

Global Bond Fixed Income Team

Team Views & Outlook



Credit

Global Corporates

Our Current View: We remain cautious on credit given tight valuations as highlighted by our risk premium models. Fundamentals are favorable on balance, with tech spending driving growth in the US. Earnings in Europe are improving as well. Technical remains solid but lower yields could become a headwind.

Our Anticipated Strategy: We remain overweight credit, and increased credit exposure over the year, yet credit beta remains modest from a historical standpoint and the composition is conservative in nature. We are positioned for continuing late cycle dynamics yet maintain a very liquid portfolio to capitalize on volatility events.

We remain overweight banking, energy and technology and underweight more economically sensitive areas like autos, retailers and transportation.

High Yield

Our Current View: While forward-looking loss estimates are relatively subdued, our high yield allocation remains low given the limited risk premium available and relative value versus investment grade.

The value proposition for high yield improved somewhat early in the year but quickly evaporated and high yield risk premia remain well below historic average overall and for this stage of the credit cycle.

Our Anticipated Strategy: We established positions in select BB names early in Q2 2025 at wider spreads and continue to look for mispriced opportunities. Still, we remain low in HY corporates relative to history on tight valuations. Note, high yield exposure includes Brazil and South Africa local rates position (although we recently took profits on South Africa).

Securitized

Our Current View: A variety of factors are expected to continue driving increased rate volatility (including US fiscal dynamics, inflation and Federal Reserve path uncertainty) which is typically negative for MBS. In addition, uncertainties persist regarding regulatory changes under the Trump administration.

In ABS, select deals have exhibited strong deal structures and short, attractive, high quality carry. We've been particularly focused on Euro consumer backed ABS for carry opportunities in strong deal structures with high quality collateral.

Our Anticipated Strategy: Underweight agency MBS to free up capital for higher spread opportunities.

Overweight high carry securitized credit, mainly in short non-agency MBS, select aircraft ABS senior bonds, senior data center ABS and EUR consumer backed ABS.

Currency

US Dollar

Our Current View: The dollar faces numerous headwinds: twin deficits, more growth-supportive fiscal and monetary policies abroad, still expensive valuation, and fading U.S. exceptionalism. Although a resilient consumer and continued GDP growth, among other things, could act as a ballast.

Our Anticipated Strategy: Underweight USD, but far from our maximum

Developed

Our Current View: While an infrastructure and defense spending ramp up led by Germany may be slow to materialize as an economic boost, Western Europe's resilience in the face of a dent in the global trade environment is likely to be greater than what we would have assumed coming into 2025.

Hawkish Reserve Bank of Australia should provide support for the currency.

Japanese Yen (JPY) should benefit from more competitive rates globally and resilient safe-haven demand .

Our Anticipated Strategy: Overweight EUR, JPY, AUD, SEK

Emerging

Our Current View: Select emerging market currencies benefit from high carry, cheap valuations and fiscal improvement (Brazilian Real BRL).

There is scope for broad Asia FX strength amidst the weak USD outlook

Our Anticipated Strategy: Overweight BRL. Recently covered CNY underweight and are now neutral.

Yield Curves

Duration

Our Current View: Overall inflation remains above the central bank's 2% longer-run goal. Meanwhile domestic data continues to beat expectations. Hedged New Zealand (NZD) looks attractive, particularly after the Q4 2025 rate backup with still mixed economic data. While fiscal uncertainty in Japan remains, we believe much is already priced in the market and the yield curve remains steep.

Our Anticipated Strategy: Neutral US duration. We expect to be nimble regarding US duration and look to range trade on sizeable rate moves. Modest long JPY and NZD duration.

Local EM Markets

Our Current View: We believe select local EM markets are currently attractive where proactive central bank tightening has resulted in high (ex-ante) real yields and where exports assist with fiscal and trade balances.

Our Anticipated Strategy: Overweight Brazil duration. Ready for buying opportunities elsewhere amid political vol (or otherwise)

Key Risks

Our Current View: We believe unexpected distortions from uncertainty and trade policy could see a rising number of stressed corporations raise risk of a broader credit cycle downturn. Pullback in tech equities could have negative knock-on effect to the broader economy, in our view. **Geopolitics:** any change (ceasefire or escalation) in the Ukraine, Middle east, or we believe other conflicts will have market implications.

Our Anticipated Strategy: As valuations adjust, we will look for opportunities to add risk in interest rates, currency and credit.

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.

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.

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

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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.

Commodity, interest and derivative trading involves substantial risk of loss. Markets 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 performance is no guarantee of future results

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 12/30/2025.

