Morgan Stanley
INVESTMENT MANAGEMENT

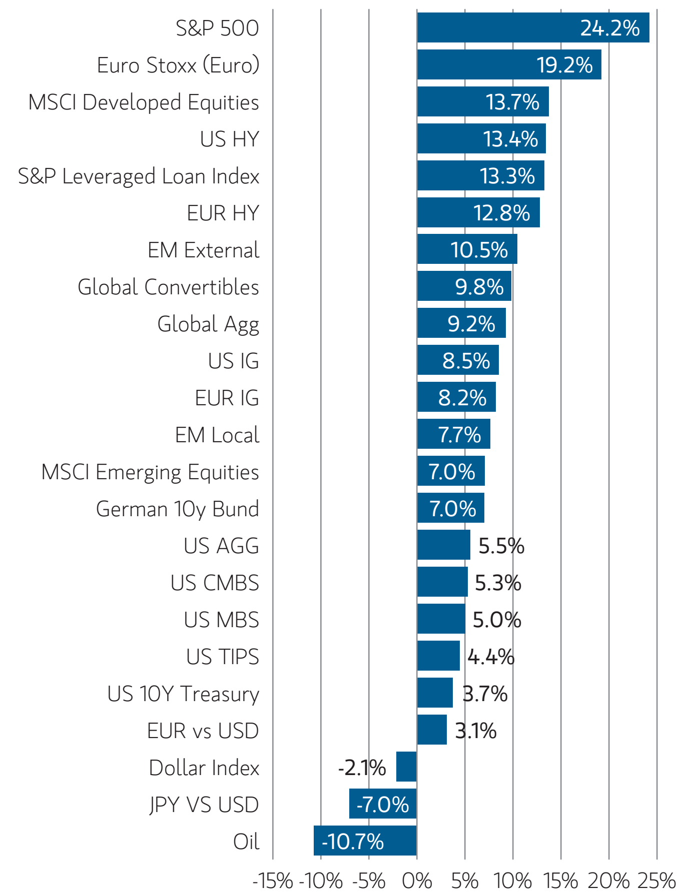
Global Fixed Income Bulletin

And the Beat Goes On, But for How Long?

MACRO INSIGHT | BROAD MARKETS FIXED INCOME TEAM | January 2024

December picked up where November left off, with yields of government bonds falling and spreads tightening, for the most part, across the globe. 10-year yields in the U.S. fell by 45 basis points (bps) over the month, 42 bps in Germany, 64 bps in Canada, 46 bps in Australia, and 56 bps in New Zealand as inflation continued to fall and central bank policy paths were revised to include more rate cuts happening sooner than previously anticipated. Emerging Market (EM) assets performed particularly well, as the U.S. dollar fell and the prospects of rate cuts increased. Credit spreads in both investment grade and high yield corporates also tightened, with the U.S. and Euro-area performing in-line with one another, and high yield outperforming investment grade. Securitized credit spreads continued to grind tighter and pick up momentum after lagging the performance of their corporate counterparts in November.

DISPLAY 1
Asset Performance Year-to-Date



Note: USD-based performance. Source: Bloomberg. Data as of December 29, 2023. 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 8 - 9 for index definitions.

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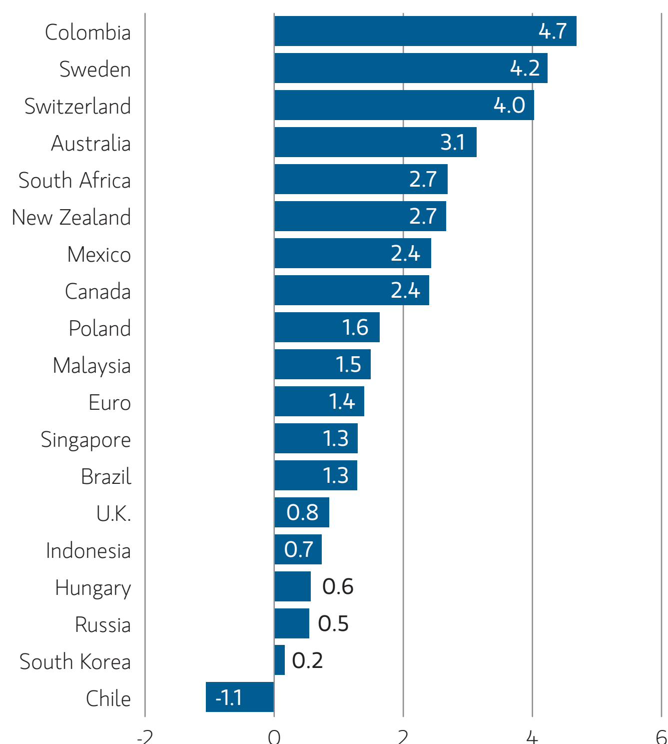
DISPLAY 2

Currency Monthly Changes versus U.S. Dollar

(+ = appreciation)



Note: Positive change means appreciation of the currency against the USD. Source: Bloomberg. Data as December 29, 2023.

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	3.88	-45		
United Kingdom	3.54	-64	-34	-19
Germany	2.02	-42	-186	2
Japan	0.61	-6	-327	39
Australia	3.96	-46	8	-1
Canada	3.11	-44	-77	0
New Zealand	4.32	-56	44	-11
EUROPE			(SPREAD OVER BUNDS)	
France	2.56	-46	54	-4
Greece	3.06	-63	104	-21
Italy	3.70	-53	168	-11
Portugal	2.66	-48	63	-6
Spain	2.99	-48	97	-6
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	10.37	-54	649	-9
Colombia	9.96	-84	608	-39
Hungary	5.87	-97	199	-52
Indonesia	6.45	-15	257	30
Malaysia	3.73	-9	-15	36
Mexico	8.94	-45	506	0
Peru	6.68	-53	280	-8
Poland	5.19	-31	131	14
South Africa	11.37	-20	749	25
CREDIT			**SPREAD (BPS)**	**MTD CHANGE (BPS)**
U.S. IG			99	-5
EUR IG			138	-9
U.S. HY			323	-47
EUR HY			381	-45
SECURITIZED				
Agency MBS			139	-18
U.S. BBB CMBS			966	22

Positive Neutral Negative

Source: Bloomberg, JPMorgan. Data as of December 29, 2023.

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Fixed Income Outlook

December's stunning bond market performance was a fitting end to a roller-coaster year, which ended with what one might call a fairy tale ending: strong positive returns after a dismal first nine months. While we all hope 2024's returns will continue this positive trend, let us hope we do not have the same level of volatility! What is likely is that bond returns in 2024 will not match those in 2023, but will have an excellent chance of exceeding cash, as global cash rates will likely fall as central banks ease.

The biggest worry is how much December's remarkable returns will steal from 2024. We were already a little worried after November's turnaround, but December raised the stakes. To be fair, a lot of last year's Q4 returns were an unwind of deep pessimism in Q3. Netting the two quarters together does not look so outrageous. In fact, the flip from deep worries that rates might not come down at all in 2024, to expectations that they would come down almost double the amount the Fed was forecasting, was impressive. For sure, the Fed should take some of the blame, or credit, depending on your perspective. At the December Federal Open Market Committee (FOMC) meeting, the committee all but rubber stamped the market's bullish view, removing the last rate hike from their forecast and adding an additional rate cut.

Now comes the hard part. Will the trajectory of growth, inflation and financial stability concerns justify the large rate cuts priced into much of the world? For it was not just the U.S. bond market which ended up shining. The Euro bond market also had excellent returns, and the emerging markets and high yield credit markets led the way as spreads compressed on risky assets. If the rate cuts currently expected to occur do not happen, bond markets, including government, credit and securitized markets are likely to underperform.

The good news is that rate cuts are likely to happen, both in the U.S. and elsewhere. The pace and magnitude, however, remains uncertain. Central banks are not yet convinced that the market's more bullish views are justified, meaning that growth must continue to be modest (if not weaker), labor markets cannot strengthen (they can remain unchanged) and inflation, most importantly, must continue to fall. There is no doubt that the Fed's forecast of 75 bps of rate cuts is justified given the rapid drop in inflation over the past year. Indeed, upwards of 100 bps could be justified given inflation's continued retreat. Rate cuts would keep real rates from increasing, which is not warranted. Whether or not the economy needs further rate cuts will depend on the economy. The market is making a large bet that the Fed will cut rates upwards of six times in 2024, which is aggressive but not impossible.

Where does this leave us? We think interest rates still look attractive medium term, but look fairish near term, post the 2023 rally. It is difficult to know if the economy will evolve according to the market's forecast. We are hopeful but wary. Credit spreads, both investment grade and high yield, moved meaningfully lower in 2024. This makes it much less likely to see further tightening in the months ahead and makes credit markets look stretched. All-in yields still look OK, but spreads are near cycle lows. The still reasonable all-in yields make us confident that credit markets should outperform cash in 2024, but it definitely has become more of a carry game than a capital gains story. We will look to add exposure on meaningful spread widening as the Fed "put" on the economy is most likely operational, if still out of the money. Shorter-maturity high yield bonds look attractive in this environment. Financials still look to have better value than non-financials.

We continue to believe that selective EM bond markets look attractive, even post-rally, but we are not yet ready to allocate more given the Q4 rally. While the fall in yields is unlikely to match what has recently been seen, many EM central banks have begun the rate cutting cycle, while Fed rate cuts remain aspirational. Again, like in the U.S., the big question is if further large rate cuts are justified? The rally in U.S. Treasuries and fall in the U.S. dollar is helpful for EM, creating a more benign, positive financial market backdrop. We prefer Latin American bond markets, as central banks in this region have been able to cut rates and will continue doing so if the Fed is truly on hold. But U.S. data needs to support the dovish narrative, as priced by financial markets. One of the biggest risks to continued good bond market performance is an economic acceleration or, in the case of the U.S., no meaningful economic slowdown. This would short-circuit the positive feedback loop of lower short rates which lead to lower long yields, which in turn lead to tighter credit spreads. Time will tell.

We continue to favor shorter maturity securitized credit, such as residential mortgage-backed securities (RMBS), asset backed securities (ABS), and selective non-office commercial mortgage-backed securities (CMBS) for their higher yields and strong collateral. That said, the outlook has modestly deteriorated as household balance sheets come under more pressure and excess household savings are run down. Our favorite category of securitized credit remains non-agency residential mortgages, despite

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challenging home affordability. Surprisingly, U.S. housing looks like it may have bottomed out, with prices rising once again. U.S. agency mortgages, despite their great Q4 performance, still look to hold decent value versus investment grade credit, at least in higher coupons.

The outlook for the U.S. dollar also appears to be changing. While strong in Q3, it sold off significantly in December. Although the U.S. economy is slowing down, economic conditions in the U.S. are still better than in most other advanced economies and rates are higher. As such, we are not convinced that underweighting the U.S. dollar makes sense against other G-20 currencies. Some EM currencies look better positioned, but after the recent rally, we do not feel it is time to chase the market. Local EM bonds look to provide better value than from strictly EM currency appreciation.

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	MONTHLY REVIEW	OUTLOOK
Developed Market Rate/ Foreign Currency	In December, Developed Market bond markets rallied as inflation data continued to print weaker than previously expected. In the UK, November year-on-year Consumer Price Index (CPI) came in nearly half a percentage point below consensus expectations, while core Personal Consumption Expenditures (PCE) in the U.S. likewise showed a marked deceleration. As a result, Fed communication turned more dovish as Chair Powell offered little push back against increased rate cut expectations in 2024, and FOMC members revised down their forecasts of policy rates and inflation at end of 2024. As markets began to price earlier and more aggressive policy easing, 2- and 10-year UST yields fell 43 and 45 bps respectively, with the latter breaching the 4% threshold. Gilts outperformed (10y yields fell 64bps) due to the magnitude of the inflation miss, while 10y Bunds (-42bps) slightly lagged USTs. Elsewhere, the central banks of Australia, Canada, Japan, and Switzerland held policy constant, while Norges Bank surprised with a hike.[1]	Going forward, DM central banks will have their work cut out for them to deliver the cuts that the market currently expects. As of end of -December, well over six 25 bps rate cuts are now priced for each of the Fed, European Central Bank (ECB) and Bank of England (BoE) in 2024. Yet, economic activity is proving to be resilient. Moreover, despite the dovish turn in Fed speak, the BoE and ECB have not altered their tone to the same extent, instead stressing that more data is needed to confirm inflation is on the desired downward path. We see opportunities in several cross-market trades in rates, with the current dislocation between the U.S. and Canada being stark relative to history and fundamentals. This is in addition to retaining our preference for steepeners in select tenors—particularly 5s30s—which would benefit from either term premium expansion or a rally in the belly of the curve. On foreign exchange, the U.S. dollar continued to weaken over December, due to the Fed sounding more dovish than other central banks and still being rich on a real effective exchange rate basis. We remain bearish on the dollar and favor the Australian dollar over the Canadian dollar.
Emerging Market Rate/ Foreign Currency	Emerging Markets Debt continued to rally across all segments of the asset class. The Fed held rates at its December meeting and the market view is that rate cuts are likely in 2024, potentially in the first half of the year. The U.S. dollar continued to weaken during the month creating a favorable backdrop for EM currencies. Spreads tightened for both sovereign and corporate credit, and most EM currencies strengthened. Rate cutting cycles continued across Latin America with Colombia and Chile cutting rates while Mexico is shifting its narrative to likely cut next year. Suriname completed its debt restructuring with its creditors with an oil linked value recovery instrument (VRI). Argentina devalued its currency by over 50% as an emergency measure to help with its struggling economy. Outflows in the asset class continued with -$1.5B for hard currency funds and -$1.4B for local currency funds but outflows continue to moderate.[2]	The Fed is getting closer to the end of its tightening cycle and the market is betting it could come as early as the first half of 2024. EM assets have rallied during the last few months of the year with the help of dovish rhetoric from developed markets and a weaker U.S. dollar. EMD is well positioned for a continued rally as valuations remain attractive and developed market rate cuts appear imminent. Local rates are attractive as the macro environment shifts to a favorable backdrop for local assets. Divergence remains in the asset class, especially in the hard currency sovereign debt space, as credits remain bifurcated. Country and credit level analysis will be pivotal to uncover value in the asset class heading into the new year.

[1] Source: Bloomberg. Data as of December 29, 2023.

[2] Source: Bloomberg. Data as of December 29, 2023. EM corporates represented by The **JP Morgan CEMBI Broad Diversified Index.**

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	MONTHLY REVIEW	OUTLOOK

Corporate Credit

MONTHLY REVIEW

In December, both Euro and U.S. IG spreads tightened 5 bps, and there was a continuation of the Q4 themes. Credit market spreads tightened, and risk-free yields rallied, as markets interpreted the inflation data and Central Bankers' comments as confirmation that policy had pivoted from inflation to growth concerns, rates had peaked, and base rate cuts could lead to a "Goldilocks" economic outcome of low growth and lower inflation. Market sentiment in the month was driven by several factors; firstly, no further escalation in geo-political concerns although towards month end increased activity in the Red Sea highlights tensions remain in the region. Secondly, M&A rumours, lost legal cases, and earnings revisions created single name credit volatility. Finally, a supportive technical due to strong inflows into IG credit and low market liquidity due to the year-end holidays.[3]

The U.S. and global high yield markets again recorded substantial returns in December as investors interpreted the results of the Fed's December meeting as an abrupt U-turn in monetary policy. The technical conditions in the high yield market remained strong in December with lighter issuance and the sixth month of net-inflows of 2023. As U.S. Treasury yields gapped significantly lower during the month, the average yield in the high yield market decreased by approximately 80 bps and high yield returns were strong into year-end. Outperformance in the U.S. high yield market shifted from the higher-rated segments to the lower-rated segments in December as risk sentiment further improved.[4]

Global convertible bonds rose again in December along with other risk assets as investors interpreted the results of the Federal Reserve's December meeting as an abrupt u-turn in monetary policy. Global convertible bonds underperformed global equities but outperformed global bonds during the month. Issuance in the global convertible bond market only totaled $4.4 billion in December, which was one of the lowest monthly totals during 2023. Similar to the full year trend, new issuance in December was highly concentrated in the United States.[5]

OUTLOOK

Looking forward, our base case sees January supply as an opportunity to buy credit at a small discount against an improving macro backdrop for credit following the central bank pivot from concerns over inflation to concerns about overgrowth. We see carry as an attractive return opportunity but given the uncertain medium term fundamental backdrop we have less confidence in expected spread tightening.

The high yield market ended 2023 with the unique combination of a still historically attractive yields and an average spread that ranked near cycle lows. Our outlook remains relatively cautious given the speed and magnitude of the year-end tightening in high yield valuations that nearly reflect a perfectly soft economic landing. The silver lining is the historically high all-in yield that supports a positive return for high yield investors in 2024, even in our bear case scenario analysis.

We continue to remain constructive on the global convertible bond market as we enter 2024. Technicals in the global convertible bond market generally improved during 2023 as prices and deltas rose and conversion premiums decreased over the course of the year. Taken together, we believe these factors give global convertible bonds a more balanced profile. Additionally, we expect issuance to continue to increase 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 gives us optimism for global convertible bonds in 2024.

[3] Source: Bloomberg Indices: U.S. Corporate Index and the European Aggregate Corporate Index. Data as December 29, 2023.

[4] Source: J.P. Morgan and Bloomberg US Corporate High Yield Index. Data as of December 29, 2023.

[5] Source: Bloomberg and Refinitiv Global Convertibles Focus Index. Data as of December 29, 2023.

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	MONTHLY REVIEW	OUTLOOK
Securitized Products	Agency MBS spreads tightened 18 bps in December to +139 bps above comparable duration U.S. Treasuries and finished the year 4 basis points tighter on the year after having widened 50 basis points earlier in year. The Fed's MBS holdings shrank by $16 billion in December to $2.423 trillion, were down $209 billion in total in 2023, and are now down $309 billion from their peak in 2022. U.S. banks' MBS holdings increased $17 million to $2.51 trillion, but bank MBS holdings were still down $230 billion in 2023 and down nearly $500 billion since early 2022. Securitized credit spreads also tightened in December as securitized new issuance was light and demand remained strong. European securitized market activity slowed in December, and overall securitized issuance volumes in Europe were much lighter in 2023.[6]	After wild fluctuations in both rates and spreads in 2023, we enter 2024 with rates and spreads for securitized products at similar levels as we started 2023. We also have a similar outlook as we had at the start of 2023—positive on residential mortgage sectors and business-related ABS, cautious on commercial real estate and consumer-related ABS, neutral on agency MBS, and neutral on duration positioning in general. We believe the recent sharp rally in rates is slightly overdone with 150 bps of Fed rate cuts now being priced into market assumptions. Lower rates should help securitized credit: improving affordability, lowering debt service coverage, and improving refinancing potential. 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 remain our favorite sector currently 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 to a neutral view on agency MBS after the significant spread tightening over the last few months. Agency MBS spreads remain attractive versus investment-grade corporate spreads and versus historical agency MBS spreads, but the supply-demand dynamic remains challenging for 2024. We believe that further spread tightening is unlikely in the near-term.

[6] Source: Bloomberg. Data as of December 29, 2023.

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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: 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.

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

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