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Interest Rate Expectations Support Fixed Income

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So Steve, you observe that it's a low fire, no hire labor market. And certainly the private data backs that up as well. What is your take on what traders are pricing in in terms of rate cuts, not just for the rest of this year but in 2026?

Steve Brown: As Priya said, the market's coalesced around a 3 percent terminal fed funds rate, which largely aligns with our base case view. I would add, though, that we think there's downside risk to the policy rate, particularly as Priya laid out with what we think an underlying weakening or softer than expected economy. So as interest rates start to fall, that will start to feed back into economic growth, we think can eventually be a ballast and supportive for growth. But for now, with the Fed focused on labor market weakness and not wanting to be above neutral, we think that it's going to be a pretty equal step down towards 3 percent. We have to think too the Fed leadership, you know, there's going to be a substantive change here in the first half of next year. And we know what the bias of that policy is going to be.

We look at the two year yield at the lowest, in more than three years. Steve, the five year yield sinking to 3.5 percent, the 10 year yield falling below 4 percent, the lowest since early April. If you're going to buy bonds, where do you want to be on the curve?

Steve Brown: You want to be a little bit more mixed now. I think longer term we still expect the curve to steepen, you know, Priya highlights the lack of the flow through in the data, frankly, on the sell America trade, it hasn't happened. We actually, some of the data we will actually get is later today, the latest release from the Treasury, the tick data showing foreign flows, which we expect to again, be positive, we're seeing them as positive through our franchise. So, we're seeing pretty balanced demand across the curve. New issue supply is being, digested. There's still strong demand technicals, especially in high grade credit. So we're still biased for a little bit of a steepener. But we've expected a rangebound level for interest rates. When you look at the 10 year, we broke through 4 percent, as you said, that to us was as a mini signal to reduce a little bit of our duration and flatten out exposure a bit. But we still think bonds provide upside participation if you

get some risk off elsewhere, and then they have a still high level of yield and yield's the biggest predictor of future returns.

We're going to talk about credit risk in just a bit. But Steve, before we let you go, I want to get your take on the one official data that we will get next week, and that is CPI. How are investors? How's the market position for that?

Steve Brown: I think it's a secondary consideration for now, you know, the market's being driven by labor market potential imbalance. We're obviously not getting data there. It will be helpful. But with how trade policy, tariff policy is evolving, and frankly, our view that you should continue to see disinflation absent any noise there, which is mostly showing up in the good sector, good section, excuse me, we don't think it's going to be a market moving event. The Fed seems pretty determined for now to get back towards a neutral state. And that's because of the state of the labor market, less so on inflation, which they still don't know how to think about medium or longer term.