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# The Fed and Liquidity Markets: Steady Through the Noise



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# Global Outlook

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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

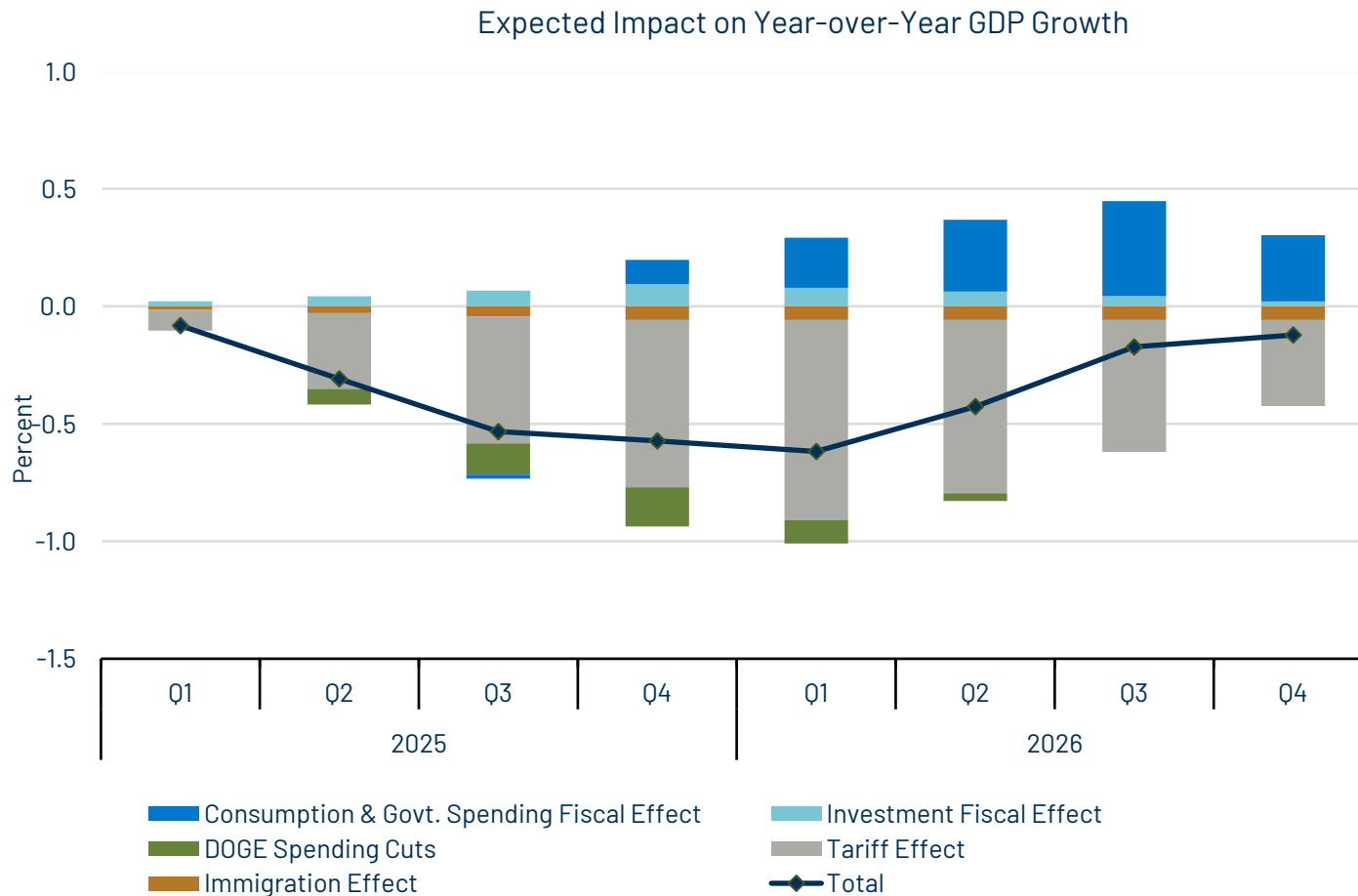
## Fixed-income implications

- 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

# Offsetting Impacts to GDP Growth

## Tariff impacts set to be front-loaded

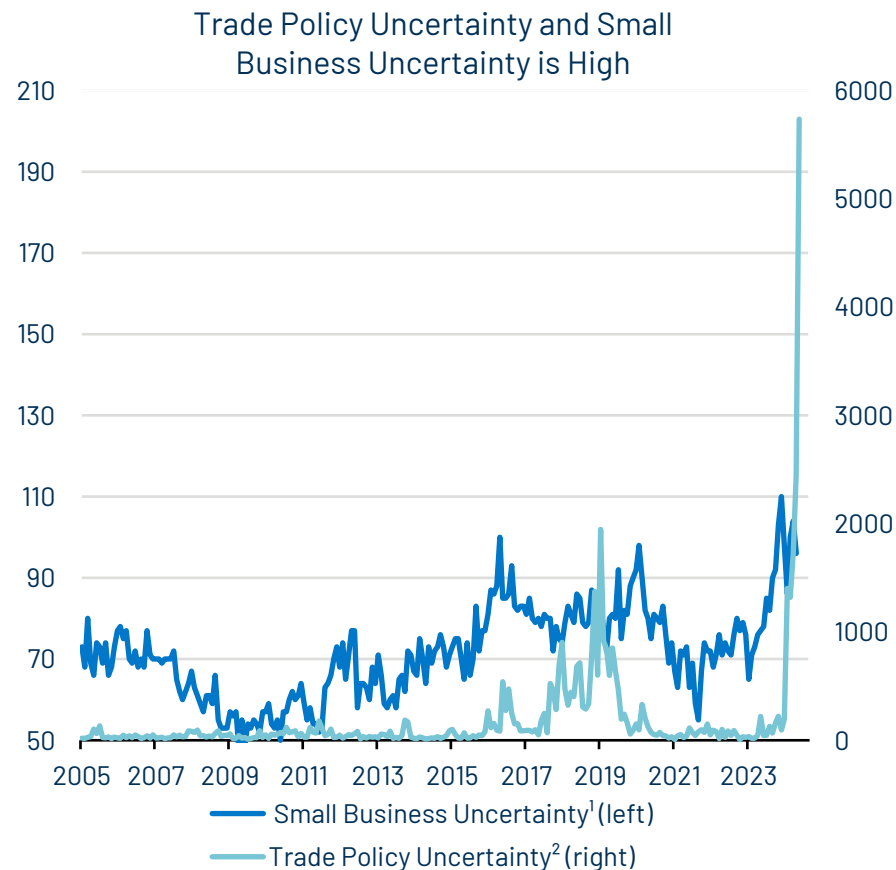
- Tariffs weigh on growth
- Tax cuts and regulatory easing can provide some offset
- Near-term net impact to be growth negative, but should moderate over time



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

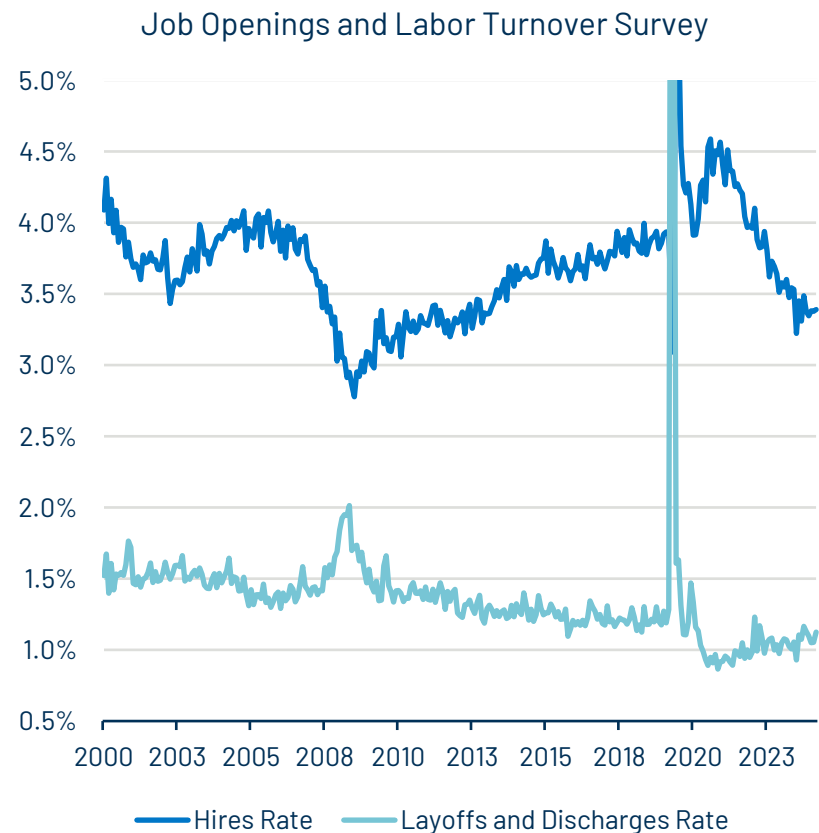
# US Labor Market

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



Source: Bloomberg, Haver. As of 31 Mar 25

<sup>1</sup>NFIB Small Business Uncertainty Index. <sup>2</sup>Categorical US Economic Policy Uncertainty Index: Trade Policy (1985-10=100, right)

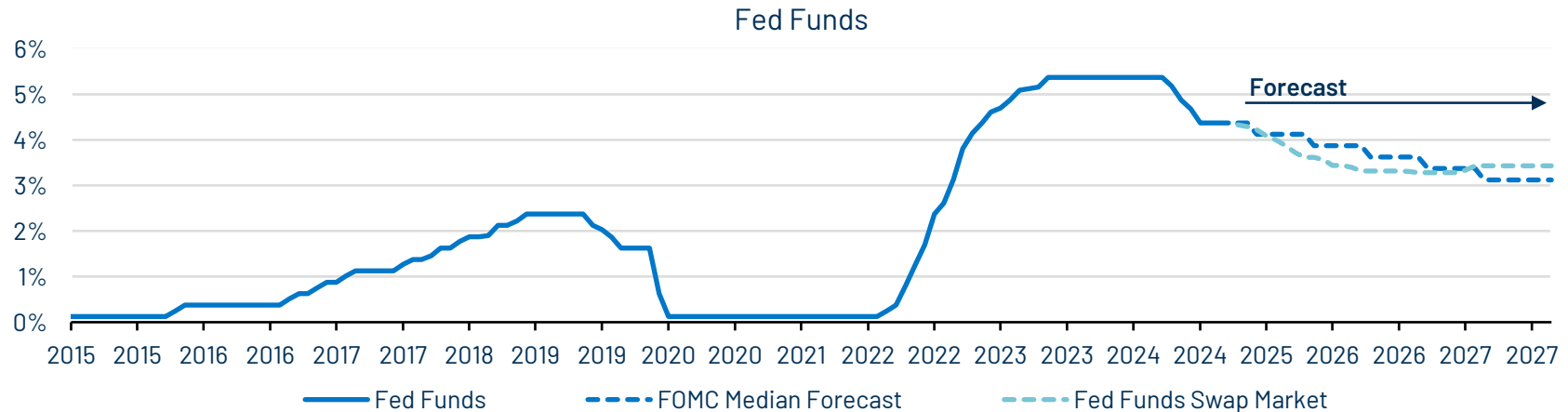


Source: Bureau of Labor Statistics. As of 28 Feb 25

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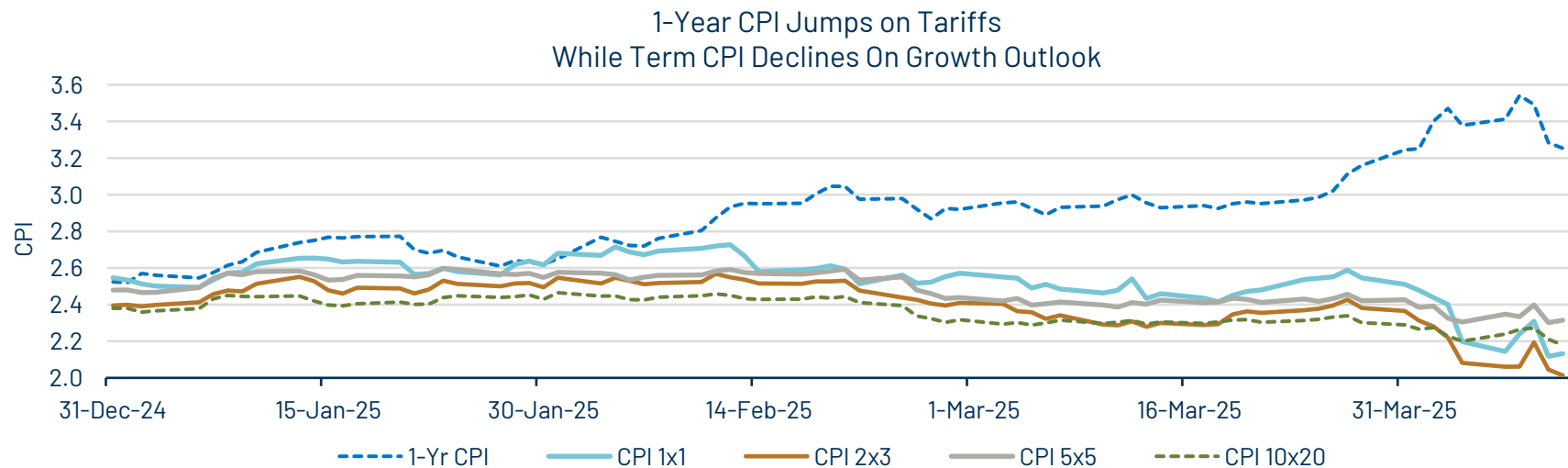
# Fed Funds is Heading Lower

The timing and depth of cuts remains clouded by trade and fiscal policy



Source: Federal Reserve, Haver Analytics. As of 09 Apr 25

There is no assurance that any projection, estimate or forecast will be realized.



Source: Bloomberg. As of 09 Apr 25

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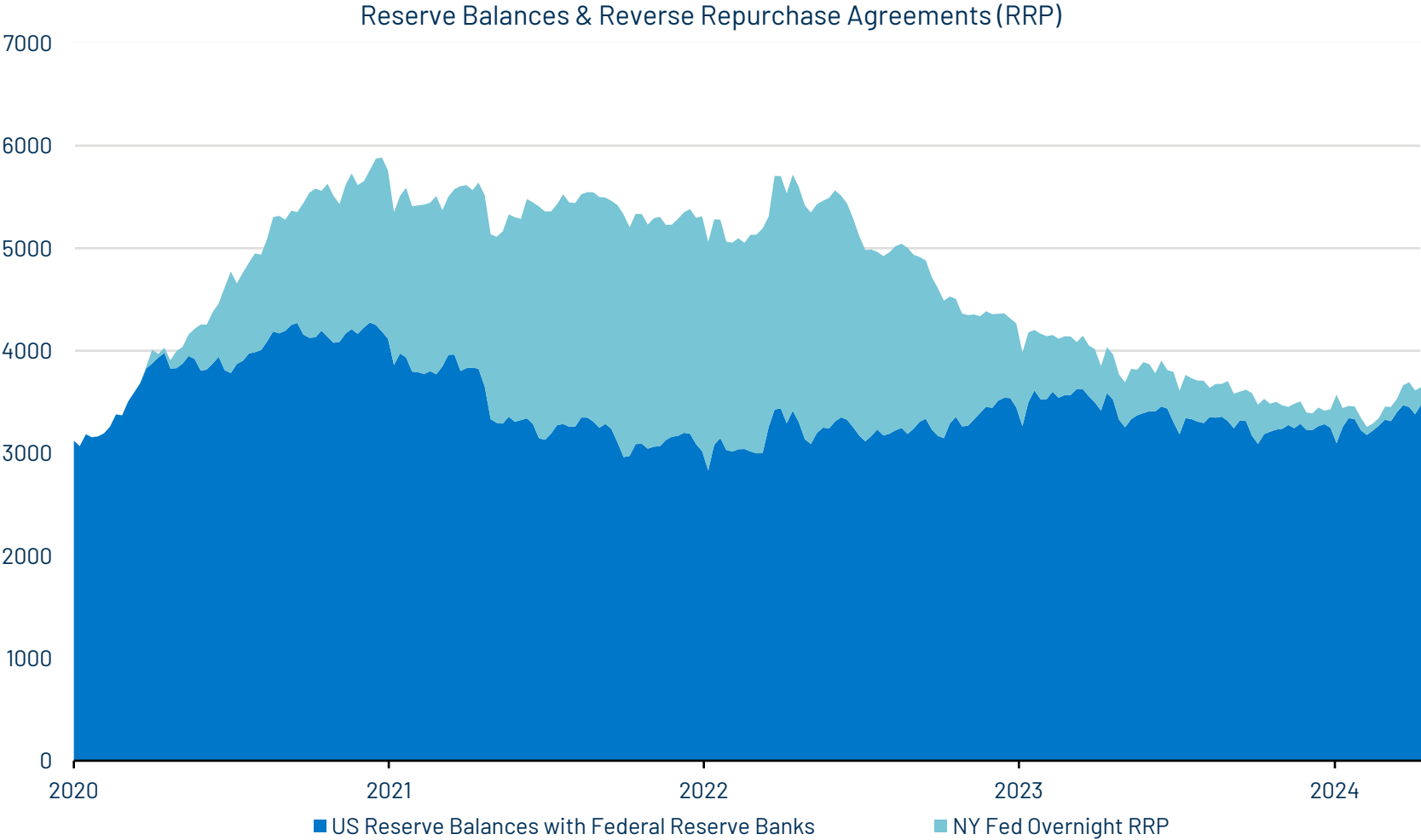
# The Fed Is Certainly Uncertain

Stagflation risks have increased in the eyes of the committee.



Source: Federal Reserve. As of 19 Mar 25  
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# Reserves at the Fed Have Held Steady While the RRP Has Decreased

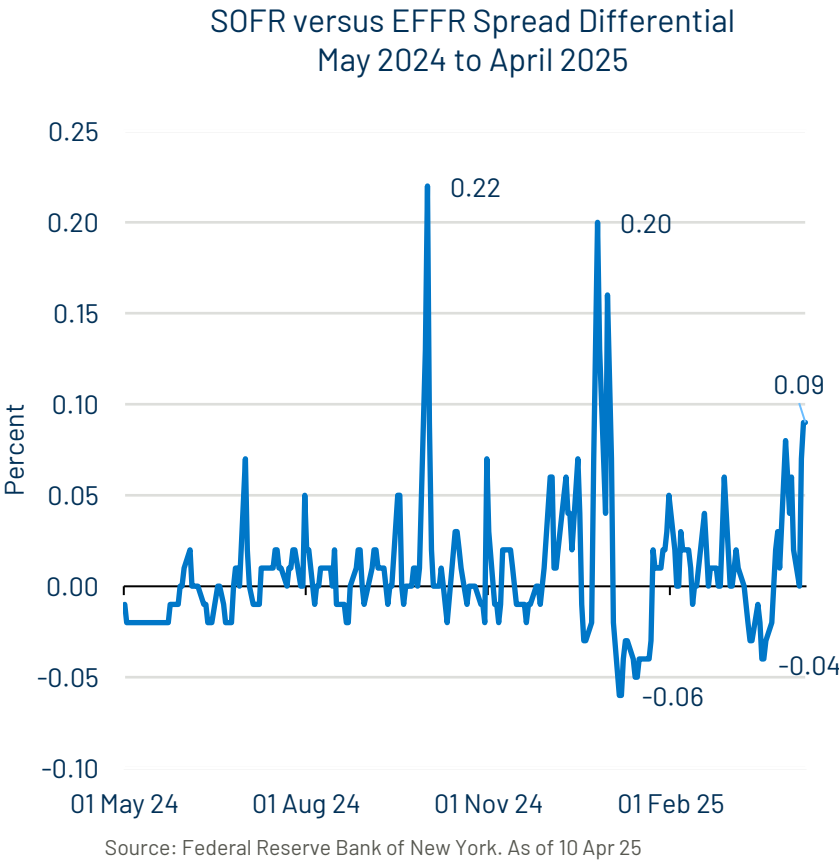
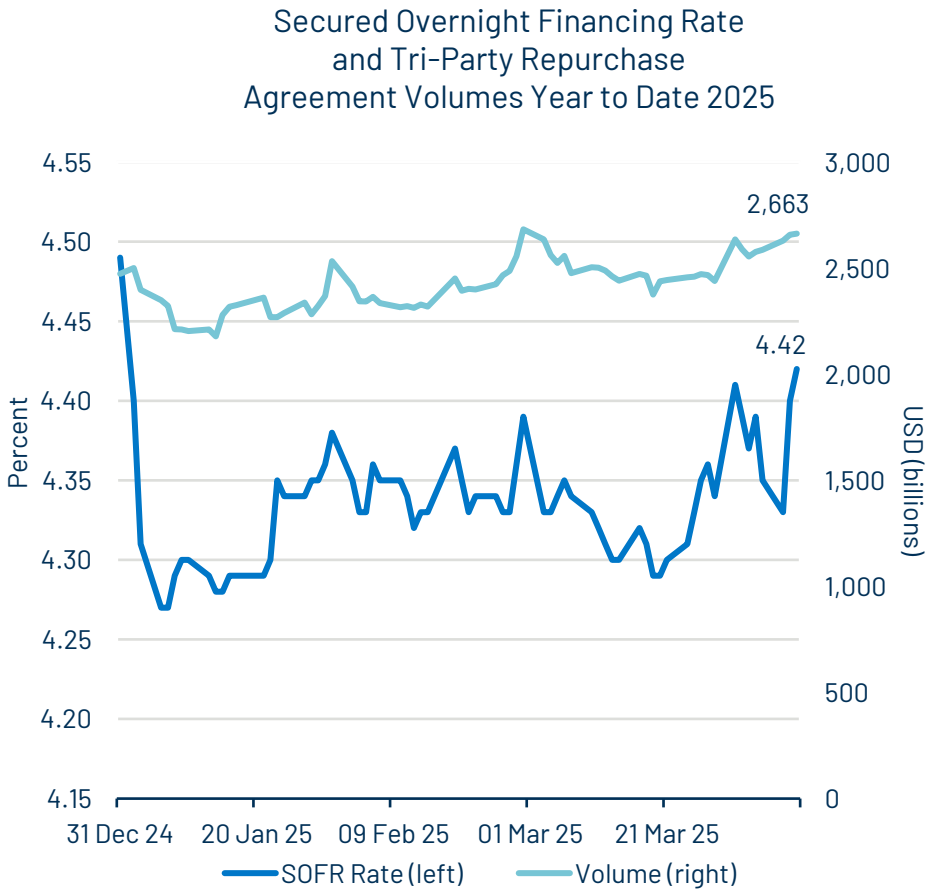


Source: Federal Reserve of New York. As of 11 Apr 25

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# Repo Continues to Grow While SOFR Volatility Ticks Up

The SOFR Spread over EFR has shown volatility in recent months

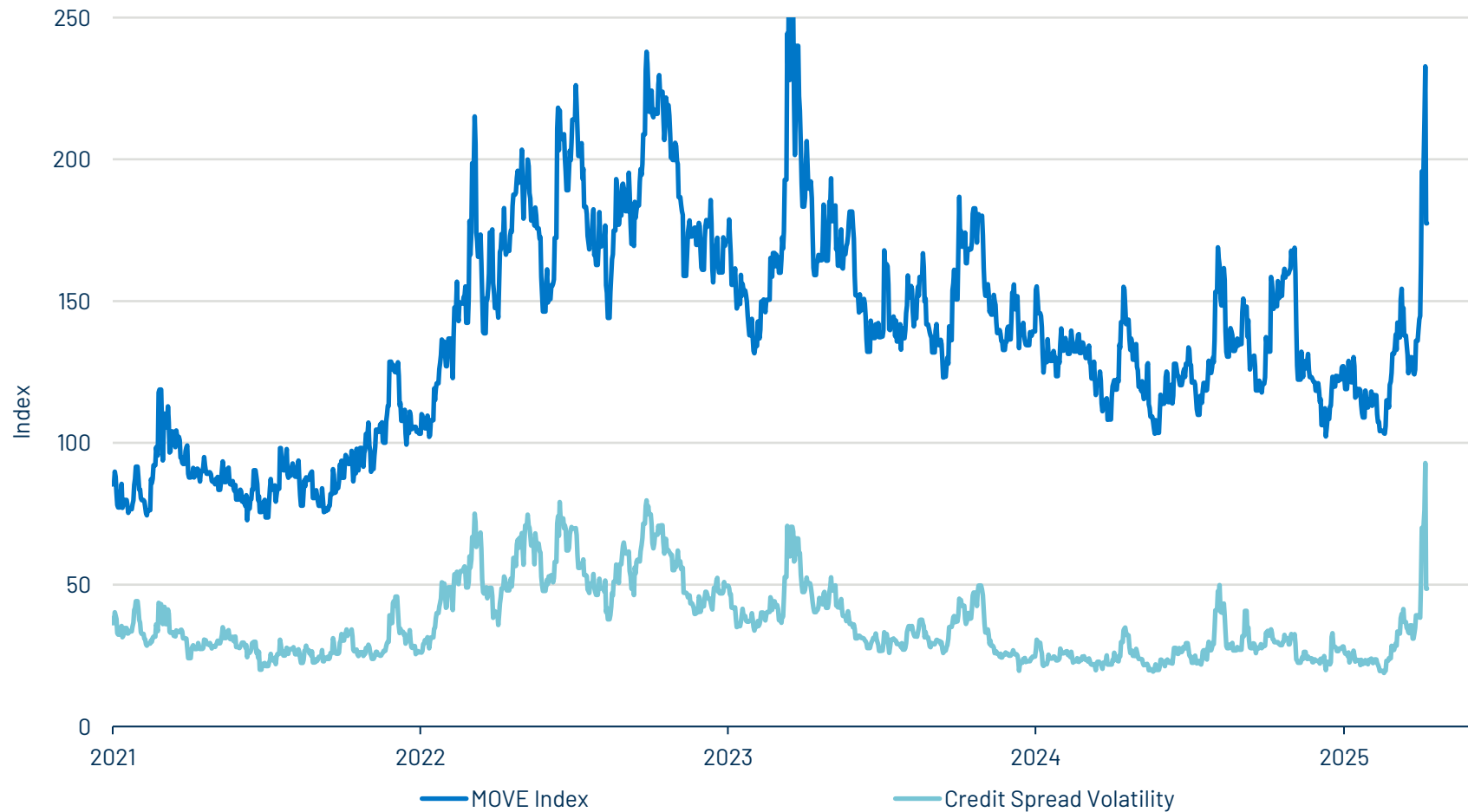


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# Volatility Will Create Opportunities in 2025

Spread sector and interest rate volatilities have diverged

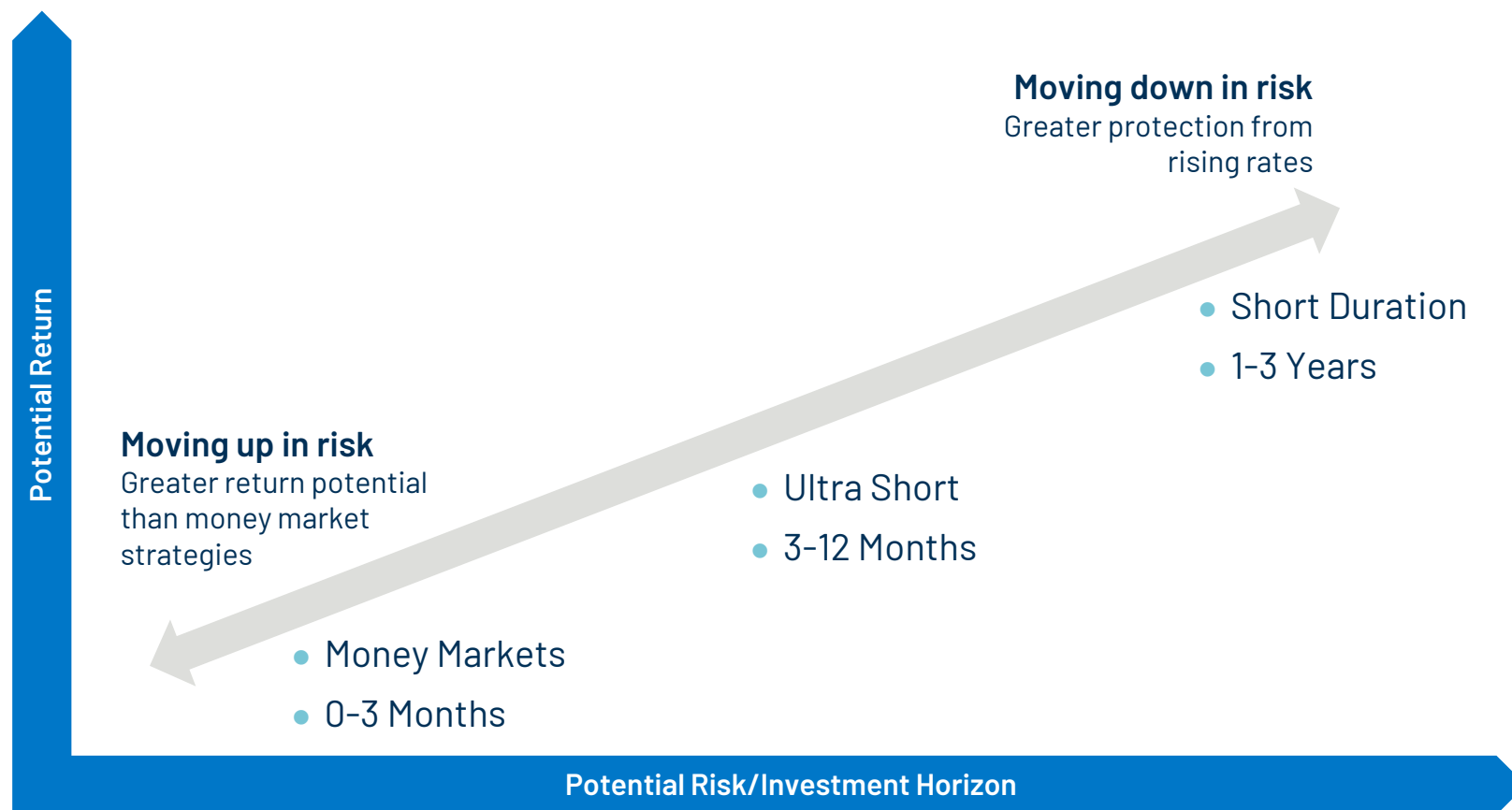


Source: Bloomberg. As of 09 Apr 25

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# Short-Term Strategies

Active short-term strategies seek to provide capital preservation and incremental yield while managing risk



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# Questions & Answers

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