

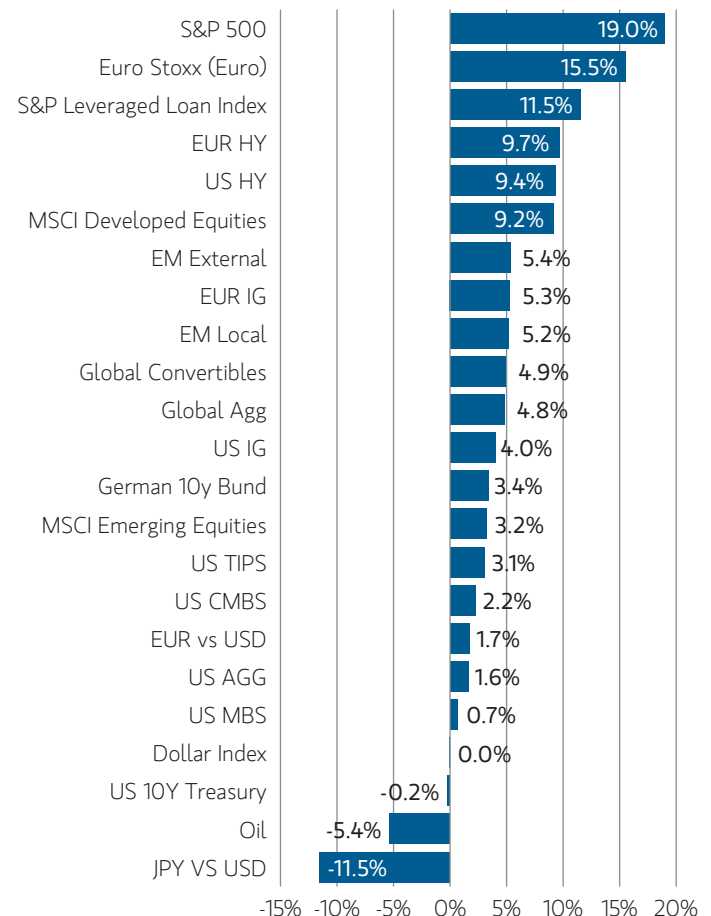
# Whiplash!



MACRO INSIGHT | BROAD MARKETS FIXED INCOME TEAM | December 2023

Fixed income markets roared back with a vengeance in November. Market expectations of a soft landing rose following weaker-than-expected economic data, falling global inflation, and dovish central bank overtones. All three components led to one of the best months for fixed income returns in decades, as markets reinstated significant rate cuts in the U.S. and Europe. 10-year rates fell 60 basis points (bps) in the U.S., 36 bps in Germany, 5 bps in Canada and Australia, and 67 bps in New Zealand. Emerging markets rates, broadly, fell by even more. The U.S. Dollar (USD) fell 3% versus a basket of other currencies. Within credit, U.S. investment grade corporates outperformed Euro with spreads tightening 25 bps over the month vs 13 bps. Within high yield corporates, the U.S. market again outperformed with spreads tightening 67 bps vs 47 bps. Securitized spreads also came in over the month. After a desultory year so far, U.S. Agency Mortgage-Backed Securities returned over 5% tightening significantly in spread to U.S. Treasuries. You could say goldilocks is back!

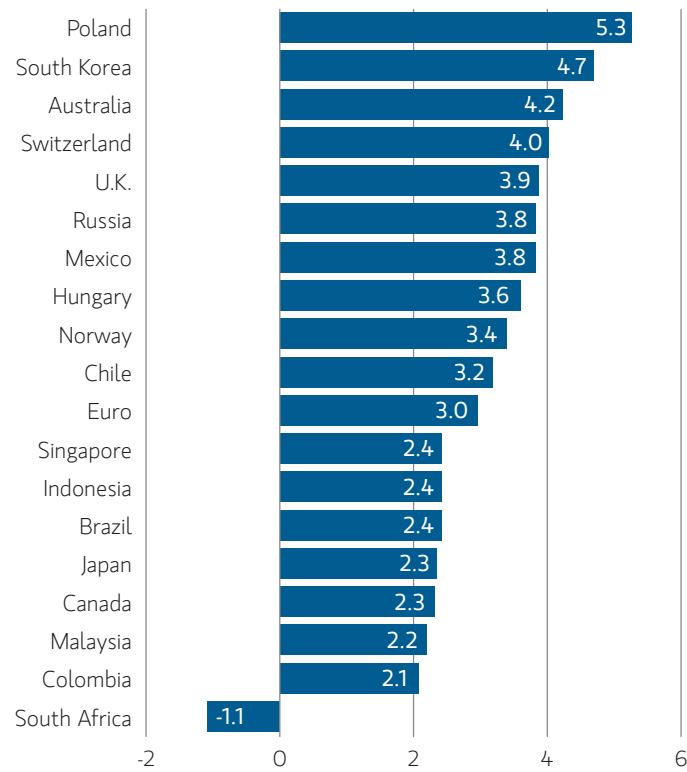
**DISPLAY 1**  
**Asset Performance Year-to-Date**



Note: USD-based performance. Source: Bloomberg. Data as of November 30, 2023. 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 9-10 for index definitions.

**DISPLAY 2**
**Currency Monthly Changes versus U.S. Dollar**

(+ = appreciation)



Note: Positive change means appreciation of the currency against the USD. Source: Bloomberg. Data as November 30, 2023.

**DISPLAY 3**
**Major Monthly Changes in 10-Year Yields and Spreads**

COUNTRY	10-YR YIELD LEVEL (%)	MONTH CHANGE (BPS)	10-YR SPREAD (BPS)	MONTH CHANGE (BPS)
<b>(SPREAD OVER USTS)</b>				
United States	4.33	-60		
United Kingdom	4.18	-34	-15	27
Germany	2.45	-36	-188	25
Japan	0.67	-28	-365	33
Australia	4.41	-51	9	9
Canada	3.55	-51	-77	9
New Zealand	4.88	-67	56	-6
<b>EUROPE (SPREAD OVER BUNDS)</b>				
France	3.02	-41	57	-5
Greece	3.69	-49	124	-13
Italy	4.23	-50	178	-14
Portugal	3.14	-39	69	-3
Spain	3.47	-41	103	-5
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		
<b>(SPREAD OVER USTS)</b>				
Brazil	10.90	-96	658	-36
Colombia	10.80	-96	647	-36
Hungary	6.84	-65	251	-4
Indonesia	6.61	-48	228	12
Malaysia	3.82	-25	-51	35
Mexico	9.39	-80	506	-19
Peru	7.21	-46	288	14
Poland	5.50	-15	118	46
South Africa	11.57	-67	724	-7
CREDIT			SPREAD (BPS)	MTD CHANGE (BPS)
U.S. IG			104	-25
EUR IG			147	-13
U.S. HY			370	-67
EUR HY			426	-47
SECURITIZED				
Agency MBS			157	-22
U.S. BBB CMBS			944	21

Positive Neutral Negative

Source: Bloomberg, JPMorgan. Data as of November 30, 2023.

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## Fixed Income Outlook

We don't recall ever seeing two back-to-back months like October and November. In October, yield curves were too inverted, term premia were rising, job growth was accelerating in the U.S., and central banks appeared un-yielding in maintaining that rates would have to stay high for longer. Today, forget all that! Inflation is falling, central banks are running scared of too-tight financial conditions (worried that maybe, just maybe, they over-tightened). Manufacturing remains in the doldrums, with business confidence surveys all stuck below 50, suggesting contracting output. Now, no doubt the bond market sell off in Q3 and in October was spectacular, especially since data was not that strong. But certainly, it was strong enough to convince the markets that rates would not be coming down much in 2024. No more. Central bank communications from the Fed and European Central Bank (ECB) emphasized the tight financial conditions and in the case of Europe, continued weak economic growth and faster than expected falling inflation, were tight enough to forestall any future rate hikes and looked to be tight enough to get inflation down to acceptable levels. The rest, as they say, is history. Indeed, it was a November bond market for the history books. But where to from here?

While there is no doubt, in our view, that data and central bank communications were supportive of lower yields, the question now is, after the November rally, how much is left? How much of 2024 returns have been brought forward to 2023. While the Fed and ECB have supported the idea that there is a very high probability that no further rate hikes are necessary, how much can they fall in 2024 and longer term? The bi-polar bond market is now convinced that what doesn't go up must come down--and come down a lot. While the Fed had penciled in rate cuts in 2024, they were relatively modest and only occurring in Q4 2024. The market no longer believes them. There are now over 100 bps of U.S. rate cuts expected in 2024 with a similar amount in the Eurozone. Will they occur?

Given the spectacular rally seen in November (and early December), the evolution of data and central bank communications will be key. Both the Fed and ECB have a chance in December to set the record straight. It will be very interesting to see how they characterize the current stance of monetary policy and overall financial conditions (now fully unwinding the tightening seen in September/October). In addition, while markets have celebrated the continued fall in job openings in the U.S. Bureau of Labor Statistics Job

Openings and Labor Turnover Survey (JOLTS), employment growth continues to be strong. Are labor markets rolling over? Or still strong? We will have to wait and see.

Given current yields, both nominal and real, and the speed at which they fell, it seems likely that they will pause while awaiting fresh information. Markets seem very long and addicted to this very benign view of the world. Our view is that there is a lot of good news priced into government bond yield curves. We worry that the data/information flow will not be so "one way" over the rest of the month and could shake the strong optimism that not only will inflation continue to fall, it has a good chance of not being sticky and falling faster than expected. This seems to be happening already in the Eurozone but could happen in the U.S. We suggest a neutral exposure to rate risk given, for the moment, strong fundamentals, but excessive pricing for rate cuts. We, like most investors, eagerly await U.S. employment data and the outcome of the December FOMC meeting.

We continue to think selective Emerging Markets (EM) bond markets look attractive, even post-rally. The rally in U.S. Treasuries and fall in the U.S. dollar is very helpful for EM. It provides extra support for rate cuts in EM countries as inflation continues to fall. We prefer Latin American bond markets, as central banks in this region have been able to cut rates and will continue doing so if the Fed is truly on hold. But U.S. data needs to support the dovish narrative as priced by financial markets. We are reluctant to chase EM yields lower until we have a firmer grasp of the likely trajectory of U.S. Treasury yields in the months ahead.

Credit markets powered ahead in November as well. Their performance makes sense if you believe Fed/ECB rate cuts are likely and due to success combatting inflation and not because economic activity has turned out to be much weaker than expected. But one reason corporate bond spreads performed so well is that policy rates around the world are high, meaning that if data turns out weaker than expected, central banks can cut rates fairly aggressively to stem the tide, given the good inflation trajectories. This central bank "put" on the economy has not been around since the previous decade and was one of the major reasons there was no recession in the previous decade (at least in the U.S.).

Credit spreads remain well supported by policy expectations, reasonable, but not too strong growth, and high real yields, at least by historical standards. However, goldilocks does extract a price. Spreads on U.S. dollar

corporate bonds are reaching levels that are on the low side, and things cannot go too wrong with the economy if they are to remain at these levels or tighten further. We think a cautious modestly long position in credit markets both in investment grade and in high yield is warranted. Shorter-maturity high yield bonds do look attractive in this environment. The outlook for inflation will be critical to know if markets need to be worried about credit spreads. Financials still look better value than non-financials.

We continue to favor shorter maturity securitized credit the most, such as Residential Mortgage-Backed Securities (RMBS), Asset Backed Securities (ABS), and selected CMBS. That said, the outlook has modestly deteriorated, as household balance sheets come under more pressure and excess household savings are run down. Our favorite category of securitized credit remains non-agency residential

mortgages, despite challenging home affordability. Surprisingly, U.S. housing looks like it may have bottomed out, with prices rising once again. U.S. Agency Mortgages, despite their great November performance, still look to hold decent value versus investment grade credit.

The outlook for the U.S. dollar also appears to be changing. While very strong in Q3, it sold off significantly in November. Economic conditions in the U.S. are still better than in most other advanced economies. This suggests the Fed is unlikely to ease by more than other countries (given its 2023 performance). As such, we are not convinced that underweighting the dollar makes sense against other G-20 currencies. Some EM currencies look better positioned, but after the recent rally, we do not feel it is time to chase the market. We believe local EM yields are a better bet than EM currency appreciation.

## MONTHLY REVIEW

### Developed Market Rate/ Foreign Currency

Global bond yields rallied considerably during November. 10-year U.S. Treasuries, German Bunds, and UK Gilts fell 60 bps, 36 bps, and 34 bps respectively. After a period of consistently better than expected data in the U.S., economic figures started to be surprisingly below expectations. Most notably, there was a weaker than expected ISM Manufacturing report and softer than expected U.S. CPI. Additionally, the Treasury at the Quarterly Refunding announced more gradual increases to long-end coupon auction sizes, providing some support to a pressured long-end. In general, in contrast to recent moves, curves flattened (U.S. 2 yr/10 yr curve -20 bps). Notably, term premia, the potential driver of the prior steepening, completely reversed and may have driven the flattening. The NY Fed's Adrian, Crump, and Moench Term Premia model for the 10-year fell 35 bps over the month. For central banks, the Fed kept policy rates the same and was seen as marginally dovish. By the end of the month, the market was no longer pricing in any chance of a FOMC hike. Elsewhere, the Bank of England, Reserve Bank of New Zealand, Riksbank, and Norges Bank opted to keep policy rates the same. The one standalone was the Reserve Bank of Australasia, which decided to hike rates 25 bps to 4.35% as expected given risks that inflation could remain elevated in Australia.<sup>1</sup>

## OUTLOOK

With the substantial rally in global bond yields, the question now is if this is a lasting shift away from elevated rates, or if this is just a temporary move that could reverse. Critical to this question is when and by how much the Fed will cut. The market started pricing in the potential for cuts in 1Q24 and four full cuts by the end of 2024. This is despite the Fed's communications that interest rates will have to remain elevated for a while. With that said, there has been a shift in the data, with inflation data providing greater confidence that the Fed will achieve its target, potentially without having to induce a recession. Although the economy remains somewhat resilient with expectations for 4Q GDP still positive, growth is expected to slow to below potential levels and the unemployment rate has started ticking higher. Despite the steep rally in yields, it's unclear if the full extent of the rally is over; however, curves are now even more inverted and term premia is now well below the +1-3% levels found before the post-Global Financial Crisis period. Further, the lower yields have now loosened financial conditions. Given the uncertainty, it is difficult to concretely express an outright view on interest rates; however, we find steepeners attractive at certain parts of the curve as they would keep benefiting from further increases in term premium and/or a more typical bull steepening if the Fed pivots in the face of economic weakness. In terms of foreign exchange, with the shift in U.S. yields and data, the dollar weakened 3% during November; we are now more negative the U.S. dollar.

<sup>1</sup> Source: Bloomberg. Data as of November 30, 2023.

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**MONTHLY REVIEW****Emerging  
Market Rate/  
Foreign  
Currency**

Emerging Markets Debt (EMD) rebounded in November, with not only positive returns, but the best monthly returns for 2023 year-to-date across all segments of the asset class. The shift in sentiment about rate cuts next year along with dollar weakness helped move investor interest towards emerging markets. Spreads tightened for both sovereign and corporate credit, and most EM currencies strengthened. The Dominican Republic unexpectedly cut rates as the shift in the U.S. Treasury market helped create supportive macro backdrop to do so. On the other hand, Turkey surprised on the upside with a 500 bps hike, though the decision was followed with a less hawkish statement despite inflation remaining over 60%. Argentina's new president, President Milei, was elected based on radical proposals, but the post-election rhetoric has been more positive than expected. Outflows in the asset class continued with -\$1.9B for hard currency funds and -\$1.0B for local currency funds but outflows significantly moderated compared to the last three months.<sup>2</sup>

**OUTLOOK**

The Fed is getting closer to the end of its tightening cycle, but the distance to that finish line and the level of the terminal rate are uncertain. Divergence remains in the asset class as some EM central banks were encouraged by the dovish tone of the U.S. market and cut rates while many remain paused yet positioned to start cutting soon. The broad asset class is sensitive to macro conditions, as evidenced by the shifting sentiment in the U.S. market, so we continue to monitor these macro events and their impact on EM assets. Country and credit level analysis will be pivotal to uncover value in the asset class as we wrap up 2023.

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<sup>2</sup> Source: Bloomberg. Data as of November 30, 2023. EM corporates represented by The **JP Morgan CEMBI Broad Diversified Index**.

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## Corporate Credit

Euro Investment Grade (IG) spreads underperformed U.S. IG spreads, as November saw credit market spreads tighten and risk-free yields rally. Markets interpreted economic data and central bank comments as lower risk of further rate hikes and increasing probability of a soft-landing. Market tone in the month was driven by several factors: firstly, no further escalation in geopolitical concerns resulting in a lower oil price. Secondly, inflation data printing below expectations suggests monetary policy has worked and no further rate hikes are necessary. Thirdly, Q3 saw weakness in Energy and Chemicals relative to expectations and saw some downgrades to growth expectations. Finally, the market was supported by China headlines regarding growth and housing policy measures being planned and implemented.<sup>3</sup>

The U.S. and global high yield markets recorded near record returns in November amid slowing though relatively stable economic growth, cooling inflation readings, and a sharp drop in U.S. Treasury yields. The technical conditions in high yield were particularly strong in November, with moderate issuance and the third largest one-month inflow into U.S. high yield retail funds on record. The first several weeks of the month were characterized by sharp outperformance in the higher-quality, longer-duration segments of the high yield market. As the rally extended, investors grew more brazen and reached for additional yield, helping the CCC-rated segment to strongly outperform in the final week of November.<sup>4</sup>

In November, global convertibles rose dramatically along with other risk assets, on investor expectations that rates have peaked. However, convertibles underperformed (versus the MSCI Global Equity Index and Bloomberg Global Aggregate Credit) as some of the highest performing sectors such as Materials, Industrials and Financials were less represented in the convertibles market. Issuance was a bright spot as it typically is in an equity rally, with \$9.6bn in new deals arriving, the second highest month of the year. Supply was led by the U.S. with \$5.5bn in paper including large deals from PG&E, Uber and Western Digital.<sup>5</sup>

Looking forward, our base case sees the potential for strong technicals into year-end supported by absolute demand for high quality fixed income and a headwind in Q1 as supply hits the market. We expect supply to be light in December (with the risk that some supply is pulled forward given the rally in risk free yields and credit spreads) and to be large in Q1 as issuers look to get ahead of fundamental uncertainty as well as elections in H2 in the U.S. We see carry as an attractive return opportunity.

The high yield market ended the month with an average yield that still ranked as a historically attractive yield, albeit less so relative to a month prior. However, our outlook and positioning remain somewhat cautious. The need for caution is predicated on prevailing catalysts that include restrictive monetary policy, near term headwinds facing the U.S. consumer and high yield issuers, and valuations that trade inside historical norms, the latter of which tightened sharply month-over-month.

We continue to remain constructive on the global convertible bond market. Over the course of the year, convertible bond prices have risen from the low- to mid-\$80s to closer to par, which has moved them away from being more bond-like. In addition, deltas have risen, making convertible bonds more sensitive to equity movements. Conversion premiums are also much lower and more reasonable now. We believe these factors give convertible bonds a more balanced profile, which offers a more traditional asymmetric return profile going forward.

<sup>3</sup> Source: Bloomberg Indices: U.S. Corporate Index and the European Aggregate Corporate Index. Data as November 30, 2023.

<sup>4</sup> Source: J.P. Morgan and Bloomberg US Corporate High Yield Index. Data as of November 30, 2023.

<sup>5</sup> Source: Bloomberg and Refinitiv Global Convertibles Focus Index. Data as of November 30, 2023.

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**Securitized Products**

U.S. Agency MBS spreads tightened in November, reversing a several month trend of widening as markets continue to struggle with absorbing the supply in the absence of Fed MBS purchases and the decline of U.S. banks' MBS purchases. Current coupon agency MBS tightened 22 bps from 177 bps to 157 bps above interpolated U.S. Treasuries. Higher coupon MBS underperformed lower coupon MBS as the curve bull flattened. The Fed's MBS holdings shrank \$16 billion to \$2.44 trillion. U.S. banks' MBS holdings remained essentially unchanged at \$2.58 trillion, but bank holdings are still down over \$400 billion since early 2022. Securitized credit spreads continued to tighten in November despite strong new issue supply. Our European securitized holdings were down slightly in November.<sup>6</sup>

We believe that "higher rates for longer" will continue to erode household balance sheets, causing stress for consumer ABS and further stress for commercial real estate borrowers. Residential mortgage credit opportunities look more attractive to us, given that most borrowers have locked in 30-year fixed rate mortgages at substantially lower mortgage rates, and given that home price appreciation over the past few years has meaningfully increased homeowner equity. We like U.S. Agency MBS at these wider spread levels.

Securitized yields remain at historically wide levels, and we believe these wider spreads offer more than sufficient compensation for current market risks. Fundamental credit conditions remain stable despite recession risks; although delinquencies across many asset classes are increasing slowly, overall delinquencies remain low from a historically perspective, and we believe delinquency and default levels will remain non-threatening to the large majority of securities. U.S. non-agency RMBS remains our favorite credit sector despite weakened home affordability. U.S. home prices remain stable, challenged by higher mortgage costs but supported by positive supply-demand dynamics. Stable household balance sheets and employment outlook help support borrower credit, and continued conservative loan underwriting also supports the mortgage credit story. We remain more cautious of commercial real estate, especially office, which continues to be negatively impacted in the post-pandemic world. We maintain a cautious outlook on European securitized holdings.

<sup>6</sup> Source: Bloomberg. Data as of November 30, 2023.

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## Risk Considerations

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

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to **market risk**, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g., natural disasters, health crises, terrorism, conflicts, and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g., portfolio liquidity) of events. Accordingly, you can lose money investing in a portfolio.

**Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. Certain **U.S. government securities** purchased by the strategy, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the U.S. It is possible that these issuers will not have the funds to meet their payment obligations in the future. **Public bank loans** are subject to liquidity risk and the credit risks of lower-rated securities. **High-yield securities (junk bonds)** are lower-rated securities that may have a higher degree of credit and liquidity risk. **Sovereign debt securities** are subject to default risk. **Mortgage- and asset-backed securities** are sensitive to early prepayment risk and a higher risk of default, and may be hard to value and difficult to sell (**liquidity risk**). They are also subject to credit, market and interest rate risks. The **currency market** is highly volatile. Prices in these markets are influenced by, among other things, changing supply and demand for a particular currency; trade; fiscal, money and domestic or foreign exchange control programs and policies; and changes in domestic and foreign interest rates. Investments in **foreign markets** entail special risks such as currency, political, economic and market risks. The risks of investing in **emerging market** countries are greater than the risks generally associated with foreign investments. **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, and correlation and market risks. **Restricted and illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). Due to the possibility that prepayments will alter the cash flows on **collateralized mortgage obligations (CMOs)**, it is not possible to determine in advance their final maturity date or average life. In addition, if the collateral securing the CMOs or any third-party guarantees are insufficient to make payments, the portfolio could sustain a loss.

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## DEFINITIONS

**Basis point:** 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.

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**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 **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.

The **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.

The **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.

The **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.

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**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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