Morgan Stanley

INVESTMENT MANAGEMENT

Global Fixed Income Bulletin

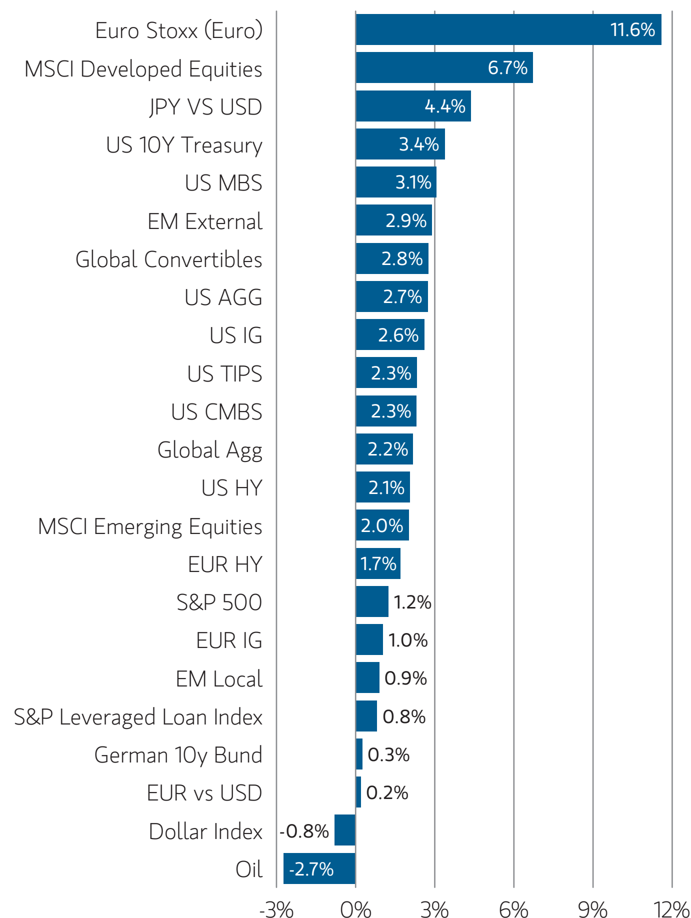
You Ain't Seen Nothing Yet: History in the Making

MACRO INSIGHT | BROAD MARKETS FIXED INCOME TEAM | March 2025

It did not take long for President Donald Trump and his new appointees to begin making drastic policy changes that could reshape the global economy for years to come. Throughout the month, fixed income investors benefited from declining global government bond yields, with the U.S. 10-year yield falling by 33 basis points (bps). Germany also saw a decrease of 5 bps, while Canada and Australia both experienced declines of 17 bps. Mexico saw the largest decline in their 10-year yield, which fell by 60 bps amidst escalating trade tensions between them and the U.S. Conversely, Japan's 10-year yield saw a 13 bps increase, making it one of the few economies to experience a higher yield over the month. The U.S. 2s10s curve flattened by 12 bps, while the 10s30s curve steepened by 3 bps in the U.S.

DISPLAY 1

Asset Performance Year-to-Date



Note: USD-based performance. Source: Bloomberg. Data as of February 28, 2025. 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 9-10 for index definitions.

The U.S. dollar weakened against a basket of currencies, notably falling 3% against both the Japanese yen and the Swedish krona and declining by 1.5% against the British pound. Emerging market (EM) currencies showed mixed performance.

In the credit markets, European corporations outperformed their U.S. counterparts. Euro high yield spreads tightened by 10 bps, where U.S. high yield spreads widened by an average of 19 bps. Investment grade (IG) credit in the U.S. also saw an 8 bps widening, while European investment grade remained largely unchanged. Despite heavy supply levels, securitized credit spreads continued to tighten throughout February, with agency mortgage spreads also experiencing a contraction.

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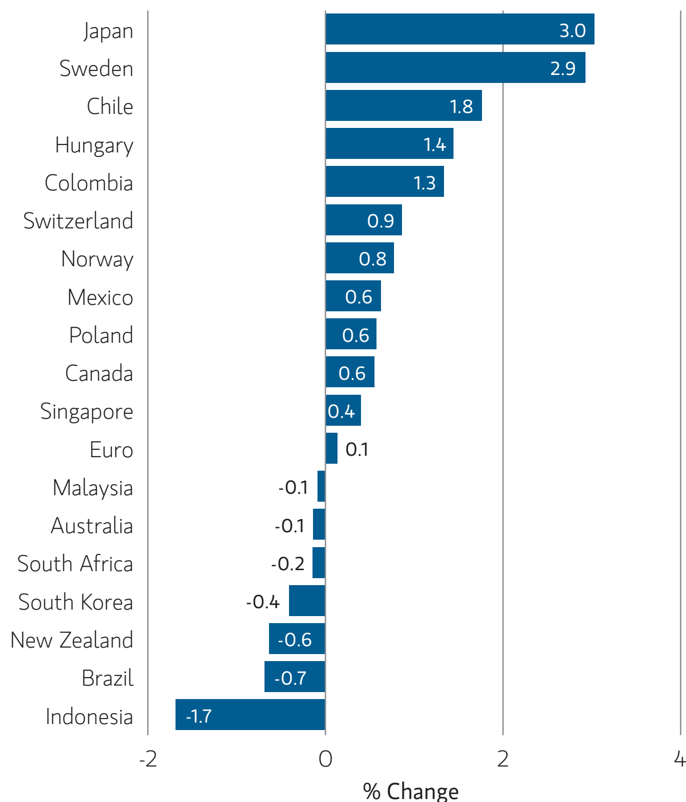
DISPLAY 2

Currency Monthly Changes versus USD

(+ = appreciation)



Note: Positive change means appreciation of the currency against the USD.
Source: Bloomberg. Data as February 28, 2025.

DISPLAY 3

Major Monthly Changes in 10-Year Yields and Spreads

COUNTRY	10-YR YIELD LEVEL (%)	MONTH CHANGE (BPS)	10-YR SPREAD (BPS)	MONTH CHANGE (BPS)
			(SPREAD OVER USTS)	
United States	4.21	-33		
United Kingdom	4.48	-6	27	27
Germany	2.41	-5	-180	28
Japan	1.38	13	-283	46
Australia	4.29	-14	9	20
Canada	2.90	-17	-131	16
New Zealand	4.42	-8	21	25
EUROPE			(SPREAD OVER BUNDS)	
France	3.15	-6	74	-1
Greece	3.26	-7	85	-1
Italy	3.54	-2	113	4
Portugal	2.94	6	53	12
Spain	3.05	-2	64	3
EM	**10-YR LOCAL YIELD (%)**	**MTD CHANGE (BPS)**	**SPREAD (BPS)**	**MTD CHANGE (BPS)**
EM External Spreads			299	11
EM Corporate Spreads			211	4
EM Local Yields	6.31	0		
			(SPREAD OVER USTS)	
Brazil	15.26	46	1105	79
Colombia	11.45	0	724	33
Hungary	6.65	1	244	34
Indonesia	6.90	-8	269	25
Malaysia	3.79	-2	-42	31
Mexico	9.48	-60	527	-27
Peru	6.38	-32	217	1
Poland	5.75	-9	154	24
South Africa	10.53	15	632	48
CREDIT			**SPREAD (BPS)**	**MTD CHANGE (BPS)**
U.S. IG			87	8
EUR IG			91	0
U.S. HY			280	19
EUR HY			284	-10
SECURITIZED				
Agency MBS			132	-6
U.S. BBB CMBS			583	-24

Positive Neutral Negative

Source: Bloomberg, JPMorgan. Data as of February 28, 2025.

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Fixed Income Outlook

Where to begin? Things are changing fast and remain fluid. Given the breadth and depth of changes, we could be witnessing an epochal event. Whether it is for better or worse we do not know, but the global landscape is shifting rapidly.

The scope of policy changes so far has been unprecedented. In little over a month since his inauguration, President Trump has unleashed a stream of directives on trade, foreign policy, immigration, government employment, taxes, social and environmental policy. Both the pace and direction of this torrent have been unparalleled in modern, post-World War II history. Notably, over the span of two days, President Trump announced the suspension of military aid to Ukraine, sided with Russia in a United Nations vote on resolutions on Ukraine and announced 25% tariffs on Canada and Mexico. This is provoking unprecedented responses from the rest of the world. The decision to suspend aid to Ukraine has triggered the biggest shift in German fiscal policy since reunification, and an €800 billion defense spending package proposed by the European Commission. In a reference to former European Central Bank (ECB) President Draghi's comment during the 2012 sovereign debt crisis, prospective German Chancellor Merz vowed to do "whatever it takes" to defend Europe as he stitches together a coalition seeking to upend 50 years of German fiscal rectitude.

This is creating financial market volatility unseen outside of exogenous crises like Covid-19 or the 2008 Global Financial Crisis. For example, on March 3, German equities had their best day since late 2022. The next day, March 4, was their worst day since 2022. There are many more examples, but the bottom line is that when the most powerful country in the world decides to change/disrupt global trade, geopolitical alignments and fiscal policy all in one go, there will be fallout, which is what we are seeing in the markets today. Investors are faced with unprecedented uncertainty about the short- and long-run impacts to the U.S. and global economies, the global political structure, and asset prices.

This means that the initial consensus post-inauguration that President Trump's policies would reinforce "exceptional" U.S. economic performance has been upended. The assumption that an "S&P put" on his more aggressive policies would keep him in check does not seem to be playing out. His willingness to implement high tariffs seems based on two reasons: first, to raise revenue relatively cheaply (which is very debatable), and second, to remake global trade, reducing the large U.S. trade deficit as surplus economies (namely, China and the European Union) remain adamantly against boosting their economies. While markets were aware from President Trump's first term and his 2024 campaign rhetoric that he liked tariffs as a policy tool—or at least as a threat to achieve other objectives—markets generally disbelieved that he would impose them to the extent announced so far, given the possible downside risks to U.S. growth and asset prices. Indeed, the risk of a major trade war along with relatively high tariffs and the administration's seemingly relentless drive to reduce the federal government's footprint has caused the U.S. economy to sputter and equities to fall in the first few months of the year. The U.S. economy's downshift in the first quarter—even before trade issues escalated—has led to legitimate questions about the economy's underlying health. Is the slowdown temporary, due to one-off events like wildfires, cold weather and rising imports seeking to front-run tariffs? Or, is it deeper and long-lasting, as weaker U.S. equities unnerve consumers, corporates postpone capital expenditure and U.S. fiscal policy tightens, at least in 2025? For now, we view the slowdown as temporary, barring a serious trade war.

Indeed, markets are now predicting three Federal Reserve (Fed) interest rate cuts this year and another cut in 2026, versus only one expected in 2025 as recently as January. U.S. bond yields have dutifully followed Fed rate expectations lower despite inflation showing no meaningful signs of slowing to the Fed's target and household inflation expectations ratcheting higher pre- and post-tariff announcements. With newfound worries about the robustness of the economy, the Fed is back in play—something we would not have said at the beginning of the year. That said, given the still negative inflation outlook and tariffs likely to worsen near-term economic performance, the Fed will likely only move if it sees a threat to growth and employment. If the unemployment rate rises again, breaching the Fed's previously stated undesirable 4.4% level, the Fed will likely cut rates. We are skeptical that the Fed will need to cut rates three times in 2025, but given the unusual position of the economy and outlook for policy, we cannot dismiss the possibility of a sooner-than-expected rate cut. The strong outperformance of U.S. dollar bonds in 2025 reflects market anxieties that President Trump policies will be growth-destroying not growth-enhancing, at least for now, and that the "bad" policies will happen before the "good" stuff happens, e.g., more deregulation and tax cuts. Is it possible that President Trump is frontloading the "bad" growth policies, to get the pain out of the way up front and set the stage for a strong rebound in the economy in 2026/2027?

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Along these lines, we have conversely seen a reversal in the fortunes of bonds outside the U.S., which have underperformed U.S. Treasurys. Growth and fiscal policy expectations, particularly in Europe, have flipped relative to the U.S. The pressure exerted on Europe from subpar growth and, probably most importantly, the threat that Trump will withdraw security guarantees, has forced unprecedented change. The policy agenda from Europe and relative to the baseline just a month or two ago is now expected to be much easier fiscal policy and probably tighter (or at least less easy) monetary policy. The possibility of peace or the cessation of hostilities between Ukraine and Russia has also emboldened economic optimism, as rebuilding Ukraine and rapprochement with Russia would be perceived as a positive, at least to some degree. What this means is that the premium on exceptional U.S. economic performance is shrinking on both sides of the Atlantic. The outlook for European bonds is therefore murkier as bond markets will be asked to absorb hundreds of billions, if not trillions, of additional debt. Details about European fiscal policy—and importantly U.S. tariff policies and the extent of retaliation—won't be known for several months, and it remains possible that President Trump could backtrack and ease the pressure if the pain is perceived to be too high. But this historic tilt toward European self-defense and its implications look like a train that cannot be stopped.

Given the uncertainties about these unprecedented policies and policy goals, it is difficult to predict the near-term impacts. The push/pull of Trump policies combined with Fed policy objectives appears to generate a somewhat stagflationary outcome with ambiguous implications for yields. The 10-year U.S. Treasury yield seems a bit too low, close to 4%, as definitive evidence of a slowdown big enough to elicit multiple Fed rate cuts is not yet evident. The key indicator will be the labor market—jobless claims, in particular. Any signs that consumers are pulling back as they grapple with uncertainty will undermine the "Goldilocks" (not too hot, not too cold) economy. Similarly, the massive underperformance of European bonds this year seems a bit premature given the information at hand and the likely volatility of Trump administration policies over time. But if recent trends continue, the direction of travel seems clear, meaning: the U.S. desire for a multipolar world with Europe responsible for its own defense; easier global fiscal policy; a revamped global trading system, with the U.S. less willing to be the consumer of last resort and using tariffs as the tool to achieve it; global supply chains revamped; and higher inflation than in the pre-pandemic years as populist policies are implemented worldwide. And, as expected, execution risks and the potential for unintended consequences during these transitions are likely to be high, generating more business cycle volatility than usual.

Credit markets do not like uncertainty and do not like weak/volatile equity markets. U.S. credit spreads have been widening under the tariff onslaught. We do not envision material widening absent greater economic underperformance, but spreads are not likely to regain their equilibrium until there is greater clarity on the macro outlook. Paradoxically, President Trump's policies seem to have triggered a positive impact on European/non-U.S. equity markets while hurting U.S. stocks, through their impact on relative fiscal and trade policies. This change has helped euro investment grade bonds weather the storm better than U.S. investment grade. We have preferred euro investment grade credit over U.S. credit, and recent events do not change this preference. That said, the recent outperformance of euro credit has been large, and we are wary of chasing it given the recent volatility in markets and the tendency for mean reversion, i.e., markets overshooting then correcting. This backdrop requires being highly selective and actively managing rating, country and industry holdings to avoid the inevitable problems likely to arise in the next 12 months. We remain focused on avoiding companies and industries at risk (either from idiosyncratic underperformance, secular challenges or increased management aggressiveness) while building as much yield as is reasonable into the portfolio without jeopardizing returns from credit losses or spread widening. We still identify better opportunities in euro-denominated bonds of U.S. names and European banks, although we have been selectively reducing exposure to investment grade overall.

Securitized credit and U.S. agency mortgage-backed securities (MBS) have been less ruffled by recent volatility than other sectors and remain our favorite overweight. But even here, the recent streak of strong performance is diminishing its relative and absolute attractiveness. The recent rally in yields has reduced the outright attractiveness of fixed income, and the relative outperformance of this sector compared to corporate credit has marginally reduced its relative value. That said, securitized credit does not face the same issues as the U.S. corporate sector during this period of heightened economic uncertainty. New issues are frequently multiple times oversubscribed, making it difficult to accumulate large positions. Amid the current noise and uncertainty in the world, we believe this sector can continue

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to perform well. In the agency sector, higher coupon securities continue to be attractive compared to investment grade corporate bonds and other agency coupon structures, and we believe they are likely to outperform U.S. Treasury securities. More recently, given the rally in U.S. interest rates, European mortgage securities now offer better relative value. Selectivity remains key.

In currency markets, also somewhat paradoxically, the U.S. dollar has been weakening. The U.S. implementation of tariffs was supposed to be dollar-positive as it would encourage other countries to let their currencies depreciate to offset their effects. The opposite has tended to happen. Countries like China are digging in their heels and have resisted currency depreciation, looking for fiscal policy to offset tariff effects, while Europe, contrary to the naysayers, has now announced plans for historically unprecedented fiscal expansion. These policy mixes have, at least for now, undermined the dollar, as U.S. policy seems to be going in the other direction, that is, tighter fiscal policy and easier monetary policy. How long this is likely to last is unknown and depends on policy implementation around the world.

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Developed Market Rate/Foreign Currency

MONTHLY REVIEW

Developed market interest rates continued to decline in February, extending January's bond market rally. The U.S. yield curve flattened in the first half of the month as term premiums compressed, before steepening again in the latter half as markets began to price in more cuts from the Fed. U.S. Treasuries also benefitted from the poor performance of risky assets at the end of the month and weaker than expected economic data, as markets considered the impact of new policies on trade, consumption and jobs growth in the U.S. Various U.S. survey data pointed to signs of rising inflation expectations and more subdued consumer sentiment. CPI inflation in January was stronger than expected and retail sales significantly weaker.

In the Eurozone, German Bunds lagged the rally in U.S. Treasurys. Several other factors also weighed on the performance of Bunds, including hawkish communication from ECB officials on inflation, better-than-expected economic data and expectations of increased fiscal spending, particularly on defence. The conservative CSU party came first in the German general election, with 28.6% of the vote, and is expected to form a "grand coalition" with the SPD and other centrist parties; the new government, when formed, is likely to be more fiscally expansionary but will need help from smaller parties to change the German constitution so as to allow larger fiscal deficits. The Bund yield curve steepened, in contrast to the U.S., as the market reassessed the German fiscal outlook.

In foreign exchange markets, the dollar weakened due to narrowing rate differentials, worse economic data surprises than elsewhere, weak U.S. equity market performance and a reassessment of aggressive tariff policies. The yen strengthened as yields fell, while the euro benefited from moderating expectations of tariffs and equity outperformance. Cyclical currencies like the Australian dollar and New Zealand dollar underperformed.

OUTLOOK

We are neutral on duration in developed markets, aside from Japan, and retain curve steepening exposures. Cross-market, we remain overweight duration in New Zealand and the United Kingdom versus the U.S. and Australia, as we think central banks in the former group have more room to cut rates than currently priced. We recently reduced the size of our short position in Japanese duration, given the Bank of Japan's sensitivity to U.S. economic activity and global uncertainties, though we remain long JGBi breakevens as wage growth remains strong, and prices continue to rise. We continue to favour the Australian and U.S. dollars versus the Canadian, and also maintain a positive view on the yen over the euro. We increased the size of our long yen position against various currencies including the Korean won, Thai baht and Swedish krona.

Emerging Market Rate/Foreign Currency

MONTHLY REVIEW

Emerging markets debt (EMD) continued its strong 2025 start as the major segments of the asset class all had positive performance for the month. EM currencies broadly rallied as the U.S. dollar weakened for most of the period in part due to a drop in consumer confidence and volatile U.S. foreign policy. Spreads modestly widened for both sovereign and corporate credit but both sectors benefited from the fall in U.S. Treasury rates. President Trump imposed a 10% tariff on Chinese imports at the beginning of the month and China immediately responded with counter tariffs. Tariffs of 25% for Canada and Mexico were postponed following steps by both countries to address concerns at the border, however, by the end of the month it seemed likely that the pause would expire soon. Russia, the United States, and Ukraine engaged in discussions and negotiations to end the war between Russia and Ukraine. While there were periods of progress, tensions escalated between the parties and a peace agreement was not made. Flows were mixed for the month as local currency funds continued to see outflows, but investors started to re-engage with hard currency assets and those funds saw inflows for the month.

OUTLOOK

Emerging markets debt continued its strong 2025 performance in light of macro volatility, uncertain U.S. foreign policy, and geopolitical tensions from ongoing wars. The assets class has been supported by a weakening U.S. dollar and falling in U.S. Treasury rates. As the reach of U.S. foreign policy and tariffs expands, we continually monitor potential impacts at the individual country level in addition to continued emphasis on fundamentals. While the ECB cut rates at the very end of January, the U.S. Fed has turned less dovish and will wait to see if higher inflation starts to trickle in. We may see EM central bank rate cuts be more selective, but real yield differentials between EM and DM remain attractive. Canvassing the whole investment universe for investment opportunities will continue to be critical to help navigate through the spillover effects from U.S. foreign policy.

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Corporate Credit

MONTHLY REVIEW

European investment grade spreads outperformed U.S. Investment Grade (IG) in February as the market processed news about a Russia-Ukraine ceasefire, U.S. tariffs, and German elections. Volatility was contained by strong technical factors, including sizeable inflows into investment grade credit and manageable primary issuance. Central banks played a significant role, with the ECB minutes suggesting caution on rate cuts, the Bank of England cutting rates by 25 bps, and the Fed discussing pausing quantitative tightening. Economic data showed mixed results, with strong manufacturing data in the U.S. and improved sentiment in Germany, while inflation in the Euro area increased slightly due to higher energy prices. In politics, the CDU won the German elections, and tariff uncertainty remains with key dates approaching in March. Corporate earnings met or exceeded expectations, supported by strong technical factors and steady leverage, while M&A activity was light but included several notable divestment and spin-off rumours. Finally, the market was supported by strong technical factors and tightening swap spreads.

Performance in the U.S. and global high yield markets remained positive in February amid a meaningful spread widening that was more than offset by a sharp drop in U.S. Treasury yields. For the first time in months, the CCC segment underperformed as relative valuations in lower-rated credit widened and dispersion across the high yield market decreased. The technical conditions in high yield remained strong in February as gross issuance decreased month over month and U.S. high yield retail funds recorded net inflows. Finally, default and distressed exchange activity in leveraged credit marked a new 2-year low in February.

Global convertible bonds performed well despite weak performance in the U.S., which is the largest region in the asset class. U.S. macroeconomic data was generally weaker as pending tariffs impacted growth expectations, consumer confidence and spending and labor market data was broadly softer. Global convertible bonds were also negatively impacted by the fall in bitcoin during the month as crypto-related issuers have become more prominent in the asset class over the last few months. However, this negative performance was offset by strong performance in both Asia and Europe. Ultimately, global convertible bonds outperformed global equities, but trailed global bonds during the month. After a weak start to the year, new issuance modestly improved during the month with a large majority of the issuance coming from the U.S. In total, $6.3 billion priced during the month bringing the year-to-date total issuance to $9.5 billion.[1]

OUTLOOK

Looking forward our base case remains constructive for credit supported by expectations of a "soft landing," fiscal policy that remains supportive of growth/employment/consumption and strong corporate fundamentals, supported by corporate strategy that is low risk. Manageable net issuance coupled with strong demand for the "all-in" yield offered by IG credit is expected to create a supportive technical dynamic. When looking at credit spreads, we view the market as offering some value but see carry as the main driver of return, with additional gains coming from sector and, increasingly, security selection. Given the uncertain medium term fundamental backdrop, we have less confidence in material spread tightening.

We are progressing through the first quarter of 2025 with a relatively balanced view for the high yield market. This outlook includes the expectation for episodic volatility, and the sober realization that, while yields remain historically attractive, on a spread-basis the high yield market is priced nearly to perfection, even in light of recent widening. We come to this conclusion after a thorough analysis of factors including the evolving monetary policy of global central banks, trade policy, U.S. and global economic growth, consumer health, the fundamentals of high yield issuers, technical conditions, and valuations. Ultimately, we believe that, on average, the yield provides attractive compensation for the underlying credit risk, but reaching for risk in lower-rated credits will be punitively rewarded.

We remain constructive on the global convertible bond market as we begin March. Technicals are strong, as convertible bonds have maintained a balanced profile, interest rates remain relatively high, equity valuations increased in 2024, and corporations continue to have financing needs. New convertible bond issuance was strong in 2024 and we expect that to continue as global central banks continue to modestly cut interest rates and bonds issued during the Covid-19 pandemic mature. Finally, we expect higher volatility this year as geopolitical tensions and regional tensions remain present, and markets digest the policies of the Trump administration.

[1] Source: Bank of America, as of 2/28/2025

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Securitized Products

MONTHLY REVIEW

In February, U.S. agency MBS spreads tightened by 6 bps and are now at +132 bps compared to U.S. Treasuries. Despite recent volatility across sectors, agency MBS continues to be one of the few areas in fixed income with attractive valuations. The Fed's MBS holdings shrank by $14.2 billion in February to $2.195 trillion and are now down $500.7 billion from its peak in 2022. U.S. Banks fell slightly in February to $2.663 trillion; bank MBS holdings are still down $329 billion since early 2022. Securitized credit spreads continued to grind tighter in February; and this was even with the heavy supply levels.[2] However, U.S. IG Corporate spreads widened in February, coming off near record tights in January. After a busy January calendar, February issuance proved to be almost as heavy; this supply was well absorbed and met with very strong demand.

OUTLOOK

We expect U.S. agency MBS spreads to continue to tighten due to continued inflows from relative value investors and banks. These inflows will likely come from the attractive return profile of this sector versus other core fixed income sectors. We expect securitized credit spreads to be at or near their tights as they are currently trading near agency MBS spreads. Securitized credit sectors were among the best performing sectors in 2024 and January of 2025, but underperformed in February due to their lower duration profile as interest rates rallied significantly. We believe that returns will result primarily from cashflow carry in the coming months as we enter March with attractive yields. We still believe that current rate levels remain stressful for many borrowers and will continue to erode household balance sheets, causing stress for some consumer ABS, particularly involving lower income borrowers. Commercial real estate also remains challenged by current financing rates. Residential mortgage credit opportunities remain our favorite sector currently and is the one sector where we remain comfortable going down the credit spectrum, as we remain more cautious regarding lower rated ABS and CMBS. We remain positive on agency MBS valuations as they continue to remain attractive versus investment-grade corporate spreads and versus historical agency MBS spreads.

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.

[2] Source: Bloomberg, as of 2/28/2025

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DEFINITIONS

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

INDEX DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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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