Morgan Stanley

INVESTMENT MANAGEMENT

Global Fixed Income Bulletin

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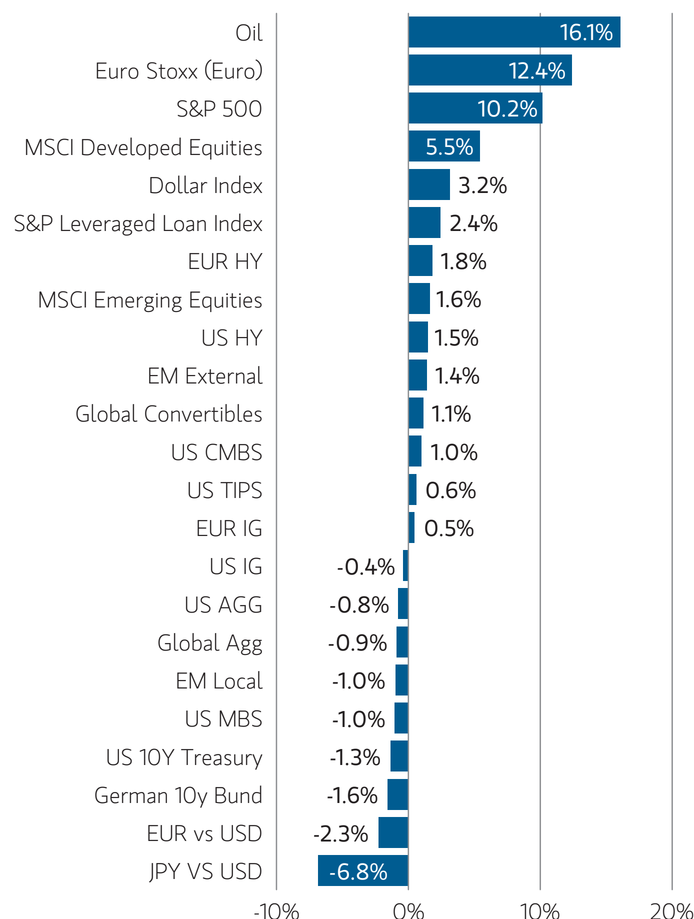
MACRO INSIGHT | BROAD MARKETS FIXED INCOME TEAM | April 2024

Developed market yields were slightly lower over the month, as the market seemingly took the Fed's word that it is still on track for three rate cuts this year and that the terminal rate would remain around the 3.25% level. The Bank of Japan abandoned their yield curve control policy and increased its policy rate out of negative territory for the first time in almost 17 years. Emerging market (EM) central banks continued to cut rates, but the pace of easing was being called into question, and that created mixed reactions in longer term yields. The U.S. dollar was stronger over the month, appreciating 0.4% versus a basket of major currencies. Risky assets also rallied with investment grade credit spreads tightening in both the U.S. and Euro-area. U.S. high yield spreads tightened while Euro-area high yield spreads widened as some idiosyncratic risks emerged. U.S. Agency mortgage spreads and securitized credit spreads continued to grind tighter.

DISPLAY 1

Asset Performance Year-to-Date



Note: USD-based performance. Source: Bloomberg. Data as of March 28, 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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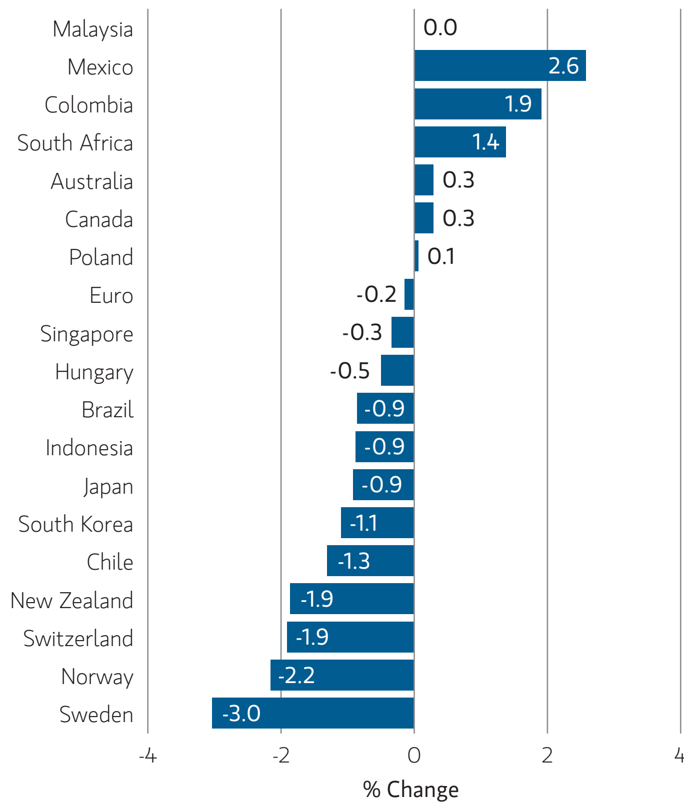
DISPLAY 2

Currency Monthly Changes versus U.S. Dollar

(+ = appreciation)



Note: Positive change means appreciation of the currency against the USD.
Source: Bloomberg. Data as March 28, 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	4.20	-5		
United Kingdom	3.93	-19	-27	-14
Germany	2.30	-11	-190	-6
Japan	0.71	0	-349	5
Australia	3.96	-17	-24	-12
Canada	3.47	-2	-73	3
New Zealand	4.54	-16	34	-11
EUROPE			(SPREAD OVER BUNDS)	
France	2.81	-8	51	4
Greece	3.38	-8	109	3
Italy	3.68	-16	138	-5
Portugal	3.01	-12	71	0
Spain	3.16	-13	86	-1
EM	**10-YR LOCAL YIELD (%)**	**MTD CHANGE (BPS)**	**SPREAD (BPS)**	**MTD CHANGE (BPS)**
EM External Spreads			444	-14
EM Corporate Spreads			393	4
EM Local Yields	6.89	-23		
			(SPREAD OVER USTS)	
Brazil	11.09	24	689	29
Colombia	10.18	18	598	23
Hungary	6.69	33	249	38
Indonesia	6.69	10	249	15
Malaysia	3.85	-2	-35	3
Mexico	9.27	11	507	16
Peru	7.35	48	314	53
Poland	5.43	12	123	17
South Africa	12.28	61	808	66
CREDIT			**SPREAD (BPS)**	**MTD CHANGE (BPS)**
U.S. IG			90	-6
EUR IG			114	-7
U.S. HY			299	-13
EUR HY			347	8
SECURITIZED				
Agency MBS			139	-17
U.S. BBB CMBS			788	-35

Positive Neutral Negative

Source: Bloomberg, JPMorgan. Data as of March 28, 2024.

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Fixed Income Outlook

Bond yields seem to be settling into a broad holding pattern. After soaring in January/February, March brought a respite, at least in developed countries. Yields are up significantly from 2023-year end after expectations of rate cuts have been significantly scaled back. Certainly, bonds are much more attractive now than they were in early January, but March, in many ways, did not deliver a lot of "new" news. Economic growth looks a bit better in Europe and China, although it is premature to believe in a robust rebound. Inflation looks like it is still falling in Europe, while the U.S. economy continues to defy skeptics who believed high interest rates would slow down the economy. In fact, most historical data suggests that the economy is enjoying a bit of a resurgence with both the manufacturing and service sectors expanding. GDP growth is also likely to expand more than 2% in the first quarter after a 4% surge in the second half of 2023, and the second quarter is seemingly off to a similar start.

More worryingly, some inflation indicators are no longer strongly disinflationary, particularly, the ISM Prices Paid index surprised significantly to the upside in March while oil prices climbed. While not overly concerning, the combination of increasingly strong growth alongside a stalling or significant slowdown in disinflation suggests that the Fed might be challenged to cut rates three times this year. Indeed, Fed communications have reiterated the need to be cautious before inflation is defeated.

More to the point, it is increasingly reasonable to question the need for the Fed to cut rates. Yes, inflation is falling, but how much and how fast? Yes, the labor market is normalizing, but it is not fully there yet. Yes, wage growth looks to be slowing, but it is difficult to be definitive. The real economy seems to be doing just fine: robust corporate profits, strong nominal GDP growth, the ISM Manufacturing Index rising over 50, a meaningful increase over the LTM, and a still flourishing service sector. In fact, one could ask oneself why is the Fed even contemplating rate cuts?

The situation looks better outside of the U.S., but where the Fed goes, others are sure to follow. So, markets will need to be vigilant over the next few months to gauge how much freedom central banks around the world will have to engage in with respect to the rate-cutting cycle. Despite these newfound concerns about the direction of the U.S. economy, it is likely the Fed will cut rates this year, probably at least two times, as will the ECB. Shorter maturity bonds look attractive even if the U.S. and/or global economy outperforms. However, longer maturity bonds do not look as attractive, as yield curves generally remain inverted, significant rate cuts through 2026 are discounted, and, even if policy rates are cut, the magnitude of those cuts are unlikely to be large enough to push longer-maturity bond yields materially lower. That said, policy rates are high and restrictive and will fall over time, and longer-maturity real yields are high by historical standards, so it is also difficult to be overly bearish, and range trading on lower maturity bonds across the developed world looks like the most likely outcome for now.

Within credit markets, the beat goes on. Spreads continue to broadly tighten, except for Euro High Yield where idiosyncratic events have driven spreads wider, and fundamentals remain strong. Stronger growth and continued pricing power have supported corporate results, while the pivots by central banks to eventually easier policy provide an important backstop to downside economic risk. 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, although recent outperformance has led us to selective profit taking. 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 lagged USD bonds and have room to catch up, particularly in financial names, which we prefer. High yield bonds also remain well bid, and while spreads are also historically tight, all-in yields are high. It is this "high" all-in yield, much higher than cash, that attracts buyers. Even with spreads tight, high yield should still perform given a solid macro environment. Per usual, recession risk remains the biggest threat but is unlikely to occur in the next 12 months given data momentum and the likelihood of policy easing. Preliminary default data also supports the idea of continued low default rates. In summary, credit looks attractive, but it is primarily a carry game rather than a capital gains story.

EM local markets had a challenging March but still look like they will outperform developed bond markets over the remainder of the year. EM central banks are cutting rates, and this should continue, but at a reduced pace. It was notable that the Central Bank of Mexico made their first rate cut in March on the back of diminishing inflation and sky-high real rates, and more should come in the months ahead. While inflation remains well behaved, worries about

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a slower paced inflation progress and a shallower-than-expected developed market rate cutting cycle will make EM central banks cautious about getting too far ahead of the Fed. Worries about a lagging Fed has caused an upward correction in EM local yields, but we still consider EM local debt attractive. We prefer Latin American bond markets, as central banks in this region have begun cutting rates and are likely to continue doing so.

Given the uncertainty surrounding the robustness 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. Commercial office CMBS, in contrast, remains challenging. Despite good recent performance, U.S. Agency mortgages still have value compared to investment grade credit, at least in higher coupons, and should outperform U.S. Treasuries.

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

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	MONTHLY REVIEW	OUTLOOK
Developed Market Rate/ Foreign Currency	Developed market interest rates fell in March, and curves bull-flattened. Longer-maturity bonds rallied, aided by a compression in term premia and more dovish communication from central banks. Shorter maturity yields were supported by growing confidence that central banks would cut rates this year. In the Eurozone, a growing number of Governing Council members are beginning to indicate that a cut in June is likely, even though economic activity—especially in the periphery—continues to be robust, and inflation prints year-to-date have been slightly stronger than the market was expecting. In the U.S., the Fed's Summary of Economic Projections, released at the March FOMC meeting, revealed that most members continue to expect three 25 basis point (bps) cuts in 2024, despite sticky consumer- and producer-price inflation prints. Moreover, only one cut was removed from 2025 while projections of the long-run policy rate are little-changed. On foreign exchange, the U.S. dollar index closed higher at the end of March, despite weakening over the first week of the month. The Swiss Franc depreciated sharply as the SNB surprised the market with a rate cut, while the Swedish Krona weakened on dovish guidance from the Riksbank on a cut by mid-year. The Japanese yen weakened further, even as the Bank of Japan raised rates for the first time in 17 years and ended yield curve control, as BoJ officials have pointed to policy remaining accommodative for some time to come.[1]	While central banks have suggested that cuts will begin this year, the exact timing of the first cut is less important than the pace and magnitude of the entire cutting cycle. Signs of still-sticky price pressures and an economy in good health suggest the cutting cycle may be shallow. Yet, central banks have recently shown a bias towards easier monetary policy, particularly the Fed, where focus has turned to the dual mandate and the two-sidedness of risks. We remain modestly short duration in euro, as valuations are rich, momentum is bearish, and carry is poor. In the U.S., inflation breakevens also seem attractive, pricing in little risk that inflation is slow to return to the Fed's target or remains structurally higher following the largest upside inflation shock in 30 years.
Emerging Market Rate/ Foreign Currency	Performance was mixed for EM Debt for the month of March. The hard currency portion of the market continued to rally as spreads tightened for both sovereign and corporate credit. The Fed held rates during its March meeting, but the market is pricing in the June Fed meeting for the start of the rate cutting cycle. The U.S. dollar strengthened for most of the month which put pressure on many EM currencies. EM central banks continued to cut rates with Colombia and Mexico cutting rates in March, but some EM central banks remain cautious and intend to limit current cuts until developed markets begin their easing, cycle. Egypt secured additional funding from the IMF following the central bank's announcement of a 600 bps rate hike and a currency devaluation. Egypt also secured an investment deal with the United Arab Emirates—all of these developments were supportive for Egyptian assets. The asset class continues to be in outflows with local currency funds seeing more outflows than hard currency funds as EM currencies have primarily weakened during the first quarter of 2024.[2]	EM Debt valuations remain attractive, assets are relatively cheap, and the start of the U.S. Fed rate cutting cycle is on the horizon. Once developed markets start to cut rates, the macro environment will further support EM central banks on their rate-cutting path—local rates remain attractive for this reason. EM credit is broadly overvalued, and credit spreads are tight, but there are attractive opportunities outside of the benchmark. A number of reform stories and dramatic policy U-turns have materialized in just the first couple months of 2024, creating exciting new investment opportunities. Growth expectations, inflation, and policy are very differentiated across regions and countries in emerging markets, and country picking remains crucial for uncovering value—especially as global markets have eyes on the U.S. Fed's next move.

[1] Source: Bloomberg. Data as of March 28, 2024.

[2] Source: Bloomberg. Data as of March 28, 2024. EM corporates represented by The **JP Morgan CEMBI Broad Diversified Index**.

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	MONTHLY REVIEW	OUTLOOK

Corporate Credit

Monthly Review

In March, Euro IG spreads outperformed U.S. IG spreads, as credit market spreads broadly tightened, supported by a continuation of the themes in February of strong demand for fixed income and a continued belief that the "goldilocks soft landing" was the most likely economic backdrop companies would be operating against. Market sentiment in the month was driven by several factors: First, equity markets rallied supported by economic data that exceeded expectations and positive assumptions on the potential impact of AI on both growth and productivity. Second, there was no further escalation in geo-political concerns, with news from the Middle East/Red Sea area being viewed as a regional and non-systemic event. Third, Q4 corporate reporting was positive for credit with the confirmation that corporates were seeing limited stress in their business. M&A activity was concentrated in sectors that had benefitted from Covid and supply side disruption like Energy, Pharma, Healthcare and Technology. The deals are not structured in most cases to significantly increase leverage, which is a positive sign for bondholders. Finally, corporate idiosyncratic risk increased in Europe, creating name specific volatility, but this had little impact on overall market sentiment.[3]

The U.S. and global high yield markets recorded a strong month in March as the market was supported by relatively positive corporate earnings and consistent projections from the Fed for three rate cuts in 2024. The technical conditions in high yield softened somewhat in March. Retail flows were approximately neutral while net issuance was paltry, with capital markets squarely focused on refinancing. Finally, default activity among high yield bond and loan issuers decreased in March after a heavy February.[4]

Global convertibles bonds had another strong month in March as the Fed maintained its projections for three rate cuts in 2024, despite increasing its 2024 core inflation and real growth forecasts. The asset class underperformed the strong performance of global equities during the month but outperformed global bonds. The strong momentum in the primary market in the latter half of February continued in the first two weeks of March. In total, $10.8 billion of new convertible issuance priced during the month with a significant majority concentrated in the United States.[5]

Outlook

Looking forward, our base case remains constructive for credit supported by expectations of a "soft landing", low risk corporate strategy, accommodative fiscal policy, and positive momentum. Considering credit spreads valuation, we see a market that is fairly priced, so we see carry as an attractive return opportunity but given the uncertain medium term fundamental backdrop we have less confidence in expected spread tightening.

Our outlook for the high yield market is somewhat cautious as we begin the second quarter. The high yield market is contending with several elements of uncertainty, and potential sources of volatility, including the forward path of monetary policy, U.S. fiscal and regulatory policy, the labor market and consumer health and, ultimately, economic growth and the health of the corporate fundamentals of high yield issuers. High yield faces this uncertainty with the unique combination of historically attractive yields and an average spread that ranks near cycle lows. Further inspection of valuations reveals a market with ample dispersion, significant bifurcation and continued opportunity at the sector and security level.

We continue to remain constructive on the global convertible bond market as we enter the second quarter of 2024. We believe global convertible bonds currently offer their traditional balanced profile of upside equity participation potential and the downside risk mitigation of bonds. New issuance in the first quarter was strong and we expect issuance to continue increasing in 2024 as corporations look to refinance existing convertible bonds as well as traditional debt in the convertible bond market given the relatively high interest rate environment. A more traditional asymmetric return profile coupled with an expectation of an increase in new supply continues to give us optimism for global convertible bonds in 2024.

[3] Source: Bloomberg Indices: U.S. Corporate Index and the European Aggregate Corporate Index. Data as March 28, 2024.

[4] Source: J.P. Morgan and Bloomberg US Corporate High Yield Index. Data as of March 28, 2024.

[5] Source: Bloomberg and Refinitiv Global Convertibles Focus Index. Data as of March 28, 2024.

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	MONTHLY REVIEW	OUTLOOK
Securitized Products	Current coupon U.S. Agency MBS spreads tightened 17 bps in March to +139 bps above comparable duration U.S. Treasuries. Agency MBS spreads are now unchanged in 2024. Securitized spreads continued to tighten in March, and now after several months of spread tightening, we expect spreads to stabilize at current levels in April 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.[6]	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, but remain cheap from a longer-term historical perspective. Despite the tightening of MBS spreads in March, they still remain attractive versus investment-grade corporate spreads and versus historical agency MBS spreads, but we believe that further agency MBS spread tightening is probably not likely near-term.

[6] Source: Bloomberg. Data as of March 28, 2024.

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Risk Considerations

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

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

DEFINITIONS

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

INDEX DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The **JPMorgan Government Bond Index**—emerging markets (**JPM local EM debt**) tracks local currency bonds issued by emerging market governments. The index is positioned as the investable benchmark that includes only those

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countries that are accessible by most of the international investor base (excludes China and India as of September 2013).

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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