Morgan Stanley

INVESTMENT MANAGEMENT

Global Fixed Income Bulletin

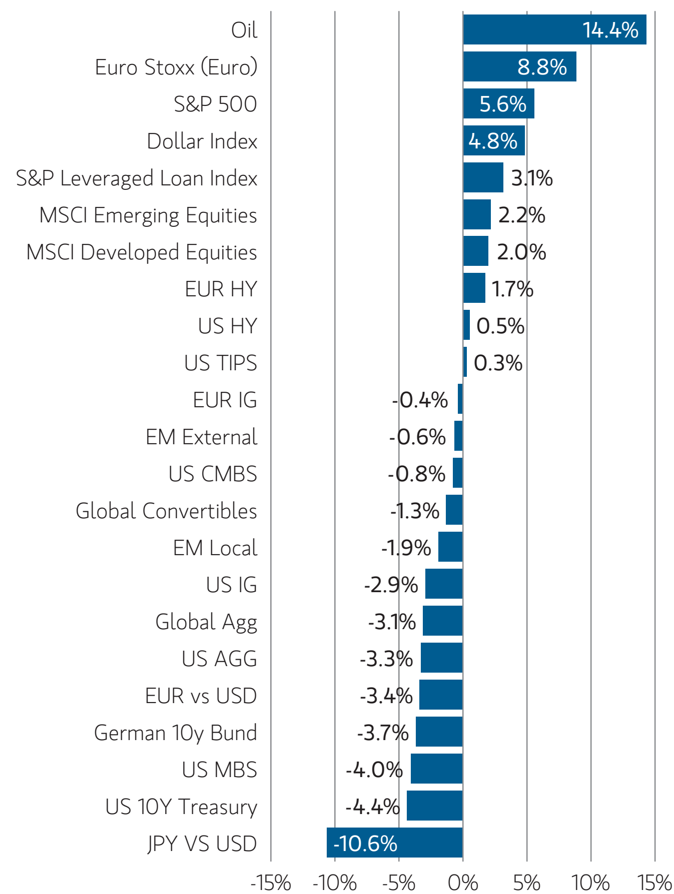
All Not So Quiet on the Western Front!

MACRO INSIGHT | BROAD MARKETS FIXED INCOME TEAM | May 2024

April was another challenging month for fixed income returns, following higher than expected growth and inflation data from the United States. These higher prints caused markets to push back expectations for rate cuts in the U.S. and reduce the magnitude of cuts between now and the end of 2025. The shift in expectations was felt across the world as yields rose in both the developed and emerging markets. The U.S. dollar rose 1.7% over the month, mainly due to these changes in expectations as well. Investment grade (IG) credit spreads were marginally tighter over the month, and U.S. high yield spreads widened 2 basis points (bps) while Euro high yield spreads widened 16 bps. Securitized credit spreads continued to outperform their corporate counterparts with spreads broadly tightening over the month while Agency Mortgage Backed Securities (MBS) spreads widened.

DISPLAY 1

Asset Performance Year-to-Date



Note: USD-based performance. Source: Bloomberg. Data as of April 30, 2024. The indexes are provided for illustrative purposes only and are not meant to depict the performance of a specific investment. **Past performance is no guarantee of future results.** See pages 9-10 for index definitions.

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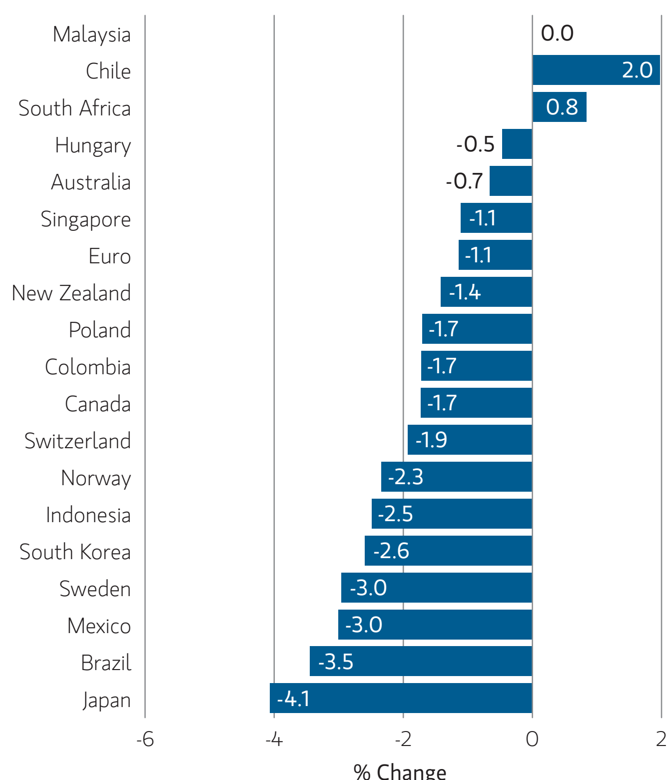
DISPLAY 2

Currency Monthly Changes versus U.S. Dollar

(+ = appreciation)



Note: Positive change means appreciation of the currency against the USD. Source: Bloomberg. Data as April 30, 2024.

DISPLAY 3

Major Monthly Changes in 10-Year Yields and Spreads

COUNTRY	10-YR YIELD LEVEL (%)	MONTH CHANGE (BPS)	10-YR SPREAD (BPS)	MONTH CHANGE (BPS)
			(SPREAD OVER USTS)	
United States	4.68	48		
United Kingdom	4.35	41	-33	-7
Germany	2.58	29	-210	-19
Japan	0.88	17	-380	-31
Australia	4.42	46	-26	-2
Canada	3.82	35	-86	-13
New Zealand	4.90	36	22	-12
EUROPE			(SPREAD OVER BUNDS)	
France	3.05	25	47	-4
Greece	3.58	20	100	-9
Italy	3.92	24	133	-5
Portugal	3.21	20	62	-9
Spain	3.35	19	77	-9
EM	**10-YR LOCAL YIELD (%)**	**MTD CHANGE (BPS)**	**SPREAD (BPS)**	**MTD CHANGE (BPS)**
EM External Spreads			444	-14
EM Corporate Spreads			393	4
EM Local Yields	6.89	-23		
			(SPREAD OVER USTS)	
Brazil	11.85	76	717	28
Colombia	10.60	42	592	-6
Hungary	7.03	34	235	-14
Indonesia	7.22	53	254	5
Malaysia	3.98	13	-70	-35
Mexico	9.96	70	528	22
Peru	7.29	-5	261	-53
Poland	5.71	28	103	-20
South Africa	12.16	-12	748	-60
CREDIT			**SPREAD (BPS)**	**MTD CHANGE (BPS)**
U.S. IG			87	-3
EUR IG			112	-2
U.S. HY			301	2
EUR HY			363	16
SECURITIZED				
Agency MBS			153	14
U.S. BBB CMBS			771	-17

Positive Neutral Negative

Source: Bloomberg, JPMorgan. Data as of April 30, 2024.

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Fixed Income Outlook

April proved to be another disappointing month for fixed income. Markets were hit by three interrelated shocks, all centered on the U.S.: growth and inflation surprised to the upside and, as a consequence, the Fed dialed back their confidence that rates would fall by their expected amount (75 bps according to the March dot plot). With U.S. inflation trending higher in the first four months of the year, and economic activity resilient, the Fed had no choice but to brace the markets for a slower than anticipated easing cycle. That said, the May FOMC meeting, particularly Chairman Powell's press conference, emphasized that in their opinion, disinflation was forestalled. To drive the point home, Powell effectively dismissed the possibility of an impending rate hike, and this predilection has important investment implications.

First, the Fed wants to cut rates. If inflation had behaved in Q1, rates would have most likely been cut 25 bps in May. This provides support for shorter maturity bonds while likely raising term premia on longer-dated bonds due to their willingness to risk higher inflation to keep the economy ticking along. Second, which is a corollary to the first, the Fed does not want a recession. They believe inflation is falling (as it is on a year over year basis) and there is no need to rush the process with an overly tight policy stance. Third, if recession risks are once again further reduced, this opens the door to continued good performance in risky assets, such as credit and emerging markets. And fourth, if inflation does resume its disinflation path over the remainder of the year, we will have a bull market in rates. Fifth, if the Fed is wrong about inflation, meaning that it will not fall enough to cut rates, or worse, start trending higher, markets may experience déjà vu: a slimmed down repeat of 2022.

What is true for the U.S. is essentially true for most other countries. Inflation is the constraint on easier monetary policy. The good news is that inflationary pressures appear to be more muted outside of the U.S. The ECB and Bank of Canada are likely to ease in Q2, and Switzerland already eased. These moves are, however, already discounted by the market with the only question being how much and how often the central banks will cut. On this issue, not too dissimilar to the Fed, these central banks continue to be a bit coy by making further adjustments very data dependent.

What does this mean for bonds? Longer-maturity U.S. yields look about right for the current data set after their sharp selloff in April, and a meaningful rally is constrained by the inverted yield curve: when 2-year yields rally so can 10-year yields. It is interesting that current 10-year yields are very close to their average in the 2002-2006 period, when economic growth was very similar to what it is today. Longer-term, a real yield over 2% on a U.S. Treasury security looks like decent value, but don't expect a rally unless the economic growth situation deteriorates unexpectedly, or inflation resumes its downward trajectory. On this latter point, it will be difficult for inflation to hit the Fed's forecast over the remainder of the year given its sharp underperformance over the first four months of the year.

Credit markets were remarkably well behaved in April, despite a mid-month wobble, and they also significantly outperformed equities. This strong performance despite historically tight spreads is a testament to the value they offer in this era of high nominal and real yields. While we do not expect further meaningful tightening, there is no reason to believe that spreads will widen given still sound fundamentals and macroeconomic performance which should be supportive of spreads. Strong yield-oriented buying should prevent spreads from widening, and a neutral to modestly overweight credit position still seems warranted.

Emerging Market (EM) local markets also had a challenging April although most managed to outperform U.S. Treasuries. Worries about U.S. inflation derailing the Fed undermined an otherwise nice story of falling inflation and central bank rate cuts. We do not think EM rate cutting is over. Instead, like in the U.S., the cycle may be elongating, but the starting point for yields is now more attractive. We also continue to favor Latin American local markets.

Given the uncertainty surrounding the robustness of the global economy, worries about U.S. inflation and likely central bank reactions to such data, we continue to find the best fixed income opportunities in shorter maturity securitized credit, such as residential mortgage-backed securities (RMBS), asset backed securities (ABS), and selective non-office commercial mortgage-backed securities (CMBS), given their higher yields and strong collateral. U.S. households with prime credit ratings have very strong balance sheets. This should continue to be supportive of consumer credit and ancillary structures, especially as house prices remain firm. Although they struggled in April, U.S. Agency mortgages still have value compared to investment grade credit, at least in higher coupons, and they should outperform U.S. Treasuries.

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In currency markets, the outlook for the U.S. dollar remains murky. It is at a high valuation, but U.S. economic outperformance has been notable as has been its high yields. Until the rest of the world's economies catch up, the dollar is unlikely to meaningfully fall. That said, a more benign inflation environment should be ideal for a resumption of the carry trade: buying higher yielding currencies, and selling lower yielding ones, particularly in emerging markets. As such, we are not convinced that materially underweighting the dollar makes sense, but we are also not convinced one should be overweight the dollar. We continue to believe selective EM currencies look like better opportunities against the dollar, European, and Asian currencies.

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	MONTHLY REVIEW	OUTLOOK
Developed Market Rate/ Foreign Currency	In April, DM rates continued to rise as resilient growth data and upside inflation surprises led investors to reassess the outlook for monetary policy easing this year and next. In addition, long-dated forward yields rose, putting more pressure on long-dated bonds, suggesting the market is pricing in a higher terminal policy rate. In the U.S., markets have grown less optimistic on inflation dropping quickly enough to allow the Fed to cut rates aggressively. March's ISM Manufacturing release was the first print over 50 since late 2022, while the subindex for prices paid remained stubbornly high. Markets were also spooked by a strong CPI release, which was the third consecutive beat on core inflation, and affirmed an upward trend in core services ex-shelter. In the Euro-area, inflation data has been a bit softer even though some of the soft activity data (such as PMIs) remain strong, particularly in the peripheral economies like Greece and Spain. In foreign exchange, the dollar continues to appreciate against peers, supported by higher short-term interest rates vs. other countries. The yen exhibited the most volatility—following a dovish Bank of Japan meeting, it briefly weakened beyond 160 vs. USD before rallying back to 155 on reports of official intervention and ending the month more than 4% weaker. The Swiss franc benefited briefly from a flight to safety amid rising geopolitical tensions but finished the month 1% weaker on a trade-weighted basis. Despite demanding valuations, the U.S. dollar remains an interesting risk-off hedge, supported by wider interest rate differentials and strong domestic growth. We also favor the Australian dollar against the Canadian dollar.[1]	Monetary policy looks set to diverge cross-Atlantic. The repricing of the Fed's policy path has been especially stark, with the market now pricing 28 bps of cuts by the end of 2024, compared to over 160 bps at the start of the year. On the other hand, the ECB is increasingly committed to cut in June; although the pace of cuts after that is less certain, the market is still pricing 66 bps of cuts by year-end. By the end of 2026, the ECB is now priced to cut by 140 bps, while less than 100 bps is expected from the Fed. Cross-market, we see value in Gilts, as the BoE expectations have repriced more hawkishly, in line with the Fed, even though the UK economy is significantly weaker than the U.S. and inflation is dropping quickly.

[1] Source: Bloomberg. Data as of April 30, 2024.

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	MONTHLY REVIEW	OUTLOOK
Emerging Market Rate/ Foreign Currency	April performance was negative for EM Debt (EMD), along with most bond markets. U.S. inflation data remained sticky and increased in March, which pushed out expectations for the start of Fed rate cuts. Most EM currencies sold off and sovereign spreads widened during the month. Corporate spreads moderately tightened, but the rally in U.S. yields weighed on performance for the corporate segment of the EMD market, and additionally hit the hard currency sovereign segment of the market. A few EM currency bright spots included the Chilean peso, which strengthened in reaction to a less aggressive rate cut by the central bank and a rally in copper prices, the country's largest export. The Turkish lira also rallied after a large rate hike at the end of March. The asset class continued to be in outflows, but the segments of the market were mixed. Hard currency funds were in inflows for the first monthly period in over a year, while the local segment of the market was still in outflows.[2]	Emerging markets debt valuations remain compelling, and EM assets are cheap. Real yields in emerging markets are near decade-long highs and inflation continues to come down leaving room for EM central banks to make additional rate cuts. Improving global growth outlooks, especially in emerging markets, will help provide support for EM assets even as U.S. yields may stay elevated for longer. Local assets, particularly currencies, are an attractive area of the asset class while sovereign and corporate spreads are broadly tight offering little additional upside. However, higher credit spreads especially found off-benchmark present interesting investment opportunities. A number of reform stories and dramatic U-turns in policy have materialized in just the first couple months of 2024 creating exciting new investment opportunities while expanding the investable EM landscape. Country picking remains crucial for uncovering value—especially as global markets monitor the Fed's next policy move.

[2] Source: Bloomberg. Data as of April 30, 2024. EM corporates represented by The **JP Morgan CEMBI Broad Diversified Index.**

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	MONTHLY REVIEW	OUTLOOK
Corporate Credit	In April, European IG closed tighter and marginally underperformed U.S. IG spreads. Credit market sentiment was driven by the increasing prospect, that a "no/soft landing" is the most likely economic backdrop companies are operating against, further supported by central banks lack of commitment to ease policy. Geopolitical tensions rose as the Middle East conflict intensified early in the month; however, Israel's limited response to Iran's telegraphed drone attack was viewed as a de-escalation of the situation. Early Q1 corporate reporting continues to show limited signs of stress in business models, helped by management running low risk strategies. Meanwhile, corporate M&A activity continues to be concentrated in sectors that benefitted from COVID-19 and supply side disruption, namely Energy, Mining, Pharma, Healthcare and Technology. The deals are not structured to significantly increase leverage, and as such are deemed as a positive sign for bondholders.[3] Performance in the U.S. and global high yield markets cooled in April amid higher sovereign yields in the U.S. and Europe and valuations in the lower-rated segment of the high yield market appropriately adjusting to reflect elevated credit risk. The distress ratio in high yield inflected higher during the month amid idiosyncratic earnings weakness and ongoing discussion and execution of liability management exercises. Amid this backdrop, activity in the primary market remained elevated as issuers continued to aggressively address near-term maturities. Finally, performance by rating segment was mixed during the month, with the lowest quality segment generally underperforming.[4] The global convertible bond market sold off with other risk markets in April as inflation readings came in higher than expected, and comments from Federal Reserve officials reflected stalled inflation progress and willingness to hold interest rates at current multi-decade highs. Geopolitical tensions in the Middle East also affected the performance of risk assets. The asset class outperformed global equities during the month, but modestly underperformed global bonds. The corporate earnings period and poor equity performance set a difficult backdrop for the primary market. In total, $3.7 billion priced during the month with more than half coming from Japan, which is rare for the global convertible bond primary market.[5]	Looking forward, our base case remains constructive for credit, supported by expectations of a "no/soft landing", low-risk corporate strategies, accommodative fiscal policy, and positive momentum. Considering credit spreads valuation, we see a market that is fairly priced, and hence we see carry as an attractive return opportunity. However, given the uncertain medium term fundamental backdrop we have less confidence in expected spread tightening. Our outlook for the high yield market is somewhat cautious as we progress through the second quarter. The high yield market is contending with several elements of uncertainty, and potential sources of volatility, including the forward path of monetary policy, U.S. fiscal and regulatory policy, the labor market, consumer health and, ultimately, economic growth and the health of the corporate fundamentals of high yield issuers. High yield also faces this uncertainty with the unique combination of historically attractive yields and an average spread that ranks near cycle lows. Further inspection of valuations reveals a market with ample dispersion, significant bifurcation and continued opportunity at the sector and security level. We continue to remain constructive on the global convertible bond market as we progress through the second quarter of 2024. We believe global convertible bonds currently offer their traditional balanced profile of upside equity participation and downside bond risk mitigation. New issuance in the first quarter was strong and we expect issuance to continue increasing in 2024 as corporations look to refinance existing convertible bonds as well as traditional debt in the convertible bond market given the relatively high interest rate environment. A more traditional asymmetric return profile coupled with an expectation of an increase in new supply continues to give us optimism for global convertible bonds in 2024.

[3] Source: Bloomberg Indices: U.S. Corporate Index and the European Aggregate Corporate Index. Data as April 30, 2024.

[4] Source: J.P. Morgan and Bloomberg US Corporate High Yield Index. Data as of April 30, 2024.

[5] Source: Bloomberg and Refinitiv Global Convertibles Focus Index. Data as of April 30, 2024.

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	MONTHLY REVIEW	OUTLOOK
Securitized Products	U.S. agency MBS spreads widened 14 bps in April to 153 bps above comparable duration U.S. Treasuries. While nearly all credit spreads have tightened, agency MBS spreads are now 14 bps wider in 2024, and current coupon agency MBS spreads are also wider year to date. Higher coupon MBS outperformed lower coupon MBS, and lower coupon passthrough agency MBS have longer rate and spread durations. The Fed's MBS holdings shrank by $4 billion in April to $2.38 trillion and are now down $355 billion from their peak in 2022. U.S. banks' MBS holdings rose by $3.06 billion to $2.54 trillion in April, resuming the trend of bank increases after a small decrease in March; however, bank MBS holdings are still down roughly $457 billion since early 2022. Securitized credit spreads continued to tighten in April as demand remained very strong, and new issue deals were consistently oversubscribed. Securitized new issuance remained high April, but the increased supply continues to be easily absorbed. Relative to other fixed income sectors, securitized credit sectors outperformed Treasuries, Global and U.S. aggregate, U.S. IG corporates, agency MBS, equities, and others.[6]	After several months of spread tightening across securitized products, we expect spreads to stabilize at current levels in May as securitized credit spreads are approaching agency MBS spread levels. Overall demand levels remain strong, but we believe it will be challenging to push spreads much tighter from current levels. Securitized credit sectors have been among the best performing sectors in 2024, but performance should normalize in the coming months. We also believe that rates will likely remain rangebound for much of 2024, and that returns will result primarily from cashflow carry in the coming months. We still believe that current rate levels remain stressful for many borrowers and will continue to erode household balance sheets, causing stress for some consumer ABS, particularly involving lower income borrowers. Commercial real estate also remains challenged by current financing rates, and some sectors may see declines in operating revenue in 2024. Residential mortgage credit opportunities currently remain our favorite sector and is the one sector where we remain comfortable going down the credit spectrum, as we remain more cautious regarding lower rated ABS and CMBS. We have moved from a neutral to a positive view on Agency MBS valuations, which are one of the very few sectors that have cheapened year to date, and they continue to remain attractive versus investment-grade corporate spreads and versus historical agency MBS spreads.

[6] Source: Bloomberg. Data as of April 30, 2024.

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Risk Considerations

Diversification neither assures a profit nor guarantees against loss in a declining market.

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to **market risk**, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g., natural disasters, health crises, terrorism, conflicts, and social unrest) that affect markets, countries, companies, or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g., portfolio liquidity) of events. Accordingly, you can lose money investing in a portfolio. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. Certain **U.S. government securities** purchased by the strategy, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the U.S. It is possible that these issuers will not have the funds to meet their payment obligations in the future. **Public bank loans** are subject to liquidity risk and the credit risks of lower-rated securities. **High-yield securities (junk bonds)** are lower-rated securities that may have a higher degree of credit and liquidity risk. **Sovereign debt securities** are subject to default risk. **Mortgage- and asset-backed securities** are sensitive to early prepayment risk and a higher risk of default and may be hard to value and difficult to sell (**liquidity risk**). They are also subject to credit, market, and interest rate risks. The **currency market** is highly volatile. Prices in these markets are influenced by, among other things, changing supply and demand for a particular currency; trade; fiscal, money and domestic or foreign exchange control programs and policies; and changes in domestic and foreign interest rates. Investments in **foreign markets** entail special risks such as currency, political, economic and market risks. The risks of investing in **emerging market** countries are greater than the risks generally associated with foreign investments. **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, and correlation and market risks. **Restricted and illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). Due to the possibility that prepayments will alter the cash flows on **collateralized mortgage obligations (CMOs**), it is not possible to determine in advance their final maturity date or average life. In addition, if the collateral securing the CMOs or any third-party guarantees are insufficient to make payments, the portfolio could sustain a loss.

DEFINITIONS

Basis point (bp): One basis point = 0.01%.

INDEX DEFINITIONS

The indexes shown in this report are not meant to depict the performance of any specific investment, and the indexes shown do not include any expenses, fees, or sales charges, which would lower performance. The indexes shown are unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

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The **Bloomberg Euro Aggregate Corporate Index (Bloomberg Euro IG Corporate)** is an index designed to reflect the performance of the euro-denominated investment-grade corporate bond market.

The **Bloomberg Global Aggregate Corporate Index** is the corporate component of the Bloomberg Global Aggregate index, which provides a broad-based measure of the global investment-grade fixed income markets.

The **Bloomberg US Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt.

The **Bloomberg US Corporate Index** is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate bond market.

The **Bloomberg US Mortgage-Backed Securities (MBS) Index** tracks agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon, and vintage. Introduced in 1985, the GNMA, FHLMC and FNMA fixed-rate indexes for 30- and 15-year securities were backdated to January 1976, May 1977, and November 1982, respectively. In April 2007, agency hybrid adjustable-rate mortgage (ARM) pass-through securities were added to the index.

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care.

Euro vs. USD—Euro total return versus U.S. dollar.

German 10YR bonds—Germany Benchmark 10-Year Datastream Government Index; **Japan 10YR government bonds**—Japan Benchmark 10-Year Datastream Government Index; and **10YR US Treasury**—US Benchmark 10-Year Datastream Government Index.

The **ICE BofAML European Currency High-Yield Constrained Index (ICE BofAML Euro HY constrained)** is designed to track the performance of euro- and British pound sterling-denominated below investment-grade corporate debt publicly issued in the Eurobond, sterling.

The **ICE BofAML US Mortgage-Backed Securities (ICE BofAML US Mortgage Master) Index** tracks the performance of US dollar-denominated, fixed-rate and hybrid residential mortgage pass-through securities publicly issued by US agencies in the US domestic market.

The **ICE BofAML US High Yield Master II Constrained Index (ICE BofAML US High Yield)** is a market value-weighted index of all domestic and Yankee high-yield bonds, including deferred-interest bonds and payment-in-kind securities. Its securities have maturities of one year or more and a credit rating lower than BBB-/Baa3 but are not in default.

The **ISM Manufacturing Index** is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

Italy 10-Year Government Bonds—Italy Benchmark 10-Year Datastream Government Index.

The **JP Morgan CEMBI Broad Diversified Index** is a global, liquid corporate emerging markets benchmark that tracks US-denominated corporate bonds issued by emerging markets entities.

The **JPMorgan Government Bond Index**—emerging markets (**JPM local EM debt**) tracks local currency bonds issued by emerging market governments. The index is positioned as the investable benchmark that includes only those countries that are accessible by most of the international investor base (excludes China and India as of September 2013).

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The **JPMorgan Government Bond Index Emerging Markets (JPM External EM Debt)** tracks local currency bonds issued by emerging market governments. The index is positioned as the investable benchmark that includes only those countries that are accessible by most of the international investor base (excludes China and India as of September 2013).

The **JP Morgan Emerging Markets Bond Index Global (EMBI Global)** tracks total returns for traded external debt instruments in the emerging markets and is an expanded version of the EMBI+. As with the EMBI+, the EMBI Global includes US dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least $500 million.

The **JP Morgan GBI-EM Global Diversified Index** is a market-capitalization weighted, liquid global benchmark for US-dollar corporate emerging market bonds representing Asia, Latin America, Europe, and the Middle East/Africa.

JPY vs. USD—Japanese yen total return versus US dollar.

The **Markit ITraxx Europe Index** comprises 125 equally weighted credit default swaps on investment grade European corporate entities, distributed among 4 sub-indices: Financials (Senior & Subordinated), Non-Financials and HiVol.

The **Nikkei 225 Index (Japan Nikkei 225)** is a price-weighted index of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.

The **MSCI AC Asia ex-Japan Index (MSCI Asia ex-Japan)** captures large- and mid-cap representation across two of three developed markets countries (excluding Japan) and eight emerging markets countries in Asia.

The **MSCI All Country World Index (ACWI, MSCI global equities)** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in US dollars and assumes reinvestment of net dividends.

MSCI Emerging Markets Index (MSCI emerging equities) captures large- and mid-cap representation across 23 emerging markets (EM) countries.

The **MSCI World Index (MSCI developed equities)** captures large and mid-cap representation across 23 developed market (DM) countries.

Purchasing Managers Index (PMI) is an indicator of the economic health of the manufacturing sector.

The **Refinitiv Convertible Global Focus USD Hedged Index** is a market weighted index with a minimum size for inclusion of $500 million (US), 200 million (Europe), 22 billion Yen, and $275 million (Other) of Convertible Bonds with an Equity Link.

The **Russell 2000® Index** is an index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **S&P 500® Index (US S&P 500)** measures the performance of the large-cap segment of the US equities market, covering approximately 75 percent of the US equities market. The index includes 500 leading companies in leading industries of the U.S. economy.

S&P CoreLogic Case-Shiller US National Home Price NSA Index seeks to measure the value of residential real estate in 20 major US metropolitan areas: Atlanta, Boston, Charlotte, Chicago, Cleveland, Dallas, Denver, Detroit, Las Vegas, Los Angeles, Miami, Minneapolis, New York, Phoenix, Portland, San Diego, San Francisco, Seattle, Tampa and Washington, D.C.

The **S&P/LSTA US Leveraged Loan 100 Index (S&P/LSTA Leveraged Loan Index)** is designed to reflect the performance of the largest facilities in the leveraged loan market.

The **S&P GSCI Copper Index (Copper)**, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark for investment performance in the copper commodity market.

The **S&P GSCI Softs (GSCI soft commodities) Index** is a sub-index of the S&P GSCI that measures the performance of only the soft commodities, weighted on a world production basis. In 2012, the S&P GSCI Softs Index included the following commodities: coffee, sugar, cocoa, and cotton.

Spain 10-Year Government Bonds—Spain Benchmark 10-Year Datastream Government Index.

The **Thomson Reuters Convertible Global Focus USD Hedged Index** is a market weighted index with a minimum size for inclusion of $500 million (US), 200 million euro (Europe), 22 billion yen, and $275 million (Other) of convertible bonds with an equity link.

U.K. 10YR government bonds—U.K. Benchmark 10-Year Datastream Government Index. For the following Datastream government bond indexes, benchmark indexes are based on single bonds. The bond chosen for each series is the most representative bond available for the given maturity band at each point in time. Benchmarks are selected according to the accepted conventions within each market. Generally, the benchmark bond is the latest issue within the given maturity band; consideration is also given to yield, liquidity, issue size and coupon.

The **US Dollar Index (DXY)** is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of US trade partners' currencies.

The **Chicago Board Options Exchange (CBOE) Market Volatility (VIX) Index** shows the market's expectation of 30-day volatility.

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