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# 4Q25 Market Outlook



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# Global Macro Outlook

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## Growth – Sub Trend

- Global outlook clouded by tariffs and geopolitical uncertainty
- US growth has decelerated, but the outlook remains stable
- Fiscal and monetary policies support a return to trend in 2026

## Inflation – Stable

- Global disinflation trend intact with some exceptions
- Tariffs likely to impact US goods prices into next year
- Recent services inflation bears watching

## Labor Markets – Softening

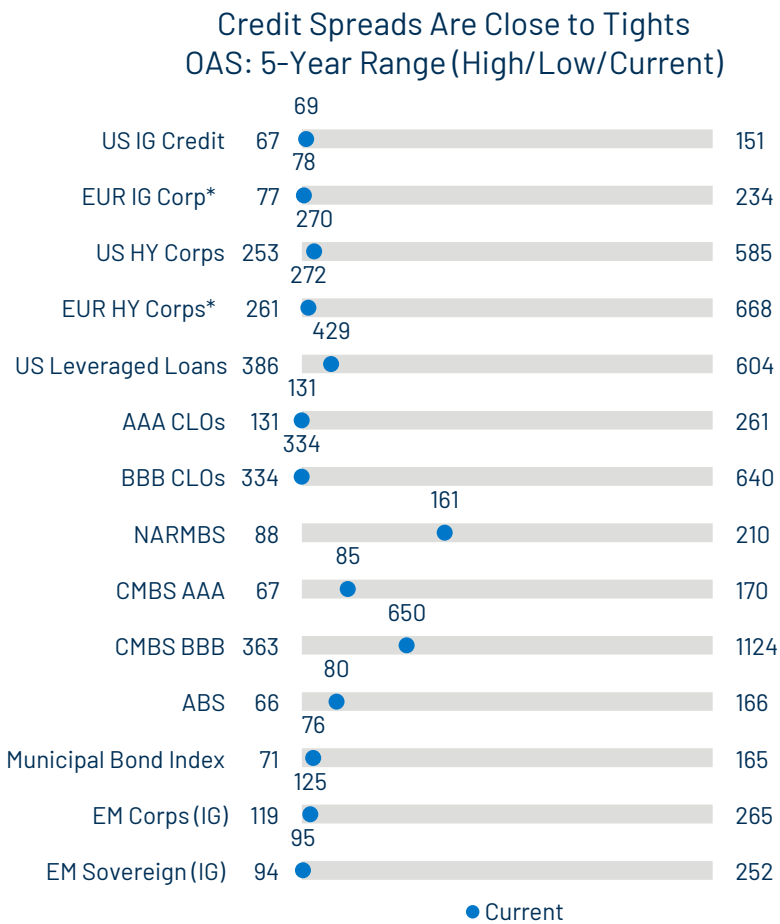
- Downside risks persist but layoffs remain low
- Young and lower-income cohorts struggling

## Monetary Policy – Cautious

- The Fed is focused on the employment side of their dual mandate
- Policy rates to be cut further, except in Japan

# Asset Valuations Seem Rich

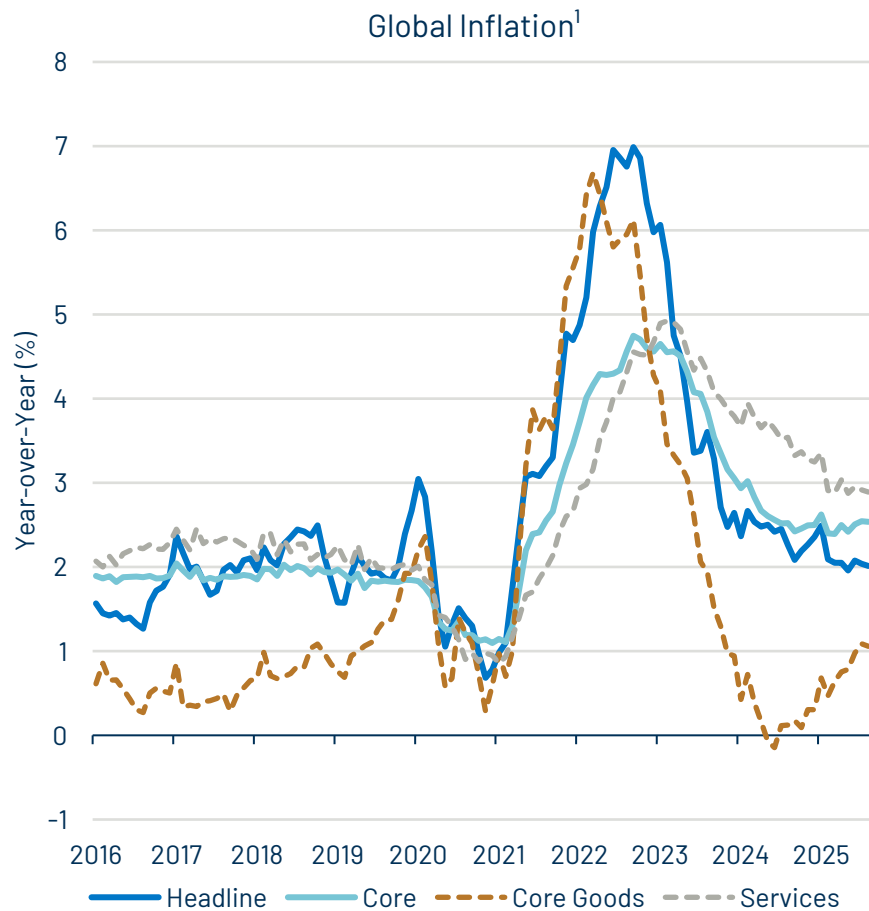
Risk markets have been resilient despite US tariffs



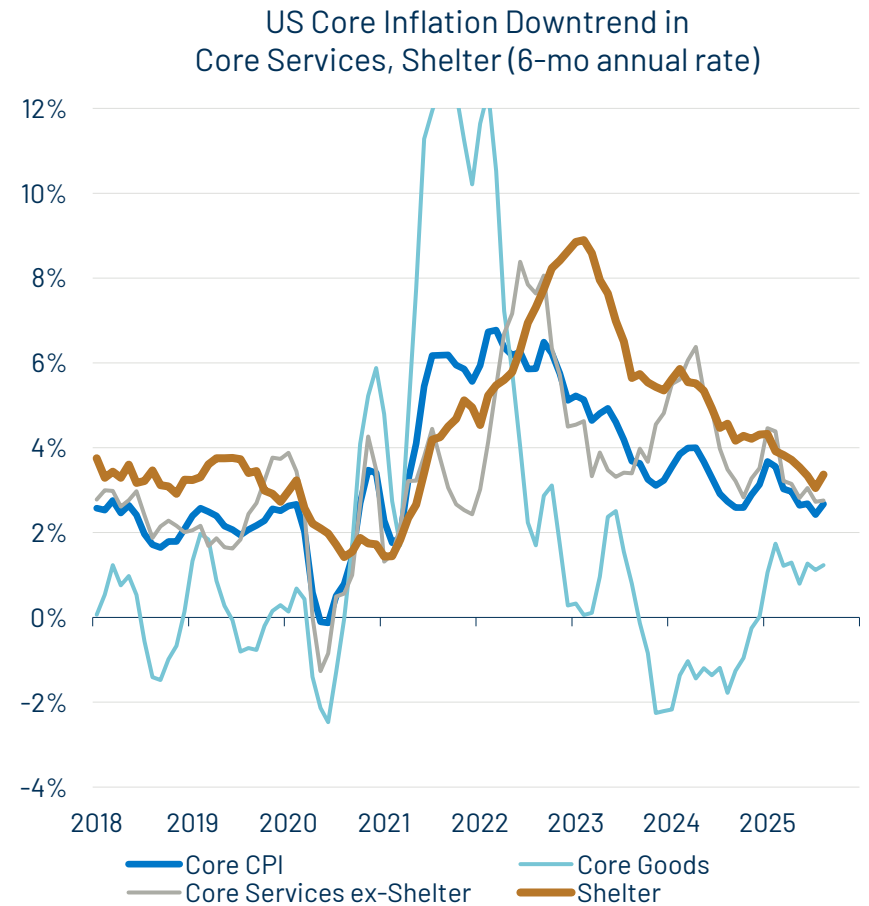
Source: Bloomberg, ICE BofA, J.P. Morgan. As of 30 Sep 25  
Yield-to-Worst (YTW) is the lesser of yield-to-maturity or yield-to-call across all known call dates.  
\*YTW for Euro IG & HY Indices include FX hedge adjustment.

# Inflation

The global disinflation trend is intact



Source: Macrobond. Citi. As of 31 Aug 25

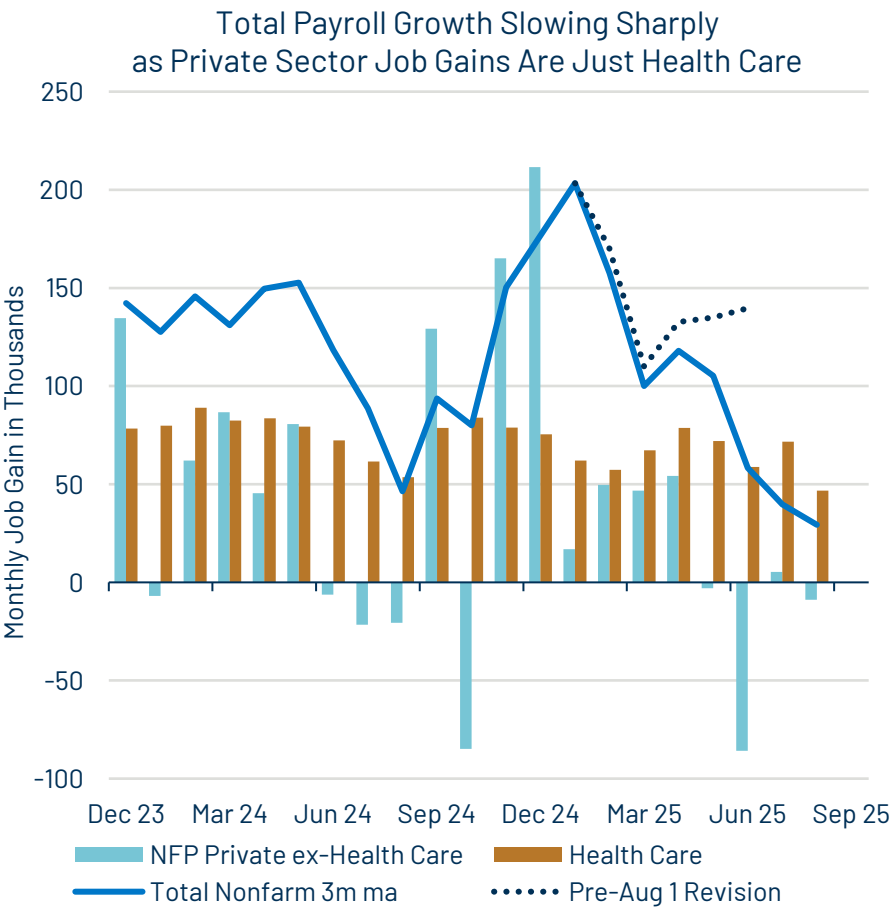


Source: BEA, Haver, Western Asset. As of 31 Aug 25

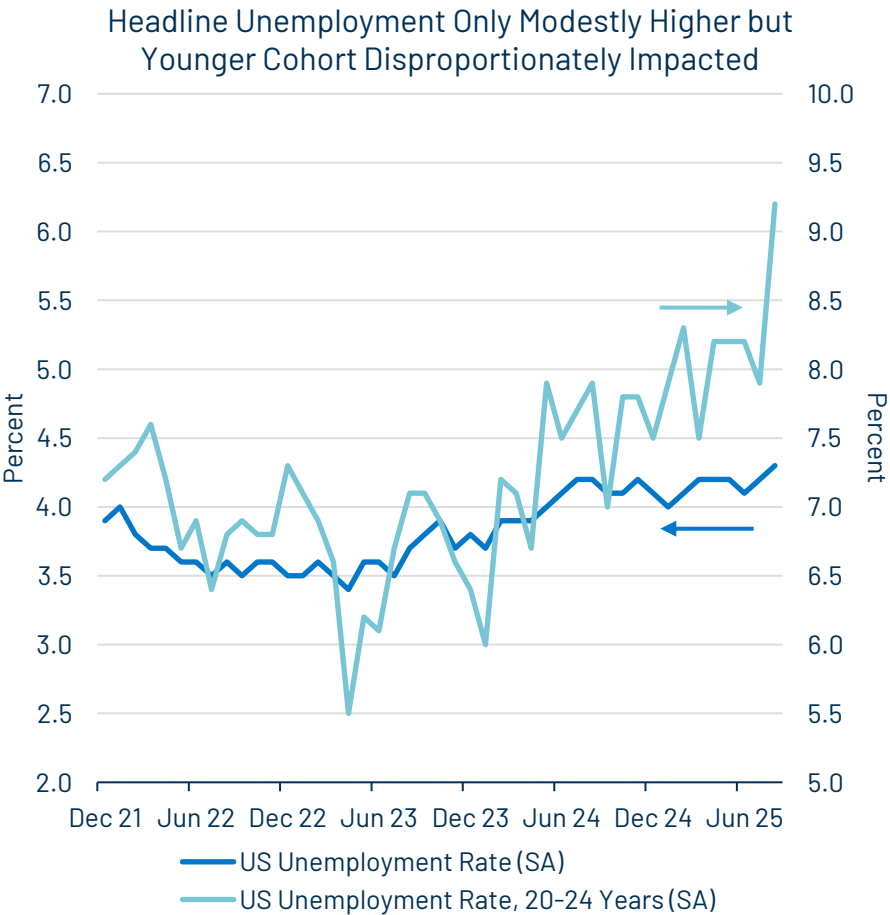
<sup>1</sup>Headline and core cover 15 economies; goods and services cover 12 economies

# US Labor Market

Downside risks persist but layoffs remain low. Young and lower-income cohorts are struggling



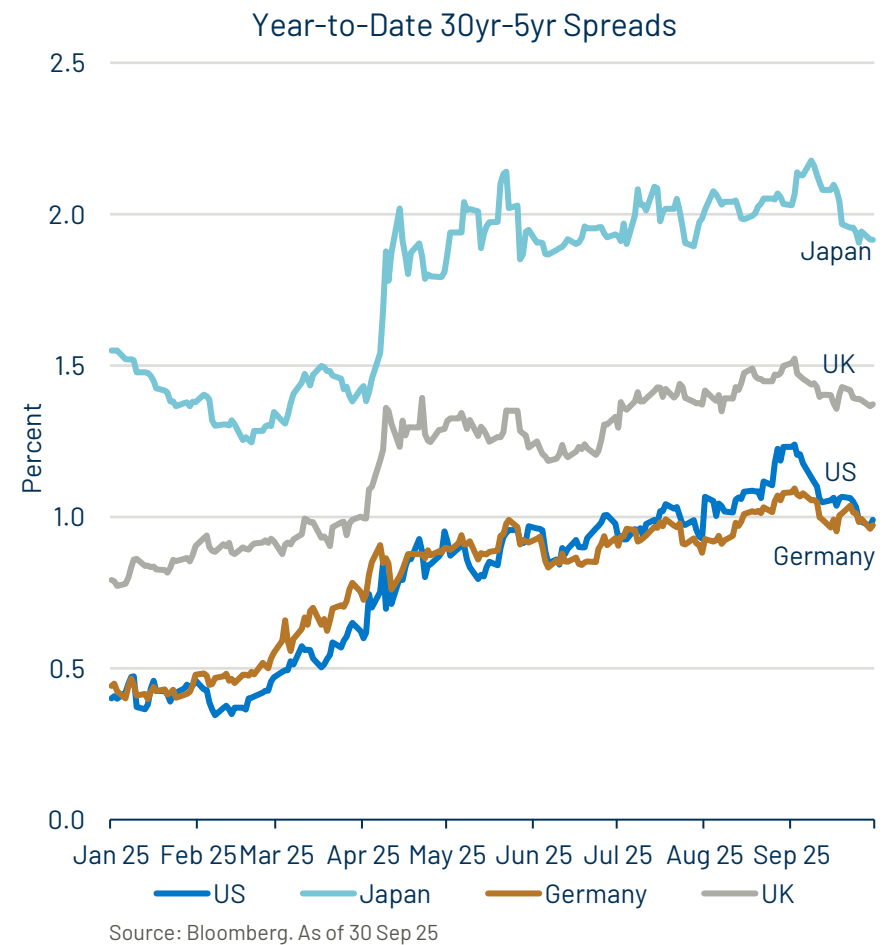
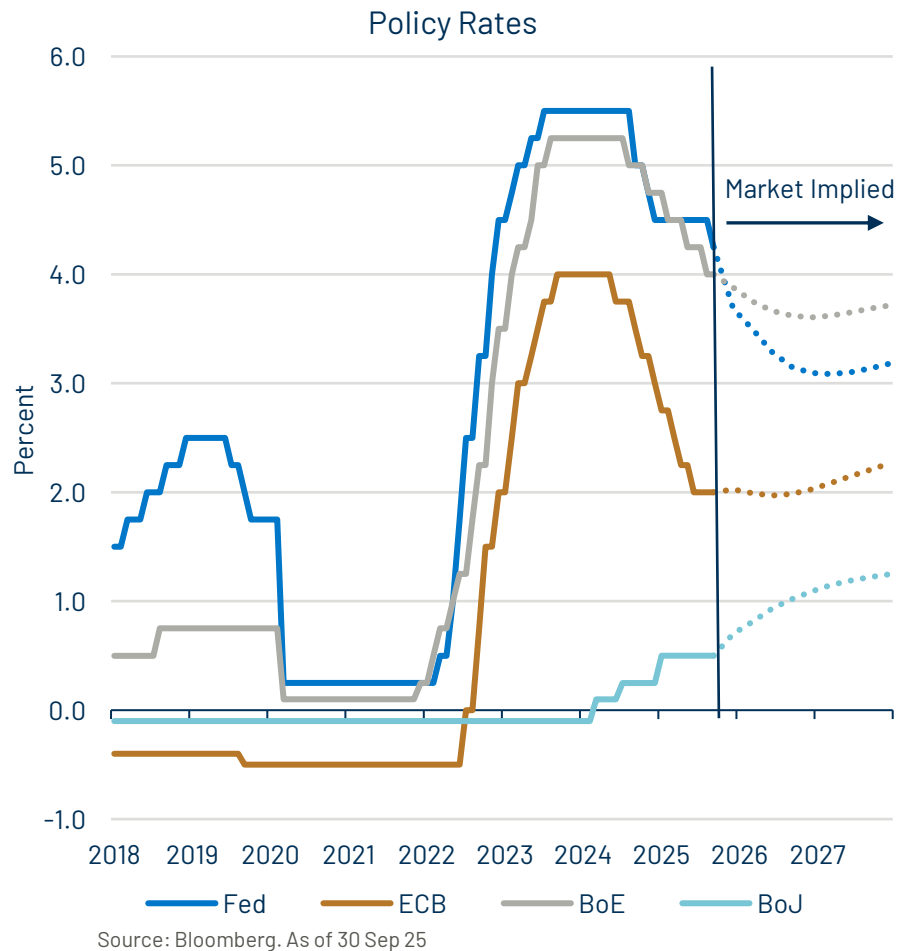
Source: BLS. As of 31 Aug 25



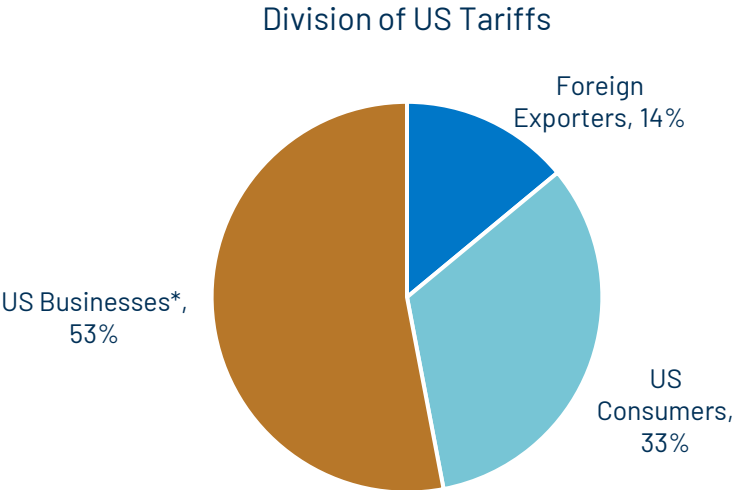
Source: BLS. As of 31 Aug 25

# Yield Curves

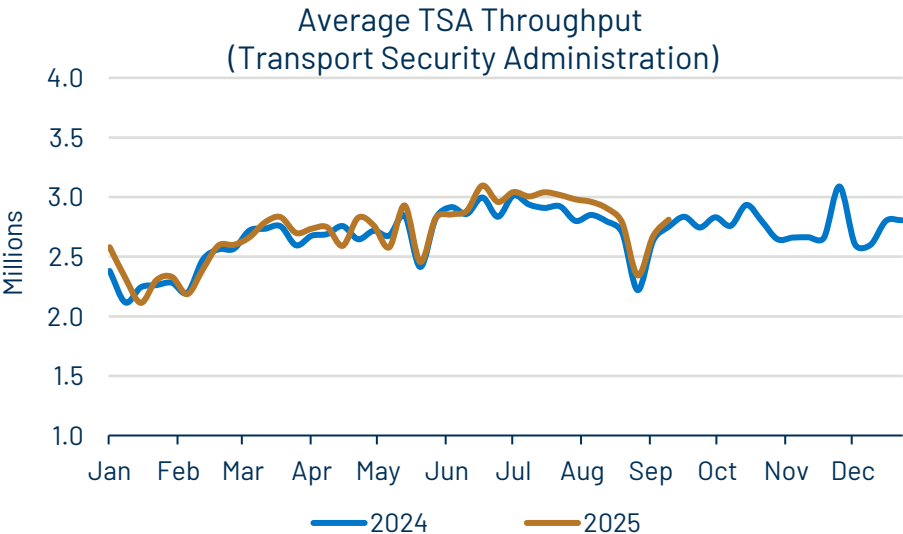
We see a global yield curve steepening trend



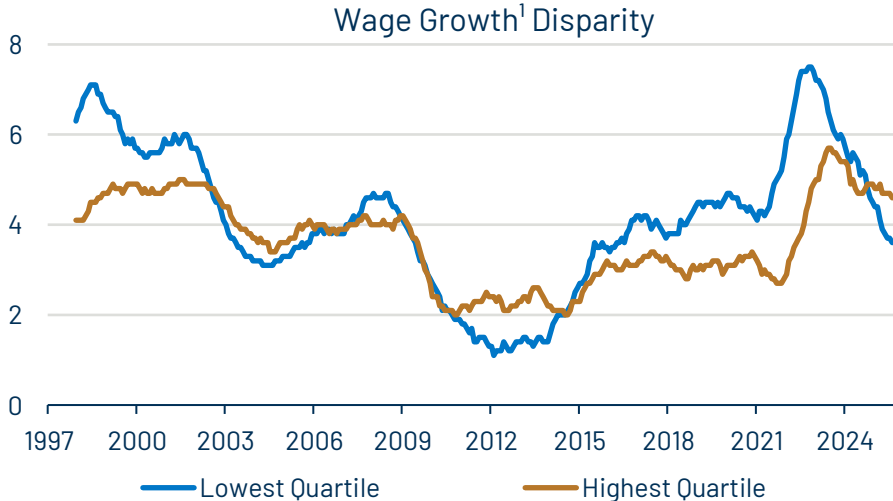
# Bottom-Up Insights Inform Our Macro Views



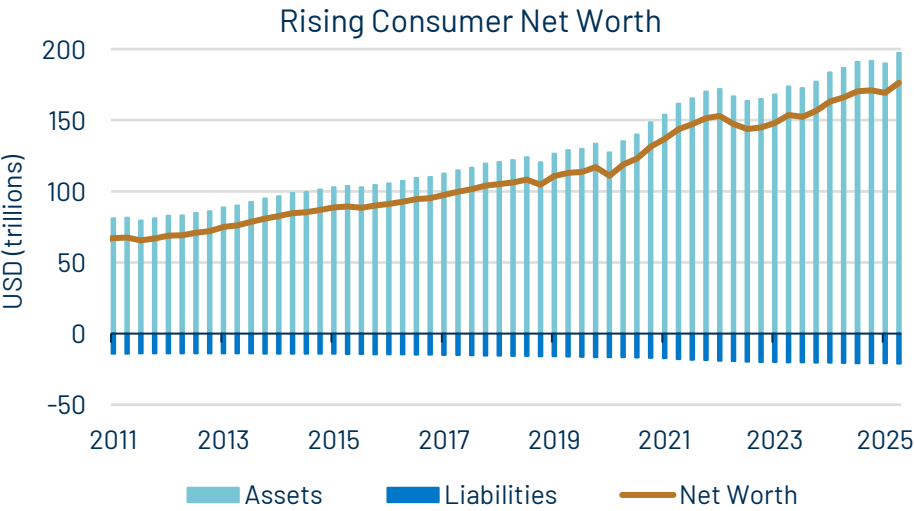
Source: Goldman Sachs. As of July 25



Source: Bloomberg. As of 14 Sep 25



Sources: Current Population Survey, Bureau of Labor Statistics, and Federal Reserve Bank of Atlanta. As of 31 Aug 25



Source: Federal Reserve. As of 30 Jun 25

<sup>1</sup>12 month moving averages of monthly median wage growth for each average wage quartile. Wage computed on an hourly basis.  
\*The share of tariff costs born by US businesses is a net amount. Some businesses probably absorbed a larger share of tariff costs, while other businesses that competed with imported goods likely raised their prices.

# Eurozone: Still In a Good Place?

Growth improving, unemployment low, inflation contained

## Growth

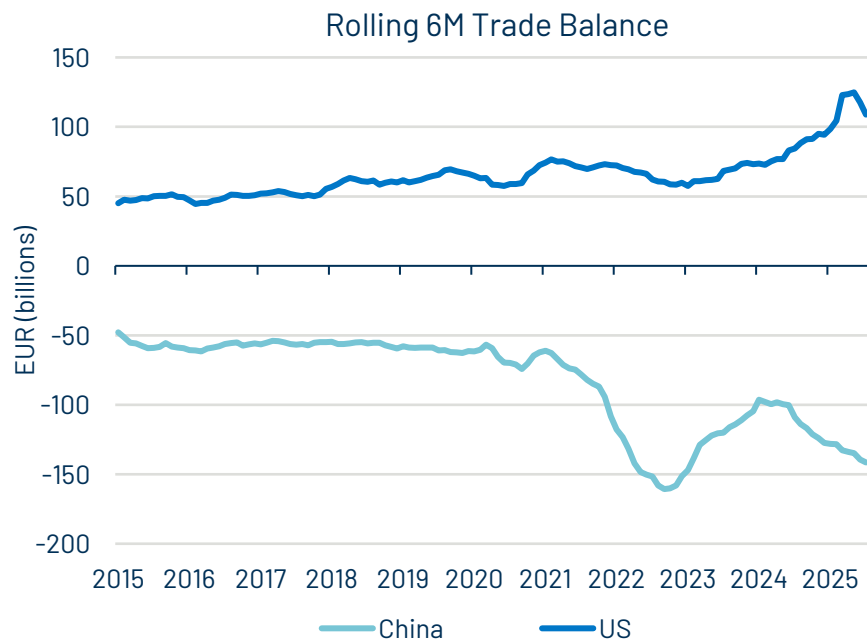
- Tariff frontloading boosted growth in H1. Heightened competition from China and slower US trade will dampen H2

## Jobs

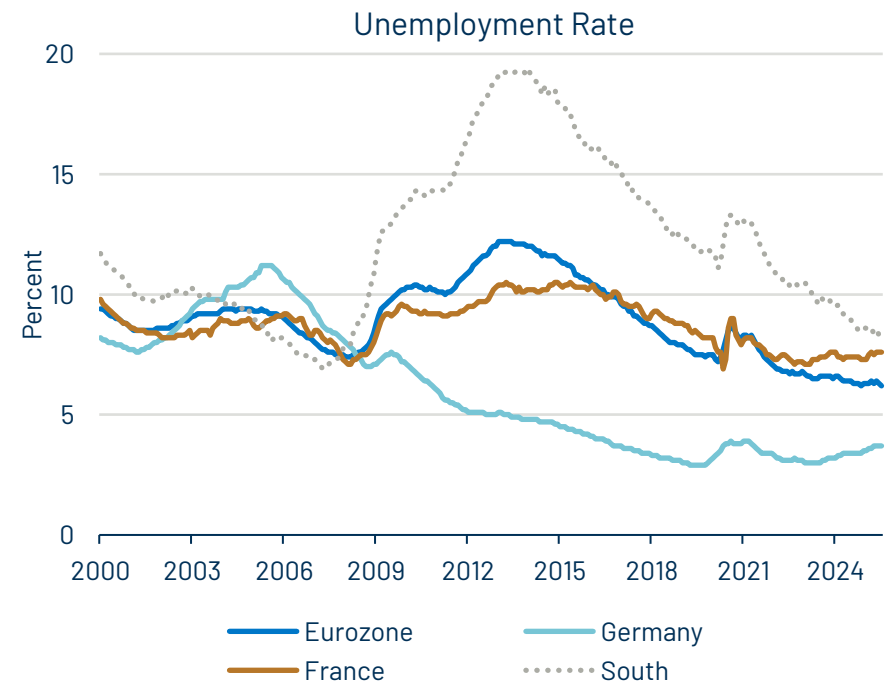
- Unemployment lowest since formation of the eurozone, but rising in Germany and France

## Inflation

- ECB forecasts headline inflation of 1.7% in 2026 and 1.9% in 2027



Source: Statistical Office of the European Communities, Haver Analytics. As of 31 Jul 25



Source: Statistical Office of the European Communities, Haver Analytics. As of 31 Jul 25

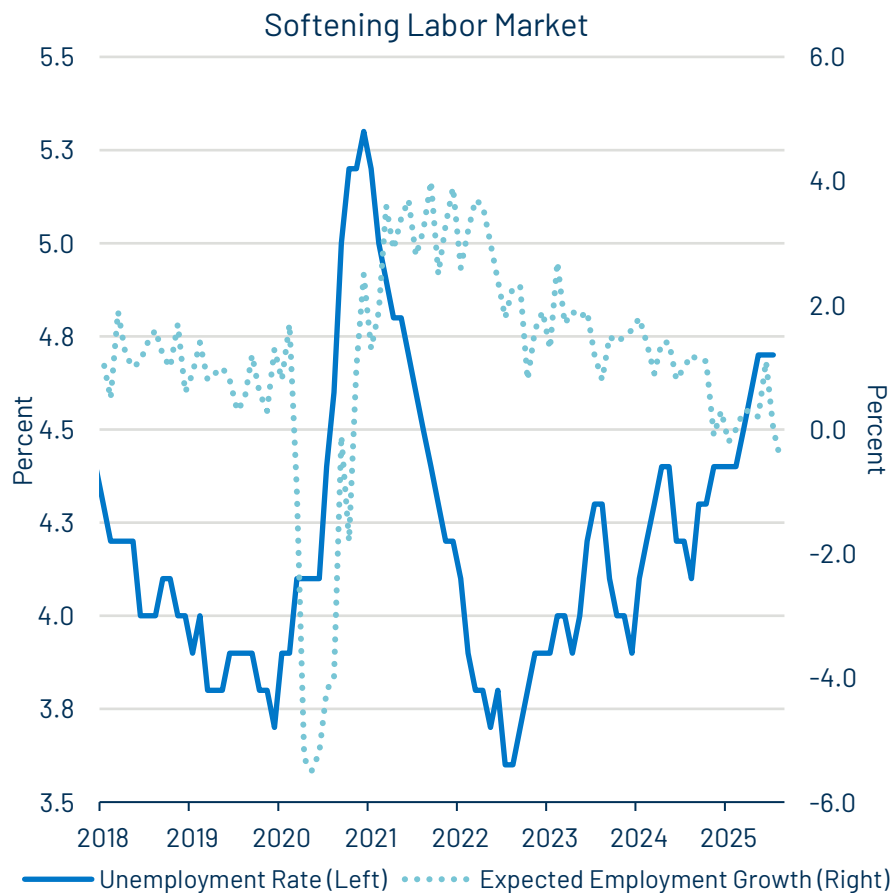
The above reflects current opinions of Western Asset, which are subject to change with market conditions.



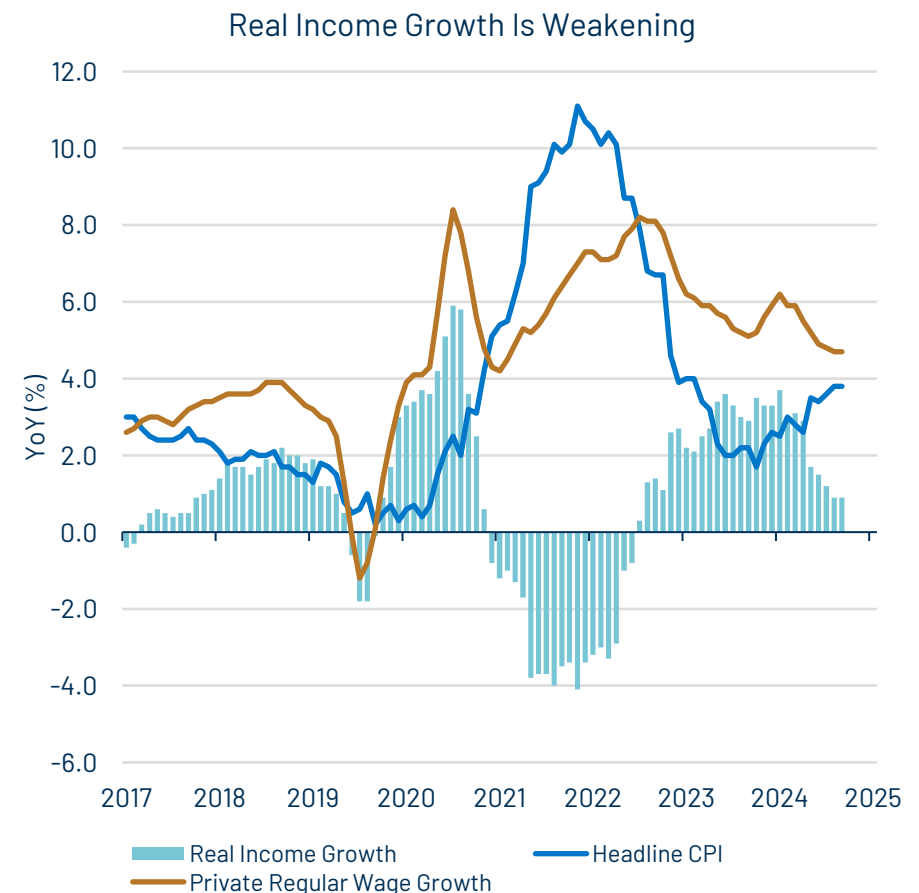
# United Kingdom

We expect the Bank of England to cut more than is priced

- Unemployment rate has risen. Firms expect to shrink hiring further, increasing slack
- Wage growth a lagged indicator but slowing
- Household finances squeezed, weighing on consumer spending
- Underlying inflationary pressures to continue to ease



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

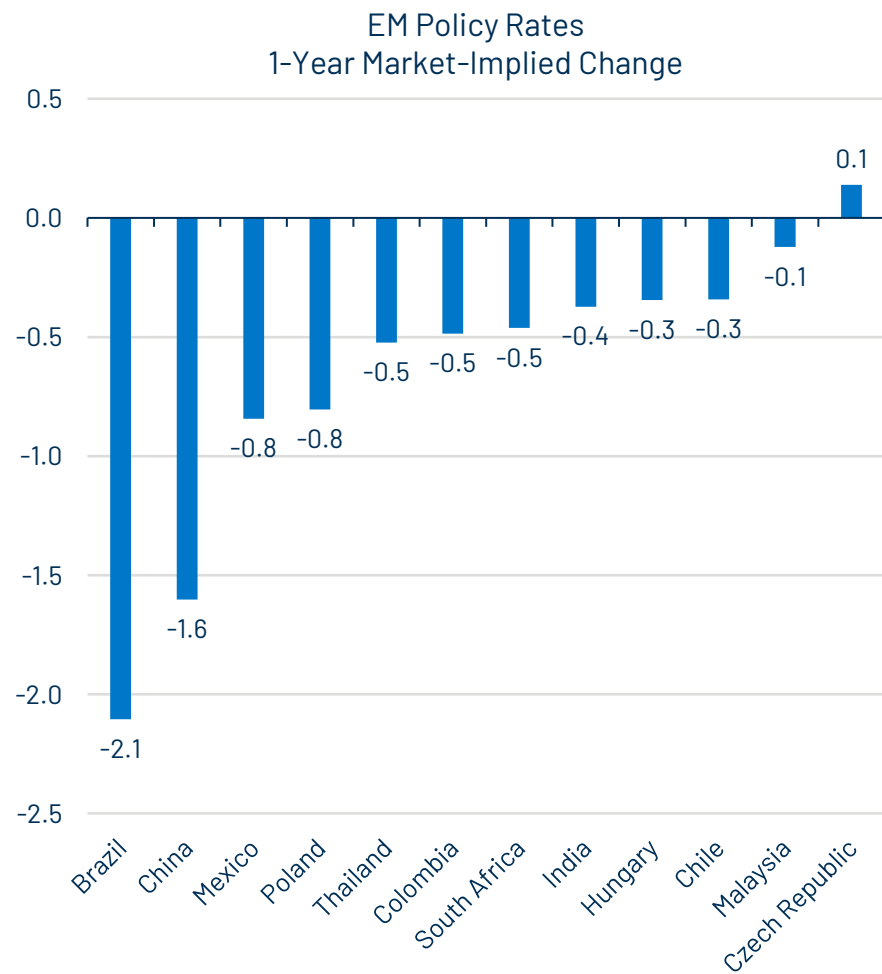


Source: Office for National Statistics, Western Asset. Bank of England Forecasts. As of Sep 25

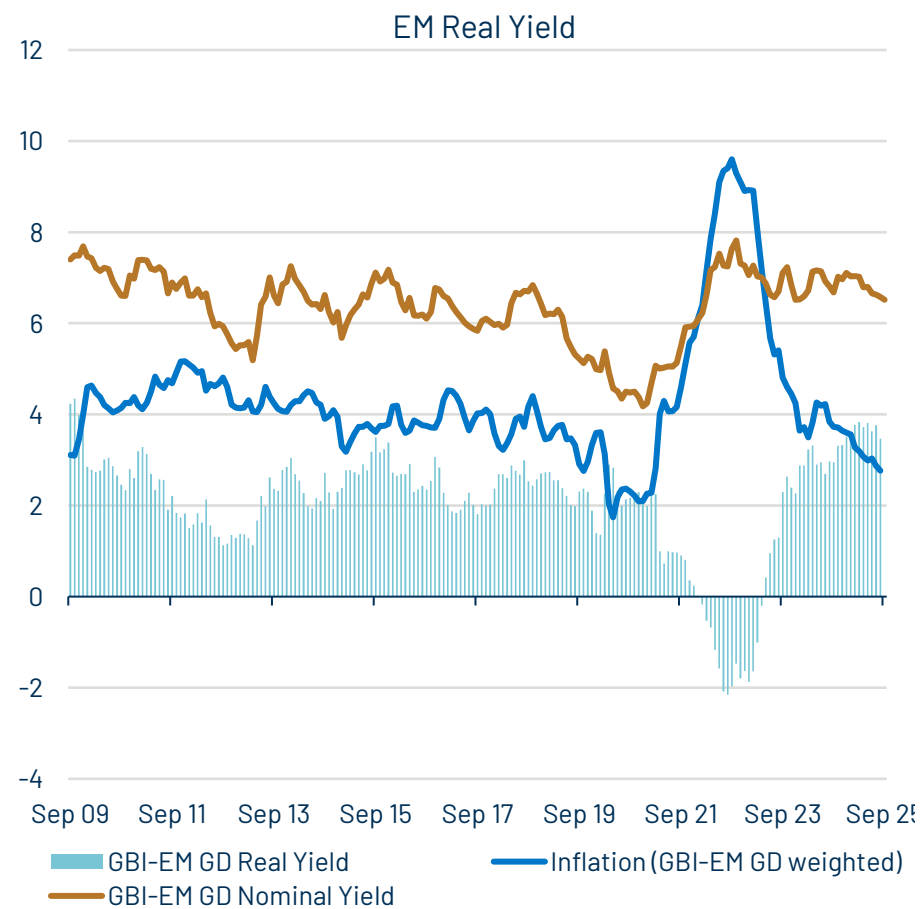
The above reflects current opinions of Western Asset, which are subject to change with market conditions.

# Emerging Markets

Policy easing to continue. Real yields remain high



Source: Macrobond. As of 31 Aug 25

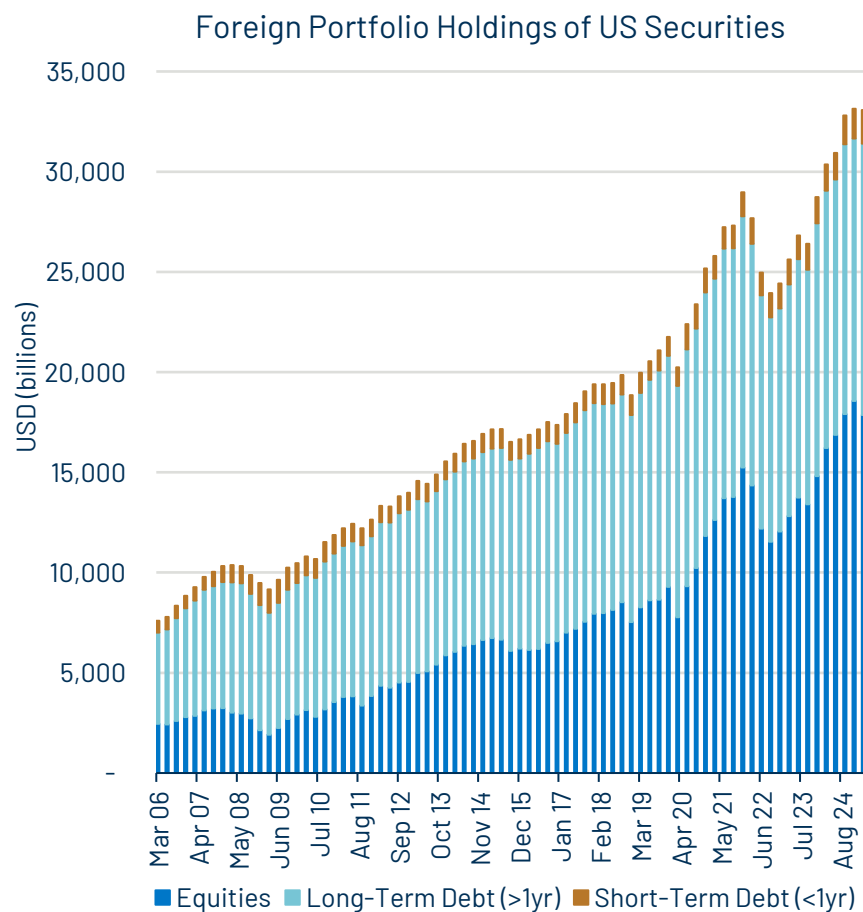


Source: Macrobond. As of 31 Aug 25

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

# Global Savings Are Supporting Tight Valuations in the US

Foreigners are increasingly investing US Dollar savings from their current account surpluses into riskier assets in the US



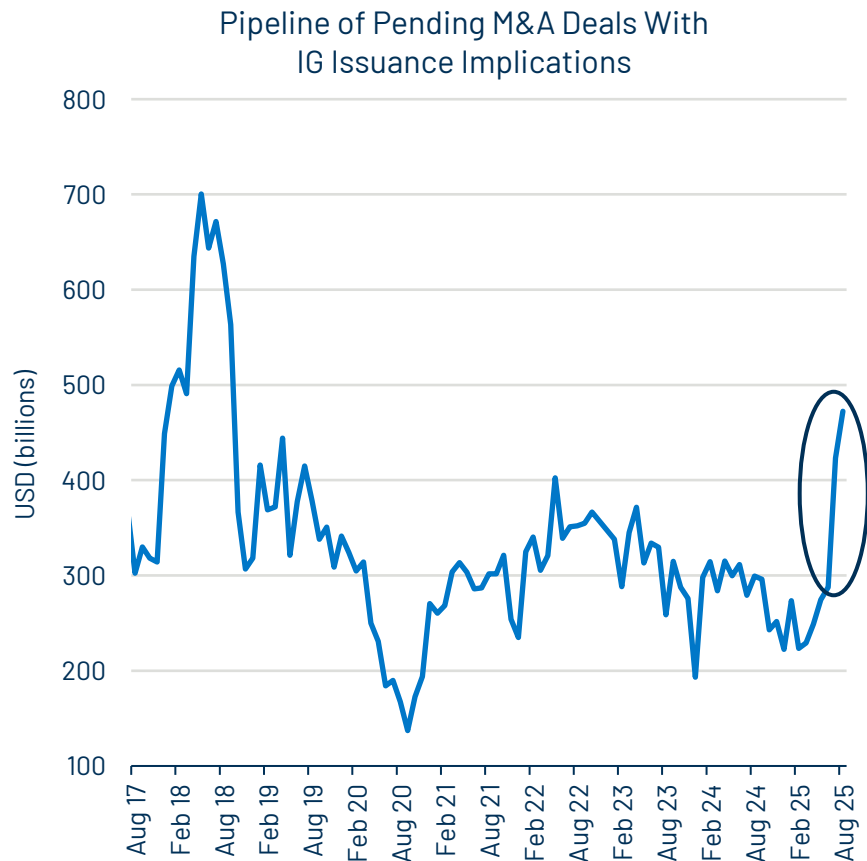
Source: Treasury International Capital (TIC) System. As of 30 Jun 25

## Savings glut of US dollars:

- Foreign holding of US long-term securities (debt + equity) was \$33.6tn as of June 30, 2025. Annual inflows for this period was \$1.3tn
- Sovereign wealth funds' AUM has risen to \$14.1tn, up from \$8.5 tn in 2019
- Non-US public pension funds now invest over \$14.0 tn
- Corporate cash reserves worldwide now exceed \$8 tn
- Money market fund AUM is up to \$7.3tn

Source: Treasury International Capital (TIC) System, Global Sovereign Wealth Fund, HEC Paris, Investment Company Institute (ICI)

# M&A Activity Increasing Across Subsectors



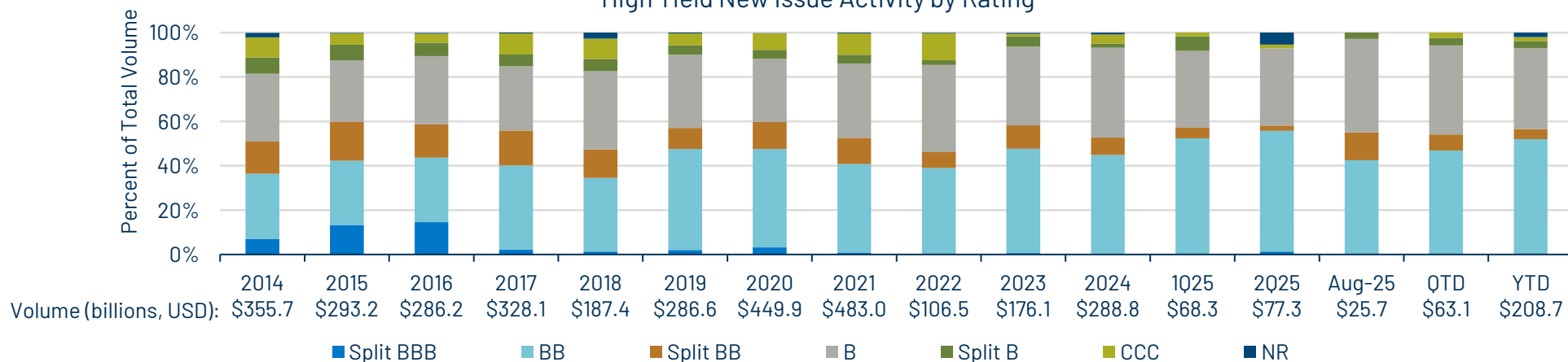
Source: BofA Merrill Lynch Global Research, Bloomberg.  
As of 31 Aug 25

## Notable Transactions Across Several Subsectors:

- **Telecom:** Verizon/Frontier, AT&T/Echostar (Spectrum)
- **Cable:** Charter/Cox
- **Rails:** Union Pacific/Norfolk Southern
- **Food and Beverage:** Keurig Dr. Pepper/JDE Peets
- **Retail:** Lowes/Foundation Building Materials
- **Technology:** Amphenol/CommScope (CCS unit)
- **Metals & Mining:** Anglo American/Teck Resources
- **Utilities:** Sempra/KKR (Sempra Infrastructure)
- **Media:** Electronic Arts/Private Consortium (PIF/Silver Lake/Affinity)

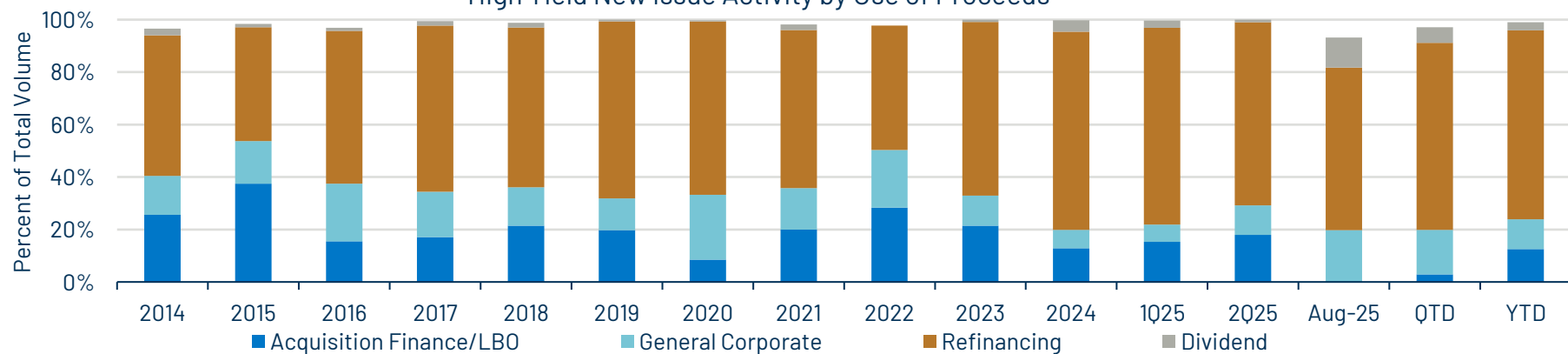
# High Yield New Issue Activity

High Yield New Issue Activity by Rating



Source: J.P. Morgan. As of 31 Aug 25

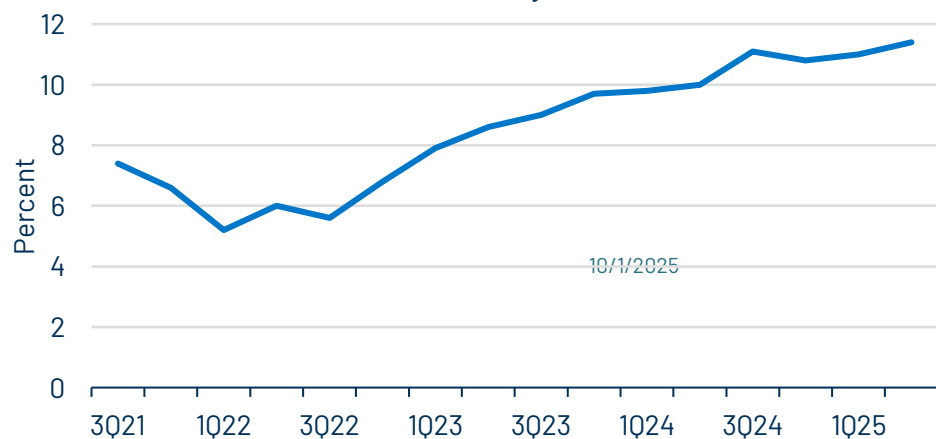
High Yield New Issue Activity by Use of Proceeds



Source: J.P. Morgan. As of 31 Aug 25

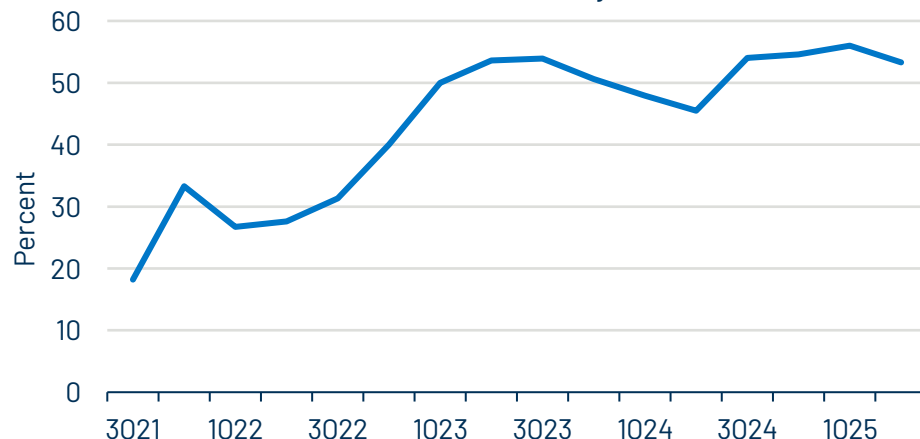
# Strains in Private Credit?

Investments with Payment in Kind



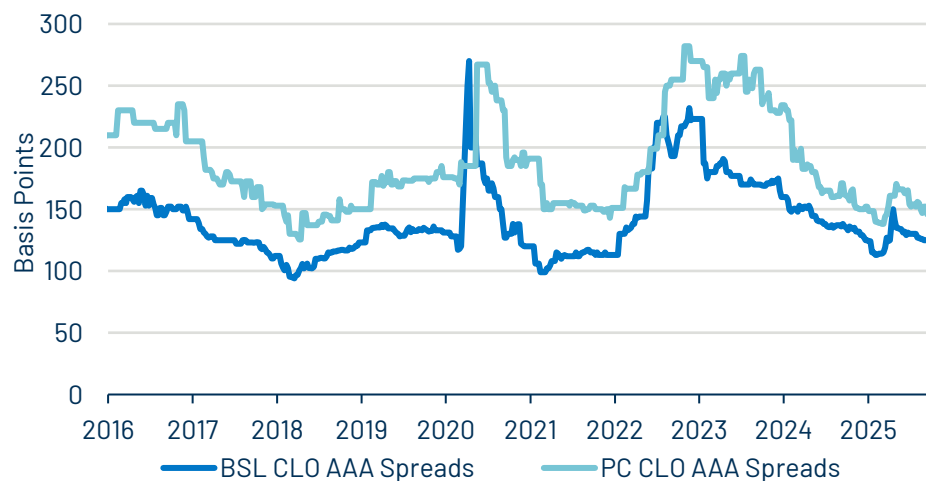
Source: Lincoln International. As of 30 Jun 25

PIK Investments with "Bad" Payment in Kind<sup>1</sup>



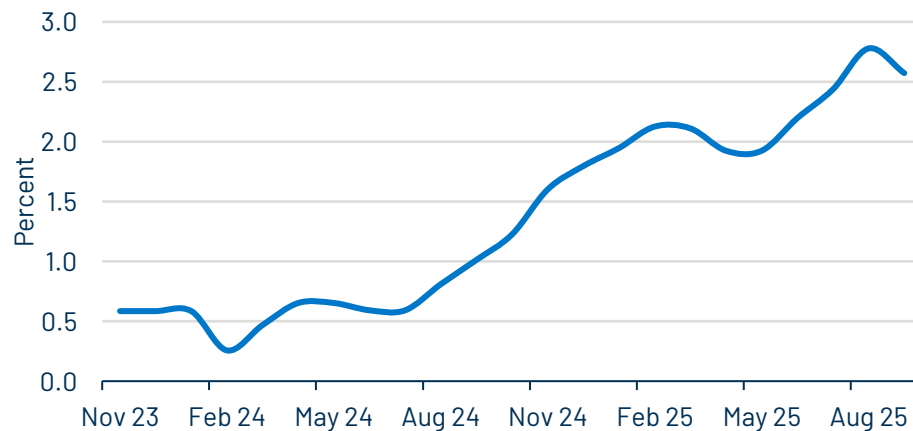
Source: Lincoln International. As of 30 Jun 25

Spreads Between Private and Public CLOs Hover Near Historic Lows<sup>2</sup>



Source: BofA Global Research. As of 12 Sep 25

Private Credit Trailing 12-Month Borrower Default Rate<sup>3</sup>



Source: Morningstar DBRS. As of 19 Sep 25

<sup>1</sup>"Bad" PIK is defined by Lincoln as PIK that was not elected or available at close but is now being utilized. © 2025 Lincoln Partners Advisors LLC. All rights reserved.

<sup>2</sup>BSL CLO AAA Spreads: US CLO 2.0/3.0 New Issue AAA; PC CLO AAA Spreads: US CLO MM New Issue AAA. Benchmark transition to SOFR from LIBOR for BSL CLO and PC CLO spreads occurred in January and February 2022, respectively. Thursday spreads are used for weekly spreads.

<sup>3</sup>The series represents the trailing 12-month average default rate of a portfolio of private, middle-market borrowers actively-rated by Morningstar DBRS.

# A Bond Picker's Market

Our clients are asking us, "What bonds should we buy?" – not "What index should we own?"

- Despite relatively "full" valuations, idiosyncratic opportunities exist in credit
- An institutional bias toward higher quality credit has unlocked managers to showcase their bottom-up selection skills, especially in lower quality credits
- A combination of attractive absolute yields, solid macro and corporate fundamentals, and supportive technical conditions could keep spreads tight
- Opportunities in select CMBS and CLO tranches

### Historical Default Averages

	Western Asset (%)	Moody's <sup>1</sup> (%)
Last 3-Year Average	1.43	3.06
Last 5-Year Average	1.29	3.68
Last 10-Year Average	1.26	4.35

### 5-Year Moving Average Default Rate



Source: Moody's, Western Asset. As of 31 Dec 24

Past performance is not indicative of future results.

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Western Asset default rate represents the Western Asset US High Yield composite

<sup>1</sup>Moody's ratings based on Trailing 12-Month Issuer-Weighted Spec-Grade US Bond default rates for Moody's universe of rated and non-rated speculative-grade (high yield) companies.

Includes selective defaults. A selective default is when an obligor has selectively defaulted on specific issues or obligations but will continue making payments on its other obligations in a timely manner. Selective default may also include a distressed exchange offer, which is unlike a regular default where the obligor fails to pay all or substantially all of its obligations.

# Key Takeaways

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## Global Macro

- Global outlook clouded by tariffs and geopolitical uncertainty
- Global disinflation trend intact with some exceptions
- 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 and emerging market rates
- Spread sector fundamentals remain healthy
- Valuations trading tight versus historical averages
- Trimming exposure in corporate bonds
- Idiosyncratic opportunities in lower-rated bank loans and high-yield
- CMBS and CLO tranches offer best relative value



# Questions & Answers

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