Morgan Stanley

INVESTMENT MANAGEMENT

Global Fixed Income Bulletin

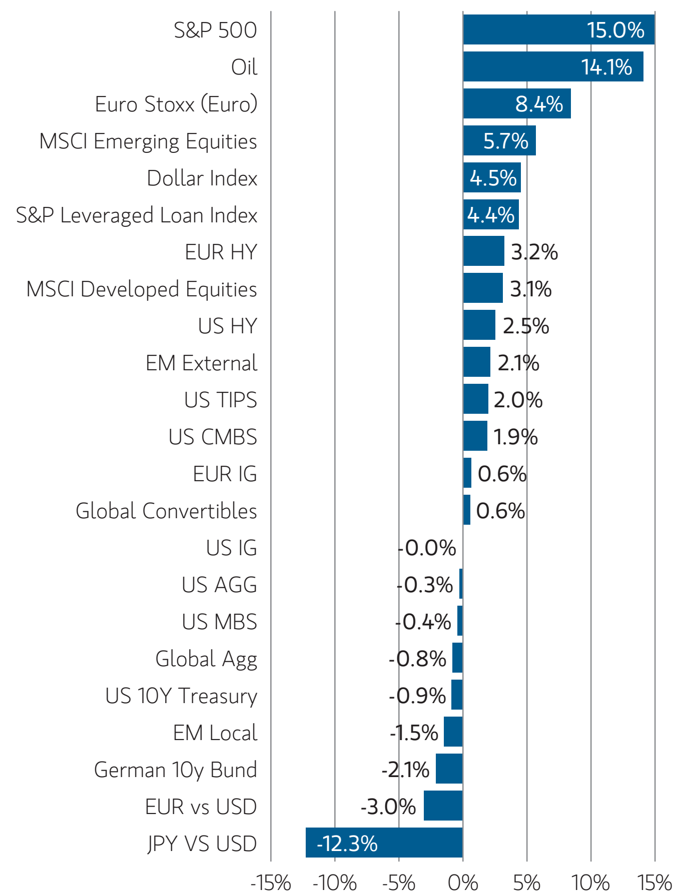
Roller Coaster Continues as Elections Generate Volatility

MACRO INSIGHT | BROAD MARKETS FIXED INCOME TEAM | July 2024

June was a mixed month for fixed income. Government bond yields fell in most developed markets (DM) but rose in France and other peripheral Eurozone countries due to French election concerns. Lower US yields were supported by weaker-than-expected inflation and growth data and increased market expectations of further rate cuts in 2024. Japanese bond yields were relatively unchanged while emerging market (EM) local yields generally rose as idiosyncratic issues came to the fore, particularly in Mexico and Brazil. Mexican election results were particularly concerning to investors as Mexican assets have been one of the darlings of the investor community. The US dollar continued to be strong on the back of global political turbulence with only the South African rand bucking the trend. Weaker US economic data and lower yields pushed investment grade credit spreads marginally wider with Eurozone companies underperforming after the French elections announcement. US high yield significantly outperformed Euro high yield, and securitized credit spreads followed their corporate counterparts by modestly widening. Higher rates volatility and lower US Treasury yields pushed agency MBS spreads wider in line with investment grade credit.

DISPLAY 1

Asset Performance Year-to-Date



Note: USD-based performance. Source: Bloomberg. Data as of June 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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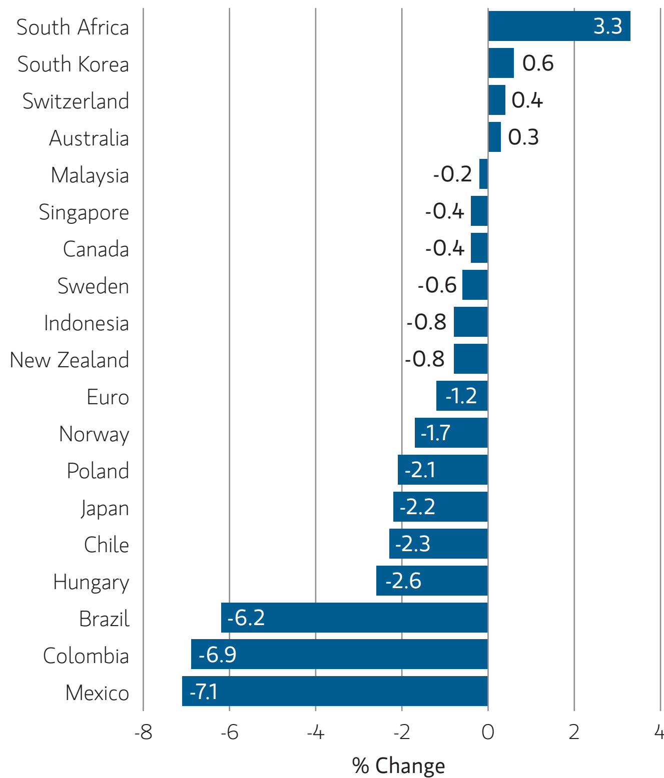
DISPLAY 2

Currency Monthly Changes versus US Dollar

(+ = appreciation)



Note: Positive change means appreciation of the currency against the USD. Source: Bloomberg. Data as June 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	4.40	-10		
United Kingdom	4.17	-15	-22	-4
Germany	2.50	-16	-190	-6
Japan	1.06	-1	-334	9
Australia	4.31	-10	-9	0
Canada	3.50	-13	-89	-2
New Zealand	4.67	-14	27	-4
EUROPE			(SPREAD OVER BUNDS)	
France	3.30	16	80	32
Greece	3.75	6	125	23
Italy	4.07	10	157	26
Portugal	3.25	-1	75	15
Spain	3.42	3	92	19
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	12.33	44	794	55
Colombia	10.82	-18	642	-8
Hungary	6.82	-5	242	5
Indonesia	7.05	14	265	24
Malaysia	3.87	-2	-53	8
Mexico	9.89	13	549	23
Peru	7.07	0	267	10
Poland	5.73	4	134	14
South Africa	11.39	-84	699	-74
CREDIT			**SPREAD (BPS)**	**MTD CHANGE (BPS)**
U.S. IG			94	9
EUR IG			120	12
U.S. HY			309	1
EUR HY			359	37
SECURITIZED				
Agency MBS			149	6
U.S. BBB CMBS			719	-14

Positive Neutral Negative

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

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Fixed Income Outlook

June continued the recent roller coaster performance in fixed income. Government bonds continued to rally as economic data, particularly inflation in the US, renewed its downward trajectory and re-invigorated the "soft landing" thesis that the Fed would cut rates more than once this year and multiple times next year. A "soft landing" is an economy experiencing falling inflation, lower policy rates, and trend-like growth with only modest upward pressure on unemployment rates. This scenario is quite positive for fixed income, in general, but particularly for spread sectors like corporate and securitized credit.

On the back of recent data, US Treasury yields are meaningfully lower than they were at the end of April. Growth data has been lackluster, labor market data is mixed, and job growth has been strong, but other indicators like jobless claims and the unemployment rate are modestly increasing. Labor market data and business surveys point to an economy likely to generate trend-like (circa 2%) growth in 2024. Currently, the right description of the labor market is resilient. While we do not know exactly how resilient it is, job growth is still in the 200,000 per month range, and household income growth is outpacing inflation, so it is difficult to believe there is a reason for the Fed to panic and initiate rate cuts soon. Moreover, large scale immigration in the US over the past two years is also distorting data making it hard to distinguish signal from noise.

The Fed says it is data dependent and wants to see more from the data as suggested by Chairman Powell at the ECB conference in Sintra. However, there is no doubt that markets are now on rate cut watch. Outside of Australia and Japan, no central banks are considering raising rates. After rate cuts from Switzerland (more than one), Sweden, Canada, and the ECB, it is only a matter of time before we see more. The question is how long we have to wait and how deep those cuts will be. Surprisingly, strong inflation data from Australia and Canada, and comments from ECB President Lagarde suggest rate cuts will remain modest and, at most, quarterly, unless the inflation outlook improves. Eurozone service sector inflation currently remains entrenched at 2.9% and, with European wage growth still strong, it will be difficult for the ECB to become more aggressive.

Despite central bank reticence to jump on the rate cutting train, bond investors have become optimistic about future Fed policy and are now forecasting up to two Fed rate cuts in 2024, when, as of earlier this year, there was less than one expected. This is not unreasonable, but Chairman Powell's data dependent strategy does not suggest that a rate cut is imminent, nor does sticky service sector inflation. The current outlook is that rate cuts will happen, just not yet.

The conservativism of the Fed, lack of clarity about the extent of easing cycles (both in the US and elsewhere), and the continued inversion of yield curves makes long-maturity bonds unlikely to rally much in the near term. 10-year U.S. Treasuries look to be stuck in a 4.25% - 4.70% range, with the top end possibly extending only to 4.50%. Longer term, the level that US and Global 10-year yields will go depends on the extent of the easing cycle. For example, if the Fed only cuts rats to 4.50%, it will be difficult for 10-year yields to fall below 4.25%. However, if the Fed cuts to 3.50%, 10-year yields could easily fall below 3.75%, as rate cuts of this magnitude would most likely coincide with meaningful economic weakness.

In addition to monetary policy uncertainty, the outlook for bonds has become clouded by politics. June was the month where politics reared its head. A surprise French parliamentary election, election results in Mexico, and a US presidential debate all served to change the odds of what's to come in 2025 and beyond. It is possible that political change could usher in meaningfully different economic policies which could have a material impact on yields and/or spreads. The situation warrants monitoring, so we have become more cautious and are adopting a wait and see posture.

Despite the toing and froing of government bonds, equities and credit spreads look resilient despite their June wobble. While there is no doubt that most credit spreads are rich by historical standards, we do not believe they are expensive to fundamentals. There is no reason to believe spreads will materially widen when economic growth is decent (and improving in much of the world) and central banks are beginning to engage (or will soon engage) in a modest rate cutting cycle. Yield-oriented buying should contain spread widening, but one factor we are paying close attention to is the level of all-in yields and their impact on demand for corporate bonds. It is possible that if yields fall further, buyer demand could begin to wane, and spreads could widen, especially under a rising recession probability scenario. This risk is offset, however, by central banks' rate cutting bias which should serve to truncate spread widening risk. We remain modestly overweight credit in portfolios, paying more attention to idiosyncratic risks rather than general macro spread widening risks.

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Emerging market (EM) local market returns were mixed to poor as several EM currencies depreciated meaningfully. While EM central banks had been in the vanguard of cutting rates, that is no longer the case. Most rate-cutting EM central banks have paused or are slowing down the pace of cuts. In the case of Brazil, the central bank has halted the rate cutting cycle given economic policy uncertainty. In many cases, it is no longer clear if inflation will fall faster in EM countries than in developed countries and if EM central banks will be able to aggressively cut rates. We remain focused on idiosyncratic opportunities where the risk/reward looks favorable.

Given global economic and policy uncertainty, we continue to find the best fixed income opportunities in shorter maturity (0-5 years) 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. US households with prime credit ratings have strong balance sheets, and this should continue to be supportive of consumer credit and ancillary structures, especially as house prices remain firm. US agency mortgages still have value compared to investment grade credit, at least in higher coupons, and they should outperform U.S. Treasuries.

In currency markets, the outlook for the U.S. dollar remains uncertain. June was a strong month for the dollar, but this was more about risks rising in many countries around the world. The US economy is slowing towards global averages, but other central banks are front running the Fed. With the global economy's trajectory looking better relative to the U.S. (albeit from a low base), the period of strong U.S. economic outperformance may be coming to an end. It is too early to be sure, but the groundwork is being laid for the dollar to give up its global leadership. The problem is: Who will take the mantle? EM continues to struggle with significant idiosyncratic risks (and opportunities) while the US continues its rate advantage against other DMs. The best opportunities remain in idiosyncratic situations where there are clear fundamental and value differences to the USD. We continue to be light on taking currency risk for now.

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	MONTHLY REVIEW	OUTLOOK
Developed Market Rate/ Foreign Currency	Developed market rates fell in June as economic data turned more supportive of rate cuts by central banks. In the US, both the consumer and producer price inflation prints were softer than expected, with a notable deceleration in core services ex-shelter. Weaker-than-expected retail sales data also pointed to a more fragile US consumer. In the euro area, although inflation readings were largely in line with market projections, the June PMIs showed a material deterioration in business conditions from May, leading to markets betting on more monetary support from the ECB. Finally, German Bunds were also supported by risk-off sentiment following the surprise election announcement in France, which increased the risk of unsustainably expansionary fiscal policy. On foreign exchange, the US dollar ended the month stronger against G10 peers, despite narrowing interest rate differentials between the US and the rest of the world. The Swiss Franc and Australian dollar were the only G10 currencies to post gains against the dollar. The yen continued to weaken, eventually breaching the 160 barrier that led to market intervention in late April. Given the divergent cross-market monetary policy outlooks, we continue to favor the Australian dollar over the Canadian dollar.[1]	We are staying short duration as carry is negative and valuations in longer maturities are unattractive. Furthermore, the recent stronger-than-expected inflation data in Canada and Australia suggest that inflationary risks remain high in developed economies. Cross-market, we continue to be short duration in Australia vs the US. We also remain underweight in Japan, where policymakers are increasingly confident that domestic wage-price dynamics will lead to sustainably higher inflation and, at the same time, are also under mounting pressure to act against currency weakness. In the euro sovereign space, we retain our long-standing underweight in France, where fiscal dynamics are expected to deteriorate. Since the recent risk-off move, we have also been capitalizing on opportunities to increase our exposure to issuers with favorable fiscal fundamentals.
Emerging Market Rate/ Foreign Currency	Performance was mixed for the major segments of Emerging Markets Debt (EMD). The Fed held rates in June, which was expected, but earlier this year, June was predicted to be the start of the cutting cycle. Increasing CPI prints and solid labor data kept the Fed paused, but there is still the expectation that a cut will happen this year. The US dollar continued to increase, and many EM currencies weakened. The Brazilian and Colombian pesos suffered due to fiscal concerns, while the market had negative reactions to Claudia Sheinbaum's strong presidential and political party win and the Mexican peso sold off. The South African rand strengthened to recent highs during the month. The ANC lost its majority for the first time in nearly 30 years, but the coalitions that are expected to form with the opposition are seen as positive. Hard currency funds saw continued interest as flows were positive for the third month in a row, however, local currency funds are still in outflows.[2]	Emerging markets debt assets are cheap, and valuations are attractive, continuing to make the asset class valuable for investors. Spreads marginally widened but remain in line with long term averages so upside, when just looking at the benchmark, is limited. However, opportunities outside the benchmark remain as several countries continue with reforms and restructurings. EM currencies are broadly weak compared to the US dollar which continues to strengthen, but pockets of opportunity in certain currencies remain and local interest rates remain attractive as many EM central banks continue their cutting cycles. Country selection is critical for investing in emerging markets and our team of country pickers continue to find opportunities on and beyond the industry benchmarks.

[1] Source: Bloomberg. Data as of June 30, 2024.

[2] Source: Bloomberg. Data as of June 30, 2024. EM corporates represented by The **JP Morgan CEMBI Broad Diversified Index**.

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	MONTHLY REVIEW	OUTLOOK

Corporate Credit

MONTHLY REVIEW

In June, European investment grade credit spreads widened driven by wider swap spreads, while government bond yields rallied. Market sentiment was dominated by several factors. Firstly, European, and French assets re-priced wider (France-Germany government bond spread widened to multi-year highs) following French President Macron's snap call for elections and reflecting the market's concerns about the fiscal and geopolitical implications. Secondly, European composite purchasing manager's index (PMI) data came in softer than expected but remains in expansionary territory. In the US data came in softer than expected as ISM manufacturing moved further into contractionary territory. Thirdly, the ECB joined the SNB/ Riksbank in cutting policy rates by 25bps, with communication avoiding pre-committing to a particular rate path. Finally, primary issuance in June came in line with expectation. New issue order books remained robust, but investors demanded bigger new issue premiums against a backdrop of higher volatility.[3]

In June, performance in the high yield market was generally firm and led by the higher-quality longer-duration segments benefiting from a further decrease in Treasury yields. The drop in Treasury yields was partially offset by modestly higher average spreads. The pace of primary issuance slowed in June and demand moderated from May-levels, though remained supportive. The issuance of high yield bonds to take out loans continued to account for a large portion of refinancing volume in June as loan issuers looked to reduce interest cost. Finally, June marked the quietest month for default and distressed exchange activity since July of last year.[4]

Global convertible bonds posted positive performance in June along with other risk assets. The asset class underperformed global equities during the month, but modestly outperformed global bonds. Although it trailed an impressive May, new issuance in June was strong once again with $12.8 billion pricing during the month. Regionally, the US led the way in terms of primary issuance followed by Asia. Year-to-date, global issuance totals over $60 billion, which is more than 50% above the same time period in 2023.[5]

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 2H24 coupled with strong demand for the "all-in" yield offered by investment grade credit is expected to create a supportive technical dynamic. Finally, the uncertainty and outcome of the French parliamentary elections are expected to drive near term sentiment for credit markets. When looking at credit spreads, we view the market close to fairly priced and therefore see carry as the main driver of return, with the potential for a reversal in some of the widening seen in June if we see a positive election outcome in France. Given the uncertain medium term fundamental backdrop we have less confidence in material spread tightening.

Our outlook for the high yield market remains somewhat cautious as we begin the third quarter. The high yield market is contending with increasing uncertainty and several likely sources of volatility over the intermediate term, with the ultimate question centering on the magnitude of the anticipated volatility. The key issues are central banks' evolving monetary policy, economic conditions, the labor market, and consumer health, and ultimately, the health of the corporate fundamentals of high yield issuers. High yield faces this uncertainty with historically attractive all-in yields and an average spread that, when excluding the distressed segment of the market, is approaching all-time lows. Further inspection of valuations reveals a market that has become increasingly bifurcated by both sector and credit quality.

We continue to remain constructive on the global convertible bond market as we enter the third quarter of 2024. We believe global convertible bonds currently offer their traditional balanced profile of upside equity participation and downside bond risk mitigation. New issuance in the first half of the year was strong and we expect issuance to continue to increase in the second half of the year as corporations continue 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 as we progress through the year.

[3] Source: Bloomberg Indices: U.S. Corporate Index and the European Aggregate Corporate Index. Data as June 30, 2024.

[4] Source: J.P. Morgan and Bloomberg US Corporate High Yield Index. Data as of June 30, 2024.

[5] Source: Bloomberg and Refinitiv Global Convertibles Focus Index. Data as of June 30, 2024.

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	MONTHLY REVIEW	OUTLOOK
Securitized Products	US agency MBS spreads widened 6 bps in June to 149 basis points above comparable duration US Treasuries. Agency MBS spreads are now 10 bps wider in 2024, and current coupon agency MBS spreads are slightly wider year to date, while nearly all credit spreads have materially tightened. Lower coupon MBS outperformed higher coupon MBS as interest rates fell, and lower coupon passthrough agency MBS had longer rate and spread durations. The Fed's MBS holdings shrank by $18 billion in June to $2.327 trillion and are now down $403 billion from their peak in 2022. US banks' MBS holdings rose by $46 billion to $2.58 trillion in June, resuming the trend of banks increasing their holdings after a small decrease in March; however, bank MBS holdings are still down roughly $409 billion since early 2022. Securitized credit spreads were slightly wider to unchanged in June as new issuance remained strong, but demand managed to keep up. Relative to other fixed income sectors, securitized credit sectors outperformed agency MBS, US Treasuries, Global and US Aggregate, US and Euro IG Corporates, and US and Euro HY.[6]	After several months of spread tightening across securitized products through May, we saw spreads widen slightly and stabilize in June and we expect spreads to stabilize at current levels in July as they are approaching agency MBS spreads. Overall demand levels remain strong, but we believe it will be challenging to push spreads much tighter from current levels. Securitized credit sectors have been among the best performing sectors in 2024, but performance should continue to 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 have moved from a neutral to a positive view on agency MBS valuations, which are one of the very few sectors that have cheapened year to date. They continue to remain attractive versus IG corporate spreads and versus historical agency MBS spreads, but we believe that agency MBS spreads have stabilized.

[6] Source: Bloomberg. Data as of June 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.

DEFINITIONS

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

Emerging Markets External: external debt is also known as hard currency EMD or sovereign credit.

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.

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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 **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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