

Relative Value & Tactical Asset Allocation

Q2 2026

Our quarterly *Relative Value and Tactical Asset Allocation* combines insights from our investment teams and the Global Economic and Market Strategy team to assess relative value across major asset classes.

Key Takeaways

- Market Strategy expects sticky inflation and potentially slower growth.
- Market Strategy sees slower rate cuts and less aggressive yield curve steepening in our baseline forecast. There are opportunities within sectors benchmarked on short- to intermediate-term tenors, while sectors benchmarked on the back end of the curve are less attractive.
- Sectors benchmarked on floating rates become more attractive.
- Mortgage-backed securities (MBS) and non-agency residential mortgage-backed securities (Non-Agency RBMS) might underperform due to rising rate volatility.

Authors

JUN JIANG
Senior Director,
Global Economic &
Market Strategy

WEI WEI
Quant Researcher
Global Economic &
Market Strategy

DREW T. MATUS
Chief Market Strategist

Global Economy Sailing Through a Narrow Pass

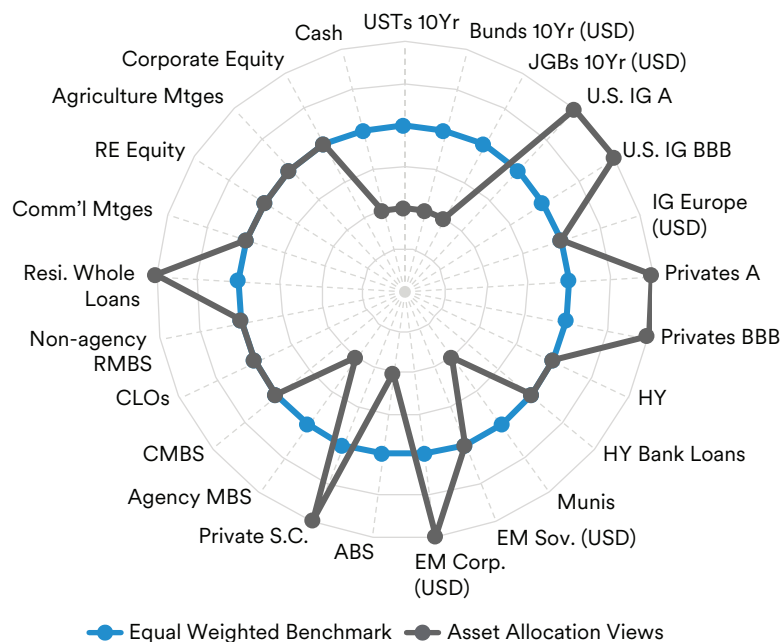
Geopolitical events have created significant market noise—likely a negative impact on growth—and some upward pressure on already above-target inflation. However, the magnitude and duration of the market impact from the war are unknowable. Market participants have not materially changed their view on interest rate cuts through the end of 2027 (-71 basis points (bps) versus -73 bp in mid-February) and now have 5-year/5-year inflation breakevens changed in a meaningful manner, indicating that any increase in expected inflation is believed to be transitory.

The largest impact of the war is likely to be on consumption via temporarily higher gasoline prices and through a negative equity wealth effect. While both impacts should be temporary, they are being layered onto a market already concerned about consumer behavior, tax refunds, tariffs, the Ukraine War and AI. We already anticipated that market expectations for consumption growth were too high and that CEO expectations for the expense-reducing benefits of AI were too optimistic. The ongoing war in Iran has the potential to add another dimension to these risks to markets.

We are operating in one of the most rapidly evolving geopolitical environments in recent memory. We are now nearly a month into the war, and the situation remains deeply fluid. What was true yesterday may not be true by this morning. In the near term, mark-to-market losses are inevitable. As long-term investors, our focus remains on avoiding permanent losses—while maintaining liquidity and portfolio resilience.

Looking forward, our baseline view assumes that the conflict would be relatively short-lived and that there would be de-escalation in Q2. We expect the yield curve to resume its pre-crisis shape, with the back end stable but with short-term to intermediate rates falling, while market volatility will rise. Our baseline view also assumes that the spread will remain range-bound and that, in the following quarter, P&L will be mainly driven by a reversal in the flattening of the yield curve.

Figure 1 | Tactical Asset Allocation Views



Note:

1. The asset class views in the chart above are based solely on our macroeconomic views, sector fundamentals and market expectations by the authors, **which may be different from MetLife's, portfolio managers' and sector strategists' views, which are included in this report.** For illustrative purposes only.
2. The asset class views are not associated with any MetLife or Client portfolios.
3. No portfolio specific constraints are considered in these asset allocation views.
4. The asset class views reflect a relative directional overweight/underweight among the assets, without absolute weightings.

Source: MetLife Investment Management (MIM). As of March 6, 2026.

Global Growth Faces Challenges with Higher Uncertainty

U.S. - MIM expects the U.S. GDP growth to be around 2.2% in 2026, and the CPI to be around 2.6%. We are concerned about the behavior of financial markets and the consensus views on the outlook, as we worry a shock can drive the market outside of its forecast range, resulting in an air pocket for markets that requires repricing across risk assets. While this is not our base case, we are looking for signs of complacency among market participants regarding growth, inflation and yields.

Europe - euro area - The euro area economy showed modest growth in Q4 '25, expanding by 0.2% QoQ, with high-frequency indicators suggesting similar growth in Q1 '26. However, the escalating conflict in Iran has introduced stagflationary pressures, primarily through higher global energy prices. GDP growth forecasts for 2026 and 2027 have been revised downward to 0.9% and 1.2%, respectively, with risks tilted to the downside. Inflation is expected to rise to 3% YoY by mid-2026, driven by energy price shocks and supply chain disruptions, and to remain above the European Central Bank's (ECB) 2% target into 2027. The ECB is likely to implement two 25-bp rate hikes in 2026 to manage inflation expectations, with potential reversals in H2 2027.

UK - The UK economy faces significant exposure to the global energy price shock due to its reliance on gas and limited storage capacity. Growth forecasts for 2026 have been revised down by 60 bps to 0.7%, with inflation expected to rise sharply to 4% YoY in the coming months. The Bank of England (BoE) is expected to implement two 25-bp rate hikes in 2026 to address inflationary pressures, reversing them in H2 2027 as inflation stabilizes. A weaker labor market reduces the risk of prolonged wage-inflation cycles, but the BoE remains vigilant against second-round effects.

Asia - China - MIM has revised our 2025 and 2026 GDP growth forecasts to 4.8% and 4.7% (previously 4.5% and 4.5%). Growth will remain sluggish overall next year, enjoying fewer export tailwinds. While inflation should rise slightly due to 'anti-inflation' efforts, a lack of demand-side pull in the economy implies low inflation for an extended period.

Japan - MIM has revised upward our 2026 GDP growth forecast to 1% (0.9% previously), as a new "reflationist" government (more fiscal accommodation) should be growth-supportive at the margin. Headline CPI easing below 2% in H1 2026, but rising again in H2 due to base effects, keeping average CPI around 2% next year. Expecting two policy rate hikes (Jan and Oct) to 1.0% by the end of 2026. The new government's dual mandate for the Bank of Japan (BoJ) (inflation targeting and growth prioritization) implies resistance to further BoJ hikes, short of sustained JPY weakness beyond 160. Takaichi will need to address negative real wage growth (capping inflation, containing JPY weakness) to remain in power.



Rest of Asia - Improved regional growth prospects in 2026, given easing trade tensions supporting underlying inflation. With growth improving and inflation normalizing, central banks are nearing the end of the rate-cutting cycle.

Latin America - The region enters 2026 with a relatively resilient macroeconomic backdrop, supported by contained external imbalances and a gradual recovery in domestic demand. Growth is expected to stabilize around 2% on average in 2026–27, with performance varying across countries based on commodity exposure, policy stance and political dynamics. Oil exporters like Brazil, Colombia, Argentina and Ecuador stand to benefit from higher oil prices through improved terms of trade and stronger export revenues, though fiscal gains may be tempered by subsidy mechanisms. Conversely, oil importers such as Chile, Peru and Mexico face inflationary pressures that could complicate monetary easing. Inflation trends have generally improved across the region, but a prolonged oil shock could disrupt easing cycles and force more restrictive monetary policies. Mexico is expected to recover gradually, supported by exports and consumption, while Chile benefits from strong copper prices and a constructive political backdrop. Brazil's growth may decelerate due to high real interest rates, though labor markets and fiscal revenues provide support. Colombia remains vulnerable due to electoral uncertainty and elevated inflation expectations. Overall, Latin America's outlook is moderately positive, with resilient growth and improved inflation performance, though risks from persistent oil shocks and tighter financial conditions remain.

Sovereigns Remain Less Attractive

U.S. Treasury (UST) - On net, we continue to see 2026 resembling 2025 with some downside risks to growth and upside risks to inflation. Against that backdrop, we continue to expect the Federal Reserve to lower interest rates as the unemployment rate increases modestly over the course of the year. With nominal growth holding up, we would look for 10-year yields to remain above 4%.

Japanese Government Bonds (JGBs) - Growth momentum had been easing prior to the Middle East (ME) conflict, with a risk that this could be exacerbated if the ME conflict were more protracted. Japan is exposed to the ME conflict as it is among the largest net energy importers globally. Moreover, Japan relies on ME energy for the bulk of its oil imports (more than 90%), much of which passes through the Strait of Hormuz. That said, Japan has significant strategic oil reserves (around 250 days, versus 200 and 150 for South Korea and Taiwan, respectively), providing a crucial buffer. The BoJ knows that it will continue to face pressure from the government not to hike rates. One of the government's arguments has been that key CPI indicators have been slipping, in some cases below 2%. The BoJ has been building a case that headline CPI data has been distorted by the government's administrative measures (subsidies, etc.) and that underlying inflation remains robust and continues to overshoot 2%. This highlights that the BoJ would like to hike if it could, but in recent weeks, it's also becoming more mindful of the downside risk from higher oil prices. Our baseline remains for a May-June hike as BoJ will want to 'wait and see' on growth impacts. The longer the ME conflict drags out, the more downside for growth and the more pressure the Takaichi government will exert on the BoJ not to hike. On this basis, we retain our baseline end-2026 forecast of 2.25% for 10-year JGBs, although we recognize that rate-hike expectations are likely to lift 10-year yields above current levels in the coming months.

Chinese Government Bonds (CGBs) - Although recent high frequency data has been encouraging, domestic demand remains weak, and it is unlikely to be a meaningful consumption recovery so long as employment and wage gains remain soft. Meanwhile, a still weak property sector will remain an additional headwind for growth. In contrast to the domestic economy, the external sector remains robust, as demonstrated by a record trade surplus, with China rechannelling its exports away from

the U.S. toward other markets, particularly ASEAN, Africa and Latam. Equity markets have remained supported by AI tech breakthroughs, enthusiasm around the AI ecosystem and improved earnings and fundamentals in the corporate sector more generally, though less so since the ME conflict broke out. On the policy front, the recent National People’s Congress confirmed that growth will remain subdued (growth target was lowered to 4.5%–5% for 2026, after three straight years of “around 5%” targets). China should be relatively well insulated from the ME conflict, although it’s the world’s largest importer of ME energy; oil and gas imports are highly diversified (Russia remains its largest overall energy supplier). China also maintains significant strategic reserves, while oil accounts for only 18% of its primary energy consumption—far lower than in other countries in the region. For rates, we expect 10-year yields to remain in the current range, given countervailing forces. On the one hand, there is likely to be less upward pressure on yields so long as the more volatile global backdrop weighs on domestic equity markets. As the conflict plays out, our bias is for bond yields to hover at the lower end of the recent range (1.8%), while, on the other hand, the People’s Bank of China’s (PBoC) “preferred” interest-rate corridor of 1.75%–1.85% implies bond purchases and/or sales should rates diverge from this range.

German Bunds - German Bunds remain supported by strong fundamentals, including Germany’s robust fiscal position and resilient demand for high-quality, euro-denominated sovereign debt. However, upward pressure on yields is expected due to increased borrowing requirements, ECB tightening and reduced institutional demand for longer-term paper. The Iran shock and the outlook for inflation to move higher in the coming months, that, in turn, trigger a tightening of ECB policy settings, support an upward move in shorter-end yields. However, MIM’s expectations that the ECB will implement two 25-bp rate increases this year are below market expectations for up to three 25-bp hikes, suggesting that some value could emerge at the shorter end of the maturity spectrum. We continue to expect Germany’s ongoing fiscal expansion program (and related rising issuance needs), combined with the ECB’s passive quantitative tightening policy and reduced institutional demand for longer-term paper (particularly from pension funds), to place moderate upward pressure on longer-term yields.



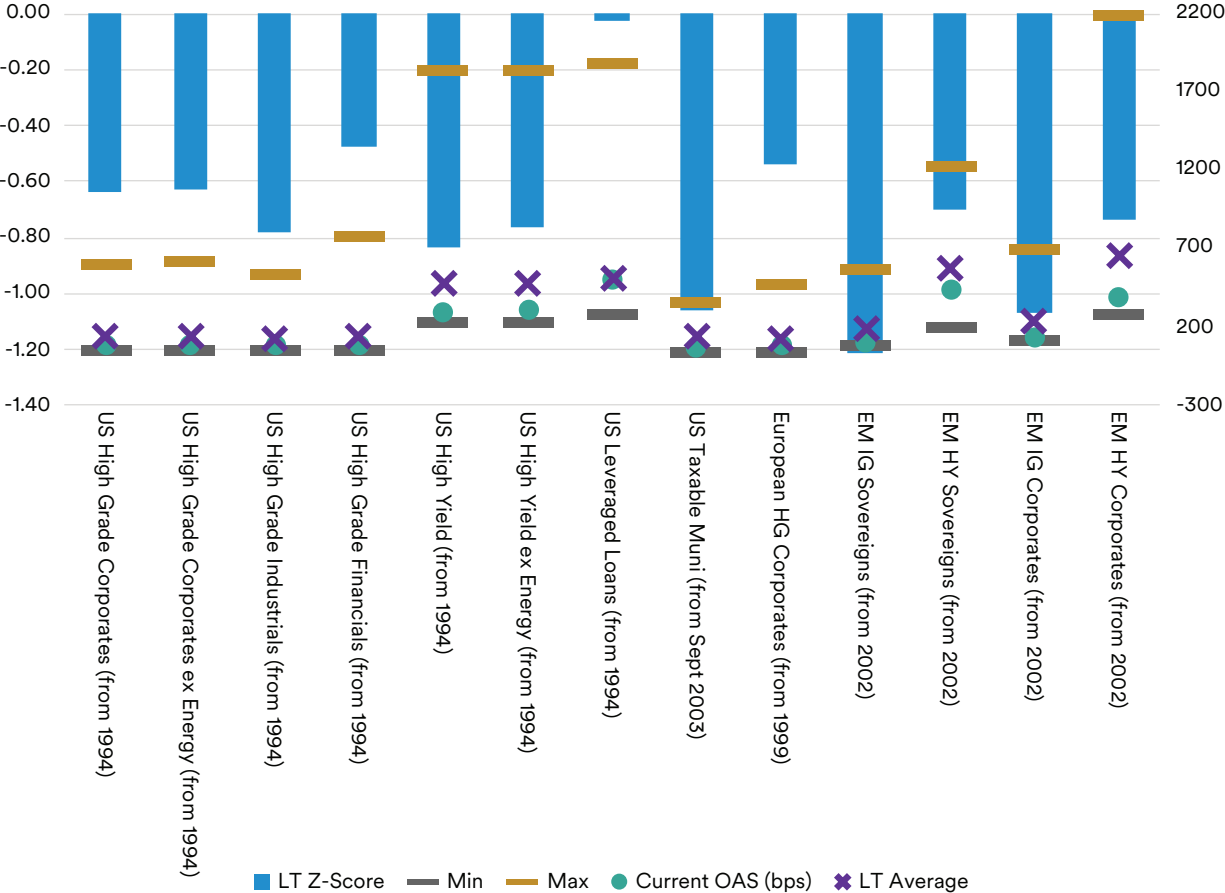
Risky Sectors' Yields Are Still Not Justified for the Risks

Macro Credit - Current credit cycle conditions improved from the last quarter. U.S. investment-grade (IG) and high yield (HY) fundamentals data from Capital IQ remain resilient. Credit metrics remained stable during 4Q25, except that the free cash flow/total debt ratio worsened for IG. It has declined for three consecutive quarters and fallen below the last twelve months (LTM) trend for two consecutive quarters. For HY, quarterly EBITDA margin saw slight YoY and QoQ declines. But it's still above long-term averages. Coverage ratios also improved for both IG and HY. The Q4 earnings also came in well above expectations.

Default outlook: peak in April 2025. Although Moody's expectation is for U.S. speculative-grade default to continue a downward trend in 2026 and fall to 2.5% from the current 4.8% level in 12 months, the actual Dec. 2025 default rate moved higher from last quarter's 4.4% to 4.7%. Rating migration outlook: slightly higher funding agreements (FA) risk in the actual charts for last quarter, especially on the high ratings and lower ratings.

Spreads decompressed a little bit in some sectors. U.S. HG Corporate, leveraged loan, EU HG corporate and EM Sovereign HY spreads look wide from a valuation perspective alone. They may get more compressed. (See Figure 2).

Figure 2 | Risky Sectors Spreads Decompressed



Note: Z-score is a metrics used to show how high or low the value relative to the average value using standard deviation as a unit. A Z-score of one indicates that the current value is one standard deviation higher than the average value. OAS refers to option-adjusted spread.

Source: Bloomberg, J.P. Morgan, Barclays, Credit Suisse, MIM. As of 2/28/2026.

U.S. Investment Grade (IG) - IG credit markets — and perhaps more accurately, participants — continue to contend with compressed spreads despite compelling all-in yields. A heavy primary calendar and an increasingly complex geopolitical environment suggest that investors may not be getting adequately compensated for taking on additional risk, potentially underestimating the level of risk premium warranted in the current climate. Depending on how drawn out the conflict in the Middle East is, there is potential, in our view, for larger inflationary effects and stymied growth, which could pressure credit spreads.

As the year has progressed, idiosyncratic strains within credit markets have become more apparent, particularly amid heightened sensitivity to AI-related and headline risk. In parallel, notable markdowns and redemption pressures in retail-focused funds have prompted managers to impose gates to preserve liquidity. These dynamics have contributed to increased investor focus on the valuation and liquidity profile of private credit exposures, with sentiment spillovers evident across adjacent public credit sectors. This includes Business Development Companies and Insurers, given their structural links to the asset class. These developments seem rooted in valuation and liquidity dynamics rather than a broad-based deterioration in credit quality.

Despite these crosscurrents, the case for spread decompression remains mixed. Valuations appear rich, and the setup is vulnerable to a catalyst, yet spreads have proven remarkably resilient over the past three years, aside from episodic shocks such as Liberation Day. Underlying credit fundamentals have broadly held despite pockets of weaker sectors. EBITDA margins improved, and net leverage declined, but there is fragility in free cash flow to total debt, as the ratio dipped below its long-term average. Given rich valuations and asymmetric risk-reward dynamics, we favor a selective, defensive and opportunistic posture — emphasizing selectivity in credits and in curve positioning.

European IG - European Q4 EPS growth aligned closely with consensus, supported primarily by financials, which offset softness in energy and cyclical sectors. Cyclical sectors saw a notable decline in EPS beats, with consumer products & services posting the lowest beat ratio at 13%. Defensive sectors performed better, with food & beverages and personal care achieving the highest beat ratios at 60%, alongside financial services (69%) and banks (57%). At the country level, Germany led with a 67% EPS beat ratio, while Spain (20%) and Italy (33%) lagged. Spreads remained stable, with European OAS spreads closing marginally tighter at 79 bps. Euro investment-grade issuance reached a record €720bn in 2025, driven by strong net supply from financials and corporates, with standout growth in tech, media & telecom, non-eurozone banks and REITs. Reverse Yankee issuance surged to an all-time high as U.S. issuers capitalized on favorable EUR funding conditions. Looking ahead, the 2026 issuance forecast of €750bn suggests continued growth, albeit at a more moderate pace, supported by hyper-scaler funding, reverse Yankees and M&A financing. MIM now expects EU IG may offer comparable total returns to the U.S. IG.

High Yield (HY) - The high yield bond market is expected to deliver positive, carry-based total returns despite uncertainties introduced by AI and the ongoing war in the Middle East. Higher oil prices have elevated Treasury yields amid inflation concerns, creating uncertainty around the Fed's policy decisions. However, the asset class remains supported by a resilient U.S. economy, adequate credit fundamentals and moderate default expectations. The high yield new-issue market is healthy, with expectations that 2026 issuance will surpass last year's strong volume. Increased dispersion is anticipated, making security selection critical to performance. Avoiding credit blow-ups and managing downside risk will be key strategies moving forward. Overall, MIM remains neutral on HY.

Leveraged Loans - Bank loans are expected to benefit from macroeconomic moderation in 2026, provided there is no prolonged disruption to oil supplies or escalation in the Middle East conflict. While equities initially sold off sharply, and sentiment remains fragile, the loan market has

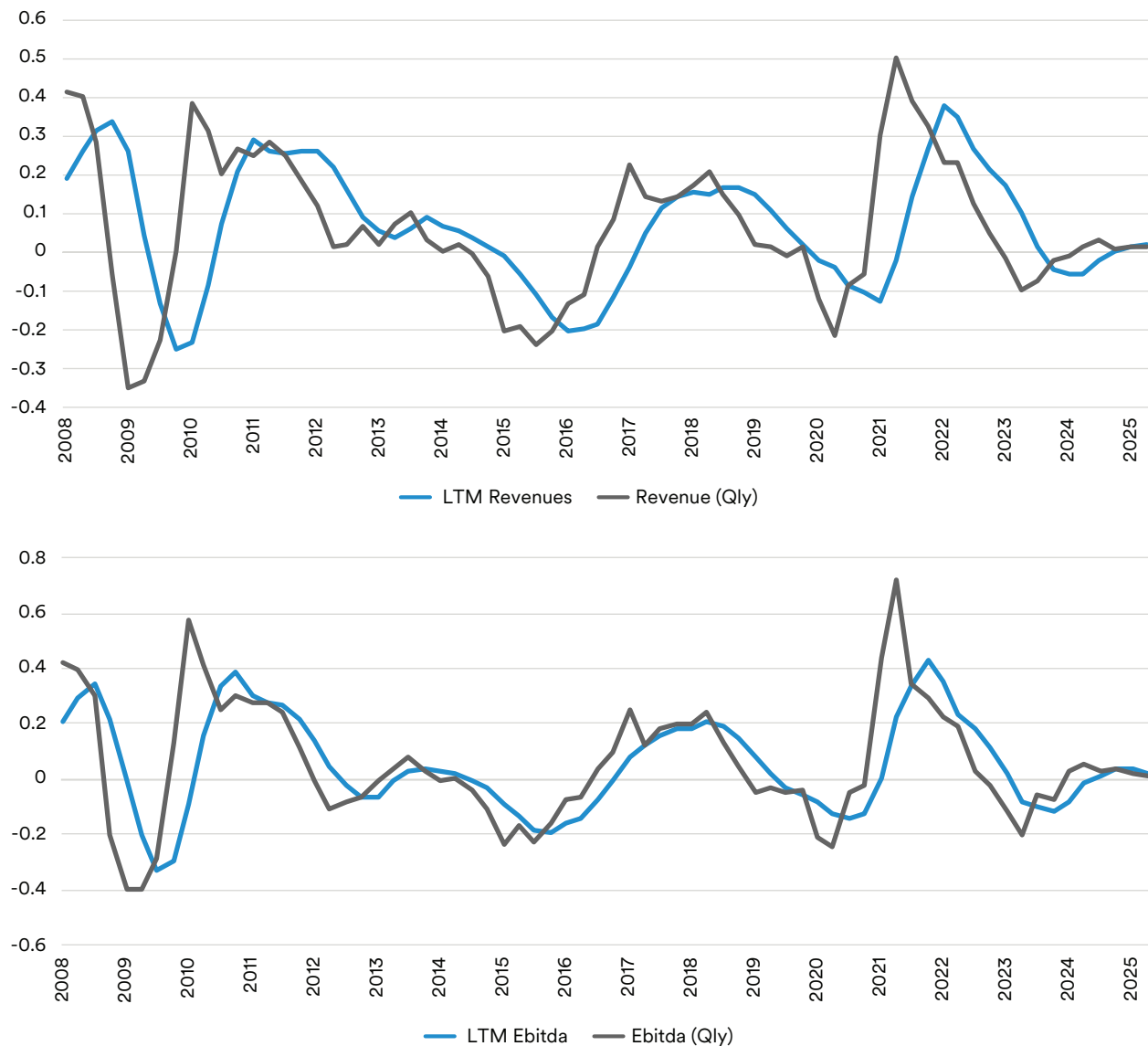
demonstrated resilience, supported by strong technicals and robust collateralized loan obligation (CLO) demand. Strategists forecast carry-type returns for 2026, driven by robust refinancing activity and a revival of corporate activity. Should geopolitical tensions ease, corporate M&A activity is expected to rebound, supported by deregulation, lower corporate taxes and improved earnings. An up-in-quality approach remains prudent as corporate deal-making and balance sheet leverage increase, mitigating risks amid a widening range of economic outcomes. MIM recommends a neutral, cautious stance on the leveraged loan sector.

Municipals - Over the past quarter, taxable municipal performance has been supported primarily by robust carry and strong demand for yield, leaving spreads at extremely tight levels, with option-adjusted spreads (OAS) near the second percentile of the past decade. While broader macro risks — including geopolitics, inflation uncertainty, labor market softening and policy volatility — have lingered, they have largely been overshadowed by resilient growth and supportive fiscal conditions, keeping spreads well contained. Looking ahead to the next quarter and further into 2026, the outlook for spread performance is more challenged, as valuations leave little room for further compression and risks skew toward widening. The most notable pressure point is the expected surge in IG issuance tied to AI-driven CapEx and M&A, which historically has spilled over into wider taxable municipal spreads, given their high correlation with IG credit. As a result, forward-looking return expectations are centered on carry rather than spread tightening, with alpha opportunities likely concentrated in new issues priced at concession and in select “story” credits with improving fundamentals. Sector positioning remains selective, favoring Build America Bonds (BAB) trading at or behind equity risk premium (ERP), emphasizing security selection, and avoiding richly valued areas such as taxable housing, where heavy supply and embedded optionality are expected to limit performance. Tax-exempts are also viewed cautiously given forecast record supply and unattractive valuations, though tactical opportunities may arise during periods of market dislocation.

Given our expectation for the shape of the higher end of the yield curve and muni’s relatively longer duration, MIM believes other sectors would offer more appealing returns than municipals.

Emerging Markets (EM) - The macro environment continues to be a critical driver for EM credit, particularly amid heightened geopolitical uncertainty stemming from the Middle East conflict and rising oil prices. At this stage, the duration and ultimate severity of the conflict remain uncertain, reinforcing our focus on longer-term fundamentals rather than short-term relative-value dynamics, which may continue to shift rapidly as events unfold. Local markets have been the most directly affected and are likely to remain the most volatile until greater clarity emerges. As a result, we expect new issuance to remain limited in the near term, as issuers and investors navigate elevated volatility. Despite these challenges, EM assets have shown resilience, supported by stable or improving sovereign fundamentals and disciplined liability management among corporates (see Figure 3). Sovereign Rising Stars are expected to emerge over the next few years, driven by positive fiscal and policy momentum. Corporate balance sheets remain healthy, with manageable leverage and adequate margins, while EM financials benefit from stable loan growth and strong Tier 1 capital ratios. Valuations in EM corporates remain attractive, offering compelling relative value compared to U.S. credit. However, near-term volatility and limited new issuance are anticipated as issuers and investors navigate macro uncertainty. Looking ahead, a potential continuation of U.S. dollar weakness could bolster flows into local-currency strategies. Overall, MIM sees EM Corporates as attractive, but remains neutral on EM Sovereigns.

Figure 3 | Revenue and Profitability (YoY %) - Region: Global EM, Rating: ALL



Note: Ebitda is Earnings before interest tax depreciation and amortization.
 Source: Bank of America, MIM. As of June 30, 2025.

Higher Gas Prices Put Pressure on U.S. Consumers

Asset-backed Securities (ABS) - From a supply perspective, ABS issuance reached another all-time high in 2025, totaling approximately \$370 billion, a 7% increase, year over year. Issuance continues to be driven by digital infrastructure, with roughly \$15 billion associated with data centers and an additional \$12 billion tied to fiber assets. Looking ahead, 2026 issuance is expected to exceed \$400 billion. Consumer credit metrics are largely unchanged from the prior quarter. Credit card delinquencies have moderated modestly, while subprime auto remains an area of pressure, with delinquency levels still elevated. Commercial ABS performance remains very stable, supported by strong debt-service coverage ratios across most asset types. A key structural focus remains the anticipated repayment date (ARD) wall. Many ABS transactions include a 500-bp coupon step-up

at the ARD to encourage refinancing. In the current rate environment — materially higher than in 2021 — we have observed a limited number of transactions where issuers elected to skip the ARD, resulting in bond extensions and associated price weakness. This behavior has been most prevalent in deals originated during the ultra-low-rate period of 2020 and early COVID, where sub-2% coupons made refinancing at today's rates economically unattractive. Overall, we remain cautious about the sector amid persistent pressure on U.S. consumers.

Collateralized Loan Obligations (CLOs) - CLO issuance totaled approximately \$220 billion last year, representing a 6% increase, year over year, with roughly 20% originating from the middle-market segment, which continues to benefit from solid investor demand. Fundamentals are mixed. On the positive side, weighted-average rating factors (WARF) have trended lower, signaling improving average credit quality. Offsetting this, delinquencies and distressed exchanges have begun to rise, though they remain within historically manageable levels. From a technical standpoint, weighted-average spreads (WAS) continue to grind tighter. Strong demand has outpaced net issuance, pushing WAS to a two-year low near 310 bps. This compression is consistent with improving credit metrics and broader spread tightening across fixed income. Inflows into CLO ETFs have also rebounded sharply to start the year, following a pullback in late 2025. MIM now expects a slower Fed rate cut, which puts floating-rate products back on the table for further evaluation. We have upgraded CLOs from underweight to neutral.

Commercial Mortgage-Backed Securities (CMBS) - In CMBS, policy discussions around potential government-sponsored enterprise (GSE) caps in multifamily lending have resurfaced. While such measures could theoretically shift production from non-agency CMBS toward the agencies, several proposals have paradoxically increased the perceived footprint of the GSEs rather than reduced it. Issuance remained elevated, reaching just under \$120 billion for the year, up approximately 14%, year over year. Sustainability Accounting Standards Board (SASB) guideline transactions continue to dominate the market, accounting for roughly 78% of total issuance. At the same time, the conduit market has largely transitioned to five-year term structures. Longer-duration exposure has become more difficult to source, as 10-year conduit issuance has declined, and SASB deals are predominantly floating-rate or shorter-dated fixed-rate structures. Office remains the most challenged property type, with delinquencies continuing to trend higher. Some loans that previously received extensions may face refinancing challenges. That said, much of this stress appears to be well reflected in current pricing. Importantly, nearly all other major property types are experiencing year-over-year price appreciation, alongside improving commercial real estate transaction volumes. Overall, MIM remains neutral on CMBS.

Agency RMBS - Over the past quarter, agency RMBS benefited from strong technical support following an already solid performance through 2025. A key development was market discussion around potential GSE purchases of up to \$200 billion of agency MBS, which reinforced demand and helped anchor spreads despite elevated supply across structured products more broadly. While broader macro uncertainty persisted, agency MBS remained well supported by their defensive characteristics and ongoing demand for high-quality income assets. Looking ahead into the next quarter, agency RMBS performance is expected to remain driven by technicals rather than fundamentals, with spreads likely to stay range-bound given already tight valuations. Risks stem primarily from higher overall issuance and shifts in policy or rate expectations; agency MBS would be turned to as a relatively safe haven within structured credit if macro volatility increases. But within baseline cases, the convexity and relatively higher duration of MBS would drag down the return. MIM downgraded agency RMBS from neutral to underweight.

Non-Agency RMBS - Non-agency RMBS experienced a more mixed quarter, as issuance exceeded \$200 billion in 2025 — up roughly 37% year, over year — creating a meaningful technical headwind even as fundamentals remained broadly stable. Prime and non-qualified mortgage (Non-QM) issuance drove supply growth, a trend expected to persist into 2026. Home price appreciation has moderated to around 1.25%, with expectations of generally flat prices and selective regional softness, while mortgage rates below 6% have not led to a notable pickup in refinancing activity. Spreads softened modestly amid heavy supply and broader risk-on sentiment, leaving valuations near the tight end of the two-year range. Looking forward, the outlook emphasizes careful security selection as elevated prepayments and convexity challenges come into focus. Opportunities are concentrated in discounted prime and subordinate bonds with attractive convexity, as well as shorter-duration closed-end second liens that have lagged spread tightening. Caution remains warranted toward lower-rated tranches, certain consumer-sensitive ABS and transactions showing deteriorating delinquency trends, while policy-driven housing affordability initiatives remain a key medium-term risk. MIM downgrades non-agency RMBS from overweight to neutral for similar reasons to agency MBS.

Asset-Backed Funding (ABF) - The ABF sectors have shown resilience amid a turbulent macroeconomic environment, with spreads holding relatively steady despite geopolitical volatility, a softer labor market and surging oil prices. However, near-term risks are skewed toward wider spreads as market technicals weaken, and investor caution rises, even as new issuance remains robust. Consumer debt performance within securitizations is mixed, with improvement in unsecured consumer ABS but softness in auto ABS. The upcoming tax refund season could bolster consumer credit dynamics, with refund amounts up significantly, year-over-year. Broader risks, such as operational disruptions from the Iran conflict, could lead to stagflation, pressuring credit fundamentals across asset classes. Direct lending markets face challenges from rising redemption requests and concerns about AI's impact on software portfolio companies; strong manager selection and diversification remain essential to the sector. Overall, we remain cautiously overweight, but less confident compared to the previous quarter.

Housing Market Remains Stable with Lowering Rates

Residential Whole Loans - Housing fundamentals remain stable, with demand expected to increase significantly, if affordability concerns are mitigated through lower lending rates. While certain regions have experienced minor softness in home prices, the low purchase loan-to-value ratios (substantially below 80%) suggest that these price fluctuations are unlikely to lead to significant changes in delinquencies. Actual losses continue to outperform modeled losses at the time of trade, and prepayment risk remains elevated due to affordability initiatives. However, trade structuring that keeps purchase prices near 101 is expected to limit any substantial yield degradation. Spreads for residential whole loans and single-family rental debt financing offer strong relative value compared to public residential credit opportunities, with loss-adjusted spreads in the very low 200s on a blended basis. MIM is actively expanding supply opportunities by onboarding new sellers. Overall, MIM finds the sector remains one of the most attractive in the current environment.

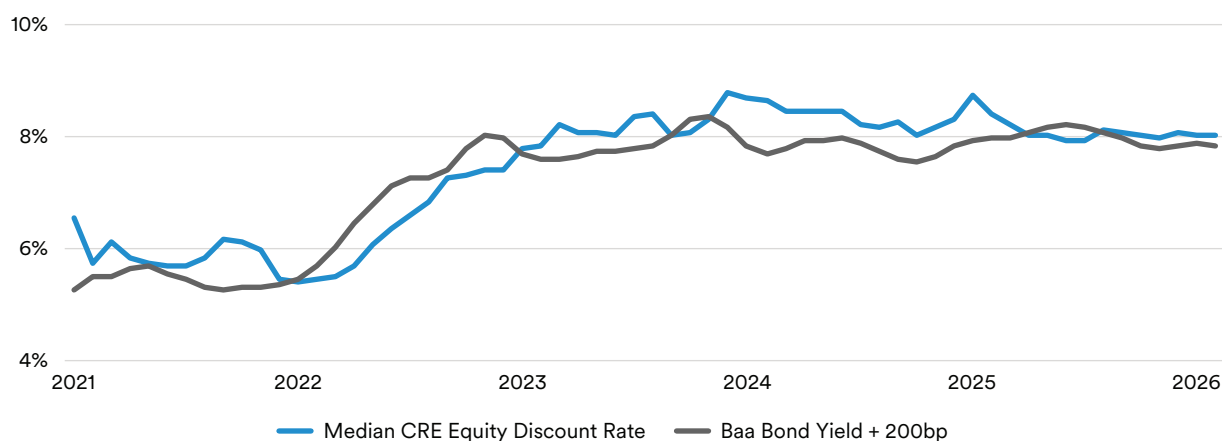
CRE and CML Continue Recovery

Commercial real estate fundamentals are showing signs of stabilization, supported by a significant contraction in the construction pipeline and improving transaction volumes. Transaction volumes in 2025 were up 18% relative to 2024, suggesting capital markets that are coming back to life. Property price value growth turned positive in 4Q24, and that momentum continued into 2025. We expect property valuation growth to continue in 2026.

Specific sectors such as multifamily and industrial are benefiting from reduced supply growth, which is expected to support fundamentals in the coming years. Retail continues to perform well, underpinned by low vacancies and resilient tenant demand. However, the hotel sector faces challenges with declining occupancy rates driven by weak consumer confidence. The office sector remains stressed but is showing early signs of recovery, with vacancy rates beginning to decline and net absorption improving. Valuations across both commercial mortgage loans (CML) and equity remain fairly priced, with equity yields aligning closely with corporate bond yields. Debt capital markets remain strong, with lending volumes reaching their highest levels since 2021, and we expect continued strength in 2026.

Historically, unlevered equity yields (discount rates) have been equal to Baa corporate bond yields plus 200 bps (See Figure 4). We believe this is a useful measure to compare relative value of real estate equity at different points in the cycle. Figure B includes a series of discount rates on CRE equity transactions underwritten by MIM between January 2021 and March 2026. The data suggested a risk-on strategy during most of 2021 and 2022, when real estate was offering attractive relative value, and a risk-off strategy during the second half of 2022 and 2023. More recently, real estate equity discount rates have adjusted due to capital market conditions, and we believe this framework suggests real estate is fairly priced.

Figure 4 | Relative Value of Real Estate Equity



Source: Bloomberg, MIM. As of Jan 31 2026.

Agricultural Mortgage Fundamentals Facing Headwinds

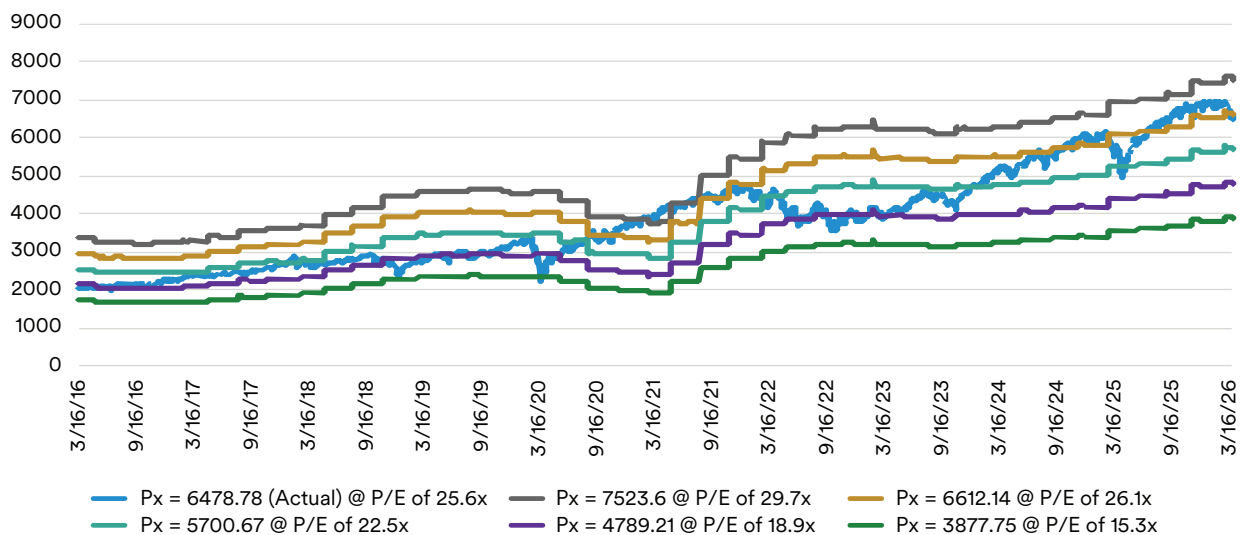
Agricultural Mortgages - The agricultural sector faced profitability headwinds in the past quarter due to elevated input costs and moderated crop prices, which pressured margins. Livestock markets, however, benefited from strong pricing and lower feed costs, supporting favorable profitability. Farmland values remain above the inflation-adjusted trendline and are expected to appreciate modestly, given profitability headwinds. Looking ahead, enhancements to farm support programs under the One Big Beautiful Bill Act (OBBBA) and trade agreements with China and various other countries are expected to provide stability and reduce uncertainty. Livestock prices are forecast to remain elevated. Permanent crops are expected to benefit from meaningful reductions to the cost of H-2A programs, though cost reductions will vary by state due to minimum wage laws. Within agribusiness, profit margins in the food manufacturing sector are modestly above historical averages. Cold storage vacancies appear to have plateaued, as the pandemic-era construction pipeline has thinned. Timberland values and stumpage prices remain stable. While housing starts and other near-term indicators remain subdued, an underbuilt and aging U.S. housing stock continues to support favorable long-term demand fundamentals for timber.

Agricultural mortgage spreads have slightly declined compared to historical averages, while delinquency rates on agricultural mortgages at commercial banks and the Farm Credit System are slowly rising toward historical averages, after reaching record lows in 2023. Agricultural mortgage volume growth at commercial banks and the Farm Credit System continues to rebound after hitting a low of 1.4% in Q3 2023. Commercial banks and the Farm Credit System collectively hold over 80% of all U.S. farm and ranch real estate debt. Growth in agricultural mortgage volumes is expected to continue, as credit demand rebounds from the record-high producer incomes of 2022. Despite MIM expecting a higher benchmark rate, agricultural mortgages offer unique opportunities for diversification amid stabilizing fundamentals and supportive technicals. Market Strategy upgraded the sector from underweight to neutral.

Higher U.S. Equity Volatility

S&P 500 trades range-bound with an asymmetric downside risk skew over the next three months, as the market digests a higher-for-longer Fed path (Fed funds held at 3.50%–3.75% and market-implied June-cut odds at 18%), while earnings season provides a supportive fundamental floor (Q1 2026 S&P 500 EPS growth estimate ~12.5%). Valuation remains a constraint on multiple expansion with the forward P/E elevated vs. history (See Figure 5), increasing sensitivity to any negative revision cycle or macro disappointment. Macro risk balance is tilted by potential inflation/energy shocks, with a Middle East escalation and physical chokepoint risk around oil/gas supply acting as the primary near-term tail risk. Technicals and sentiment are consistent with a volatility regime shift, raising the probability of sharp tape moves amid geopolitical tensions and data-dependent repricing of the Fed path.

Figure 5 | S&P Actual Vs. LTM P/E Bands



Source: Bloomberg, MIM. As of March 16, 2026.

Private Equity Remains Cautiously Optimistic

Private Equity (PE) - Private markets demonstrated resilience and recovery throughout 2025, with strengthening deal pipelines and proactive portfolio positioning for a higher-cost-of-capital environment. U.S. buyout activity surged, driven by large transactions such as the record-setting \$55 billion take-private of Electronic Arts, while middle-market activity declined. European private equity dealmaking reached record levels, supported by monetary easing and favorable macro conditions, with megadeals dominating. Asia saw a strong fourth quarter, led by China and corporate carve-outs, though full-year investment remained below historical averages. Venture capital activity improved, particularly in AI and machine-learning sectors, with U.S. VC deal value nearing record highs despite subdued fundraising. Exit markets rebounded globally, with increased activity in Europe and Asia, though IPO activity remained below normalized levels. Looking ahead to 2026, private markets are expected to continue their recovery, supported by robust deal pipelines, sound operating fundamentals and increased investment in technology, particularly AI.

Mixed Pictures Across Global FX

USD - The U.S. dollar began 2026 on a softer footing as the market increasingly priced in a continuation of Fed easing and a fading of U.S. exceptionalism. Consensus was for the dollar to trade rangebound to modestly weaker, with valuation headwinds and narrowing rate differentials offsetting still solid U.S. growth. However, the U.S. invasion of Iran has shifted the FX regime from a low-volatility, relative-value environment to one where geopolitics, energy prices and safe-haven flows dominate. The conflict materially alters the near-term USD outlook by reintroducing a geopolitical risk premium and strengthening the dollar's safe-haven role. If a resolution comes relatively quickly, the USD will likely retrace the recent strength, but the longer it drags on, the more we could see sustained USD strength amid continued risk aversion. Sustained USD upside would require a prolonged conflict that meaningfully tightens global financial conditions rather than a short-lived shock.

Asia - Asian FX has seen its outlook deteriorate as the Iran conflict amplified downside risk through higher energy costs, weaker global trade and fragile risk sentiment. Energy-importing economies are particularly vulnerable to sustained oil strength, while China-linked currencies face renewed pressures as geopolitical uncertainty compounds already cautious growth dynamics.

Europe - The outlook for EUR-based FX has been downgraded amid concerns around energy security and imported inflation, particularly given Europe's sensitivity to disruptions in global energy markets. European currencies are more likely to underperform during risk-off episodes, even as growth stabilizes, as higher oil prices and geopolitical risks complicate the region's policy outlook. However, should the conflict be resolved quickly, CEE FX should be among the quickest to retrace recent weaknesses.

LATAM - LATAM FX came into the year as the consensus favorite with "high carry" pairs benefiting from a stable to slightly weaker USD. The region has not been immune to the recent shocks, but is the clear relative beneficiary. Higher oil prices improve terms of trade for energy exporters, while commodity exposure and already restrictive monetary policy provide insulation relative to other regions. The region should continue to outperform into Q2, though returns are likely to be uneven and increasingly sensitive to global risk sentiment rather than pure carry dynamics.

Contributors

DAVID HESLAM

Head of Sovereign Research,
Fixed Income

DAVID RICHTER

Senior Director,
Sovereign Research

FELIPE PERIGO

Senior Director,
Sovereign Research

JEAN-LUC EBERLIN

Head of Credit and Trading,
EMEA

PIERRE-PASCAL LALONDE

Managing Director,
Municipals

MICHAEL BROWN

Managing Director,
Public Structured Finance

ALFRED CHANG

Managing Director,
Residential Whole Loan

PRIYA DESAI

Managing Director,
Private Structured Finance

SARA STRAUCH

Director,
EM Corporate & Sovereign

DAVID WILLIAMS

Senior Director,
Agricultural Research

AGATA PRACZUK

Senior Director,
Private Equity

JACOB KUROSAKI

Associate,
Real Estate Research

CARRIE BIEMER

Senior Director,
Rates & Currencies

ANTHONY POLLARO

Analyst,
Public Fixed Income

JACKSON TAPPEN

Analyst,
Public Fixed Income

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