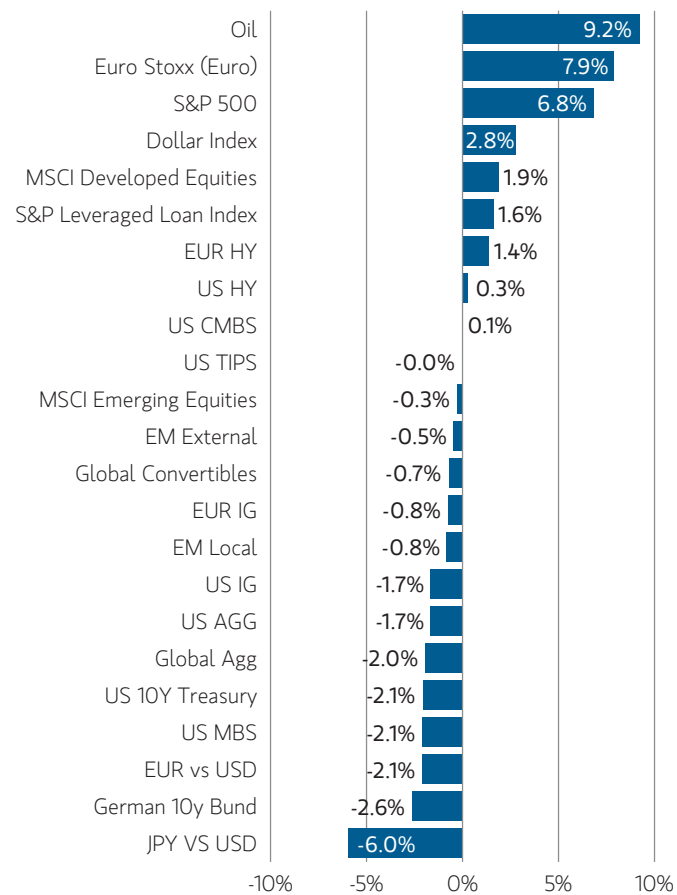


# Decision Time

MACRO INSIGHT | BROAD MARKETS FIXED INCOME TEAM | March 2024

Yields were broadly higher across the globe in February, as market participants recalibrated their expectations for rate cuts for the remainder of the year and into 2025. The beginning of the Fed cutting cycle was pushed into the second half of the year, and the pace of emerging market rate cuts slowed. The delay of rate cuts in the U.S. also benefitted the dollar which appreciated by ~1% vs. a basket of major currencies over the month. Within spread sectors, both investment grade and high yield corporate spreads tightened, with high yield outperforming investment grade (IG) and with Euro IG outperforming U.S. IG. Securitized credit spreads continued to tighten, and agency spreads were marginally wider over the month.

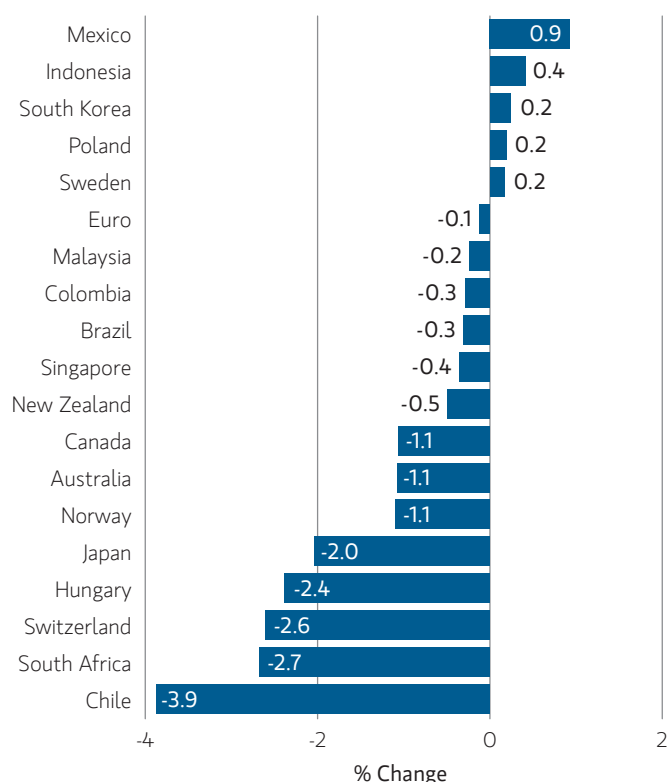
**DISPLAY 1**  
**Asset Performance Year-to-Date**



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

**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 February 29, 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)      |
|-----------------------------------|------------------------------|-------------------------|---------------------|-------------------------|
| <b>(SPREAD OVER USTS)</b>         |                              |                         |                     |                         |
| United States                     | 4.25                         | 34                      |                     |                         |
| United Kingdom                    | 4.12                         | 33                      | -13                 | -1                      |
| Germany                           | 2.41                         | 25                      | -184                | -9                      |
| Japan                             | 0.71                         | -2                      | -354                | -36                     |
| Australia                         | 4.14                         | 12                      | -12                 | -21                     |
| Canada                            | 3.49                         | 17                      | -76                 | -17                     |
| New Zealand                       | 4.70                         | 14                      | 45                  | -20                     |
| <b>EUROPE (SPREAD OVER BUNDS)</b> |                              |                         |                     |                         |
| France                            | 2.89                         | 22                      | 48                  | -2                      |
| Greece                            | 3.46                         | 25                      | 105                 | 0                       |
| Italy                             | 3.84                         | 12                      | 143                 | -13                     |
| Portugal                          | 3.12                         | 15                      | 71                  | -9                      |
| Spain                             | 3.29                         | 20                      | 88                  | -5                      |
| <b>EM</b>                         |                              |                         |                     |                         |
|                                   | <b>10-YR LOCAL YIELD (%)</b> | <b>MTD CHANGE (BPS)</b> | <b>SPREAD (BPS)</b> | <b>MTD CHANGE (BPS)</b> |
| EM External Spreads               |                              |                         | 444                 | -14                     |
| EM Corporate Spreads              |                              |                         | 393                 | 4                       |
| EM Local Yields                   | 6.89                         | -23                     |                     |                         |
| <b>(SPREAD OVER USTS)</b>         |                              |                         |                     |                         |
| Brazil                            | 10.85                        | 22                      | 660                 | -11                     |
| Colombia                          | 9.99                         | 42                      | 574                 | 8                       |
| Hungary                           | 6.36                         | 33                      | 211                 | -1                      |
| Indonesia                         | 6.59                         | 2                       | 234                 | -32                     |
| Malaysia                          | 3.87                         | 8                       | -39                 | -26                     |
| Mexico                            | 9.16                         | 1                       | 490                 | -33                     |
| Peru                              | 6.86                         | 24                      | 261                 | -10                     |
| Poland                            | 5.31                         | 11                      | 106                 | -22                     |
| South Africa                      | 11.67                        | 26                      | 742                 | -8                      |
| <b>CREDIT</b>                     |                              |                         |                     |                         |
|                                   |                              |                         | <b>SPREAD (BPS)</b> | <b>MTD CHANGE (BPS)</b> |
| U.S. IG                           |                              |                         | 96                  | 0                       |
| EUR IG                            |                              |                         | 121                 | -10                     |
| U.S. HY                           |                              |                         | 312                 | -32                     |
| EUR HY                            |                              |                         | 339                 | -30                     |
| <b>SECURITIZED</b>                |                              |                         |                     |                         |
| Agency MBS                        |                              |                         | 156                 | 8                       |
| U.S. BBB CMBS                     |                              |                         | 823                 | -64                     |

Positive Neutral Negative

Source: Bloomberg, JPMorgan. Data as of February 29, 2024.

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## Fixed Income Outlook

February continued where January left off, both months having delivered stronger-than-expected growth and inflation with a concomitant reduction in rate cut expectations. With rate cut expectations rampant around the world at the beginning of the year and markets positioned for cuts, a correction in higher bond yields was all but a certainty. The dramatic repricing of rate cuts during the month was a worldwide phenomenon justifying the global back up in yields. From a peak of seven Fed rate cuts in 2024, markets are now only predicting three, which is in line with 2023 Fed forecasts. While there are obvious dissimilarities between countries, the consistent behavior of inflation and central bank rhetoric across geographies is noticeable.

Indeed, the data flow over the past few months, particularly in the U.S., has thrown the “soft landing” theory into question. The anticipated “soft landing” has been predicated on the notion of U.S. growth decelerating into the 1-2% range and inflation falling close to the 2% Fed target. What has actually happened is economic growth has been accelerating, underlying measures of inflation have turned up over shorter periods, super core inflation (the Fed’s preferred measure) is trending higher, the labor markets remain tight, rents are rising, and, lastly, financial conditions have eased significantly. It is easy to question the need for aggressive rate cuts if this narrative, which justifies the bond market pushing yields significantly higher so far this year, continues. While these are legitimate risks that need to be monitored, we continue to believe a modest rate cutting cycle will begin sometime in the June-July period, but this view is highly data dependent, and the trend of the data is not completely clear.

These risks make the outlook for government bond yields a bit murky, at least in the short term. Falling inflation will likely precipitate rate cuts, but a firm U.S. economy would likely limit those rate cuts, which would keep U.S. Treasury 10-year yields from falling much below 4%. Right now, we expect more of a milder rate cutting cycle, rather than a more aggressive one as was priced at the beginning of the year. Similar to the mid 1990s, it is very possible the Fed decides to cut rates 50-100 basis points (bps) and then pauses for an extended period of time to assess the impact of its actions. Falling inflation is currently the only reason to be cutting rates as the level of unemployment would suggest upwards pressure on inflation and the potential need for rate hikes, not cuts.

A similar situation exists in other regions, with Eurozone yields also low relative to short rates, which undermines

their attractiveness, and emphasizes the need for significant (75 bps or more) rate cuts this year. This makes us reticent to be too aggressive on being long interest rate risk. From a longer-term perspective, high quality bonds at current yields look attractive with a prospective positive real yield of over 2%. However, the inversion of yield curves and confusing economic outlook makes being long duration a challenging position. On balance, building in yield without taking undue interest rate risk remains the best strategy in our view.

The good news is that central banks will soon have to decide when to start cutting rates. The March FOMC meeting is likely to be pivotal in understanding how the Fed perceives the economy and the risks surrounding it. If macro data weakens in the next few months (in alignment with the Fed’s forecasts), rate cuts are likely to begin mid-year. But, if the data does not weaken or, in the case of the European Central Bank (ECB), inflation proves stickier than expected, rate cuts might be pushed into the third quarter. And then, of course, there is the important question about how much rate cutting will occur. Right now, a modest amount seems reasonable.

Credit markets, on the other hand, have been very well behaved and continue to outperform. Stronger growth and continued pricing power have supported corporate results while central banks’ pivot to eventually easier policy provides an important backstop to downside economic risk. Strong equity results have been underpinned by similar forces as well. That said, U.S. investment grade spreads are at historically high valuations. While this is not a signal for imminent underperformance, there is limited upside (in spread terms) particularly in higher quality names. Value remains better in subordinated financials. But, after the back up in government bond yields, the all-in yield on investment grade remains attractive as a medium-term total return investment and will likely outperform cash. Euro investment grade spreads have underperformed USD bonds and have room to catch up, particularly in financial names, which we prefer. High yield bonds are in a similar position as investment grade. Yields look attractive and spreads look a bit tight, but high yield should still perform given a solid macro environment. Recession risk remains the biggest risk but is unlikely to occur in the next 12 months. Preliminary default data also supports the idea of continued low default rates with those that do occur being the result of idiosyncratic risks. In summary, credit looks attractive, but it is primarily a carry game rather than a capital gains story.

EM central banks continue to cut rates but at a reduced pace. While inflation remains well behaved, worries about a slower than expected developed market rate cutting cycle will make EM central banks cautious about getting too far ahead of the Fed. While worries about a lagging Fed has caused an upward correction in EM local yields, we still consider EM local debt attractive as EM easing will likely continue in 2024. We prefer Latin American bond markets, as central banks in this region have been able to cut rates and will continue doing so as long as the Fed plans to cut rates this year. However, upcoming U.S. data releases need to support the dovish narrative priced in by financial markets.

Given all the uncertainty around the true state of the global economy 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. A strong U.S. labor market and rising real incomes should keep household finances on a solid trajectory, even if not as robust as 18 months ago. Despite challenging home affordability, our favorite category of securitized credit remains non-agency residential mortgages. 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.

In currency markets, the outlook for the dollar is unresolved. It is at a high valuation, but U.S. economic outperformance has been notable. Until the rest of the world catches up, the dollar is unlikely to fall except in isolated circumstances. As such, we are not convinced that materially underweighting the dollar makes sense, but contrariwise, we are also not convinced one should be overweight the dollar. We continue to believe selective EM currencies look like better opportunities against both the dollar, European, and Asian currencies.

**Developed  
Market Rate/  
Foreign  
Currency**

Developed market government bond yields rose in February, and yield curves bear flattened as market participants re-assessed the likely pace of central bank rate cuts this year and next. Economic data remained strong, and policymakers signalled caution as to the timing of cuts. In the U.S., a blockbuster January payrolls report was followed mid-month by a CPI print showing sticky services components. Money markets have now moved to price 82bps of cuts by the FOMC by end-2024—about half the magnitude priced a month ago—and is almost converging with the median dot (75bps) in the Summary of Economic Projections. In the Eurozone, ECB speakers repeatedly stressed that the bank is not confident it can start easing policy yet, pointing to still-high inflation and strength in wage growth. The speakers suggested that the first rate cuts may not be before the summer. Approximately 91bps of cuts are now priced for this year—down from 160bps at the end of January—with even the more dovish ECB members hinting at a cut in June at the earliest. On foreign exchange, the dollar continued to appreciate against peers over the course of February, albeit at a slower pace than the previous month. Gains were especially pronounced against the Swiss Franc, Japanese Yen, and Antipodean currencies. We continue to favor high yielding emerging market currencies that are supported by solid fundamentals, like those of Peru, Mexico, and Brazil.<sup>1</sup>

Going forward, markets will be especially sensitive to the strength of economic data, especially given that policymakers have stressed a data-dependent approach. In the U.S., still-stubborn inflationary pressures, particularly in core services and rents, means policymakers will want to have more confidence that inflation is converging to its target before cutting. In the Eurozone, the timelier wage indicators have been encouraging, though the ECB has stressed that it is waiting for more clarity on the deceleration path. Euro-area PMIs, while still in contraction territory, suggest the activity slowdown has bottomed out. Given this, we remain modestly underweight duration, particularly in Euro. Central bank expectations seem more reasonable to us now, but longer maturity valuations are still demanding, carry is negative and sentiment poor.

**Emerging  
Market Rate/  
Foreign  
Currency**

Performance was mixed for Emerging Markets Debt (EMD) for the month of February. The pushed-out timeline for rate cuts caused EM currency to weaken year-to-date; however, sovereign and corporate spreads tightened for the month. Farmers in India are protesting for the government to provide support for assured floor prices for key crops. The Indonesian Defense Minister, Prabowo Subianto, teamed up with current president Jokowi's son as a running mate and won the presidential election held in February. Emerging markets central banks continued to cut rates, although at a slower rate, with only the Czech Republic and Hungary cutting rates over the month. Outflows in the asset class continued, but both hard and local currency outflows slowed month-over-month with -\$2.0B and -\$0.2B in outflows, respectively.<sup>2</sup>

The macro environment is supportive for emerging markets, but a key risk is if U.S. rates stay higher for longer. Although the first U.S. Fed rate cut has been delayed, inflation continues to come down indicating that mid-year is a reasonable timeline. Valuations remain attractive, and once developed markets start to cut rates, this will create a favorable environment for emerging markets to continue their rate cutting path. Although local assets have weakened year-to-date, local rates continue to be attractive. Differentiation among countries and credits remains critical, especially as growth, inflation, and policy vary across the emerging markets universe.

<sup>1</sup> Source: Bloomberg. Data as of February 29, 2024.

<sup>2</sup> Source: Bloomberg. Data as of February 29, 2024. EM corporates represented by The **JP Morgan CEMBI Broad Diversified Index**.

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## Corporate Credit

In February, Euro IG outperformed U.S. IG, as credit market spreads broadly tightened supported by strong demand for fixed income and a continued belief that the “goldilocks soft landing” is the most likely economic backdrop companies will be operating against. Market sentiment in the month was driven by several factors: Firstly, inflation data printed above expectations, supporting the argument that the move lower from 3% to 2% would be tough and rate hikes would likely start later than previous market predictions. However, markets focused on the fact that the next move would be lower and that European economic surprises suggested that high rates were not having a significant impact on the economy. Secondly, there was no further escalation in geo-political concerns, with the news in the Middle East/Red Sea viewed as a regional and non-systemic event. Thirdly, Q4 corporate reporting was positive for credit with the confirmation that corporates were seeing limited stress in their business with the majority running low risk strategies. Finally, a supportive technical, driven by strong inflows into IG credit alongside the large new issue pipeline which was matched with strong demand.<sup>3</sup>

The U.S. and global high yield markets recorded a choppy first two weeks in February as U.S. Treasury yields leapt higher. After the average yield in the U.S. high yield market briefly touched 8% mid-month, performance quickly improved amid resilient growth, corporate earnings which, on average, exceeded conservative expectations and modestly lower U.S. Treasury yields in the bottom half of February. The technical conditions in high yield, in aggregate, remained favorable in February. Retail flows remained slightly positive while net issuance was virtually nonexistent, with capital markets focused almost entirely on refinancing.<sup>4</sup>

Global convertible bonds bounced back in February as equity markets surged and expectations for the number of rate cuts in 2024 fell. The asset class outperformed global bonds during the month but was unable to keep pace with the strong performance from global equities, which was driven by a group of large-cap technology companies that do not issue convertible bonds. Despite a slow first two weeks of the month, new issuance picked up in the latter half of the month and issuance totaled \$9.1 billion in February.<sup>5</sup>

Looking forward, our base case remains constructive for credit against an improving macro backdrop following the central bank pivot from concerns over inflation to concerns about overgrowth, as well as the positive momentum driven by inflows into the asset class.

Considering valuation, we see a market that is fairly priced, but cheap relative to other markets and therefore we see carry as an attractive return opportunity. However, given the uncertain medium term fundamental backdrop we have less confidence in expected spread tightening.

The high yield market once again ended February with the unique combination of a still historically attractive yield and an average spread that ranked near cycle lows, tightening further in February. Our outlook remains relatively cautious given the high yield valuations that, on average, almost fully reflect a soft economic landing. The silver lining is the historically high all-in yield that, we believe, supports a positive return for high yield investors in 2024, even in our bear case scenario analysis.

We remain constructive on the global convertible bond market as we progress through the first quarter of 2024. Technicals in the convertibles 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. 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.

<sup>3</sup> Source: Bloomberg Indices: U.S. Corporate Index and the European Aggregate Corporate Index. Data as of February 29, 2024.

<sup>4</sup> Source: J.P. Morgan and Bloomberg US Corporate High Yield Index. Data as of February 29, 2024.

<sup>5</sup> Source: Bloomberg and Refinitiv Global Convertibles Focus Index. Data as of February 29, 2024.

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**Securitized Products**

Current coupon agency MBS spreads widened 9 bps in February to +156 bps above comparable duration U.S. Treasuries. Agency MBS spreads are now 17 bps wider in 2024 while nearly all other fixed income sector spreads have tightened materially. Higher coupon MBS outperformed lower coupon MBS based on rumors of banks selling lower coupons. The Fed's MBS holdings shrank by \$14 billion in February to \$2.395 trillion and are now down \$332 billion from their peak in 2022. U.S. banks' MBS holdings increased \$10 billion to \$2.54 trillion in February, the fourth consecutive monthly increase, but bank MBS holdings are still down \$460 billion since early 2022. Securitized credit spreads continued to tighten in February as demand remained very strong, and new issue deals were consistently oversubscribed. Securitized new issuance remained high in February, but the increased supply continues to be easily absorbed.<sup>6</sup>

After several months of spread tightening across securitized products, we expect spreads to stabilize at current levels in March 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 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 continue to have a neutral view on agency MBS valuations, which are more expensive than 2023 levels. Agency MBS spreads remain attractive vs. investment-grade corporate spreads and vs. historical agency MBS spreads, but we believe that further agency MBS spread tightening is probably not likely near-term.

<sup>6</sup> Source: Bloomberg. Data as of February 29, 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 **JP Morgan 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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