JULY **2026**

Investment Outlook

By **Craig Burelle**

Global Macro Strategist, Credit

We believe the expansion phase of the global credit cycle will continue through 2026, backed by decent economic growth and stable labor markets.

There is potential for inflation to decline across developed and emerging market economies through the latter part of this year. Oil prices have come down significantly since the breakout of the US-Iran war, which should relieve much of the pressure on headline inflation.

Corporate profit growth, a dominant cyclical driver, has been booming globally. Artificial intelligence (AI) and related data center buildouts are boosting activity beyond the technology sector to industrials and utilities. The associated pipeline of capital expenditures will be massive. We believe AI will continue to drive economic and profit growth, especially within the United States and Asia.

Loomis Sayles Investment Outlook – July 2026

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Macroeconomic Drivers

Economic growth and labor markets are in a good place throughout most of the world, but sticky inflation remains a concern.

- We do not believe a significant rally across fixed income markets is likely to take hold near term.
- However, we do believe interest rate volatility across the curve should remain subdued, allowing investors to earn their yield.
- In our view, central bankers no longer have an easing bias, but we are not concerned about cycles of aggressive rate hikes.
- We could see single rate hikes in the euro zone, UK and perhaps Japan by year-end, but nothing more.
- Federal Reserve (Fed) rate cuts are likely on hold through year-end, but could resume in the first quarter of 2027 if inflation cooperates.
- Emerging market central banks could strike a less hawkish tone as the year progresses, especially if oil market volatility remains subdued.
- A finalized deal between the US and Iran could reverse oil shortages and global supply chain disruptions, albeit over several weeks.

Corporate Credit

Measures of risk premium across global credit markets suggest valuations are a bit elevated relative to history, but for good reason.

- Global interest rates have been normalizing since the start of the current expansion, and remain at levels materially higher than the post-Global-Financial-Crisis (GFC) recovery period.
- Corporate credit benchmarks offer impressive income opportunities at present. We expect the asset class to deliver mid-single-digit total returns even if credit spreads do not tighten.
- Higher-credit-quality indices are yielding between 3% and 5% annually. We think assuming credit risk higher than that of high-grade benchmarks could produce equity-like total returns.
- Bottom-up fundamentals, like profit margins, earnings growth and leverage, are in very good shape broadly.
- Domestic large-cap companies, which are a decent proxy for the US investment grade credit market, are seeing profit margins expand to all-time highs.
- Small cap companies within the US are a decent proxy for the domestic high yield credit market. Bloomberg bottom-up consensus earnings estimates for the Russell 2000® Index are projecting 35% earnings growth in 2026.
- We're monitoring risk in the private credit market, and do not see signs of systemic risk given expectations for a robust economic backdrop.

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Government Debt & Policy

Developed market interest rates are still near their highest levels of this cycle. We expect rates to slide lower slowly as inflation finds its way toward central bank targets.

- Government debt burdens are large but manageable. Over the next six to 12 months, we believe cyclical factors like inflation and economic activity will dictate the range for bond yields.
- Economic tailwinds, like the AI capital expenditure spending cycle, are likely to keep driving growth, but that does not mean inflation has to be sticky.
- We believe yields across the developed world have peaked or are close to peaking. That said, significant bond rallies are not part of our near-term outlook.
- We expect (and would welcome) a slow drift lower in inflation. An abrupt drop would likely signal a deeper issue related to demand challenges in the economy.
- The next move for interest rates and inflation is lower, but the process is likely to take quarters rather than months.
- We anticipate the US 10-year yield will trade between 4.0% and 4.25% as we enter 2027.

Currencies

We see opportunities in relatively higher-yielding local-currency fixed income markets outside the US.

- Non-US-dollar assets can perform well as the global expansion progresses. A sustained ceasefire in the Middle East is increasing our optimistic view.
- Our preferred countries for local-currency exposure include Brazil, Hungary, Mexico and Colombia. Their attractive yields and decent underlying economic conditions stand out.
- We have a selective approach to owning non-dollar assets. We do not believe the US dollar is going significantly lower from here, even if rate cuts are slowly priced back into market expectations.
- The US Dollar Index (DXY) has been trading within a 4% range for the better part of one year. We anticipate some weakness in the quarters ahead, but see downside capped at just a few percentage points.
- We expect risk appetite to remain strong. In such environments, foreign currencies tend to perform well.

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Global Equities

Strong bottom-up fundamentals should propel the global equity rally through year-end and into 2027. Most indices are on pace to deliver double-digit earnings growth this year.

- Earnings growth rather than multiple expansion has predominantly fueled recent equity market gains across the globe. This trend is likely to continue.
- AI-related capital expenditures are driving earnings with far-reaching multi-sector implications. It's a powerful trend that remains intact.
- The information technology and communication services sectors of the S&P 500 Index are leading the pack in terms of growth. However, several other sectors delivered double-digit growth for the first quarter. Healthcare was the only sector that showed a modest earnings contraction year over year.
- The MSCI All Country World Index (ACWI) excluding the US, looks set to deliver 25% earnings growth this year. The S&P 500 should see a 20%-or-better increase, while small-cap Russell 2000 earnings could rise more than 30%.
- Most markets have been consolidating rapid gains since March. We believe there is more upside ahead, particularly if war in the Middle East winds down.

Potential Risks

Our investment outlook is predominantly bright, but there are scenarios where positive market trends could be disrupted. Rising inflation and rate hikes outside the US could spark higher long-term interest rates.

- Global central bank tightening is a risk that could push yield curves higher across the world.
- Oil prices tumbled recently, but renewed military tensions in the Middle East could send prices higher.
- A return of higher oil prices would likely propel inflation upward for longer, which could put renewed pressure on central banks to act.
- Optimism surrounding the massive AI-driven capital expenditure cycle is running hot. Major setbacks would likely disappoint markets and slow future economic and earnings growth.
- Technology and AI-related industries are largely responsible for the upward revisions to 2026 consensus earnings growth. At some point, expectations may prove too rosy.
- S&P 500 consensus earnings growth for 2026 is a significant, but likely achievable, 24%. Estimates of 16% and 12.5% for 2027 and 2028 respectively are starting to look questionable given such strong expectations to conclude 2026.
- Earnings have been a key driver keeping the credit cycle in expansion. Continued strong earnings growth will be vital for maintaining positive market momentum.

Second Quarter Market Review: April – June 2026

By Matthew Novak, CFA
Sovereign Analyst

INDEX RETURNS BY SECTOR (%) AS OF JUNE 30, 2026

US Broad Market
The US fixed income market experienced positive returns in the second quarter of 2026. The returns were large enough to more than offset the modestly negative returns of the first quarter, which were a result of the negative market reaction to the beginning of the US-Iran war.

Index	1 Month	3 Month	6 Month	1 Year
BBG US Aggregate Bond	0.24	0.67	0.62	3.79
BBG US Government/Credit	0.25	0.70	0.49	3.32

US Governments
Yields across the maturity spectrum rose in the second quarter. The largest yield increases occurred in the belly of the yield curve, which led it to underperform other parts of the curve. Meanwhile the short-end and long-end yield increases were minor enough that positive carry return was able to more than offset the negative price return effect.

Index	1 Month	3 Month	6 Month	1 Year
BBG US Treasurys	0.28	0.32	0.28	2.71
3-Month T-Bills	0.29	0.90	1.77	3.89
2-Year Treasury	0.03	0.29	0.53	2.70
5-Year Treasury	0.04	-0.14	-0.28	1.99
10-Year Treasury	0.34	0.18	-0.14	2.83
30-Year Treasury	1.18	0.88	0.74	2.34
BBG US TIPS	-0.47	0.89	1.15	3.42
BBG US Agency	0.14	0.39	0.61	3.21

BBG US Municipals
Municipal bonds entered the second quarter in deep valuation territory after selling off this past March (their worst month in nearly three years). The deeply discounted valuations paired with an improving risk appetite in the second quarter led to the sector's outperformance.

Index	1 Month	3 Month	6 Month	1 Year
BBG US Municipals	0.96	2.50	2.32	7.03

US Securitized
The securitized market produced modestly positive returns for the quarter. Asset-backed securities outperformed for the quarter due to their lower duration profile, which aided the sector as yields rose.

Index	1 Month	3 Month	6 Month	1 Year
BBG MBS	0.22	0.58	0.99	5.21
BBG ABS	0.21	0.75	1.07	4.01
BBG CMBS	0.16	0.45	0.77	3.91

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence. All returns in US dollars, unless noted.
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INDEX RETURNS BY SECTOR (%) AS OF JUNE 30, 2026

	Index	1 Month	3 Month	6 Month	1 Year
Corporates The US corporate investment grade sector performed well in the second quarter of 2026 and outperformed Treasurys. Spread compression was easy to achieve this quarter, given the trough of risk appetite occurred early in March when the war in Iran was fresh on investor's minds. However, US investment grade underperformed its peers in the UK and Europe at large.	**BBG US Investment Grade**	0.19	1.40	0.86	4.34
	AAA	-0.09	0.75	0.04	2.77
	AA	-0.02	0.73	0.28	3.06
	A	0.22	1.27	0.72	4.21
	BBB	0.20	1.67	1.12	4.73
	BBG European Investment Grade-*local-currency returns*	0.44	2.34	1.33	2.55
	AAA	0.70	2.60	1.67	1.75
	AA	0.44	2.20	1.24	1.92
	A	0.43	2.29	1.31	2.34
	BBB	0.45	2.41	1.36	2.83
	BBG Sterling Investment Grade-*local-currency returns*	0.61	2.90	0.86	4.44
	AAA	0.34	3.25	-2.34	0.82
	AA	0.39	2.76	0.07	3.01
	A	0.60	2.80	0.78	4.10
	BBB	0.66	3.01	1.07	4.97
High Yield Corporates	**BBG US High Yield**	0.27	2.47	1.96	5.91
	BB	0.31	2.26	1.98	5.90
	B	0.27	2.84	2.18	6.15
	CCC	-0.11	2.98	1.69	6.32

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	Index	1 Month	3 Month	6 Month	1 Year
High Yield Corporates *Cont*. The Aggregate US High Yield index outperformed the US investment grade market. The high yield market benefited from both an outsized spread compression as well as a lower duration profile. The European high yield market outperformed the US high yield market this quarter.	**BBG Pan-European High Yield**-*local-currency returns*	0.55	3.43	1.87	4.43
	BB	0.56	3.17	1.83	4.45
	B	1.04	4.45	2.33	5.19
	CCC	-2.56	0.92	-0.51	0.47
Bank Loans Bank loans in aggregate performed well this quarter. Their low duration given floating interest rates provided a relief from rising rates across the maturity spectrum.	**S&P/LSTA Leveraged Loan**	0.08	1.88	1.31	4.36
	BB	0.27	1.85	2.57	5.74
	B	-0.02	1.97	1.05	4.36
	CCC	0.29	1.59	-3.43	-3.35
Developed Countries	CITIGROUP WGBI-*local-currency returns*	0.31	0.84	0.43	1.20
	CITIGROUP Non-USD WGBI	0.32	1.19	0.53	0.11
	United States	0.29	0.33	0.29	2.75
	Canada	0.52	1.58	1.90	2.26
	Japan	-0.05	-1.83	-3.94	-8.50
	Australia	1.02	2.79	2.26	0.49
	United Kingdom	0.64	2.10	0.06	2.51
	European GBI	0.39	1.87	1.24	1.26
	France	0.10	1.70	1.28	0.73
	Germany	0.56	1.42	1.11	0.26

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	Index	1 Month	3 Month	6 Month	1 Year
Developed Countries *Cont*. It wasn't just US government bonds that performed well this quarter; all across the developed world sovereign debt performed well, likely as the investment community's risk appetite recovered after the initial shock of the US-Iran war. The lone exception is Japan, who continued to underperform this quarter and delivered another negative three-month return.	Ireland	0.63	2.03	1.85	2.04
	Italy	0.47	2.48	0.96	2.01
	Spain	0.45	1.91	1.38	2.27
Emerging Markets Emerging market government bonds performed very well this quarter, as both US dollar-denominated and local currency bonds were among the top performing fixed income sectors. Corporates within emerging markets also performed well.	**JP Morgan EMBIG**-*Sovereign/Quasi-Sovereign, USD*	0.64	4.03	2.85	10.62
	JP Morgan CEMBI Broad Diversified-*Corporates, USD*	0.42	2.42	2.21	6.82
	JP Morgan GBI-EM Global Diversified-*Governments, local currency*	1.30	3.29	2.43	6.99
Currency Markets - *Dollar Bloc*	Canadian Dollar	-2.84	-1.97	-3.32	-4.14
	Australian Dollar	-3.70	0.28	3.69	5.14
	New Zealand Dollar	-5.18	-1.20	-1.39	-6.86
Currency Markets - *Western Europe*	Euro	-2.03	-1.13	-2.76	-3.10
	Norwegian Krone	-6.61	-2.12	1.86	1.72

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INDEX RETURNS BY SECTOR (%) AS OF JUNE 30, 2026

	Index	1 Month	3 Month	6 Month	1 Year
Currency Markets *Cont*. The US dollar modestly rallied this quarter, which led to developed markets and EM Asia currency losing ground against the US dollar. However, the dollar strength was not universal, as the majority of Latin American and emerging Europe and Africa currencies produced positive returns against the dollar.	Swedish Krona	-4.70	-2.40	-5.06	-2.50
	Swiss Franc	-3.39	-1.10	-1.95	-1.89
	British Pound	-1.44	0.26	-1.58	-3.42
Currency Markets - *Emerging Europe & Africa*	Czech Koruna	-1.97	0.00	-3.12	-1.24
	Hungarian Forint	-2.52	6.76	5.11	8.84
	Polish Zloty	-3.56	-1.32	-4.64	-4.29
	Russian Ruble	-9.64	3.62	0.31	-0.25
	South African Rand	-1.00	3.37	1.05	8.07
	Turkish New Lira	-1.72	-4.71	-7.93	-14.67
Currency Markets - *Asia*	Japanese Yen	-2.02	-2.36	-3.59	-11.39
	Chinese Renminbi	-0.30	1.58	2.96	5.55
	Indonesian Rupiah	-0.04	-4.96	-6.67	-9.19
	Malaysian Ringgit	-2.93	-0.84	-0.58	3.09
	Philippine Peso	0.39	-1.00	-4.13	-8.20
	Singapore Dollar	-1.33	-0.54	-0.65	-1.72
	South Korean Won	-2.92	-1.92	-7.07	-12.62
Currency Markets - *Latin America*	Argentine Peso	-5.01	-6.84	-2.15	-18.86
	Brazilian Real	-2.44	0.37	6.07	5.23
	Chilean Peso	-3.53	0.44	-2.36	1.01
	Colombian Peso	7.89	7.47	10.51	19.93
	Mexican Peso	-0.76	2.57	2.98	7.20
	Peruvian New Sol	0.16	2.02	-1.36	3.93

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence. All returns in US dollars, unless noted.
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EQUITY MARKET TOTAL RETURNS AS OF JUNE 30, 2026

Global Equity Markets
Global equities performed very well this quarter, again as a result of an improved risk appetite as investors adjusted to new geopolitical tensions. The MSCI Emerging Markets Index significantly outperformed. A large portion of this outperformance was due to the AI and semiconductor exposure that Korea and Taiwan contribute to the Emerging Markets Index.

Index Total Returns (%)	3 Month	1 Year	3 Year	5 Year
S&P 500®	15.20	22.23	20.56	13.36
MSCI All Country World	15.06	24.06	20.16	11.45
MSCI Europe	11.32	19.25	16.85	10.16
MSCI Japan	14.24	29.41	18.85	9.86
MSCI Emerging Markets	24.15	43.98	23.55	7.66

US Equity Markets
Within the US, small cap stocks (Russell 2000) outperformed large cap stocks. Growth outperformed value. Both of these developments are generally a sign of a risk-on environment.

Index Total Returns (%)	3 Month	1 Year	3 Year	5 Year
Russell 1000®	15.14	21.93	20.41	12.62
Growth	16.74	17.63	22.51	13.67
Value	13.87	27.00	17.74	11.14
Russell Midcap®	13.83	21.54	16.47	8.47
Growth	14.55	6.15	15.56	6.01
Value	13.40	26.51	16.46	9.45
Russell 2000®	21.49	40.59	18.55	6.96
Growth	25.71	38.57	18.39	5.55
Value	17.19	42.81	18.68	8.21

Data Source: FactSet. All returns in US dollars, unless noted. Performance for one and multi-year periods is annualized.
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S&P 500 SECTORS AS OF JUNE 30, 2026

S&P 500 Sectors
Dispersion among equity returns was quite large this quarter. Information technology returned in excess of 30% in light of the bullish AI narrative. Meanwhile, energy fell 13% as a result of much lower oil prices.

	S&P 500 Sector Performance (%)			
Sector	**3 Month**	**1 Year**	**3 Year**	**5 Year**
Information Technology	31.79	37.48	30.91	22.41
Industrials	15.08	27.54	21.89	14.44
Consumer Discretionary	9.27	9.46	13.58	6.76
Financials	9.01	4.05	18.71	10.34
Healthcare	8.78	19.91	8.01	6.54
Real Estate	8.52	11.14	9.39	3.55
Communication Services	8.32	21.13	29.25	12.42
Materials	1.86	16.51	8.86	6.27
Consumer Staples	0.33	5.49	8.57	7.72
Utilities	-0.53	14.22	14.97	10.84
Energy	-13.45	29.04	12.81	19.01

Data Source: FactSet. Performance for one and multi-year periods is annualized. Sorted by index quarterly returns. Due to rounding, sector totals may not equal 100%.
Past performance is no guarantee of future results.

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KEY RISKS: Inflation Risk, Fixed Income Risk, Systemic Risk, Currency Risk, and Market Risk.

Index Definitions

The S&P 500® Index *is a widely recognized measure of US stock market performance. It is an unmanaged index of 500 common stocks chosen for market size, liquidity, and industry group representation, among other factors. It also measures the performance of the large-cap segment of the US equities market.*

Bloomberg US Aggregate Bond Index *represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.*

Bloomberg US Government/Credit Index *includes securities in the government and credit indices. The government index includes treasuries -i.e., public obligations of the US Treasury that have remaining maturities of more than one year and agencies -i.e., publicly issued debt of US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government. The credit index includes publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.*

Bloomberg US Treasury Index *includes public obligations of the US Treasury with at least one year until final maturity, excluding certain special issues such as state and local government series bonds -SLGs, US Treasury TIPS and STRIPS.*

Bloomberg US Treasury Inflation Protected Securities Index *consists of inflation-protection securities issued by the US Treasury that have at least one year to maturity and at least $250 million par amount outstanding.*

Bloomberg US Agencies Index *includes agency securities that are publicly issued by US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government -such as USAID securities.*

Bloomberg US Municipal Index *is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. The index has four main sectors: general obligation bonds, revenue bonds, insured bonds -including all insured bonds with a Aaa/AAA rating, and prerefunded bonds.*

Bloomberg Mortgage-Backed Securities- MBS Index *is a component of the Bloomberg Aggregate Index covering mortgage-backed pass-through securities of Ginnie Mae -GNMA, Fannie Mae -FNMA and Freddie Mac -FHLMC. The MBS Index is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates.*