Morgan Stanley

INVESTMENT MANAGEMENT

Global Fixed Income Bulletin

The facts changed, so the market changed its mind

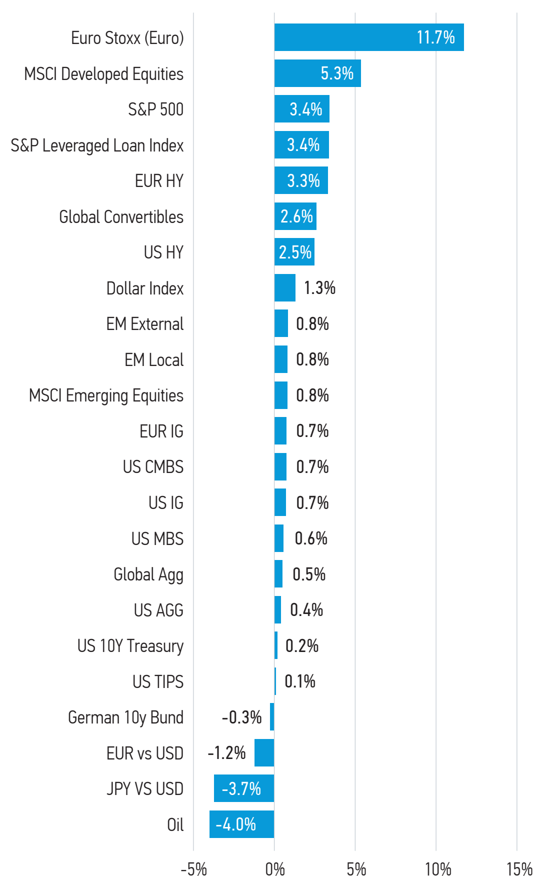
FIXED INCOME TEAM | MACRO INSIGHT | MARCH 2023

After a very optimistic January, markets changed their view on the economic outlook in February. In recent market terms, the economic soft landing morphed into a no landing scenario. The facts which led to this change were mainly about inflation, which now looks stickier than previously hoped, while the growth outlook improved. Central banks are now priced to tighten more aggressively, a change that risky assets have been able to withstand without too much damage since the growth outlook was also upgraded.

With hindsight, the rosy scenario the market painted in January—of rapidly falling inflation allowing central banks to reverse tightening soon while economic growth remained robust—was too good to be true. The part of the story which, in our opinion, looks increasingly unlikely is that inflation will fall quickly enough, without a recession, to allow central banks to cut interest rates aggressively this year. The better economic data also means that recession risks have eased. Therefore, markets have priced central banks tightening policy further out and for longer.

DISPLAY 1

Asset Performance Year-to-Date



Note: USD-based performance. Source: Bloomberg. Data as of February 28, 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 7-8 for index definitions.

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Current expectations are starting to look demanding: The Fed is priced to raise rates to 5.50%, the European Central Bank (ECB) to 4%, and on some metrics government bonds are the cheapest they have been for more than a decade. However, with yield curves inverted, there is a risk that investors looking for low risk/return options will opt for cash rather than government bonds.

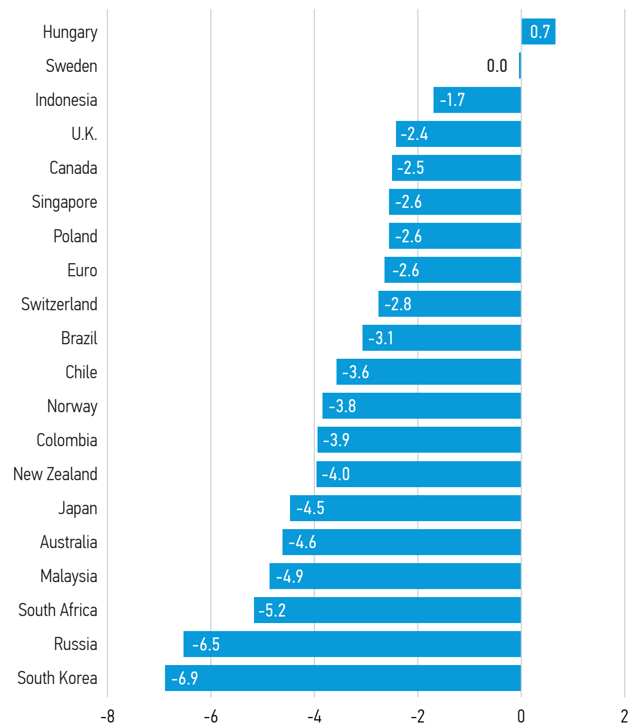
The resilience of credit spreads over the last month is notable and makes sense given the better economic data. It is also something which has facilitated the rise in sovereign yields. Central banks, especially the ECB, would struggle to raise rates aggressively if credit markets became distressed, but tighter spreads allow them to pursue their inflation mandate without worrying too much about financial stability and growth. While the better data have supported credit markets, tighter spreads make it more difficult to be bullish on credit products.

Of course, the data are unlikely to stay the same going forward. We should expect central banks and markets to change their minds in the future again. This is a key risk if economies prove to be as resilient to tighter monetary policy as the market currently expects. Slower growth could not only weigh on risky assets, but also cause markets to price in easier monetary policy.

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 February 28, 2023.

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DISPLAY 3

Major Monthly Changes in 10-Year Yields and Spreads

COUNTRY	10-YR YIELD LEVEL (%)	MONTH CHANGE (BPS)	10-YR SPREAD (BPS)	MONTH CHANGE (BPS)
			(Spread over USTs)	
United States	3.92	+41		
United Kingdom	3.83	+49	-9	+8
Germany	2.65	+37	-127	-5
Japan	0.51	+1	-342	-40
Australia	3.85	+30	-7	-11
Canada	3.33	+41	-59	0
New Zealand	4.57	+40	65	-1
EUROPE			(Spread over Bunds)	
France	3.12	+37	47	0
Greece	4.44	+14	179	-23
Italy	4.48	+32	183	-4
Portugal	3.51	+32	86	-4
Spain	3.60	+32	95	-5
EM	**10-YR LOCAL YIELD (%)**	**MTD CHANGE (BPS)**	**SPREAD (BPS)**	**MTD CHANGE (BPS)**
EM External Spreads			444	-14
EM Corporate Spreads			393	+4
EM Local Yields	6.89	-23		
			(Spread over USTs)	
Brazil	13.45	+33	953	-8
Colombia	13.26	+106	934	+64
Hungary	8.64	+64	472	+23
Indonesia	6.88	+19	296	-23
Malaysia	3.92	+12	0	-29
Mexico	9.32	+63	540	+21
Peru	8.08	+2	416	-39
Poland	6.53	+52	261	+11
South Africa	11.17	+85	725	+43
CREDIT			**SPREAD (BPS)**	**MTD CHANGE (BPS)**
U.S. IG			124	+7
EUR IG			148	-4
U.S. HY			412	-8
EUR HY			419	-22
SECURITIZED				
Agency MBS			146	+19
U.S. BBB CMBS			532	+59

Positive Neutral Negative

Source: Bloomberg, JPMorgan. Data as of February 28, 2023.

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Fixed Income Outlook

Markets experienced a significant sea change from January to February. While risk assets managed to hold on to most of their gains, with equity returns positive year-to-date and credit spreads tighter, developed market government bond yields are either at, or approaching, their highs in recent years.

The problem for investors is the same issue which weighed on markets last year: inflation. Inflation data released in February generally surprised to the upside. Even more troubling for central banks (and hence for investors), the components they are most focused on; that is, core services, are barely showing signs of slowing down. These upside surprises were also consistent with better-than-expected growth data and the continued evidence of tight labour markets.

How much higher can government bond yields rise? The market is now pricing central banks to raise interests to significantly higher levels than previously expected: the Fed to 5.50%, the ECB to 4.00%, and the Bank of England (BoE) to 4.75%. This seems aggressive, with the market finally anticipating more rate hikes than central banks. To surpass these numbers will require more disappointment on inflation (or maybe additional good news on growth). Optimism on rates has turned into pessimism. Moreover, real yields have risen to multi-year highs, suggesting government debt is getting attractive. However, the value argument is somewhat undermined by inverted yield curves, which means carry is negative. Investors who are looking for a low-risk rate of return might prefer to hold cash or shorter maturity bonds at increasingly attractive levels. So, while government bonds may be starting to offer value, this might not be enough to stop yields rising further if investors fear more aggressive central bank tightening and a continuation of stronger than expected data.

A good catalyst for a recovery in the market outlook with regard to the rates outlook would be signs that the Fed's and other central banks rate hikes are causing a slowdown in economic activity and a further decline in inflation. Government bond yields would likely be capped above the 4% level in 10-year U.S. Treasuries and put a lid on further U.S. dollar appreciation. Data in upcoming weeks and months will be important to decide the "true" strength of economies and underlying inflation pressures.

Credit sectors, and risky assets more generally, have been more resilient than government bonds. This is understandable, as the better growth data has somewhat offset the concerns about tighter monetary policy. In particular, there seem to be fewer discussions now about the risk of an imminent recession, which is particularly supportive for lower quality credit sectors. However, given the spread tightening we have already had year to date, we think a lot of the better news is already reflected in the price, making them a difficult buy at the moment. Moreover, stronger data now means tighter monetary policy later, and while recession risks in 2023 have receded, it is not unreasonable to raise them for 2024. Recession is very bad for risk assets. Tighter credit spreads have also had a role to play in driving bond yields higher, as they have effectively eased financial conditions, allowing or forcing central banks to be more aggressive in their bid to slow the economy and bring down inflation. This is a particularly relevant topic in the Eurozone, where financial sector fragmentation is a more significant risk. The ECB is only likely to follow through with the aggressive rate hikes now priced by the market if sovereign and spreads remain well behaved. Luckily for the ECB so far, they have.

In terms of sectors, we remain most positive on the securitized credit market. We think the credit risk of residential and selective commercial mortgage-backed securities (MBS) and asset-backed securities (ABS) is attractive given the strong starting point for household and corporate balance sheets, and strong household income growth. Our favorite category of securitized credit remains non-agency residential mortgages, despite expectations that U.S. home prices will likely fall in 2023. Agency mortgages should outperform U.S. Treasuries, but we still worry about structural demand given the Fed's quantitative tightening and bank's reduced demand.

Given its strong performance year-to-date, we see limited upside for high quality corporate credit. With U.S. investment grade (IG) spreads near long-term averages and a lot of uncertainty remaining on the economic and policy outlook, we do not think it is a great time to be overly bullish. That said, absolute yields have become more attractive. Euro investment grade looks like a better opportunity as the European Union (EU) benefits from falling energy prices, expansionary fiscal policy and China's reopening. We think this combination should also benefit the Euro. We are buyers on weakness.

A similar analysis supports high yield credit markets, where the improvement in the growth outlook year-to-date is reflected in tighter credit spreads. That said, we do not see a recession in the next six months and inflation should continue to decline, buttressing household cash flows and supporting aggregate demand. Default rates are likely to rise, but not spike, and remain more idiosyncratic than systemic. With high yield indices yielding nearly 9%, we think there is room for spreads to widen and for the product to still deliver attractive returns. We prefer B-rated and selective CCC issuers.

Looking at currencies, relatively better U.S. economic data helped the U.S. dollar reverse its depreciation in January. However, it remains rich on a real effective exchange rate basis, so unless the U.S. economy can continue to outperform (which we do not expect), it is more likely to depreciate against most other G10 and emerging market (EM) currencies. We expect select emerging market local currency bonds and FX to outperform given real yield differentials to U.S. Treasuries remain at historically wide levels. As usual, investors need to be aware of the various idiosyncratic risks in each country. EM is not a homogenous market. China's reopening should be positive for EM in general, as well as the global economy, but our preference is mainly for the Latin American markets.

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	MONTHLY REVIEW	OUTLOOK
Developed Market Rate/ Foreign Currency	The rally in January was short-lived as global developed market interest rates witnessed significant movements upwards in February. While the market appeared to interpret Powell's press conference during the February FOMC meeting as more dovish than expected, that narrative quickly reversed. Many key economic data points, including labor market data, PMI surveys, and inflation data were stronger than expected, with some reversing from the prior month's weaker data. Alongside the rise in yields, the curve flattened further. Overall, it was a busy month for developed market central banks, with the ECB, BoE, Reserve Bank of New Zealand, and Riksbank hiking 50 (basis points) bps, while the RBA hiked 25 bps. The Fed shifted down to a 25-bps hike from their prior 50 bps hike in December.[1]	Overall, much of the economic data in February showed that any expectations for inflation to rapidly come down to target and for the Fed to quickly cut rates aggressively was likely premature. Inflation, the labor market, and economic growth appears resilient, especially in the U.S. There is still considerable uncertainty in terms of the future path for interest rates, and given the data, the situation for central banks is likely more difficult. In our view, especially with the recent repricing higher, the rates market is priced close to fair provided the current data. However, central bankers have been quite clear in their determination to keep rates high, and while inflation will continue to come down from their peaks, inflation and labor market data prints are still indicating that the economy is overheated, which could keep central banks aggressive. In terms of foreign exchange, the U.S. dollar benefited from the tighter Fed policy, however we think that U.S. dollar weakness could return.
Emerging Market Rate/ Foreign Currency	The emerging markets debt (EMD) rally that started in late 2022 stalled in February. Lingering inflation and revised expectations for higher U.S. rates put pressure on the asset class. The U.S. dollar strengthened along with increasing rates, which hurt most EM currencies. A couple bright spots for local currencies were the Dominican Republic, Mexico, and Peru, which strengthened during the month. While flows year-to-date are positive for the asset class, flows began to turn for both hard and local currency funds by mid-month.[2]	Uncertainty has been reintroduced to the macro environment as the Fed may turn back to a more hawkish policy in the short term. Lingering inflation and higher U.S. rates have started to weigh on emerging markets, but segments of the market provide an opportunity for investors. Local rates in particular are attractive, as real yield differentials between emerging and developed markets remain high. There is wide dispersion among countries and credits, so evaluating all opportunities from the bottom up is critical.

[1] Source: Bloomberg. Data as of February 28, 2022.

[2] Source: Bloomberg. Data as of February 28, 2022. EM corporates represented by The **JP Morgan CEMBI Broad Diversified Index.**

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	MONTHLY REVIEW	OUTLOOK
Corporate Credit	Euro IG spreads outperformed U.S. IG spreads in the sell-off this month amidst refreshed concerns of elevated inflationary pressures. Fourth quarter corporate earnings saw prevailing themes continue where forward guidance is challenging amidst macro uncertainty, margins are compressed amidst cost inflation, but balance sheets and fundamentals remain robust with no signs of distress. Financials continue to benefit from the tailwind of higher interest rates, and no signs of concern via non-performing loan provisioning.[3] The U.S. and global high yield markets got off to a strong start in the first couple of days of February as the Fed stepped down rate hikes. The tone quickly softened after a strong January payrolls report. Interest rates began to climb in response to a string of strong macroeconomic readings and higher than consensus expectations for the terminal federal funds rate. The supply/demand balance weakened in February as the pace of primary issuance slowed and U.S. high yield retail funds experienced net outflows.[4] The lower quality segments of the market generally outperformed during the month and the top performing sectors for the month were transportation, brokerage, asset managers & exchanges and REITs.[5] Global convertibles fell with other risk assets in February as rising inflation data dented market hopes for a soft landing. In the month, convertibles outperformed on the downside compared to global stocks (MSCI global equities fell 2.98%) and global bonds (Bloomberg Global Aggregate Credit fell 3.14%) while the Refinitiv Global Convertibles Focus Index fell 2.06%. Market liquidity has improved in the first two months of the year with reported trade volumes up close to 50% from last year, as investors have positioned on either side of a market recovery. Market supply has been above the pace of 2022 as well, with over $10 bn in new deals in February and over $13 bn so far year to date.[6]	Looking forward, our base case view is that we are compensated to own credit as we view corporate fundamentals to be resilient and the macro backdrop to likely improve as monetary policy pivots and China re-opens. We view companies as having built liquidity and implemented cost efficiencies under the COVID-era. We expect margins to be pressured and top line revenue to be challenging (as evidenced by fourth quarter numbers) but given the starting point we believe corporates will be able to manage a slowdown without significant downgrades or defaults. Our base case is low defaults with low growth). In U.S. and global high yield markets it appears likely we will continue to experience episodic volatility given the extent to which valuations have compressed this year and the risks that lay on the horizon.
Securitized Products	Interest rates sold off in February reflecting increased inflation concerns, and spread performance varied by sector, with agency MBS spreads widening while most securitized credit spreads tightened during the month. New issue securitized supply remains very low as loan origination in both residential loans and commercial loans declined substantially. Securitized fundamental credit remains stable—delinquencies are rising slowly, but remain low from a historical basis, and do not appear to be threatening the thick levels of structural credit protection for most securitized assets. U.S. home prices have fallen ~5% from the peak in June.[7]	We expect home prices to fall another 5-10% for the remainder of 2023. U.S. residential credit remains our favorite sector, despite our expectations of home price declines, with a strong preference for seasoned loans (originated in 2020 or earlier) due to the sizable home price appreciation over the past few years. We remain more cautious of commercial real estate, which continues to be negatively impacted in the post-pandemic world and could also be impacted by a recession. We meaningfully moved away from European versus U.S. exposure as risk-adjusted opportunities looked more compelling in the U.S., but as spreads have normalized and economic conditions have improved, we have become less concerned with European opportunities.

[3] Source: Bloomberg Indices: U.S. Corporate Index and the European Aggregate Corporate Index. Data as of February 28, 2023.

[4] Source: J.P. Morgan, February 28, 2023.

[5] Source: J.P. Morgan and Bloomberg U.S. Corporate High Yield Index. Data as of February 28, 2023.

[6] Source: Bloomberg and Refinitiv Global Convertibles Focus Index. Data as of February 28, 2023.

[7] Source: Bloomberg. Data as of February 28, 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 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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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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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