
3Q25 Market Outlook



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Global Macro Outlook

Growth – Slowing

- Global outlook clouded by tariffs and geopolitical uncertainty
- US growth downshifting, recession odds lower

Labor Markets

- Downside risks to labor markets

Inflation – Stable

- Global disinflation trend near central banks' targets
- Tariffs could impact US goods price inflation later this year

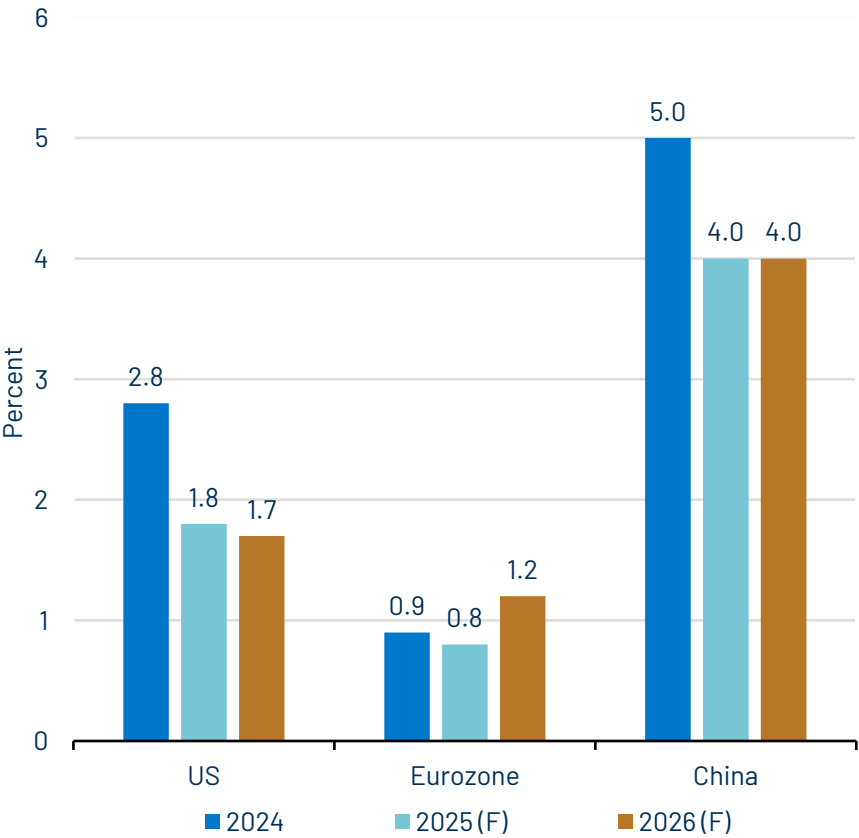
Monetary Policy – Cautious

- The Fed continues to take a “wait and see” approach
- Policy rates to be cut further, except in Japan

Global Economic Projections

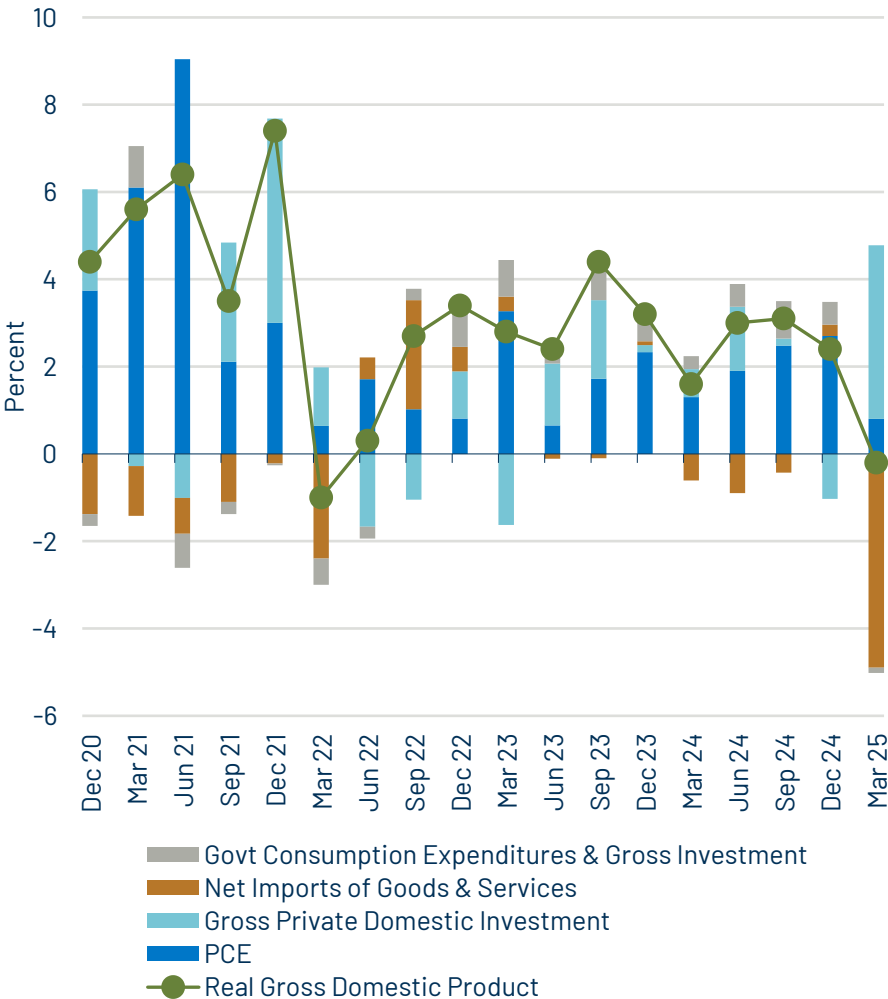
Global Growth Converging

GDP



Source: OECD Economic Outlook, Interim Report March 2025

Contribution to US Real GDP (% change)*

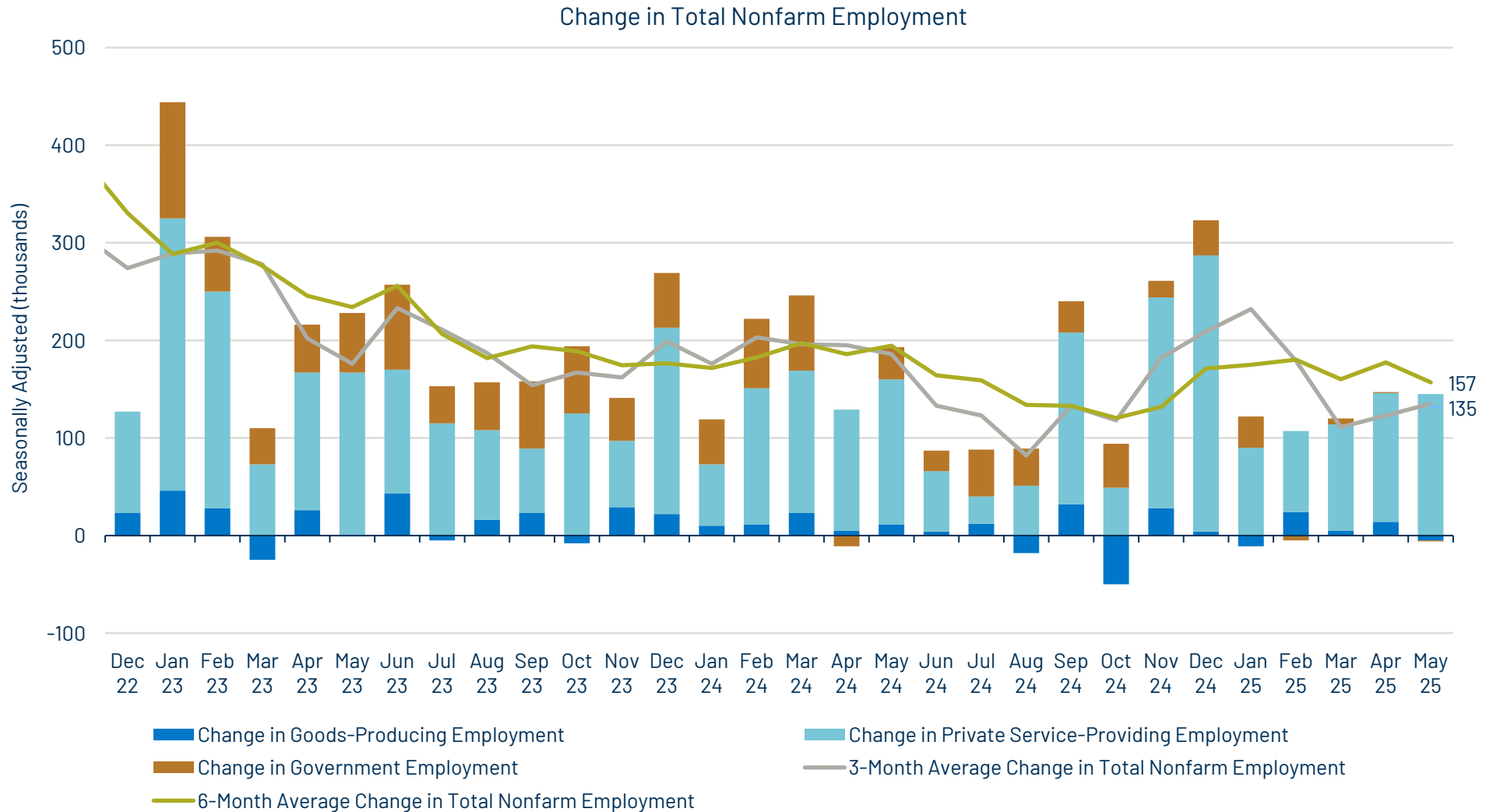


Source: BEA, Haver, Western Asset. *Seasonally Adjusted Annual Rate

The above reflects current opinions of Western Asset, which are subject to change with market conditions. There is no assurance that any projection, estimate or forecast will be realized.

US Labor Market

Private Sector Job Growth Has Been Strong with Limited Gains in Health Care, Leisure and Hospitality Sectors

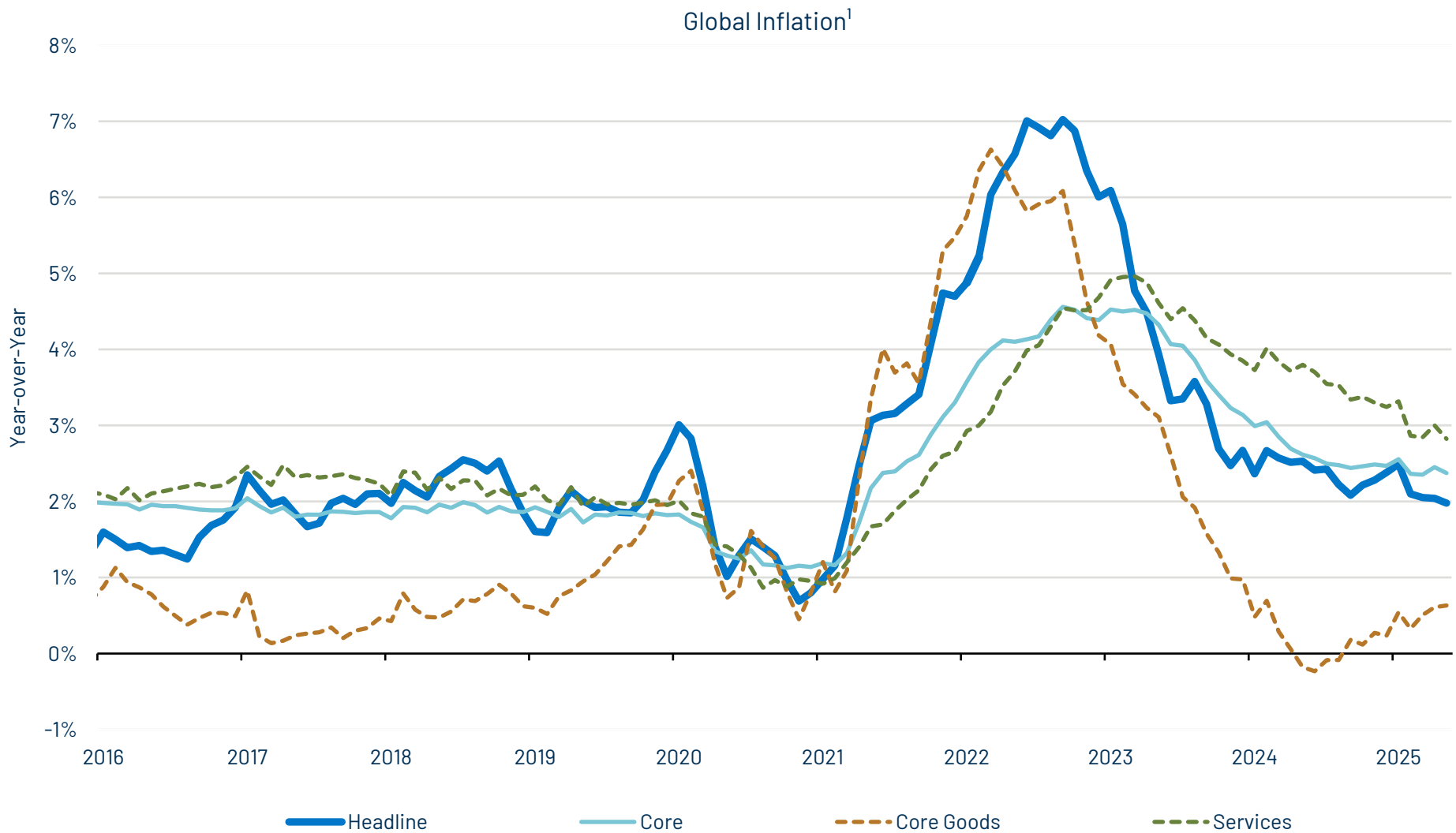


Source: BLS, Bloomberg, Western Asset. As of 31 May 25

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Global Inflation

Global Disinflation Trend Near Central Banks' Targets



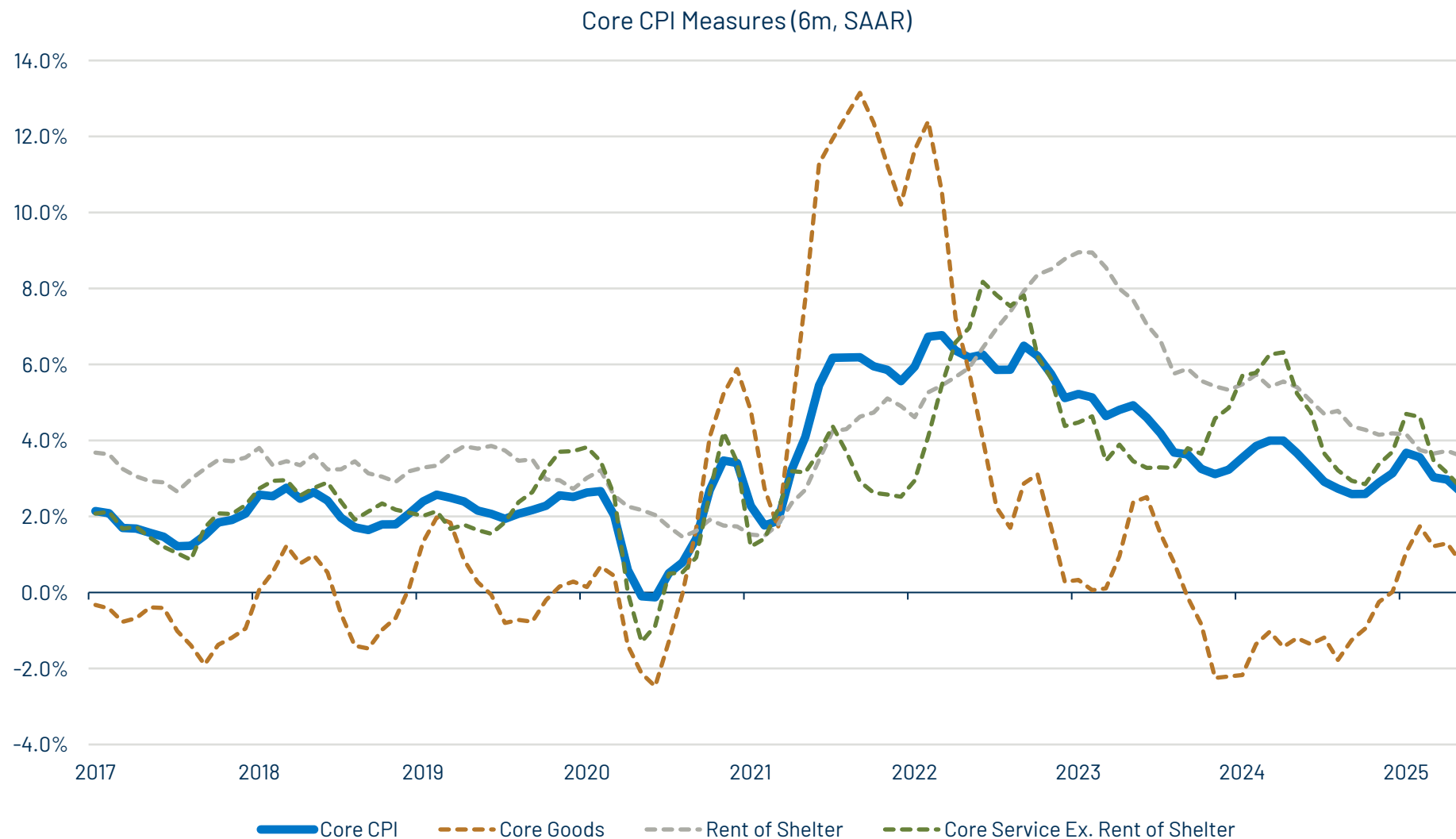
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Source: Citigroup, Haver Analytics. As of 31 May 25

¹Headline 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

US Inflation

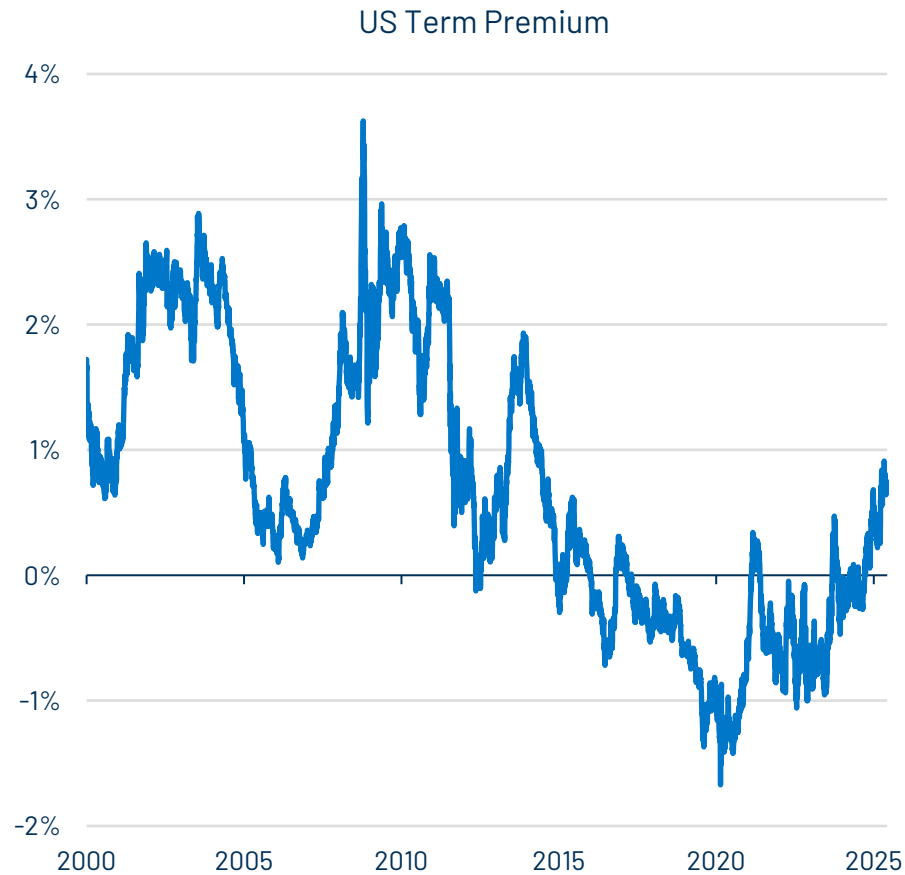
Core CPI Nears Fed's Target Zone



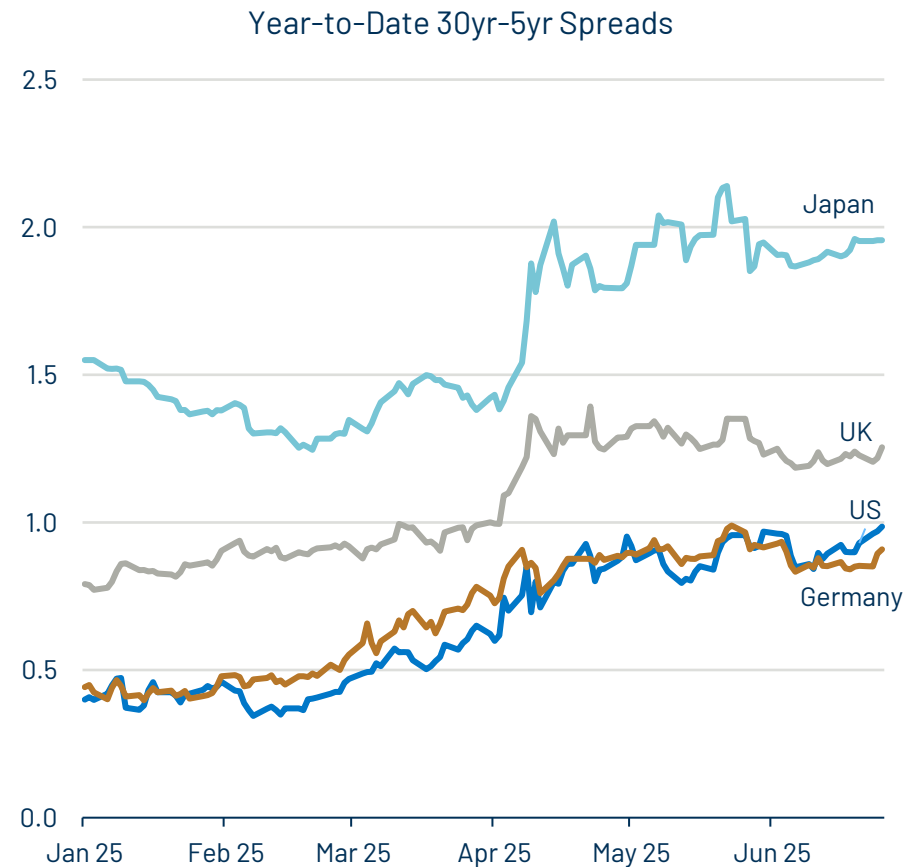
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Source: BLS, Haver, Western Asset. As of 31 May 25

Yield Curves

US Term Premium Still Low by Historical Standards. All Major Curves Steeper YTD.



Source: Bloomberg, Western Asset. As of 23 Jun 25. The term premium is defined as the compensation that investors require for bearing the risk that interest rates may change over the life of the bond. Since the term premium is not directly observable, it must be estimated, most often from financial and macroeconomic variables.



Source: Bloomberg. As of 25 Jun 25

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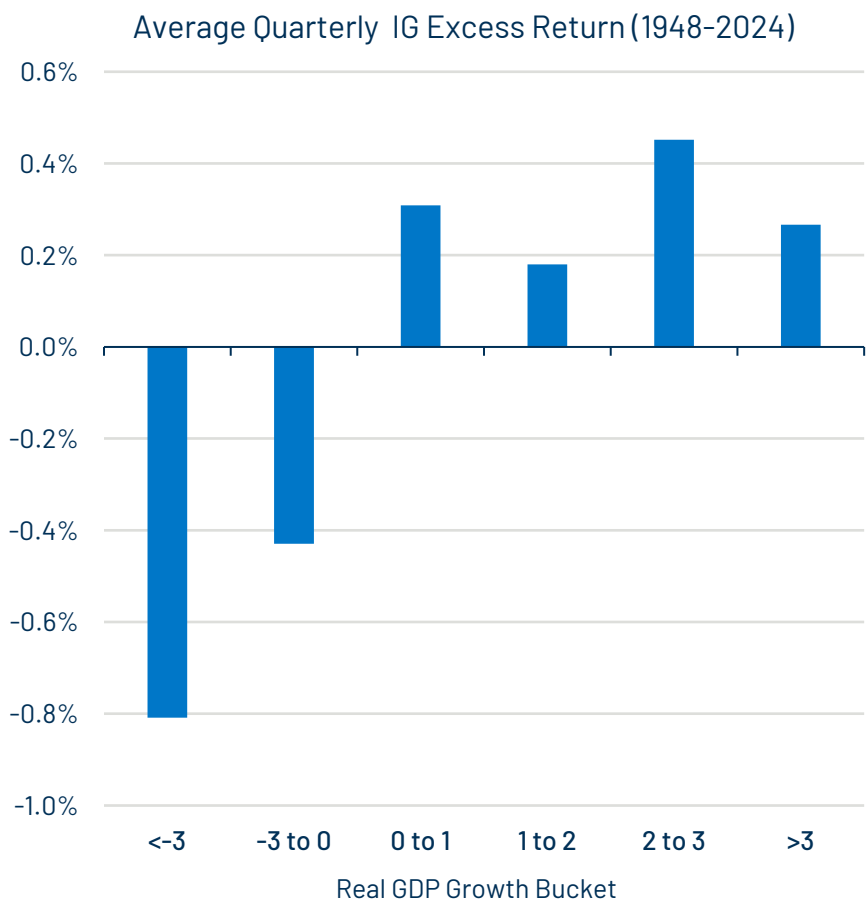
Spread Sector Outlook

	Fundamentals	Technicals	Valuations	OAS - 5-Year Range (High/Low/Current)	Near Term Positioning						
					Underweight			Neutral		Overweight	
					-3	-2	-1	0	+1	+2	+3
US IG Corporates	Positive	Positive	Negative	80 70 151							
EUR IG Corporates	Positive	Positive	Negative	93 82 234							
US HY Corporates	Positive	Positive	Neutral	295 253 634							
EUR HY Corporates	Positive	Positive	Negative	314 274 668							
US Leveraged Loans	Neutral	Positive	Positive	456 386 631							
Collateralized Loan Obligations	Neutral	Neutral	Positive	125 AAA 91 227							
				338 BBB 255 602							
Non-Agency Residential Mortgage-Backed Securities	Negative	Neutral	Positive	169 88 210							
Commercial Mortgage-Backed Securities	Positive	Neutral	Positive	102 AAA 67 170							
				658 BBB 363 1194							
Asset-Backed Securities	Neutral	Positive	Positive	87 66 166							
Municipals	Neutral	Positive	Neutral	85 71 97							
EM Corps	Positive	Positive	Neutral	150 119 284							
EM Sovereign (IG)	Positive	Positive	Negative	118 107 252							

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Source: Bloomberg, JP Morgan, Morningstar LSTA, As of 24 Jun 25

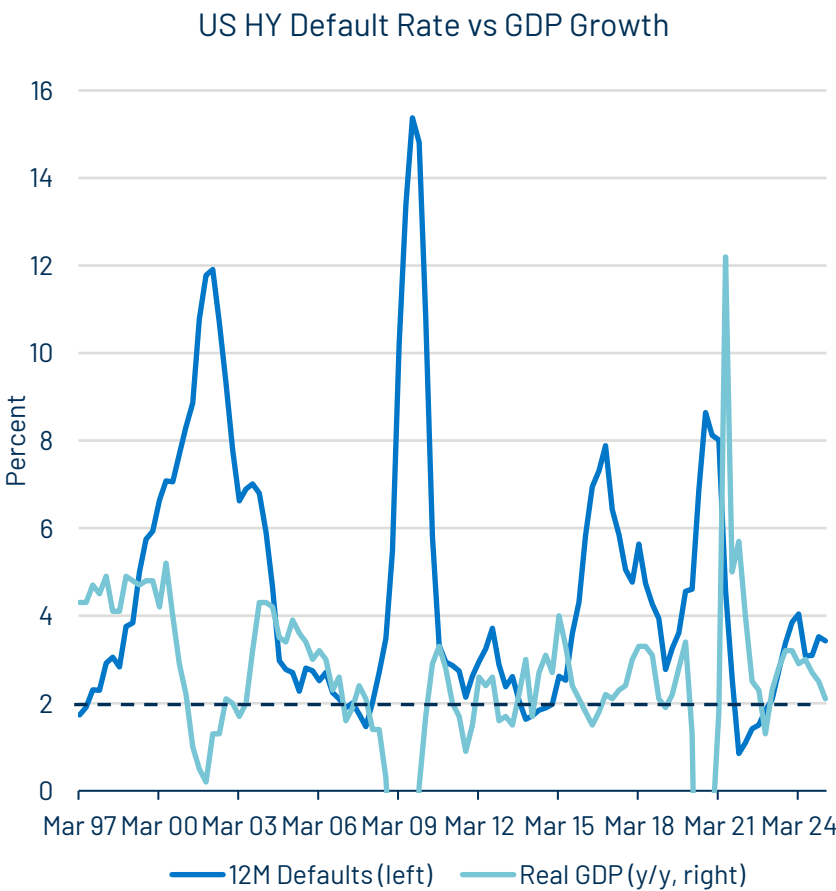
Growth and the Impact on Corporate Bonds

- Positive growth supportive of IG corporate bonds



Source: Bloomberg, ICE BOFA, Ibbotson, Moody's, Morgan Stanley Research.
As of 31 Mar 25

- Defaults Have Been Higher When GDP is <2%



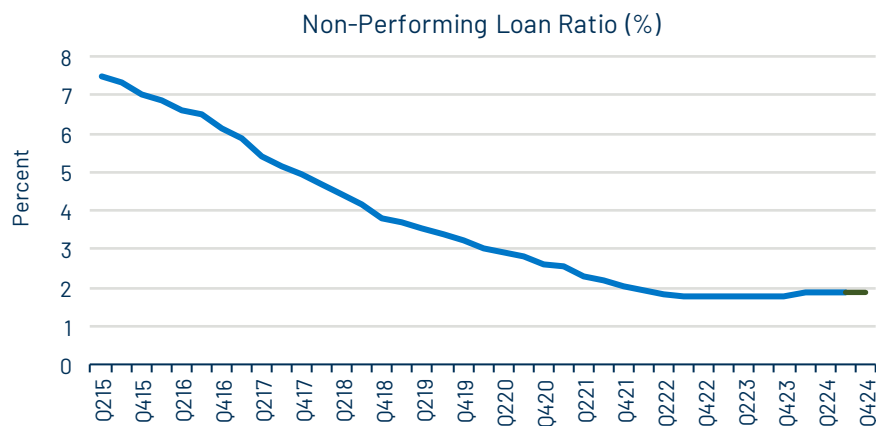
Source: Moody's, Morgan Stanley Research. As of 31 Mar 25

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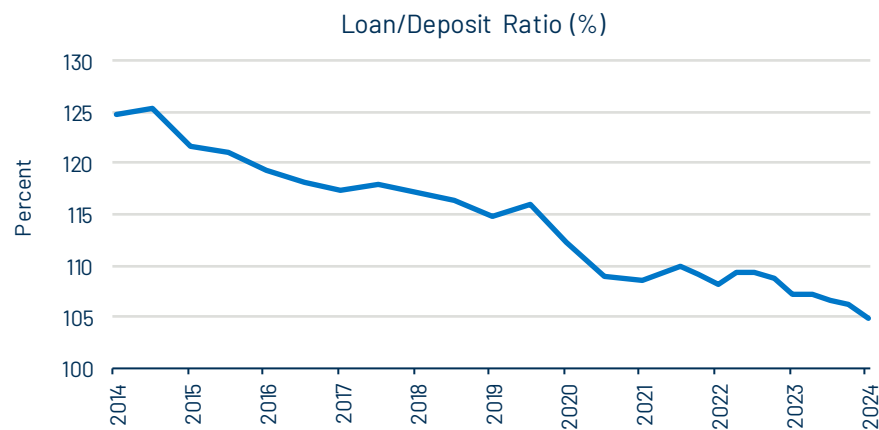
European Banks

Balance Sheets Continue to Be a Source of Strength

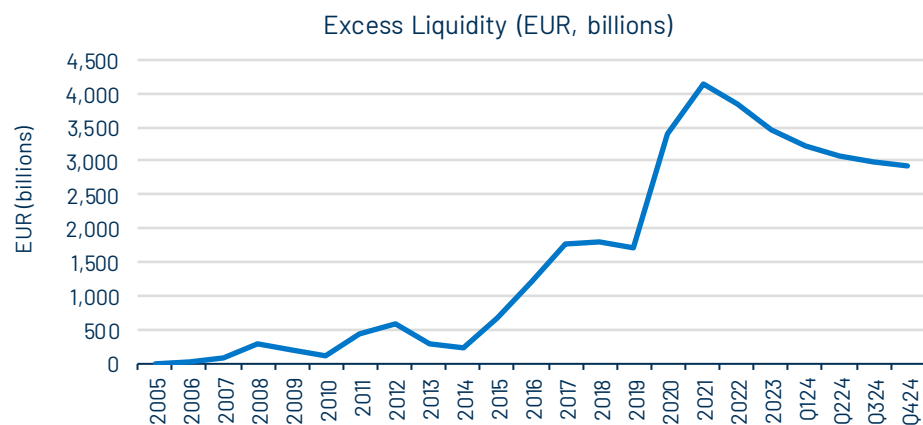
- A decade of balance sheet repair provides a solid foundation for our constructive fundamental sector view



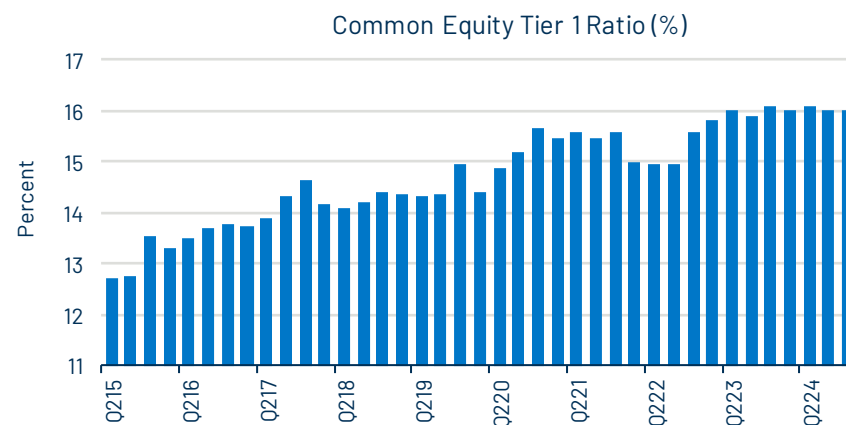
Source: ECB, Western Asset. As of 31 Dec 24



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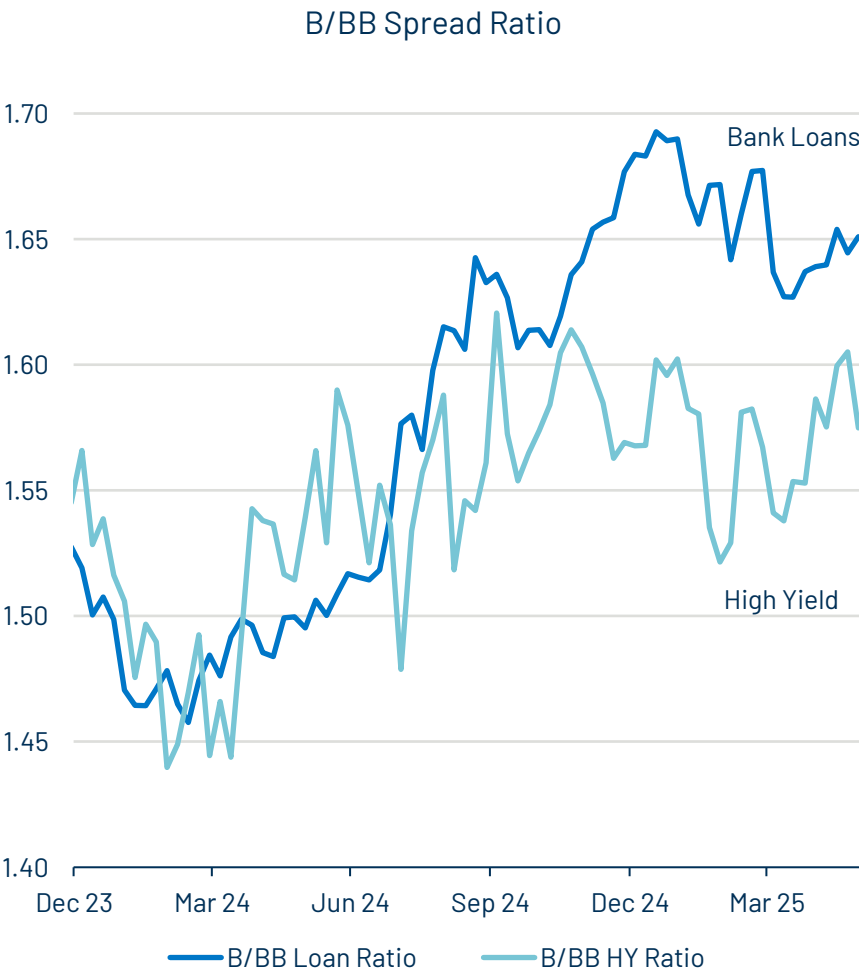


Source: ECB, Western Asset. As of 31 Dec 24

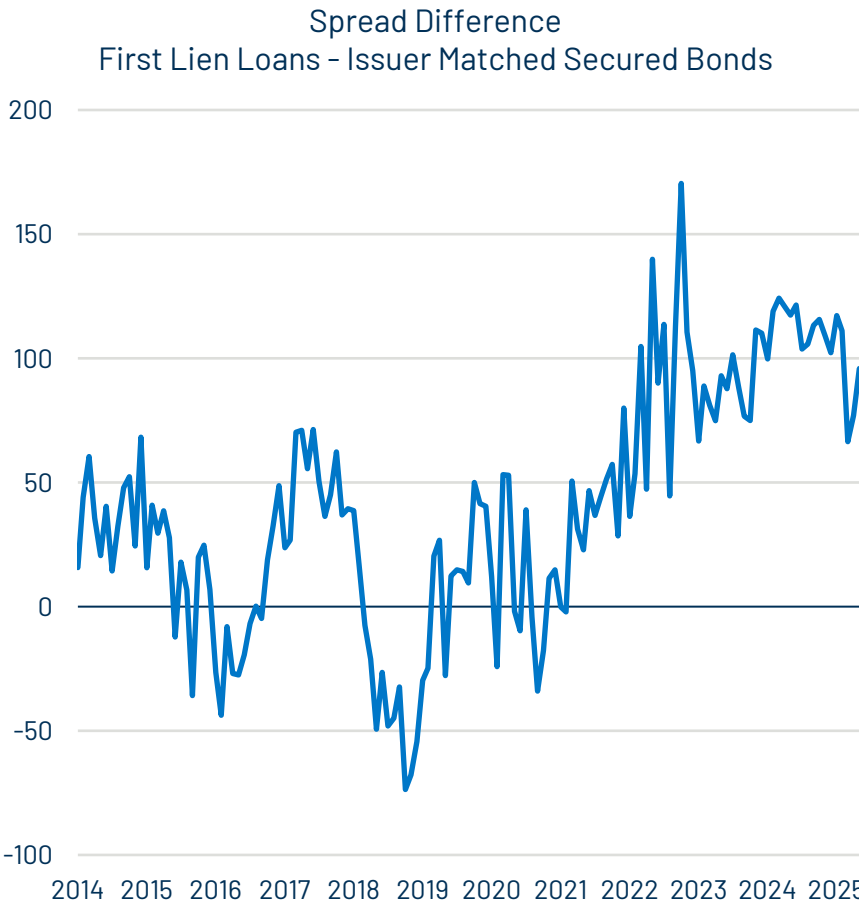
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US Bank Loans

Positioned for Further Spread Compression



Source: Bloomberg, BofA Global Research. As of 31 May 25



Source: BofA Global Research. As of 31 May 25

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US Mortgage & Consumer Credit

Offer Attractive Relative Value

- Mortgage and Consumer Credit has lagged the broader recovery in Corporate Credit and are wide from historical perspective

Spreads	JP Morgan Non-Agency MBS Index	BAML RMBS Legacy Below IG Index	Bloomberg Non-Agency CMBS BBB Index	BAML ABS AA- BBB Index	Bloomberg US IG Corporate Index	Bloomberg US High Yield Index
2015 - 2019 Average	241	123	354	134	127	438
30 May 25	269	197	684	186	88	315
Difference	28	73	330	52	-39	-123

Source: JP Morgan, Bloomberg, Bank of America, Western Asset. As of 30 May 25

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Key Takeaways

Global Macro

- Global outlook clouded by tariffs and geopolitical uncertainty
- Global disinflation trend near central banks' targets
- Policy rates to be cut further, except in Japan
- Concerns over fiscal sustainability

Fixed Income Implications

- Most government yield curves to steepen further
- Pockets of opportunities in developed market rates
- Spread sector fundamentals remain healthy
- Valuations trading tight vs historical averages
- Up in quality bias in corporate bonds
- Tactical opportunities in single B rated bank loans
- Favor Commercial MBS

Questions & Answers





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