Morgan Stanley

INVESTMENT MANAGEMENT

Global Fixed Income Bulletin

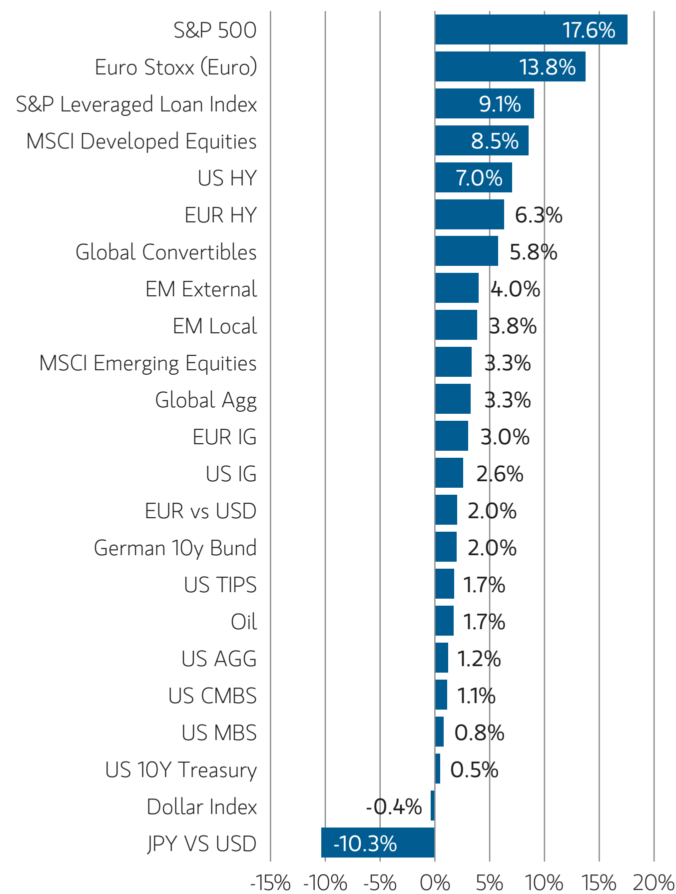
Higher for longer, yes, but not much higher

MACRO INSIGHT | BROAD MARKETS FIXED INCOME TEAM | September 2023

August saw government yields broadly higher across the globe. Yields in both the developed and emerging markets rose. The developed markets saw curves steepening with the long end rising more than the front end as the possibility of rate cuts was pushed further into the future and the idea of rates staying higher for longer gained credibility. We believe we are still close to the end of the rate hiking cycle, but rates may remain range bound until the data proves otherwise. Emerging market yields also sold off as the inflation picture has not reversed course as dramatically as previously expected.

DISPLAY 1

Asset Performance Year-to-Date



Note: USD-based performance. Source: Bloomberg. Data as of August 31, 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 6-7 for index definitions.

The investment grade (IG) credit market lost steam following the rally during the first few months of summer. With weaker than expected data coming out of Europe and China and central banks reemphasizing their data dependency, credit spreads in the asset class widened over the month. High yield was a different story where lower rated securities outperformed their higher rated counterparts. This was mainly due to the strength of the U.S. economy and the historically low levels of defaults remaining largely subdued.

The U.S. securitized credit market had a decent month relative to corporate credits as fundamentals in the asset class, particularly in the residential mortgage market remained strong. Similar to what was seen in the high yield markets, with relatively low historic delinquency levels remaining subdued, the asset class grinded tighter over the month. The European market marginally widened as the economic picture in the region continued to deteriorate.

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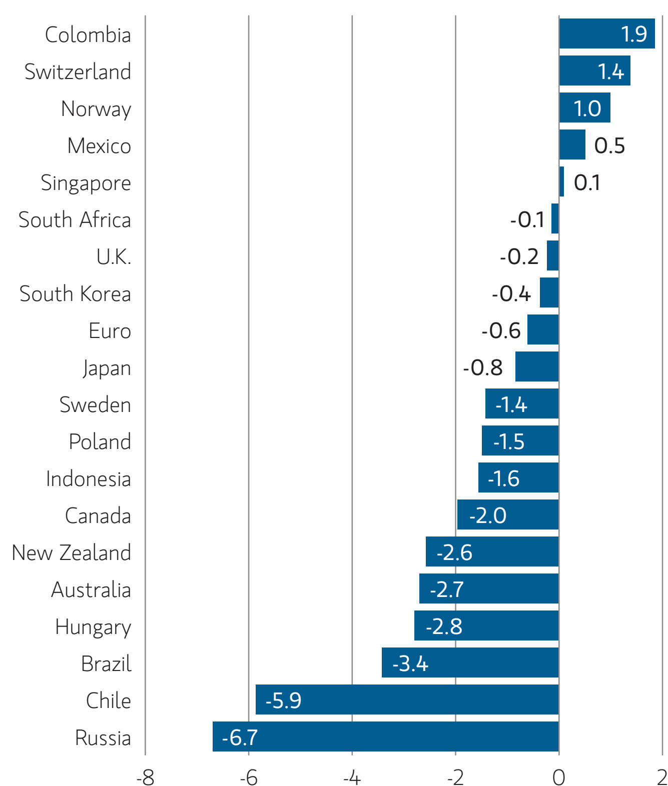
DISPLAY 2

Currency Monthly Changes versus U.S. Dollar

(+ = appreciation)



Note: Positive change means appreciation of the currency against the USD.
Source: Bloomberg. Data as of August 31, 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)
			(SPREAD OVER USTS)	
United States	4.11	15		
United Kingdom	4.36	5	25	-10
Germany	2.47	-3	-164	-18
Japan	0.65	4	-346	-11
Australia	4.03	-3	-8	-18
Canada	3.56	6	-54	-9
New Zealand	4.87	19	77	4
EUROPE			(SPREAD OVER BUNDS)	
France	2.98	-4	52	-2
Greece	3.78	2	131	4
Italy	4.12	2	165	4
Portugal	3.19	-3	73	0
Spain	3.48	-3	102	-1
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	11.17	35	706	21
Colombia	10.63	46	652	31
Hungary	7.02	-26	292	-41
Indonesia	6.36	13	225	-2
Malaysia	3.84	1	-27	-14
Mexico	9.28	47	517	32
Peru	6.77	4	266	-11
Poland	5.57	15	146	0
South Africa	11.71	20	761	5
CREDIT			**SPREAD (BPS)**	**MTD CHANGE (BPS)**
U.S. IG			118	6
EUR IG			155	8
U.S. HY			372	5
EUR HY			441	14
SECURITIZED				
Agency MBS			169	7
U.S. BBB CMBS			804	65

Positive Neutral Negative
Source: Bloomberg, JPMorgan. Data as of August 31, 2023.

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Fixed Income Outlook

A very benign July turned a bit negative in August. Risk assets underperformed, both in credit, EM and equities, while DM government bond market yields went sideways or up. While it is too early to tell if a new trend has begun or simply reflects the usual seasonal pattern of struggling markets in the August – October period, some additional clarity has emerged. First the global economy has become very desynchronized. The U.S. economy powers ahead with GDP growth accelerating quarter by quarter such that current expectations for Q3 growth now hovers around 3%, much higher than potential and substantially higher than 2022. This isn't just resiliency, this is strength! On the other hand, Europe and China significantly underperformed. Indeed, deflation has returned to China under the weight of a deteriorating property sector and faltering exports. Europe is flirting with recession as survey data suggests very weak manufacturing output and slowing services. Unfortunately, unlike in China, European inflation remains quite elevated. One of the unique features of the post-pandemic global economy is that the U.S. economy has become the fastest growing and a low inflation country. Quite an achievement and one that may not last.

What this means is that upward pressure on U.S. yields remains. U.S. recession risk keeps getting pushed further and further into the future. One of our key views is that while recession risk remains it is much more of a later 2024 risk than anything to worry about for the next six months. And, that recession risk depends on U.S. growth remaining resilient and inflation stubborn. If this combination persists into 2024, the Fed may have to either raise rates further (not our current view) or maintain them at current levels all of 2024, which markets are not discounting. This could lead to a harder landing which we define as a mild recession with the unemployment rate rising to the mid 4% area and GDP growth falling below 1%. If this scenario did materialize it would likely lead to higher yields and underperformance of credit and EM as rates stay high or even move higher.

U.S. economic resilience has helped push U.S. Treasury 10-year yields to a new post-2007 high before pulling back on a benign July inflation report. But the bond market is not out of the woods. While September's inflation report for August will also likely be benign, we are not convinced inflation will quickly or easily return to target within the Fed's time frame. Wage pressures remain and labor markets in general remain tight. While job growth has decelerated meaningfully over 2023, gains are still above those compatible with a stable unemployment rate. And, despite all the headlines of layoffs, jobless claims have fallen for four consecutive weeks. Moreover, wage settlements continue to suggest a 5% or higher risk to wages which look incompatible with the Fed's 2%-2.5% inflation comfort zone.

As the probability of a "soft landing" grows, the probability the Fed raises their estimate of the long-run or terminal policy rate increases. Currently, the Fed has stated it believes the terminal rate is 2.5%. When the Fed meets later this month it will release its forecasts for this and other economic variables. We think there is a meaningful risk the Fed raises this terminal rate forecast higher which could put upward pressure on yields even if inflation forecasts are unchanged. This would likely put further upward pressure on U.S. yields.

The European bond outlook looks better given weaker economic performance and growing concerns at the ECB, even amongst the so-called hawks, about not overdoing it on monetary policy. At the margin we prefer non-USD interest rate risk to that in the U.S. In particular, UK rates along with New Zealand and Australian yields look better value.

In credit, we have not altered our views. Markets continue to embrace the soft-landing scenario notwithstanding the August modest spread widening. Year-to-date, spreads have tightened and continue to hover near their lows. In the investment grade space, we view non-financials and A-rated bonds as expensive or rich to their fundamentals and prefer large cap financials and BBB corporate hybrids given their extra yield and proof they can weather financial volatility. That said, we do not see a reason to be overly bearish. Fundamentals remain solid both at a macro and sector level and rates volatility is likely to diminish over the rest of the year. The other challenge for IG corporates is wide spreads on U.S. agency mortgages. These spreads are quite competitive to higher quality IG and we would substitute these agency mortgages for many alternatives in the IG universe.

The high yield market is more erratic. Spreads are in the bottom quartile, but yields are in the top quartile historically. Yield buyers find them attractive; spread buyers see them as risky. Our view: be selective. Avoiding defaults and blow-ups will eventually be key as higher rates and refinancing risks feed into corporate performance and outlooks. We are modestly positive.

We continue to favor shorter maturity securitized credit (RMBS, ABS, selected CMBS) as offering the best opportunities in fixed income. That said, the outlook has modestly deteriorated as household balance sheets come under more pressure and excess savings are run down. We are trying to take advantage of higher yields on higher quality issuers to achieve our target returns, rather than venturing down the risk/rating spectrum. Our favorite category of securitized credit remains non-agency residential mortgages, despite challenging home affordability. Somewhat surprisingly, U.S. housing looks like it may have bottomed out, with prices rising once again.

Recent good news on the U.S. economy has helped the dollar strengthen. While the U.S. dollar looks vulnerable in the medium term, other DM currencies do not offer compelling advantages at the moment. Negative growth dynamics in Europe and China are undermining the attractiveness of their currencies and EM ones. The most undervalued currency continues to be the Japanese yen but given the slow-moving nature of Japanese monetary policy and still exceptionally high hedging costs, it will be difficult for the yen to rally until Japanese rates move higher or U.S. rates begin to fall. We have moved to a more neutral stance on the dollar versus both developed and EM currencies as the differentiated economic performances in the U.S. and China undermine the ability of EM currencies to strengthen. Likewise, we have downgraded our views and exposures in EM local rates. Longer term, many EM bond markets look attractive, but for now the pincer of stronger U.S. growth, weaker Chinese growth and a stronger U.S. dollar undermines their case. Rising commodity prices including oil, could also negatively impact EM countries from following through on rate cuts, or at least not cut from a position of strength.

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	MONTHLY REVIEW	OUTLOOK
Developed Market Rate/ Foreign Currency	Developed market rates were mixed in August with idiosyncratic factors driving each country's yields; however, yield curve steepening was a consistent theme. Central banks and economic data reinforced the idea that economies were near the end of the cycle, but factors also indicated that long term yields may be structurally higher, pushing up the long end of the curve as term premium rose. As a result, while 2-year yield changes were mixed across developed markets, 30-year yields were broadly higher. In the U.S., the 10-year yield rose 15bps. At the Jackson Hole meeting, Powell largely reiterating the same cautious and balanced message from the July FOMC meeting. As before, he noted that the Fed was open to hiking further to reach the 2% inflation target, but that the Fed remains data dependent. Yields in the Eurozone outperformed as economic data continued to show signs of weakness. The central bank meeting calendar for August was light. The RBA held rates the same with a dovish bias. The RBNZ similarly kept policy rates at 5.5% to no surprise. The BoE and Norges bank both increased rates by 25bps, in line with expectations.[1]	Overall, the theme of a goldilocks scenario where inflation falls without requiring a recession still appears plausible. Central bankers can be comforted with slowing inflation data while labor markets and growth data remain resilient. With that said, most central bankers are fully in a data dependent mode, remaining open to a hawkish shift provided inflation proves stickier than expected. Given the uncertainty, it is difficult to concretely express an outright view on interest rates. However, with signs that central bankers are nearing the end of the cycle and with catalysts to drive term premium higher (QT, risk of Japanese selling, inflation risks), we continue to find steepeners attractive at certain parts of the curve. In terms of foreign exchange, the dollar again strengthened during August. We still believe that the U.S. dollar should weaken, especially vs attractive emerging market currencies.
Emerging Market Rate/ Foreign Currency	Emerging Markets Debt (EMD) sold off across all segments of the asset class for the month. Brazil cut rates by a larger-than-expected 50bps, which followed the lead of Chile and a handful of other Latin American countries over the past few months. In contrast, other emerging markets countries suffered currency weakness and high inflation during the month. Argentina held its primary presidential election and Javier Milei, a far-right libertarian economist, took the lead. Country Garden, one of the largest private developers in China, failed to make coupon payments on two of its dollar bond securities. This event highlights the continuing issues with the China property market. Sovereign and corporate spreads widened month-over-month reversing the trend that we have seen for most of the year.[2]	We remain cautiously optimistic about the asset class. Growth, inflation, and policy are diverse across the emerging markets universe and this divergence is growing in some areas. Country and credit level analysis will be critical to uncover value especially as many developed markets, including the U.S., indicate they may continue with additional rate hikes.

[1] Source: Bloomberg. Data as of August 31, 2023.

[2] Source: Bloomberg. Data as of August 31, 2023. EM corporates represented by The **JP Morgan CEMBI Broad Diversified Index**.

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	MONTHLY REVIEW	OUTLOOK
Corporate Credit	U.S. IG spreads outperformed Euro IG spreads in August as credit markets reversed some of the July rally, driven by several factors. Firstly, there were increasing concerns that central banks would retail base rates higher for longer. Secondly, forward-looking economic indicators particularly in Europe (IFO, PMI's) and China signalled growth expectations were weakening. Finally, there was a weaker technical driven by supply re-opening in the last week of August (potentially creating expectations for strong supply in September) while demand remained muted due to the summer holiday month.[3] The U.S. and global high yield markets recorded modest gains in August in what was a choppy environment for risk assets. The technical conditions in high yield softened modestly in August amid a slightly busier primary market and modest outflows. The lower-rated, higher-beta segments of the high yield market continued to outperform with the higher-quality, longer-duration segments experiencing the most pressure from rate volatility.[4] Global convertibles fell in August with MSCI global equities declining 2.96% in the month and Bloomberg Global Aggregate Credit falling 0.98% while the Refinitiv Global Convertibles Focus Index was in between falling 2.37%. Regionally, convertibles held up best in Europe, while declining more in the U.S. and Asia. No sectors were spared as all declined against the weaker macro backdrop. August brought $8.7bn in new deals, the second-best month of the year to date.[5]	Looking forward, our base case remains unchanged with credit expected to range trade around current levels (having widened from the summer tights at the end of July) making carry an attractive return opportunity but spread duration offering capital gains less likely to be a material contributor. We remain cautious on the high yield market as we progress into the final month of the third quarter of 2023. Despite finishing August near YTD lows, over the short-term it appears the average spread in the high yield market could grind even lower driven by temporarily supportive technical conditions, similar to those which drove the beta-led outperformance that characterized much of the last several months. We remain optimistic on convertibles. The market is priced around fair value, below par and can be bought at low values of volatility.
Securitized Products	Securitized credit spreads tightened in August while agency MBS spreads drifted wider. We continue to believe that the fundamental credit conditions of residential mortgage markets remain sound, but also believe that higher risk premiums are warranted across all credit assets given projected economic weakness. Securitized yields remain at historically wide levels, and we believe these wider spreads offer more than sufficient compensation for current market risks. Although delinquencies across many asset classes are increasing slowly, overall delinquencies remain low from a historical perspective. Home prices have proved to be extremely resilient to declines despite the increase in mortgage rates, only having fallen 1% since the peak in June of 2023.[6]	U.S. residential credit remains our favorite sector, with a strong preference for seasoned loans (originated in 2020 or earlier) due to the sizable home price appreciation over the past few years and potential future home price declines. We remain more cautious of commercial real estate, especially office, which continues to be negatively impacted in the post-pandemic world. However, we believe delinquency and default levels will remain non-threatening to the large majority of securities.

[3] Source: Bloomberg Indices: U.S. Corporate Index and the European Aggregate Corporate Index. Data as of August 31, 2023.

[4] Source: J.P. Morgan and Bloomberg U.S. Corporate High Yield Index. Data as of August 31, 2023.

[5] Source: Bloomberg and Refinitiv Global Convertibles Focus Index. Data as of August 31, 2023.

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

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

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

The **ICE BofAML U.S. High Yield Master II Constrained Index (ICE BofAML U.S. 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 U.S.-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).

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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 U.S. 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 U.S.-dollar corporate emerging market bonds representing Asia, Latin America, Europe and the Middle East/Africa.

JPY vs. USD—Japanese yen total return versus U.S. 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 U.S. 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 (U.S.), 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 (U.S. S&P 500)** measures the performance of the large-cap segment of the U.S. equities market, covering approximately 75 percent of the U.S. equities market. The index includes 500 leading companies in leading industries of the U.S. economy.

S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index seeks to measure the value of residential real estate in 20 major U.S. 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 U.S. 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 (U.S.), 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 **U.S. 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 U.S. trade partners' currencies.

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

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

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

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