

Full Discretion Team

Extra Credit

“Climbing *the* Staircase”

Today’s Interest Rate Environment is More Complex

Yields on US Treasury notes maturing five years and longer have topped 5% for only the second time since 2007. In 2023, extending duration proved wise—the longer, the better. We believe now is another good time to leg into duration, but the circumstances are more complex.

What’s Driving Yields

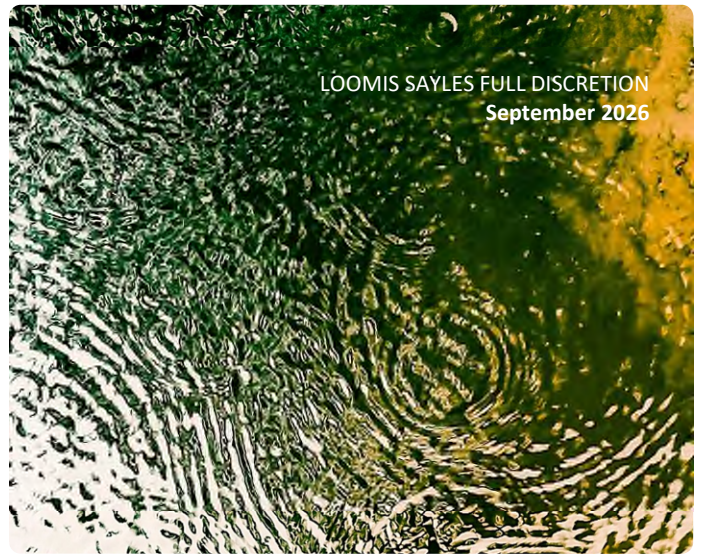
Fed Chair Warsh tied the rise in yields to economic strength, geopolitics and competition for capital. We agree. The US economy has exceeded expectations and conflict in Iran has put a premium on oil and the inflation outlook. Most important is the double-barreled capital demand from an artificial intelligence (AI) investment boom and troubling federal deficits. There’s a bid for capital, and yield is the clearing price.

The data supports this narrative. Ten-year real yields have risen 95bps year-to-date while breakevens are barely up (+5bps). This suggests a repricing of growth on top of existing fiscal concerns, not a broken inflation anchor.

The Front End Has It Right

Forward rates have been signaling tightening monetary conditions for months. The FOMC got on board in September with a hike and a hawkish message. The forward market is pricing in 3-4 more hikes, which would bring SOFR to nearly 5% in 12 months. We think that’s about right. The Taylor Rule suggests SOFR of at least 4.75%; a 5% handle is plausible if the current backdrop persists.

This all means forward rates are pricing in the Fed’s likely tightening path for this cycle. That should give investors comfort to extend duration, at least through the intermediate part of the curve.



Long End is a Different Story

Thirty-year paper must absorb competing capital demands, a grim US fiscal outlook and rising yields across developed bond markets. Those are real concerns, even if long yields over 5% already reflect much of that risk. The upside here may not be worth the risk.

The Next Step Up

Structural drivers (demographics, security concerns, soaring investment, fiscal strain) have been lifting nominal and real yields. The term premium has normalized since the quantitative easing era, and real yields are already high versus history. This repricing has looked like a staircase—much like a mirror image of the secular disinflationary move down. Preserving principal as we climb would mean shortening maturity while yields push toward the next step, moving out the curve once that level is reached, then repeating. Positive reinvestment risk helps the process. We believe we’ve reached the next step up with a higher trading range and it’s time to extend.

Bond managers can now build a portfolio with 6-7% yield and average quality of investment grade that can absorb a further 100bps+ yield increase without a negative total return. Stock-bond correlation often increases in rising rate environments, but bonds can still offer diversification and ballast, especially in a surprise deflationary shock, an AI capex bust or other scenarios the market isn’t positioned for.



Meet the Team

MATT EAGAN, CFA

Head of Full Discretion, Portfolio Manager

BRIAN KENNEDY

Portfolio Manager

PETER SHEEHAN

Portfolio Manager

ERIC WILLIAMS

Portfolio Manager, Private Credit Strategist

BRYAN HAZELTON, CFA

Portfolio Manager

CHRIS ROMANELLI, CFA

Portfolio Manager

SCOTT DARCI, CFA

Portfolio Manager, Convertibles & Equity Strategist

DAVID ZIELINSKI, CFA

Investment Director

CHERYL POLLOCK

Investment Director

KRISTEN DOYLE

Associate Investment Director

MATT GREEN

Associate Investment Director

About the Team

The Full Discretion team brings decades of expertise and collaboration to create tailored solutions for their clients.

24

Investment Professionals

22+

Years of Industry Experience
(Portfolio Management Team)

\$87.3

Team Assets Under Management
(Billion USD)

Team Philosophy

We have a legacy of independent thinking and leaning into the market when others may be pulling away. We take a deep-value, equity-like approach to credit selection across global fixed income markets. Our disciplined process helps gives us confidence in seeking to identify macro trends, formulate a clear view on market sectors, and invest throughout the credit cycle.

For more than 40 years, we have been applying our distinctive style of bond picking to deliver portfolios designed to provide excess yield potential and have low correlations to traditional benchmark-focused fixed income strategies.

Source: Loomis Sayles, as of 06/30/2026

Average years of expertise reflected at portfolio management level

Important Disclosure:

This marketing communication is provided for informational purposes only and should not be construed as investment advice. It is meant to offer a snapshot of select market developments and is not a complete summary of all market activities. Investment decisions should consider the individual circumstances of the particular investor. Any opinions or forecasts contained herein reflect subjective judgments and assumptions of the author and do not necessarily reflect the views of Loomis, Sayles & Company, L. P. Investment recommendations may be inconsistent with these opinions. There can be no assurance that developments will transpire as forecasted. Data and analysis does not represent the actual or expected future performance of any investment strategy, account or individual positions. Accuracy of data is not guaranteed but represents our best judgment and can be derived from a variety of sources. Opinions are subject to change at any time without notice.

The Credit Health Index (CHIN) is a macro tool created by Loomis Sayles. The CHIN is currently managed by the Loomis Sayles Applied IQ team. It is a proprietary framework that utilizes a combination of macro, financial market and policy variables to project US corporate health.

Commodity, interest and derivative trading involves substantial risk of loss. Diversification does not ensure a profit or guarantee against a loss. Market conditions are extremely fluid and change frequently.

Any investment that has the possibility for profits also has the possibility of losses, including loss of principal. There is no guarantee that any investment objective will be realized, or that the strategy will be able to generate any positive or excess returns.

Past performance is no guarantee of future results.