

Global Fixed Income Perspectives

Global Market Outlook

- Political risks have quickly escalated as elections around the globe (U.S., UK, France, Mexico) have come into focus, creating greater volatility across risk assets. The impact of these elections will be felt over the balance of the year and into 2025.
- Global economies continue to power forward albeit with some questions arising around the strength and breadth of the underlying growth, with investors continuing to debate the probability of various outcomes from a hard landing to no-landing scenarios.
- Guidance for the second half of the year from CEOs will be informative in understanding the strength of the economic recovery with respect to profit margins and labor markets. Globally, investors will look to China's policy response coming out of the Third Plenum, the third plenary session of the Central Committee of the Communist Party of China.

About this Publication

The Global Fixed Income Perspectives discusses performance and opportunities for global fixed income markets by segment.

DM Developed Market Rates

When determining value for bond investors, the real yield measure is paramount. The positive news for bond investors is that current real yields are a lot more attractive versus their historical average levels in multiple developed markets.

HY High Yield

We expect the attractive yield and dollar price, strong fundamentals, and favorable supply-demand dynamics to continue to lead to reasonable returns in the high yield markets. We recommend staying in shorter maturities and higher-quality issuers within the space.

IG Investment Grade

Recent underperformance in single As has driven the BBB/A spread to multi-year tights. This, plus an inverted yield curve and a high breakeven in the short-end, makes higher quality IG (single A) more attractive, especially as investors now focus on all-in yield over spread.

EM Emerging Markets

U.S. inflation persistence early in the year led to higher rates, a stronger dollar, and volatility in Fed pricing, impacting local-currency emerging markets. Mexican elections and fiscal concerns across some countries is also weighing on markets. Forward real yields look attractive in select markets.

SC Structured Credit

Securitized spreads still have room to tighten despite the rally thus far. We see attractive value opportunities in CRT, CLO, agency MBS, and ABS with high all-in yields backed by solid credit fundamentals and favorable market technicals.



DM Developed Market Rates

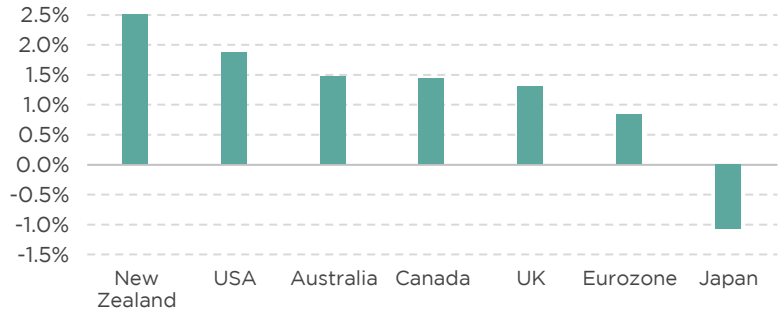
- After years of depressed real yields, bond investors finally have a reason to be optimistic (see [FIGURE 1](#)).
- Beginning in early 2022, developed bond yields have surged higher even as global inflation measures continue to cool. What is left is an attractive starting point for current investors.
- While the U.S. bond market gets the most attention and drives much of the market narrative, it is not the only opportunity in the developed bond market. Real yields are attractive in Australia and New Zealand as well as in the Eurozone and U.K., especially from a historical perspective (see [FIGURE 2](#)).
- And while the United Kingdom does not stand out in terms of overwhelming favorable real yields, Brandywine Global is expecting notably lower yields as nominal growth forecasts continue to reset lower.

HY High Yield

- While the broad high yield market continues to perform well for the second straight year, pockets of weakness have started to emerge. As shown in [FIGURE 3 & 4](#), while most corporate spreads have rallied in tandem for the past 18 months, two sectors in particular show signs of deterioration: communications and transportation. This decline is a reflection of management decisions over the previous decade to engage in large asset purchases and/or capital expenditure programs at a time when capital was cheap. The inability of these assets to generate incremental earnings has left some debt stacks in a precarious situation.
- We are not viewing these idiosyncratic issues as a significant risk to the broader asset class as a whole but would argue that security selection is becoming increasingly important. We think allocations to less stressed sectors like energy, financials, and basic industry offer attractive carry opportunities with much lower default risk.

1 Real Yields Across Select Developed Markets

As of 6/30/2024



Source: Macrobond

2 Real Yields vs. Historical Average

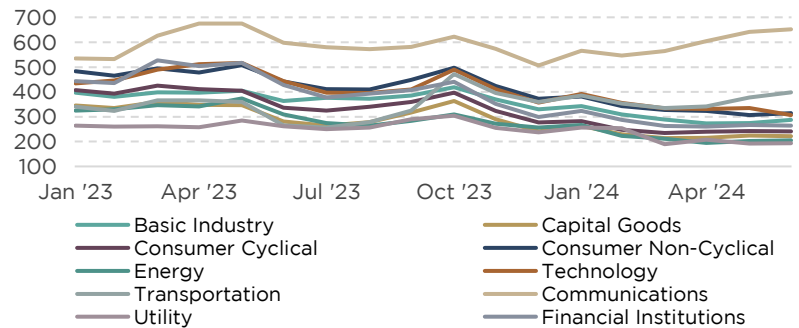
Historical average based on 20-Year look back, as of 6/30/2024



Source: Macrobond

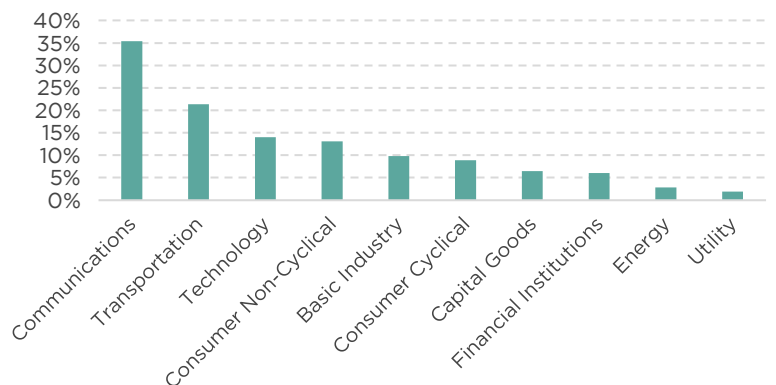
3 BB U.S. HY

Bps, OAS by Sector, as of 6/30/2024



Source: Bloomberg (©2024, Bloomberg Finance LP)

4 BB U.S. HY % of Sector > 500 OAS, as of 6/30/2024



Source: Bloomberg (©2024, Bloomberg Finance LP)

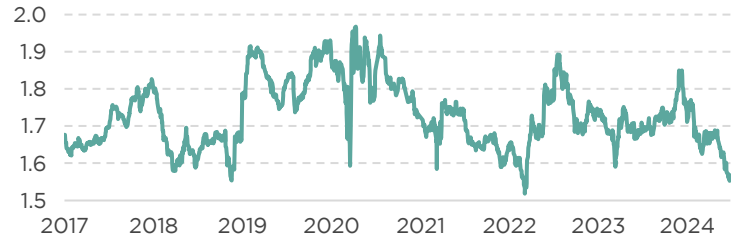


IG Investment Grade

- The spread between industrial BBBs and single-As is now close to multi-year tight (see **FIGURE 5**), primarily driven by underperformance in higher-quality bonds. This tightening has made BBBs look relatively more expensive versus single-As. While single-A spreads sit at tight levels, the all-in yields look attractive.
- Recent weeks have also seen some compression between high yield and investment grade spreads, however the spread ratio sits largely in line with historical average levels, therefore we still see select IG bonds as fairly valued.
- While there is low sector spread dispersion, dispersion in fundamentals is high, making selection key. The healthcare and materials sectors face challenging headwinds while TMT issuers are enjoying strong EBITDA growth and deleveraging (see **FIGURE 6**).
- Weakness seen over the next few weeks due to European politics could be seen as an opportunity to add in mispriced securities.

5 BBB/A Industrials Spread Ratio

Ratio, as of 6/28/2024



Source: Bloomberg (@2024, Bloomberg Finance LP)

6 IG Fundamentals Heatmap

Z-Score (2015-Q1 2024), as of 6/28/2024

	IG	Consumer	Healthcare	Industrial	Materials	TMT
Net Leverage	0.7	-0.6	-2.0	-0.7	1.4	2.2
Net Debt	0.6	1.0	0.1	0.0	-0.2	0.9
Interest Coverage	-1.5	0.0	-0.1	-1.9	0.1	-2.1
Revenue Growth YoY%	-0.3	-0.5	-0.4	0.4	-0.7	-0.2
EBITDA Margin	0.3	1.1	-1.8	-0.3	1.0	-0.2
EBITDA Growth YoY%	0.4	0.5	-2.2	-0.2	-0.9	1.7

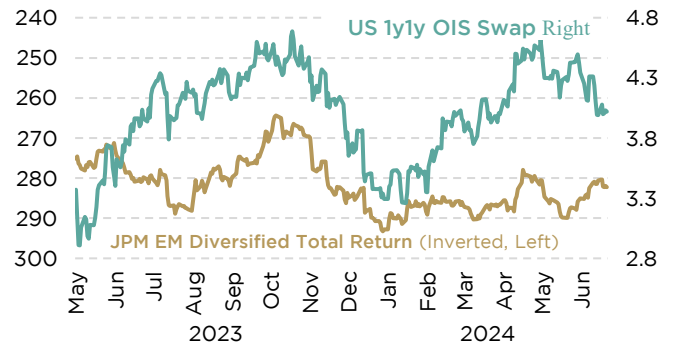
Source: Citi Research

EM Emerging Markets Debt

- U.S. inflation persistence early in the year resulted in higher U.S. rates, a stronger dollar, and volatility in Federal Reserve (Fed) pricing, which has weighed on local-currency emerging markets (EM) (see **Figure 7**). Despite the recent improvement in Fed pricing, we have not seen an improvement in local EM performance, which could be related to apprehensions over U.S. growth, local fiscal concerns, and elections.
- Latin America continues to offer high nominal and real yields relative to history, but we will continue to monitor fiscal policy and domestic politics. Central and Eastern Europe central banks are likely to slow rate cuts, with domestic demand rising from wage growth and fiscal spending. Asian bonds, offering low carry, are less attractive, especially with rallying Chinese bonds due to disinflation.
- Nominal yields are no longer as extreme across EM local markets, compared with the highs of 2023. Furthermore, spreads relative to U.S. Treasuries are at the tighter end of their historical range. However, forward real yields remain elevated (see **Figure 8**), and we think there are attractive opportunities that still exist in select local EM.

7 U.S. 1-Year 1-Year Forward Rate vs. JP Morgan GBI-EM Broad Diversified Index

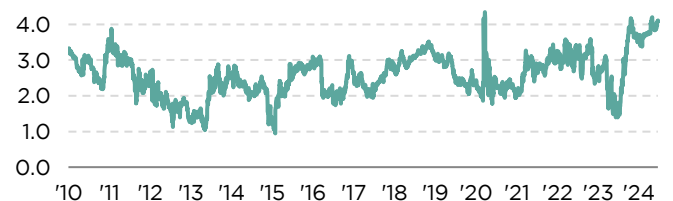
% (Right), Total Return, Inverted (Left), as of 6/21/2024



Source: Brandywine Global, Bloomberg (@2024, Bloomberg Finance LP)

8 Emerging Market Forward Real Yields Remain Attractive*

%, EM Forward Real Yield, Median, as of 6/17/2024



*Brazil, Colombia, Czech Republic, Hungary, Indonesia, Mexico, Poland, Thailand, South Africa

Source: Brandywine Global, Bloomberg (@2024, Bloomberg Finance LP)

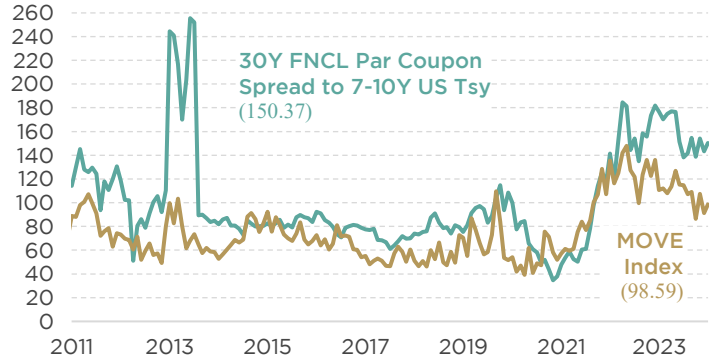


SC Structured Credit

- Credit-risk transfer (CRT) benefit from GSE tenders and low issuance, which creates positive technicals. Performance should be solid given the job market, home equity accumulation, and home price appreciation.
- Agency mortgage-backed securities (MBS) offer attractive value and positive convexity. Spreads should tighten on declining interest rate volatility and improving demand from money managers, banks, and insurance companies (see [FIGURE 9](#)).
- Collateralized loan obligation (CLO) BBBs and BBs feature high yields and benign credit performance. The growth of CLO ETFs boosts demand and liquidity. Spreads are elevated to corporates with room for convergence (see [FIGURE 10](#)).
- Asset-backed securities (ABS) remain attractive with short durations and fast de-levering structures. We see value in some subprime auto, whole business, data center, and fiber ABS from established issuers.

9 30-Year MBS Spreads to 7-10 Year U.S. Treasuries vs. MOVE Index

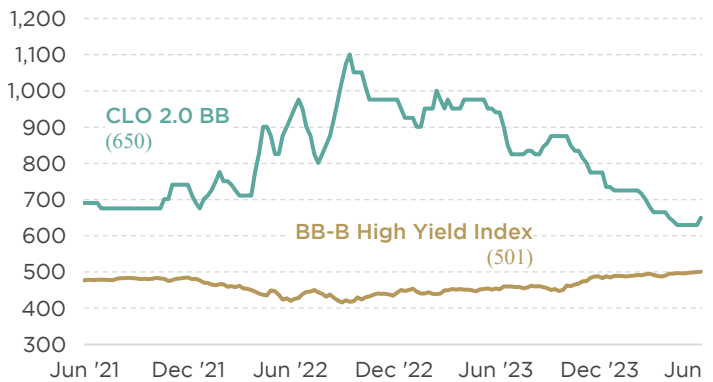
As of 6/28/2024, in Basis Points (bps)



Source: Bloomberg (©2024, Bloomberg Finance LP)

10 CLO 2.0 BB Spreads vs. BB-B U.S. High Yield Index

As of 6/28/2024, in Basis Points (bps)



Sources: Bloomberg (©2024, Bloomberg Finance LP), ICE Data Indices, LLC., BofA Global Research

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Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P, and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, and a fixed coupon schedule. The ICE BAML AA Global Corporate Index is a subset of the ICE BAML Global Corporate Index, including all securities rated AA1 through AA3, inclusive. The ICE BAML Single-A Global Corporate Index is a subset of the ICE BAML Global Corporate Index, including all securities rated A1 through A3, inclusive. The ICE BAML BBB Global Corporate Index is a subset of The ICE BAML Global Corporate Index, including all securities rated BBB1 through BBB3, inclusive. The ICE BAML U.S. Corporate Index tracks the performance of U.S. dollar-denominated investment grade corporate debt publicly issued in the U.S. domestic market. 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The ICE BAML U.S. High Yield Index tracks the performance of USD-denominated below investment grade corporate debt publicly issued in the major U.S. markets. The ICE BAML European High Yield index tracks the performance of below-investment grade corporate bonds publicly issued in Europe. The Credit Suisse Leveraged Loan Index tracks the investable market of the U.S. dollar-denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest-rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries. The ICE BAML U.S. Mortgage-Backed Securities Index tracks the performance of U.S. dollar-denominated fixed rate and hybrid residential mortgage pass-through securities publicly issued by U.S. agencies in the U.S. domestic market. The ICE BAML U.S. Fixed Rate CMBS Index tracks the performance of U.S. dollar-denominated investment grade fixed rate commercial mortgage-backed securities publicly issued in the U.S. domestic market. The JP Morgan Corporate Emerging Market Bond Index (CEMBI) Broad is a global, liquid corporate emerging markets benchmark that tracks U.S. denominated corporate bonds issued by emerging markets entities. The JPM EM Bond Index Global Diversified is composed of U.S. dollar-denominated Brady bonds, eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities. The JPM Government Bond Index-Emerging Markets (GBI-EM) Broad Diversified is a comprehensive emerging market debt benchmark that tracks local currency bonds issued by emerging market governments. 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A Franklin Templeton Company

Brandywine Global Investment Management, LLC

1735 Market Street
Suite 1800
Philadelphia, PA 19103



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