Morgan Stanley

INVESTMENT MANAGEMENT

Global Fixed Income Bulletin

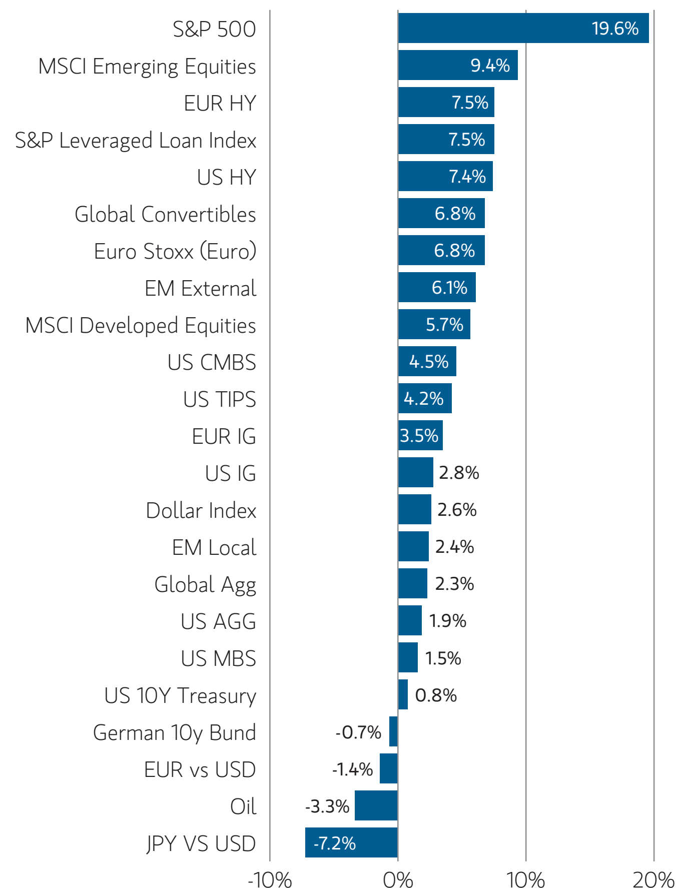
Riding the Rollercoaster

MACRO INSIGHT | BROAD MARKETS FIXED INCOME TEAM | November 2024

In October, the fixed income market experienced significant fluctuations following a 50-basis point (bp) interest rate cut by the Federal Reserve (Fed) in September. The initial optimism surrounding the Fed's decision soon gave way to reconsideration, as robust economic data prompted a sell-off in rates. The prevailing sentiment was that the pace of interest rate cuts might not be sustainable, especially as recession risks appeared to diminish. This shift in perception coincided with the upcoming U.S. election and the increased speculation about a potential Trump victory, which contributed to a notable rise in U.S. Treasury yields. Specifically, the yield on the 10-year note surged by 50 bps during the month.[1]

This trend was not limited to the U.S.; government bond yields saw upward momentum globally. In Germany, the 10-year rate rose by 27 bps, while the U.K. experienced a 44 bps increase.[2] Other notable movements included a 53 bps rise in Australia, a 52 bps increase in South Africa, and a 73 bps uptick in Mexico.[3] The increase in yields was a boon for the U.S. dollar, which appreciated 3.2% against a basket of currencies.[4] Despite rising government bond yields, credit spreads continued to tighten, with high yield bonds outperforming investment grade bonds, and the euro area markets outperforming their U.S. counterparts.

DISPLAY 1
Asset Performance Year-to-Date



Note: USD-based performance. Source: Bloomberg. Data as of October 31, 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.

[1] Source: Bloomberg L.P. Data as of 10/31/2024.
[2] Source: Bloomberg L.P. Data as of 10/31/2024.
[3] Source: Bloomberg L.P. Data as of 10/31/2024.
[4] Source: Bloomberg L.P. Data as of 10/31/2024.

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Initial Market Reaction Following a Trump Victory and Potential Red Sweep

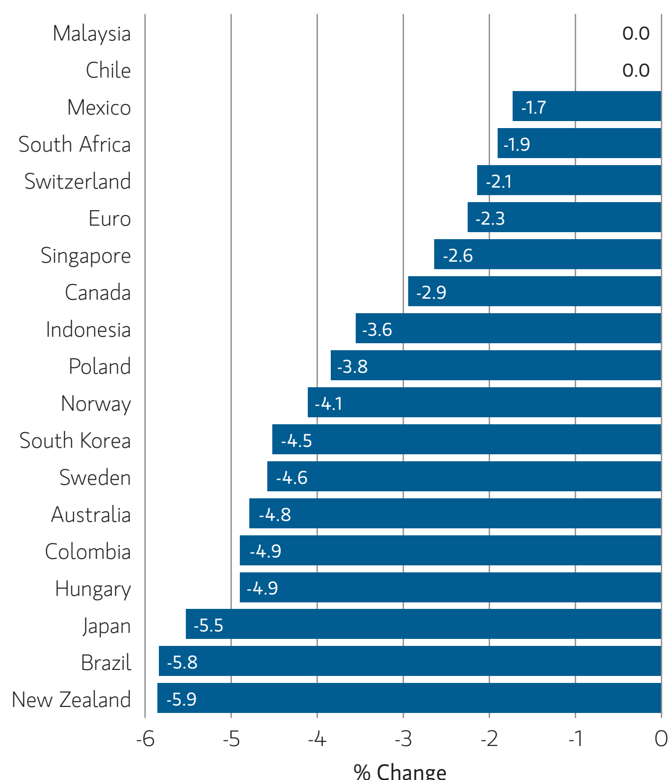
In the wake of a Trump victory and a potential red sweep in the elections, the financial markets displayed immediate reactions. The yield on the 10-year U.S. Treasury bond climbed to approximately 4.43%, representing a 14-basis point increase from the end of October. The U.S. yield curve exhibited a bear steepening effect, with the 2s/10s spread (the spread difference between 10- and 2-year Treasurys), steepening by 7 bps and the 5s/30s spread steepening by 4 bps. This phenomenon was mirrored in developed markets, with yields rising by 10 bps in Germany, 6 bps in Japan, 9 bps in both the UK and Canada, and 13 to 14 bps in Australia and New Zealand. Conversely, emerging markets generally experienced declines in yields.

The U.S. dollar witnessed a rally, particularly against the euro, following Trump's reelection. Equities also displayed strong performance; domestic small-cap stocks and cyclical sectors outperformed, while European, Chinese, and emerging market equities lagged. In the credit markets, both investment-grade and high-yield spreads tightened, reaching their narrowest levels since 2005. Overall, the market's initial reaction suggests a bullish outlook, driven by expectations of fiscal stimulus and deregulation under a Trump administration, indicating a shift in investor sentiment towards riskier assets.

DISPLAY 2

Currency Monthly Changes versus US Dollar

(+ = appreciation)



Note: Positive change means appreciation of the currency against the USD. Source: Bloomberg. Data as October 31, 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	4.28	50		
United Kingdom	4.45	44	16	-6
Germany	2.39	27	-189	-24
Japan	0.95	9	-333	-41
Australia	4.50	53	22	3
Canada	3.22	26	-107	-24
New Zealand	4.48	24	19	-27
EUROPE			(SPREAD OVER BUNDS)	
France	3.13	21	74	-6
Greece	3.30	19	91	-8
Italy	3.65	20	126	-7
Portugal	2.80	10	41	-17
Spain	3.10	17	71	-10
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	12.79	36	851	-14
Colombia	10.93	86	665	36
Hungary	6.87	71	259	21
Indonesia	6.77	33	248	-17
Malaysia	3.92	21	-36	-29
Mexico	10.07	73	579	23
Peru	6.80	57	251	6
Poland	5.94	70	166	20
South Africa	10.55	52	627	2
CREDIT			**SPREAD (BPS)**	**MTD CHANGE (BPS)**
U.S. IG			84	-5
EUR IG			104	-13
U.S. HY			282	-13
EUR HY			320	-25
SECURITIZED				
Agency MBS			154	24
U.S. BBB CMBS			687	-27

Positive Neutral Negative

Source: Bloomberg, JPMorgan. Data as of October 31, 2024.

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Fixed Income Outlook

After showing consistent strength through the summer, bond market performance turned distinctly negative in October. The 10-year U.S. Treasury yield rose approximately 50 bps, generating the worst monthly bond market performance since the third quarter of 2022. This pushed year-to-date returns below that of cash and most other sectors outside of high yield and loans. This was especially unusual considering it occurred on the back of the Fed's 50-bps rate cut. This rollercoaster-like performance is likely to continue as the doors open to even more macroeconomic, policy and rate volatility due to the surprisingly strong Republican victory in the recent U.S. election.

After the summer's run of weaker-than-expected U.S. labour market reports pushed the Fed toward cutting rates by 50 bps, labour market data for August and September rebounded with the unemployment rate falling from 4.3% to 4.1%.[5] Moreover, data on the real economy continued to power ahead. Gross domestic product (GDP) grew at an annualised rate of nearly 3% in the third quarter,[6] and fourth quarter growth is forecast to be in the neighbourhood of 2.5%. Although there is no doubt that hiring has slowed, it has not collapsed, and the weakness can be explained by the usual ebbs and flows in hiring patterns along with concerns over the results of the presidential election. Rather than demand weakness alone, increased labour supply has driven unemployment higher over the past year. Going forward, we expect to see more stability and less deterioration in employment, suggesting the Fed would not need to aggressively cut interest rates over the next 12 months. As of early November, we believe one more rate cut is reasonable for 2024, taking the ceiling on the Fed Funds Rate to 4.5%.

That said, there is now a heavy focus on the implications of the November U.S. elections. The market's immediate reaction on Wednesday, 6 November was clear. The results were: great for stocks; especially great for financial stocks; good for credit; terrible for U.S. Treasury bonds; not so good for the rest of the world's bonds; good for the U.S. dollar. This movement in asset prices seems logical given Trump and the Republicans' platform and policy preferences. Questions surrounding how markets will shift under policy and economic changes linger. One question is: how much dismantling of the Inflation Reduction Act and CHIPS and Science Act will occur? These policies have been strongly positive for the U.S. economy, and if the Republicans end these programs without replacement, fiscal policy may be less expansionary than expected, putting less pressure on inflation and the Fed.

There is no doubt that the Republicans' sweeping victory in the November election has further changed the calculus of where bond markets are headed. Even before the election it was becoming less clear how much easing the Fed would do given the surprising strength in the U.S. economy. This is particularly true as recent Fed rate cuts were more in line with a recalibration of the rate structure than a move to counter concerns about imminent economic weakness. The need for this proactive stance, already being questioned prior to the election, is even more open to debate post-election.

The election has given the forthcoming Trump administration, along with a likely Republican-controlled Congress (as House leadership was still undecided but leaning Republican at the time of writing), considerable leeway to adopt large swathes of the Trump agenda as stated in policy proposals and campaign rhetoric. How much of this is actually implementable is an open question. It will be months before some clarity emerges, depending on staffing, prioritization of policies, etc. In the interim, the market will rely on the agenda as we currently understand it: tax cuts (both new and continuation of the 2017 cuts), tariffs (and potential trade wars), deregulation, and immigration (reduction thereof as well as possible heightened deportations). Markets will be awaiting more details on the new administration's legislative and executive order priorities and the timing and implementation of these policies to gain more confidence about the trajectory of inflation and growth.

The market's initial reaction to price out another rate cut in 2025 was reasonable, in our view, but how much more needs to be priced out remains to be seen. The implications for the rest of the world's central banks are more ambiguous. The initial reaction on 6 November was bullish: the Trump agenda was expected to be good for U.S. growth/inflation but bad for growth elsewhere, meaning central banks outside the U.S. would step up their easing in response, which led to a distinct steepening of yield curves. Although we are sympathetic to this reaction, we are not sure it is entirely correct. A stronger U.S. dollar, higher tariffs and less efficient allocation of resources are inherently inflationary. The growth impact is probably negative. The questions are: which comes first and which is viewed as worse from a monetary policy perspective? This will likely complicate the rate-cutting paths of central banks around the world. We have already seen the Norwegian and Indonesian central banks postpone cutting interest rates due to currency

[5] U.S. Bureau of Labor Statistics.

[6] U.S. Bureau of Economic Analysis.

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weakness (albeit not directly related to Republican electoral success).

In terms of impacts on bond yields, we can expect the following: further upward pressure on yields, steeper yield curves due to inflationary pressures and rising risk premiums. We believe the new floor on the 10-year U.S. Treasury yield is likely to be 4%, with a ceiling of 5%, the 2023 high.

Credit markets were performing well before the election, and they have performed even better in the days following. This initial response makes sense as a stronger U.S. economy leads to improved cash flows and deregulation and protectionism help U.S. profits (at least in aggregate). However, the longer-term impact is less obvious. Greater opportunities and more regulatory leeway usually lead to riskier behaviour and greater leverage—not usually positive for creditors. With credit spreads on the tight side (expensive by historical standards but not overvalued), opportunities remain attractive, but we do not expect especially high returns.

Our credit market strategy is focused on avoiding problematic companies and building as much yield into the portfolio without taking undue risks. There is little reason to believe spreads will materially widen when economic growth is decent and central banks are predisposed to cutting interest rates. Yield-oriented buying should contain spread widening. We remain modestly overweight credit in our portfolios with a modest bias to higher quality.

Emerging market (EM) bonds are unlikely to thrive under a Trump-led Republican government. Stronger growth but higher rates and weaker global trade linkages are not usually conducive to strong EM performance. That said, we believe countries with solid economic outlooks, decent growth, falling inflation and a central bank able and willing to cut interest rates despite policy changes in the U.S. are likely to perform well. Country and security selection remain imperative. We continue to avoid Mexican and Brazilian bonds as their respective markets deal with political uncertainty (Mexico), fiscal risks (Brazil) and Trump policies.

With all the noise and uncertainty now coming out of Washington, we believe the most attractive opportunities remain in securitized credit, particularly in U.S. mortgage-backed securities. U.S. households with prime credit ratings have strong balance sheets, which should continue to be supportive of consumer credit and ancillary structures, especially as housing prices remain firm. Changes in U.S. tax policy should also be supportive. Higher coupon U.S. agency mortgage securities remain relatively attractive versus investment grade corporates, and we believe they are likely to outperform U.S. Treasury bonds. As in our corporate credit positioning, we are looking to move our securitized credit exposures up in credit quality and out of non-U.S. structures given tighter spreads and increased macroeconomic risks in Europe. One area in securitized credit that is vulnerable to a potentially changing 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 will become problematic. We continue to generally steer clear of this sector.

In currency markets, the outlook for the U.S. dollar has improved since Trump's election. Easier fiscal policy, tighter monetary policy (relative to previous expectations), trade wars and stronger U.S. growth all bode well. However, one caveat to this upbeat narrative is surprisingly weak U.S. employment. Further deterioration will give the Fed room to continue to cut interest rates as long as the Trump agenda does not upset the inflation story. The U.S. economy remains exceptional with regard to its growth trajectory, productivity performance, profit performance and level of yields. It is a high hurdle for other currencies to beat these fundamentals.

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Developed Market Rate/Foreign Currency

MONTHLY REVIEW

Developed market bond yields rose in October as economic data came in better than expected. The September jobs report, released in early October, showed that the U.S. economy added 254,000 jobs during the month, with broad-based gains across sectors, and the unemployment rate fell to 4.1%. Concerns about material weakness in the labour market thus began to ease. Likewise, the September inflation report was stronger than expected, though investors were encouraged by the moderation in the shelter-related components—in particular owners' equivalent rents.

As the U.S. presidential election drew nearer, markets also began to weigh the potential outcomes and their implications for the global economy and asset prices. The U.S. dollar surged as markets considered the outlook for global trade, while volatility increased in currencies such as the Chinese renminbi. Longer-maturity yields also rose as investors reassessed the fiscal outlook and its impact on bond markets. Meanwhile, outside the U.S., inflation data surprised to the upside in Europe, while activity data and PMIs pointed to a more resilient economic backdrop.

On foreign exchange, the dollar appreciated against major currencies, reversing its previous weakness, as rate differentials widened between the U.S. and the rest of the world. The rate-sensitive Japanese yen weakened 6% against the dollar despite promising newsflow on the coming round of wage negotiations, while the New Zealand dollar also underperformed as the Reserve Bank of New Zealand delivered a 50 bp rate cut and turned dovish given the weak local economic outlook. The euro was the most resilient G10 currency. We remain positive on the Australian dollar against the Canadian dollar given favourable economic fundamentals.

OUTLOOK:

We are neutral on duration in DM ex-Japan and retain our long-standing steepening exposures, particularly in the U.S. Cross-market, we are underweight U.S. duration. UST valuations and expectations for the Fed still seem demanding in comparison to other markets and central banks. In particular, we are underweight USTs vs New Zealand government bonds and gilts, although we have turned neutral on Canada vs the U.S. We also remain underweight Japanese Government Bonds, and long Japanese breakevens, given we think Japanese inflation is moving structurally higher and will result in the Bank of Japan raising interest rates higher than the market currently prices.

Emerging Market Rate/Foreign Currency

MONTHLY REVIEW:

Performance was negative for EMD markets for the month of October. Uncertainty surrounding the U.S. election caused U.S. yields to rise giving back the rally from Q3 and the U.S. dollar strengthened. EM currencies broadly suffered and sovereign and corporate credit spreads compressed. Latin American currencies in particular suffered with the Chilean peso, Colombian peso, and Brazilian real notably selling off due to falling commodity prices and concerns about a shift in Fed policy. The Uruguayan peso rallied following positive results from the general election where a controversial pension overhaul reform failed to pass. The Fall IMF Meetings were held in Washington, D.C. where discussions of the U.S. election were apparent in many meetings and global growth is expected to be stable and modest. The "sugar high" from China's coordinated policy measures from September subsided during the month as the Chinese yuan sold off and the MSCI China Equity index sold off almost 6%. Asset class flows turned negative for hard currency funds while local currency funds were flat—YTD the asset class remains in outflows although not nearly as severe as the two previous years.[7]

OUTLOOK:

Uncertainty surrounding the U.S. election is causing some degree of volatility in the macro environment—but opportunity is prevalent in areas of emerging markets debt. The Fed is expected to continue to cut rates this year which will be supportive for EM central banks, selective overweights to EM local rates will be a good place to be when those EM central banks cut rates. Broadly, we look beyond the benchmark for countries making structural changes and positive reforms. By diversifying away from high beta EM countries that are more likely to be subject to market swings we can focus on country fundamentals and good policy which should drive EM asset performance. This is very differentiated across emerging markets, so country level analysis is critical for uncovering value.

Corporate Credit

MONTHLY REVIEW:

A substantial narrowing of European swap spreads led to European investment grade credit spreads tightening, relative to government yields but closing a touch wider versus swaps, as Euro IG outperformed U.S. IG this month. Developed market government bond yields rose as robust economic data and inflation prints led the market to pare back the speed and size of rate cut expectations.

[7] Source: JP Morgan Markets as of 10/31/2024.

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Sentiment was dominated by: Firstly, on the data front in Europe, Q3 GDP growth surprised to the upside, while Spain continued to outperform, and German consumers unexpectedly helped the country to avoid a recession. Euro area headline Harmonised Index of Consumer Prices (HICP) inflation bounced back from 1.7% in September to 2.0% in October, with core inflation printing above expectations at 2.7% year over year. As expected, the ECB delivered a 25bps cut. Both the statement and the press conference pointed to a mildly dovish shift on the Governing Council. In the UK, the new labour government delivered their Autumn budget. The policies were broadly in line with market expectations, however UK Gilts sold off and underperformed other developed markets on additional supply and inflationary concerns. While U.S. data points to a resilient consumer and strong labour market, even as JOLTS disappointed. Corporate earnings came in mixed, but 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 have been weak. Finally, primary issuance in October came in at the high end of expectations at EUR 40bn and was well absorbed. Despite the higher than expected supply, investor demand for risk was strong with large new issue order books and limited new issue concessions.

Performance in the U.S. and global high yield markets cooled in October amid a sharp month-over-month increase in U.S. Treasury yields. The average spread in high yield reached post-Global Financial Crisis lows in late October, partially absorbing the move higher in Treasury yields. Against this backdrop, the lower-quality shorter-duration segments of the high yield generally outperformed in October. The technical conditions in high yield remained strong in October, supported by a decrease in primary issuance and additional inflows into the asset class. Finally, the trailing 12-month par-weighted default rate including distressed exchanges continued to fall during the month.[8]

Global convertible bonds eked out a modest gain in October, but performance was largely driven by a single issuer in the information technology sector. The issuer is a U.S.-based software development company that is the largest corporate holder of bitcoin in the world as well as the second largest constituent in the FTSE Global Focus Convertible (USD Hedged) Index. The position in the Index was up ~35% during the month as the cryptocurrency performed well in October. The strong performance of this single issuer helped the asset class to outperform both global equities and global bonds during October. New issuance was strong again in October, but was largely driven by a large U.S.-based company that issued a $5 billion mandatory preferred. In total, $11.1 billion priced during the month, which brought year-to-date issuance $94.2 billion. This represents a 45% increase over the same time period in 2023.

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 has improved. 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 October-end. 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. The high yield market ended October with an average spread near post-GFC lows, which was reached mid-month, and a historically attractive average yield that ended October 34 bps higher.[9]

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 an expectation of additional new issuance continues to give us optimism for global convertible bonds as we progress through the year.

[8] Source: JP Morgan, as of 10/31/2024.

[9] Source: Bloomberg, ICE, as of 10/31/2024.

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Securitized Products

MONTHLY REVIEW:

U.S. agency mortgage backed securities (MBS) spreads widened 24 bps in October to a spread of 154 bps above Treasuries. Agency MBS spreads are 15 bps wider year to date in 2024. Given the material tightening in other credit sectors, agency MBS remain one of the only sectors in fixed income with attractive valuations. The Fed's MBS holdings shrank by $16 billion in October to $2.258 trillion and are now down $438 billion from its peak in 2022. U.S. banks' MBS holdings rose by $23 billion to $2.66 trillion in October resuming their upward trend; however bank MBS holdings are still down roughly $328 billion since early 2022.[10] Securitized credit spreads were mixed but essentially little changed in October. Securitized issuance remained strong in October and the supply continues to be well absorbed and met with strong demand. Relative to other fixed income sectors, securitized credit sectors outperformed. This outperformance was due to a combination of having a relatively short interest rate duration—thus less exposure to the sell-off in rates—and the high cashflow carry of these securities helped offset the negative impact that the move in rates did have. YTD securitized credit has outperformed most other sectors of comparable credit quality due to their high cashflow carry.

OUTLOOK:

We expect U.S. agency MBS credit spreads to tighten post-election as volatility declines, reversing the spread widening in October, but we expect credit securitized spreads to stabilize at current 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, and we have seen performance to begin to normalize and believe that this will continue 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, however, we expect this to lessen as we believe rates will decline in the coming months. 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 remain slightly positive on Agency MBS valuations as they continue to remain attractive versus investment-grade corporate spreads and versus historical agency MBS spreads.

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[10] Source: Bloomberg, NY Federal Reserve as of 10/31/2024.

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Risk Considerations

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

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

DEFINITIONS

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

INDEX DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The views and opinions expressed are those of the Portfolio Management team as of November 2024 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

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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A separately managed account may not be appropriate for all investors. Separate accounts managed according to the particular strategy may include securities that may not necessarily track the performance of a particular index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required. For important information about the investment managers, please refer to Form ADV Part 2.

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