

# Post-Election Strategy Update – US Core and Core Plus

November 7, 2024

Travis M. Carr, CFA  
Product Specialist

Mark Lindbloom  
Head of Broad Markets,  
Portfolio Manager

# US Broad Strategy Committee

The US Broad Strategy Committee sets the overall themes for the US broad market investment strategies.



- Sets macro and sector investment themes
- Meets weekly to evaluate and establish the US investment outlook over a 6-9 month horizon.
  - Within the context of our global investment outlook
  - Based on long-term economic developments and market valuations
  - Leveraging sector input and broad top-down analysis
- Evaluates risk factors and potential scenarios. Sets the risk tone for US investment strategies

# US Broad Market Team

## Portfolio Management

**Prashant Chandran, CFA**  
(25/18 yrs)  
Portfolio Manager

**Amit Chopra, CFA** (26/8 yrs)  
Portfolio Manager

**Mark S. Lindbloom** (46/18 yrs)  
Head of Broad Markets, Portfolio  
Manager

**Frederick R. Marki, CFA** (41/18 yrs)  
Portfolio Manager

**Nicholas Mastroianni, CFA**  
(17/17 yrs)  
Portfolio Manager

**John G. Rodli, CFA** (9/9 yrs)  
Portfolio Manager

**Julien A. Scholnick, CFA**  
(27/21 yrs)  
Portfolio Manager

**Theresa Veres** (35/18 yrs)  
Portfolio Manager

**Bonnie M. Wongtrakool, CFA**  
(25/21 yrs)  
Portfolio Manager

**Rafael Zielonka, CFA** (22/22 yrs)  
Portfolio Manager

## Risk Management

**Ahmet Kocagil, PhD** (31/7 yrs)  
Chief Risk Officer

**Robert Gingrich, PhD** (23/14 yrs)  
Manager of Alternatives &  
Derivatives Risk

**Pornatawee Nantamanasikarn, PhD**  
(20/13 yrs)  
Portfolio Risk Manager

**Han Zheng, CFA** (13/9 yrs)  
Portfolio Risk Manager

## Product

**Travis M. Carr, CFA** (31/23 yrs)  
Product Specialist

**Virgil F. Esguerra, CAIA**  
(20/6 yrs)  
Product Analyst

## Portfolio Analysis

**Zachary Klein, CFA** (9/9 yrs)  
Portfolio Analyst

**Charlie Jameson** (4/2 yrs)  
Portfolio Analyst

**Jason A. Skillman, CFA**  
(16/16 yrs)  
Portfolio Analyst

## Western Asset Investment Team

### Investment Management Professionals

- Chief Investment Officer: Michael C. Buchanan
- 115 Investment Professionals on five continents and seven offices, as of September 30, 2024
- 25 years of average experience

### Major Investment Committees

- Global Investment Strategy Committee
- Global Credit Committee
- US Broad Strategy Committee
- Global Emerging Markets Strategy Committee
- Unconstrained Asset Allocation Committee

### Sector and Regional Teams

- Global credit
- Investment-grade
- High-yield
- Emerging markets
- Mortgage and consumer credit
- Long duration
- US municipal
- Liquidity
- Insurance
- US
- Europe
- UK
- Japan
- Asia
- Brazil
- Australia / New Zealand

### Independent Risk Management Function

- Chief Risk Officer: Ahmet E. Kocagil
- Independent evaluation of strategies and risks
- Market and Credit Risk Committee
- 29 investment risk professionals

# Scenario Analysis

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## Three Scenarios and Key Assumptions:

### 1) Base Case

- Inflation continues to recede, growth slows, but recession is avoided
- The deteriorating fiscal deficit continues to steepen the yield curve
- Corporate fundamentals and technicals remain resilient, slight decrease in corporate spreads

### 2) Higher Rates

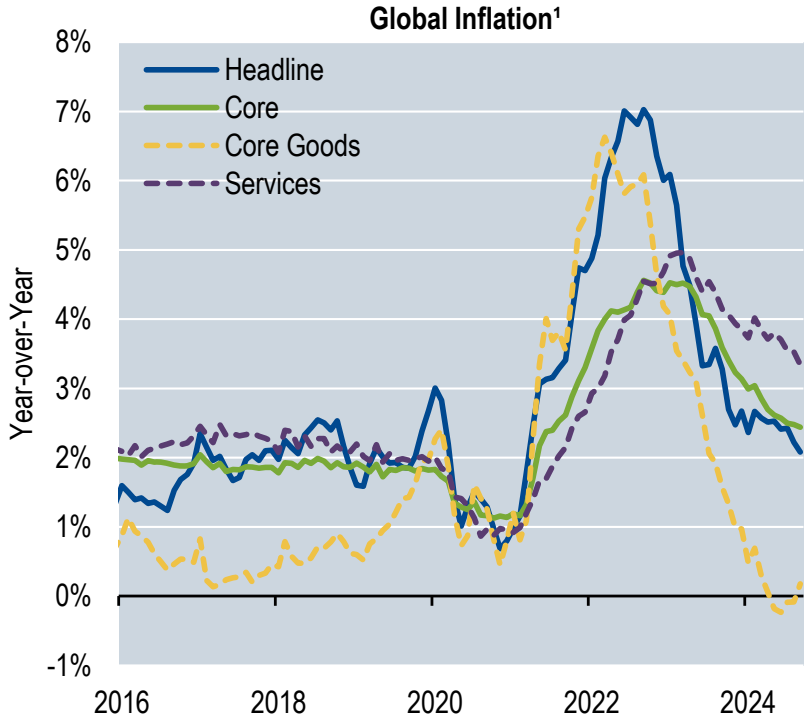
- Inflation remains above target and the labor market remains healthy
- Fed cuts less than market expectations
- Curve inverts. USD stronger from higher US yields
- Spreads wider from tighter financial conditions and outflows

### 3) Recession

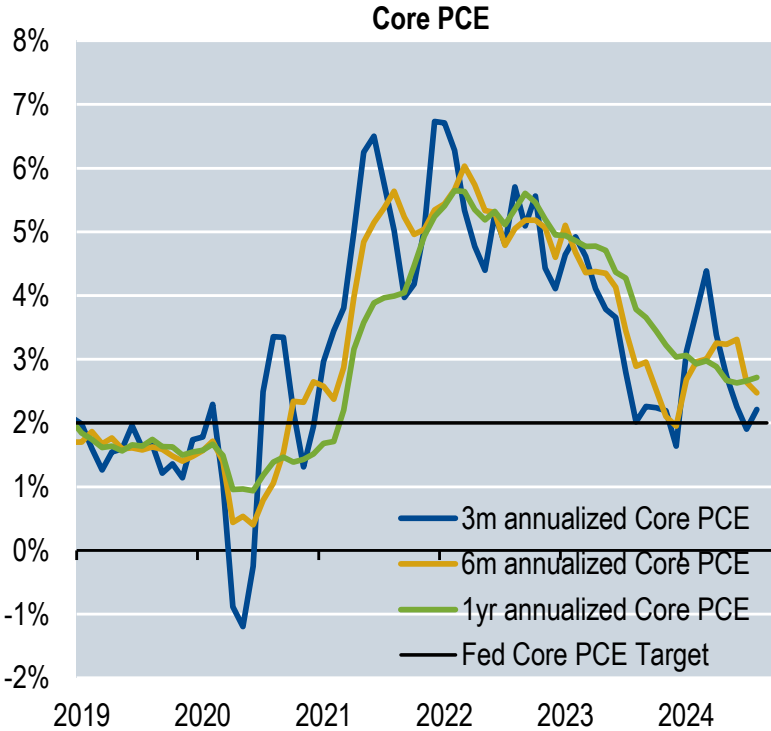
- Tighter financial conditions finally take a toll on the economy. Growth disappoints
- Fed cuts rates aggressively
- USD moderately stronger from flight to quality
- US yields lower, spread products wider as expected rate of defaults increases and EM suffers

# Global Disinflation Is Broad-Based and Ongoing

## US Core PCE Nears Fed Target



Source: Citigroup, Haver Analytics. As of 30 Sep 24  
<sup>1</sup>Headline and core cover 15 economies; goods and services cover 12 economies

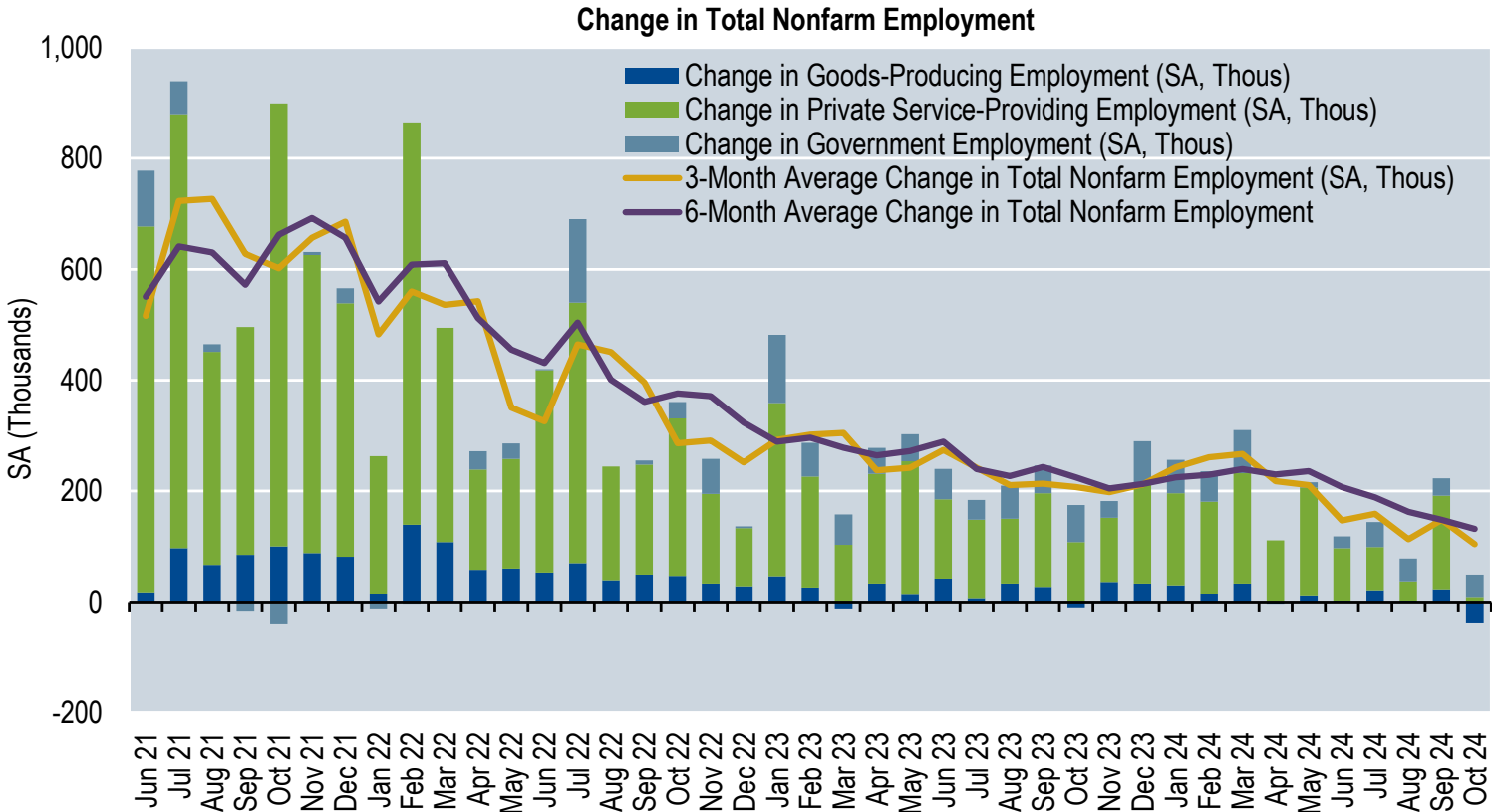


Source: Haver Analytics. As of 30 Sep 24

# Employment

“We do not believe that we need to see further cooling in labor market conditions to achieve 2% inflation.”

— Chair Powell, September 30, 2024



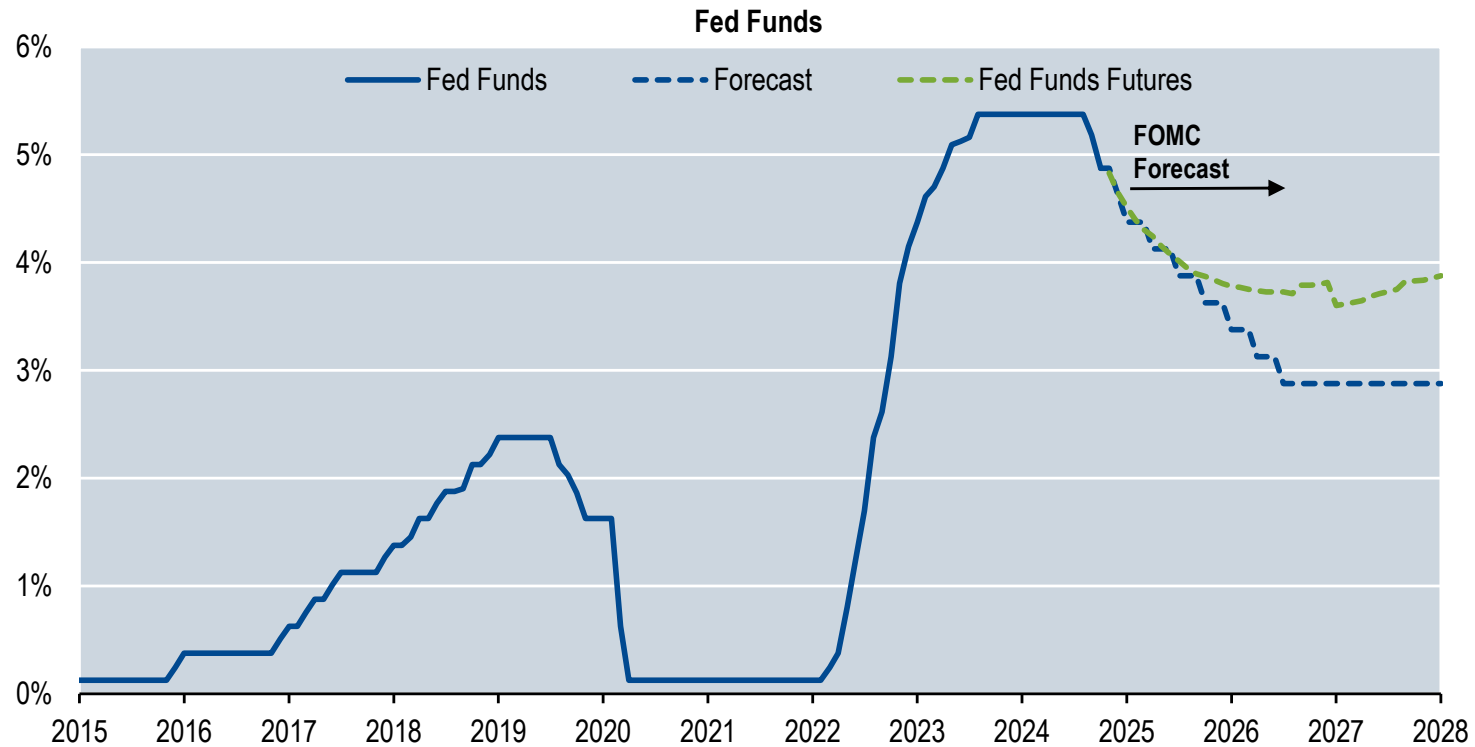
Source: Bureau of Labor Statistics. As of 31 Oct 24

# US Federal Reserve

Fed now cutting, but by how much?

“Looking forward, if the economy evolves broadly as expected, policy will move over time toward a more neutral state.”

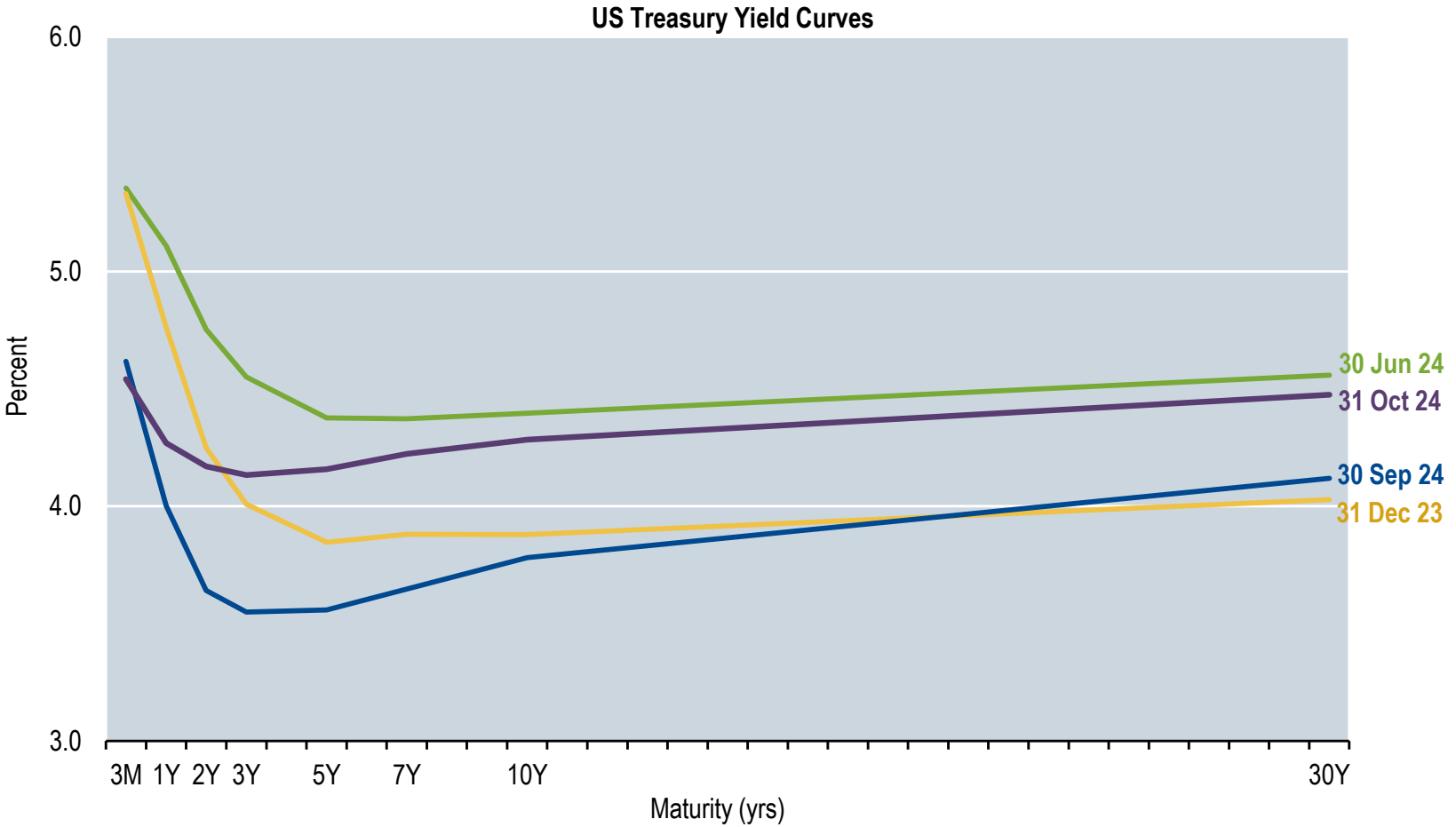
— Chair Powell, September 30, 2024



Source: Federal Reserve, Haver Analytics. As of 31 Oct 24  
There is no assurance that any projection, estimate or forecast will be realized.

# US Treasury Yield Curves

High volatility over the last few months



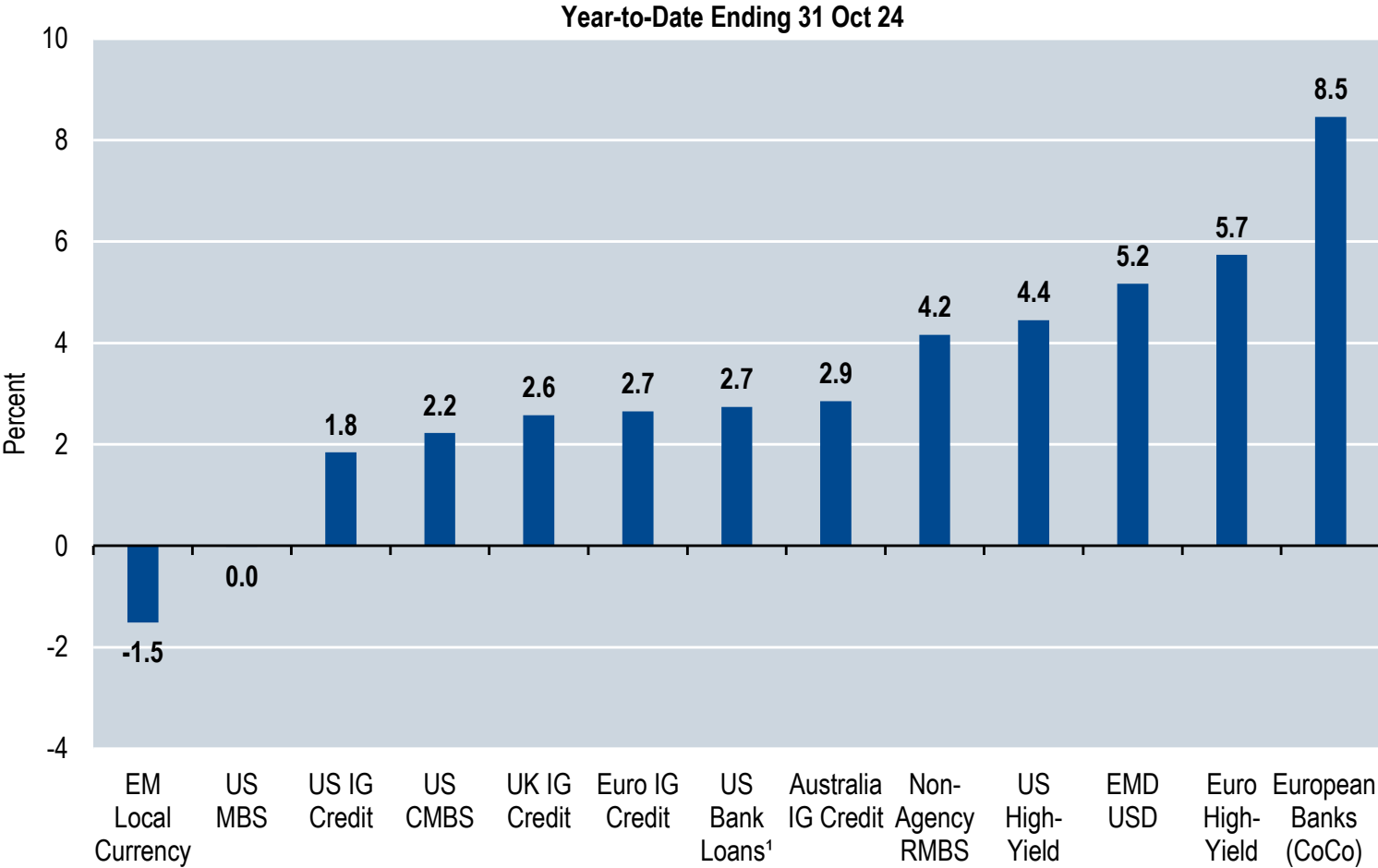
Source: Bloomberg. As of 31 Oct 24





# Spread Sector Excess Returns

Spread sectors have outperformed



Source: Bloomberg, Citi, J.P. Morgan, Morningstar LSTA, Western Asset. As of 31 Oct 24  
<sup>1</sup>Morningstar LSTA US Leveraged Loan Total Return Index excess return vs. SOFR - Secured Overnight Financing Rate USD Unhedged Index.  
 Past performance is not a reliable indicator of future results.

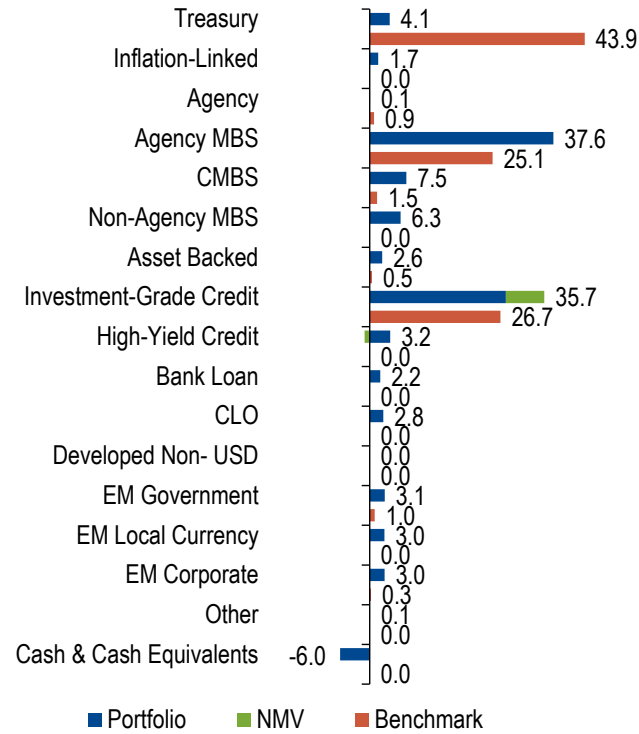


# Sector Exposure

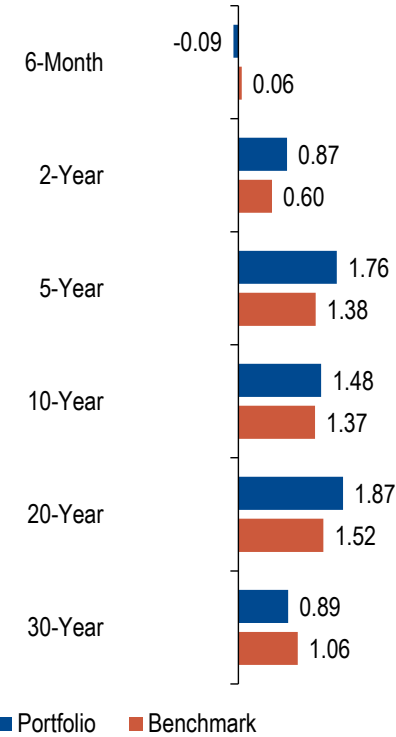
## Representative Core Plus Account vs. Bloomberg US Aggregate USD Unhedged Index

October 31, 2024

Market Value (%) + Notional Market Value (%)<sup>1</sup>



Key Rate Duration (yrs)



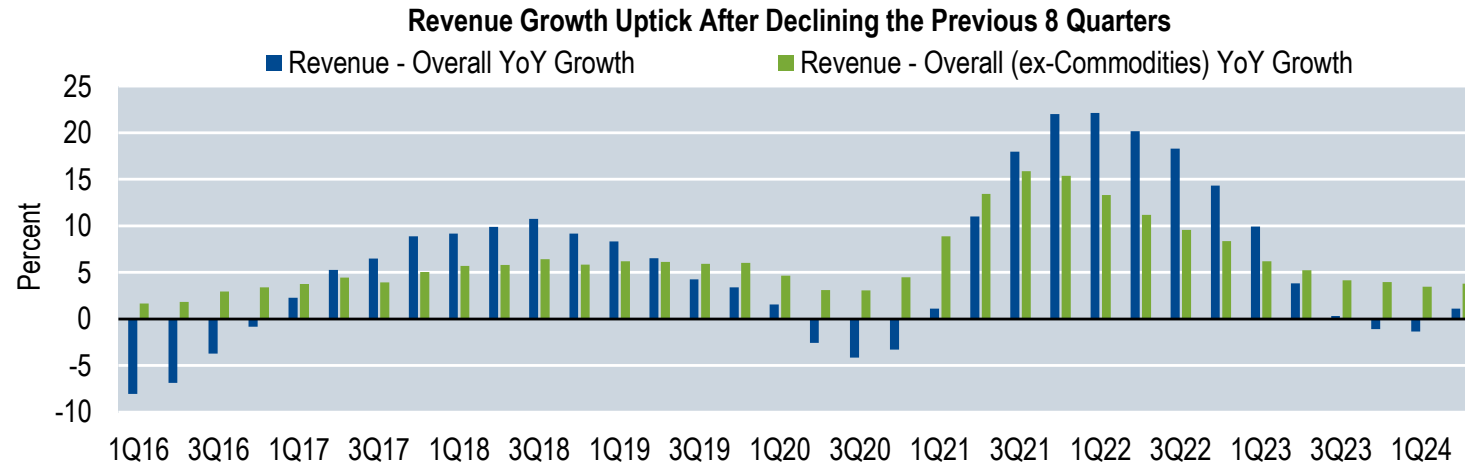
Total Duration

Portfolio: 6.78  
Benchmark: 5.99

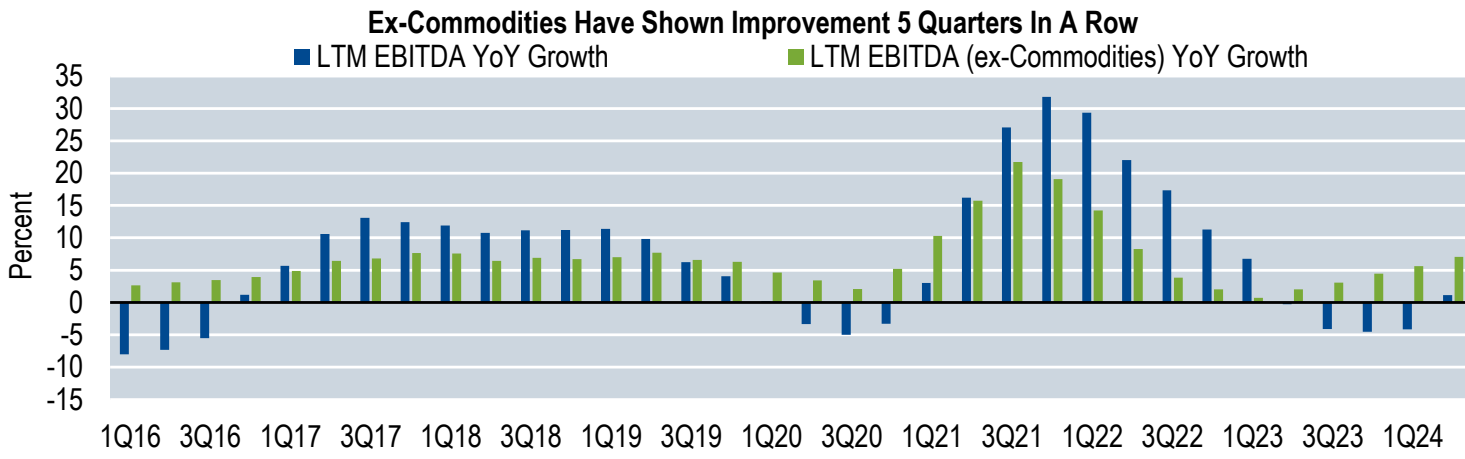
Source: Western Asset  
<sup>1</sup>Notional market value represents derivatives notional market value excluding interbank derivatives.  
 Sector allocation includes look-through to any underlying commingled vehicles if held. All weightings are a percentage of total market value. A negative cash position may be reported, which is primarily due to the portfolio's unsettled trade activity. Data may not sum to total due to rounding. The benchmark does not provide an allocation to the "Emerging Markets" sector. The emerging market sector allocation shown for the benchmark above is based on Western Asset's emerging market countries definition for comparison purposes.

# Corporate Bond Fundamentals

Fundamentals remain strong



Source: J.P. Morgan. As of 30 Jun 24

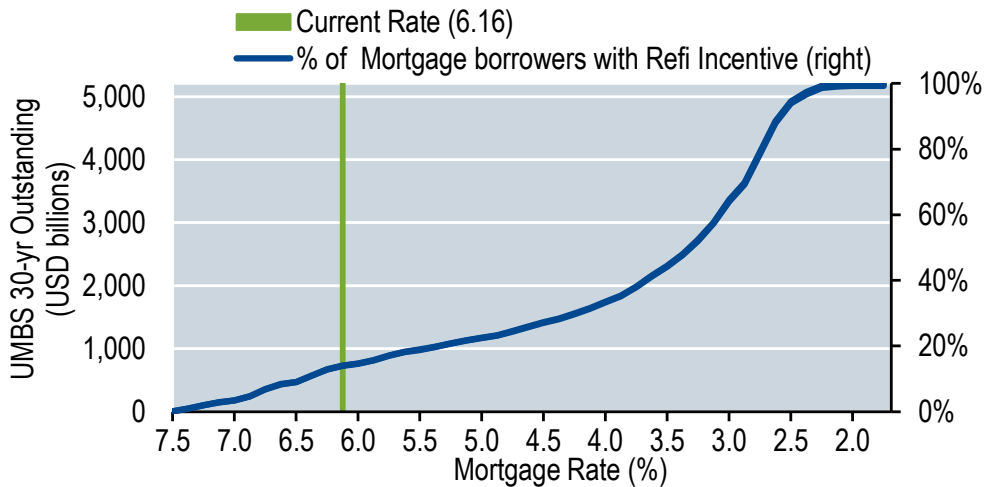


Source: J.P. Morgan. As of 30 Jun 24

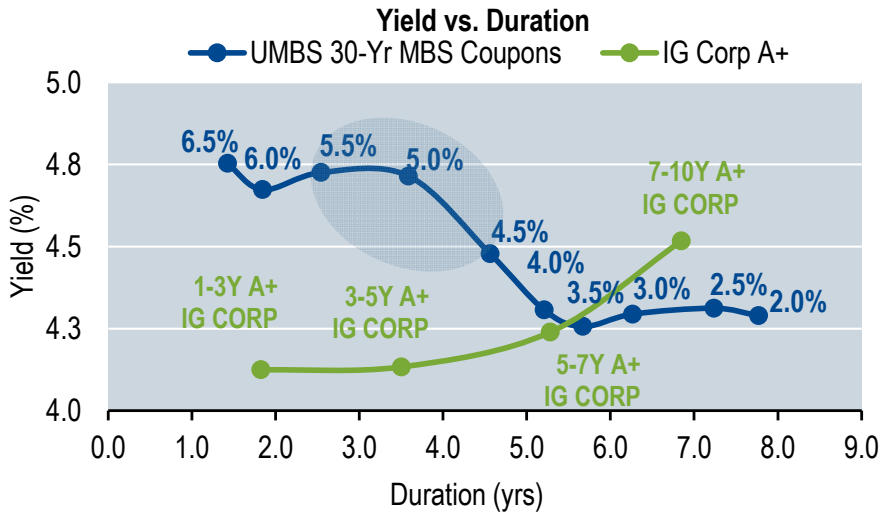
**Methodology:**  
 The analyses in this report are based on about 210 non-Financial High Grade bond issuers. For balance sheet and income statement data such as Revenue and Cash, the figures shown are a simple sum of each company in the analysis. Financial ratios are calculated by taking each issuer's ratio and weighting it by its debt in relationship to the total debt of all issuers or of all issuers in the sector. In this process, the top and bottom 10% of each ratio (weighted by debt) is eliminated from the calculations, to avoid distortion from outliers. Note that for all charts a constant composition methodology is used. This means when a company falls to high yield its current and all prior data from the company is eliminated from the analysis. We use the same list of companies with the same weights for all the history. The benefit of this approach is that it removed distortions from changes in composition. The downside is that the data over time are not comparable to bond indices, as indices rebalance regularly. The data sources for the analysis is primarily J.P. Morgan analysts.

# US Agency Mortgages Offer Attractive High-Quality Yields

Most borrowers have limited refinancing incentives at current or lower rates



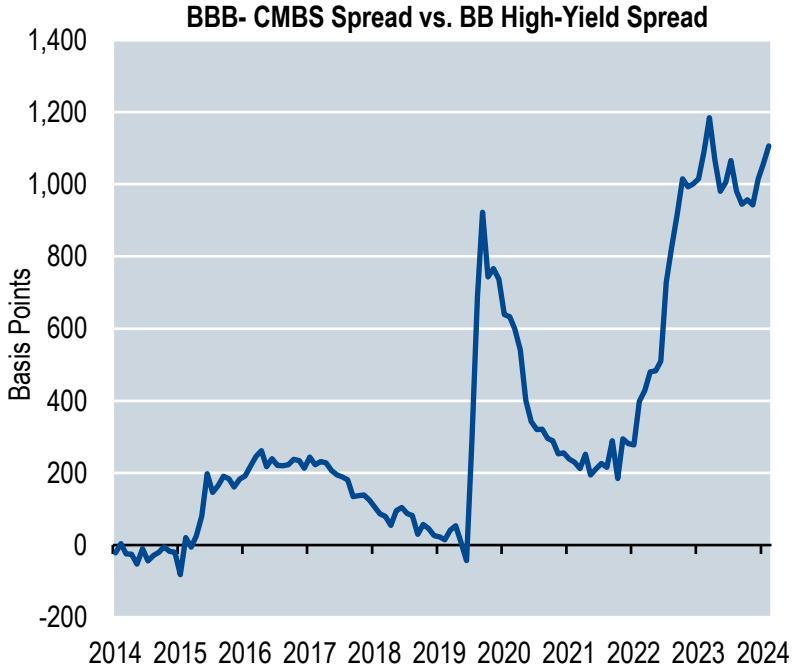
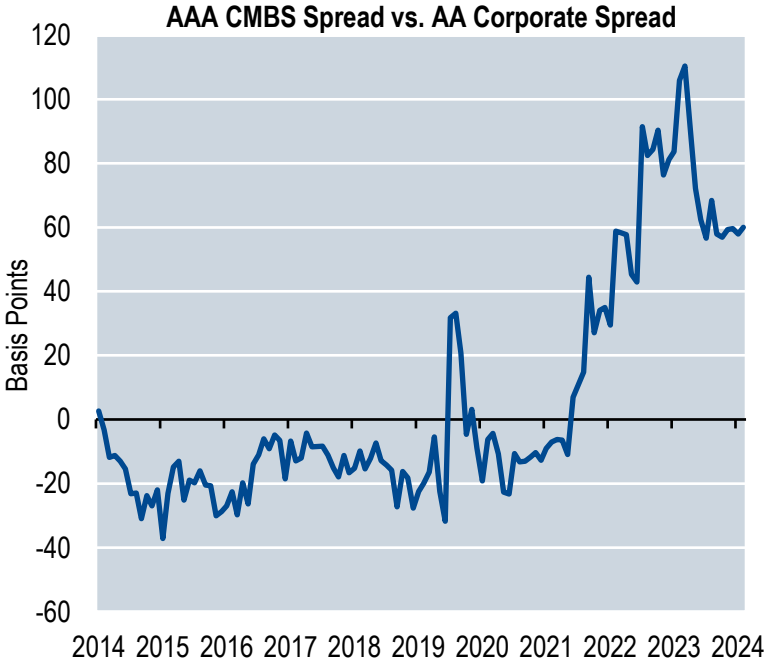
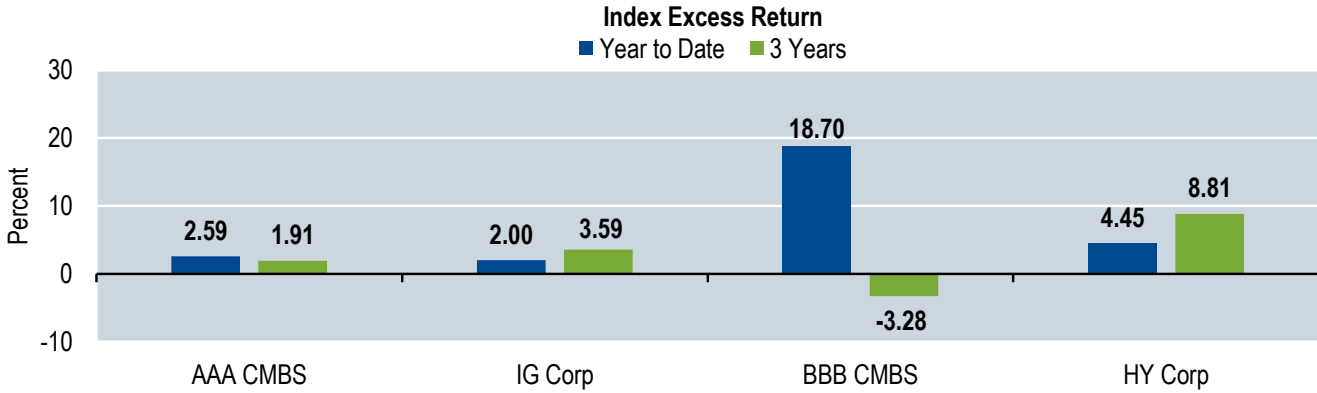
- Agency MBS spreads look attractive relative to high-quality corporate bonds, offering potential for higher risk-adjusted yields in higher coupons



Source: Bloomberg, CPRCDR, Western Asset. As of 20 Sep 24

# Select CMBS Exposures Present Attractive Relative Value Opportunities

CMBS Has Outperformed Corporate Credit YTD but Remains Historically Cheap



Source: Bloomberg, JP Morgan. As of 31 Oct 24

AAA CMBS: Bloomberg Non-Agency Investment Grade CMBS: AAA Total Return Unhedged Index. BBB CMBS: Bloomberg Non-Agency Investment Grade CMBS: BBB Total Return Unhedged Index. IG Corp: Bloomberg U.S. Corporate Investment Grade Index. HY Corp: Bloomberg U.S. Corporate High Yield Index.





**Thank you.**

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