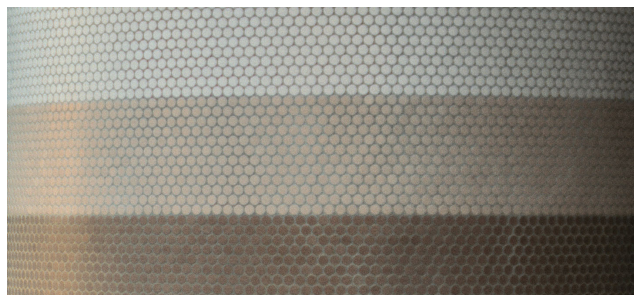


Lock in yields

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- **Why?** 1) Quality fixed income can play an important role as both a source of income and a portfolio hedge. 2) A combination of high grade bonds and select higher-yielding segments can help investors build more resilient and diversified portfolio income. 3) Equity income, structured income strategies, and multi-asset income approaches can further broaden income sources across asset classes.
- **Why now?** 1) The recent sell-off in global bond markets has created an opportunity to lock in attractive yields, particularly in short- and medium-maturity quality bonds. 2) We believe bond yields are pricing in too much further tightening from major central banks, which could support returns if easing expectations build. 3) Elevated yields and high real rates in areas such as emerging markets make this a good time to diversify income exposure beyond traditional fixed income segments.



Renewed Middle East tensions have lifted bond yields, providing an attractive opportunity to lock in income through quality short- and medium-maturity bonds. Source: Jason Leung_Unsplash

Build core exposure to quality, short- and medium-maturity bonds

Benchmark government bond yields in USD, EUR, and GBP have risen again in recent weeks amid persistent inflation concerns and a re-escalation in US-Iran tensions. But we continue to think current pricing overestimates further interest rate hikes and expect yields to fall as the year progresses. In fact, energy prices and inflation expectations have come off from their year-to-date highs, but short-end rates remain elevated. This disconnect creates a timing opportunity—the outright level and recent cheapening of rates across fixed income now offer an appealing risk-return profile. Investors should use elevated yields to add quality short- and medium-maturity bonds, particularly in USD and GBP, while select longer-maturity European bonds also offer value, given differing central bank paths, cyclical positions, and fiscal and political dynamics.

After many years of strong equity performance, investors now have an opportunity to rebalance toward bonds, bring allocations back in line with long-term plans, and help

manage potential equity risks.

Even in markets where yields remain low and inflation muted, we still think some allocation to high grade debt can make sense for adverse economic scenarios, in which government debt tends to rally and yields fall in anticipation of monetary easing.

Seek diversified exposure through select credit and equity income strategies

For a holistic and well-diversified fixed income exposure, especially for investors relying on their portfolio for income, we like select exposure to more growth-sensitive and higher-yielding bond market segments such as emerging markets (EM), high yield, or subordinated debt. Amid elevated geopolitical and sector-specific risks, investors should avoid overexposure to any single segment of the credit market.

EM credit has benefited from resilient global GDP growth and commodity strength. Additionally, many emerging markets have maintained restrictive monetary policy to

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keep inflation in check. This means real rates in the EM complex are high and should benefit from capital inflows from investors looking for diversification away from traditional markets. Despite some expected spread widening, we believe elevated yields and supportive central banks underpin a positive outlook for EM credit, which we rate Attractive.

We expect most of high yield credit's total return to be rates-driven. For spreads, we see reduced risk of sharp widening and only forecast modestly wider HY spreads from here, thanks to strong demand for yield and solid corporate fundamentals.

Investors seeking more defensive ways to access higher-yielding bonds amid uncertainty may also look at select exposure to subordinated debt, including corporate hybrid bonds. These are a type of subordinated debt instrument issued by non-financial companies that blend the characteristics of standard corporate bonds (paying regular interest) and stocks (often no fixed maturity date and the ability to defer coupon payments).

Looking across asset classes, we believe equity income strategies (especially in Switzerland and Southeast Asia), yield-generating structured investment strategies, and multi-asset income approaches, which may also include derivative strategies, can support income objectives. However, investors should be willing and able to bear the unique risks of investing in options.

Global asset class preferences definitions

The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.

Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.

Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities

Note: For equities, we have a five-tier rating system with two additional preferences

Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.

Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.

When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."

Appendix

Risk information

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