Morgan Stanley

INVESTMENT MANAGEMENT

Global Fixed Income Bulletin

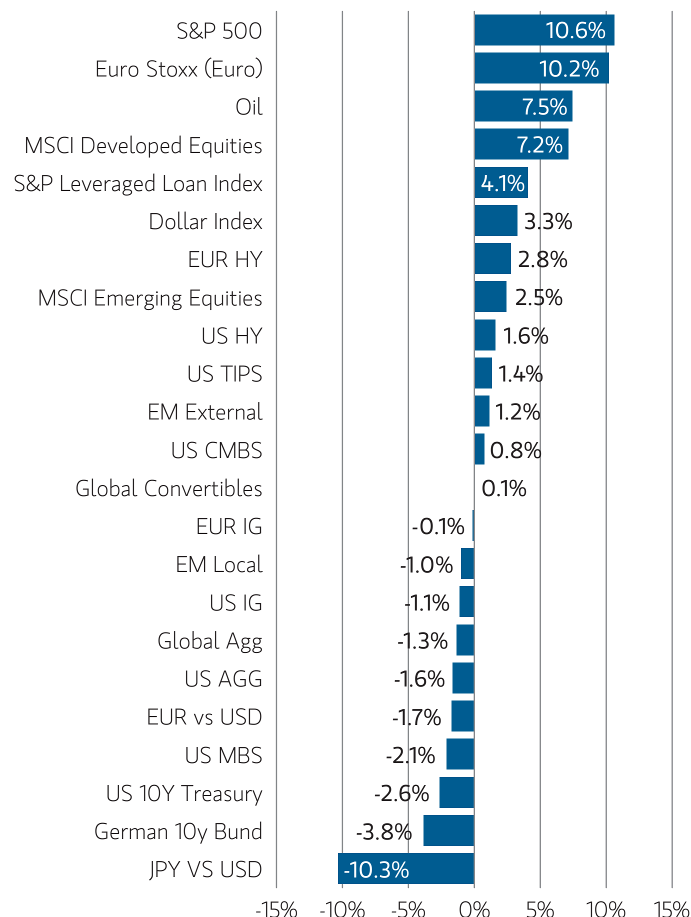
Lost in the Forest

MACRO INSIGHT | BROAD MARKETS FIXED INCOME TEAM | June 2024

May saw global government bonds rallying for the first three weeks, followed by a slight sell off to close out an otherwise uneventful month. Japan was one of the few exceptions, as bond yields continued to rise as the need for eventual rate hikes, later in the year, became more certain. Emerging market bond yields followed pace with their developed market counterparts over the month, but lingering inflation made it difficult to outperform. The U.S. Dollar had its first down month of 2024 with the euro, pound, and other developed/emerging market currencies outpacing the clear leader of the first four months of the year. Within spread sectors, investment grade (IG) credit spreads were broadly tighter with Euro IG marginally outperforming the U.S. Within high yield, U.S. high yield spreads were wider over the month, while Euro high yield spreads tightened significantly. Securitized credit spreads continued to tighten and have been one of the best performing sectors year-to-date within the fixed income universe.

DISPLAY 1

Asset Performance Year-to-Date



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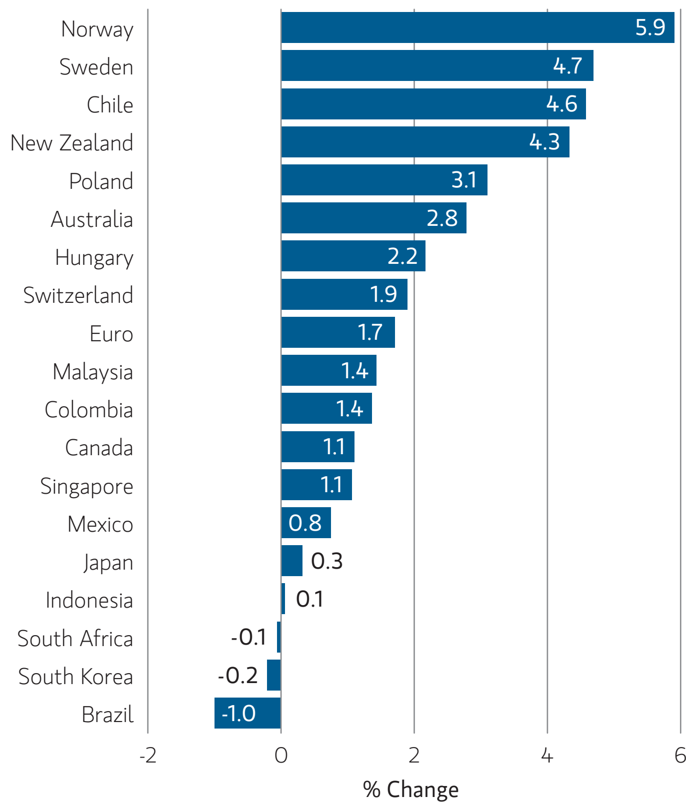
DISPLAY 2

Currency Monthly Changes versus U.S. Dollar

(+ = appreciation)



Note: Positive change means appreciation of the currency against the USD.
Source: Bloomberg. Data as May 31, 2024.

DISPLAY 3

Major Monthly Changes in 10-Year Yields and Spreads

COUNTRY	10-YR YIELD LEVEL (%)	MONTH CHANGE (BPS)	10-YR SPREAD (BPS)	MONTH CHANGE (BPS)
			(SPREAD OVER USTS)	
United States	4.50	-18		
United Kingdom	4.32	-3	-18	15
Germany	2.66	8	-183	26
Japan	1.07	19	-343	37
Australia	4.41	-1	-9	17
Canada	3.63	-19	-87	-1
New Zealand	4.81	-9	31	10
EUROPE			(SPREAD OVER BUNDS)	
France	3.14	8	47	0
Greece	3.69	11	103	3
Italy	3.98	6	131	-2
Portugal	3.26	5	60	-3
Spain	3.39	4	73	-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	11.89	4	739	22
Colombia	11.00	41	650	59
Hungary	6.87	-17	237	2
Indonesia	6.91	-31	241	-13
Malaysia	3.89	-8	-60	10
Mexico	9.75	-21	526	-3
Peru	7.07	-22	257	-4
Poland	5.70	-2	120	16
South Africa	12.22	7	773	25
CREDIT			**SPREAD (BPS)**	**MTD CHANGE (BPS)**
U.S. IG			85	-2
EUR IG			108	-4
U.S. HY			308	7
EUR HY			322	-41
SECURITIZED				
Agency MBS			143	-10
U.S. BBB CMBS			733	-38

Positive Neutral Negative

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

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Fixed Income Outlook

May proved to be a good month for U.S. dollar bonds, but not as much for the rest of the world. U.S. Treasuries were buoyed by weaker-than-expected data supporting the idea that the first quarter's outsized inflation prints, and strong aggregate demand data, were not the start of a new trend, e.g., the "no landing" / "no rate cut" scenario. In many ways this was not surprising as U.S. growth peaked in Q3 last year and has been decelerating since. The big question on investors' and policy makers' minds is how far will the deceleration in growth and employment go? The worries over the "no landing" scenario were replaced by optimism that economies were back on track for the "soft-landing" version—a world of rate cuts and falling inflation accompanied by trend-like growth.

This scenario looks more probable than two months ago with central banks in Sweden, Switzerland and now Canada and the European Central Bank, cutting rates. Central banks are eager to cut rates and are looking for excuses to do so, and that excuse is lower inflation and expectations of even lower inflation in the future. The Fed is turning out to be the most recalcitrant to initiate a rate cut and justifiably so. Recently, the U.S. has had the strongest economy in the world and even with the deceleration underway, they are handily outperforming most other countries including many emerging markets.

Despite still high levels of growth and inflation (relative to targets), 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 if inflation falls further, and if labor markets continue to ease. Hard U.S. economic data still does not suggest that a rate cut is imminent, nor does sticky service sector inflation. Service sector data still does not point to material economic weakness and with no credit imbalances in the U.S. economy, it is difficult to see the need for imminent rate cuts. At some point rate cuts will happen, just not yet.

The absence of U.S. rate cuts, lack of clarity about the extent of easing cycles (both in the U.S. and elsewhere), and the continued inversion of yield curves makes long-maturity bonds on the margin less attractive. 10-year U.S. Treasuries are flirting with the 4.25% level, which we believe is likely to be the limit unless data materially weakens, particularly employment data. Moreover, real yields on 10-year U.S. TIPs look like they will run into resistance around the 1.9-2.0% level. While it is difficult to see what will drive yields back to their 2024 highs (c. 4.7% in 10-year U.S. Treasuries), it is too early to jump onto the bullish bandwagon, and a similar situation exists around the world where yields have been following the U.S. lower.

Credit markets have essentially shrugged off the May equity volatility and remain well supported. While there is no doubt that most credit spreads are rich by historical standards, we do not believe they are expensive to fundamentals. While we do not expect further meaningful tightening, there is no reason to believe that spreads will widen given still sound fundamentals and macroeconomic performance, which should be supportive of spreads. Strong yield-oriented buying should prevent spreads from widening, and a neutral to modestly overweight credit position still seems warranted. 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 fall, and spreads could widen. However, this remains a risk and not a foregone conclusion as the U.S. economy continues to perform well and the global economy remains on an upswing. We remain overweight credit in portfolios, paying more attention to idiosyncratic risks rather than general macro spread widening risks.

Emerging market (EM) local market returns were mixed in May, testifying to the cross-current of forces at work. 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. 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. That said, DM central banks have been more slow to begin easing policy, which has led to a more benign global backdrop for EM countries. This could restart the carry trade where investors buy higher yielding currencies and sell lower yielding ones. We have sympathy for this view but remain concerned about idiosyncratic risks such as the political upsets in recent elections in Mexico, India, and South Africa. We have reduced exposure to Latin American rates in favor of U.S. and Euro credit.

Given the uncertainty surrounding the robustness of the global economy, the extent of DM central bank easing and the timing of the first U.S. rate cut, we continue to find the best fixed income opportunities in shorter maturity

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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. U.S. households with prime credit ratings have very strong balance sheets, and this should continue to be supportive of consumer credit and ancillary structures, especially as house prices remain firm. U.S. 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. On one hand, other central banks front running the Fed should be dollar supportive, but that has not been the case. With the global economy's trajectory looking better than 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. The global FX carry trade is likely to resurrect itself as idiosyncratic risks die down. As such, we are not convinced that large pro or anti U.S. dollar trades make sense. The best opportunities remain in non-USD currencies such as small Latin EM currencies, and on the negative side, the Canadian dollar which should struggle with weak economic growth and easing monetary policy.

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	MONTHLY REVIEW	OUTLOOK
Developed Market Rate/ Foreign Currency	May was a month of two halves in the DM rates markets. Bond markets rallied in the first half of the month as the Fed leaned dovish at its May meeting, continuing to signal an intention to cut interest rates. Economic data, such as U.S. retail sales, also came in weaker than expected while the April U.S. CPI print ended a string of upside inflation surprises, with services inflation in particular moderating. Later in the month, however, policymakers turned less dovish, and data came in stronger. Various Fed speakers also began to explicitly reference further policy tightening, though they were quick to stress hikes were not in their base case, while minutes from the May meeting revealed that a few policymakers doubted just how restrictive current policy is. Inflation in other markets—most notably Australia, the UK, and the Eurozone—were also higher than expected and showed signs of price pressures reaccelerating. On foreign exchange, the U.S. dollar ended the month weaker against all G10 peers. Sterling gained 2% against the USD as higher inflation reduced Bank of England rate cutting expectations, while the Australian dollar also gained 2.7% on a hawkish inflation print. The Scandinavian currencies were the biggest outperformers given the risk-on environment. Given the divergent cross-market monetary policy outlooks, we continue to favor the Australian dollar over the Canadian dollar.[1]	While several DM central banks are widely expected to cut rates in the coming months, the depth of the cutting cycle is more important for fixed income markets than the timing of the first cut. Recent data and policy communication suggests central banks will likely adopt a cautious approach. We stay short duration as momentum is bearish, carry is negative and valuations in longer-maturities are unattractive. Cross-market, we prefer to be short Australian vs. U.S. rates due to evidence of still-sticky inflation and the RBA turning more hawkish. We also remain underweight duration in Japan, where communication has turned less dovish amid concern about the weak yen, and confidence has grown that positive wage-price dynamics will lead to sustainably higher inflation.
Emerging Market Rate/ Foreign Currency	May performance was positive for the major segments of emerging markets debt (EMD). Global bond markets reacted positively to softer than expected U.S. inflation for April, and this helped support EMD assets as well. Most EM currencies strengthened month-over-month and the U.S. dollar weakened. The Chilean peso rallied as copper, a major export for the country, continued the price rally that started in April. One notable outlier was the Philippine peso, which continued its year-to-date weakening streak as inflation remains sticky. As inflation continued to accelerate, neighboring Indonesia hiked rates in April to support the currency, but a rate hike for the Philippines is not likely due to the potential negative impact on economic growth. Spreads marginally tightened for the EM corporates index, but both the sovereign and corporate index were supported by U.S. Treasury yields. After a brief flows reversal in April for hard currency bonds, both local currency and hard currency bonds reverted to outflows in May.[2]	Valuations for emerging markets debt are still attractive and assets are cheap, which presents an attractive entry point for investors. Spreads for hard currency assets are near long-term averages, but bifurcation in the markets and off-benchmark countries provide opportunities for investors. The direction of monetary policy in the U.S. is likely easing, which will provide a supportive backdrop for emerging markets assets. However, growth expectations along with credible monetary policy will continue to support local assets. Real yields are near historic high levels and with continued falling inflation this provides a good environment for bond investors. Reform stories and positive turns in policy continue to make progress which is exciting for a team of country pickers.

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

[2] Source: Bloomberg. Data as of May 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 May, investment grade credit spreads continued to grind tighter, with Euro outperforming the U.S., and credit volatility remained low. Market sentiment was dominated by several factors: Firstly, inflation and growth data surprised to the upside in Europe but in-line in the U.S. Secondly, central bank policy continues to diverge as the ECB is expected to cut rates in June while the Fed remains hawkish. Thirdly, Q1 corporate reporting was positive for credit, with the confirmation that corporates were seeing limited stress in their business with the majority running low risk strategies. M&A activity continues to be conservatively funded from a bondholder perspective. Finally, the technical remains strong as the higher-than-expected supply is met with strong demand.[3]

May was a modestly strong month for the U.S. and global high yield markets. The average yield in the U.S. high yield market fell by more than 35 basis points (bps) over the first two weeks of the month before gradually climbing in the second half as spreads modestly widened. Ultimately, the average spread ended the month only slightly higher while the average yield was modestly lower on the back of lower U.S. Treasury yields. The technical conditions in high yield strengthened in May as retail demand was notably stronger, gross issuance increased and net issuance remained light, with capital markets squarely focused on refinancing. Finally, traditional default activity among high yield bond issuers was non-existent in May; however, the volume of distressed exchanges remained elevated.[4]

The global convertible bond market had a modestly strong month as the balance of macroeconomic data was generally interpreted as supportive of risk assets. While the asset class generated positive returns, it underperformed both global equities and global bonds in May. New issuance was historically strong with $18 billion pricing during the month. The U.S. led the way in terms of primary issuance followed closely by Asia, which saw two large deals from Alibaba and JD.com, at $5 billion and $2 billion, respectively. Both deals were among the largest deals ever for the region.[5]

Outlook

Looking forward, our base case remains constructive for credit given expectations of a "no/soft landing", strong corporate fundamentals supported by low-risk corporate strategies, accommodative fiscal policy and robust demand for the "all-in" yield creating a supportive technical dynamic. When looking at credit spreads, we view the market as fairly priced and therefore view carry as an attractive return opportunity but given the uncertain medium term fundamental backdrop, we have less confidence in further spread tightening.

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

We continue to remain constructive on the global convertible bond market as we progress through the second quarter of 2024. We believe global convertible bonds currently offer their traditional balanced profile of upside equity participation and downside bond protection. New issuance in the first quarter was strong and 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 continues to give us optimism for global convertible bonds in 2024.

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

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

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

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	MONTHLY REVIEW	OUTLOOK
Securitized Products	U.S. agency MBS spreads tightened 10 bps in May to 143 bps above comparable duration U.S. Treasuries. Agency MBS spreads are now 4 bps wider in 2024. Current coupon agency MBS spreads are slightly wider year to date, while nearly all credit spreads have tightened materially. Lower coupon MBS outperformed higher coupon MBS as interest rates fell, and lower coupon passthrough agency MBS have longer rate and spread durations. The Fed's MBS holdings shrank by $30 billion in May to $2.35 trillion and are now down $385 billion from their peak in 2022. U.S. banks' MBS holdings rose by $1.62 billion to $2.54 trillion in May, resuming the trend of bank increases after a small decrease in March; however, bank MBS holdings are still down roughly $455 billion since early 2022. Securitized credit spreads continued to tighten in May as demand remained very strong, and new issue deals were consistently oversubscribed. Securitized new issuance remained high in May, but the increased supply continues to be easily absorbed. Relative to other fixed income sectors, securitized credit sectors outperformed the Global & U.S. aggregate, Euro investment grade corporates, and U.S. & Euro High Yield.[6]	After several months of spread tightening across securitized products, we expect spreads to stabilize at current levels in June as securitized credit spreads are approaching agency MBS spread levels. Overall demand levels remain strong, but we believe it will be challenging to push spreads much tighter from current levels. Securitized credit sectors have been among the best performing sectors in 2024, but performance should normalize in the coming months. We also believe that rates will likely remain rangebound for much of 2024, and that returns will result primarily from cashflow carry in the coming months. We still believe that current rate levels remain stressful for many borrowers and will continue to erode household balance sheets, causing stress for some consumer ABS, particularly involving lower income borrowers. Commercial real estate also remains challenged by current financing rates, and some sectors may see declines in operating revenue in 2024. Residential mortgage credit opportunities currently remain our favorite sector 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, and they continue to remain attractive versus investment-grade corporate spreads and versus historical agency MBS spreads.

[6] Source: Bloomberg. Data as of May 31, 2024.

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Risk Considerations

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

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

DEFINITIONS

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

INDEX DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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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