

Global Credit

Quarterly Review

- The portfolio underperformed its benchmark, the Bloomberg Global Aggregate Credit Index, during the quarter.
- Spread sector allocation detracted from relative performance as spreads widened during the quarter, given our credit beta overweight. Specifically, our overweight positioning to the banking and Real Estate Investment Trusts (REIT) sectors, along with an underweight to the local authorities sector detracted. On the other hand, underweights to the supranational and sovereign sectors, along with an overweight to the energy sector contributed to relative performance.
- Security specific selections were additive to performance as a result of select issuer decisions within the technology, banking and REITs sectors. Bond selections within the communications, supranational, and sovereign sectors detracted as issuers held in the portfolio lagged comparable bonds.
- While currency allocation and duration/yield curve positioning are not intended sources of alpha in Global Credit portfolios, they did contribute to performance during the quarter.

Outlook

- Risk-off events typically contribute to lower yields for high-grade global government bonds, but that wasn't the case in the first quarter due to concerns about higher inflation and potentially larger government deficits. Still, we believe US government debt burdens are large but manageable. Domestic fiscal policy risks are well known and in our view should not drive long-term interest rates higher in the near term, but the recent breakout of war and the associated costs adds risk to that view. In addition, we think the attacks on one of the world's largest oil-producing regions will exacerbate inflation risks. Countries in Europe and Asia are importers of Middle Eastern oil and therefore could face particularly significant challenges, such as lower economic growth and higher inflation, if oil supply tightens further. Despite these issues, we remain confident that the global expansion can persist given that many countries entered the energy shock with positive economic growth.
- We think the US Federal Reserve (Fed) will resume cutting interest rates, but the timing is uncertain. We had anticipated one or two rate cuts by the summer of 2026, but now we think those cuts may be pushed out to later in the year. Much hinges on the health of the US labor market, balanced with the possibility that higher energy prices will result in goods inflation. Market expectations suggest that the European Central Bank and Bank of England are more likely to raise rates than enact cuts over the next 12 months. The Bank of Japan also seems on track to tighten policy slightly.
- According to Bloomberg consensus estimates as of 03/31/2026, US large-cap companies are expected to produce positive earnings growth across all sectors in 2026. In addition, rising profit growth in the energy sector could boost earnings results for the market as a whole. We also expect cyclical sectors such as financials and industrials will further contribute to profit growth, and AI-driven capital expenditures remain an important tailwind. Earnings also appear poised to move higher across Europe, Japan, and the emerging markets.



- The US dollar tends to trade firmly when international events pose risks to overall financial market stability. That indeed proved to be the case in the first quarter, but we do not anticipate a full reversal of the dollar's longer-term downtrend.
- At quarter end, the Loomis Sayles Macro Strategies team was projecting a 15% probability of a US recession. Oil prices spiked meaningfully, but perhaps not high enough to drive a material shock that saps consumption (excluding gasoline). However, that may change quickly in the event of a military escalation. High energy prices typically weigh on sentiment, which could cause consumers to pull back on spending away from the gas pump. We are also closely monitoring the private credit sector for signs that instability is spreading. While more risks have emerged in recent months, we believe solid bottom-up fundamentals can continue to provide support for risk assets.

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