Morgan Stanley
INVESTMENT MANAGEMENT

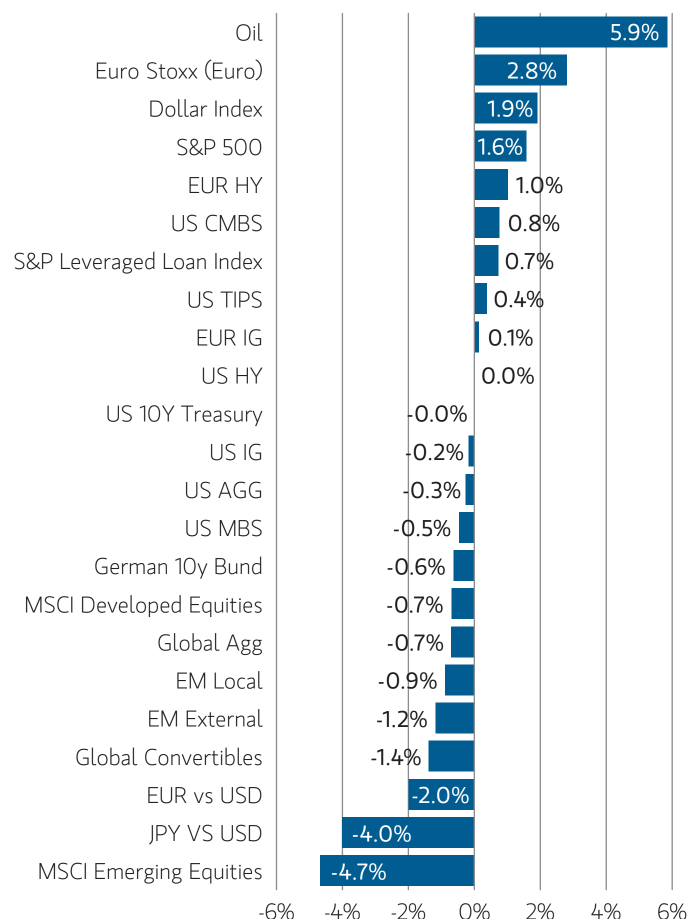
Global Fixed Income Bulletin

# Bonds Take a Breather?

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

Relative to the volatility that fixed income investors became accustomed to in the last quarter of 2023, 2024 started on a quieter note. Yields were marginally higher and curves steeper across the global developed markets. Fed Chairman Powell pushed back against the market presumptions of a March rate cut, which sent yields higher and caused the US Dollar to strengthen. Yields in the emerging markets were more mixed as some central banks were able to cut rates in January on the back of falling inflation. Credit market spreads continued to grind tighter over the month with the Euro-area outperforming the US. High yield spreads were mixed with the Euro-area continuing to tighten and the US widening. Agency mortgage spreads widened out, while securitized credit spreads were broadly tighter.

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




Note: USD-based performance. Source: Bloomberg. Data as of January 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.

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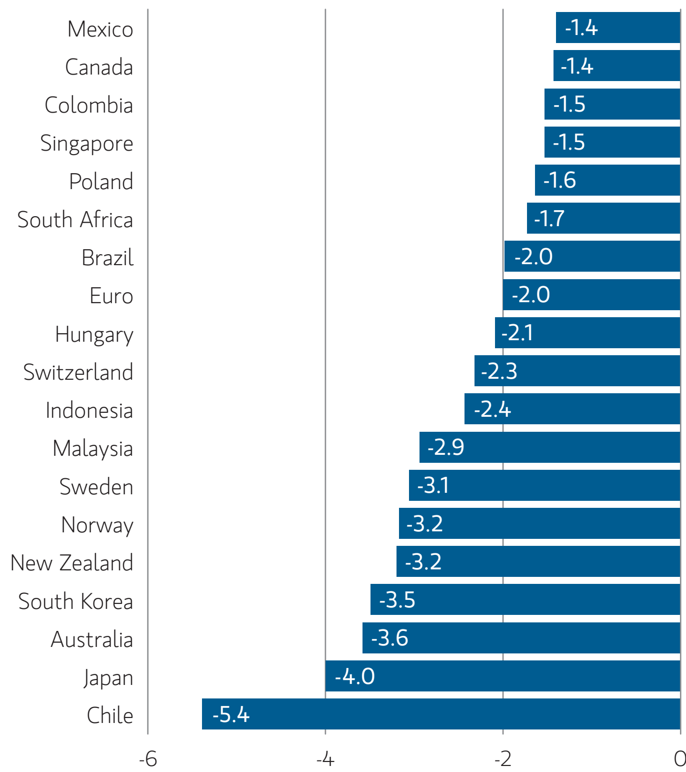
**DISPLAY 2**

### Currency Monthly Changes versus U.S. Dollar

*(+ = appreciation)*




Note: Positive change means appreciation of the currency against the USD.
Source: Bloomberg. Data as of January 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** | 3.91 | 3 | | |
| **United Kingdom** | 3.79 | 26 | -12 | 22 |
| **Germany** | 2.17 | 14 | -175 | 11 |
| **Japan** | 0.73 | 12 | -318 | 8 |
| Australia | 4.01 | 6 | 10 | 2 |
| Canada | 3.32 | 21 | -59 | 18 |
| New Zealand | 4.56 | 24 | 65 | 21 |
| **EUROPE** | | | (SPREAD OVER BUNDS) | |
| France | 2.66 | 10 | 50 | -4 |
| Greece | 3.22 | 15 | 105 | 1 |
| Italy | 3.73 | 3 | 156 | -11 |
| Portugal | 2.97 | 31 | 80 | 17 |
| Spain | 3.09 | 10 | 92 | -4 |
| **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 | 10.63 | 27 | 672 | 23 |
| Colombia | 9.57 | -38 | 566 | -42 |
| Hungary | 6.04 | 17 | 212 | 13 |
| Indonesia | 6.57 | 12 | 266 | 8 |
| Malaysia | 3.79 | 6 | -13 | 2 |
| Mexico | 9.14 | 21 | 523 | 17 |
| Peru | 6.62 | -6 | 271 | -9 |
| Poland | 5.20 | 0 | 128 | -3 |
| South Africa | 11.41 | 4 | 750 | 0 |
| **CREDIT** | | | **SPREAD (BPS)** | **MTD CHANGE (BPS)** |
| **U.S. IG** | | | 96 | -3 |
| **EUR IG** | | | 131 | -7 |
| **U.S. HY** | | | 344 | 21 |
| **EUR HY** | | | 369 | -12 |
| **SECURITIZED** | | | | |
| **Agency MBS** | | | 147 | 8 |
| **U.S. BBB CMBS** | | | 887 | -79 |

Positive Neutral Negative

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

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## Fixed Income Outlook

January turned out to be disappointing in the world of fixed income. After the bond market's stunning fourth quarter performance it was not much of a surprise that bond yields went up; slightly in the US and more substantially in Europe. The performance of US Treasuries was flatter because news of a large loss at a regional bank sent yields materially lower near the end of the month. Prior to that news, yields had been up almost 25 bps, a similar amount to Europe. The pull-back in markets and stickiness of USD credit spreads corroborates the difficulty bond markets will have in early 2024 generating returns after last year's strong performance. Indeed, there is a lot of positive news on inflation and central bank rate cuts priced into markets. It has been and is likely to continue being a case where either reality (data) needs to stay supportive of multiple/aggressive rate cuts or those rate cuts need to be scaled back.

Aggressive rate-cut pricing in the face of still resilient growth data and above target inflation puts bonds at risk if data or the Fed disappoints. A similar phenomenon exists in most other countries where a move to price in aggressive easing also exists. Fed commentary at their January FOMC meeting suggests it is premature to be this aggressive. In fact, Chairman Powell went out of his way to all but dismiss a March rate cut, something the market had almost believed was a certainty. Notably, the Fed and many other DM central banks have pivoted away from rate cuts, no DM central bank has yet begun a rate cutting cycle. While it seems likely that rate cuts will occur this year, exactly when and by how much remains a mystery. That said, we do not believe pushing rate cuts from March to the summer is material. What matters more is how much the Fed will cut this year and next.

While recent inflation data has continued to come in at or below expectations and the Fed has explicitly said they are content with this trend, meaning they will cut rates if this trend continues, there are potential hurdles ahead. One plausible issue is that first quarter inflation is not likely to improve on what has happened over the last six months. Another one is that US real economic data, particularly the service sector and labor markets, are firming. What we and the Fed are worried about is that recent disinflation forces will stall. So far, disinflation has been concentrated in the goods sector and has exceeded expectations (to the downside). Chinese economic weakness and an improved supply side have been responsible. But can the Fed and investors count on this to continue? And, with US data firming up, improvements on the services side of the leger may be harder to achieve, risking a plateauing of inflation above the Fed's comfort zone. If this happens, the market's aggressive rate-cutting expectations will prove to be too optimistic.

This context makes the outlook for government bond yields murky. Rate cuts will occur, but a firm US economy could limit rate cuts, which would limit the ability of US Treasury 10-year yields from falling much below 4%. This as well as the inverted nature of the yield curve makes us reticent to be too aggressive on overweighting duration. From a longer-term perspective, high quality bonds at current yields look fairly attractive with a prospective positive real yield of over 2%, which limits one's desire to be underweight duration risk. On balance, building in yield without taking undue interest rate risk remains the best strategy in our view.

The constellation of growth and inflation dynamics with central banks' pivot to easier policy will be positive for credit in the not-too-distant future. Unfortunately, credit markets, particularly the US IG, HY and Euro HY markets discount much of this good news. This makes it much less likely to see further tightening in the months ahead. All-in yields still look okay, which should be supportive of continued inflows to this asset class. The still reasonable all-in yields make us confident that credit markets will outperform cash in 2024, but it has become more of a carry game than a capital gains story. We will look to add exposure on meaningful spread widening as the central bank "put" on the economy is most likely operational, if still out of the money. Shorter-maturity high yield bonds look attractive in this environment. Financials still look to have better value than non-financials.

EM central banks continue to lower yields in the face of falling inflation prints. While a lagging Fed may pause the EM local market rally, we think it still has legs as EM easing in 2024 should exceed that in the US and Europe. While the fall in yields is unlikely to match what has recently been seen, the outlook still looks good. 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. However, US data needs to support the dovish narrative, as priced by financial markets. One of the biggest risks to continued good bond market performance is an economic acceleration or, in the case of the US, no meaningful economic slowdown. This would short-circuit the positive feedback loop of lower short rates which lead to lower long yields, which in turn lead to tighter credit spreads. Time will tell.

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We continue to find the best fixed income opportunities in shorter maturity securitized credit, such as residential mortgage-backed securities (RMBS), asset backed securities (ABS), and selective non-office commercial mortgage-backed securities (CMBS) for their higher yields and strong collateral. A strong US labor market and rising real incomes should keep household finances on a solid trajectory, even if not as robust as 18 months ago. Our favorite category of securitized credit remains non-agency residential mortgages, despite challenging home affordability. Surprisingly, US housing looks like it may have bottomed out, with prices rising once again. US agency mortgages, despite their great Q4 performance, still look to hold decent value versus investment grade credit, at least in higher coupons.

The outlook for the US dollar also has become a bit murkier. While weak in December, the outlook was quite strong in January. Although the US economy is slowing down from its torrid third quarter pace, its surprising resilience in recent data releases suggests it still has exceptional characteristics (e.g., stronger growth, higher yields, strong equity market). As such, we are not convinced that underweighting the US 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.

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| | MONTHLY REVIEW | OUTLOOK |
|---|---|---|
| **Developed Market Rate/ Foreign Currency** | January was a month of two halves in DM fixed income. In the Eurozone, ECB Governing Council members in Davos repeatedly stressed the extent to which inflation is still above target in attempts to pour cold water on hopes of a cut by Spring. Towards the end of the month, however, policy communication turned more dovish as President Lagarde acknowledged softer-than-expected inflation prints and a weakening labor market at the January ECB policy meeting. Even her traditionally hawkish colleagues acknowledged progress on prices and hinted a willingness to consider earlier cuts, depending on the data. In the US, a steady grind higher in yields reversed as investors became more convinced the Fed would ease policy aggressively over the next two years, even as a March cut was seen as less likely. Finally, at the end of January, worries about the health of US regional banks led to a risk-off move in markets that pushed yields even lower. After a round-trip, Treasury yields ended January 2 bps higher than at the end of December, while Bunds (+15bps) and Gilts (+24bps) lagged; the US and Euro curves were slightly steeper. On foreign exchange, the dollar appreciated against peers over the course of the month. GBP was another strong performer as December inflation posted a large upside surprise and yields on Gilts climbed.[1] | The beginning of the DM easing cycle now appears in sight, with central bank communication—especially at the ECB—becoming more dovish. That said, with data remaining generally resilient, it remains to be seen how quickly and how far central banks feel they need to cut rates. We continue to see opportunities in several cross-market rates trades, with Canadian and US rates expected to converge further based on valuations and still-sticky inflation in the former. With the market now focused on likely normalization by the Bank of Japan in the first half of this year, Japanese duration looks set to underperform, and indeed failed to follow the rally in other DM markets in late January. |
| **Emerging Market Rate/ Foreign Currency** | Performance was mixed for Emerging Markets debt (EMD) for the first month of 2024. Most EM currencies weakened during the period while sovereign spreads widened, and corporate spreads tightened. Several EM central banks in Latin America (Brazil, Colombia, and Chile) and EMEA (Armenia and Hungary) cut rates as inflation continued to come down. Turkey hiked rates and President Erdogan made comments suggesting that hawkish policy to control inflation will continue. JP Morgan announced that Egypt will be removed from its local currency index at the end of January due to continued illiquidity in the FX market. The IMF disbursed $4.7B to Argentina under an Extended Fund Facility to help support and stabilize the macroeconomy. Outflows in the asset class continued with -$1.9B for hard currency funds and -$0.7B for local currency funds.[2] | EM assets are positioned to be a favorable asset class this year as valuations remain attractive and, once developed markets start to cut rates, this will help create a favorable environment for emerging markets to continue on their rate cutting path. Local assets, particularly local rates, are the most attractive risk factor as the macroenvironment starts to shift to a favorable backdrop for local assets. Growth, inflation, and policy are quite divergent across the emerging markets universe. We continue to expect markets to place an emphasis on differentiation amongst countries and credits. |

[1] Source: Bloomberg. Data as of January 31, 2024.

[2] Source: Bloomberg. Data as of January 31, 2024. EM corporates represented by The **JP Morgan CEMBI Broad Diversified Index**.

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| | MONTHLY REVIEW | OUTLOOK |
|---|---|---|

## Corporate Credit

**Monthly Review**

In January, Euro IG spreads marginally outperformed US IG spreads, as credit market spreads broadly tightened. Market sentiment in the month was driven by several factors; firstly, the positive credit market backdrop was maintained by increasing expectations that central bank monetary policy had shifted to easing financial conditions/lower interest rates with the focus pivoting from inflation concerns to growth. Secondly, there was no further escalation in geo-political concerns, with news in the Middle East/Red Sea being viewed as a regional and non-systemic event. Thirdly, M&A rumours, legal cases lost, and earnings revisions created single name credit volatility. Finally, a supportive technical, driven by strong inflows into IG credit, alongside the large new issue pipeline, supported the move tighter in credit spreads. Admittedly, the new issue surge initially caused some volatility, but it was matched with strong demand as evidenced by falling new issue premiums.[3]

The U.S. and global high yield markets recorded a sluggish return in January as performance sputtered. Following a December-end rally fueled by paltry issuance, heavy retail inflows and light trading volume, January was characterized by a surge in primary issuance, continued retail flows, and several high-profile liability management exercises. Earnings, fundamentals, and structure came back into focus in January as managers appeared to generally cast a more discerning eye on risk and relative value. The lower quality segments of the market generally underperformed in January.[4]

January was a poor month for global convertible bonds after a strong December fueled by anticipation of future rate cuts. Global convertible bonds struggled to keep pace with other risk assets during the month and ultimately underperformed both global equities and global bonds. There was only $5.2 billion in new issuance in January, which is historically a quiet month for the global convertible bond primary market. In a divergence from historical norms, the largest new issue came from a Japanese issuer that launched a large, two tranche deal during the month.[5]

**Outlook**

Looking forward, our base case remains constructive for credit against an improving macro backdrop for credit following the central bank pivot from concerns over inflation to concerns on overgrowth and the positive momentum driven by inflows into the asset class. Considering valuation, we see a market that is fairly priced, but cheap relative to other markets; therefore, carry is an attractive return opportunity. However, given the uncertain medium term fundamental backdrop, we have less confidence in expected spread tightening.

The high yield market ended January with the still unique combination of a historically attractive yield and an average spread that ranked near cycle lows, despite being modestly wider month-over-month. Our outlook remains relatively cautious given the high yield valuations that, on average, nearly fully reflect a perfectly soft economic landing. The silver lining is the historically high all-in yield that supports a positive return for high yield investors in 2024, even in our bear case scenario analysis.

We remain constructive on the global convertible bond market as we progress through the first quarter of 2024. Technicals in the global convertible bond market improved during 2023 as prices and deltas rose and conversion premiums decreased over the course of the year. Taken together, we believe these factors give global convertible bonds a more balanced profile. Despite softer issuance in a historically quiet January, we expect issuance to continue to increase in 2024 as corporations look to refinance existing convertible bonds as well as traditional debt in the convertible bond market given the relatively high interest rate environment. A more traditional asymmetric return profile coupled with an expectation of an increase in new supply gives us optimism for global convertible bonds in 2024.

[3] Source: Bloomberg Indices: U.S. Corporate Index and the European Aggregate Corporate Index. Data as January 31, 2024.

[4] Source: J.P. Morgan and Bloomberg US Corporate High Yield Index. Data as of January 31, 2024.

[5] Source: Bloomberg and Refinitiv Global Convertibles Focus Index. Data as of January 31, 2024.

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| | MONTHLY REVIEW | OUTLOOK |
|---|---|---|
| **Securitized Products** | Over the month of January, current coupon agency MBS spreads widened 8 bps to +147 bps above comparable duration US Treasuries. The US Agency MBS Index returned -0.46% underperforming the US Treasury Index by 18bps on a duration-adjusted basis. The current yield on the Agency MBS Index increased by 12 bps to 4.80%. 30-year mortgage rates increased by 2bps to 6.63%, but the average mortgage rate for outstanding mortgages remains roughly 3.7%, well out-of-the-money for refinancing. Securitized credit spreads continued to tighten as demand remained very strong, and new issue deals were consistently oversubscribed. January US ABS Issuance was $37 billion (vs $22B in Jan 2023), led by $22 billion of Auto ABS issuance. US CMBS Issuance was $7 billion (vs $2B issued in Jan 2023) and Non-agency RMBS Issuance was $8 billion, well ahead of the 2023 pace.<br><br>Consumer credit delinquencies continued to rise, especially for lower-income lower-credit score borrowers, but overall delinquencies remain non-threatening at current levels. The office sector remains under significant stress with rising vacancies, weakening rental demand, and higher debt-servicing costs. Multi-family apartments, logistics/storage facilities and leisure hotels continue to perform well on the operating/income side supported by increasing occupancy rates and rental rates, but higher debt costs are still putting stress on higher quality CMBS sectors. European securitized market activity remained slow in January, although we have seen an uptick in UK RMBS issuance. European securitized spreads continued to trade tighter than comparable US securitized spreads due to lack of supply.[6] | After several months of spread tightening across securitized products, we expect spreads to stabilize at current levels in February. Overall demand levels remain strong, but we believe it will be challenging to push spreads much tighter from current levels. Securitized credit sectors were among the best performing sectors in January, but performance should normalize in the coming months. We also believe that rates will likely remain rangebound for much of 2024, and that returns will result primarily from cashflow carry in the coming months. We still believe that current rate levels remain stressful for many borrowers and will continue to erode household balance sheets, causing stress for some consumer ABS, particularly involving lower income borrowers. Commercial real estate also remains challenged by current financing rates, and some sectors may see declines in operating revenue in 2024. Residential mortgage credit opportunities currently remain our favorite sector. We continue to have a neutral view on agency MBS valuations, which are more expensive than 2023 levels, but remain cheap from a longer-term historical perspective. Agency MBS spreads remain attractive versus investment-grade corporate spreads and versus historical agency MBS spreads, but we believe that further agency MBS spread tightening is probably not likely near-term. |

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

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**DEFINITIONS**

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

**INDEX DEFINITIONS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The **JP Morgan Emerging Markets Bond Index Global (EMBI Global)** tracks total returns for traded external debt instruments in the emerging markets and is an expanded version of the EMBI+. As with the EMBI+, the EMBI Global includes US dollar-denominated Brady bonds, loans and Eurobonds with an outstanding face value of at least $500 million.

The **JP Morgan GBI-EM Global Diversified Index** is a market-capitalization weighted, liquid global benchmark for US-dollar corporate emerging market bonds representing Asia, Latin America, Europe, and the Middle East/Africa.

**JPY vs. USD**—Japanese yen total return versus US dollar.

The **Markit ITraxx Europe Index** comprises 125 equally weighted credit default swaps on investment grade European corporate entities, distributed among 4 sub-indices: Financials (Senior & Subordinated), Non-Financials and HiVol.

The **Nikkei 225 Index (Japan Nikkei 225)** is a price-weighted index of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.

The **MSCI AC Asia ex-Japan Index (MSCI Asia ex-Japan)** captures large- and mid-cap representation across two of three developed markets countries (excluding Japan) and eight emerging markets countries in Asia.

The **MSCI All Country World Index (ACWI, MSCI global equities)** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in US dollars and assumes reinvestment of net dividends.

**MSCI Emerging Markets Index (MSCI emerging equities)** captures large- and mid-cap representation across 23 emerging markets (EM) countries.

The **MSCI World Index (MSCI developed equities)** captures large and mid-cap representation across 23 developed market (DM) countries.

**Purchasing Managers Index (PMI)** is an indicator of the economic health of the manufacturing sector.

The **Refinitiv Convertible Global Focus USD Hedged Index** is a market weighted index with a minimum size for inclusion of $500 million (US), 200 million (Europe), 22 billion Yen, and $275 million (Other) of Convertible Bonds with an Equity Link.

The **Russell 2000® Index** is an index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **S&P 500® Index (US S&P 500)** measures the performance of the large-cap segment of the US equities market, covering approximately 75 percent of the US equities market. The index includes 500 leading companies in leading industries of the U.S. economy.

**S&P CoreLogic Case-Shiller US National Home Price NSA Index** seeks to measure the value of residential real estate in 20 major US metropolitan areas: Atlanta, Boston, Charlotte, Chicago, Cleveland, Dallas, Denver, Detroit, Las Vegas, Los Angeles, Miami, Minneapolis, New York, Phoenix, Portland, San Diego, San Francisco, Seattle, Tampa and Washington, D.C.

The **S&P/LSTA US Leveraged Loan 100 Index (S&P/LSTA Leveraged Loan Index)** is designed to reflect the performance of the largest facilities in the leveraged loan market.

The **S&P GSCI Copper Index (Copper)**, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark for investment performance in the copper commodity market.

The **S&P GSCI Softs (GSCI soft commodities) Index** is a sub-index of the S&P GSCI that measures the performance of only the soft commodities, weighted on a world production basis. In 2012, the S&P GSCI Softs Index included the following commodities: coffee, sugar, cocoa, and cotton.

**Spain 10-Year Government Bonds**—Spain Benchmark 10-Year Datastream Government Index.

The **Thomson Reuters Convertible Global Focus USD Hedged Index** is a market weighted index with a minimum size for inclusion of $500 million (US), 200 million euro (Europe), 22 billion yen, and $275 million (Other) of convertible bonds with an equity link.

**U.K. 10YR government bonds**—U.K. Benchmark 10-Year Datastream Government Index. For the following Datastream government bond indexes, benchmark indexes are based on single bonds. The bond chosen for each series is the most representative bond available for the given maturity band at each point in time. Benchmarks are selected according to the accepted conventions within each market. Generally, the benchmark bond is the latest issue within the given maturity band; consideration is also given to yield, liquidity, issue size and coupon.

The **US Dollar Index (DXY)** is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of US trade partners' currencies.

The **Chicago Board Options Exchange (CBOE) Market Volatility (VIX) Index** shows the market's expectation of 30-day volatility.

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