

Global Fixed Income Team

Outlook & Strategy

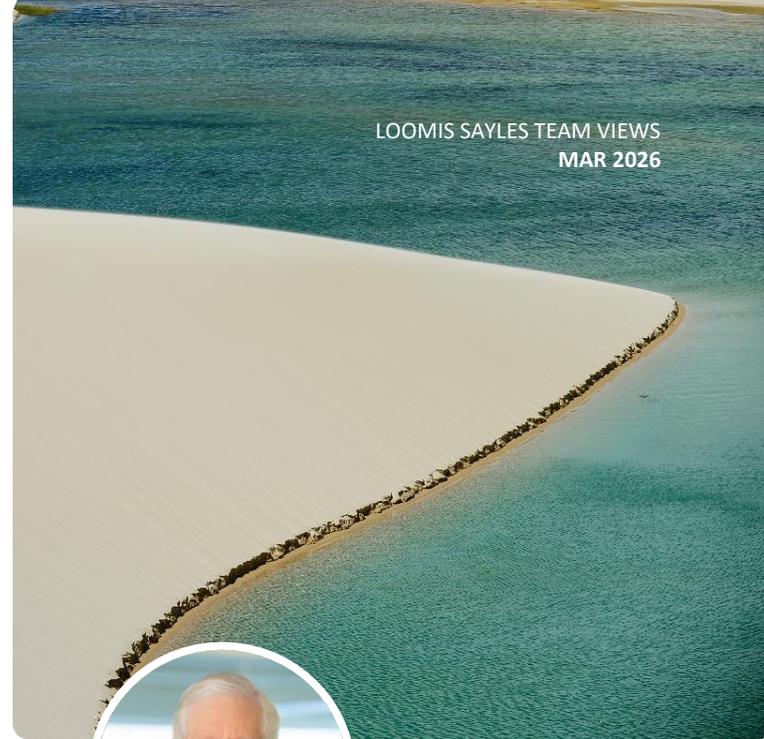
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Market Recap & Outlook

This US administration has decisively broken with past American grand strategy. Instead of being a preserver of the global political and economic order, i.e., absorbing volatility in response to shocks, it has often sought to change things, and has been a generator of volatility (tariffs, Greenland, etc.). Starting a Mideast war with Iran certainly qualifies as a volatility event. Warfare is unpredictable, and the war one starts may not be the war one gets or wants.

Risk markets seem to have ended last week by repricing the expected duration of the conflict, and the length of the effective closure of the Strait of Hormuz. Oil prices are up and may easily go higher and stay up for a while, in our view. In such a world the terms of trade become a dominant factor for economies, and oil importers endure financial strain. The largest importers of Mideast crude include China, India, South Korea and Japan. China is perhaps best prepared for the circumstances, having stockpiled massive crude inventory, and it has its Russian connection. Other nations will suffer more, in our view.

We had previously been inclined to underweight the US dollar, mindful of the massive US equity overweights in international investor portfolios, the unpredictability of profit realizations in a fast-changing AI landscape, and a broad preference by the US administration for lower interest rates and a weaker currency. This “sell or hedge America” theme should be suspended for as long as the Straits of Hormuz are closed to oil and gas exports.



DAVID ROLLEY, CFA
Portfolio Manager

What is an inconvenience for the oil-surplus US economy is a serious terms of trade blow for Europe, Japan, South Korea, and other net oil importers. A long conflict with the Brent crude oil above \$100 per barrel, we believe, is a recession risk for these countries and regions.

Our Strategy

We would look to hedge our currency exposure and wait for market stress to drive wider credit spreads. This is a potential buying opportunity for a factor that has been arguably overvalued for some time, in our view.

We believe wider spreads may yet emerge in the US as well. The labor market has remained stagnant. There continues to be a stream of negative stories in private credit, mostly involving new gates on fund withdrawals. There is a theory that pain will be confined to the private credit markets, but some spillover into public credit markets cannot be ruled out, in our view. The counter-argument is that domestic economic pain may act as a policy veto, and American strikes against Iran could be suspended at any time. But the counter-counter-argument is that this is a joint US-Israeli action, and the Israeli objective is regime change, which may take a long time, and may not be possible without a ground military campaign. The fog of war clouds asset allocation for now.

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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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.