Morgan Stanley
INVESTMENT MANAGEMENT

Global Fixed Income Bulletin

# Now We Wait

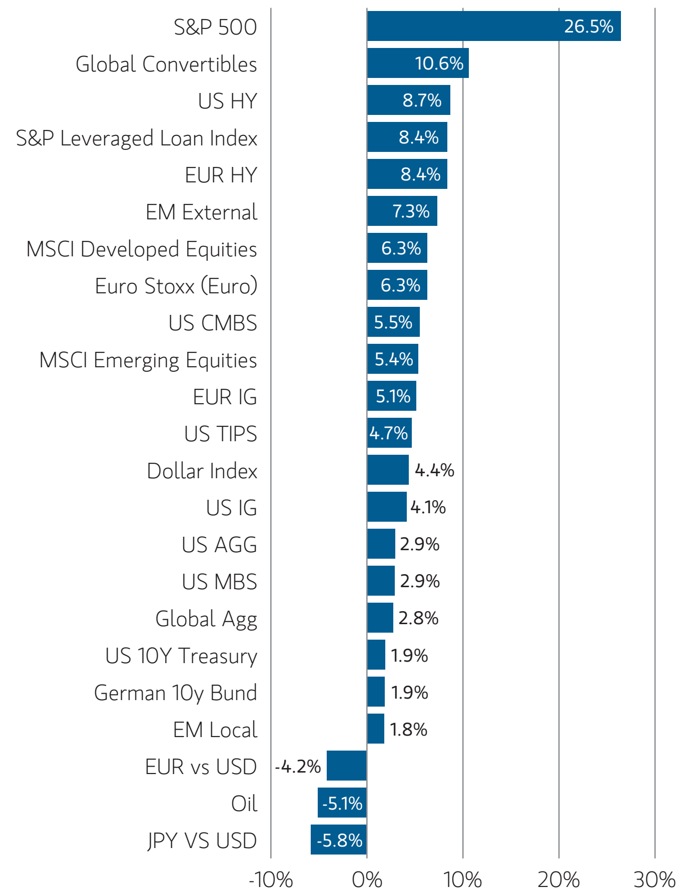
**MACRO INSIGHT** | BROAD MARKETS FIXED INCOME TEAM | December 2024

In the aftermath of the immediate surge in yields triggered by Donald Trump's election and the subsequent Republican sweep, government bond markets returned to a more normal state. By the month's end, global government bond yields showed a downward trend, with Germany leading the way among developed markets with the 10-year bund falling 30 basis points(bps). The United Kingdom's 10-year gilt followed closely, decreasing by 20 bps, while the 10-year U.S. Treasury yield declined by 12 bps. The U.S. dollar demonstrated strength during the month, outperforming a basket of other currencies by 1.7%.

Emerging market (EM) local government bonds outperformed their developed market counterparts, as yields generally decreased across the board. However, Brazil deviated from this trend, experiencing a notable rise in its 10-year rate, which increased by 62 bps.

In the corporate bond market, spreads in the U.S. tightened, with high yield corporate spreads narrowing by 16 bps and investment grade spreads tightening by 6 bps. Conversely, European markets saw a widening of spreads, with Euro High Yield (HY) spreads increasing by 11 bps and Euro Investment Grade spreads widening by 4 bps. Additionally, agency mortgage spreads and securitized credit spreads also tightened over the month.

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




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

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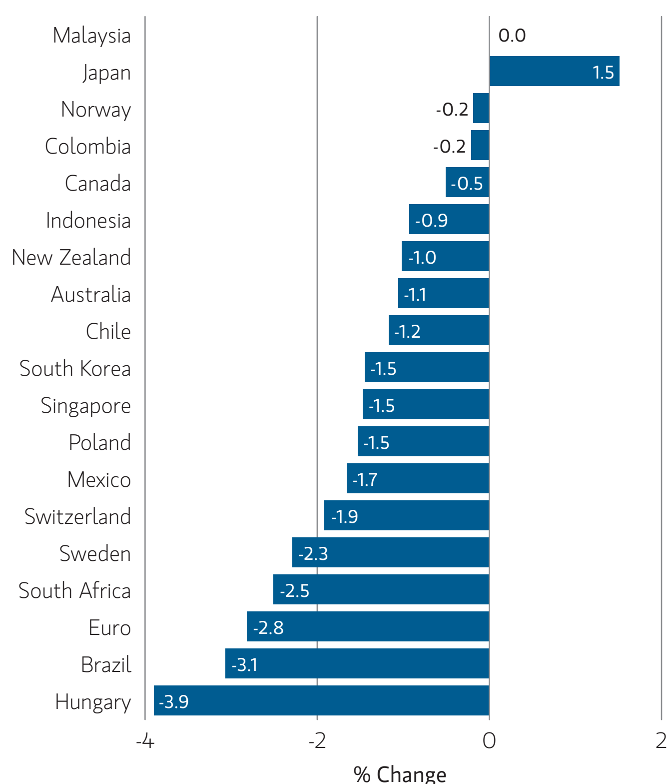
**DISPLAY 2**

## Currency Monthly Changes versus US Dollar

*(+ = appreciation)*




Note: Positive change means appreciation of the currency against the USD. Source: Bloomberg. Data as November 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** | 4.17 | -12 | | |
| **United Kingdom** | 4.24 | -20 | 7 | -9 |
| **Germany** | 2.09 | -30 | -208 | -19 |
| **Japan** | 1.05 | 10 | -312 | 21 |
| Australia | 4.34 | -16 | 17 | -5 |
| Canada | 3.09 | -13 | -108 | -2 |
| New Zealand | 4.38 | -10 | 21 | 2 |
| **EUROPE** | | | (SPREAD OVER BUNDS) | |
| France | 2.90 | -23 | 81 | 7 |
| Greece | 2.91 | -39 | 83 | -9 |
| Italy | 3.28 | -38 | 119 | -7 |
| Portugal | 2.54 | -26 | 45 | 4 |
| Spain | 2.79 | -30 | 70 | 0 |
| **EM** | **10-YR LOCAL YIELD (%)** | **MTD CHANGE (BPS)** | **SPREAD (BPS)** | **MTD CHANGE (BPS)** |
| **EM External Spreads** | | | 341 | 9 |
| **EM Corporate Spreads** | | | 219 | 9 |
| **EM Local Yields** | 6.25 | -20 | | |
| | | | (SPREAD OVER USTS) | |
| Brazil | 13.41 | 62 | 924 | 73 |
| Colombia | 10.88 | -5 | 672 | 7 |
| Hungary | 6.36 | -51 | 219 | -39 |
| Indonesia | 6.85 | 9 | 269 | 20 |
| Malaysia | 3.81 | -11 | -36 | 0 |
| Mexico | 10.01 | -6 | 584 | 5 |
| Peru | 6.56 | -24 | 239 | -12 |
| Poland | 5.51 | -43 | 134 | -32 |
| South Africa | 10.14 | -41 | 597 | -30 |
| **CREDIT** | | | **SPREAD (BPS)** | **MTD CHANGE (BPS)** |
| **U.S. IG** | | | 78 | -6 |
| **EUR IG** | | | 108 | 4 |
| **U.S. HY** | | | 266 | -16 |
| **EUR HY** | | | 331 | 11 |
| **SECURITIZED** | | | | |
| **Agency MBS** | | | 138 | -16 |
| **U.S. BBB CMBS** | | | 646 | -41 |

Positive Neutral Negative

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

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## Fixed Income Outlook

After a tumultuous September and October, bond yields stabilized and even rallied in November, despite the surprising Republican sweep of the of the U.S. elections. The 10-year U.S. Treasury yield fell by 12 bps during the month, with European government bond yields declining even more. In some ways, this marked a return to normalcy, as the U.S. employment report was weaker than expected, and the Fed cut rates by another 25 bps at its November FOMC meeting. However, inflation—particularly in the U.S.—has proven to be fairly sticky lately, undermining the market's optimism regarding rate cuts in 2025. Nevertheless, it was a good month for bonds after a terrible October, with U.S. credit markets contributing to the strong performance.

U.S. yields proved resilient post-election, despite concerns that the Republican sweep could be inflationary due to the proposed tariff agenda. After initially pushing U.S. yields higher, they stabilized and then rallied to their lowest level since mid-October. Several factors are at play: the Fed is easing, and yields have paradoxically been rising since the Fed initiated its rate-cutting cycle in September. This is not typical, so November's recovery, characterized by the market's reluctance to push U.S. Treasury 10-year yields above 4.5%, is significant.

Additionally, economic conditions outside the U.S. have generally not improved. The threat of U.S. tariffs, particularly on Europe, which is already reeling from the ramifications of the Russia/Ukraine war and the Chinese economic slowdown, has led markets to increase the cumulative easing expected from the European Central Bank (ECB). This stands in stark contrast to the U.S. bond market, which has significantly reduced the amount of easing anticipated from the Fed going forward. Currently, there is only a 50/50 chance of a December rate cut, whereas this had previously been around 75/25 in favour of a cut. Thus, a combination of Fed rate cuts (even if expectations are diminished), weaker growth, and good bond performance outside the U.S., along with technical support around the 4.5% level on U.S. 10-year Treasuries, stabilized the market and induced a small rally.

That said, U.S. yields are likely to remain range-bound in the coming months as markets attempt to decipher the true state of the economy—considering growth, unemployment, and inflation—as well as the likely scale of the incoming administration's policies, while also paying attention to how the Fed responds to all of the above. Tariff increases are likely to be inflationary and detrimental to growth (as seen in 2018/2019), as will reduced immigration; however, other policies may be beneficial for growth. The U.S. does appear to be experiencing a productivity boom, and if this continues, it could lead to strong non-inflationary growth. Overall, we believe growth is likely to be stronger in the medium term, but the sequencing of policies and the response of other currencies will be crucial in understanding the dynamic interplay of growth, inflation, and Fed policy responses. Some central banks, like the ECB and the Bank of Canada, may accelerate rate cuts, while others, such as the Bank of Mexico and various emerging market central banks, may pause or slow their rate-cutting in response to ongoing uncertainty and dollar strength. In summary, we remain agnostic about the near-term outlook for U.S. yields, anticipating a range of 4-4.5% for the U.S. Treasury 10-year, with rate cuts unlikely to exceed those currently priced into the markets. Given that the U.S. yield curve remains very flat, we also continue to avoid longer-duration bonds, as yields outside the U.S. generally appear more attractive.

Credit markets remain well supported, and we expect this to continue. In November, U.S. credit spreads tightened once again as the Republican agenda, combined with solid U.S. economic performance and higher yields, bolstered buying. This central bank support, robust U.S. growth, and strong corporate fundamentals (at both the investment grade and high yield levels) should persist. Assuming our forecast that the Republican administration's agenda is implemented to some degree (we are more confident about deregulation and tax cuts than about trade), U.S. corporate performance should remain solid, thus benefiting credit spreads. Conversely, European credit spreads underperformed in November due to deteriorating economic fundamentals and concerns about Trump's trade policies.

However, the longer-term impact of Republican policies is less clear. Greater opportunities and more regulatory leeway typically lead to riskier behaviour and greater leverage, which is not usually positive for creditors. With credit spreads on the tighter side (expensive by historical standards but not overvalued), opportunities remain attractive; however, we do not expect especially high returns. A very selective strategy seems appropriate given current valuations. We remain focused on avoiding problematic companies and industries while building as much yield as possible into the portfolio without taking undue risks. The absolute level of yields appears satisfactory, even amidst significant uncertainty surrounding the Trump administration, particularly

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from a medium-term perspective. While spreads look historically tight, yields (when combining spreads with the risk-free U.S. Treasury yield) appear favourable by historical comparison. Concerning risks, there is little reason to expect spreads to materially widen when economic growth is decent and central banks are cutting interest rates. However, given current spread levels, it is challenging to be confident that they can tighten meaningfully further. On a positive note, yield-oriented buying should help contain spread widening. We remain modestly overweight in credit within our portfolios, with a slight bias toward higher quality. Despite their underperformance in November, we still identify better opportunities in many U.S. names and European banks in euro-denominated bonds.

Amid the current noise and uncertainty in the world, we continue to believe that the most attractive opportunities remain in securitized credit, and particularly in U.S. mortgage-backed securities. U.S. households with prime credit ratings maintain strong balance sheets, which should continue to support consumer credit and ancillary structures, especially as housing prices remain firm and the unemployment rate stays low. Changes in U.S. tax policy should also be supportive. Higher coupon U.S. agency mortgage securities continue to be attractive compared to investment-grade corporates, and we believe they are likely to outperform U.S. Treasury securities. Similar to our corporate credit positioning, we aim to enhance our securitized credit exposures by moving up in credit quality and out of non-U.S. structures, given tighter spreads and increased macroeconomic risks in Europe. One area within securitized credit that may be vulnerable to potential shifts in Fed policy is commercial mortgage-backed securities (CMBS). If interest rates do not fall as much as expected, the refinancing of many U.S. office-backed deals could become problematic, leading us to generally steer clear of this sector.

Emerging market bonds are unlikely to thrive under a Trump-led Republican government. Stronger U.S. growth, combined with higher rates for a longer period and weaker global trade linkages, is not typically conducive to strong EM performance. Some of Trump's comments regarding the BRIC countries indicate a potentially volatile environment that these nations will need to manage in the coming years. Nevertheless, we believe that countries with solid economic outlooks, decent growth, falling inflation, and central banks willing and able to cut interest rates—despite policy changes in the U.S.—are likely to perform well. Country and security selection remain critical. We continue to avoid Mexican and Brazilian bonds as their respective markets contend with political uncertainty (Mexico), fiscal risks (Brazil), and Trump's policies. Some of the higher-yielding countries with weaker trade linkages to the U.S., like Egypt, are likely to perform relatively better.

In currency markets, the outlook for the U.S. dollar remains strong following the U.S. election. While the dollar appears stretched compared to its historical levels, its fundamental support remains robust. Easier fiscal policy, tighter monetary policy (relative to prior expectations), trade wars, and stronger U.S. growth all bode well for the dollar. However, one caveat to this optimistic narrative could be a deterioration in the labour market and signs that the Fed may become more aggressive in cutting rates. Further deterioration would give the Fed room to continue cutting interest rates, as long as the Trump agenda does not disrupt the inflation outlook. The U.S. economy continues to excel in terms of its growth trajectory, productivity performance, profit results, and yield levels. It will be challenging for other countries to generate the kind of fundamental support that the U.S. dollar enjoys, especially with a Republican administration focused on implementing a higher tariff strategy. This presents a high hurdle for other currencies to overcome in terms of fundamentals.

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## Developed Market Rate/Foreign Currency

**MONTHLY REVIEW**

The U.S. Presidential election was—unsurprisingly—the key risk event in November for macro markets. Bond yields rose in the first half of the month as markets considered the inflationary risks associated with several items on President-elect Trump's policy agenda, including tariffs on major trading partners and a reduction in taxes. This was despite a weak jobs report in the US, which showed an addition of only 12,000 jobs in October, as well as a downward revision of 112,000 for the two preceding months. While the deceleration in job growth was more significant than market expectations, investors were reluctant to interpret the print as a sign of underlying labour market weakness, given the data was likely affected by weather-related disruptions and workers' strikes. In addition, U.S. economic data releases generally surprised to the upside and inflation data showed signs of continued price pressures in the housing sector. In the second half of the month, however, bond yields fell in a stark reversal of early November's price action as U.S. Treasuries began to trade more in line with other markets, where bond yields had fallen in response to weakening growth data.

In the euro area, economic data continued to deteriorate. Producer Manufacturing Indexes for November suggested that manufacturing sectors, in all the main countries aside from Spain, continue to contract, and—more surprisingly—business conditions in the services sector also worsened sharply. Markets began to price an increased likelihood of a 50 basis point cut in December by the ECB, particularly as inflation prints surprised to the downside—especially in Germany and France.

On foreign exchange, the U.S. dollar continued to appreciate against major currencies in the first half of the month, as rate differentials widened and investors began to consider the likely impact of tariffs on trade. The dollar index reached levels not seen since 2022. During the latter half of the month, however, falling U.S. yields and crowded positioning began to weigh on the dollar's strength, with the Japanese yen being an especial beneficiary.

**OUTLOOK**

We are neutral on duration in DM markets overall, aside from Japan, and retain curve steepening exposures, particularly in the US. Cross-market, we remain underweight U.S. duration vs the UK and New Zealand, as UST valuations seem demanding in comparison to other markets, given stronger US economic growth. We have turned neutral on USTs vs Canada. We remain underweight JGBs, and long Japanese inflation breakevens, given we think Japanese inflation is moving structurally higher and will result in the BoJ raising interest rates higher than the market currently prices. We remain positive on the Australian dollar versus the Canadian dollar, and also favour the yen over the euro.

## Emerging Market Rate/Foreign Currency

**MONTHLY REVIEW**

Performance was mixed for EMD markets for the month of November. Markets responded to the results of the U.S. presidential elections with rising rates in the U.S. Rates remained elevated for most of the month but ended the period lower than prior to the election. The U.S. dollar also strengthened steadily during the month. Emerging market currencies sold off broadly, sovereign credit spreads compressed, and corporate credit spreads remained flat. One of the few currencies to appreciate was the Turkish lira as S&P upgraded the country's rating and inflation came down for the fifth straight month. Romania held its first round of presidential elections and a relatively unknown, far-right, pro-Russia candidate, Calin Georgescu, won in a surprising victory. If Calin is successful in the early December runoff, then there is the potential for Romania to drift away from the West and become far-right leaning. The Romanian leu sold off during the month. Sri Lanka announced a bond swap which is an important step to complete its debt restructuring. A successful restructuring will be important for economic recovery. Flows turned strongly negative, particularly for hard currency funds, as the market turned away from the asset class following the results of the U.S. election.

**OUTLOOK**

The results from the U.S. election caused volatility, and the market has been promoting the narrative that a Trump presidency would be bad for emerging markets. There is, however, a lack of clarity surrounding the Trump administration's policy and what campaign promises will go into effect. There are over 100 countries in our investment universe and potential U.S. trade policies will not impact all countries equally. There will be winners and losers, but focusing on fundamentals at the individual country level will continue to drive performance. Additionally, emerging market asset prices appear cheap relative to developed markets. Even in the sovereign and corporate credit markets where spreads are near long term averages, off-benchmark countries and countries going through restructurings have room for spread compression. Focusing on countries that are improving the quality of their institutions and implementing sound policy will help to drive asset value even through the noise of the U.S. Fed and elections.

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## Corporate Credit

**MONTHLY REVIEW**

European risk assets underperformed their U.S. counterparts in November as sentiment was largely dominated by the political environment. In the U.S. Donald Trump and the Republican party accomplished a "red sweep" while in Germany, the "traffic light" coalition collapsed and in France, focus shifted to the possibility of Barnier's government collapsing. Recent economic data prints present a weaker Europe and a stronger US while inflation comes in softer than expectations in both regions. ECB minutes suggested the Council's conviction in the disinflationary process has been growing and the FOMC lowered the policy rate by 25 basis point at its November meeting, as widely expected. The Q3 corporate earnings season came to a close. Most full year guidance has been reiterated and we have not seen major changes to capital allocations. There were some exceptions, such as autos and luxury goods, where earnings were weak. Utilities reported steady results, with guidance broadly raised. Banks reported strong earnings and capital build, despite net interest margins starting to decrease in some countries. Finally, primary issuance came in slightly below expectations at EUR 47bn, which was a supportive technical. Inflows into the asset class remained strong with investors continuing to reach for the "all-in" yield offered by IG credit.

Performance in the U.S. and global high yield markets strengthened in November and the average spread in the U.S. high yield market decreased to levels last reached prior to the Global Financial Crisis. Risk sentiment was particularly strong in the second-half of the month as political uncertainty in the U.S. abated following the Presidential election. Performance was bolstered by a sharp decrease in issuance, strong retail and institutional demand, and limited default and liability management exercise (LME) activity. The lowest quality segments generally outperformed for the one-month period, while the higher quality, longer duration BB-segment outperformed late in the month as U.S. Treasury yields fell.

November was a strong month for global convertible bonds. Performance was largely driven by U.S. small and mid-cap issuers as well as cryptocurrency companies that stand to benefit the most from the Republican sweep of the White House and both houses of Congress. Ultimately, the asset class outperformed global bonds and modestly trailed global equities during the month. New issuance was strong again in November with the U.S. accounting for a large majority of new paper during the month. Additionally, the asset class saw multiple crypto-related issuers, like MicroStrategy Inc. and MARA Holdings, come to market to take advantage of the strong rally in cryptocurrencies in November. In total, $11.5 billion priced during the month bringing the year-to-date total issuance to $105.8 billion. This represents a 40% increase over the same time period in 2023.[1]

**OUTLOOK**

Looking forward our base case remains constructive for credit supported by expectations of a "soft landing", fiscal policy that remains supportive of growth/employment/consumption and strong corporate fundamentals. Lighter gross issuance in fourth quarter coupled with strong demand for the "all-in" yield offered by IG credit is expected to create a supportive technical dynamic. When looking at credit spreads, we view the market as offering some value but see carry as the main driver of return. Given the uncertain medium term fundamental backdrop we have less confidence in material spread tightening.

Our outlook for the high yield market is generally favorable. While the probability of a soft landing has increased, it appears the preponderance of market participants also share this belief, and this scenario appears to be almost fully priced in at November-end with average spreads at post-Global Financial Crisis lows. The catalysts with the potential to undermine this scenario are consistently present and we remain focused on these in a continued effort to position our strategy to outperform, should market conditions deteriorate. These catalysts include the lagged effects of restrictive policy, economic conditions, consumer health and the fundamental health of high yield issuers. Despite an average spread near post-GFC lows, the market continues to benefit from a historically attractive average yield that remains above 7%.[2]

We continue to remain constructive on the global convertible bond market as we progress through the fourth quarter. We believe global convertible bonds currently offer their traditional balanced profile of upside equity participation and downside bond protection. New issuance has been strong, and we expect issuance to remain strong despite interest rate cuts from global central banks and potential volatility from the U.S. election and rising geopolitical tensions. A more traditional asymmetric return profile coupled with the expectation of continued strength in the primary market give us optimism for global convertible bonds as we end 2024 and enter the new year.

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[1] Source; Bank of America, as of 11/30/2024.

[2] Source: ICE Indexes as of 11/30/2024.

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## Securitized Products

### MONTHLY REVIEW

In November, U.S. Agency MBS spreads tightened by 16 bps and are now approximately 1 basis point wider year-to-date at +138 bps compared to U.S. Treasuries. Given the significant tightening in other credit sectors, agency MBS continues to be one of the few areas in fixed income with attractive valuations. The Fed's MBS holdings decreased by $17 billion in November, bringing the total to $2.241 trillion, down $455 billion from their peak in 2022. After a prolonged period of monthly increases, U.S. banks' MBS holdings fell slightly by $5.8 billion to $2.65 trillion in November; these holdings are still down roughly $322 billion since early 2022.[3] Securitized credit spreads showed little change in November, while corporate and U.S. agency MBS spreads tightened. Securitized issuance slowed as the holiday season approached, with many issuers opting to enter the market before the election; this supply was well absorbed and met with strong demand. Year-to-date, securitized credit has outperformed most other sectors of comparable credit quality due to its high cash flow carry and lower interest rate duration.

### OUTLOOK

We expect U.S. agency MBS spreads to remain range-bound after the tightening experienced post-election, as volatility has declined. We also anticipate that credit securitized spreads will stabilize at current levels. Overall demand remains strong; however, we believe it will be challenging to push spreads much tighter from their current levels. Securitized credit sectors have been among the best performing areas in 2024, and we have observed performance beginning to normalize, a trend we expect to continue in the coming months. Additionally, we believe that rates will likely remain range-bound through the last month of 2024 and into early 2025. We expect returns to primarily stem from cash flow carry in the upcoming months. Current rate levels remain stressful for many borrowers and will likely continue to erode household balance sheets, particularly impacting consumer ABS involving lower-income borrowers. Commercial real estate also faces challenges due to current financing rates. Residential mortgage credit opportunities currently stand out as our favorite sector, as we feel comfortable moving down the credit spectrum here, while remaining cautious regarding lower-rated ABS and CMBS. We maintain a slightly positive outlook on agency MBS valuations as they continue to appear attractive compared to investment-grade corporate spreads and historical agency MBS spreads.

[3] Source: Bloomberg, as of 11/30/2024.

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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.

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**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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