of a Capital Markets Services License for fund management and regulated by the Monetary Authority of Singapore; Western Asset Management Company Ltd, a registered Financial Instruments Business Operator and regulated by the Financial Services Agency of Japan; and Western Asset Management Company Limited is authorised and regulated by the Financial Conduct Authority ("FCA") (FRN 145930). This communication is intended for distribution to Professional Clients only if deemed to be a financial promotion in the UK as defined by the FCA. This communication may also be intended for certain EEA countries where Western Asset has been granted permission to do so. For the current list of the approved EEA countries please contact Western Asset at +44 (0)20 7422 3000.