

Western Asset Active Bond Intermediate Portfolios

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** The first quarter of 2026 was characterized by elevated geopolitical risk and accelerating AI-driven disruption across the software sector and its incumbent business models. The period was shaped by a series of international developments, including the capture and indictment of Nicolás Maduro, escalating diplomatic tensions between the US and European NATO allies over Greenland, and a US-Israeli military operation against Iran.
- **Contributors:** Duration positioning was beneficial for performance.
- **Detractors:** Yield-curve positioning was a slight detractor to performance.
- **Outlook:** Geopolitical tensions remain a defining feature of the outlook, with the Middle East conflict introducing ongoing uncertainty and contributing to oil price volatility as supply routes face occasional disruption. Even with these pressures, the global economic backdrop is gradually improving as fiscal support, easier financial conditions and moderating inflation help strengthen the 2026 outlook.

Performance Review

- The portfolios slightly outperformed the benchmark (gross of fees, underperformed net of fees).
- Tactical duration positioning contributed to performance.
- Yield-curve positioning had a small negative impact on returns.
- Sector positioning was a small positive due to an overweight in investment-grade credit.
- Security selection did not have a meaningful impact on returns.

Outlook

- In the US, policy tailwinds and deregulation continue to support activity despite signs of softer labor conditions.
- Europe and the United Kingdom face trade and labor-market challenges but easing inflation and selective fiscal measures offer stabilization.
- China's recovery remains policy-driven amid structural constraints, while Japan's persistent inflation supports further policy normalization.
- Credit markets remain supported by strong fundamentals and healthy demand, with issuance elevated by AI-related capex, M&A and refinancing needs.

Average annual total returns (%) - as of March 31, 2026

Composite	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	-0.31	0.41	-0.31	2.61	2.51	-0.08	0.55	0.91	1.84	2.02	2.66	12/31/1993
Pure Gross of Fees	0.06	1.16	0.06	4.15	4.05	1.42	2.06	2.43	3.36	3.55	4.19	12/31/1993
Benchmark	-0.02	1.17	-0.02	4.41	4.24	1.33	2.04	2.36	3.18	3.49	4.14	—

*Cumulative total returns

Benchmark(s)

Benchmark = Bloomberg Intermediate U.S. Government/Credit Index

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Glossary

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

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The **Bloomberg Intermediate Government/Credit Index** is an unmanaged index that measures the performance of intermediate (one to ten years) government and corporate fixed-rate debt issues.

Source: Bloomberg Indices.

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