

# Western Asset Core Portfolios

Commentary | as of September 30, 2025

## Key Takeaways

- **Markets:** During the third quarter, volatility in both equity and Treasury markets remained relatively subdued. Risk assets performed well, with the S&P 500 Index reaching new highs and credit spreads tightening. US job growth weakened in August, with nonfarm payrolls rising by 22,000 jobs—lower than July's upwardly revised figure of 79,000 (from 73,000). The Federal Open Market Committee lowered its policy rate by 25 bps at its September meeting, setting the target range for the federal funds rate at 4.00% to 4.25%.
- **Contributors:** The portfolio's duration positioning was among the largest contributors to performance.
- **Detractors:** The portfolio's yield curve positioning was a headwind for returns.
- **Outlook:** U.S. financial conditions are largely supportive, which, alongside fiscal loosening and solid household balance sheets, points toward a positive foundation for growth. Headwinds remain, including doubts over the state of the U.S. labor market, core inflation lingering close to 3% and the potential lagged impact of tariffs. This backdrop should keep the Federal Reserve on a rate-cutting path, albeit with a cautious view of the inflation outlook.

## Performance Review

- The portfolio's duration positioning and exposure to investment-grade corporate securities were among largest contributors to performance, as spreads tightened.
- Structured product exposure was largely beneficial, led by non-agency mortgage-backed securities (NARMBS), commercial MBS (CMBS), asset-backed securities (ABS) and collateralized loan obligations (CLOs).
- An allocation to investment-grade corporate bonds was rewarded as spreads tightened.
- Yield curve positioning was a detractor from performance, largely due to an overweight to the 5-year part of the curve.
- The portfolio's emerging market exposure had a positive impact on returns as USD-denominated spreads tightened.

## Outlook

- Western Asset's outlook remains constructive, though we recognize that growth momentum is tempered by uncertainty in areas such as inflation, central bank policy, geopolitics and fiscal sustainability.
- Fiscal vulnerabilities and persistent inflation may see the yield curve steepen further. European growth is expected to benefit from German and E.U. fiscal support with the European Central Bank judging the eurozone economy to be "in a good place."
- We continue to focus on disciplined, fundamental, relative value investing, seeking pockets of opportunity in fixed income while remaining mindful of technical and macroeconomic risks.

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

| 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        | 2.06  | 3.29  | 6.05 | 1.75 | 4.10 | -2.38 | 0.42  | 1.05  | 2.21  | 2.98  | 4.44      | 12/31/1988     |
| Pure Gross of Fees | 2.44  | 4.06  | 7.23 | 3.27 | 5.66 | -0.92 | 1.93  | 2.56  | 3.74  | 4.52  | 6.00      | 12/31/1988     |
| Benchmark          | 2.03  | 3.26  | 6.13 | 2.88 | 4.93 | -0.45 | 1.84  | 2.26  | 3.23  | 3.90  | 5.31      | —              |

\*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg U.S. Aggregate Index

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What are the Risks?

**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**. Investments in **underlying funds** are subject to the same risks as, and indirectly bear the fees and expenses of, the underlying funds.

Glossary

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

An **asset-backed security (ABS)** is a security whose income payments, and hence value, are derived from and collateralized by a specified pool of underlying assets.

In contrast to agency mortgage-backed securities (MBS), **non-agency RMBS (NARMBS)** are created by private entities and do not carry a government guarantee.

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.

A **collateralized loan obligation (CLO)** is a single security backed by a pool of debt.

**Commercial mortgage-backed securities (CMBS)** are a type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets.

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The **Bloomberg US Aggregate Index** is comprised of investment-grade, U.S. dollar-denominated government, corporate, and mortgage- and asset-backed issues having at least one year to maturity. Source: Bloomberg Indices.

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