



LOOMIS | SAYLES

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Investment Outlook

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Oftentimes, tighter monetary policy exposes financial excesses and pockets of risk within an economy.

In the current late-cycle environment, this may be the case. Stricter lending standards and stress within the financial sector are not welcomed events. However, with regard to inflation, tighter overall financial conditions should limit credit availability and, in turn, limit consumer and business borrowing and spending.

Central banks appear willing to use the lending channel and a hit to economic growth to bring inflation back to target levels. Does that mean an economic recession is on the horizon in the United States? We estimate that there is at least a 50% chance of recession within the next six months.



Investment Themes:

KEY TAKEAWAYS

PAGE 3 Macro Drivers

Economies and markets grow vulnerable to shocks when monetary and fiscal policy are less accommodative.

PAGE 4 Corporate Credit

Over the next year, we anticipate substantial interest coverage and limited maturities should help keep the default outlook muted relative to past late-cycle environments.

PAGE 5 Government Debt & Policy

Inflation will likely reemerge as a key focus for global central banks in the next quarter.

PAGE 6 Currencies

We believe short-term rate differentials should ultimately drive the direction of dollar indices. However, we anticipate a strong bid for US dollars if markets turn risk averse.

PAGE 7 Equities

Macro headwinds and weakening fundamentals may present a challenging setup for equity benchmarks.

PAGE 8 Potential Risks

A cautious asset allocation stance with a tilt toward fixed income is warranted in our view given macroeconomic headwinds and a corporate profits recession appearing to take hold.

PAGE 8 Asset Class Outlook

We are constructive on duration and fixed income overall. Potentially attractive opportunities to enter global equities are likely to present themselves if fundamentals near a bottom.

All returns in US dollars, unless noted. Past performance is not a reliable indicator of future performance.

Macro Drivers

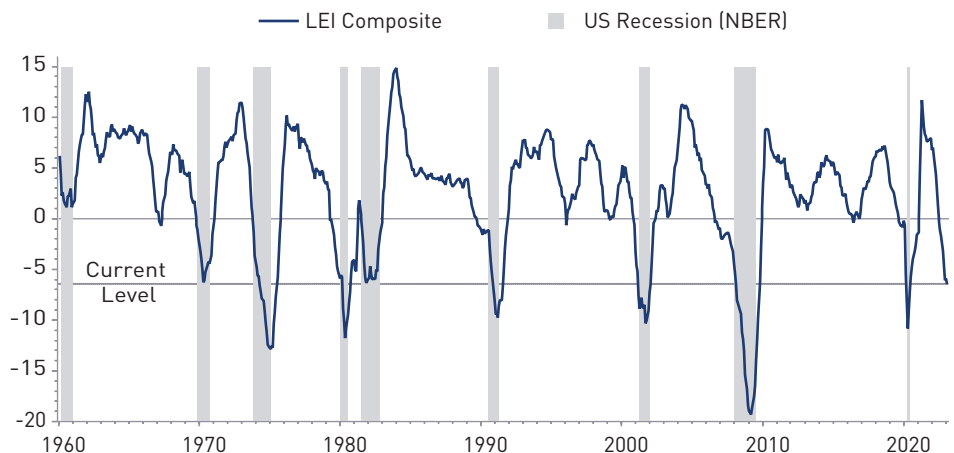
Since the banking sector developments in March, financial sector stress and the potential for additional bank failures have drawn investor focus. But in our view, investors should not forget about inflation risk.

- The rate of corporate profit growth has been under pressure globally since the initial rebound that kicked off this credit cycle. Some slowing was anticipated, but widespread contraction now seems more likely.
- US large-capitalization corporate profits contracted year over year in the fourth quarter of 2022.¹ We expect another contraction in the first quarter of 2023, which would be considered a “technical” profits recession.
- When corporate profitability begins to falter, the fundamental backdrop for credit can deteriorate quickly, especially when leverage is rising.
- We expect a US corporate profits recession to spark layoff announcements as companies look to lower costs.
- The unemployment rate is typically the last indicator to signal weakness before recession hits.
- Spiking unemployment and contracting profits could catalyze a US recession this year, particularly with the financial system already under strain.
- We believe the Fed may pause rate hikes, but will be slow to pivot toward rate cuts while core PCE inflation is well above target.

LEADING ECONOMIC INDICATORS HAVE FALLEN RAPIDLY

The Conference Board's index of 10 leading economic indicators is approaching levels consistent with recession.

¹ Sources: The Conference Board, February 2023 reading published 17 March 2023, <https://www.conferenceboard.com/economic-indicators>, data from S&P Global Market Intelligence.



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¹ Source: U.S. Bureau of Economic Analysis, as of 30 March 2023.

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Corporate Credit

Credit spreads across several corporate benchmarks have widened to reflect increased risk of a downturn, but have yet to reach their 2023 high point.

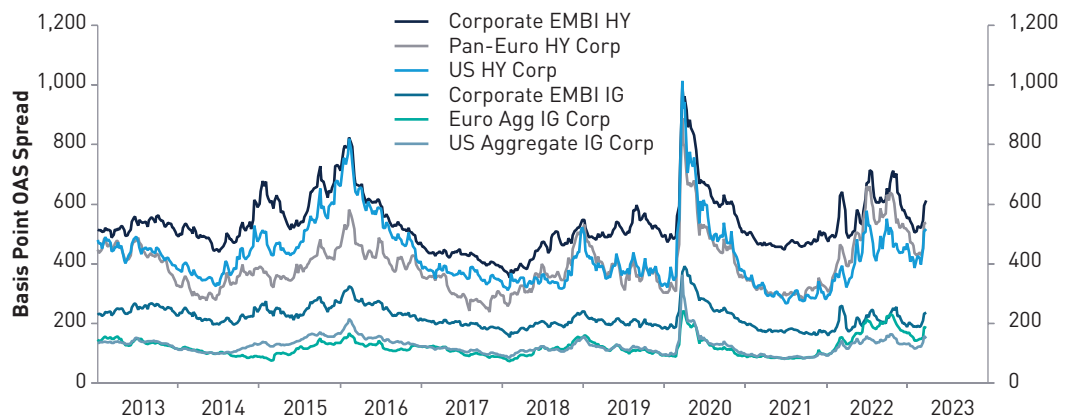
- Our Credit Analyst Diffusion Indices (CANDIs), an internal survey framework used to poll Loomis Sayles' credit research analysts, indicates some leveling off in the fundamental outlook after signaling deterioration for the past few quarters.
- However, when our analysts look toward the next six months, key corporate health fundamentals including pricing power and profitability remain at weak levels for most industries.
- The weakening operating backdrop assessed by our bottom-up credit research team is consistent with our macro strategies team's top-down view that the US economy is entrenched in late cycle currently and could enter a downturn within six months.
- We see margin pressure in non-commodity and consumer-related sectors including autos, retail, consumer products, railroads, metals and mining and restaurants. We expect supply chain issues and wage pressures to ease moderately but to persist through the first half of 2023.
- At the end of March, our risk premium framework still suggested high yield and investment grade credit could potentially generate positive excess returns in 2023.

BENCHMARK CREDIT SPREADS REFLECT SOME ECONOMIC WEAKNESS AHEAD BUT DO NOT APPEAR ANYWHERE NEAR RECESSIONARY LEVELS

Looking to industries we believe most able to withstand the coming economic slowdown.

Data Sources: Bloomberg indices from Bloomberg Live; currency rates Sources: Bloomberg Group, and JP Morgan as of March 29, 2023.

All returns in US dollars, unless noted. Past performance is not a reliable indicator of future performance.



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Government Debt & Policy

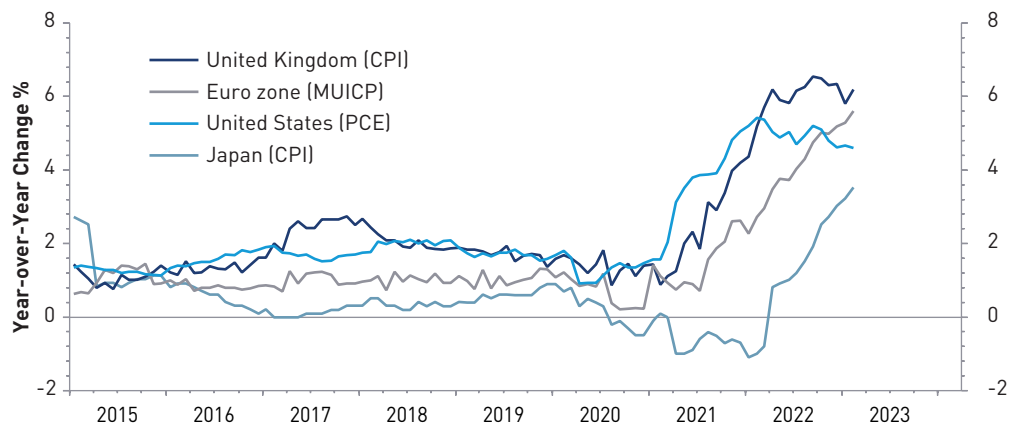
Swift action by US and European governments may have prevented a more protracted financial panic.

- The Fed may pause or even conclude its tightening phase of this cycle in May, but in our view that does not signal rate cuts are right around the corner.
- Market pricing seems optimistic that Fed rate cuts are on the 2023 horizon, but we believe the economy would have to be in a downturn for those cuts to be realized.
- We agree that much of the stress within the US financial system would only be exacerbated by additional rate hikes. However, the Fed is still fighting a battle against inflation, which is running at twice its target rate.
- The Fed is far from alone. Core inflation in the euro zone and UK is likely to remain an even more significant issue for the European Central Bank (ECB) and Bank of England (BoE) compared to the Fed's challenges.
- The long end of developed market yield curves could remain range-bound as market participants assess financial sector and recession risks. Expectations for higher policy rates, which drove longer-term rates higher in 2022, have slowly reversed course.

CORE INFLATION MEASURES ARE SHOWING VERY LITTLE SIGN OF BACKING OFF

Attention could pivot back to excessive inflation if banking concerns ease.

Data Source: Bloomberg Indices
Source: National Sources, February 2023 core inflation readings, bank loans from S&P Global Market Intelligence.



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Currencies

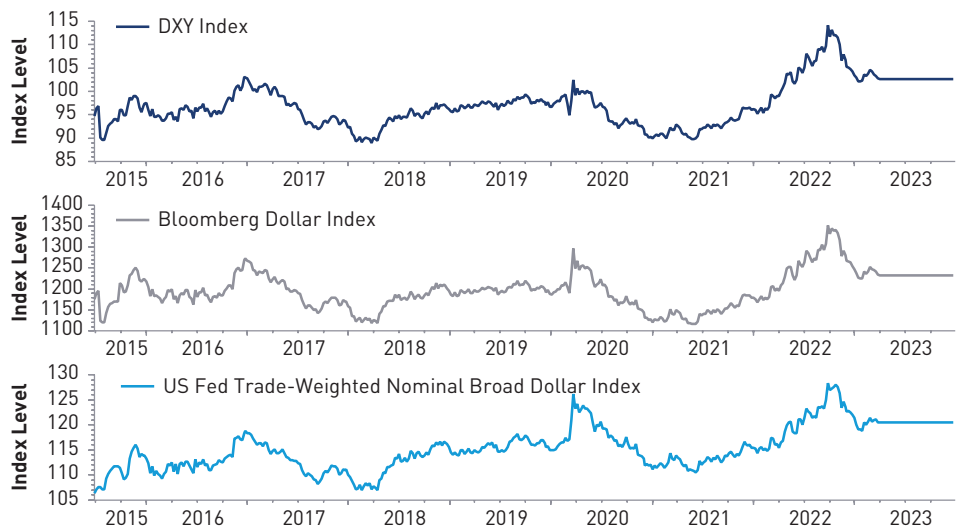
The US dollar typically performs well when there are macroeconomic risks bubbling over abroad.

- There is potential for the ECB and BoE to continue hiking policy rates if the Fed takes a pause because inflation has been an even bigger concern for those economies. Secondly, the ECB and BoE are not as far along in their tightening cycles as the Fed.
- The US dollar has weakened modestly in recent weeks on that theme, which is likely to continue into the second quarter. However, if a downturn begins to take hold in the US late next quarter, we believe investors will flock to the dollar seeking a “safe haven” as other markets likely turn away from risk.
- We believe emerging market local-currency bonds are a place to potentially earn carry over high-grade US fixed income issues and present potential for strong currency performance. We think selected markets could do well, even if the US dollar rallies.
- Preferred local-currency markets include Mexico, where the central bank was quick to hike policy rates this cycle. South Africa is another favored market where there could be structural improvements over the long term.
- In Asia, we currently prefer Indonesia local-currency bonds and believe its central bank has finished hiking rates. The Japanese yen also has room to strengthen should investors seek relative safety in volatile global markets.

WE EXPECT US DOLLAR INDICES TO REGAIN THEIR FOOTING LATER THIS YEAR

The US dollar’s relative “safe haven” status could be beneficial if economic growth dips and other markets turn risk averse.

Data Sources: Bloomberg indices from Bloomberg, Euro currency Source: Bloomberg, Federal Reserve, data as of 29 March 2023, Global Market Intelligence



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Equities

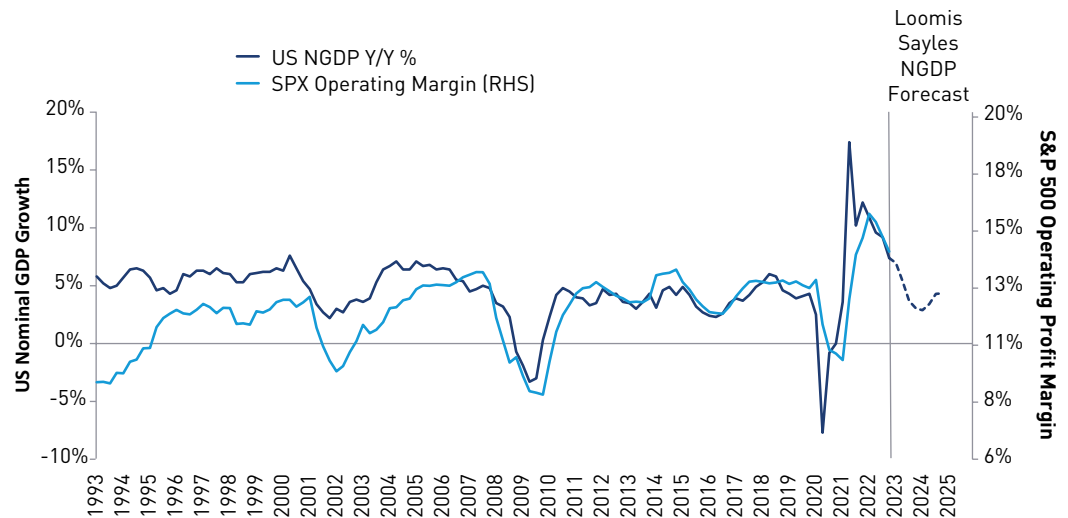
We believe tighter financial conditions, less pricing power and declining margins should lead S&P 500 consensus earnings estimates around 10% lower from the current \$220 level.²

- Our corporate health frameworks suggest companies are currently in decent shape, but directionally, fundamentals are trending lower, which could limit potential total return upside given rich valuations.
- We believe security selection will be critical in this late-cycle environment. Growth equity overall looks set to continue outperforming the market backed by companies with strong fundamentals relative to broader large-cap indices.
- Profitability is considered one of the most important fundamental drivers of total return over time. The technology sector remains a relative leader with respect to return on equity and profit margins.
- Certain segments of value equity, including industrials, have seen earnings estimates for calendar year 2023 climb in recent weeks. We anticipate potential outperformance in sectors and styles where fundamentals are improving, or at least showing relative strength.
- Stark underperformance of financials has become a global phenomenon. However, we anticipate long-term challenges within the sector based on stiff competition and less pricing power.
- It is difficult to see how equity valuations could expand in late cycle. We expect range-bound equity benchmarks and focus to be on leading styles, factors and securities.

S&P 500 OPERATING PROFIT MARGINS TRACK NOMINAL GDP CLOSELY

Our house view for slower nominal GDP growth is likely to usher in lower profit margins.

Source: Bloomberg, Loomis Sayles US economic forecast as of 31 March 2023. Indices from Bloomberg Live currency market, JP Morgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.



Any opinions or forecasts contained herein reflect the current subjective judgments and assumptions of the Macro Strategies team only, and do not necessarily reflect the views of Loomis, Sayles & Company, L.P. This information is subject to change at any time without notice.

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² Data as of 3 April 2023.



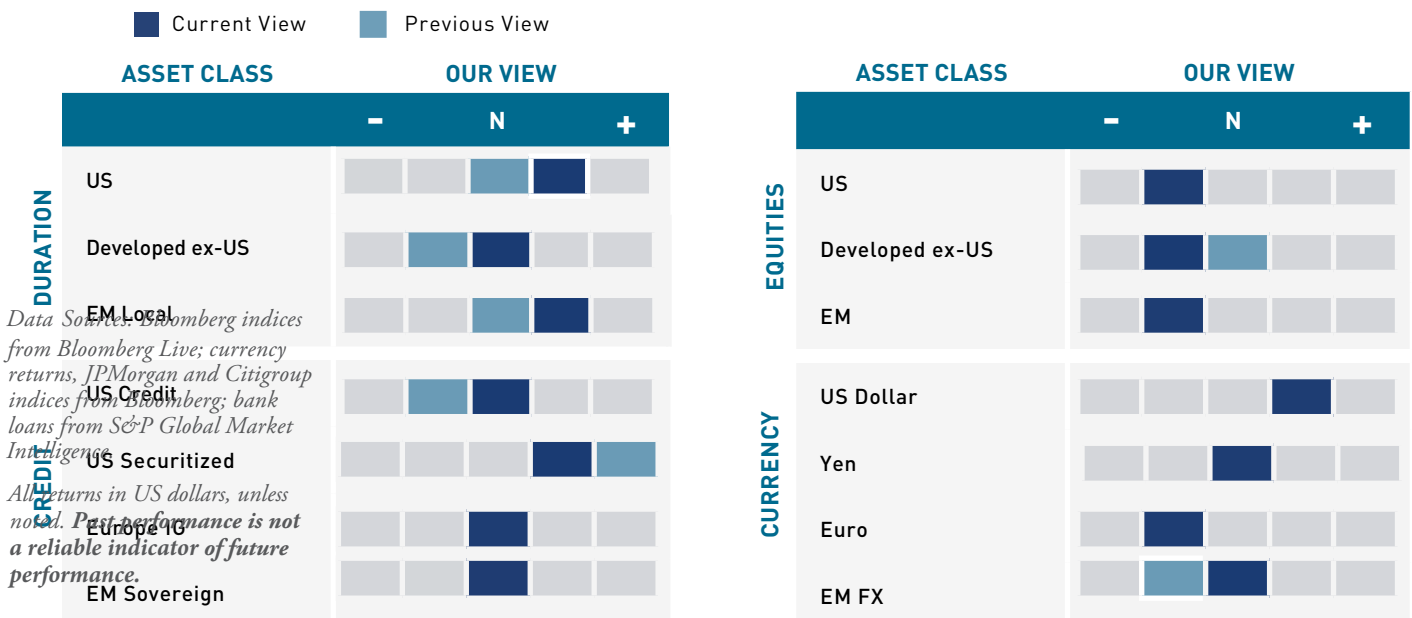
Potential Risks

A cautious asset allocation stance with a tilt toward fixed income is warranted in our view given macroeconomic headwinds and a corporate profits recession appearing to take hold.

- Our core view is that the global economy is in a vulnerable position and therefore at risk of entering the downturn phase of the credit cycle. Most asset valuations are not presently reflecting levels traditionally seen in a downturn.
- A profits recession is anticipated by some market participants, but not to the degree that we would expect. If US large-cap earnings contract by 10% in 2023, it could cause a downward repricing of asset valuations.
- Governments swooped in to fence off financial sector woes, but there could be more to the issue than meets the eye. We are watching for further systemic risk within the banking sector, particularly in commercial real estate.
- Ultimately the depth of a downturn will be determined in our view by Fed policy, specifically its reaction to incoming inflation data. If core inflation remains well ahead of target, as it is now, we would not expect the Fed to immediately cut policy rates.
- The US economy has absorbed a number of hits, including the housing sector's decline, spiking auto prices, surging interest rates and levels of inflation not seen since the 1980s. With a corporate profits recession likely, we will be watching for signs that the rock-solid labor market is finally beginning to crack.

Asset Class Outlook

We are constructive on duration and fixed income overall. Potentially attractive opportunities to enter global equities are likely to present themselves if fundamentals near a bottom.





First Quarter Review

INDEX RETURNS BY SECTOR

as of 31 March 2023

INDEX					
US BROAD MARKET	1 MONTH	3 MONTH	6 MONTH	1 YEAR	
BBG US AGGREGATE BOND	2.54	2.96	4.89	-4.78	
BBG US GOVERNMENT/CREDIT	2.82	3.17	5.02	-4.81	

The broad fixed income market sustained positive momentum that began in Q4 of last year. Returns were encouraging throughout the quarter, with the exception of February when the market began pricing in a harsher terminal fed funds rate compared to what was previously expected. These market expectations were quickly reversed during the Silicon Valley Bank collapse and the market quickly reverted to pricing in the end of the rate hiking cycle. This benefited bonds, which rallied in March to end the quarter on a high note.

US GOVERNMENTS	1 MONTH	3 MONTH	6 MONTH	1 YEAR	
BBG US TREASURYS	2.89	3.01	3.75	-4.51	
3-MONTH T-BILLS	0.43	1.12	2.02	2.60	
2-YEAR TREASURY	1.69	1.46	1.98	-0.17	
5-YEAR TREASURY	2.91	2.39	3.59	-2.55	
10-YEAR TREASURY	3.87	3.76	4.41	-6.79	
30-YEAR TREASURY	4.55	5.99	3.20	-20.19	
BBG US TIPS	2.89	3.34	5.45	-6.06	
BBG US AGENCY	1.92	2.09	2.80	-1.82	

US Treasuries had a positive return for the quarter. While short-end yields (maturities less than 6 months in this case) rose in conjunction with the rising Fed policy rate, the rest of the yield curve meaningfully fell by 40-65 bps across the curve from the 2-year to the 30-year. This led to long-duration Treasury outperformance in the quarter.

US MUNICIPALS	1 MONTH	3 MONTH	6 MONTH	1 YEAR	
BBG US MUNICIPALS	2.22	2.78	7.00	0.26	

Municipal bonds performed well in the first three months of this year. Technicals helped in the quarter, as the sector saw significant mutual fund inflows to begin the year, after the market experienced fund outflows through most of 2022.

US SECURITIZED	1 MONTH	3 MONTH	6 MONTH	1 YEAR	
BBG MBS	1.95	2.53	4.72	-4.85	
BBG ABS	1.30	1.86	2.68	0.37	
BBG CMBS	1.09	1.81	2.85	-3.93	

The securitized market produced positive returns in the quarter. The MBS market outperformed the ABS market on account of its longer duration (which generally outperformed in the quarter). CMBS lagged behind, given broader concerns about commercial real estate given the banking sector stress we are seeing in regional banks (which account for approximately 80% of commercial real estate loan origination).

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

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**INDEX RETURNS
BY SECTOR**
as of 31 March 2023

INDEX				
CORPORATES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US INVESTMENT GRADE	2.78	3.50	7.26	-5.55
AAA	4.39	5.03	7.72	-8.08
AA	3.49	3.95	6.86	-6.69
A	2.68	3.31	6.73	-5.43
BBB	2.74	3.57	7.79	-5.39
BBG EUROPEAN INVESTMENT GRADE -LOCAL CURRENCY RETURNS	1.00	1.75	2.86	-7.55
AAA	0.97	-0.03	1.50	-10.36
AA	1.38	1.29	1.50	-6.92
A	1.23	1.56	2.43	-7.63
BBB	0.77	1.97	3.39	-7.52
BBG STERLING INVESTMENT GRADE -LOCAL CURRENCY RETURNS	1.01	2.47	9.52	-11.30
AAA	1.45	1.01	5.25	-16.88
AA	1.29	1.77	7.70	-12.47
A	1.24	2.58	9.25	-11.98
BBB	0.76	2.51	10.11	-10.44

Corporate credit bonds continued a rebound in the quarter. US-domiciled bonds outperformed other DM markets to begin this year. Higher-quality bonds also outperformed, primarily due to higher-quality bonds generally having longer duration. However, this phenomenon did not play out in Europe or Sterling markets in the quarter as lower-quality bonds generally outperformed.

CORPORATES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US HIGH YIELD	1.07	3.57	7.89	-3.34
BB	1.99	3.44	7.89	-1.91
B	0.73	3.47	8.57	-3.75
CCC	-1.37	4.96	5.49	-8.59
BBG PAN-EURO HIGH YIELD -LOCAL CURRENCY RETURNS	-0.41	2.89	7.73	-4.62
BB	-0.05	2.52	7.45	-4.22
B	-0.30	3.85	9.06	-4.79
CCC	-4.21	1.98	4.13	-7.73

Junk-rated bonds were among the best-performing fixed income securities in the quarter. Unlike US investment grade bonds, lower-quality names outperformed during the quarter in the high yield market, suggesting that investors' risk appetite generally increased, despite the nerve-racking headlines.

Data Sources: Bloomberg indices from Bloomberg Live; currency returns: JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

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INDEX RETURNS
BY SECTOR

as of 31 March 2023

INDEX					
BANK LOANS	1 MONTH	3 MONTH	6 MONTH	1 YEAR	
S&P/LSTA LEVERAGED LOAN	-0.03	3.23	5.94	2.54	
BB	-0.03	2.08	5.97	5.15	
B	0.12	3.81	6.61	2.51	
CCC	-1.97	3.92	1.59	-7.92	

Bank loans performed well in the quarter. Bank loans generally have floating coupons which can adjust to market conditions. Given that interest rates have aggressively risen over the past year, bank loans have benefited from the upward adjustments on coupons.

DEVELOPED COUNTRIES	1 MONTH	3 MONTH	6 MONTH	1 YEAR	
CITIGROUP WGBI -LOCAL CURRENCY RETURNS	2.55	2.91	2.23	-6.69	
CITIGROUP NON-USD WGBI	2.30	2.67	1.09	-8.24	
UNITED STATES	2.87	3.23	3.74	-4.59	
CANADA	2.59	2.89	2.80	-1.93	
JAPAN	2.11	3.37	0.73	-2.33	
AUSTRALIA	3.98	5.61	5.59	-0.25	
UNITED KINGDOM	3.24	2.56	3.95	-18.69	
EUROPEAN GBI	2.41	2.57	0.27	-11.81	
FRANCE	2.36	2.19	-0.44	-12.54	
GERMANY	2.47	2.04	-1.02	-11.72	
IRELAND	2.72	2.60	-0.44	-12.44	
ITALY	2.25	3.78	2.90	-10.15	
SPAIN	2.42	2.41	0.27	-10.94	

Positive returns were not just limited to the United States. All countries within the Citigroup World Government Bond Index (WGBI) experienced considerable gains during the quarter. Dispersion among the countries was limited, though Australia was a noticeable outperformer.

EMERGING MARKET BONDS	1 MONTH	3 MONTH	6 MONTH	1 YEAR	
JP MORGAN EMBIG -SOVEREIGN/QUASI-SOVEREIGN, USD	1.40	2.25	9.85	-5.86	
JP MORGAN CEMBI BROAD DIVERSIFIED -CORPORATES, USD	0.83	2.24	7.06	-1.62	
JP MORGAN GBI-EM GLOBAL DIVERSIFIED -GOVERNMENTS, LOCAL CURRENCY	1.76	2.90	6.77	4.97	

Emerging market debt gained in the quarter, though it modestly lagged the broad fixed income market. There was little difference among the sectors listed above, though local-currency debt outperformed US-dollar-denominated debt given the weaker dollar.

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

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**INDEX RETURNS
BY SECTOR**
as of 31 March 2023

INDEX				
CURRENCY MARKETS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
DOLLAR BLOC				
CANADIAN DOLLAR	0.97	0.28	2.32	-7.48
AUSTRALIAN DOLLAR	-0.65	-1.88	4.45	-10.65
NEW ZEALAND DOLLAR	1.18	-1.45	11.75	-9.92
WESTERN EUROPE				
EURO	2.49	1.25	10.58	-2.06
NORWEGIAN KRONE	-0.84	-6.40	3.93	-16.06
SWEDISH KRONA	0.61	0.23	6.58	-9.68
SWISS FRANC	2.94	1.01	7.83	0.79
BRITISH POUND	2.62	2.10	10.45	-6.10
EMERGING EUROPE & AFRICA				
CZECH KORUNA	2.60	4.22	15.87	1.88
HUNGARIAN FORINT	2.05	6.50	23.12	-5.25
POLISH ZLOTY	3.04	1.35	14.76	-2.73
RUSSIAN RUBLE	-3.44	-4.55	-22.63	4.50
SOUTH AFRICAN RAND	3.15	-4.26	1.63	-17.90
TURKISH NEW LIRA	-1.55	-2.45	-3.40	-23.50
ASIA				
JAPANESE YEN	2.49	-1.31	8.94	-8.40
CHINESE RENMINBI	0.90	0.36	3.53	-7.76
INDONESIAN RUPIAH	1.70	3.82	1.55	-4.17
MALAYSIAN RINGGIT	1.63	-0.25	5.03	-4.79
PHILIPPINE PESO	1.78	2.51	7.87	-4.80
SINGAPORE DOLLAR	1.31	0.65	7.84	1.77
SOUTH KOREAN WON	1.63	-2.79	9.93	-6.91
LATIN AMERICA				
ARGENTINE PESO	-5.67	-15.24	-29.51	-46.89
BRAZILIAN REAL	3.42	4.29	6.96	-6.35
CHILEAN PESO	3.97	7.00	21.78	-1.18
COLOMBIAN PESO	5.18	4.96	-0.31	-18.43
MEXICAN PESO	1.44	8.06	11.59	10.11
PERUVIAN NEW SOL	0.81	1.14	5.85	-2.20

The US dollar continued to generally decline in the quarter as risk appetite for FX risk improved. Expectations of a slowing in the Fed's pace of rate hikes helped the FX market find reprieve as well.



GLOBAL EQUITY MARKETS
as of 31 March 2023

INDEX TOTAL RETURNS (%)					
	INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
	S&P 500®	7.50	-7.70	18.53	11.14
	MSCI ALL COUNTRY WORLD	7.44	-6.94	15.83	7.43
	MSCI EUROPE	10.74	2.03	15.61	4.97
	MSCI JAPAN	6.38	-4.81	7.75	1.64
	MSCI EMERGING MARKETS	4.02	-10.26	8.19	-0.53

Similar to fixed income, equities also benefited from an increase in risk appetite as well as market expectations converging on the Fed nearing the end of its hiking cycle. European equity markets outperformed, followed by the US. Emerging market equity was the laggard.

US EQUITY MARKETS
as of 31 March 2023

INDEX TOTAL RETURNS (%)					
	INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
	RUSSELL 1000®	7.46	-8.36	18.48	10.82
	GROWTH	14.37	-10.86	18.50	13.60
	VALUE	1.01	-5.89	17.85	7.47
	RUSSELL MIDCAP®	4.06	-8.75	19.12	8.02
	GROWTH	9.14	-8.49	15.13	9.04
	VALUE	1.32	-9.18	20.61	6.51
	RUSSELL 2000®	2.74	-11.56	17.44	4.69
	GROWTH	6.07	-10.56	13.31	4.24
	VALUE	-0.66	-12.91	20.93	4.53

Within US equities, large-cap equities, represented by the Russell 1000 Index were among the outperformers. Growth was a noticeable outperformer over value. Growth stocks generally benefit to a greater degree over value when interest rates decrease, which accounts for the outperformance this quarter.

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

All returns in US dollars, unless noted. **Past performance is not a reliable indicator of future performance.**

Data Source: FactSet. All returns quoted in US dollars. Performance for one and multi-year periods is annualized. Sorted by index quarterly returns. Due to rounding, sector totals may not equal 100%. **Past performance is not a reliable indicator of future performance.**



S&P 500 SECTORS
as of 31 March 2023

SECTOR PERFORMANCE ATTRIBUTION (%)				
INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
INFORMATION TECHNOLOGY	23.05	-3.53	24.79	19.96
COMMUNICATION SERVICES	20.50	-17.80	9.42	5.92
CONSUMER DISCRETIONARY	16.25	-19.54	14.58	8.76
MATERIALS	4.29	-6.28	23.84	9.54
INDUSTRIALS	3.54	0.11	21.67	8.41
REAL ESTATE	1.95	-19.69	10.07	7.43
CONSUMER STAPLES	0.50	0.90	14.57	10.56
UTILITIES	-3.24	-6.21	10.34	9.59
FINANCIALS	-3.43	-12.29	18.99	5.88
HEALTHCARE	-4.28	-3.67	15.41	11.83
ENERGY	-4.67	13.63	48.43	9.53

Information technology and communication services were noticeable outperformers for the quarter. The technology sector as a whole rebounded on stronger risk appetite. However, dispersion was high during the quarter among the various sectors, highlighted by four sectors still producing negative returns.

Data Sources: Bloomberg indices from Bloomberg Live; currency returns JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence. All index quarterly returns, unless noted, are annualized. Sorted annualized performance is not a reliable indicator of future performance.

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Disclosure

All data and views are as of 31 March 2023, unless otherwise noted.

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Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.

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Index Definitions

Bloomberg US Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Bloomberg US Government/Credit Index includes securities in the government and credit indices. The government index includes treasuries -i.e., public obligations of the US Treasury that have remaining maturities of more than one year and agencies -i.e., publicly issued debt of US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government. The credit index includes publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg US Treasury Index includes public obligations of the US Treasury with at least one year until final maturity, excluding certain special issues such as state and local government series bonds -SLGs, US Treasury TIPS and STRIPS.

Bloomberg US Treasury Inflation Protected Securities Index consists of inflation-protection securities issued by the US Treasury that have at least one year to maturity and at least \$250 million par amount outstanding.

Bloomberg US Agency Index includes agency securities that are publicly issued by US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government -such as USAID securities.

Bloomberg US Municipal Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. The index has four main sectors: general obligation bonds, revenue bonds, insured bonds -including all insured bonds with a Aaa/AAA rating, and prerefunded bonds.

Bloomberg Mortgage-Backed Securities -MBS Index is a component of the Bloomberg Aggregate Index covering mortgage-backed pass-through securities of Ginnie Mae -GNMA, Fannie Mae -FNMA and Freddie Mac -FHLMC. The MBS Index is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates.



Bloomberg Asset-Backed Securities -ABS Index is a component of the Bloomberg US Aggregate Index including pass-through, bullet and controlled amortization structures. The ABS Index includes only the senior class of each ABS issue and the ERISA-eligible B and C tranche. Constituents must have an average life of at least one year and a deal size of at least 500 million.

Bloomberg Commercial Mortgage-Backed Securities -CMBS ERISA-Eligible Index is a component of the Bloomberg US Aggregate Index and the ERISA-eligible component of the Bloomberg CMBS Index. This index, which includes investment grade securities that are ERISA eligible under the underwriter's exemption, is the only CMBS sector that is included in the US Aggregate Index.

Bloomberg US Corporate Index contains publicly issued US corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity and quality requirements. To qualify, bonds must be SEC-registered. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both US and non-US corporations. The non-corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government.

Bloomberg Euro-Aggregate Corporate Index consists of bonds issued in the euro or the legacy currencies of the 16 sovereign countries participating in the European Monetary Union -EMU. All issues must be investment grade-rated, fixed-rate securities with at least one year remaining to maturity. The Euro-Aggregate Index excludes convertible securities, floating rate notes, perpetual notes, warrants, linked bonds, and structured products.

Bloomberg Sterling Aggregate Corporate Index is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate sterling-denominated bond market. Inclusion is based on the currency of the issue, not the domicile of the issuer. The index includes publically issued securities from industrial, utility, and financial companies that meet specified maturity, liquidity and quality requirements.

Bloomberg US Corporate High-Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets -sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch are excluded, but Canadian and global bonds -SEC registered of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds -PIKs, as of October 1, 2009 are also included.

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. Securities must be rated high-yield -Ba1/BB+ or lower by at least two of the following rating agencies: Moody's, S&P, Fitch. Excludes emerging markets.

S&P/LSTA Leveraged Loan Index, is a market value-weighted index designed to measure the performance of the US leveraged loan market based upon market weightings, spreads and interest payments.

Citigroup World Government Bond Index -WGBI measures the performance of fixed-rate, local currency, investment grade sovereign bonds. The WGBI is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies. The WGBI provides a broad benchmark for the global sovereign fixed income market.

JPMorgan Emerging Markets Bond Index Global -EMBIG tracks total returns for US dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds.

JPMorgan Corporate Emerging Markets Bond Index -CEMBI Broad Diversified tracks total returns of US dollar-denominated debt instruments issued by corporate entities in emerging markets countries. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds.

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

All returns in US dollars, unless noted. **Past performance is not a reliable indicator of future performance.**
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