Fixed Income Outlook | 3Q 2024

SOUND FUNDAMENTALS, NARROW MARGINS

CIO PERSPECTIVES

Sound Fundamentals, Narrow Margins

In recent earnings calls, leaders from consumer goods companies have noted a shift towards more value-conscious and selective spending among consumers. As we pass the halfway point of 2024, more than a year on from the peak in the federal funds rate, our investment approach mirrors this trend. We observe sound economic and corporate fundamentals, yet we approach the investment landscape with a value-oriented lens due to tight fixed income sector spreads and a rise in political uncertainty which creates a narrow margin for error.

The good news is that disinflation appears to be back on track after setbacks earlier this year. Stable inflation expectations and labor market rebalancing portend further inflation progress. Low unemployment and real income growth continues to support steady consumer spending, particularly on experiences. However, as noted, there's a discernible shift towards value in consumer goods purchases, likely a response to the residual impact of past inflation and the erosion of excess savings.

Favorable market conditions have allowed companies to issue new debt, reducing refinancing risks. The robust issuance of bonds and loans this year has been met with an enthusiastic response from investors drawn to historically high yields. The private sector's financial health is evident in the contained rates of delinquencies, downgrades, and defaults, laying a strong foundation for debt servicing capabilities. This is a positive sign for the return prospects on corporate bonds and securitized sectors like collateralized loan obligations (CLOs) and commercial mortgage-backed securities (CMBS).

Major central banks are either easing or soon to begin cutting rates, setting the stage for a supportive environment for fixed income assets. However, the delayed start to the Fed's rate cutting cycle, coupled with upside inflation risks from weaker currencies, has prompted a slower pace of easing in some emerging market (EM) economies. Meanwhile, the BoJ is set to steadily progress with its policy normalization. These divergent monetary policies warrant a dynamic approach to duration management and offer distinct opportunities for cross-market interest rate exposures.

The coming months will likely reinforce the importance of diversification to mitigate risks, active bond selection to identify strong corporate and sovereign balance sheets, and strategies to enhance portfolio resilience. Leaning into the US dollar's carry advantage and perceived safe-haven status amidst political volatility is one strategic way to enhance resilience.

In conclusion, while we recognize sound economic and corporate fundamentals, we remain vigilant due to stretched valuations and political uncertainties. Our strategy is to be selective, focusing on generating attractive income in a higher yield environment and being ready to seize risk premiums to generate total returns in our clients' portfolios as opportunities arise.

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MACRO AT A GLANCE: GROWTH

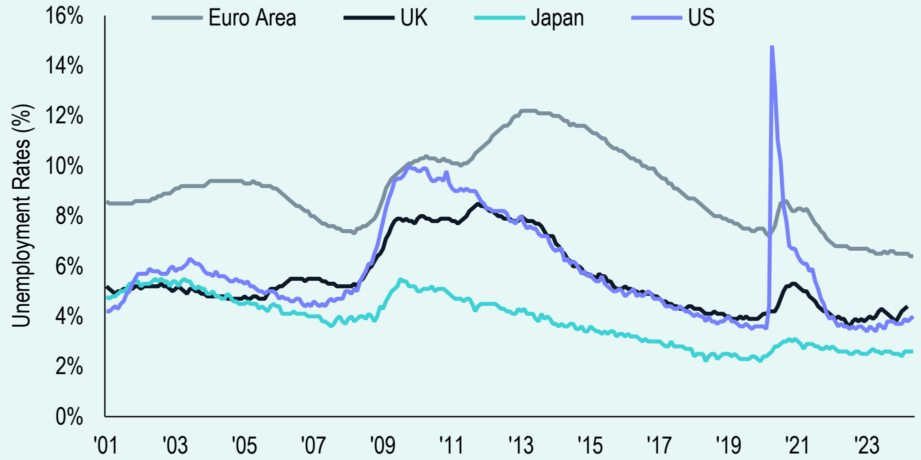
GLOBAL RESILIENCE

Major developed markets (DM) are demonstrating resilience, largely due to healthy consumer spending supported by high employment and real income growth. Contrary to conventional wisdom, real wages for the bottom 40% of US earners have slightly surpassed pre-pandemic levels.[1] This suggests that consumer spending will persist as long as employment remains stable. The growth outlook for EM economies also looks promising, supported by resilient global growth that benefits export-oriented economies. However, China's growth trajectory remains uneven: while industrial activity and trade continue to bolster the economy, the housing sector and domestic consumption remain subdued.

SHIFTING CONSUMER PREFERENCES

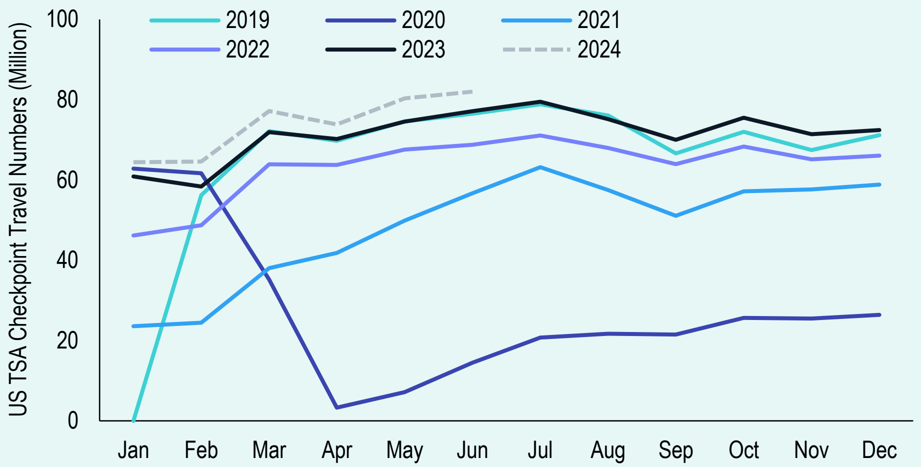
While overall spending remains robust, there's a discernible shift in preferences. We observe a marked increase in demand for in-person events, such as live concerts and tourism, indicating a shift back to the pre-pandemic preference for experiences over goods. At the same time, consumers are becoming more value-conscious regarding goods purchases. Despite weaker consumer sentiment and reduced savings among lower-income households since the pandemic's peak, low unemployment offers a supportive outlook for consumer spending and, by extension, economic growth.

Consumers – Employed, Earning and Spending



Source: Macrobond. As of May 2024, except for the UK which is as of April 2024.

Robust Rebound in Air Travel Reflects Demand for Experiences



Source: Macrobond. As of July 2, 2024.

[1] Source: Goldman Sachs Global Investment Research, "US Economics Analyst: How Healthy Are Household Finances?". As of June 24, 2024. The economic and market forecasts presented herein are for informational purposes as of the date of this document. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document.

MACRO AT A GLANCE: INFLATION

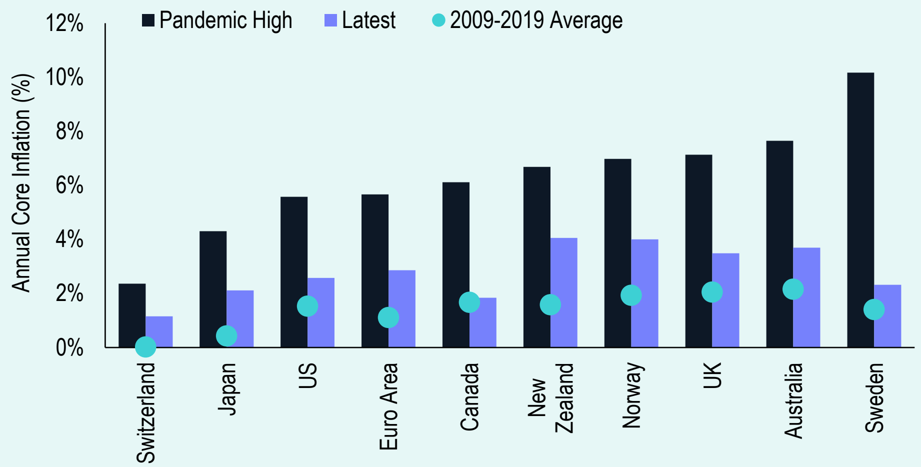
A CLOSER LOOK AT INFLATION

The recent persistence in inflation can be traced back to sector-specific delays in adjusting to the new inflationary environment. These delays are often linked to long-term contracts or lengthy government approval processes, particularly in sectors like healthcare, auto insurance, and regulated public utilities.

DISINFLATION RESUMED

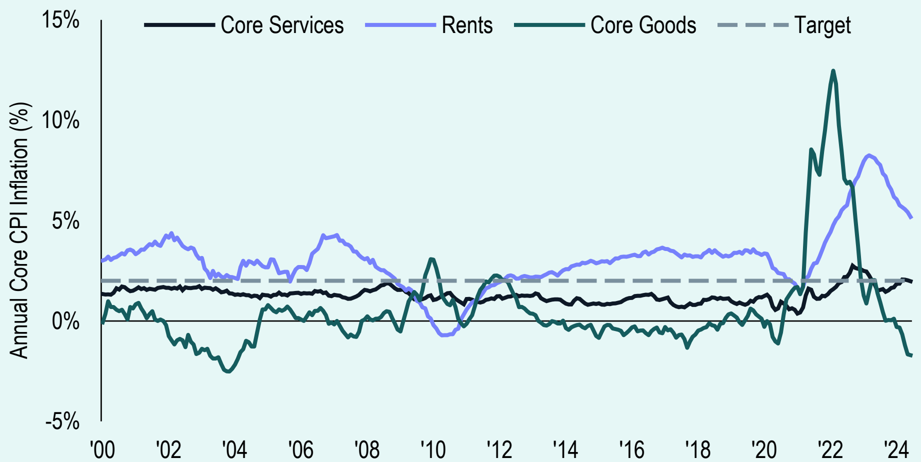
Despite recent fluctuations, inflation in major economies has significantly retreated from the highs experienced during the pandemic. In May and June, the US saw a positive shift in inflation trends, while the UK's headline inflation rate touched 2% in May for the first time in three years, significantly down from over 11% in October 2022. Meanwhile, Europe is witnessing a narrowing in the range of price increases, and China continues to impact global goods prices with its disinflationary influence. Our proprietary indicators suggest that key inflation drivers, such as corporate pricing power, inflation expectations and labor market dynamics, are aligning with central bank inflation targets. Overall, the groundwork for continued disinflation is laid, but the pace of progress remains uncertain. We also acknowledge that the risks facing inflation are potentially higher than in the last cycle due to factors like geopolitical instability and decarbonization efforts. Japan is a notable outlier, potentially facing a new wave of inflation due to currency depreciation and firm wage growth.

Sizeable Inflation Progress Even With a 1Q Setback



Source: Macrobond. Based on inflation data released as of July 3, 2024.

US Core Inflation—Awaiting Normalization in Services Prices



Source: Macrobond. As of June 2024.

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POLICY PICTURE

A GLOBAL EASING SHIFT

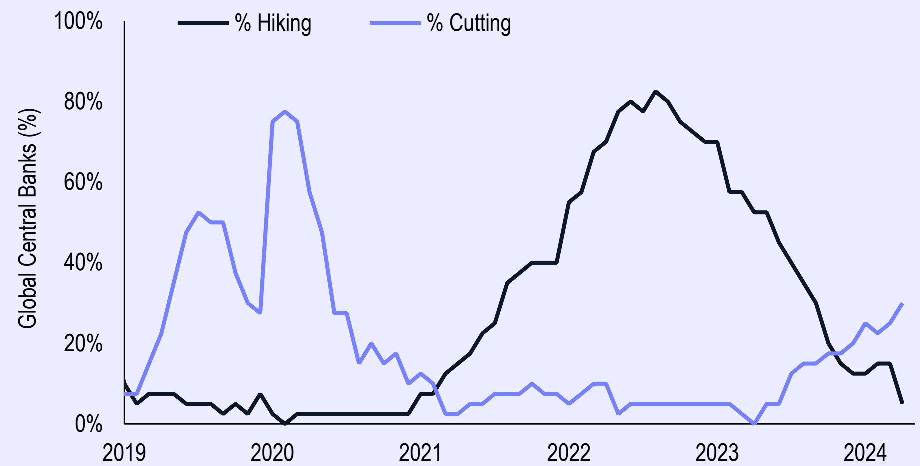
Global monetary policy is currently leaning towards an easing stance. Notably, four developed market (DM) central banks, including the ECB, have begun reducing rates. The trend of disinflation is expected to facilitate further rate cuts in the coming quarters. We anticipate the BoE will join the easing movement later in the summer.

FED IN FOCUS

The path to a Fed rate cut could be triggered by either 'immaculate disinflation' with prices normalising without causing material economic or labour market weakness, or in response to labour market softening, as indicated by lower job openings, slower job gains, an uptick in jobless claims, or a rise in unemployment.

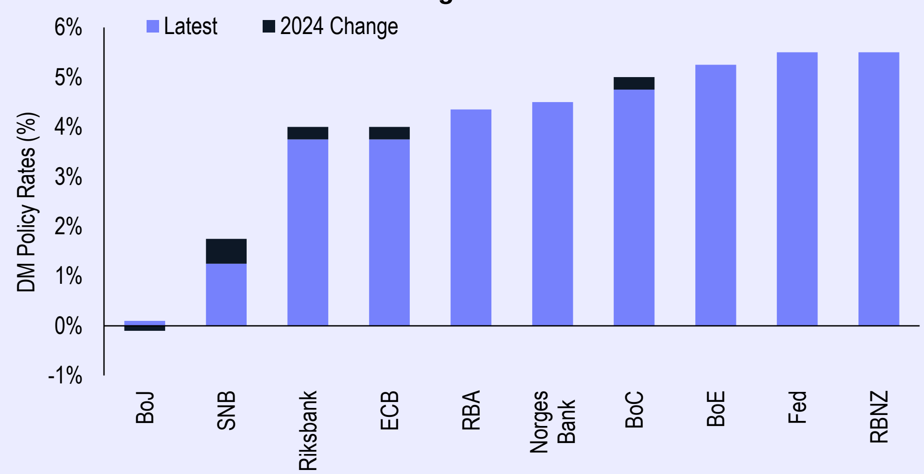
Economic data from the second quarter indicates a favorable inflation trend and a loosening labor market, suggesting the Fed may start its easing cycle by the end of the third quarter. The June median dot plot projection by the Fed, which now forecasts only one rate cut this year—down from three projected in March—appears outdated considering the latest positive inflation figures. However, with two more CPI reports and jobs data due before the Fed's September meeting, we remain attentive and prepared to adjust our outlook and positioning to new data as it emerges.

Central Bank Cutting Cycles—Steadily Expanding



Source: Based on three-month rolling change in policy rates at 40 central banks. As of July 6, 2024 Macrobond.

Four DM Central Banks Are Cutting—More to Follow Suit in 2H 2024



Source: Macrobond. As of June 2024.

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POLICY PICTURE

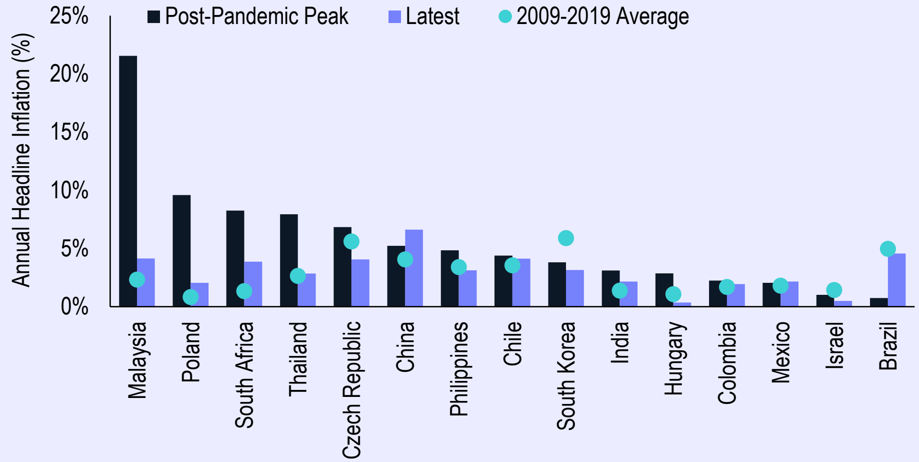
GLOBAL GRADUALISM

As central banks globally navigate towards an easing stance, the pace remains gradual. This is primarily due to inflation rates that still exceed targets in most regions. Switzerland is an exception, having already enacted two rate cuts. The journey towards easing may also encounter setbacks from re-emerging inflation risks. Some EM central banks have paused their rate-cutting cycles, facing inflationary pressures due to currency depreciation—a consequence of the Fed's delayed easing and political uncertainties.

NAVIGATING DIVERGENCE

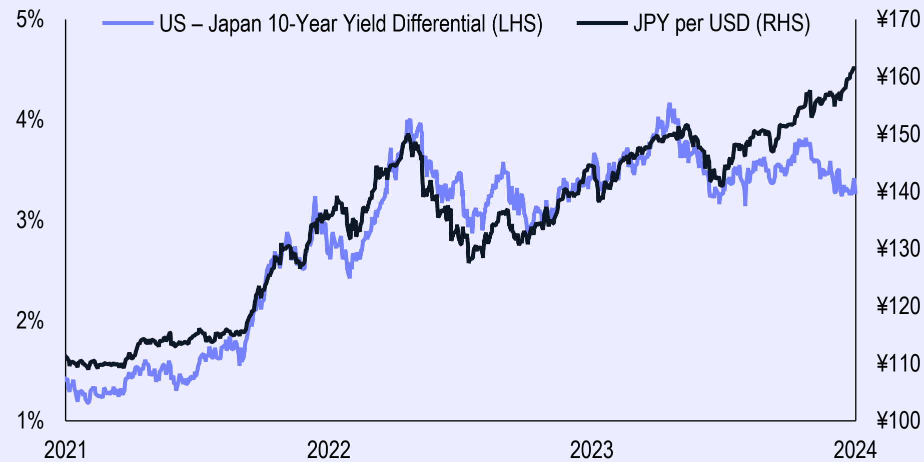
A pause, or even a potential shift back to rate hikes, is not confined to EMs. In Australia, the rise in annual core inflation to 4.1% in May has prompted a reassessment of the RBA's cut timeline, leading some investors to consider the possibility of further rate increases. Concurrently, we think the market may be underappreciating Japan's progression towards further rate normalization. The Shunto spring wage negotiations resulted in a base pay increase of 3.6%, the highest since 1990, and headline wage growth of 5.1%. This development alongside weakness in the Japanese yen suggests a stronger, yet still moderate, inflation environment. Anticipating this, we expect Japan to implement an additional rate hike this summer.

EM Inflation—Off The Peaks but Faces Upside Risks FX Weakness



Source: Goldman Sachs Asset Management, Macrobond. Based on data releases available as of June 20, 2024. Abbreviation: Currency (FX).

Yen Weakness Poses Upside Risks to Japanese Inflation



Source: Macrobond. As of July 3, 2024.

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WHAT WE'RE WATCHING

INFLATION

The path to disinflation may stay bumpy. We're vigilant about factors like commodity prices and shipping costs. Although firm, their inflationary impact is less widespread than during the pandemic, with cost increases in the supply chain being isolated rather than universal. A critical area of focus is services inflation, especially related to consumer spending on experiences. For instance, the economic impact of a concert tour could introduce a new "Taylor Rule" of sorts, where central bank policy is influenced by strong spending on tickets, merchandise, and hospitality, contributing to services inflation. The term "Swiftanomics," coined from Taylor Swift's economic impact on spending and inflation, encapsulates this phenomenon. The big question is whether this spending surge is a temporary blip leading central banks to 'shake it off,' or if it's a sign of more persistent services inflation.

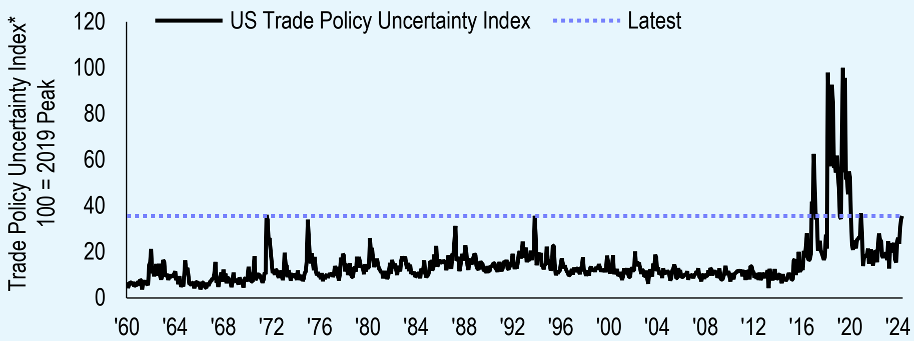
POLICY & POLITICS

As investors, we are focused on the fiscal and broader policy outlook rather than predicting election outcomes. Globally, no political developments suggest imminent fiscal consolidation, aligning with our expectations for sovereign yield curves to steepen as longer-dated bond yields response to high new bond supply and a higher term premium. Trade and immigration policies are also areas of close observation, as they could influence the economic trajectory in the US, which currently favors a soft landing. Trade policy uncertainty in the US is at its highest since the 2018-2019 US-China trade war, potentially dampening business investment. However, investments in long-term themes like generative AI and decarbonization may remain resilient despite political shifts. Political uncertainty reinforces the importance of diversification, active bond selection, and strategies to enhance portfolio resilience. This includes balancing risk asset exposures with interest rates, leveraging the US dollar's safe-haven appeal, and employing currency options to navigate potential rises in currency volatility from current low levels.

THE CONSUMER

Consumer spending remains a pivotal driver of economic growth. However, rising delinquency rates in credit card and auto loans suggest that some borrowers are facing difficulties, likely exacerbated by high vehicle costs and the resumption of student loan payments. We also note that wealth gains and interest income are predominantly concentrated among higher-income households, who traditionally exhibit a lower propensity to consume. Recent company commentary has indicated a growing caution regarding lower-income consumers. Additionally, consumer sentiment is subdued, despite the labor market's strength. Potential disruptions to gasoline supplies during the hurricane season could further inflate fuel costs and dampen consumer confidence. Despite this, it's important to note that credit constitutes a small portion of overall consumer spending, and overall delinquency rates remain below pre-pandemic levels. Overall, a dynamic economy emphasizes the need to stay vigilant of evolving trends, as today's strengths may quickly become tomorrow's vulnerabilities.

US Trade Policy Uncertainty Has Increased to Its Pre-Trade-War Peak



Source: Haver Analytics, Goldman Sachs Global Investment Research Global Economics Analyst The Impact of Trade Policy Uncertainty on Growth in the US and Europe, June 25, 2024. * Caldara D., Iacoviello M., Molligo P., Prestipino A., and Raffo A. (2020). Dashed line corresponds to latest value.

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NAVIGATING FIXED INCOME

Summary of Key Views

	Underweight	Neutral	Overweight	Investment Perspectives
SOVEREIGN BONDS				
US			●	Moderately overweight ahead of impending Fed easing and positioned for forward US Treasury curve to steepen.
Euro Area		●		Recently migrated from underweight to neutral in anticipation of further ECB easing.
Japan	●			Underweight given underlying inflation momentum points to further policy normalization.
UK			●	Overweight on a cross-market basis as slowing growth should reinforce the disinflation progress and pave way for a summer BoE rate cut.
Other G10			●	Overweight Canadian, Norwegian and Swedish rates in anticipation of more monetary easing relative to market-implied pricing.
CURRENCIES				
US Dollar			●	Overweight given attractive carry and potential upside amid election-related uncertainty.
Euro	●			Underweight considering ECB easing.
Japanese Yen			●	Slightly overweight responding to our currency signals and expectation for BoJ policy normalisation.
British Pound	●			Underweight in anticipation of BoE easing.
Chinese Yuan	●			Underweight given weak domestic growth and as a safeguard against possible protectionist measures following the US election.
EM (ELMI)	●			Underweight considering recent unwinding of EM carry trades.
FIXED INCOME SPREAD SECTORS				
IG Credit		●		Neutral given tight spreads but continue to locate bottom-up income and return opportunities.
HY Credit			●	Overweight with a preference for high-quality bonds alongside selective exposure to CCC-rated bonds.
Bank Loans			●	Overweight but selective considering pockets of potential stress among issuers with a large amount of short-dated and floating-rate debt.
Agency MBS			●	Overweight considering favorable technical dynamics relative to expectations.
Securitized Credit			●	Overweight given firm fundamentals and attractive carry in senior CLOs and AAA-rated CMBS.
External EMD			●	Moderately overweight as the fundamental backdrop may be improving as financial conditions ease and debt restructurings progress.
Local EMD		●		Neutral given EM central banks are exercising caution in easing, influenced by the Fed's delayed rate cuts and currency market volatility.

Source: Goldman Sachs Asset Management. As of July 11, 2024. The economic and market forecasts presented herein are for informational purposes as of the date of this document. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document.

INTEREST RATES

(G)rate Expectations

OUTLOOK

In the short term, we expect DM government bond yields to be shaped by the latest economic indicators, as central banks focus on current data rather than inflation or economic forecasts. The disinflation path will be closely watched, with any signs of economic or labor market downturn potentially leading to the start or acceleration of rate-cutting cycles, influencing short-term yields. However, without clear evidence of economic deceleration, a sustained drop in yields is unlikely. We also recognize the possibility of increased yield volatility due to lower liquidity during the summer holidays. The recent volatility in French sovereign bonds demonstrates how political factors can affect yields, either by changing fiscal outlook perceptions or by emphasizing existing fiscal challenges. In the US, the likelihood of persistent fiscal deficits across all election scenarios suggests a continuing trend of a high and possibly increasing term premium.

WHERE ARE THE OPPORTUNITIES?

We are strategically navigating divergent central bank policies with cross-market interest rate exposures. We favor Canadian rates, already benefiting from the Bank of Canada's rate cuts and potential for further easing, a reflection of Canada's strides in disinflation. The recent oil price drop has also favored Canadian rate performance, given the economy's reliance on this commodity. The UK is another promising candidate for overweight rate exposure, with headline inflation returning to 2% and a weakening labor market suggesting possible dovish policy shifts. The BoE has indicated readiness to ease this summer, should data support their forecasts.

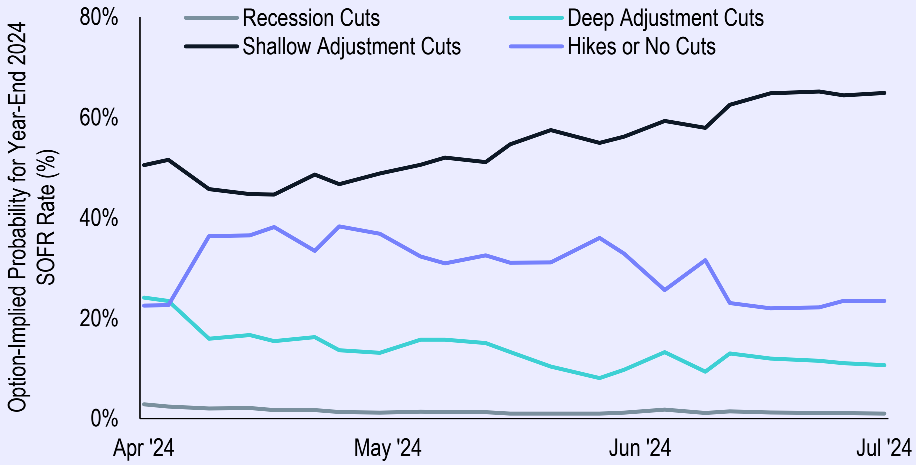
We see value in overweight exposure to Swedish rates, where slow growth and slowing inflation hint at further easing. In contrast, we're underweight Japanese rates due to the weak yen and strong wage growth pointing to

WHERE ARE THE OPPORTUNITIES? (CONTINUED)

sturdier inflation expectations and a potential BoJ rate hike and balance sheet normalization this summer. Our Australian rates position has shifted to underweight, given the halted inflation progress, which might defer rate cuts or reintroduce hikes.

In the US, we're positioned for a steepening of the forward US Treasury yield curve, a hedge against downward growth risks, benefiting from the onset of Fed rate cuts or an increasing term premium fueled by a consistent supply of US Treasuries. Our European rates stance is neutral, balancing the ECB's informal easing bias with potential near-term upside risks to services inflation, driven by strong tourism.

The Market Anticipates a Shallow Fed Rate Cutting Cycle in 2024



Source: Goldman Sachs Asset Management. As of July 2, 2024. Secured overnight financing rate (SOFR). Year-end 2024 SOFR assumed ranges: Recession cuts: below 2.75%, deep adjustment cuts: 2.75-4.25%, shallow adjustment 4.25-5.25%.

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CURRENCIES

Dollar Dominance

OUTLOOK

Economic indicators remain pivotal in influencing market movements, including those in the currency sphere. For instance, the US labor market, which has returned to pre-pandemic levels, is at a pivotal juncture. Any signs of weakness could prompt the Fed to consider additional rate cuts, potentially halting the dollar's upward momentum. As the third quarter unfolds, political factors are expected to gain prominence. We are 'price takers' rather than predictors of election outcomes. Nevertheless, it's crucial to evaluate the potential effects of different policy directions. A Republican sweep in the US election could signal a bullish phase for the dollar, driven by potential tariff hikes that may induce inflation and lead to a more hawkish monetary policy in the near term before any negative growth impacts from tariffs are felt. Fiscal expansion, deregulation, and tax cuts that favor domestic businesses and financial assets are also likely to bolster the dollar. Additionally, immigration restrictions that reduce labor supply could contribute to inflation, further strengthening the greenback. On the other hand, the Chinese yuan might depreciate if trade tensions escalate. A split Congress may hinder certain policy changes, potentially slowing the dollar's rise. However, the President's independent authority in certain areas, particularly in trade policy, deserves careful monitoring. Overall, most election scenarios, including those with tariff implications, point to a rising dollar.

WHERE ARE THE OPPORTUNITIES?

In the absence of significant growth or asset performance outside the US, we expect the US dollar to maintain its 'stronger-for-longer' stance, benefiting from its carry advantage. The dollar is also likely to gain from its status as a perceived safe-haven amid market volatility spurred by election-related uncertainties. We have adopted an underweight position on the Euro, considering the ECB's steady policy normalisation plans. Similarly, we are cautious on Asian currencies, including the Chinese yuan and the Indian

WHERE ARE THE OPPORTUNITIES? (CONTINUED)

rupee, guided by our currency signals. These signals are derived from an analysis of carry prospects, macroeconomic fundamentals, and market sentiment. We also strategically position ourselves to capitalize on market volatility through currency options. This approach is not only cost-effective for generating returns but also allows us to strategically benefit when volatility spikes due to economic or political uncertainty. We are also underweight EM currencies based on our signal's framework. This has helped us navigate through weaknesses in various currencies that initially emerged as country-specific responses to unexpected election outcomes, such as those seen in the South African rand, Mexican peso, and Indian rupee, which later expanded into a wider sell-off across EM currencies throughout June.

Our Dashboard Remains in Favor of Dollar Exposure

Dollar Supportive Factors	Dollar Neutral Factors	Dollar Bearish Factors
• High nominal carry • Positive real yield • Positive rate differential in forward interest rates, suggesting that there is an expectation of continued positive carry • Robust inflows into US equities (in part driven by AI optimism) relative to other equity markets	• Neutral US economic surprises relative to other economies • Slowing outflows from EM assets • Neutral market positioning	• High valuation • Convergence of US growth with global growth through decelerating US activity momentum • Risk-on sentiment supporting inflows into global financial assets

Source: Goldman Sachs Asset Management. As of June 30, 2024.

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INVESTMENT GRADE CREDIT

Navigating Headwinds and Positioning for Tailwinds

OUTLOOK

Despite the potential headwinds posed by higher interest rates, our outlook remains positive. Our optimism is rooted in strong company fundamentals, a favorable economic climate, and robust demand for credit, which collectively should maintain tight spreads. Particularly noteworthy are the earnings of US non-financial corporations, which have outperformed European firms. Companies have also demonstrated financial prudence by limiting cash outlays on shareholder activities and bolstering cash reserves, resulting in stable leverage ratios. Although interest coverage has slightly decreased, it is still adequate, and we expect the continued growth in earnings to help counterbalance the impact of rising rates. Market dynamics are also favorable, characterized by high new supply being met with high demand from investors seeking attractive yields. Nevertheless, we are vigilant for any signs of a slowdown in earnings growth or an uptick in debt due to capital investments, dividends, M&A activity, or share buybacks. We also keep a close eye on the capacity for debt servicing in the context of higher rates. While late-cycle overinvestment is a common concern, it is not currently a widespread issue, except in the US utilities sector, where significant investments are being made in line with decarbonization goals.

WHERE ARE THE OPPORTUNITIES?

Despite historically low spreads, high yields offer significant income opportunities. It is also important to recognize that low spreads are indicative of resilient economic and corporate fundamentals, with companies generally maintaining good financial health, adequate cash reserves, and profitability to support debt servicing. Furthermore, favorable market conditions are facilitating debt refinancing for companies. Bonds issued by banks are particularly appealing due to their spread premium, although recent performance has reduced their valuation appeal.

WHERE ARE THE OPPORTUNITIES (CONTINUED)

Sectors adapting to decarbonization and digitization, such as telecoms with broadband and 5G services, and tech firms focusing on cybersecurity and data protection, also offer opportunities.

The BBB-rated segment of the IG market remains promising for income and total returns. We also anticipate a steepening credit curve, with short to intermediate bonds offering better carry and roll potential[1] than longer-dated bonds. Our approach includes utilizing credit derivatives to express these views. Overall, we advocate for active bond selection to navigate headwinds and position for potential tailwinds.

$819 BN Year-to-date new USD IG issuance, marking a 30% increase relative to the pace in 2023[2]

5.5% Yields for the US IG index—higher than 96% of the time over the past 15 years[2]

[1] Carry reflects an assets expected total return (net of financing costs) beyond price appreciation. It is estimated by the yield differential (or 'spread') between a fixed income sector and a risk-free asset (typically a relevant sovereign bond yield). Roll refers to a change in spread from "rolling down" a credit curve over time. [2] Source: Bloomberg. As of May 2024. The economic and market forecasts presented herein are for informational purposes as of the date of this document. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document.

HIGH YIELD CREDIT & BANK LOANS

A Solid Second Half

OUTLOOK

We believe high yield bonds and leveraged loans are well positioned to build upon the solid returns already achieved year-to-date in the second half of 2024. Despite the higher rate regime, revenue, EBITDA, and cash flow growth have decelerated less than expected. Our tracking of over 1000 global companies revealed that 80% met or surpassed first quarter earnings estimates, with 90% providing forward guidance that met or exceeded expectations. Encouraging corporate earnings trends are anticipated to persist. In addition, near-term refinancing risks have diminished, as companies have capitalized on favorable market conditions to issue new debt. By the end of June, the high yield bond market saw close to $166 billion in new supply year-to-date, while the loan market experienced a near-record issuance of $703 billion. Most of this issuance—around 80% to 90%—is focused on refinancing or repricing upcoming maturing debt, effectively reducing the volume of leveraged credit debt maturing in the next three years from $841 billion last March to approximately $325 billion by the end of June[1]. Lastly, core credit metrics remain robust, with leverage and interest coverage ratios aligning with historical norms.

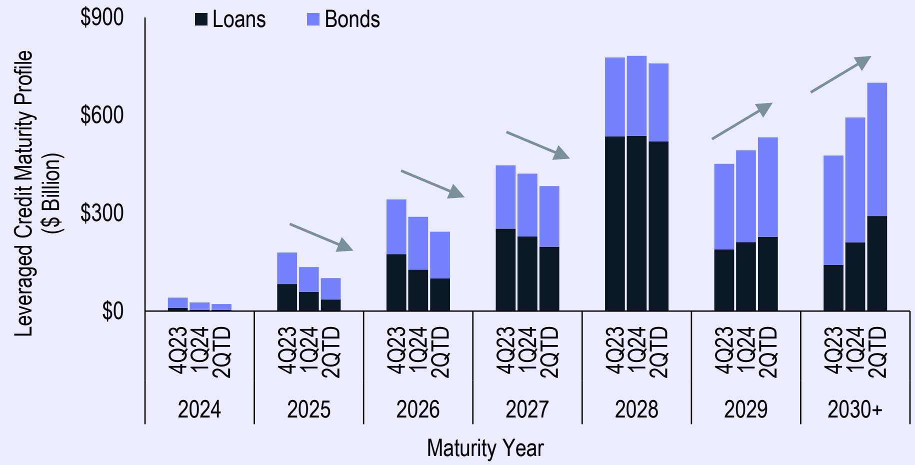
WHERE ARE THE OPPORTUNITIES?

Despite a favorable macro and market backdrop, higher rates and uncertain election outcomes, along with tight spreads, necessitate a selective approach. Challenges in sectors facing long-term shifts are reflected in high spread dispersion among lower-rated bonds and loans. We find opportunities in select lower-rated bonds and loans, particularly where there are clear catalysts that could improve bond performance. For example, issuers in the aftermarket auto supplies sector benefit from rising demand for parts and services as vehicles age. High yield bonds trading below par value also present value, especially when refinancing can mitigate near-term risks and potentially enhance value. Lastly, in a persistently high interest rate environment, leveraged loans with floating-rate coupons continue to benefit.

48% Share of BB-rated bonds in the US HY market, up from 27% in 2013, reflecting an improvement in credit quality over the past decade[2]

2.7% 12-month trailing par-weighted US leveraged credit default rate, including distressed exchanges, below the long-run average of 3.4%[2]

Refinancing Activity Has Helped to Breakdown Maturity Walls



Source: Morgan Stanley. As of May 31, 2024.

[1] Source: BofA as of June 2024. [2] Source: J.P. Morgan. As of May 31, 2024. Leveraged credit reflects high yield and leverage loans. The economic and market forecasts presented herein are for informational purposes as of the date of this document. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document.

AGENCY MBS

Technically Strong

OUTLOOK

The second half of the year looks promising for agency MBS, with favorable conditions expected to persist. Fundamentally, slower-than-anticipated prepayment speeds, particularly in higher coupon MBS where we are overweight, prolong the period of receiving income. On the market technical front, constrained new MBS supply, due to reduced mortgage origination and low housing sales, is beneficial. This is a consequence of households with low-rate mortgages being disincentivized to transition to higher rates. Meanwhile, robust global investor demand for agency MBS, evident in multi-sector portfolios and dedicated securitized credit allocations, may be complemented by resumed bank demand. These supply and demand factors should continue, with potential Fed rate cuts likely to further stimulate demand for fixed income assets, including agency MBS. This convergence of factors implies a balanced technical backdrop, despite the Fed engaging in passive QT and no longer reinvesting proceeds from maturing MBS holdings.

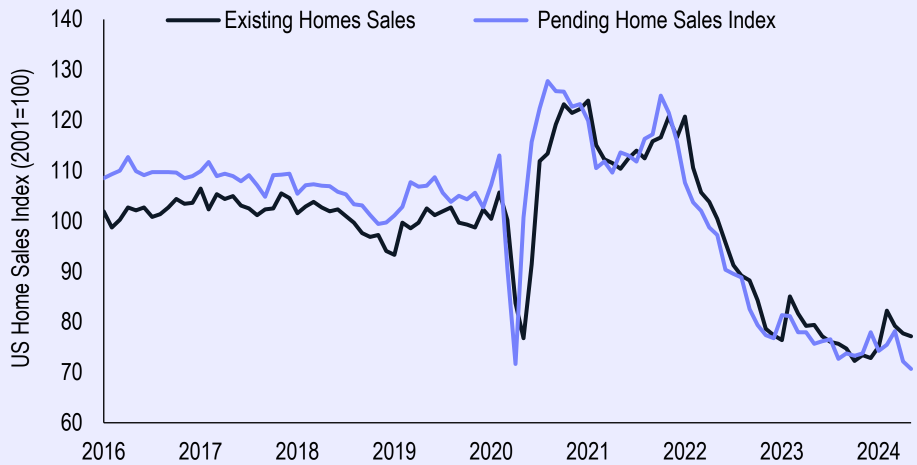
WHERE ARE THE OPPORTUNITIES?

MBS spreads ended the second quarter on the tighter side of their range for the year, and we see no immediate catalyst for further tightening. However, our overweight stance in the sector remains intact due to attractive carry, solid fundamentals, and positive technical factors. We favor higher coupon mortgages, expecting them to continue the year-to-date trend of slower prepayment speeds, compared to agency MBS with medium-level ("belly") coupons, towards which we maintain a neutral stance. We also prefer Ginnie Mae MBS over conventional MBS, as they benefit from demand by US banks and international institutional investors, partly due to their favorable capital treatment for banks. Given that US banks hold nearly a third of the total agency MBS market, their demand significantly influences performance. As a result, our expectation for continued bank demand underpins our preference for Ginnie Mae MBS.

5.3% Yields for the US MBS index—higher than 96% of the time over the past 10 years[1]

-0.07 Option-adjusted convexity of the US MBS index, the 89th percentile over the past 10 years[1]

Low Housing Activity Has Created a Supportive MBS Supply Backdrop



Source: Macrobond. As of May 2024.

[1] Source: Bloomberg US Mortgage-Backed Securities (MBS) Index. As of June 30, 2024. Convexity reflects the degree to which the duration of the securities changes with interest rate movements, suggesting a lower sensitivity to rate changes at present compared to most of the past 10 years. The economic and market forecasts presented herein are for informational purposes as of the date of this document. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document.

SECURITIZED CREDIT

Capitalizing on Carry in CLOs and CMBS

OUTLOOK

We remain optimistic about the potential for spread tightening in the second half of the year owing to robust fundamentals, particularly for securities at the top of the capital structure. Recent economic indicators also suggest a 'soft-landing' scenario, which bodes well for maintaining cash flows from the underlying loans. Additionally, market technicals are favorable, with the attractive income offered by securitized credit drawing widespread interest from both institutional and retail investors. Although the relative valuation appeal of securitized sectors has decreased since the beginning of the year, their income and return prospects remain favorable both outright and compared to other fixed income sectors.

WHERE ARE THE OPPORTUNITIES?

CLOs remain attractive for their risk-adjusted income potential and high credit enhancement levels.[1] Credit enhancement ensures senior tranches have payment priority during stress or defaults, providing a security buffer against potential losses. This feature, alongside robust fundamentals, and favorable technical conditions, even in a higher rate regime, adds to the appeal of CLOs. Additionally, AAA-rated US CLOs have seen stable net new supply year-to-date, alongside robust demand from traditional and new investors, including CLO ETFs. Our strategy favours AAA-rated CLOs acquired at new issues or in the secondary market with minimal extension risk.[2] We have strategic exposure to BBB-rated mezzanine CLO tranches to enhance income potential, focusing on managers with a proven track record in selecting CLO collateral. Elsewhere, we see value in AAA-rated conduit CMBS for their diversified commercial mortgage backing and focus on the senior part of the capital structure for its high credit enhancement and return

WHERE ARE THE OPPORTUNITIES? (CONTINUED)

potential. Additionally, we selectively invest in single-asset-single borrower (SASB) CMBS linked to industrial, hospitality, and high-quality office properties, anticipating steady cash flows and limited lease rollovers, favouring recent issues with stringent underwriting standards across both conduit and SASB CMBS. We also see potential in short-duration prime auto and credit card ABS, where underlying cash flows are supported by a robust job market. Lastly, we continue to favor Non-Agency RMBS due to strength in housing and borrower fundamentals, and we see compelling opportunities for security selection within the Prime, Non-QM, and Credit Risk Transfer sectors.

5.0% Yield for the US CMBS index—a figure that exceeds 95% of yields observed over the past decade*

1.8% Delinquency rate on all US consumer loans—well below the 2009-2019 average of 4.9%*

[1] This structuring provides a level of protection for investors in the higher-rated tranches. Specifically, the credit enhancement level indicates the extent to which underlying assets could potentially default before the highest-rated tranches are affected. For example, if a AAA-rated CLO tranche has a credit enhancement of 30%, it means that up to 30% of the underlying assets could default before the highest-rated tranche is impacted. [2] Extension risk in the context of CLOs refers to the risk that the underlying loans may not be repaid by the end of the term of the CLO, leading to an extension of its life. This can happen if the loans within the CLO portfolio are refinanced or if the borrower's default, causing the CLO to hold onto defaulted loans longer than expected. The risk is that the CLO may not be able to return capital to investors as anticipated, which can affect the returns, especially for investors in the equity or lower-rated tranches who are the last to be paid out. * Source: Macrobond. Yield data as of July 1, 2024, delinquency data as of 1Q 2024.

EMERGING MARKET DEBT

Staying Selective

OUTLOOK

Emerging market (EM) sovereign credit has delivered a robust total return of 2.6% year-to-date.[1] Performance is attributed to growth momentum, disinflation trends, and fiscal discipline in certain economies, as evidenced by the positive trajectory in credit ratings in response to strong fundamentals. With a favorable economic environment of continued global growth and anticipated Fed cuts, we expect EM sovereign credit spreads to tighten in the latter half of the year. We also expect the Fed's forthcoming easing cycle to encourage further monetary easing in EM economies, benefiting EM local bonds. However, the rate-cutting cycle for some EM central banks is currently on hold due to increased inflation risks from currency depreciation, linked to fiscal concerns and a delayed start to Fed easing. EM corporate fundamentals remain healthy, with net leverage at near-decade lows. Default activity is projected to decrease in 2024, reversing the trend of the past three years. Additionally, the technical environment for EM corporate bonds is favorable due to the limited new supply. We are closely monitoring the outcome of the US election, especially tariff prospects and foreign policy. We are also aware of potential challenges from high interest rates for vulnerable sovereigns, highlighting the need for active management.

WHERE ARE THE OPPORTUNITIES?

We locate idiosyncratic opportunities across sovereign credit, including Frontier markets, and in local and corporate bond markets. Our strategy focuses on securing attractive carry and potential total returns. For instance, in EM sovereign credit, we're seek to identify 'rising star' candidates which may experience an upgrade from high yield to investment grade, such as Oman and Serbia, and Morocco, which exhibits strong economic momentum and a narrowed current account deficit. However, Morocco's slow fiscal consolidation could delay its upgrade to investment grade. Central and Eastern European sovereigns like Hungary and Latvia are also viewed

WHERE ARE THE OPPORTUNITIES (CONTINUED)

viewed favorably, thanks to foreign direct investment inflows. In Frontier markets, we believe Serbia's external debt is attractive due to closer EU economic ties, a potential sovereign upgrade, and fiscal prudence. Uzbekistan, with its robust growth and substantial currency reserves, is another opportunity. We've reduced our exposure to EM local bonds, favoring markets like Chile, Czechia, and Hungary, which are likely to continue monetary easing. Our selective approach leverages specific country dynamics, rather than positioning for a broad easing cycle. Moreover, the EM corporate bond market continues to offer an appealing mix of yield, diversification, and resilience against macroeconomic shifts.

5.7%

Frontier market total return year-to-date, outperforming the broader EM sovereign credit market[1], highlighting room for active alpha generation

$122BN

YTD EM sovereign credit new supply, with high yield sovereigns accounting for 21%, reflecting regained market access, including for distressed issuers[2]

[1] Source: J.P.Morgan. As of July 5, 2024. Based on the J.P.Morgan Emerging Market Bond Index (EMBI) Global Diversified and J.P.Morgan Next Generation Market Index (NEXGEM) for the Frontier market. [2] Source: J.P.Morgan. As of July 9, 2024.

MUNICIPAL BONDS

Balanced Technicals May Be Disrupted By Politics

OUTLOOK

We anticipate continued positive performance in the third quarter, even as new supply exceeds seasonal averages, continuing this year's pattern. The influx of new supply should be well digested as investors seek to reinvest proceeds from maturing debt over the summer. We also foresee a reduction in new supply as the US election draws near. Currently, yields are above long-term averages and valuations are more favorable than at the beginning of the year, which should sustain strong investor demand. This robust demand is anticipated to counterbalance any potential adverse effects from rising rates or increased market volatility, contributing to a positive outlook for the sector. That said, two key considerations will be top of mind in the second half of the year. First, the Fed's potential rate cut, the first since 2020, could influence market performance and the pace at which investors shift from cash into longer-duration securities. Second, the outcome of the US election will be important as Federal-level public policy can affect municipal bond valuations, as investors factor in potential policy shifts in the fourth quarter. These could include changes in federal regulations, income tax rates, and other adjustments at state and local levels, all of which warrant close attention.

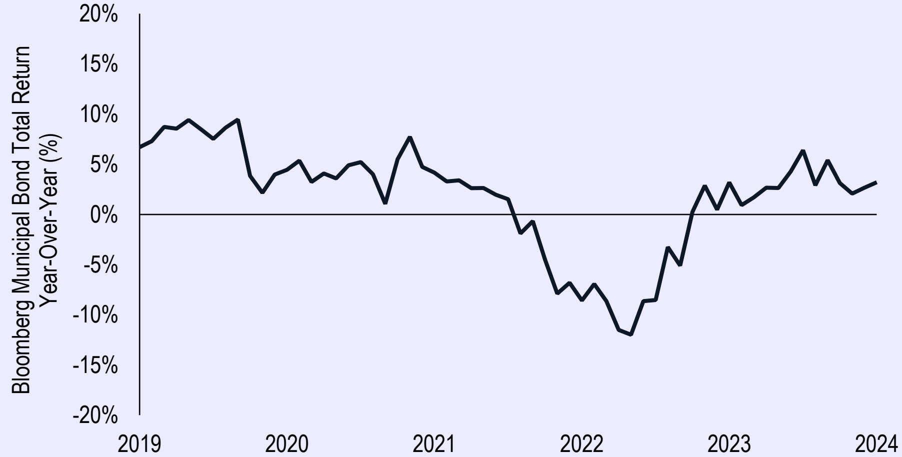
WHERE ARE THE OPPORTUNITIES?

Our outlook on municipal credit fundamentals remains positive, yet narrow spreads underscore the importance of active security selection and a diversified portfolio. We favour longer-dated bonds for their income potential, but also recognize the appeal of intermediate maturity bonds given attractive valuations, offering a chance to diversify along the yield curve. We also still see value in the BBB-rated segment of the investment grade market and in select high yield bonds.

Valuations Have Recently Improved Versus US Treasuries

Source: Bloomberg. As of July 9, 2024.

We Anticipate Continued Returns Amid Balanced Technical Dynamics



Source: Macrobond. As of June 2024.

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LIQUIDITY SOLUTIONS

Positioning for the Policy Pivot

OUTLOOK

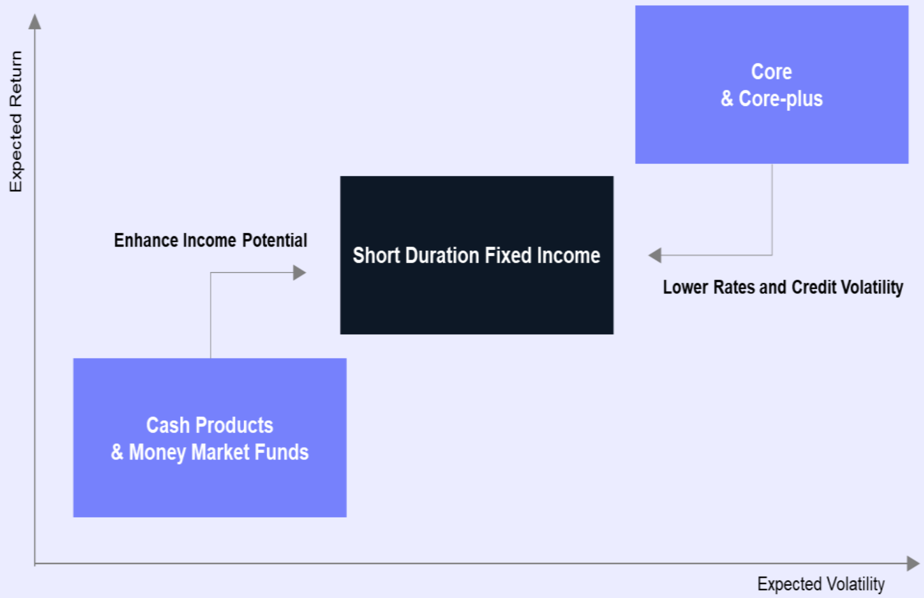
Several DM central banks have started to lower interest rates, with more expected to follow. For example, the BoE is projected to reduce rates in August, while the Fed's decision may be influenced by recent improvements in US CPI inflation data and a cooling labour market. Investors are likely to reposition their portfolios, particularly in US dollar money market instruments and short duration bonds, as anticipation builds for the first Fed rate cut since 2020. Despite this, sustained higher yields for money market funds (MMFs) may potentially keeping their utilization high in the near term.

WHERE ARE THE OPPORTUNITIES

We believe investment opportunities are currently favorable in short duration bonds. Despite the appeal of cash instruments due to their yield and stability, short duration bonds are a timely and wise investment for those needing liquidity. They offer a chance to secure attractive yields before the expected expansion of central bank rate cuts.

Against a backdrop of inverted yield curves and low credit spreads, short duration bonds present a lower risk and volatility alternative to long-term bonds, making them a suitable complement to core fixed income allocations. They also serve as a strategic complement to cash, especially as yields are projected to decrease alongside central bank policy rates. Overall, short duration bonds are a valuable investment solution for those aiming to maintain liquidity and capital safety while also seeking additional income.

Short Duration: A Strategic Complement to MMFs or Core Fixed Income



Source: Goldman Sachs Asset Management, Bloomberg. Analysis is based on monthly data from March 1995 to April 10, 2024. **Past performance does not guarantee future results which may vary. Yield to Worst** is the interest rate that makes the present value of a bond's cash flows equal to the bond's price or initial investment, calculated by making worst-case scenario assumptions (excluding issuer default) on the bond by calculating the returns that would be received if provisions, including prepayment, call, put, and sinking fund, are used by the issuer.

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GREEN, SOCIAL AND SUSTAINABILITY BONDS

An Expanding Opportunity Set

OUTLOOK

In the first half of 2024, the green, social and sustainable (GSS) bond market has grown significantly, with issuance totalling $496 billion—equivalent to 11% of the global investment-grade corporate bond market. Growth is set to continue, with issuance potentially doubling to $1 trillion by the end of the year, despite a seasonal slowdown in the third quarter. The market's expansion is marked by increased diversity and depth, with the industrials sector driving much of the growth and GSS bond offerings extending beyond Europe. This diversification and change in sector composition is paving the way for more growth and innovation, including financing for a variety of projects, such as green bonds for nuclear energy, which have sparked debate over their environmental validity. However, sustainability-linked bonds are seeing a decline in issuance due to investor concerns over KPIs and regulatory changes. In contrast, the demand for GSS use-of-proceeds instruments is rising, highlighting their appeal for investors focused on environmental and social impact. Overall, the GSS bond market is set for continued growth, offering investors opportunities to green their portfolios or create dedicated GSS allocations. A favorable economic environment alongside broadening policy rate cuts and strong investor demand is expected to keep green bond spreads tight and offer attractive income opportunities.

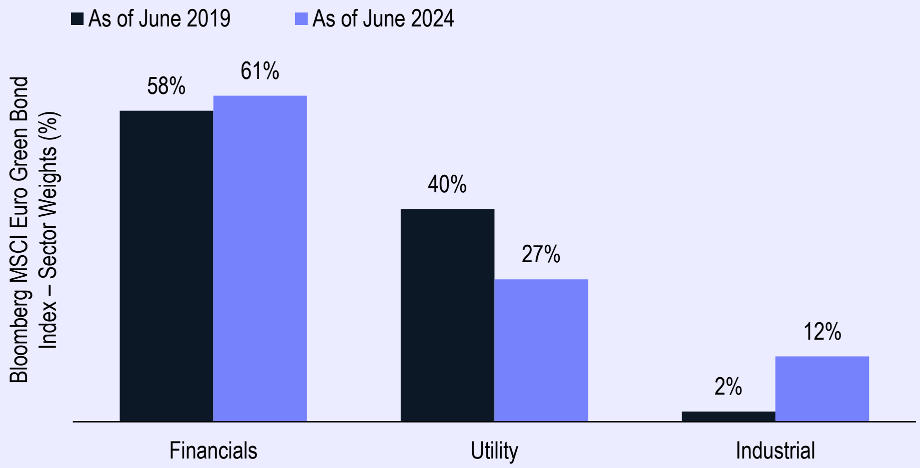
WHERE ARE THE OPPORTUNITIES?

Green bonds offer a spread premium over conventional bonds, with the Bloomberg MSCI Global Green Bond Index at 79 basis points (bps) compared to the Bloomberg Global Aggregate Index's 41bps at the end of the second quarter. Despite this, green bond spreads are below the long-term median, mirroring trends in other fixed income sectors. This highlights the importance of active bond selection for total returns.

WHERE ARE THE OPPORTUNITIES? (CONTINUED)

The green bond market is also aligning with the broader fixed income market, as seen in the growth of the industrial sectors weight from 2% to 12%. This shift broadens investment opportunities for those supporting global sustainability goals. Proceeds from financials and utilities green bonds are primarily directed towards two Green Bond Principles categories, aligning with three UN SDGs: SDG 7 (Affordable and Clean Energy), SDG 11 (Sustainable Cities and Communities), and SDG 13 (Climate Action). However, funding for biodiversity, corresponding to SDG 14 (Life Below Water) and SDG 15 (Life on Land), is still scarce. A more diverse green bond market from a sector standpoint could lead to a wider range of uses for proceeds, expanding the investment opportunity set.

Growing Share of Industrials May Diversify Use of Proceeds



Source: Bloomberg.

Abbreviations: Green, social and sustainability (GSS), Key Performance Indicators (KPI), UN Sustainable Development Goals (SDGs). The economic and market forecasts presented herein are for informational purposes as of the date of this document. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document. Diversification does not protect an investor from market risk and does not ensure a profit.

CENTRAL BANK SNAPSHOT

	Interest Rate Policy	Balance Sheet Policy	Outlook	Our outlook relative to market-implied pricing
Fed	Federal funds rate: 5.25-5.5% Last change: July 2023 (+25bps) Hiking cycle duration: 17 months Rate at the start of latest hiking cycle: 0.25%	The Fed has been reducing its balance sheet passively since June 2022. The FOMC decided to decrease the pace of this reduction starting in June 2024, with the monthly runoff scaling down from $60 billion to $25 billion.	We think the Fed may initiate a rate cut in September considering recent disinflation progress and cooling of the labor market, followed by a further rate cut in December. Anticipated rate at end-2024: 4.75-5% Neutral rate estimate: 2.25-3.75%	In line
ECB	Deposit facility rate: 3.75% Last change: June 2024 (-25bps) Hiking cycle duration: 15 months Rate at the start of the latest hiking cycle: -0.5%	The ECB started reducing its balance sheet in March 2023 and ceased reinvestments from its APP in July 2023. The reinvestment of proceeds from maturing securities under the PEPP will gradually decrease starting July 2024 and conclude in December 2024.	We think the ECB will adopt a gradual, quarterly pace of easing. Anticipated rate at end-2024: 3.25% Neutral rate estimate: 2.0-3.0%	Slightly dovish
BoE	Bank Rate: 5.25% Last change: August 2023 (+25bps) Hiking cycle duration: 21 months Rate at the start of the latest hiking cycle: 0.1%	The BoE has actively been reducing its balance sheet since November 2022. While we expect the passive reduction to continue in conjunction with rate cuts, active bond sales may be paused.	We foresee the easing cycle to begin in August, contingent on progress in inflation persistence indicators such as services inflation and wage growth. Anticipated rate at end-2024: 4.75% Neutral rate estimate: 2.75-3.25%	Dovish
BoJ	Policy deposit rate: 0.10% Last change: March 2024 (+20bps) Duration of negative rates: 98 months Rate at start of the latest hiking cycle: -0.10%	We think the BoJ may reduce its purchases of Japanese Government Bonds cautiously to prevent market instability.	We anticipate further, albeit modest, hikes in interest rates as Japan's real rates remain low and financial conditions are relatively easy relative to the backdrop of inflation. Anticipated rate at end-2024: 0.5% Neutral rate estimate: 0.75-2.0%	Slightly hawkish

Source: Goldman Sachs Asset Management. As of July 11, 2024. Abbreviations: Quantitative Easing (QE), Quantitative Tightening (QT), Yield Curve Control (YCC), Pandemic Emergency Purchase Program (PEPP), Asset Purchase Program (APP), Targeted Longer-Term Refinancing Operations (TLTROs), Japanese Government Bond (JGB). The neutral rate estimates come with a degree of uncertainty. They are derived from a combination of fundamental, market, and model-based assessments. The ranges for the Fed, BoE and BoJ reflect the diversity of these estimates. For the ECB, the range represents the spectrum of policymakers' estimates, which has been adjusted based on our discretionary perspective. Estimated neutral rates by central banks are as follows: BoE 2-3%, BoJ 1-2.5%, Fed 2.4-3.8%, ECB 1.5-3%. The economic and market forecasts presented herein are for informational purposes as of the date of this document. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document.

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April 2, 2024

Navigating Investment Grade Credit

July 26, 2023

Bear (Market) Necessities: The Case For Core Fixed Income

May 15, 2023

FIXED INCOME DATA DASHBOARD

Sovereign Bond Yields (%)

	Latest (%)	Year-to-date Change (bps)	1-Year Change (bps)	Last 10-year Percentile
US 2 Year	4.6	39	-32	91
US 10 Year	4.3	40	22	95
US 2-10 Slope	-0.3	1	54	15
US Treasury 10-Year Inflation-Protected	2.0	29	22	95
Germany 2 Year	2.9	52	-33	92
Germany 10 Year	2.5	51	-8	95
Japanese 10 Year	1.1	47	66	100
UK 10 Year	4.2	56	-47	92
Chinese 10 Year	2.3	-29	-38	1

Source: Macrobond, Goldman Sachs Asset Management. As of 11 July 2024.

Exchange Rates

	Latest	Year-to-date Change (%)	1-year Change (%)
Euro (€ per $)	0.92	2.1	1.2
British Pound (£ per $)	0.78	-0.7	0.0
Japanese Yen (¥ per $)	161.64	14.6	13.7
Chinese Yuan Renminbi (CNY per $)	7.28	2.8	0.8

Source: Macrobond, Goldman Sachs Asset Management. As of 11 July 2024.

Fixed Income Sector Yields (%)

	Latest (%)	Last 10 year average (%)	Year-to-date change (bps)	Last 10 year Percentile
US Investment Grade	5.4	3.6	23.8	88
European Investment Grade	3.7	1.5	20.3	84
UK Investment Grade	5.4	3.2	29.8	85
US High Yield	7.8	6.6	16.2	74
European High Yield	6.3	4.3	4.1	81
EM External	8.3	6.2	44.0	86
EM Corporate	6.5	5.4	-18.3	77
US Agency MBS	5.1	2.9	39.1	94
US ABS	5.7	2.8	3.5	86
US Munis	3.7	2.4	32.3	91
US CMBS	4.8	2.7	28.1	92

Source: Macrobond, Goldman Sachs Asset Management, ICE BofAML and J.P. Morgan. As of 11 July 2024.

Fixed Income Sector Spreads (bps)

	Latest (bps)	Last 10 year average (bps)	Year-to-date change (bps	Last 10 Year Percentile
US Investment Grade	92	130	-12	5
European Investment Grade	106	122	-29	35
UK Investment Grade	109	150	-25	6
US High Yield	317	441	-17	5
European High Yield	334	404	-61	22
EM External	388	379	5	63
EM Corporate	241	338	-47	1
US Agency MBS	45	36	-3	67
US ABS	95	95	-27	64
US CMBS	44	53	-7	20

Source: Macrobond, Goldman Sachs Asset Management, ICE BofAML and J.P. Morgan. As of 11 July 2024.

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Sector Spread Indexes

US Investment Grade Corporates: ICE BofAML US Corporate Index

US High Yield Corporates: ICE BofAML US Corporate High Yield Index

European Investment Grade Corporates: ICE BofAML Euro Corporate Index

European High Yield Corporates: ICE BofAML Euro High Yield Index

ABS: ICE BofAML US Fixed Rate Asset-Backed Securities Index

MBS: ICE BofAML US Agency Mortgage-Backed Securities Index

CMBS: ICE BofAML US Fixed Rate Commercial Mortgage-Backed Securities Index

EM External Debt: J.P. Morgan, EMBI Global Diversified Face Constrained Index

Indexes used for total returns:

Bloomberg Global Aggregate Value Unhedged USD

Bloomberg US Aggregate Unhedged USD

Bloomberg Global Aggregate Government-Related Unhedged USD

Bloomberg US Treasury Total Return Unhedged USD

ICE BofAML German Government (Local Currency) EUR

ICE BofAML UK Gilt (Local Currency) GBP

ICE BofAML Japan Government Index (Local Currency), JPY

J.P. Morgan Cash 3 Month USD

Bloomberg US Corporate Unhedged USD

Bloomberg US Corporate High Yield Unhedged USD

Markit iBoxx USD Leveraged Loans Total Return Index

ICE BofAML Euro Corporate EUR

ICE BofAML Euro High Yield EUR

Bloomberg US MBS Unhedged USD

Bloomberg US Agg ABS Unhedged USD

ICE BofAML US Fixed Rate Agency CMBS USD

Bloomberg Municipal Bond Unhedged USD

J.P. Morgan EMBI Global Diversified Face Constrained USD

Bloomberg EM Local Currency Government Unhedged USD

J.P. Morgan CEMBI Diversified USD

ICE BofAML Green Bond (Local Currency)

Abbreviations: US Federal Reserve (Fed), European Central Bank (ECB), Bank of England (BoE), Bank of Japan (BoJ), Swiss National Bank (SNB), Central Bank of Sweden (Riksbank), Reserve Bank of New Zealand (RBNZ), Central Bank of Norway (Norges Bank) Bank of Canada (BoC), Reserve Bank of Australia (RBA), Quantitative Easing (QE), Quantitative Tightening (QT), Pandemic Emergency Purchase Program (PEPP), Consumer price index (CPI), producer price index (PPI), developed markets (DM), emerging markets (EM), Japanese Government Bond (JGB).

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