Morgan Stanley
INVESTMENT MANAGEMENT

The BEAT

BONDS | EQUITIES | ALTERNATIVES | TRANSITION

February 2025

Previously known as the Monthly Market Monitor.

The **BEAT**, previously known as the Monthly Market Monitor, provides connectivity between changing market events and implications for investor portfolios.

Spanning **B**onds, **E**quities, **A**lternatives and **T**ransition*, this monthly review provides timely information across a broad array of markets and investment topics.

Each edition explores investment ideas, identifies areas of focus and provides a comprehensive outlook on asset allocation — all supported by a concise review of economic and asset class data through clear and impactful charts.

We believe The **BEAT** is a critical desk reference that enables more informed discussion and understanding of financial markets.

If you are viewing this book on your computer or tablet, **click or tap on the section box to jump to the beginning of each section.**

Data provided is for informational use only. See end of report for important additional information.
*Transition is an asset allocation view, which refers to cash, cash equivalents or liquid short-duration assets, such as short-dated Treasuries, that can be used to “transition” to other asset classes.

TOP IDEAS

Key Themes for February 2025

At What Level Does Higher Bond Yields Break Equities?

The proverbial question. The answer is that it depends on 1) why yields are rising and 2) which ones. If yields are rising because the economy is growing faster than expected, inflation is remaining low and the yield curve is steepening to reflect higher productive growth, then equities and other risky assets can sustain higher bond yields. If yields are rising for more nefarious reasons, like deficit and credit concerns, or purposeful rate hikes to slow growth and inflation, then higher yields can be a problem. Context matters. There is no magic level, but when yields stop rising and plateau at a level that competes with equity returns, this is substantive. But yields need to stop rising first.

The Yield Curve Tells Us Where Yields Are Going

No trouble with the curve. The question on many people's minds is where bond yields are headed, and we can use the yield curve to determine this. As supply chains normalize along with the U.S. economy, so should the yield curve. A normal slope of the 2s -10s U.S. Treasury (UST) yield curve is 50-75 basis points (bps). So, if the UST 2-yr stays anchored around 4.25%, consistent with pricing of 1-2 Fed cuts this year, then we think the UST 10-yr yield will be rangebound between 4.75 and 5%. If you think the Fed cuts 0-1 times, then the 10-yr yield could peak in the 5 - 5.25% range, and so forth. The bottom line is that term premia on the curve is reestablishing itself for many reasons, including deficits, tariffs and inflation expectations. As such, we should expect a more normal yield curve shape.

Fiscal Policy Super Bowl: Taxes, Tariffs, Deregulation

Fiscal policy vs. monetary policy. Markets will remain responsive to announcements on tariffs, taxes, deregulation, immigration and fiscal spending. Should these policies carry inflationary implications, they may shift expectations for the path of monetary policy. Which side wins will depend on how financial markets react and the corresponding impact on financial conditions. This is likely to set the narrative for 1Q 2025. As we see it, President Trump will pay close attention to market reactions, particularly within equities, and might adjust his rhetoric accordingly. As such, much like how some think about a Fed-put, we should also think about a Trump-put.

PMIs, Manufacturing Recovery, Cyclicals

A global story. As we move into 2025, perhaps the most powerful fundamental theme is a recovery in manufacturing PMIs. For the past three years, most PMIs have been below 50 and have struggled to break out. However, while ex-U.S. manufacturing remains challenged, leading indicators in the U.S. suggest a recovery may be forthcoming. We think this is important because a recovery in PMIs is highly correlated with a recovery in cyclical sectors that we call cap-ex beneficiaries. If we couple this with the possibility for deregulation in the U.S. and the necessity for higher investment and growth in the rest of the world (RoW), this should bolster cyclical market sectors. After all, many countries are onshoring and trying to reduce external vulnerabilities and dependencies. Effectively, more investment and capital expenditure (CapEx) increases the velocity of the already high level of global money supply, which may lead to an increase in economic activity.

TOP IDEAS

The Portfolio Solutions Group – Our Top 4 Ideas

Duration: Friend or Foe?

Neutral, but shaded slightly to UW. We are close to, but just shy of, index levels of duration. We would consider going long duration if UST 10-yr yields move toward 5% and going UW more decisively if they fall below 4.25%. Between 4.25% - 5% we are currently likely to stay neutral. Meanwhile, duration exposure may be more beneficial in European markets where the ECB is more likely to keep cutting rates.

Adding Equity Exposure Selectively – Mid-Caps

Buying dips. We still maintain an optimistic outlook for U.S. equities despite two back-to-back strong years. Why? Because we think there are opportunities to be selective in broader markets and cyclical sectors. Core to this view is a global recovery in PMIs. Materials, industrials and even technology are Cap-Ex beneficiaries. We continue to hold a positive view on the mid-cap segment of the market, while maintaining our neutral stance toward large-cap tech.

Hold OW on European Banks

Go shopping in Europe. We continue to hold a constructive view on European banks, which are more insulated from trade-related headwinds than other European cyclicals. While the potential for ECB rate cuts in 2025 presents a headwind to earnings, much of the downside has already been built into current forecasts. Capital returns are attractive, and valuations remain reasonable despite recent outperformance. It may pay to go shopping for deals in Europe.

U.S. Materials: Anticipating the Rebound

Turn of the tide. Materials underperformed broader equity indexes by a significant margin in both 2023 and 2024. Post-pandemic manufacturing weakness, high geopolitical volatility, structural growth challenges in China and consequent earnings weakness all served as headwinds. Looking ahead to 2025, we see risks skewed toward a favorable turn in fortunes for the sector, with a rebound in manufacturing PMIs a key catalyst.

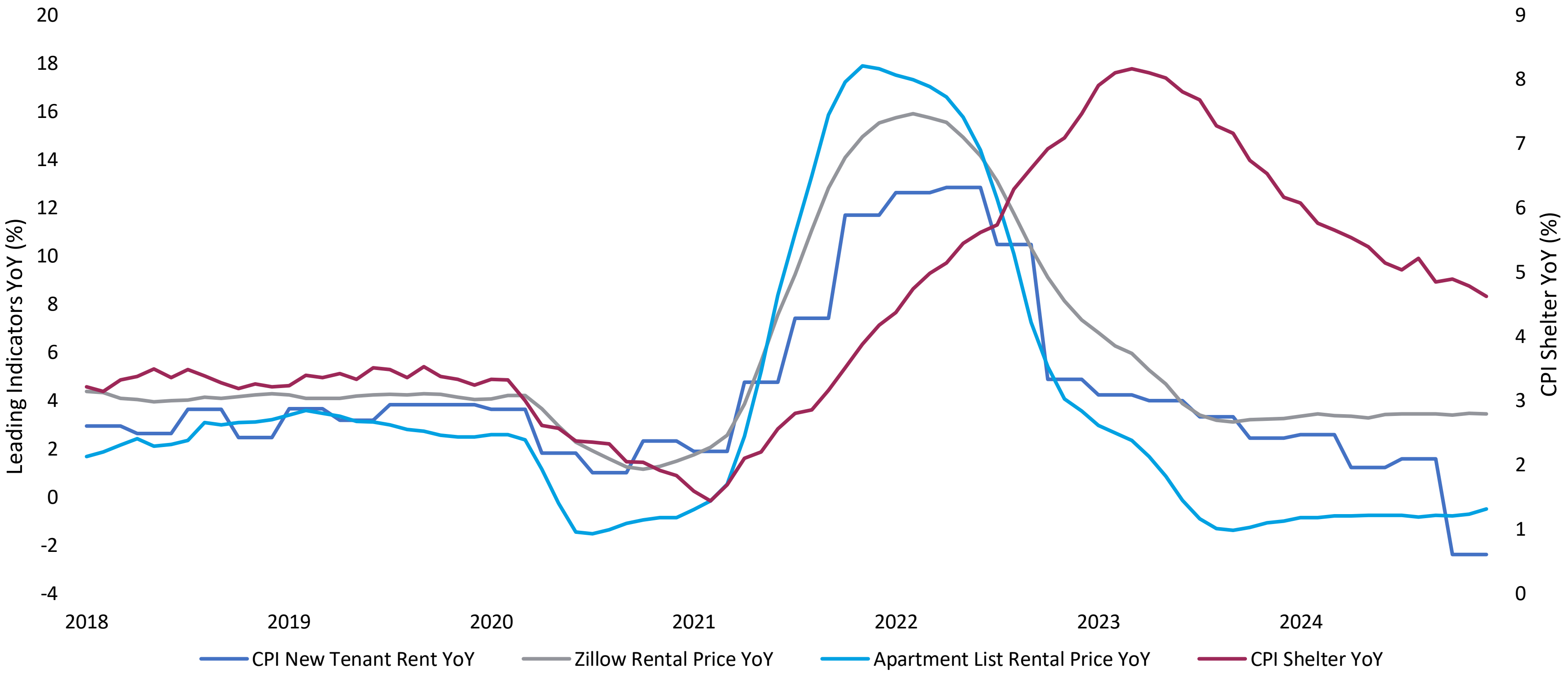
TOP THEMES

Leading Indicators Suggest a Continued Moderation in Shelter Inflation

The shelter component of U.S. CPI has remained elevated during 2024, ending the year at ~4.6%. Various leading indicators have historically led the headline data by roughly one year, and recent trends suggest that headline shelter inflation should continue lower in 2025.

Leading Indicators of Rental Prices Have Historically Led Headline Shelter Inflation by About One Year

Leading indicators of shelter inflation (LH) and U.S. CPI shelter component (RH)



Source: Macrobond, MSIM. As of December 31, 2024. The views and opinions expressed are those of the Portfolio Solutions Group at the time of writing/of this presentation and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. **Past performance is no guarantee of future results.**

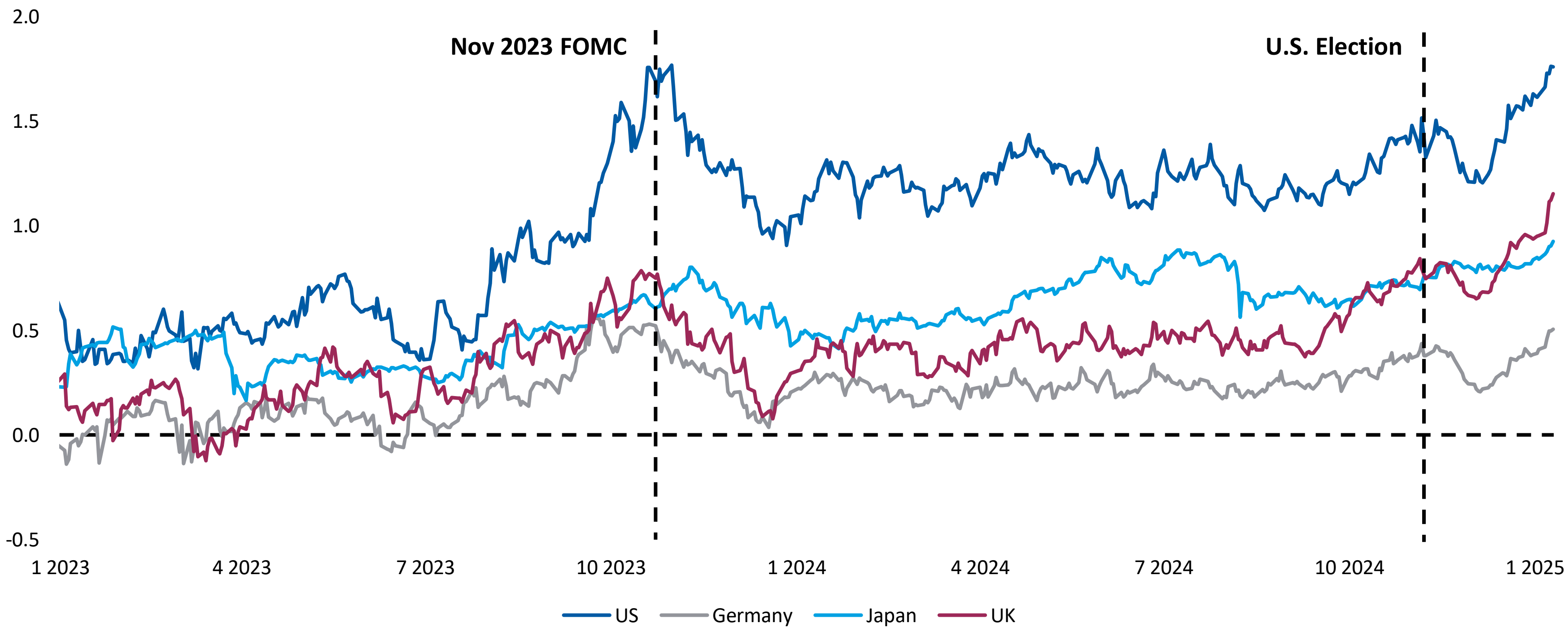
TOP THEMES

Term Premia is Reestablishing Itself Globally

With the recent strength in economic growth, growing concerns surrounding tariffs and inflation and robust government spending, term premiums have started to expand once again since the start of the new year. While this trend is most clearly seen in the U.S., we have witnessed a similar theme in most major developed economies ex-U.S. as well.

Term Premiums Across Developed Markets (DM) Have Increased in the Aftermath of the U.S. Election

Developed Markets 10-year term premiums (%) based on Piper Sandler's 4-factor term premium model



Source: Piper Sandler, MSIM. As of January 10, 2025. The views and opinions expressed are those of the Portfolio Solutions Group at the time of writing/of this presentation and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass**. Past performance is no guarantee of future results**.

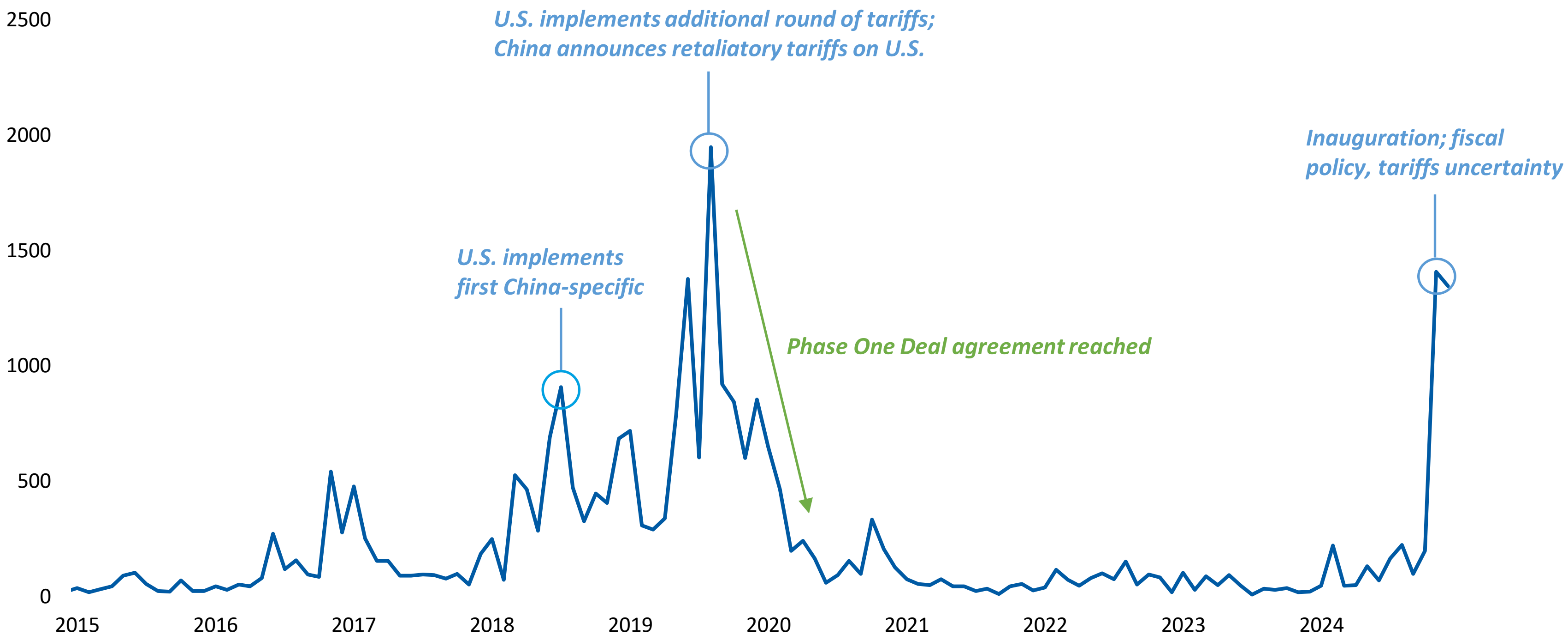
TOP THEMES

Trade Policy Uncertainty Has Returned to Pre-Pandemic Levels

With President Trump's inauguration on January 20th, trade policy uncertainty has returned to levels last witnessed during the escalation of U.S./China trade tensions between 2018 and 2020. In our view, President Trump will pay close attention to market reactions to new policy and rhetoric and may act accordingly. As such, in the same way we think about a Fed-put, we should also consider the implications of a Trump-put.

U.S. Trade Policy Uncertainty Has Spiked to Levels Consistent with 2019 Episodes of U.S./China Trade War

U.S. Trade Policy Uncertainty Index



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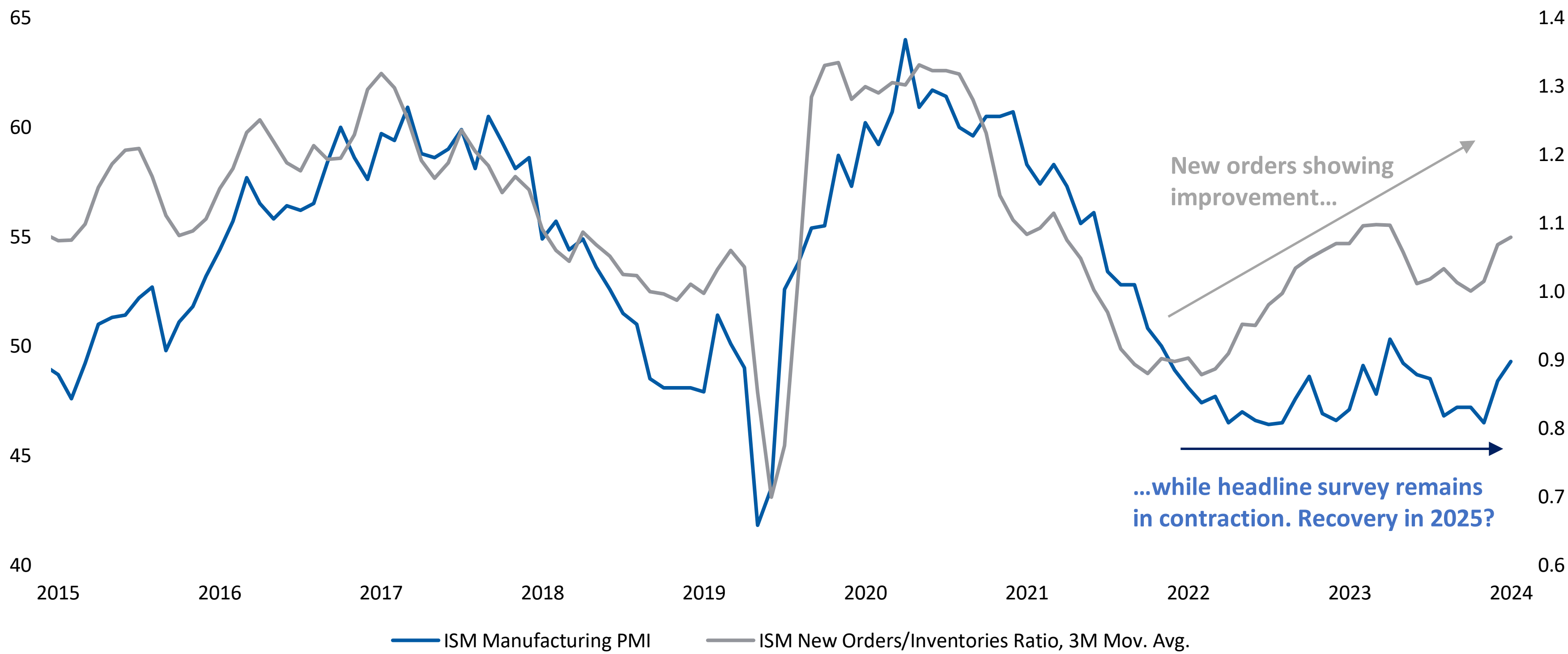
TOP THEMES

New Orders/Inventories Ratio Signal Potential U.S. Manufacturing Recovery

While not yet visible ex-U.S., new orders have started to pick up in the U.S. as evidenced by the improvement in the ISM new orders/inventories ratio. Continued strength in new orders could suggest a gradual recovery in the headline manufacturing survey, which has been stuck below 50 for 25 of the past 26 months.

ISM New Orders/Inventories Ratio May Suggest a Gradual Improvement in Headline Manufacturing Survey
ISM manufacturing (LH), ISM new orders/inventory ratio 3-mo moving average (RH)



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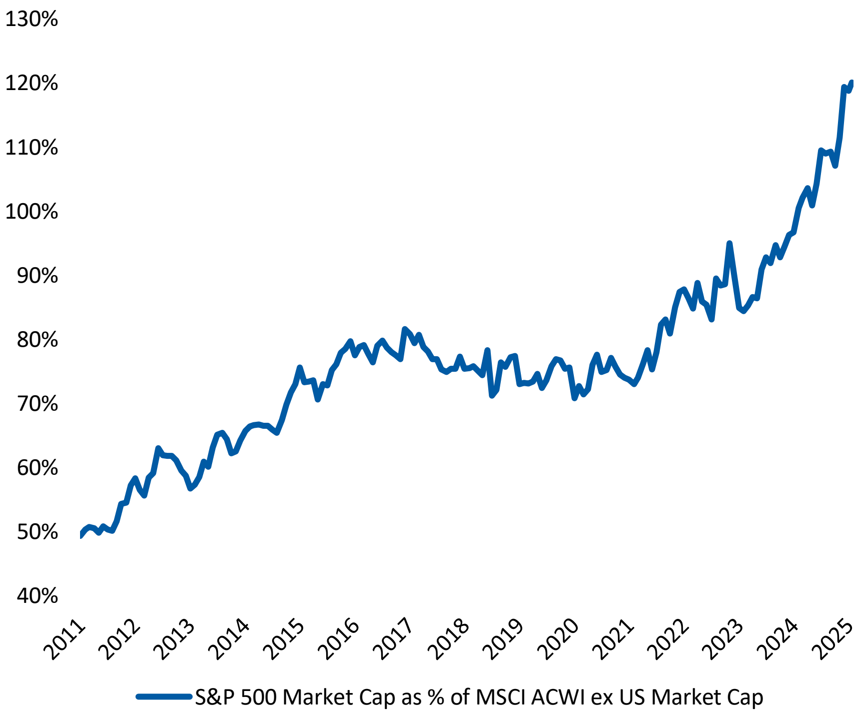
TOP THEMES

U.S. Exceptionalism Has Been a Persistent Theme, but for Good Reason

Over the past decade plus, U.S. equities have largely outperformed the rest of the world (RoW), with the S&P 500 expanding its share of global market cap during that time. However, there is fundamental basis for the outperformance, since earnings growth in the U.S. has consistently outpaced ex-U.S. regions over the same timeframe.

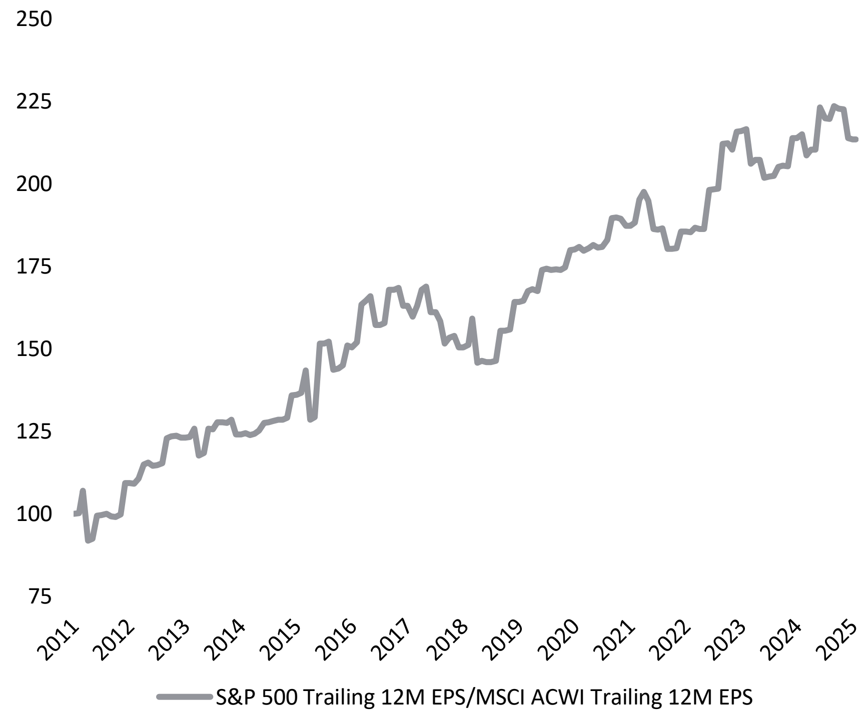
U.S. Equities Have Increased Share of Global Market Cap…

S&P 500 market cap as % of MSCI ACWI ex-U.S. market cap



…Since That is Where All the Earnings Growth Has Been

S&P 500 EPS / MSCI ACWI ex-U.S. EPS, Index = 1/1/2011



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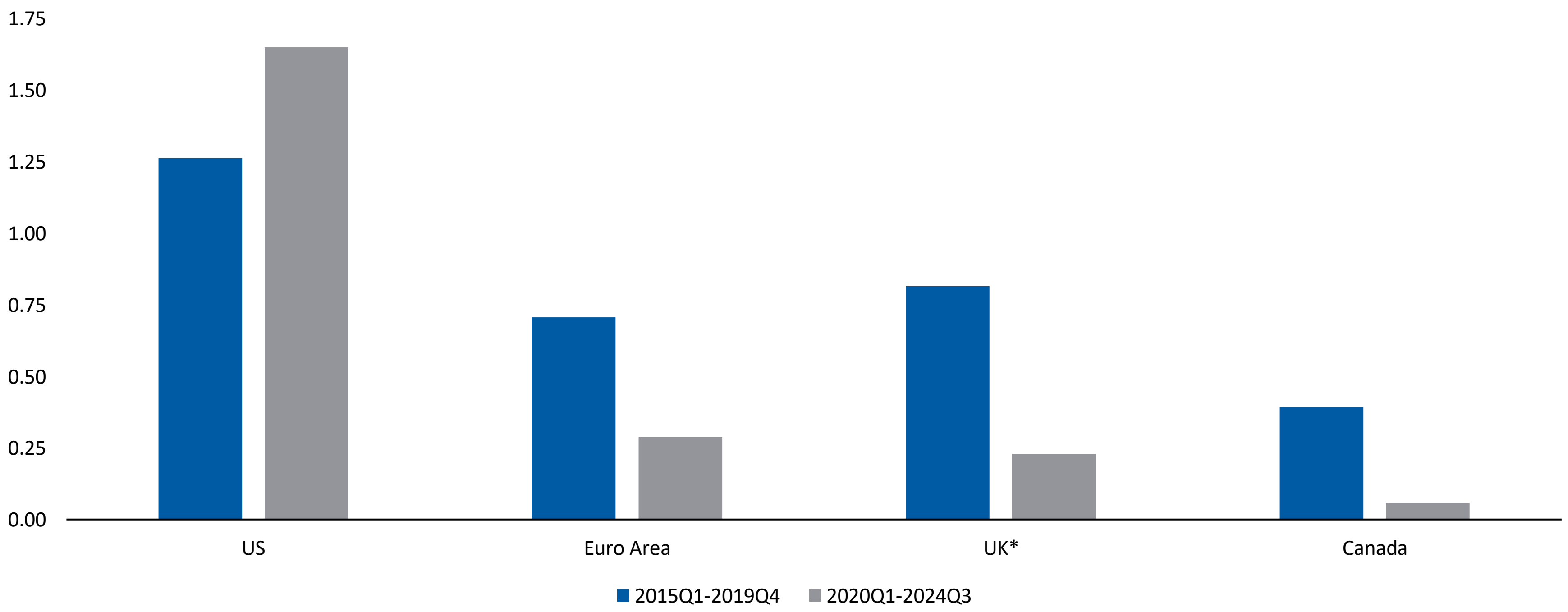
TOP THEMES

Regional Divergences in Labor Productivity Have Increased Since 2020

One of the key underlying drivers of U.S. exceptionalism has been the divergence in labor productivity growth between the U.S. and the RoW. This divergence has widened during the Covid/post-Covid era, serving as another fundamental basis for the outperformance in U.S. equities relative to the RoW.

U.S. Labor Productivity Growth Has Widened its Outperformance Relative to ex-U.S. in the Aftermath of the Pandemic
Annualized labor productivity growth (%)



*Note: Labor productivity is defined as total-economy real value-added per hour worked. *UK 2024Q3 productivity represents a GS forecast*

Source: Goldman Sachs Investment Research, ISG, MSIM. As of September 30, 2024. The views and opinions expressed are those of the Portfolio Solutions Group at the time of writing/of this presentation and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. **Past performance is no guarantee of future results.**

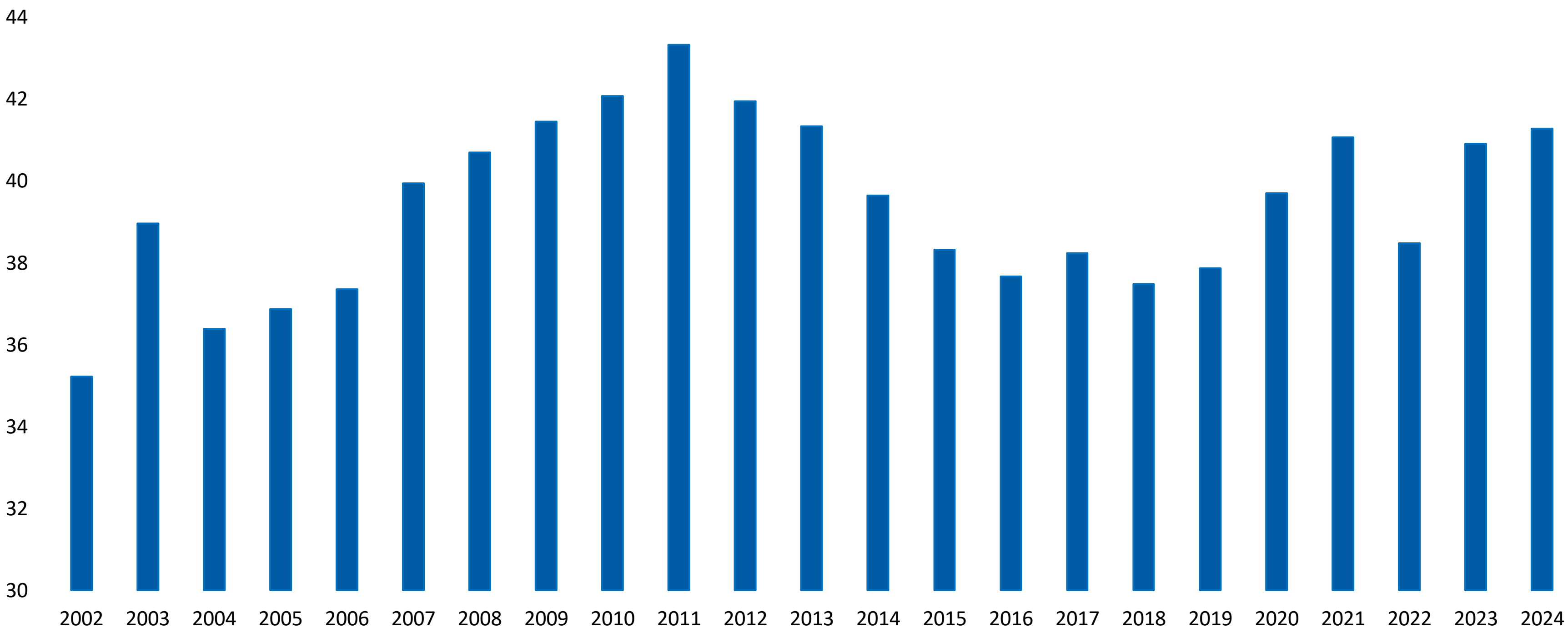
TOP THEMES

Economic Growth in the Rest of the World Matters for the U.S.

While we continue to view U.S. equities as the “best in show,” a substantial share of S&P 500 revenues are derived from foreign sources. As such, if a recession were to manifest itself in Europe, that, coupled with a continued slowdown in China, would pose a sizable negative impact on earnings for S&P 500 companies.

Roughly 41% of S&P 500 Revenues Come From Foreign Sources

% of S&P 500 revenue from outside of the U.S.



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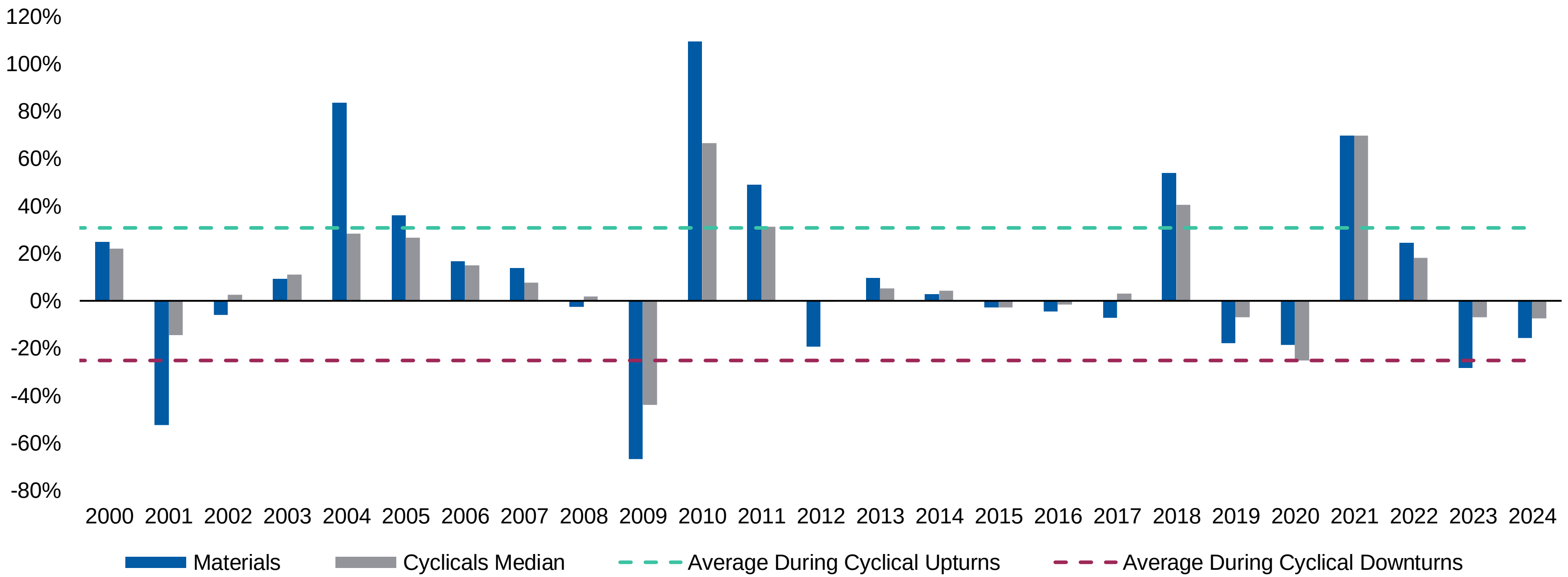
TOP IDEAS

Materials Show Strong Earnings Growth During Years of Cyclical Upturns

A potential manufacturing recovery in 2025 can catalyze an earnings recovery in the more cyclically-exposed sectors of the equity market. Among cyclicals, Materials are the key beneficiaries from a recovery in manufacturing and have historically posted strong earnings growth during years of cyclical upturns. During years where the median earnings growth for cyclicals has been positive, Materials have historically outperformed, posting average real earnings growth of ~30%.

Materials Have Exhibited Strong Earnings Growth During Years of Cyclical Upturns

Materials real annual EPS growth and median EPS growth for cyclical sectors (materials, energy, financials, industrials)



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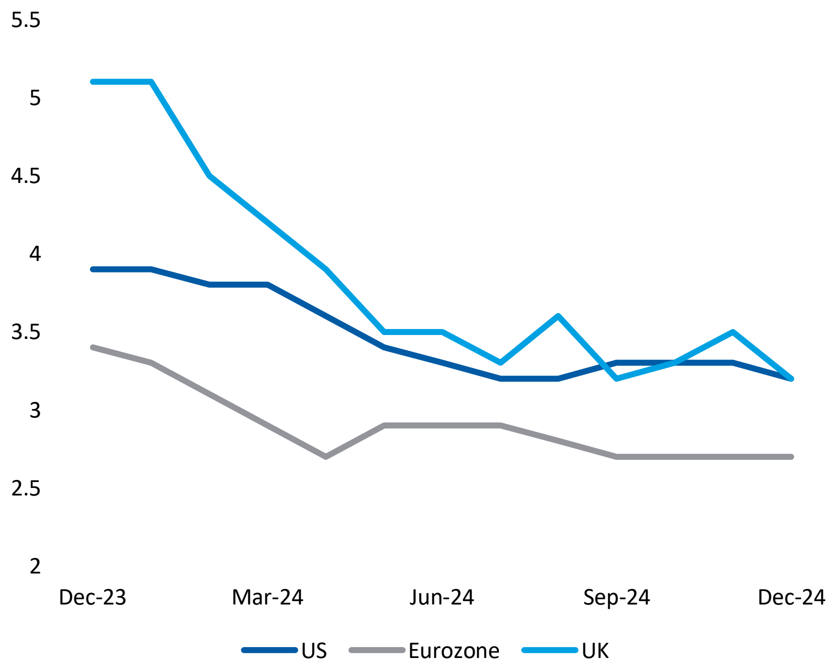
TOP IDEAS

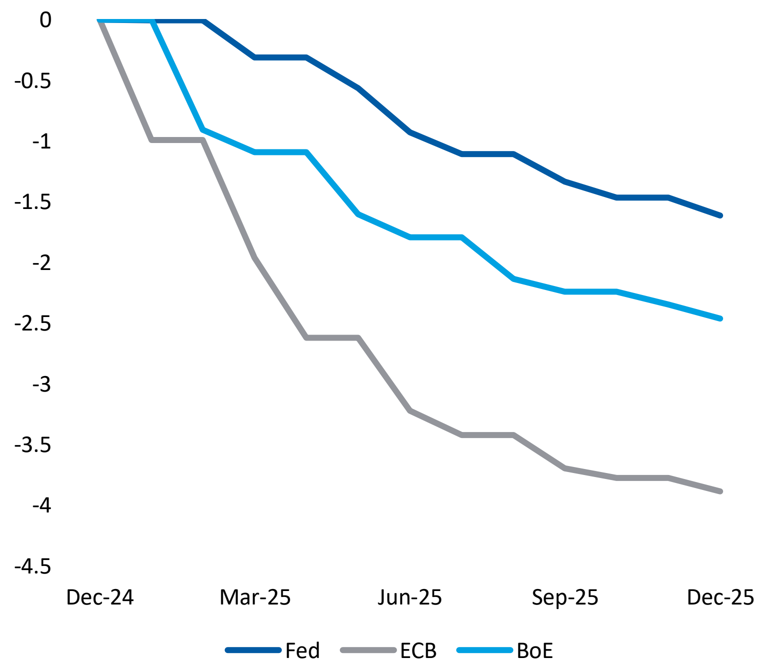
Eurozone Duration: Our Preferred Place To Be

Lackluster growth and a more convincing downtrend in Eurozone inflation should lead to deeper cuts by the ECB, compared to both the Fed and the BoE, resulting in more favorable dynamics for duration in the region.

Europe's Disinflationary Path Looks More Convincing…
YoY % change in core CPI



… Resulting in Expectations of Deeper ECB Cuts
# of expected 25 basis point cuts



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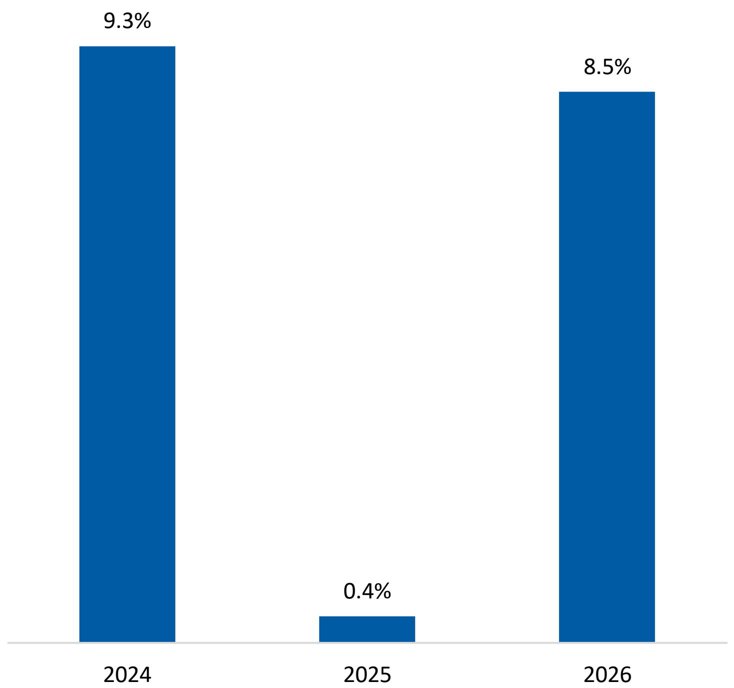
TOP IDEAS

Hold Overweight on European Banks

While the potential for ECB rate cuts in 2025 presents a headwind to earnings, much of the downside has already been built into current forecasts. Valuations remain reasonable despite recent outperformance and should be supported if activity levels in Europe start to rebound after a dismal two years. With attractive capital returns, one is paid to wait for a cyclical uptick.

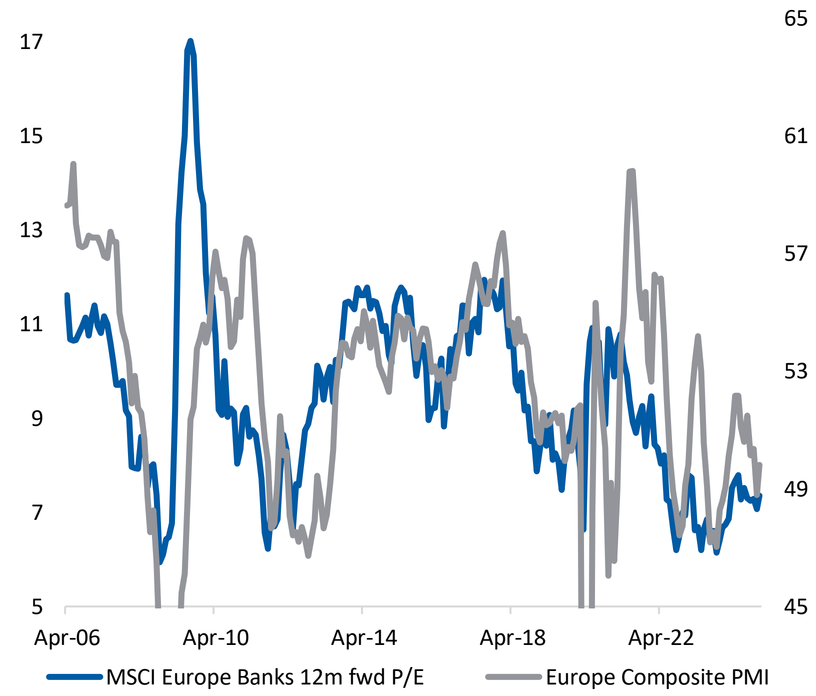
Given Consensus EPS Growth Is Already Quite Cautious, We See This as Manageable for the Sector Provided the ECB Stops Cutting Around 2%

European banks consensus EPS growth



Despite Improving Fundamentals, Valuations Have Failed to Rebound Due to Lack of Visibility on Growth

European banks P/E ratio (LH) vs PMIs (RH)



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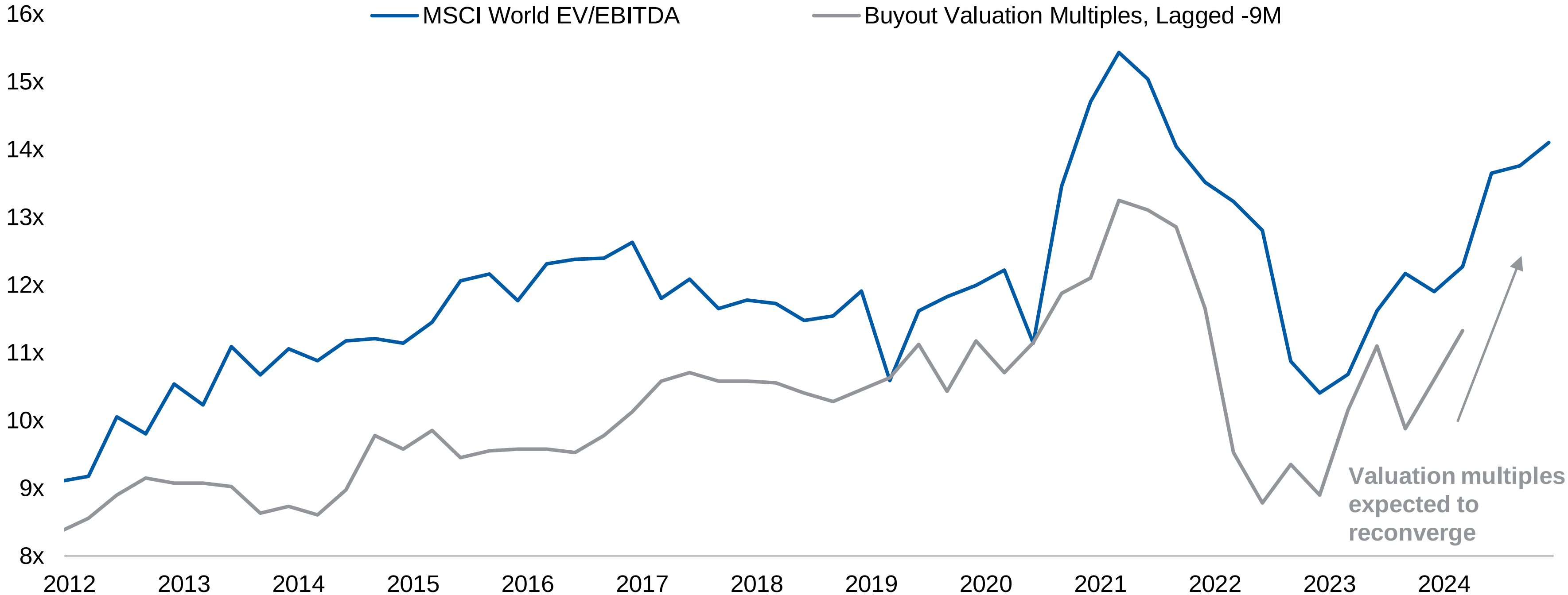
TOP IDEAS

Private Equity Remains Attractive Relative to Public Equity

Private equity market performance has historically lagged public equities by several quarters to a full year. Public equity valuation multiples continue to rally, with private equity following closely. We expect this trend to continue.

Private Equity Performance Has Lagged Public Equities by About One Year; We Expect the Rebound to Continue

MSCI World EV/EBITDA multiple and private equity buyout multiple (lagged by 9 months)



Source: Bloomberg, Preqin. As of December 31, 2024. This information reflects the views of the Portfolio Solutions Group as of the date hereof and not of any future date and are subject to change without notice in response to changing circumstances and market conditions. Senior Debt are loans secured by collateral that must be paid off before other debts when a company goes into default. Subordinated Debt are loans which rank after other debts (e.g. Senior Debt) if a company falls into default and therefore carries more risk for the lender. EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortization, a reflection a firm's short-term operational efficiency. A lower debt/EBITDA ratio generally reflects a healthier company from a financial standpoint, representing a higher level of cash from earnings to cover debt payments, viewed as less risky for an investor. **Past performance is no guarantee of future results.**

TOP IDEAS

Capital Markets Investment Framework

Representative Allocations from the Portfolio Solutions Group

Current allocation
Change from previous

– – High conviction underweight
– Underweight
= Neutral
+ Overweight
++ High conviction overweight

Asset Allocation	– –	–	=	+	++	Commentary
Bonds						
Duration		■	←			We move our duration view to underweight: The UST 10-year yield at 4.5% sits towards the middle of our view on a longer-term range, but we see the near-term balance of risks skewing higher with recession risk low, but inflation risk a relevant focus.
Credit			■			
Equities						
Risk Level			→	■		We hold a slight overweight position in equities, having added incrementally in January following the pre-inauguration pullback. Our core view remains soft landing, and we continue to assess U.S. political developments as net positive for 2025 equity returns. We remain vigilant to new policy developments.
Alternatives						
Private Markets				■		The directional clarity associated with the change of government in the U.S. is expected to expand deal-making activity but is likely to have an uneven impact on the growth opportunities and risks within each sector. Distributions are expected to grow from their low base, at a time when asset pricing offers a potentially attractive entry point. In private credit, we think the best relative value is shifting from core to niche/specialists.
Hedge Funds				■		Hedge funds are benefiting from a constructive market environment for skill-based managers. We have upgraded our conviction in quantitative equity strategies as market dispersion remains supportive while correlations have decreased at the micro level.
Commodities			■			We remain neutral on key commodity markets as geopolitical upside risks are balanced by high spare capacity in markets such as crude, which limit upside absent physical disruptions.
Transition						
Cash/Short Duration		■				We remain underweight cash and short duration instruments.

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TOP IDEAS

Global Fixed Income

Representative Positioning from Portfolio Solutions Group

■ Current allocation
← Change from previous

– – High conviction underweight
– Underweight
= Neutral
+ Overweight
++ High conviction overweight

Fixed Income	Our View – –	–	=	+	++	Commentary
Bonds						
U.S. Treasuries		■	←			We have moved to a slight underweight duration stance in the U.S. with 10-year yields at 4.5%. We continue to see 10-year yields trading within a broad range but believe the near-term balance of risks skews higher with recession risk low, but inflation risk a relevant focus.
Inflation Linked Bonds			■			Breakevens reflect an environment where inflation persistently runs slightly above the Fed's 2% inflation target, which is also our base case. We believe breakevens to be fairly valued here.
Eurozone Govt. Bonds				■		We continue to hold a relative preference for duration in Europe, as we see scope for the ECB to continue cutting rates even if growth improves slightly, as we expect. Core inflation and real GDP growth are likely to remain lower than in the U.S.
EM Hard Currency Govt. Bonds				■		EMD looks somewhat expensive on a standalone basis yet more attractive relative to other segments of the market, such as corporate credit. We still think it makes sense to have allocation to hard currency, EM Debt.
EM Local Currency Govt. Bonds			■			The USD appears very expensive from a Real Effective Exchange Rate perspective, which could lead to attractive EM Local returns. However, this dynamic could take years to play out.
Public Credit						
Municipal Bonds			■			Muni ratios versus Treasuries look closer to “fair value” than cheap currently. We still like the asset class for taxable investors but are not forecasting large excess returns.
Investment Grade		■				Spreads are near all-time tights, excess return over USTs should be minimal and IG remains sensitive to left-tail outcomes. Our positive economic outlook keeps this from being a high-conviction underweight.
MBS/ABS					■	High conviction in ABS and yield per unit of credit quality remains attractive. U.S. 30-year fixed mortgage rates are higher than BB-rated corporate yields, a rare occurrence in the past 25 years.
High Yield		■				With spreads at historical lows across credit ratings, we see little upside left for the asset class. We prefer to allocate to areas of fixed income with less stretched valuations.
Bank Loans				■		Loan spreads have tightened a bit, but with the recent repricing of Fed expectations higher, Loans look poised to outperform. The asset class offers very high carry relative to other segments of fixed income.

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TOP IDEAS

Global Equity

Representative Positioning from Portfolio Solutions Group

■ Current allocation
➡ Change from previous

– – High conviction underweight
– Underweight
= Neutral
\+ Overweight
++ High conviction overweight

Equity	– –	–	=	+	++	Commentary
Regional						
Developed Markets			■			U.S. growth exceptionalism has been persistent, and the key policy priorities of the new administration have reinforced this divergence with the benefits domestic (deregulation, fiscal) while areas of risk are shared meaningfully outside the U.S. (tariffs). We manage elevated U.S. valuation through mid-cap expression and selective cyclical exposure.
U.S.				■		
Eurozone		➡	■			Rising conviction in a manufacturing recovery, a base case view that the worst-case tariff scenarios don't materialize, and depressed sentiment/valuation lead us to close UW view on European equities
Japan				■		The risk of sharp yen appreciation and the resulting headwind to Japanese equities are alleviated by renewed USD strength, driven by superior U.S. growth and interest rate differentials vs the RoW. Japan's structural domestic improvements remain intact, while valuations remain relatively undemanding.
Emerging Markets			■			We continue to see regional dispersion in EM, with structural headwinds for China and tailwinds for India.
Style						
Growth vs. Value			■			Growth style indexes remain disproportionately exposed to Big Tech, where we seek to keep our risk exposure close to neutral.
Quality				■		With little excess risk premium in equities and a limit to economic growth acceleration due to inflation risk, we continue to prefer a tilt toward quality. We balance this with selective cyclical exposure.
Large Cap vs. Small Cap			■			Mid-caps represent the sweet spot between elevated large-cap valuation, and small-cap quality risk.
Cyclical vs. Defensive Sectors				■		We continue to favor selective cyclical exposure consistent with late cycle expansion.

TOP IDEAS

Alternatives

Representative Positioning from Portfolio Solutions Group

Alternative Assets	Commentary
Private Markets	
Private Equity	We expect investor cash flows to recover due to increasing market activity, and asset pricing to offer an attractive entry point. While a key discipline in private equity investing is to limit exposure to exogenous risks, the directional clarity associated with the change of government in the U.S. is expected to expand deal-making activity but is likely to have an uneven impact on the growth opportunities and risks within each sector. The prospect of deregulation will potentially lead to increased opportunities in Financials and Healthcare and reduced anti-trust intervention could spark additional M&A more broadly. However, growth policies have the potential to add to inflation, so we continue to focus on middle-market strategies that rely less on leverage and are well-placed to deliver asset management initiatives to drive margin expansion and real earnings growth. Commercial real estate is working through its debt maturity wall and pockets of elevated supply, leading to increased transaction volumes at more attractive entry valuations. These reset valuations and retreat of bank lending have created interesting opportunities for commercial real estate lenders. At the same time, fundamentals are constructive, as debt liquidity improves and the future supply in key sectors is materially lower, setting up an attractive opportunity set for commercial real estate equity as well - particularly in secularly growing sectors including industrial, residential and net lease.
Private Real Assets	Private infrastructure continues to participate in the investable opportunities relating to the mega trends of digitization and power generation. These themes converge where data services require power, and generative Artificial Intelligence (AI) is highlighting the fact that the current power mix is insufficient in terms of volume, density and reliability. Private investors are playing a key role in supplying this enabling infrastructure with attractive growth prospects. Infrastructure deal volume is also expanding across sectors, with transportation becoming more active as the utilization track records of airports and toll roads recover after the mobility shock caused by COVID-19. In the U.S., investors must be selective to ensure investment activity is aligned with forward-looking policy adjustments. While we believe cost competitive onshore wind and solar investment has irreversible momentum, support for earlier stage and subsidized initiatives such as offshore wind and hydrogen is under threat in favor of expanding conventional oil and gas production. To date we have observed bipartisan support for nuclear power generation and expansion in access to broadband, but policy will need to be considered carefully as details emerge.
Private Credit	Within corporate lending, the opportunity continues to skew further out the risk spectrum to special situation lenders, who can capitalize on many of the challenges facing direct lenders. Stress is not yet at a level that causes us to turn bullish on the cyclically-sensitive prospects for distressed debt. More broadly, niche/specialist strategies, which sit further from corporate lending, are showing some attractive signals and are becoming more attractive on a relative basis.
Liquid Alternatives	
Hedge Funds	Given the current market drivers, we prefer hedge fund specialist portfolio managers who are best positioned to analyze policy impacts on security prices and capture the potential opportunity in increased capital markets activity. We stress the need to incorporate highly liquid, responsive, macro convexity strategies within portfolios to capitalize on price volatility should consensus views prove incorrect, stoking periods of broader market volatility. In addition, our highest conviction sub-strategies are fixed income relative value and quantitative long / short equity to take advantage of decreasing correlations at the micro level.
Commodities	We remain neutral on key commodity markets as geopolitical upside risks are balanced by high spare capacity in markets such as crude, limiting upside absent physical disruptions.

For informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The tactical views expressed above are a broad reflection of our team's views and implementations, expressed for client communication purposes. Individual team allocations may differ. The information herein does not contend to address the financial objectives, situation or specific needs of any individual investor. The signals represent the Portfolio Solutions Group view on each asset class. Note: Over/underweight in private markets refers to decisions regarding the flow of new investments, not the stock of existing investments.

Portfolio Solutions Group

The Portfolio Solutions Group provides top-down, macro analysis of equity, fixed income and alternative assets, designed to help clients capitalize on evolving economic dynamics and market dislocations globally. The team builds custom multi-asset investment solutions across a range of broadly-diversified to hyper-focused portfolios.

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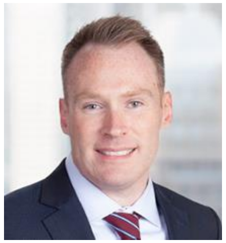
Chief Investment Officer
Managing Director

EWA TUREK SEMMELROTH

Executive Director

ERIC ZHANG

Executive Director



SCHUYLER HOOPER

Executive Director

GREG WATERMAN

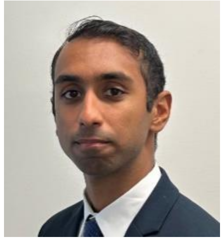
Executive Director

UMAR MALIK

Vice President

CHRIS CHIA

Vice President



SACHIN RAGHAVAN

Associate

Asset Allocation Committee

The Asset Allocation Committee is an independent group of senior investment professionals across various disciplines within MSIM and Eaton Vance. The Portfolio Solutions Group presents multi-sector research and investment ideas to the Committee, who is responsible for vetting and challenging these ideas to insure they meet their rigorous standards and can then be included in representative asset allocation recommendations.

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Head of Investment Strategy for the High Yield Team

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STEVEN TURNER
Head of Investment Selection,
Portfolio Solutions Group

MARK VAN DER ZWAN
Chief Investment Officer and Head of the AIP Hedge Fund Team

ADDITIONAL INFORMATION

Index Definitions

Bloomberg Commodity Index is a broadly diversified index tracking futures contracts on physical commodities.

Bloomberg Euro-Aggregate Corporates Index consists of bonds issued in the euro or the legacy currencies of the 16 sovereign countries participating in the European Monetary Union (EMU)

Bloomberg Global Aggregate Ex-USD Index is a broad-based measure of global Investment Grade fixed-rate debt investments, excluding USD-denominated debt.

Bloomberg High Yield Municipal Bond Index is an unmanaged index of non-Investment Grade Municipal bonds traded in the U.S.

Bloomberg Municipal Bond Index is an unmanaged index of Municipal bonds traded in the U.S.

Bloomberg Pan-European High Yield Index covers the universe of fixed-rate, sub-investment-grade debt denominated in euros or other European currencies (except Swiss francs).

Bloomberg Taxable Municipal Bond Index is an unmanaged index of Taxable Municipal bonds traded in the U.S.

Bloomberg U.S. Agency Index measures agency securities issued by U.S government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government.

Bloomberg U.S. Aggregate Index is an unmanaged index of domestic investment-grade bonds, including corporate, government and mortgage-backed securities.

Bloomberg U.S. Asset Backed Securities (ABS) Index measures ABS with the following collateral type: credit and charge card, auto, and utility loans.

Bloomberg U.S. CMBS Index measures the market of conduit and fusion CMBS deals with a minimum current deal size of $300mn.

Bloomberg U.S. Corporate Investment Grade Index is an unmanaged index that measures the performance of investment-grade corporate securities within the Barclays U.S. Aggregate Index.

Bloomberg U.S. Mortgage-Backed Securities (MBS) Index measures agency mortgage-backed pass-through securities issued by GNMA, FNMA, and FHLMC.

Bloomberg U.S. Treasury Index measures public debt instruments issued by the U.S. Treasury.

CBOE Volatility Index (VIX) tracks the implied volatilities of a wide range of S&P 500 Index options.

CBOE S&P 500 BuyWrite Index measures the performance of a hypothetical buy-write strategy on the S&P 500 Index.

ICE BofA US Inflation-Linked Treasury Index tracks the performance of USD denominated inflation linked sovereign debt publicly issued by the US government.

ICE BofA Fixed Rate Preferred Securities Index is an unmanaged index of fixed-rate, preferred securities issued in the U.S.

ICE BofA European Union Government Bond Index tracks the performance of sovereign debt publicly issued by countries that are members of the European Union.

ICE BofA U.S. High Yield Index is an unmanaged index of below-investment grade U.S. corporate bonds.

ICE BofA Developed Markets High Yield Ex-Subordinated Financial Index (Hedged) is an unmanaged index of global developed market below investment grade corporate bonds, USD hedged.

FTSE 100 Index is an unmanaged market-capitalization weighted index representing the performance of the 100 largest UK listed blue chip companies, which pass screening for size and liquidity.

FTSE All Small Index consists of all the companies in the FTSE SmallCap and FTSE Fledgling indices.

FTSE World Government Bond Index (WGBI) measures the performance of fixed-rate, local currency, investment-grade sovereign bonds.

J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI) Broad Diversified is an unmanaged index of USD-denominated emerging market corporate bonds.

J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified is an unmanaged index of USD-denominated bonds with maturities of more than one year issued by emerging markets governments.

J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified is an unmanaged index of local-currency bonds with maturities of more than one year issued by emerging market governments.

Morgan Stanley Capital International (MSCI) Emerging Markets Index is an unmanaged index of emerging markets common stocks

MSCI EMU Index (European Economic and Monetary Union) captures large and mid cap representation across the 10 Developed Markets countries in the EMU. With 229 constituents, the index covers approximately 85% of the free float-adjusted market capitalization of the EMU.

Morgan Stanley Capital International All Country Asia Pacific Index (MSCI AC Asia Pac) is an unmanaged total return, capitalization-weighted index that measures the performance of stock markets in 15 Pacific region countries, including Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Pakistan, the Philippines, Singapore, Sri Lanka, Taiwan and Thailand.

Morgan Stanley Capital International (MSCI) Japan Index is an unmanaged index designed to measure the performance of the large and mid cap segments of the Japan market.

Morgan Stanley Capital International (MSCI) World Index is an unmanaged index of equity securities in the developed markets.

Morgan Stanley Capital International (MSCI) World ex USA Small Cap Index is an unmanaged index of small-cap equity securities in the developed markets, excluding the United States.

Morgan Stanley Capital International All Country World (MSCI AC World) Index is an unmanaged free float-adjusted market-capitalization-weighted index designed to measure the equity market performance of developed and emerging markets.

Morgan Stanley Capital International Europe (MSCI Europe) Index is an unmanaged free float-adjusted market-capitalization-weighted index designed to measure the equity market performance of the developed markets in Europe.

Morgan Stanley Capital International Europe, Australasia, Far East (MSCI EAFE) Index is an unmanaged index of equities in the developed markets, excluding the U.S. and Canada.

MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market. With 625 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

MSCI China captures large and mid-cap representation across China A-shares, B-shares, H-shares, Red-chips and P-chips. It reflects the Mainland China and Hong Kong opportunity set from an international investor's perspective.

The **MSCI India Index** is designed to measure the performance of the large and mid cap segments of the Indian market.

The **MSCI World Index** is a free float adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed 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.

ADDITIONAL INFORMATION

Index Definitions, Terms and About Risk

The MSCI USA Health Care Index is designed to capture the large and mid cap segments of the US equity universe. All securities in the index are classified in the Health Care sector as per the Global Industry Classification Standard.

Morningstar LSTA U.S. Leveraged Loan Index is an unmanaged index of the institutional leveraged loan market. Prior to August 29, 2022, the index name was S&P/LSTA Leveraged Loan Index.

Nikkei 225 Stock Average Index is unmanaged price-weighted index of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange.

Russell 1000 Index is an unmanaged index of 1,000 U.S. large-cap stocks.

Russell 1000 Growth Index is an unmanaged index of 1,000 U.S. large-cap growth stocks.

Russell 1000 Value Index is an unmanaged index of 1,000 U.S. large-cap value stocks.

Russell 2000 Index is an unmanaged index of 2,000 U.S. small-cap stocks.

Russell 2500 Index is an unmanaged index of approximately 2,500 U.S. small- and mid-cap U.S. stocks.

Russell Midcap Index is an unmanaged index of U.S. mid-cap stocks.

Standard & Poor's 400 Index is designed to measure the performance of 400 mid-sized U.S. companies, reflecting the distinctive risk and return characteristics of this market segment.

Standard & Poor's 500 Index is an unmanaged index of large-cap stocks commonly used as a measure of U.S. stock market performance.

STOXX Europe 600 Index is a fixed component number index designed to provide a broad yet liquid representation of large, mid and small capitalization companies in Europe.

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Unless otherwise stated, index returns do not reflect the effect of any applicable sales charges, commissions, expenses, taxes or leverage, as applicable. It is not possible to invest directly in an index. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

Municipal-to-Treasury Yield Ratios are relative value indicators that measure the richness or cheapness of Municipal bond yields to comparable maturity Treasury bond yields.

Terms

Yield to Worst is a measure which reflects the lowest potential yield earned on a bond without the issuer defaulting. The yield to worst is calculated by making worst-case scenario assumptions by calculating the returns that would be received if provisions, including prepayment, call or sinking fund, are used by the issuer.

About Risk

Bank Loans – There can be no assurance that the liquidation of collateral securing an investment will satisfy the issuer's obligation in the event of non-payment or that collateral can be readily liquidated. The ability to realize the benefits of any collateral may be delayed or limited. **Commodities** – The value of commodities investments will generally be affected by overall market movements and factors specific to a particular industry or commodity including weather, embargoes, tariffs, or health, political, international and regulatory developments. **Credit** – Investments in income securities may be affected by changes in the creditworthiness of the issuer and are subject to the risk of non-payment of principal and interest. The value of income securities also may decline because of real or perceived concerns about the issuer's ability to make principal and interest payments. **Duration** – Securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations. Equity – Equity investment values are sensitive to stock market volatility. **Foreign** – Investments in foreign instruments or currencies can involve greater risk and volatility than U.S. investments because of adverse market, economic, political, regulatory, geopolitical, or other conditions. In emerging countries, these risks may be more significant. **Gov't Agency** – While certain U.S. Government-sponsored agencies may be chartered or sponsored by acts of Congress, their securities are neither issued nor guaranteed by the U.S. Treasury. **Income Market** – An imbalance in supply and demand in the income market may result in valuation uncertainties and greater volatility, less liquidity, widening credit spreads and a lack of price transparency in the market. There generally is limited public information about Municipal issuers. **Inflation-Linked** – Interest payments on inflation-linked securities may vary widely and will fluctuate as principal and interest are adjusted for inflation. Investments in inflation-linked securities may lose value in the event that the actual rate of inflation is different than the rate of the inflation index. **Interest Rate** – As interest rates rise, the value of certain income investments is likely to decline.. **Lower-Rated** – Investments rated below Investment Grade (typically referred to as "junk") are generally subject to greater price volatility and illiquidity than higher rated investments. **Maturity** – Longer-term bonds typically are more sensitive to interest rate changes than shorter-term bonds. **Preferred Stocks** – When interest rates rise, the value of preferred stocks will generally decline. **Prepayment - MBS** – Mortgage-backed securities are subject to prepayment risk. **Prepayment - Bank Loan** – Bank Loans are subject to prepayment risk. **Real Estate** – Changes in real estate values or economic downturns can have a significant negative effect on issuers in the real estate industry, including REITs.

ADDITIONAL INFORMATION

Risk Considerations

Diversification does not eliminate the risk of loss.

In general, equity securities' values also fluctuate in response to activities specific to a company. 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 risks associated with investments in foreign developed countries. 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. Alternative investments are speculative, involve a high degree of risk, are highly illiquid, typically have higher fees than other investments, and may engage in the use of leverage, short sales, and derivatives, which may increase the risk of investment loss. These investments are designed for investors who understand and are willing to accept these risks. Performance may be volatile, and an investor could lose all or a substantial portion of its investment.

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 Strategy include a number of securities and will not necessarily track the performance of any 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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