



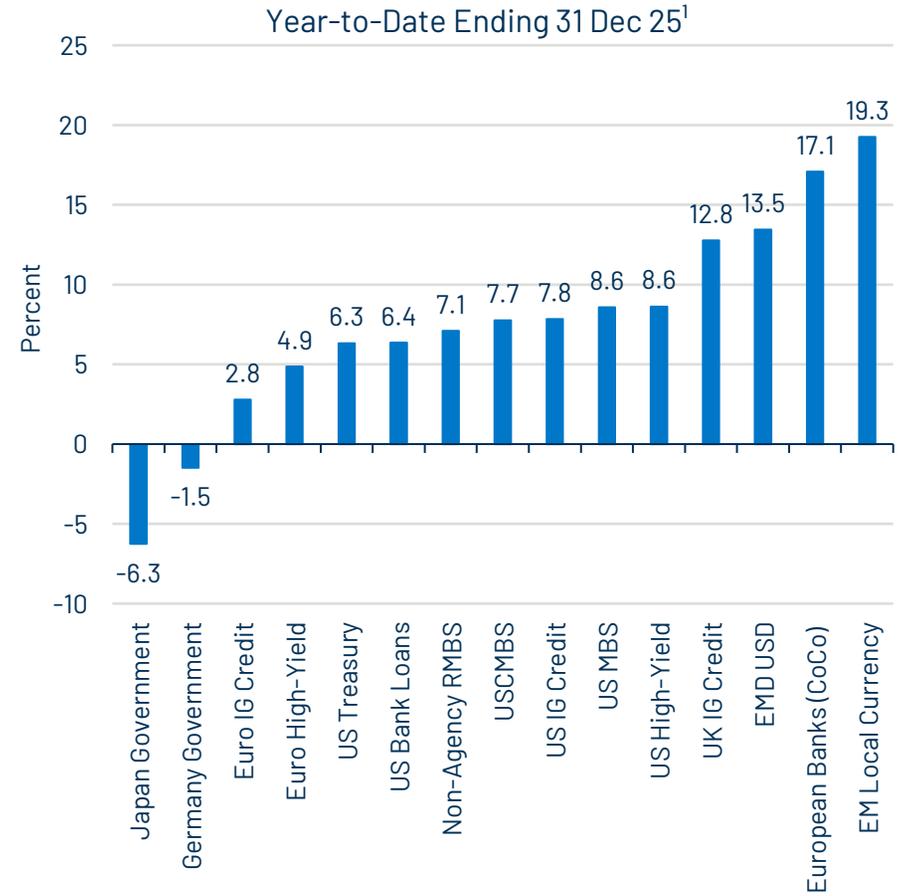
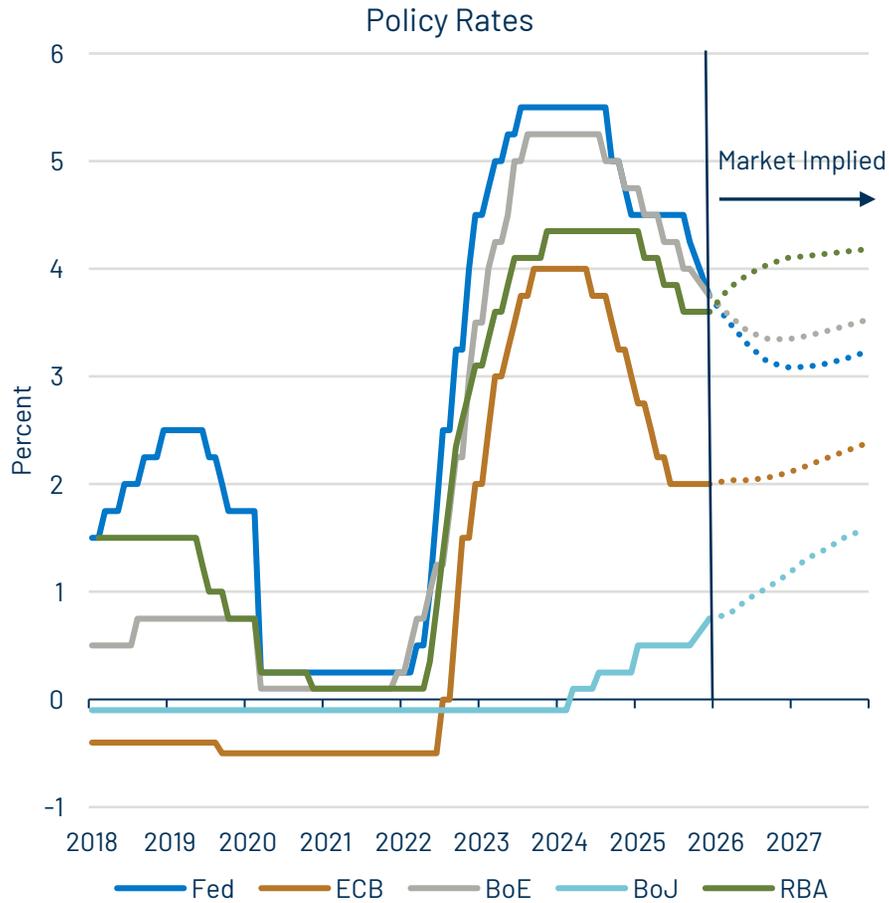
1Q26 Market Outlook

January 8, 2026

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Chief Investment Officer

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Global Product Specialist

Policy Rate Changes and 2025 Sector Returns



¹Returns shown are local currency unhedged returns. Past performance is not a reliable indicator of future results.

Global Macro Outlook

Growth – Improvement expected

- Easier financial conditions and fiscal stimulus
- Global growth around 3%
- US growth to return to above trend at 2.0-2.5%

Inflation – Subdued

- Global disinflation trend to continue
- US inflation to continue trending lower
- Inflationary forces very subdued in China

Labor Markets – Low hire/low fire dynamic

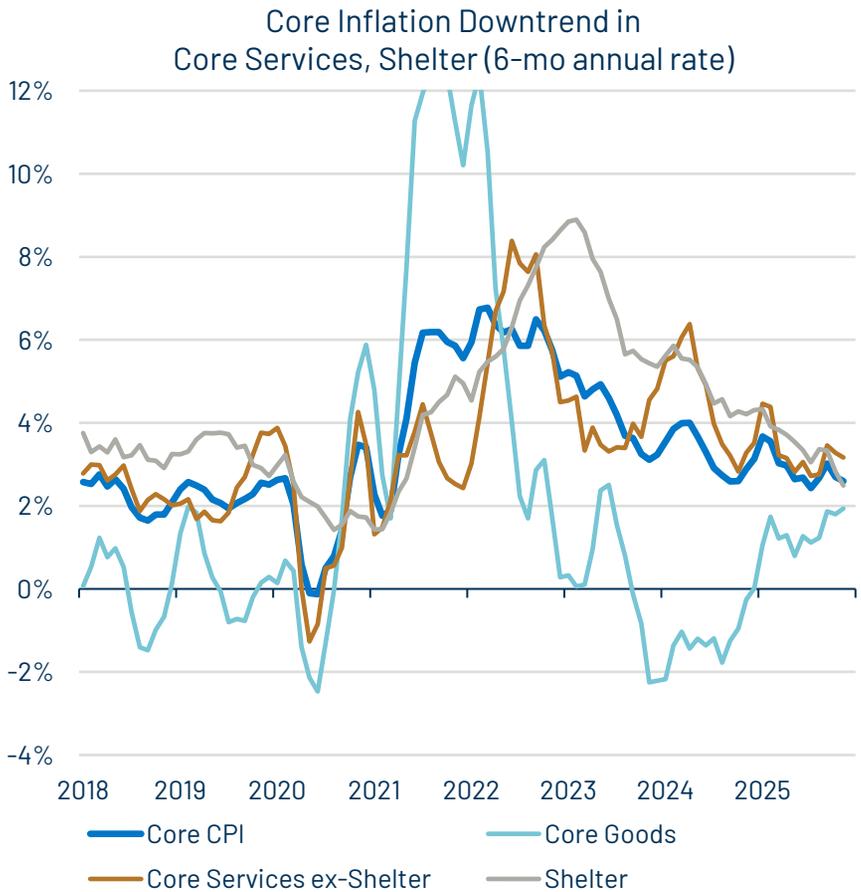
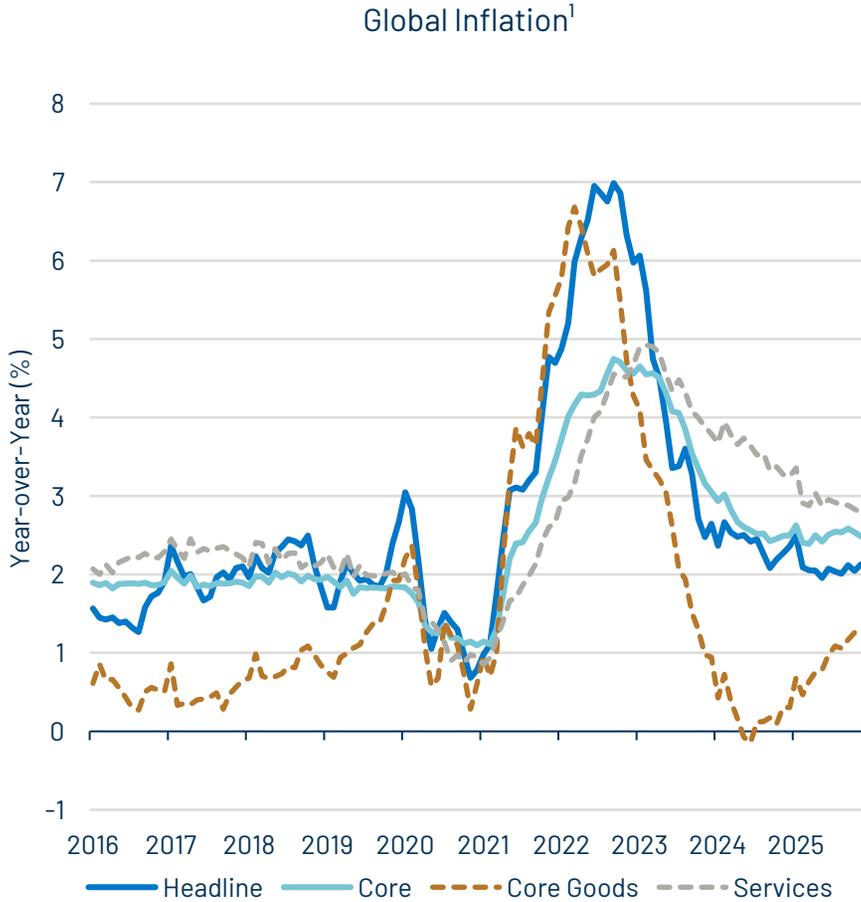
- US labor market softening, layoffs remain low
- US job creation concentrated in health care
- Young and lower-income cohorts struggling

Monetary Policy – Cautious

- Central bank easing cycle near its end
- Further US cuts dependent on labor and inflation data

Inflation

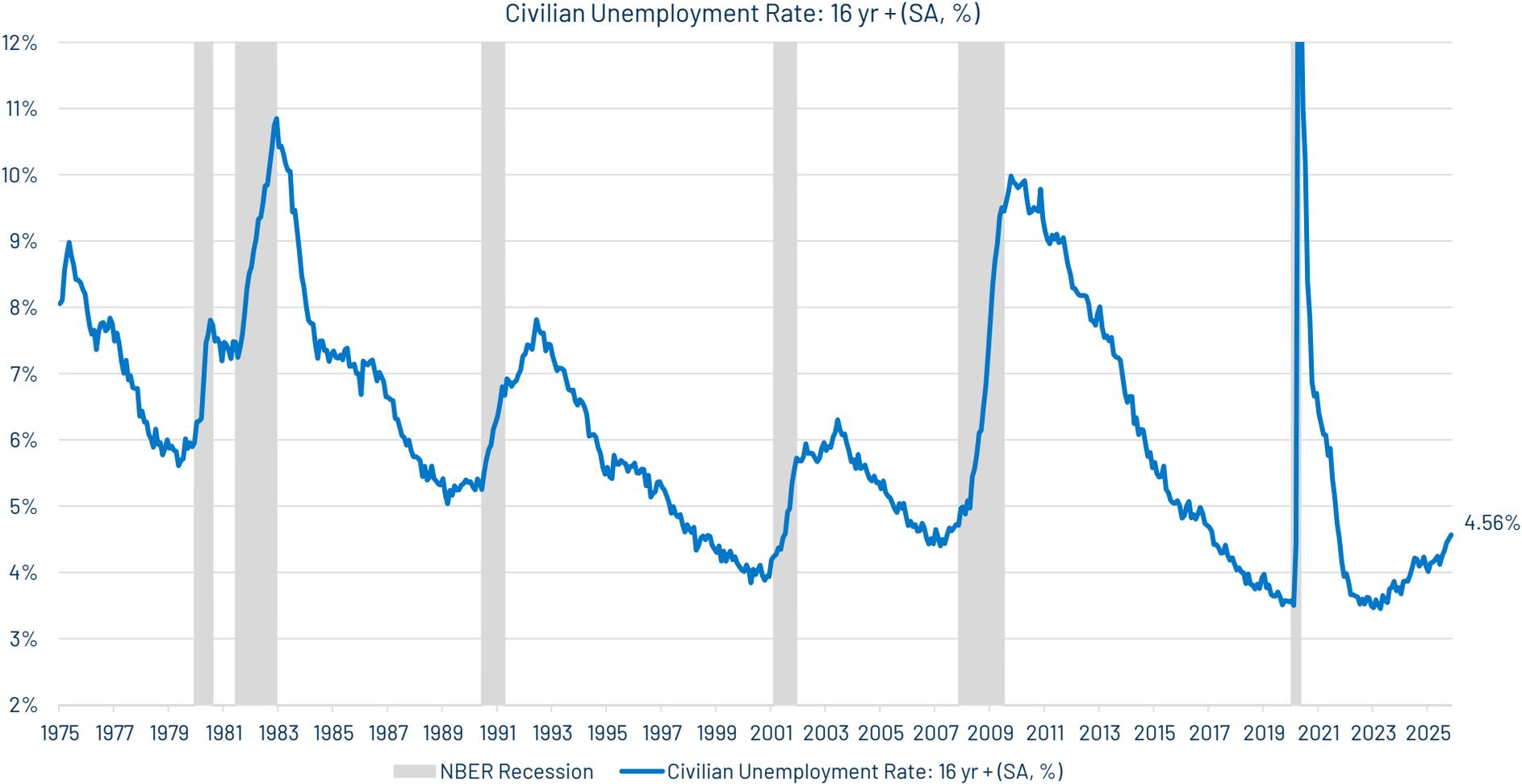
Global inflation has moderated. US inflation to continue trending lower



¹Headline and core cover 15 economies; goods and services cover 12 economies

US Labor Market

Longer-run history of the Unemployment Rate



Source: BLS, Haver, Western Asset. As of November 2025

Eurozone

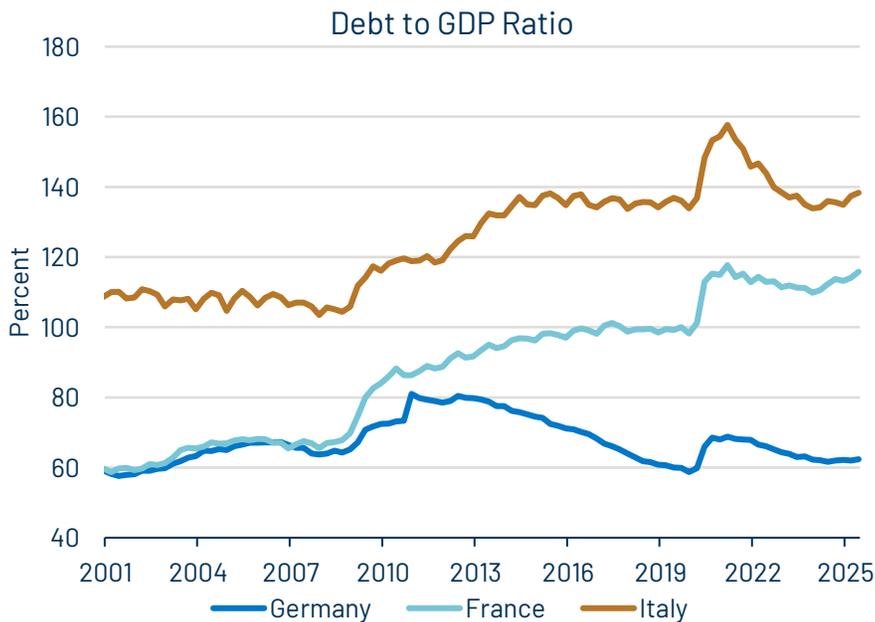
Resilient growth, contained inflation and stable employment persist despite headwinds

German fiscal loosening should start to gain traction. Other EU countries have little room for greater public spending

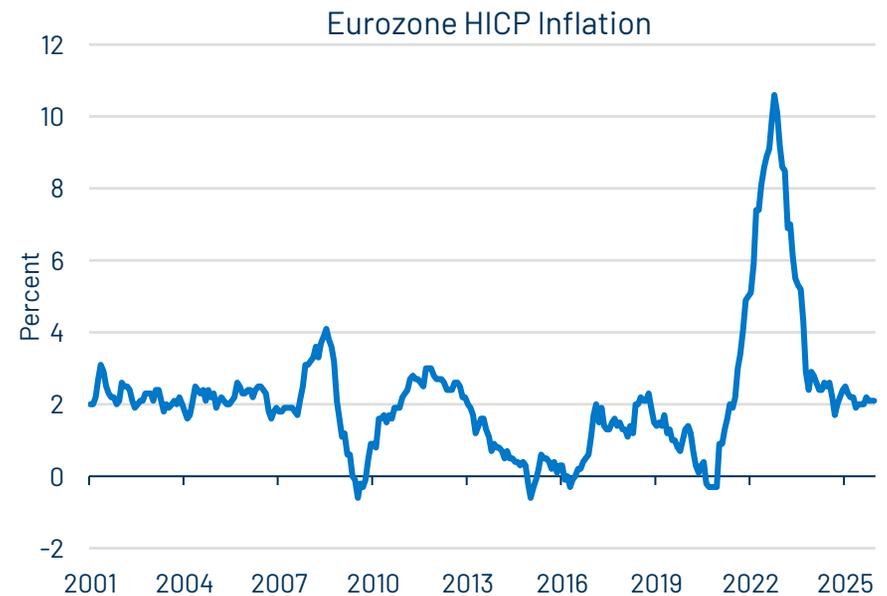
Inflation close to 2% as labor costs ease and inflation expectations are anchored

ECB on hold. Discussion of rate hikes in 2026 seems premature

German bund yields contained with growth close to trend and inflation near 2%



Source: Haver Analytics. As of 30 Jun 25



Source: Bloomberg. As of 31 Dec 25

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

China

Focus on reflation and improving domestic sentiment

Policymakers' focus will shift toward domestic challenges with external (primarily US) challenges deemed as manageable

Persistent property market weakness with more developer headline distress expected

Measures to improve the labor market and reflate the economy providing support to equity markets

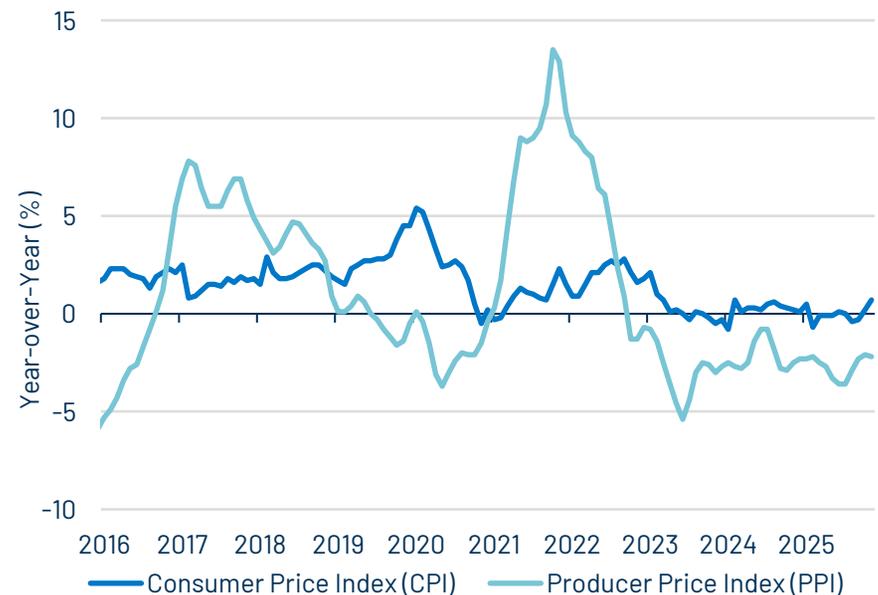
Expect further modest monetary policy easing

China Fixed Asset Investment
Real Estate still a drag, but even Manufacturing & Infrastructure slowing



Source: Bloomberg. As of 20 Dec 25

CPI and PPI
Increasing urgency to reflate economy after 38 months of continuous PPI decline



Source: Bloomberg. As of 20 Dec 25

Japan

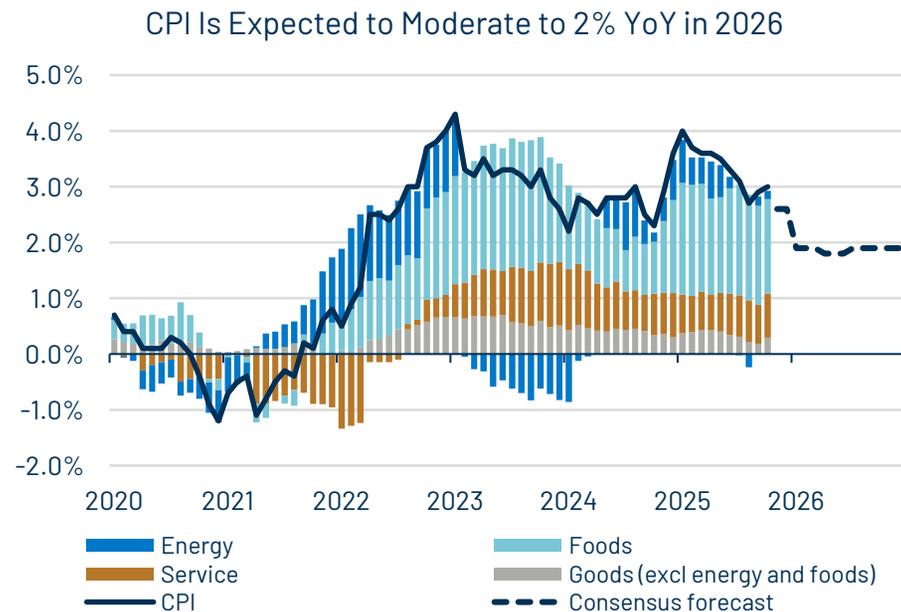
The gradual pace of BoJ policy rate hikes expected to continue

Above trend growth in 2026

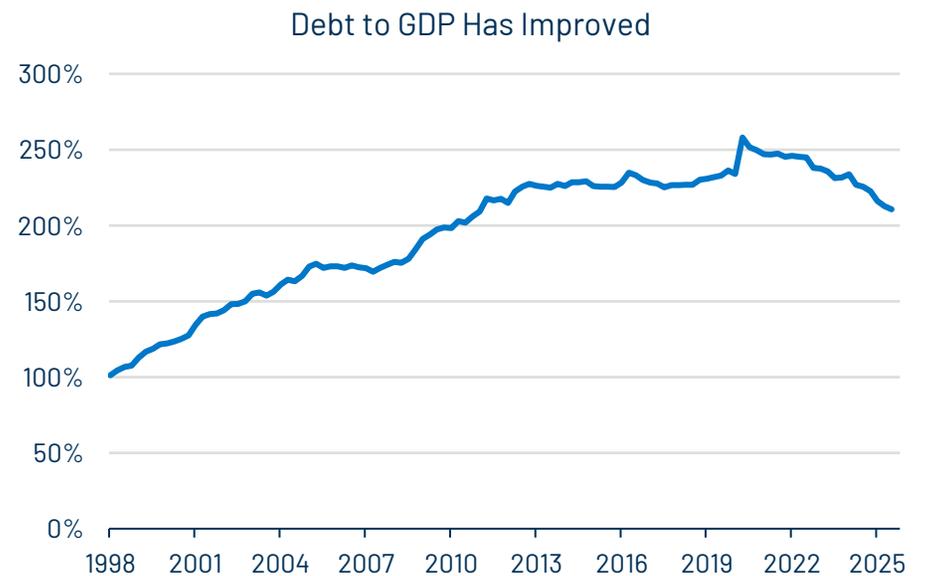
CPI inflation to moderate to around 2% YoY due to base effects (especially food prices)

Extreme expansionary fiscal policies likely to be avoided. In contrast to the concerns on expansionary fiscal policy, the government debt to nominal GDP ratio has improved primarily due to increases in nominal GDP

The JGB market is expected to stabilize with the lower volatility and less upward pressure on yields

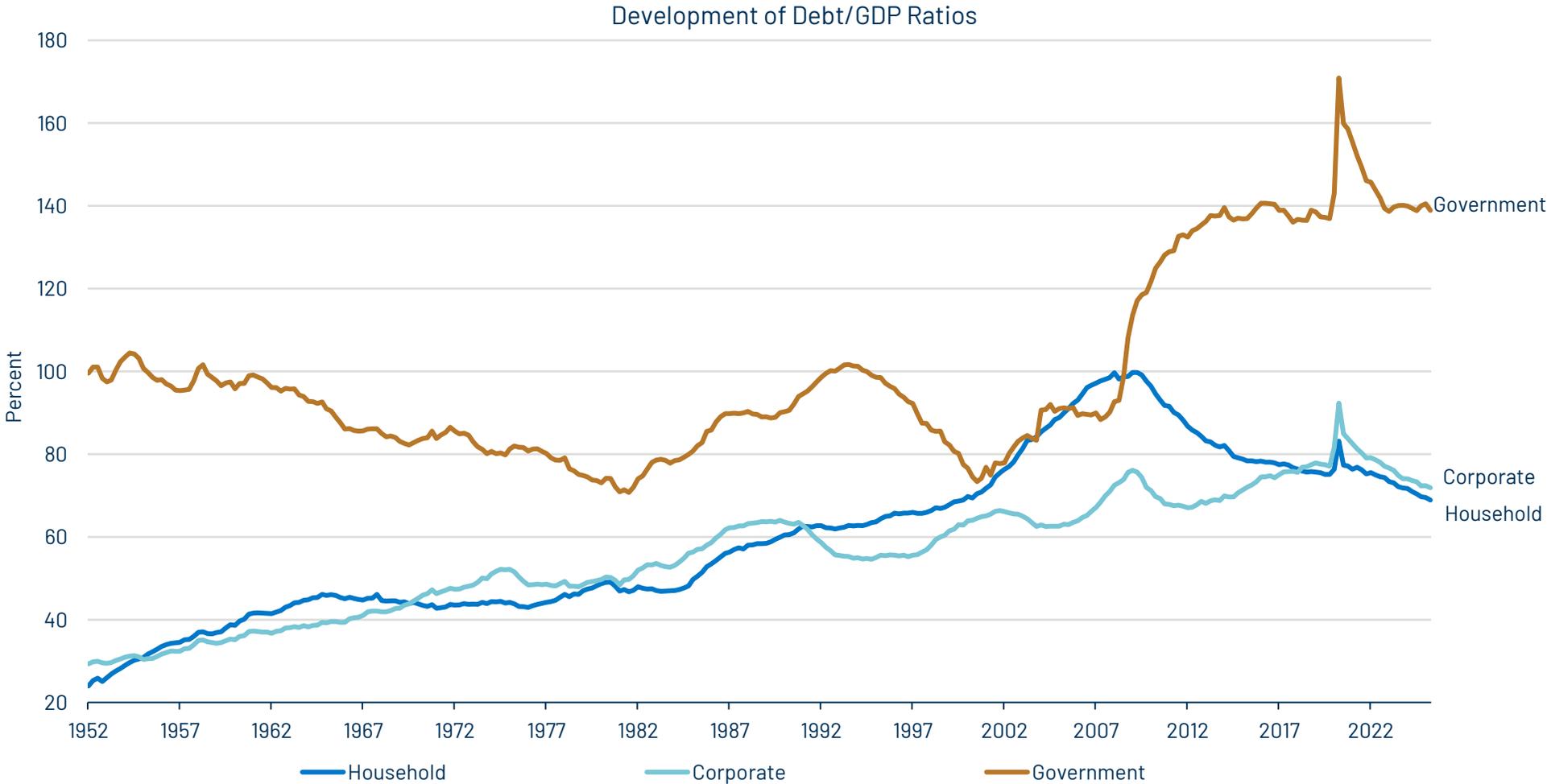


Source: Cabinet office, Bloomberg. As of October 2025



Source: BoJ's flow of funds, Bloomberg. As of 30 Sep 25

Government vs. Household and Corporate Debt

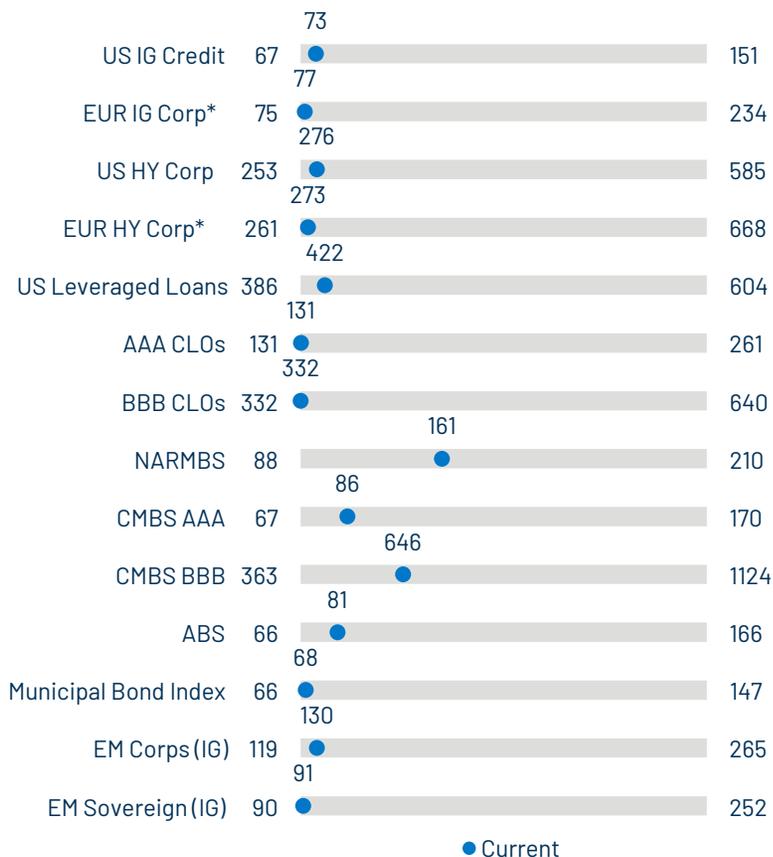


Source: Federal Reserve, Macrobond. As of 31 Mar 25
 Households represented by Households & Nonprofit Organizations, Corporate represented by Nonfinancial Business, Government includes Federal, State, and Local government debt

Concerns on Valuations, Not on Fundamentals

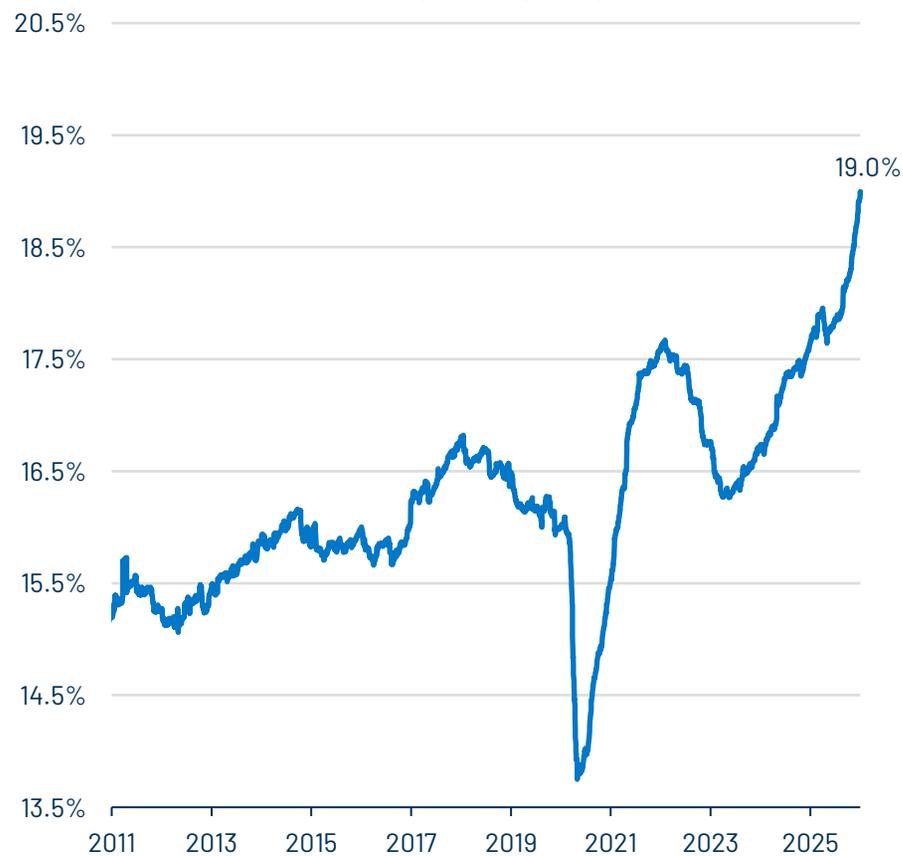
Risk markets have been resilient despite US tariffs

Credit Spreads Are Close to Tights
OAS: 5-Year Range (High/Low/Current)



Source: Bloomberg, ICE BofA, J.P. Morgan. As of 12 Dec 25

Estimated Next 12-Month
S&P 500 Operating Margin



Source: Strategas, Bloomberg. As of 31 Dec 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.

Corporate Bonds

Massive new issue IG supply expected in 2026

Tech/media Subsectors Drive Large Supply Growth to Fund AI Capex

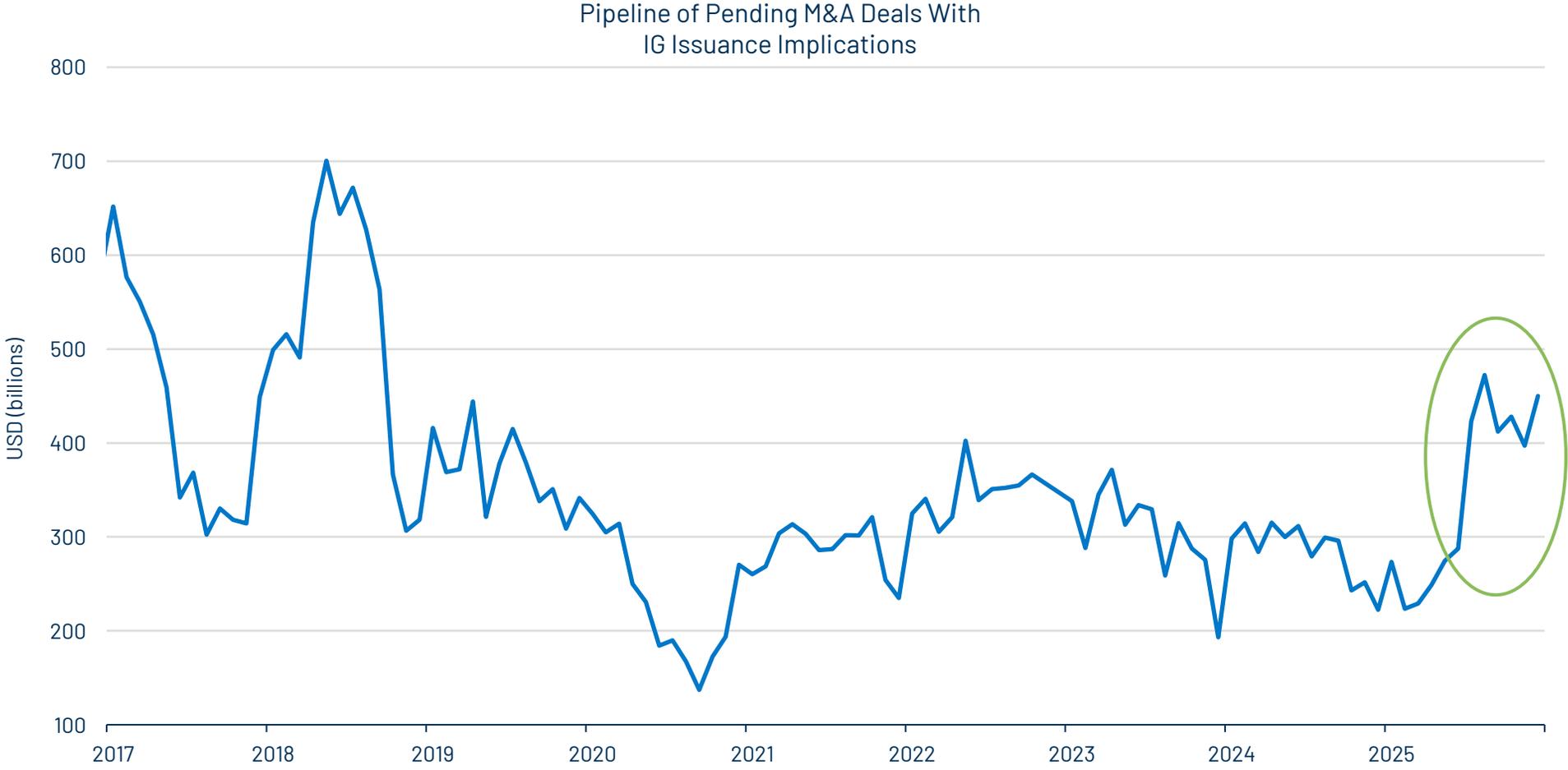


Tech/Media Issuance (%)	2023	2024	2025	2026F*
of Gross Supply	6%	8%	15%	19%
of Net Supply	4%	8%	24%	31%

Source: Dealogic and J.P. Morgan. As of 27 Nov 25
 *Average of J.P. Morgan and Morgan Stanley forecasts

M&A Activity Elevated Across Several IG Subsectors

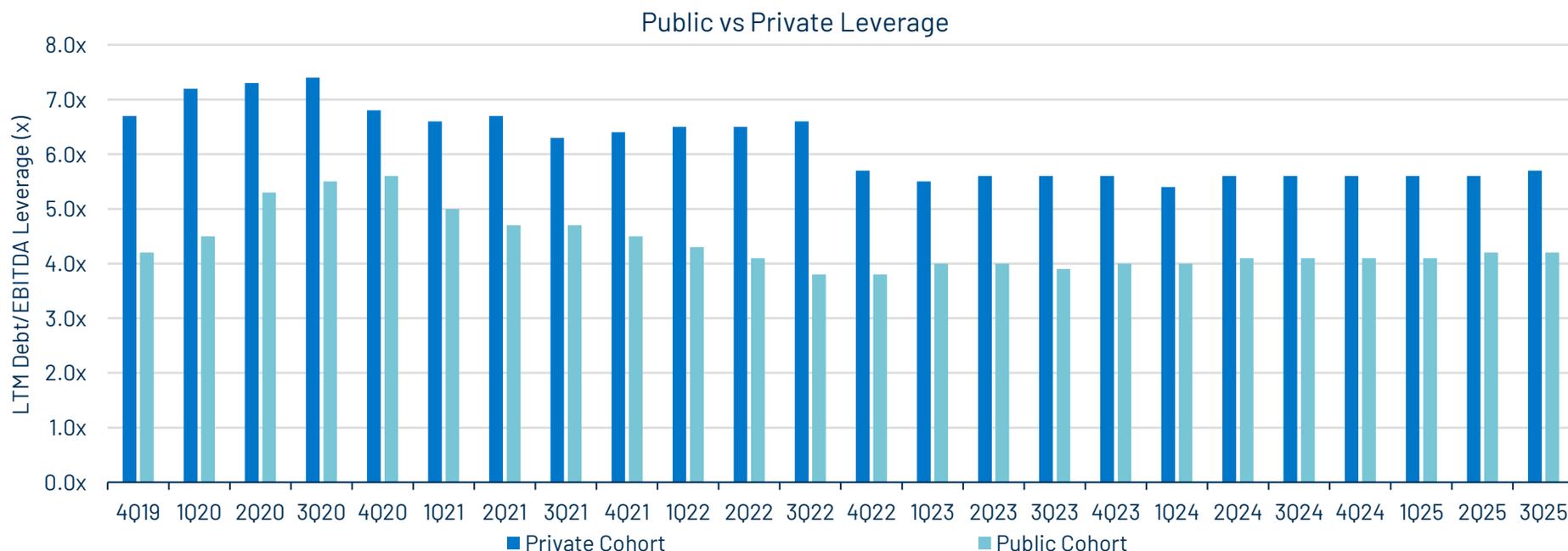
More cash (debt), more hostility, and higher breakup fees as M&A fervor surges



Source: BofA Merrill Lynch Global Research, Bloomberg. As of 08 Dec 25

High Yield

Leverage not concerning. Refinancing remains dominant theme



Source: J.P. Morgan, S&P Capital IQ, Bixby Research and Analytics. As of 30 Sep 25

By use of proceeds (as a percent of total volume)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD 2025
Acquisition finance/LBO	37.5%	15.5%	17.1%	21.5%	19.8%	8.5%	20.0%	28.4%	21.5%	12.9%	14.1%
General corporate	16.2%	22.0%	17.3%	14.6%	12.0%	24.7%	15.8%	21.9%	11.4%	7.0%	12.6%
Refinancing	43.4%	58.2%	63.3%	60.9%	67.5%	66.1%	60.2%	47.4%	66.2%	75.5%	69.9%
Dividend	1.3%	1.2%	1.7%	1.8%	0.7%	0.5%	2.2%	0.0%	0.9%	4.3%	2.4%

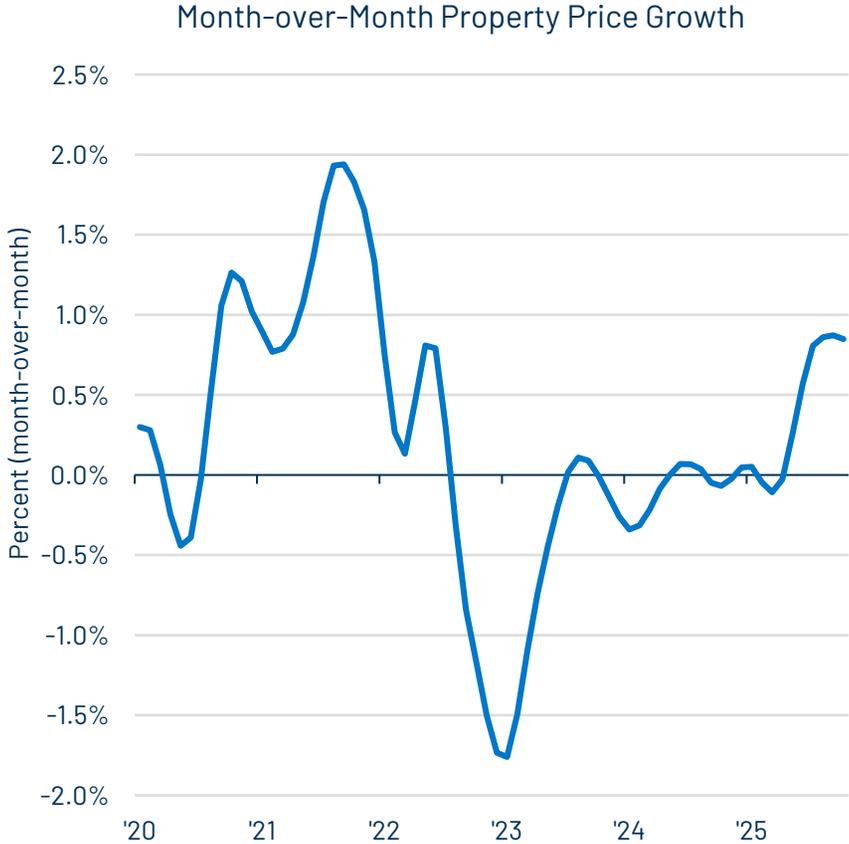
Source: J.P. Morgan, Moody's. As of 30 Nov 25

CMBS

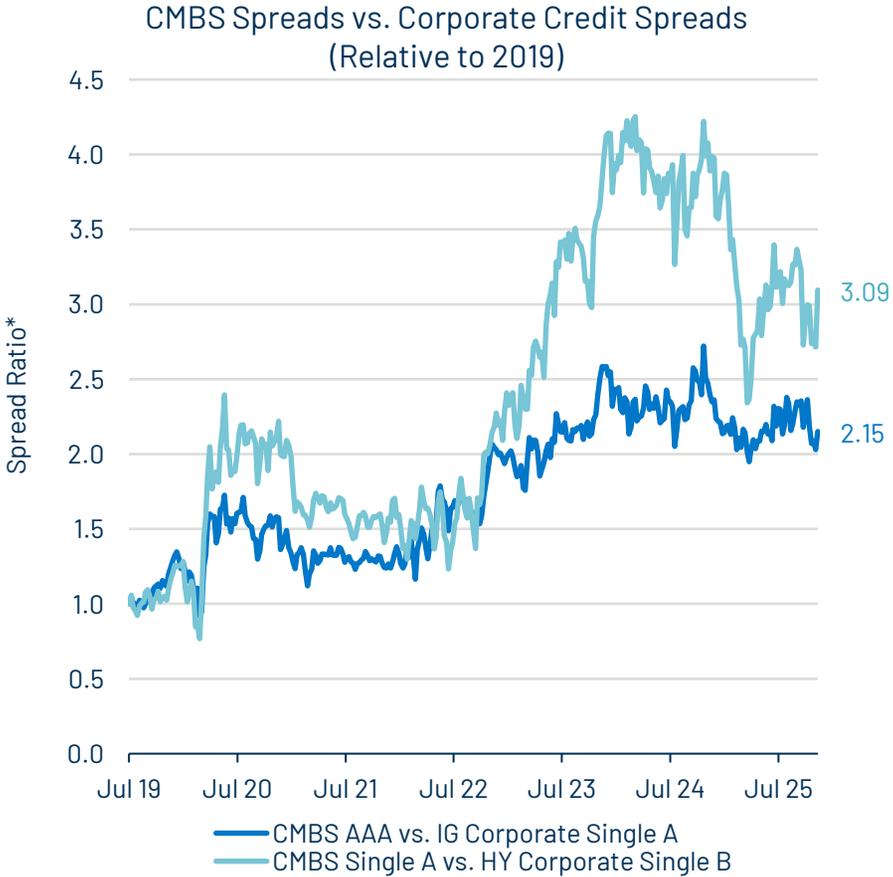
Attractively Priced

Commercial real estate property price growth is firmly positive & accelerating

CMBS spreads remain wide to historical credit relationships and offer compelling value



Source: MSCI Real Capital Analytics. As of 31 Oct 25

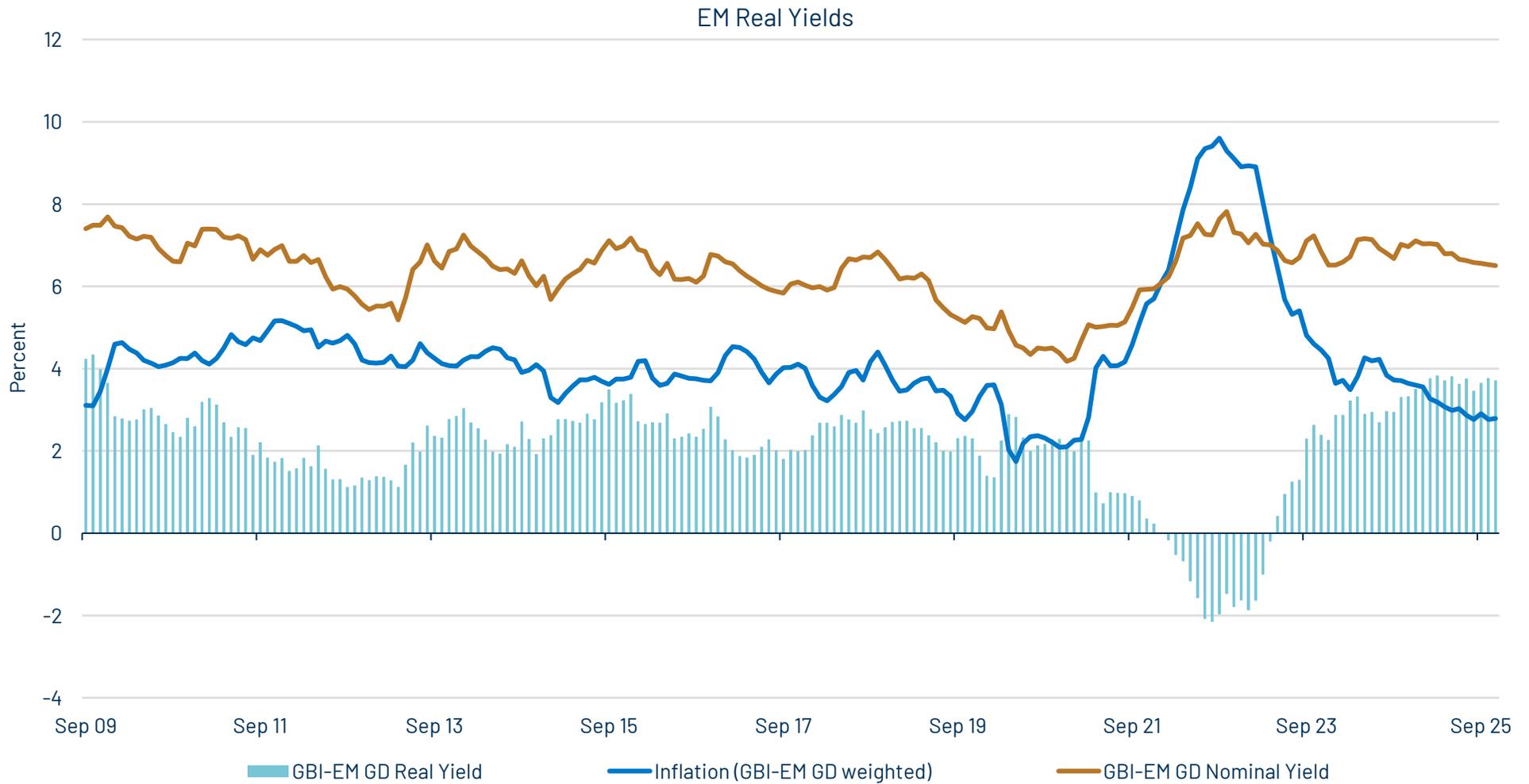


Source: Bloomberg, J.P. Morgan, Western Asset. As of 28 Nov 25

*Ratio of CMBS Spread / Corporate Credit Spread, Normalized to 19 Jul 19

Emerging Markets

Policy easing to continue. Real yields remain high



Source: Macrobond. As of 30 Nov 25

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

Key Takeaways

Global Macro

- Growth improvement
- Global inflation has moderated
- US inflation to continue trending lower
- Central bank easing cycle near end
- Fiscal sustainability concerns remain

Fixed Income Implications

- Front end yields mildly lower
- Yield curves generally steeper
- Pockets of opportunities in developed and emerging market rates
- Spread sector fundamentals remain healthy
- Valuations trading tight versus historical averages
- Income advantages in select corporate bonds
- New issue opportunities to add high-quality credit
- CMBS and CLO tranches offer relative value

Questions & Answers





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