Western Asset Active Bond Gov/Corp Portfolios

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** The fixed income market experienced periods of volatility, but posted a modest gain during the second quarter. Investor sentiment was impacted by several factors, including persistent trade uncertainty, signs of global economic strains, questions over future Federal Reserve's ("Fed") monetary policy, mounting fiscal concerns, and hostilities between Israel and Iran.
- **Contributors:** Duration and yield curve positioning, along with an overweight to investment-grade bonds, were beneficial.
- **Detractors:** There were no meaningful detractors from returns.
- **Outlook:** Global growth is expected to slow given heightened unpredictability, but should remain positive. Overall monetary policy remains restrictive and we believe that central banks will continue to cut rates. The Fed remains well positioned to provide support if the U.S. economy falters. While fundamentals remain positive, spreads are at the tight end of historical ranges in some sectors and warrant caution.

Performance Review

- Tactical duration positioning, which was net long overall, contributed to performance.
- An overweight to investment-grade corporate bonds was additive for performance.
- A yield curve steepener position was slightly positive for returns.
- Security selection did not meaningfully impact returns.
- There were no meaningful detractors from returns.

Outlook

- U.S. government policy has caused severe volatility in fixed-income markets over the last several months. Global growth is expected to slow given heightened unpredictability, but should remain positive. U.S. growth is downshifting due to a myriad of factors, including tariff uncertainty, waning benefits from immigration, and reduced government spending in recent years. A significant fiscal boost from European defense and German infrastructure spending should support eurozone growth and provide relief from tariff-related uncertainty. Deflationary pressures in China persist and confidence is weak amid property market concerns, but sentiment is improving with fiscal stimulus and policy easing.
- Overall monetary policy remains restrictive and we believe that central banks will continue to cut rates. The Fed remains well positioned to provide support if the U.S. economy falters. Public debt levels continue to rise and yield curves may steepen further given concerns over fiscal policies.
- While fundamentals remain positive, spreads are at the tight end of historical ranges in some sectors and warrant caution. We will continue to look for further periods of volatility to add to spread products.

Portfolio Characteristics	Portfolio
Effective Duration	6.13 Years

Sector Allocation (% of Fixed Income)

	Portfolio
Treasury	54.00
Investment-Grade Credit	46.00

Average annual total returns (%) - as of June 30, 2025-PRELIMINARY

Product	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Net of Fees	0.91	3.37	3.37	4.23	0.86	-2.35	0.45	1.06	1.87	2.69	3.07	12/31/1993
Pure Gross of Fees	1.29	4.14	4.14	5.79	2.37	-0.88	1.95	2.58	3.40	4.22	4.60	12/31/1993
Benchmark	1.22	3.95	3.95	5.89	2.61	-0.83	1.92	2.45	3.14	4.04	4.42	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg U.S. Government/Credit

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All investments involve risks, including possible loss of principal. Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**.

Glossary

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

The **eurozone**, officially known as the euro area, is a geographic and economic region that consists of all the European Union countries that have fully incorporated the euro as their national currency.

The **Federal Reserve Board ("Fed")** is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

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Effective Duration is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates. The higher the duration number, the more sensitive a fixed-income investment will be to interest rate changes.

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