

Global Fixed Income Team

Outlook & Strategy

We enter 2026 with a broadly neutral view of global duration, a cautious view of global corporate spreads, and a bearish view of the US dollar.

Market Recap & Outlook

Loomis Global Fixed Income is entering 2026 with a broadly neutral view of global duration, a cautious view of global corporate spreads, and a bearish view of the US dollar. Our spread and duration positioning reflect our “more of the same” expectations for growth and inflation, while the USD seems vulnerable on several fronts.

US GDP likely grew about 2.3% in 2025 and we expect similar growth in 2026. AI-driven capital spending and healthy corporate profits are the key positives, plus a bit of push from tax cuts which will add stimulus in the spring. Against this, payroll employment has slowed, falling from 1.2% year-over-year (YoY) in late 2024 to 0.6% in late 2025. Average hourly earnings have also slowed, from about 4.0% YoY to 3.5% over the same period. Over the year to November, the unemployment rate edged up from 4.2% to 4.6%. Capex strength and employment listlessness are expected to continue as reported by J.P. Morgan Global Research 2026 market outlook.

Core Consumer Price Index (CPI) dropped sharply to 2.6% YoY from 3.0% in the November release, reinforcing market hopes of another two cuts in the Federal Reserve (Fed) policy rate in 2026. We are less sure and note that the Fed dot consensus looks for only one cut, which would be in line with Taylor Rules and the expected 2.5% core inflation rate expected by the Bank. This would leave policy rates at 3.5%, in line with an estimated neutral real interest rate of 1.0% above a 2.5% core inflation trend. Such an outcome would be consistent with ten-year Treasury yields above 4.0%, i.e., a sideways and range-bound market.



DAVID ROLLEY, CFA
 Portfolio Manager

We have added duration in Japan at the long end, where 30-year yields are about 3.5%. We agree with markets that policy rates will be hiked again in 2026, but the curve seems too steep, and only momentum and buyer caution are responsible for the long end continuing to sell off. At some unpredictable point we expect local investors to significantly invest in Japanese Government Bonds.

Duration also is expected to keep working in several emerging market (EM) local markets, where we see stable inflation and the highest real yields in the world. Elections may drive market volatility in Brazil and Colombia this year and may present new buying opportunities, in our view.

Credit spreads are tight, but corporate fundamentals look strong and are buoyed by growing profits. The chief risk would seem to be an equity setback, for which investors are not positioned.

Our Strategy

So far, so consensus. Our US dollar pessimism may be our most arguable/interesting position currently. We note that the US current account deficit is running at 4% of GDP, the Federal deficit is 5%, and the unemployment rate is increasing. Twin deficits and a weakening labor market are a USD bearish cocktail. Also, everybody owns US tech stocks already, and these may be fully valued. Our mantra has been that US tech equity is overvalued, over-owned, and under-hedged.

Then there are the tail risks. Not Venezuela, but Greenland. Talk of taking a territory from a NATO ally is not expected to persuade European reserve managers to increase their USD allocations. Finally, we note that the White House wants a weaker dollar, they will appoint a dove as Fed chair, and even if rates are not cut much, they will talk them down all year. Greater non-USD diversification seems warranted, in our view.

Important Disclosure

Key Risks:

Credit Risk, Issuer Risk, Interest Rate Risk, Liquidity Risk, Non-US Securities Risk, Currency Risk, Derivatives Risk, Leverage Risk, Counterparty Risk, Prepayment Risk and Extension Risk. Investing involves risk including possible loss of principal.

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Market conditions are extremely fluid and change frequently.

Diversification does not ensure a profit or guarantee against a loss.

Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return.

Past market experience is no guarantee of future results.

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About the Team

Our strength is rooted in decades of honing our research and investment processes to consistently navigate ever-changing global markets.

1986

Global Bond Portfolio Established

90

Institutional Accounts & Commingled Vehicles

\$38.6

Team Assets Under Management*
(Billion USD)

As of 12/31/2025.

