FRANKLIN TEMPLETON

WESTERN ASSET by Franklin Templeton

2Q26 Market Outlook

March 26, 2026

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Global Macro Outlook

Growth

- Energy supply shocks to weigh on near-term global growth
- Financial conditions have tightened but fiscal stimulus to come
- U.S. growth will be supported by tax cuts, investment incentives, and resilient consumer spending

Inflation

- Tariff impacts are fading
- Higher energy prices will delay further progress toward central bank targets
- Longer-term inflation expectations remain well anchored

Labor Markets

- Low hire/low fire dynamic persists
- Incomes continue to support growth
- AI impact to employment remains unclear

Monetary Policy

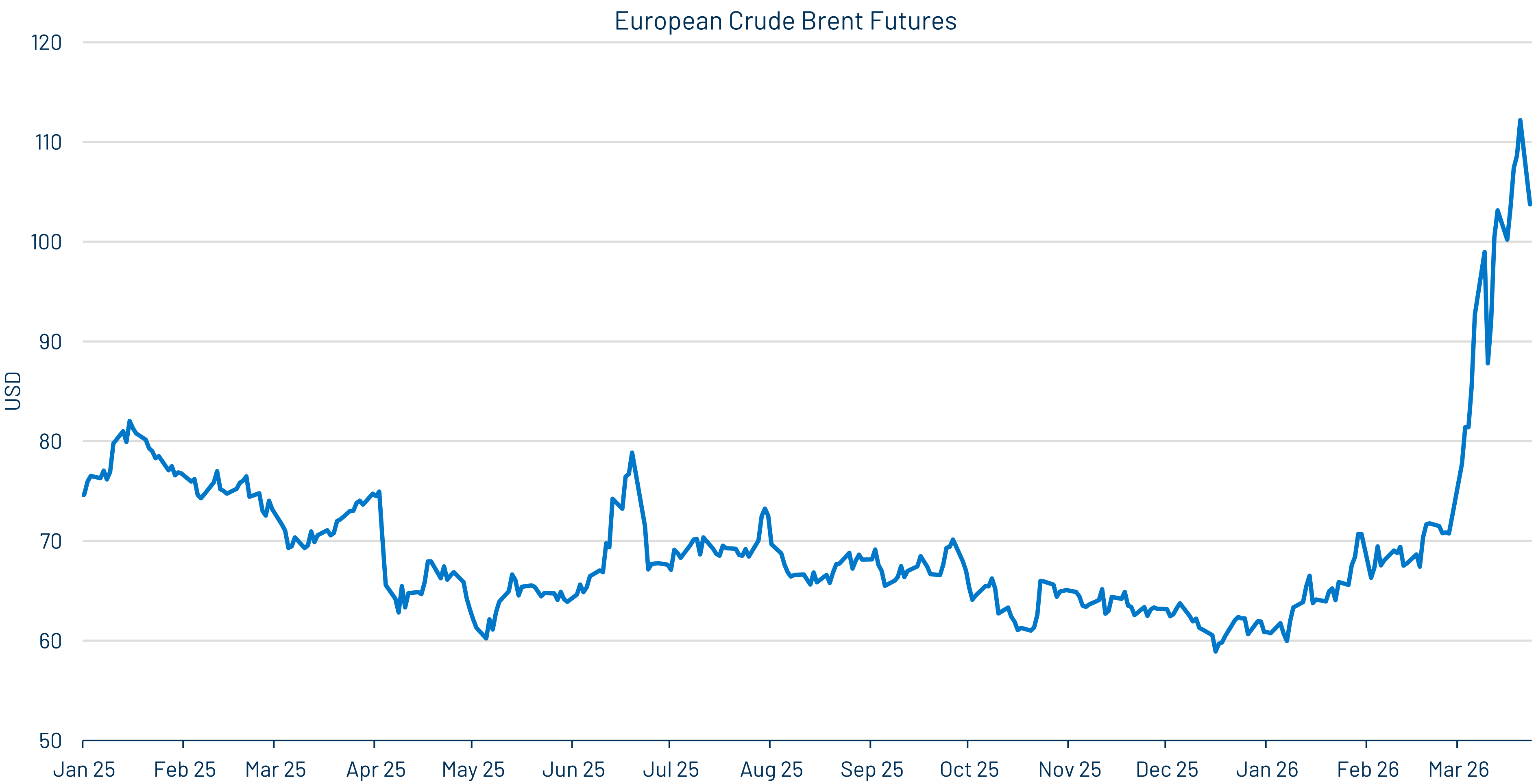
- Major central banks lean hawkishly in response to geopolitical risks
- We still believe the Fed's next move is a cut, though timing is increasingly uncertain

Geopolitics

- Economic and political incentives point to near-term de-escalation
- A protracted conflict risks stagflation

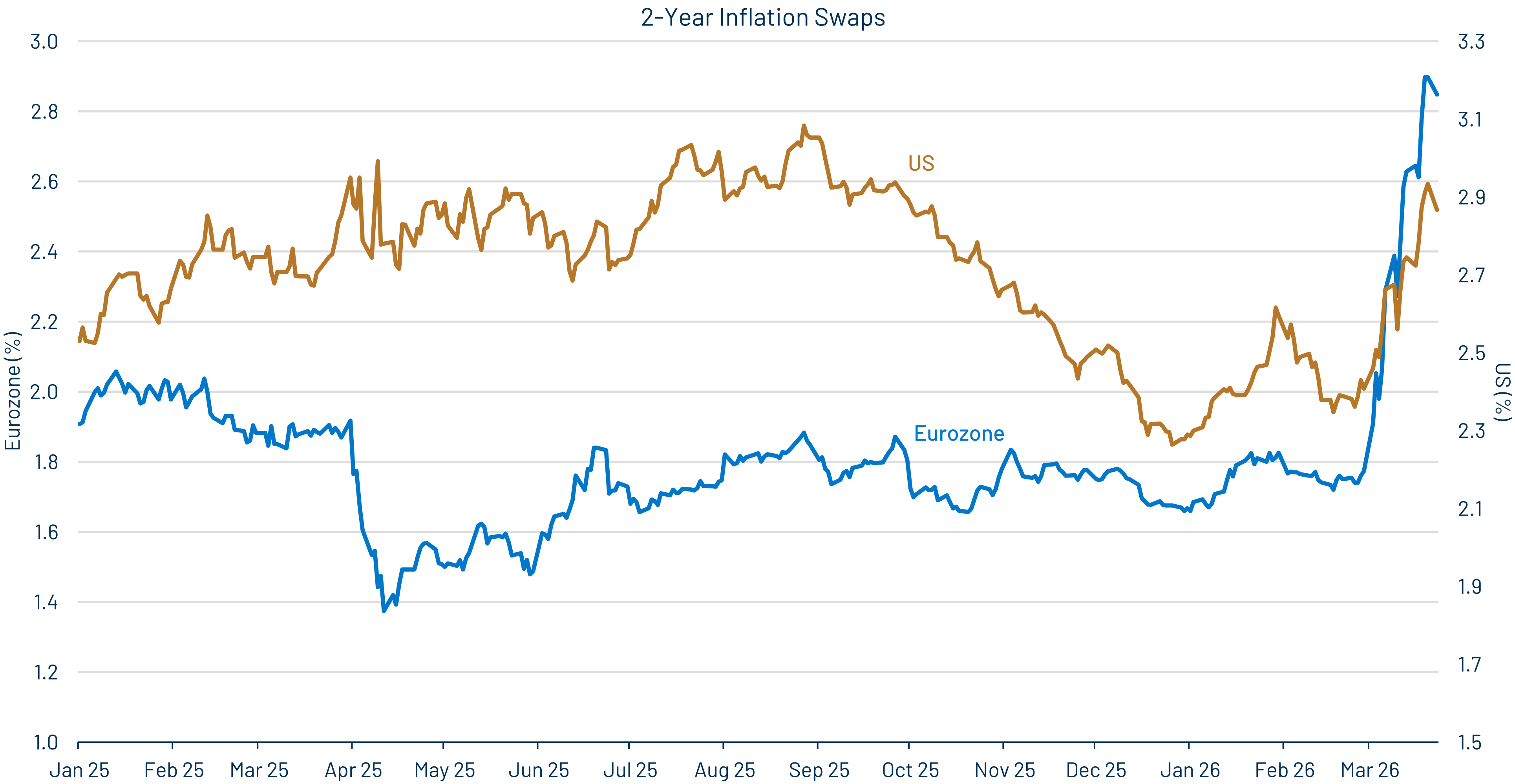
As of 26 Mar 26. The above reflects current opinions of Western Asset, which are subject to change with market conditions.

Energy Prices Spike Higher



Source: Bloomberg. As of 23 Mar 26

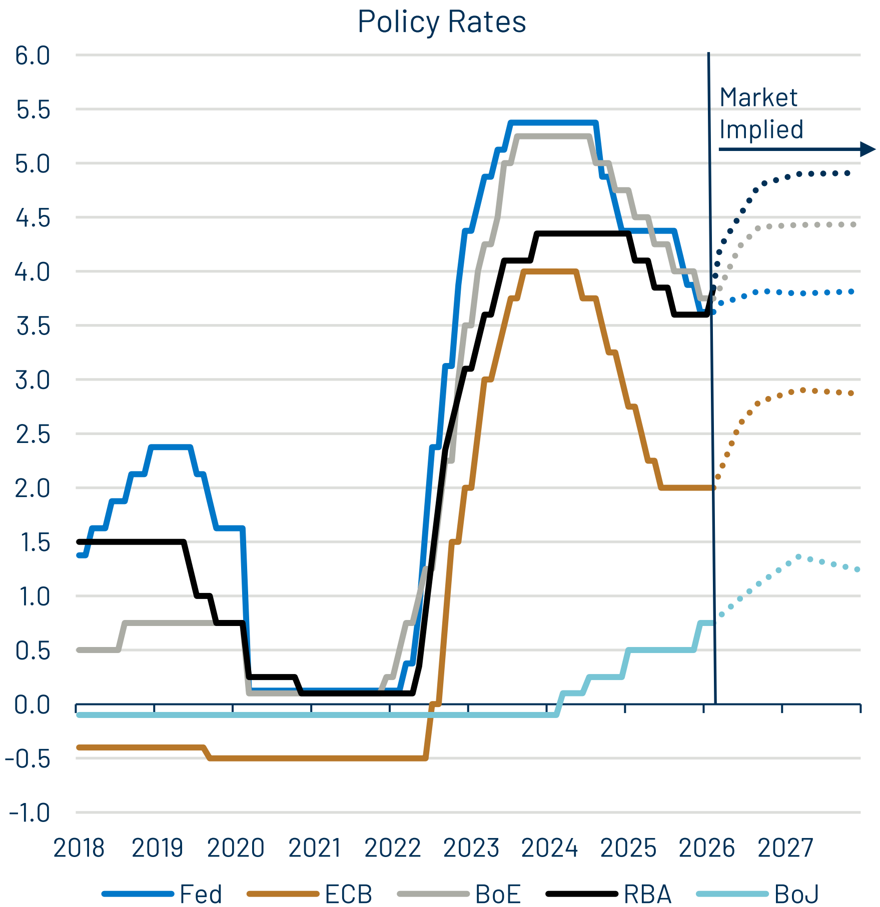
Inflation Fears Rise



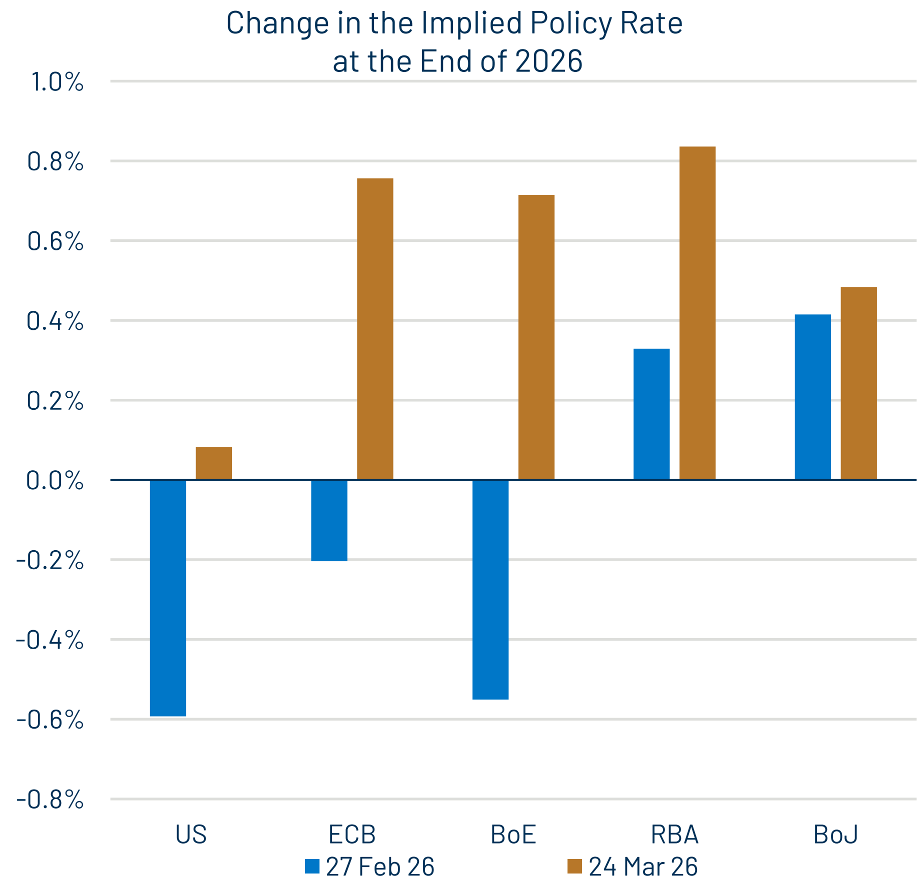
Source: Bloomberg. As of 23 Mar 26

Policy Rates

Expectations Shift Higher



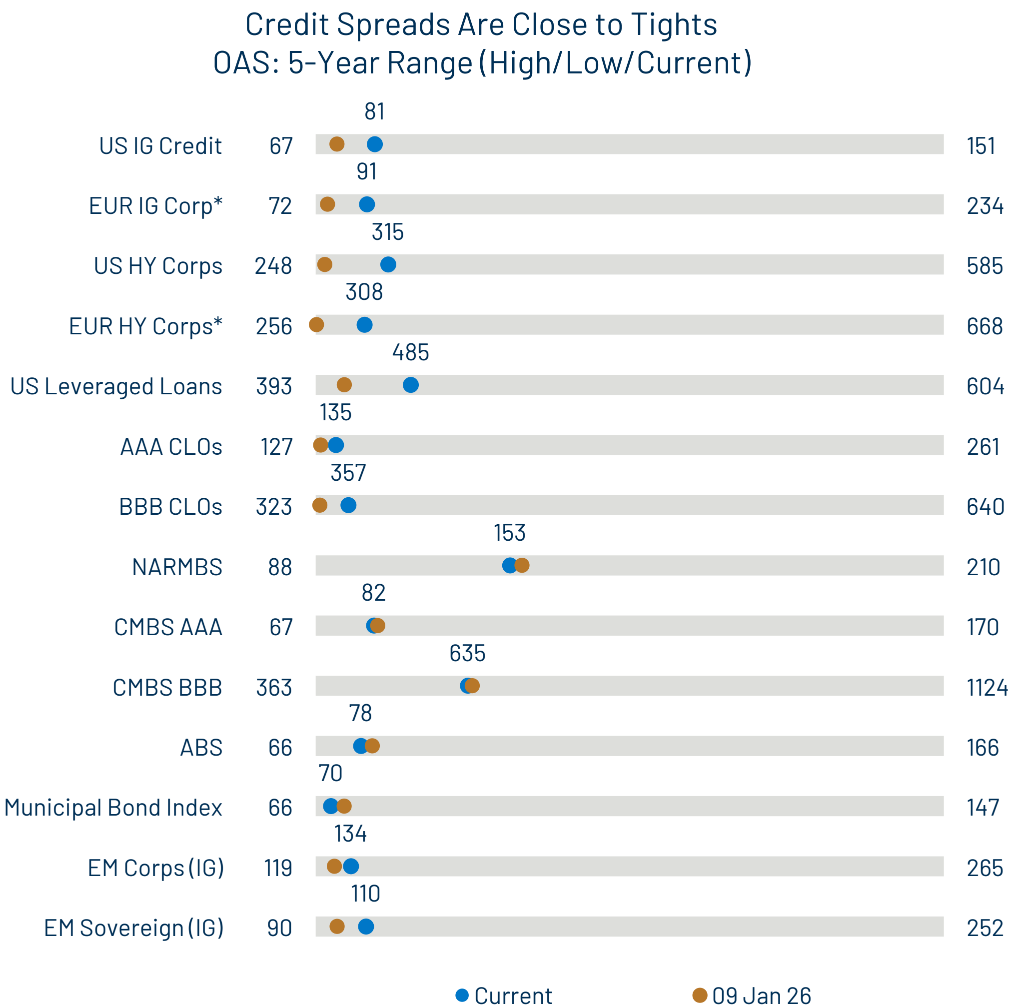
Source: Bloomberg. As of 24 Mar 26



Source: Bloomberg, Western Asset. As of 24 Mar 26
Note: All changes are relative to policy rates in effect as of 2/27/26

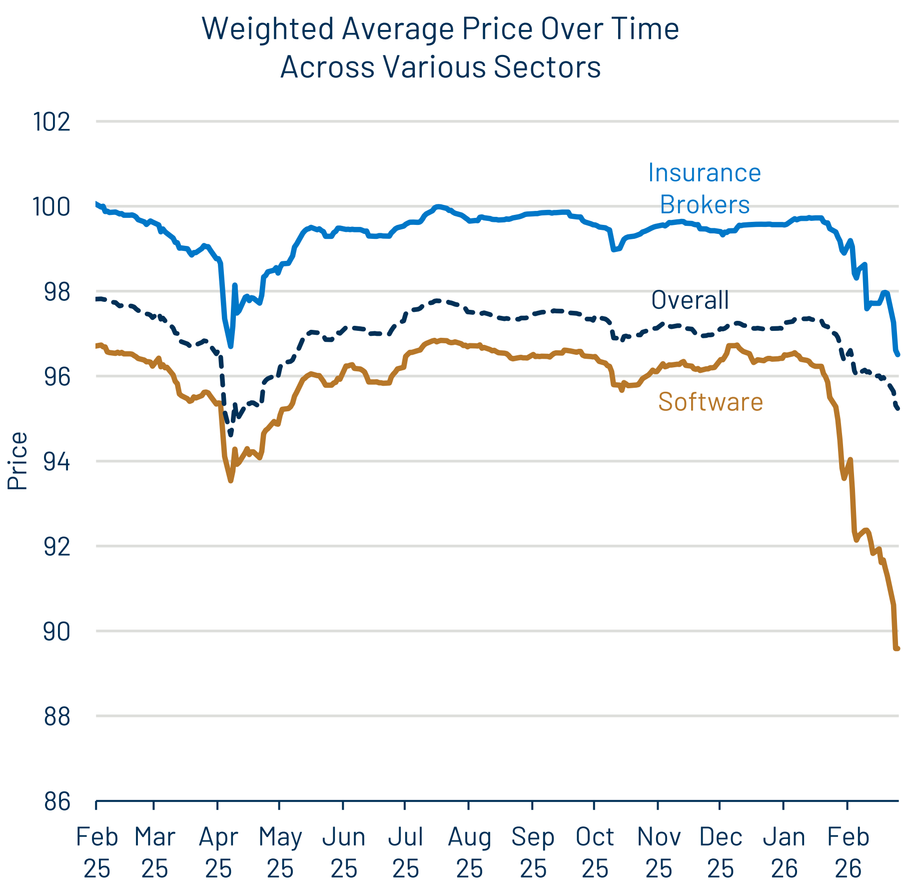
Spread Sector Valuations

Credit markets have remained resilient

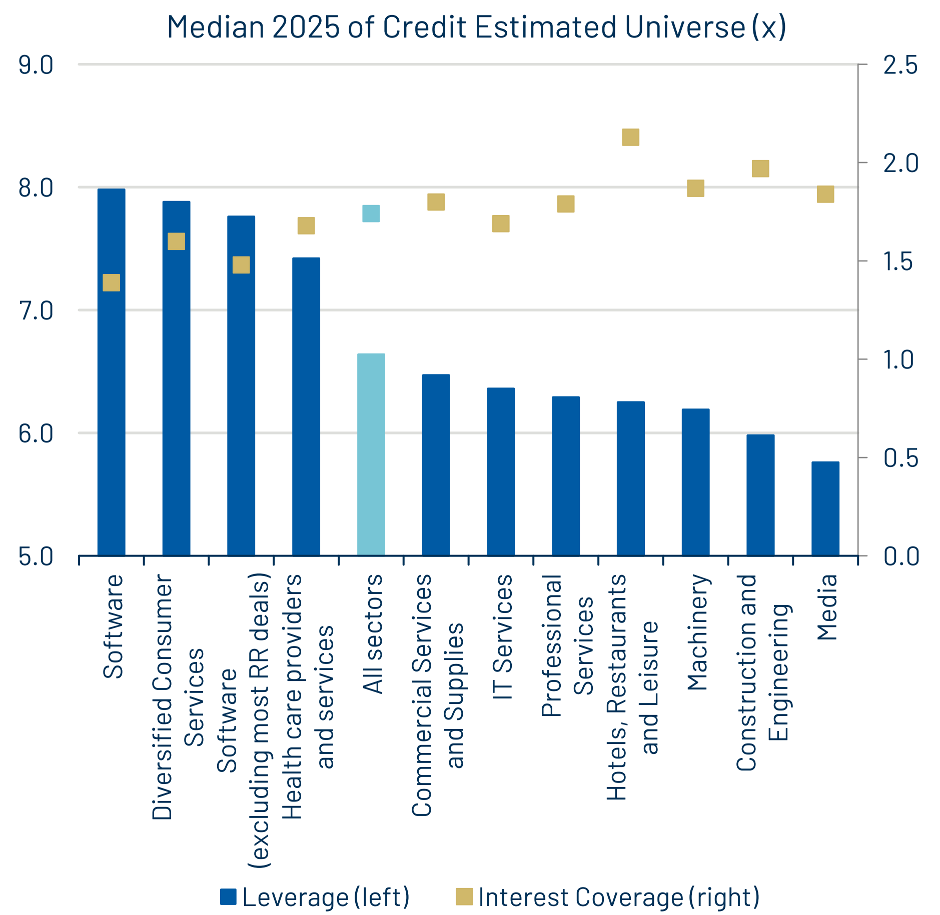


Source: Bloomberg, ICE BofA, J.P. Morgan. AS of 20 Mar 26
Yield-to-Worst (YTW) is the lesser of yield-to-maturity or yield-to-call across all known call dates.
*YTW for Euro IG & HY Indices include FX hedge adjustment.

Software ... A Sector in Focus

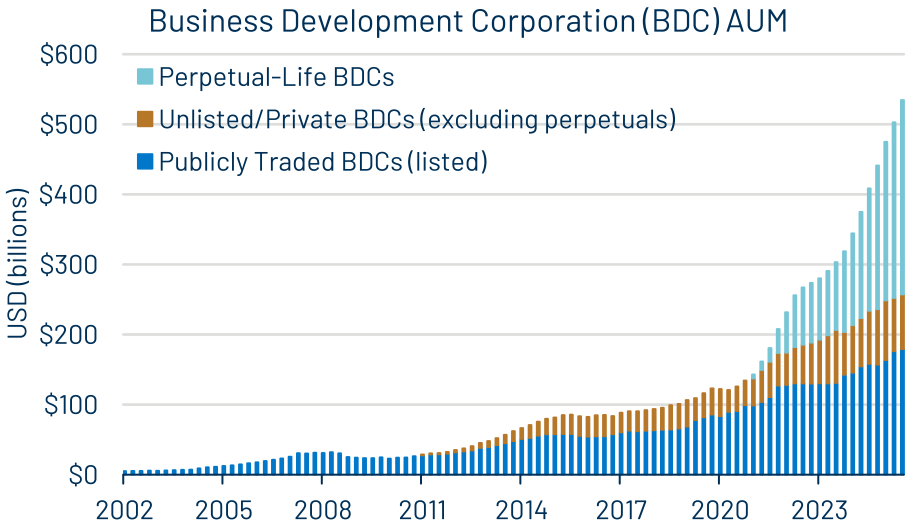


Source: BofA Global Research, Intex, Bloomberg. As of 06 Mar 26

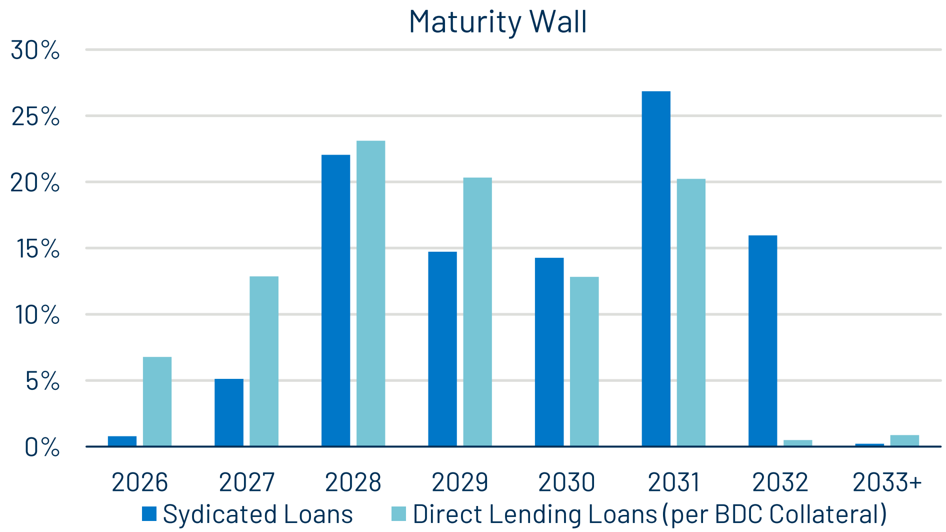


Source: S&P. MorganStanley Research

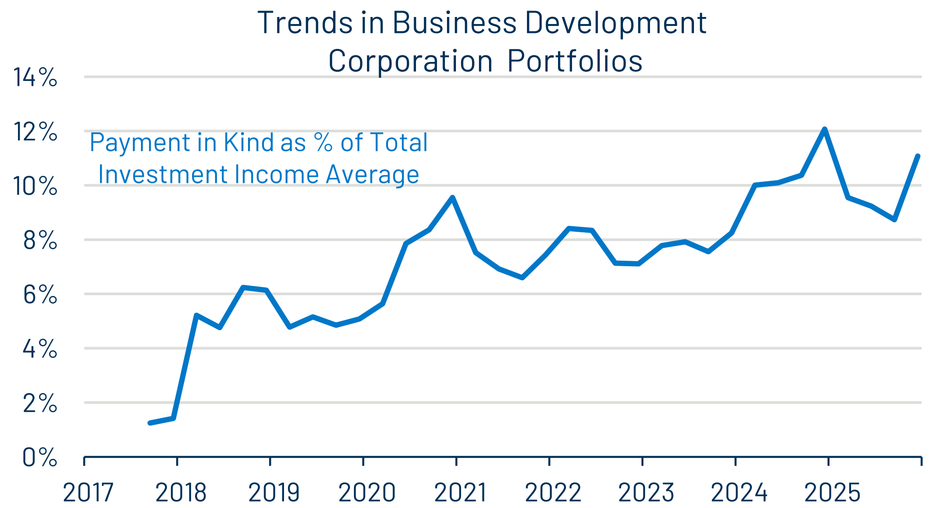
Business Development Corporations … A Glimpse into Private Credit



Source: BDC Collateral, Morgan Stanley Research. As of 30 Sep 25

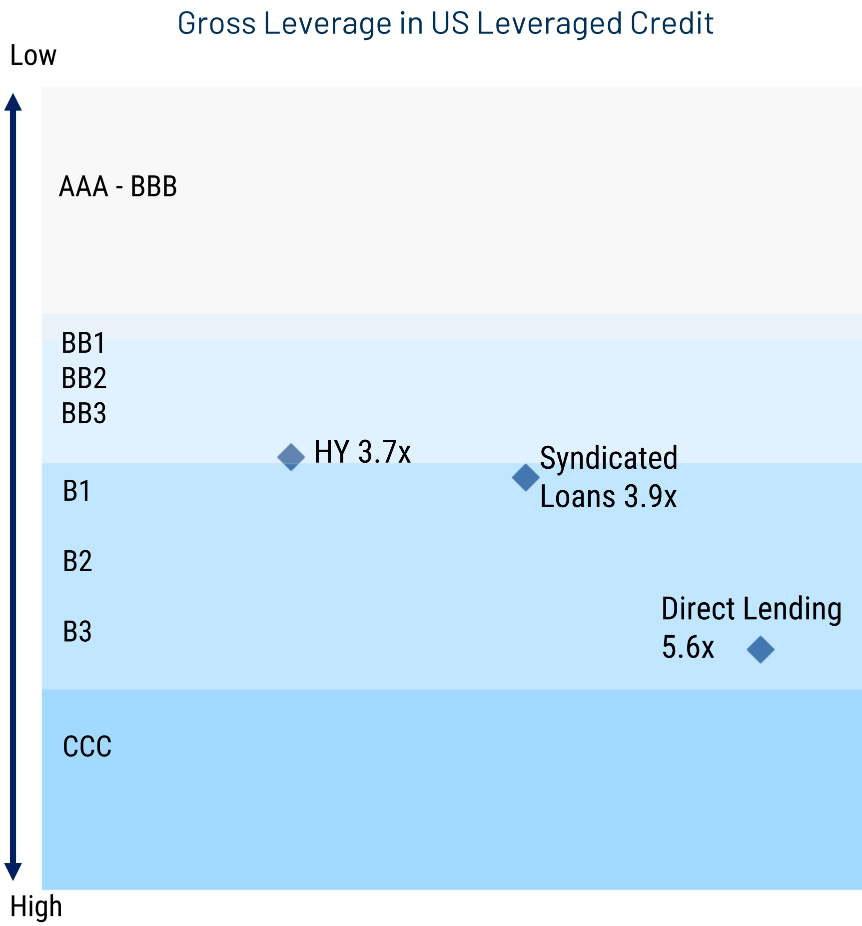


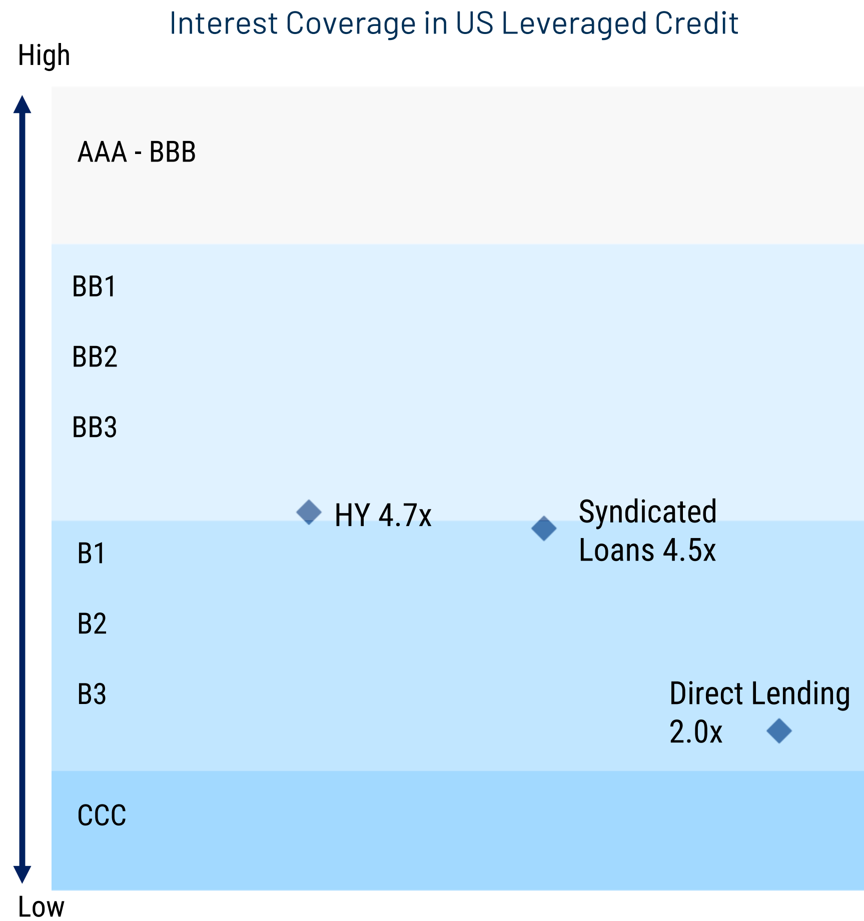
Source: BDC Collateral, PitchBook | LCD, Morgan Stanley Research. As of 30 Sep 25



Source: Western Asset Research

Comparing Credit Metrics



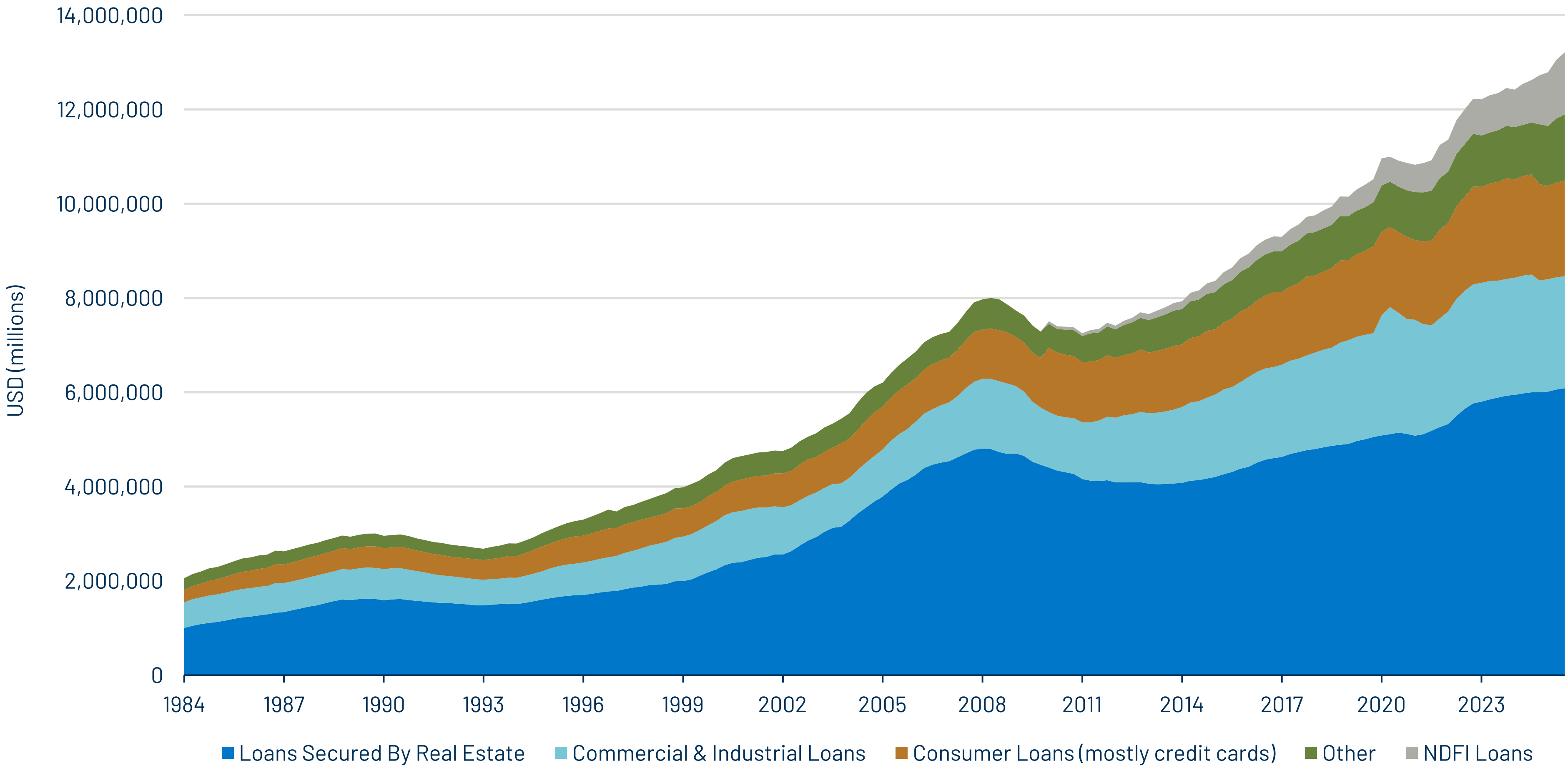


Source: Fitch, S&P, KBRA, Lincoln International VOG, Bloomberg, Factset, S&P Capital IQ, Morgan Stanley Research. As of 31 Dec 25

Non-Deposit Financial Institutions (NDFI)

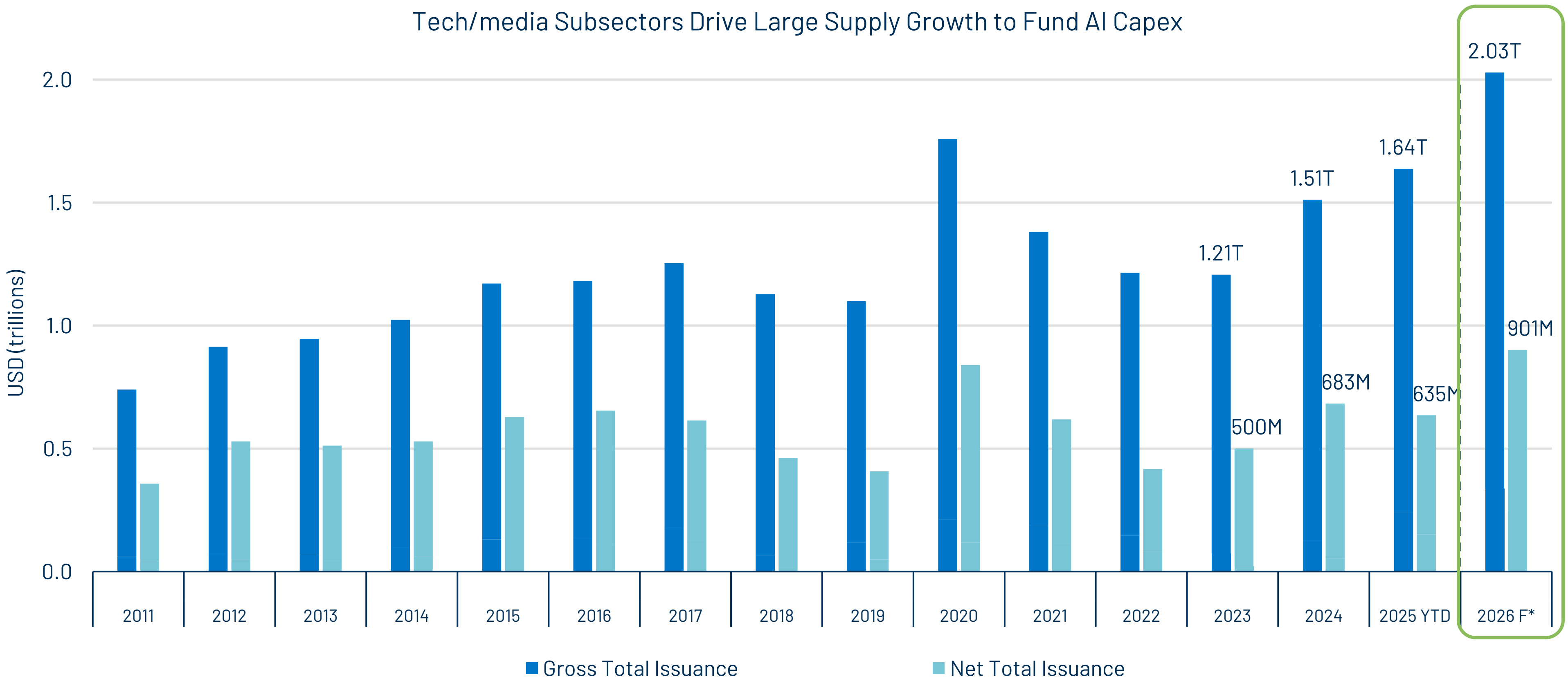
NDFI exposures still a relatively small part of banking system loan books

US Banking System Loan Book Composition



Source: FDIC. As of 30 Sep 25

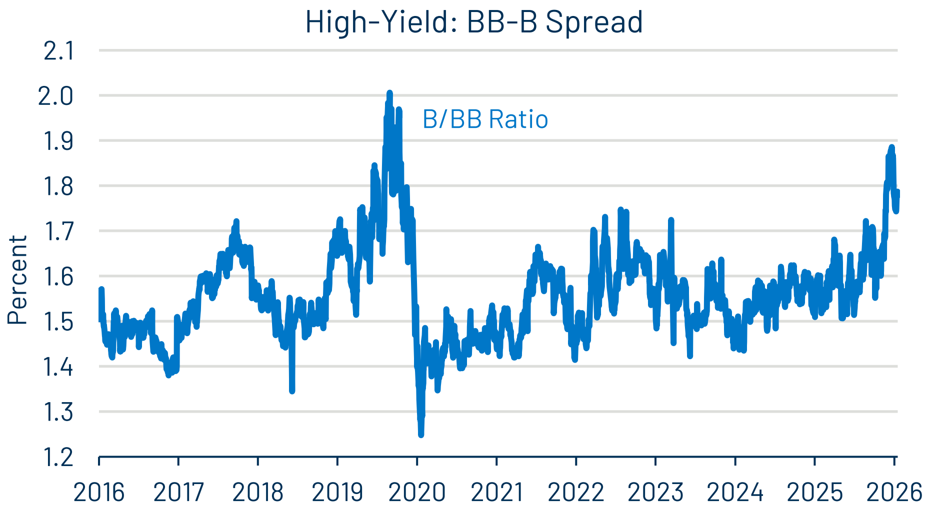
Massive New Issue IG Supply Expected in 2026



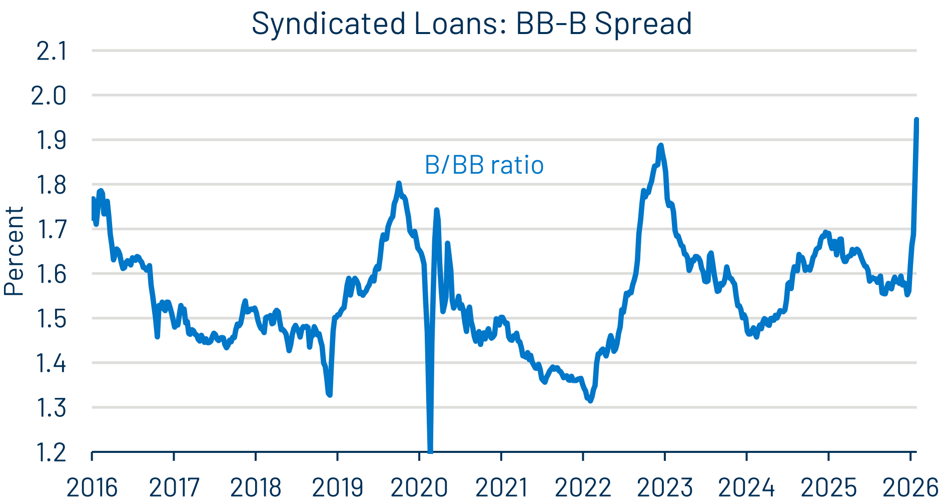
Tech/Media Issuance (%)	2023	2024	2025	2026F*
of Gross Supply	6%	8%	15%	19%
of Net Supply	4%	8%	24%	31%

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

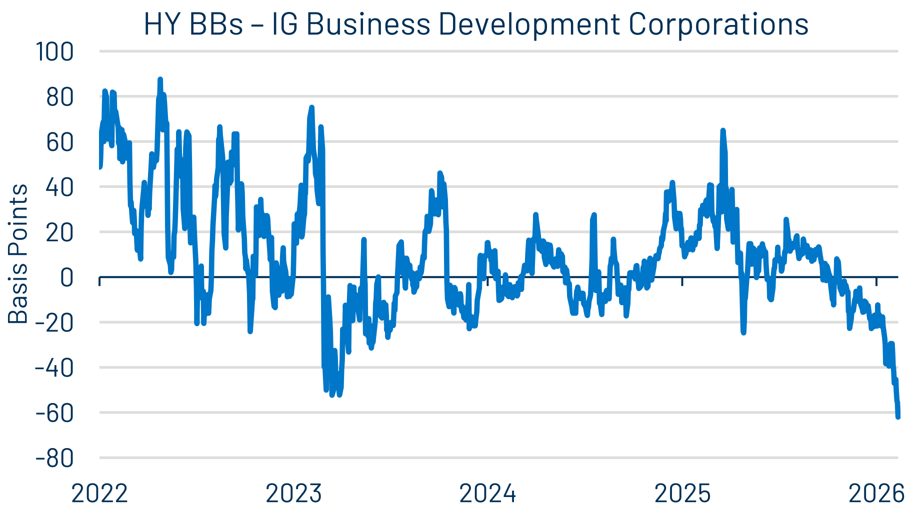
Relative Spread Movements in Credit



Source: Bloomberg. As of 24 Mar 26



Source: Bank of America. As of 27 Feb 26



Source: Bloomberg. As of 27 Feb 26

Key Takeaways

Global Macro

- Energy supply shocks to weigh on near-term global growth
- Inflation progress delayed by higher energy prices
- Longer-term inflation expectations remain well anchored
- Central bank rate expectations have shifted higher
- Path to Middle East de-escalation remains uncertain

Fixed Income Implications

- Market rate hike expectations may be overdone
- We believe the Fed's next move is still a cut
- Select developed and emerging market yields offer value
- Spread sector fundamentals remain healthy, recent widening has been contained
- New issue opportunities to add high-quality credit, as well as take select secondary opportunities
- CMBS and CLO tranches offer relative value

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Questions & Answers

Western Asset

by Franklin Templeton

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