

The First Cut Is (Still) the Deepest

MACRO INSIGHT | BROAD MARKETS FIXED INCOME TEAM | October 2025

One year after its decisive 50-basis-point “first cut,” the Fed delivered a more restrained 25-basis-point reduction this September, lowering its target rate to 4.00%–4.25%. While speculation swirled about multiple dissenters favoring a larger cut, only one member broke from consensus—underscoring the Fed’s cautious stance.

Market expectations ahead of the September 17 meeting were the most dovish since April’s post-Liberation Day turmoil, yet the Fed’s decision reminded investors that policymakers remain committed to maintaining positive real rates until inflation expectations are fully anchored. Despite progress in disinflation, with core PCE at 2.9% and unemployment near 4.2%, the Fed signaled that inflation’s “last mile” remains the hardest.

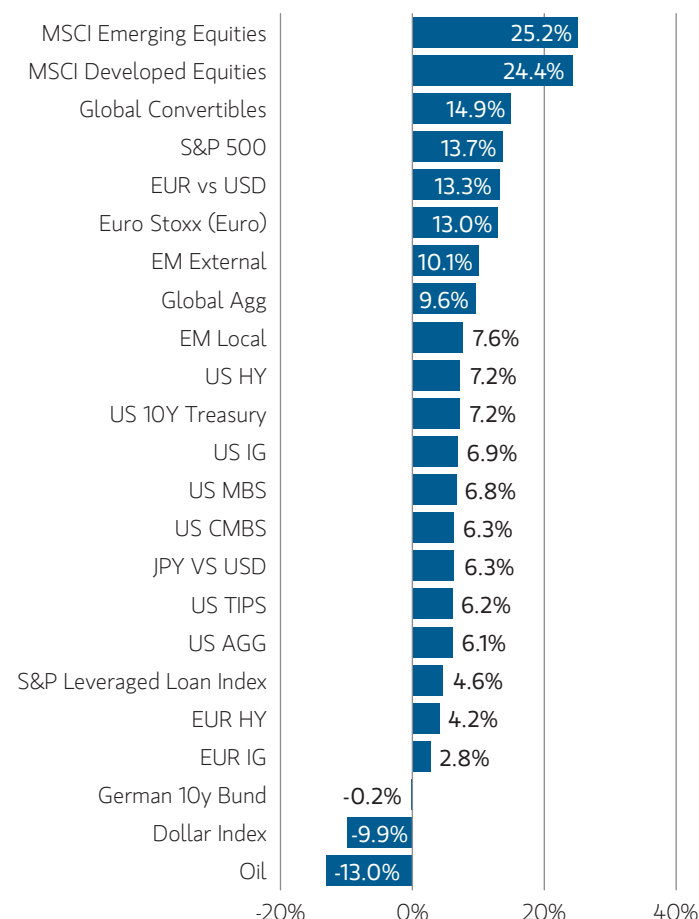
Fed’s Measured Cut Flattens Curve, Signals Caution

The Fed’s first rate cut of 2025—25 basis points (bps)—tempered expectations for aggressive easing. Despite early-month weak jobs data, stronger activity later reduced urgency for further cuts. The U.S. yield curve flattened, with long-end Treasuries outperforming.

Global Divergence in G7 Central Bank Policy

While the Fed and Bank of Canada eased rates, the European Central Bank, Bank of England, and Bank of Japan held steady. Canada’s cut reflected domestic weakness, while Europe grappled with political gridlock and inflation persistence. Japan maintained its cautious hiking stance.

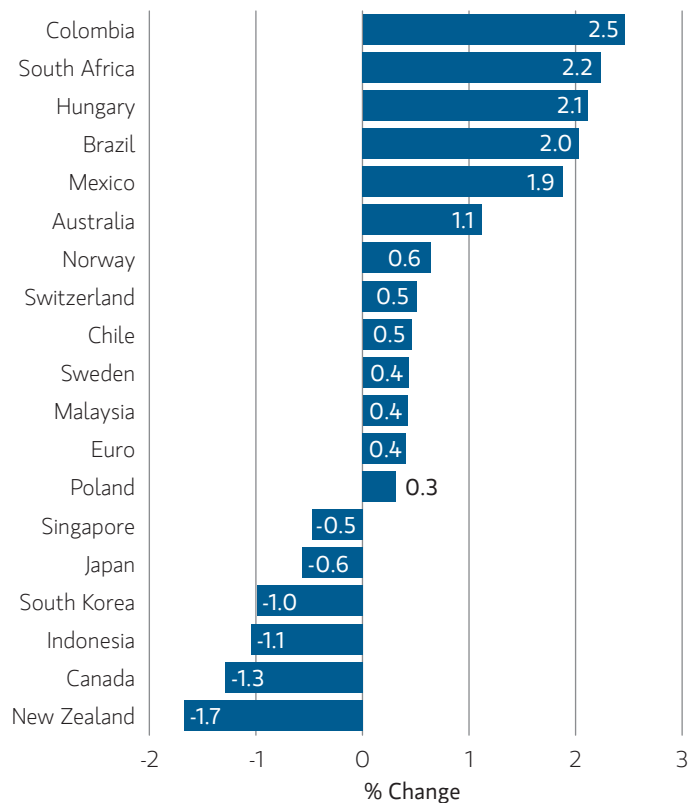
DISPLAY 1
Asset Performance Year-to-Date



Note: USD-based performance. Source: Bloomberg. Data as of September 30, 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 8-9 for index definitions.

DISPLAY 2
Currency Monthly Changes versus USD

(+ = appreciation)



Note: Positive change means appreciation of the currency against the USD.
Source: Bloomberg. Data as September 30, 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	4.15	-8		
United Kingdom	4.70	-2	55	6
Germany	2.71	-1	-144	7
Japan	1.65	5	-250	12
Australia	4.30	2	15	10
Canada	3.18	-19	-97	-11
New Zealand	4.19	-16	4	-8
EUROPE (SPREAD OVER BUNDS)				
France	3.53	2	82	4
Greece	3.38	-3	67	-2
Italy	3.53	-5	82	-4
Portugal	3.12	-6	41	-5
Spain	3.26	-7	55	-6
EM				
	10-YR LOCAL YIELD (%)	MTD CHANGE (BPS)	SPREAD (BPS)	MTD CHANGE (BPS)
EM External Spreads			258	-10
EM Corporate Spreads			187	-9
EM Local Yields	5.92	2		
(SPREAD OVER USTS)				
Brazil	13.72	-21	957	-13
Colombia	11.34	-1	719	7
Hungary	6.82	-24	266	-16
Indonesia	6.35	1	220	9
Malaysia	3.45	6	-70	14
Mexico	8.82	-15	467	-7
Peru	6.07	-22	192	-14
Poland	5.46	-6	131	1
South Africa	9.16	-44	501	-36
CREDIT				
			SPREAD (BPS)	MTD CHANGE (BPS)
U.S. IG			74	-5
EUR IG			79	-5
U.S. HY			267	-5
EUR HY			265	-16
SECURITIZED				
Agency MBS			126	-10
U.S. BBB CMBS			599	16

Positive Neutral Negative

Source: Bloomberg, JPMorgan. Data as of September 30, 2025.

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Dollar Mixed as FX Markets React to Policy Shifts

The Bloomberg Dollar Index was flat, but USD weakened against high-carry and cyclical currencies. The euro edged higher, while New Zealand Dollar and Canadian Dollar lagged amid diverging central bank paths and growth outlooks.

Emerging Market Debt Strengthens on Easing and Inflows

Emerging markets gained as the Fed and EM central banks eased policy. Argentina and Indonesia faced political risks, but strong inflows—\$4.6B total—supported hard and local currency debt.¹ Credit spreads tightened across sovereign and corporate segments.

Investment Grade Credit Tightens Amid Strong Demand and M&A Surge

Global IG spreads narrowed by 5 bps, reversing August's widening. Financials and consumer non-cyclicals led gains. M&A activity surged, highlighted by a record \$55B leveraged buyout of Electronic Arts.² Technicals remained strong despite elevated issuance.

High Yield and Convertibles Ride Risk-On Sentiment

High yield outperformed IG, supported by firm demand and record issuance. Convertibles rallied with equities, posting \$29.9B in new deals—surpassing 2024's full-year total.³ Dispersion fell to its lowest since January, reflecting broad sector strength.

Agency Mortgage-Backed Securities (MBS) Outperforms as Banks Rebuild Holdings

Agency MBS, as represented by the Bloomberg US Mortgage Backed Securities Index, returned +1.22%, outperforming Treasuries. Spreads tightened, and bank holdings rose amid SLR easing. Mortgage fundamentals remained solid, with low delinquency and limited refinancing activity.

Securitized Credit Resilient Despite Mixed Signals

Asset-backed securities (ABS), Commercial MBS, and Residential MBS issuance rebounded post-summer. CMBS strength came from logistics and luxury hotels; Class B office remained weak. RMBS spreads narrowed on stable home prices and strong credit fundamentals.

Taxable Munis Extend Gains, Trail Tax-Exempts

Taxable municipals returned +1.29%, underperforming tax-exempts (+2.32%).⁴ Long-duration bonds led, with revenue sectors outperforming. Issuance remained light, and spreads narrowed slightly. The index yielded 4.84%, offering a 90 bps spread over Treasuries.

¹ Source: JPMorgan, as of September 30, 2025

² Source: Bloomberg, as of September 30, 2025

³ Source: Bloomberg, as of September 30, 2025

⁴ Tax-exempt represented by Bloomberg Taxable Municipal bond Index; Taxable by Bloomberg Municipal Bond Index.

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Fixed Income Outlook

As we enter the final quarter of 2025, the outlook across fixed income sectors reflects cautious optimism amid evolving macro conditions and central bank policy shifts. In developed markets, duration positioning remains neutral outside Japan, with selective opportunities in Canadian and Australian government bonds. The U.S. curve steepeners are being trimmed, while Japanese exposure is shifting toward short duration and long inflation breakevens. In foreign exchange, a short U.S. dollar stance against high-beta currencies is favored, supported by global growth differentials and easing cycles outside the U.S.

Emerging markets continue to benefit from supportive fundamentals and attractive valuations, particularly in local currency debt. Real yield differentials and reform-oriented policy agendas are drawing sustained inflows, though country-level selectivity remains critical. A softening U.S. dollar and cautious Fed stance further enhance the appeal of EM assets, but investors must navigate idiosyncratic risks and policy divergence.

Corporate credit maintains a cautiously constructive tone, with solid fundamentals and supportive technicals offsetting tight spreads and elevated issuance. Although there is elevated M&A risk in certain sectors, tighter spreads and Investment grade issuers are expected to weather a low-growth environment, while high yield can benefit from resilient earnings and attractive yields despite lingering inflation concerns. Convertible bonds remain well-positioned in our opinion, offering asymmetric return profiles and equity sensitivity that reward selectivity and structure quality. Bank loans offer attractive income despite tight spreads, supported by strong CLO demand and limited new supply, though price appreciation may be capped near intrinsic value and volatility remains elevated amid macro uncertainty.

In securitized products, we expect agency MBS to outperform as spreads tighten and valuations remain compelling. Securitized credit spreads should stay stable, with performance driven by carry and resilient fundamentals. Residential mortgage credit is favored, while consumer ABS and commercial real estate warrant caution due to rate pressures and sector-specific challenges. Taxable municipals offer attractive yields and income cushions, with strong technicals and stable credit fundamentals supporting performance through year-end.

Developed Market Rate/Foreign Currency

MONTHLY REVIEW

Bond yields broke out of their recent range in September, with the 10-year U.S. Treasury yield falling 8 bps to end the month at 4.15%. Early in the month, markets absorbed another weak U.S. employment report, showing nonfarm payrolls rose by just 22,000 in August. This fueled expectations for deeper rate cuts, with investors anticipating a terminal Fed rate below 3%. However, the September FOMC meeting tempered those expectations. The Fed delivered its first cut of the year—25 bps—but offered no guidance toward a rapid or aggressive easing cycle. Chairman Powell described the move as a “risk management cut,” citing balanced risks to both inflation and employment. Stronger-than-expected activity data released later in the month further reduced the urgency for additional easing. The U.S. yield curve flattened, with long-maturity Treasuries outperforming, while the two-year yield ended the month little changed.

The Fed wasn't alone in easing policy. On the same day, the Bank of Canada cut its overnight rate by 25 bps to 2.50%, marking its third cut this year. While the timing aligned, the rationale differed. Canada's economy has softened more sharply than the U.S., with elevated household leverage, three consecutive quarters of declining housing investment, and home prices down 16% from their March 2022 peak (Dallas Fed). GDP growth slowed to 0.9% annualized, and inflation, at 1.9%, is already at target. The BoC's move aimed to reignite growth amid restrictive real rates and tariff-related export concerns.

Other G7 central banks held steady. The ECB kept rates at 2.00%, signaling its cutting cycle is likely complete. Bund yields were flat, while peripheral spreads narrowed slightly. France remained a focal point, struggling to pass a budget or form a stable coalition—symbolically, French and Italian 10-year yields ended the month at identical levels, compared to a 55-bp gap a year ago. The Bank of England also held rates at 4.00%. Inflation remains stubborn, and while the BoE is expected to ease, markets see only a 50/50 chance of more than one cut by next September. Gilts traded in a narrow range and finished the month little changed.

The Bank of Japan, the only G7 central bank still on a hiking path, took no action in September. Markets continue to expect a cautious but steady normalization to counter persistent inflation pressures. Ten-year JGB yields rose 4 bps on the month.

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In FX markets, the Bloomberg Dollar Index was little changed, but the USD weakened against higher-carry and cyclical currencies expected to benefit from easier global financial conditions and stronger relative growth. The euro edged higher, while the New Zealand and Canadian dollars were the weakest performers in the G10.

OUTLOOK

We remain neutral on overall duration across developed markets, excluding Japan, while maintaining selective cross-market positions. We continue to see relative value in Canadian government bonds versus U.S. Treasuries, supported by Canada's weakening employment and growth backdrop and a steeper curve. Mid-month, we shifted to an underweight in front-end U.S. Treasuries relative to Bunds, reflecting aggressive market pricing for Fed rate cuts and our more constructive outlook on U.S. growth.

We also see emerging value in Australian government bonds relative to New Zealand. Curve steepeners remain in place in U.S. Treasuries, though we've recently reduced exposure in Bunds. In Japan, we maintain long inflation breakeven positions and have added to short-duration exposure. In foreign exchange, we continue to hold short U.S. dollar positions against a basket of primarily high-beta currencies, reflecting our view that global growth differentials and easing cycles outside the U.S. will support relative performance.

Emerging Market Rate/Foreign Currency

MONTHLY REVIEW

Emerging markets debt posted positive performance in September. The U.S. Federal Reserve delivered a widely anticipated rate cut, while several EM central banks—including Turkey and Mexico—also eased policy. The U.S. dollar was relatively flat month-over-month but briefly strengthened mid-month following upbeat GDP data. Credit spreads tightened across both sovereign and corporate segments.

In Argentina, President Milei's ruling party faced a setback in the Buenos Aires provincial elections, shifting focus to the upcoming national midterms in October. The Argentine central bank intervened to support the peso, spending reserves at an unsustainable pace, though the U.S. announced a verbal agreement to provide swap lines in support. In Indonesia, markets were disappointed by the replacement of the well-regarded finance minister by President Prabowo. Despite these idiosyncratic risks, the asset class continued to

attract strong inflows, marking its tenth consecutive week of net inflows—\$3.7 billion into hard currency funds and \$0.9 billion into local currency funds.⁵

OUTLOOK

Fundamentals across emerging markets remain broadly supportive, with many countries pursuing reform-oriented policy agendas. Valuations continue to look attractive, particularly in local markets, where EM currencies remain relatively undervalued and supported against the U.S. dollar. Real yield differentials between EM and developed markets remain compelling, reinforcing investor interest.

The macro backdrop is favorable, with the U.S. dollar likely to remain soft amid elevated fiscal spending and a cautious Fed. However, the EM landscape is highly differentiated, making country-level fundamentals and policy direction critical to portfolio construction. Selectivity and bottom-up analysis will remain key to navigating opportunities and risks across the asset class.

Corporate Credit

MONTHLY REVIEW

September was a constructive month for investment grade credit, supported by resilient economic data and limited surprises from central bank meetings. Global IG spreads tightened by 5 bps, reversing August's widening, with strong demand and manageable supply continuing to drive performance. European and U.S. spreads closed at +79 bps and +74 bps, respectively, while carry remained a key return driver amid multi-year low spread levels. Financials outperformed across regions, aided by limited issuance, and within Industrials, consumer non-cyclicals such as supermarkets and food & beverage led gains on solid fundamentals. Corporate hybrids outperformed senior debt in Utilities, and Spanish credit rallied on banking strength and sovereign upgrades. BBB-rated debt marginally outperformed higher-quality corporates, and high yield outpaced IG, though BB–BBB spread differentials held steady. In the U.S., higher-beta sectors like Airlines, Autos, and Energy outperformed, while longer-maturity bonds lagged slightly amid curve flattening. M&A activity was prominent, with Silverlake and Saudi Arabia's PIF announcing a \$55B acquisition of Electronic Arts—the largest LBO in history—alongside deals from Heineken, Pfizer, and TenneT. Despite elevated issuance—€71B in Europe and \$216B in the U.S.⁶—technical conditions

⁵ Source: Bloomberg, as of September 30, 2025

⁶ Source: Bloomberg, as of September 30, 2025

remained strong, with robust demand keeping new issue concessions low (0–5 bps) and inflows continuing at record pace, particularly in European IG credit.

Performance in U.S. and global high yield markets moderated in September as primary issuance surged to record levels. Despite the heavy volume, firm institutional demand helped absorb supply, with managers deploying cash balances to participate in new deals. The Federal Reserve's quarter-point rate cut was fully priced in ahead of the decision, and meeting minutes did little to dampen bullish sentiment. The quarter closed with the announcement of the largest leveraged buyout on record—valued at \$55 billion⁷—further supporting market tone. Spreads tightened modestly, and dispersion fell to its lowest level since January, reflecting broad-based strength across the sector.

Global convertible bonds delivered strong total returns in September, supported by a favorable macro backdrop and continued risk appetite. The U.S. Federal Reserve's 25-bp rate cut, along with signals of further easing by year-end, boosted sentiment across risk assets. Convertibles performed broadly in line with global equities and outpaced global fixed income, reflecting their hybrid nature in a month marked by equity strength and falling yields. Primary market activity remained robust, with issuers continuing to tap the market despite the Fed's return to easing. September saw \$29.9 billion in new issuance—a new monthly record. The U.S. led with \$16.3 billion, but issuance was strong across all regions. Year-to-date supply reached \$125.2 billion, already surpassing 2024's full-year total by approximately \$6 billion.⁸

OUTLOOK

We remain cautiously constructive on investment grade credit, anticipating a low-growth environment without a meaningful rise in downgrade or default risk. European policy remains broadly supportive, while the U.S. fiscal outlook continues to be mixed and clouded by political uncertainty. Corporate fundamentals remain solid, with issuers maintaining conservative balance sheet strategies and low-risk profiles. Technicals are still favorable, though the recent uptick in primary issuance—particularly in EUR IG—warrants closer attention. While carry remains a key driver of returns, we remain mindful of the persistent

tightness in credit spreads and the potential for volatility as markets recalibrate expectations around central bank easing. With the full impact of trade policy developments yet to materialize, we continue to favor issuers with strong fundamentals, lower cyclicalities, and those well-positioned to navigate a moderate growth backdrop.

As we enter Q4, our outlook for high yield has improved slightly, though we remain cautious. Peak volatility tied to trade policy appears to be behind us, and Q2 economic data released in Q3 exceeded expectations. Corporate earnings were resilient, and signs of stabilization emerged among lower-income U.S. consumers. However, recent indicators—including slowing job growth, mixed industry and consumer surveys, and accelerating consumer price inflation—warrant continued vigilance. We expect a backdrop of slower but still positive growth, coupled with sticky inflation. While average spreads remain only marginally above post-GFC lows, yields are historically attractive and should continue to draw capital. Our view reflects a comprehensive assessment of macro conditions, central bank policy, consumer health, issuer fundamentals, technicals, and valuations. On balance, conditions have improved modestly quarter-over-quarter, but the key question is how much of that improvement is already priced into current valuations.

As we enter the final quarter of 2025, we remain constructive on the fundamentals of the global convertible bond market. Peak volatility tied to trade policy appears to be behind us, and Q2 economic data released in Q3 exceeded expectations. Corporate earnings were resilient, and signs of stabilization emerged among lower-income U.S. consumers. However, recent indicators—including slowing job growth, mixed survey data, and accelerating consumer price inflation—warrant continued caution. We expect a backdrop of slower but still positive growth, coupled with sticky inflation. Convertibles have largely maintained their asymmetric return profiles, though deltas have been climbing—driven by strong equity performance. As the asset class becomes more equity-sensitive, selectivity becomes increasingly important. We continue to see opportunity for well-resourced investment teams to identify balanced, convex structures that offer attractive upside participation with embedded downside risk management.

⁷ Source: Bloomberg, as of September 30, 2025

⁸ Source: Bank of America, September 30, 2025

Securitized Products

MONTHLY REVIEW

Agency MBS delivered strong performance in September, with the Bloomberg U.S. Agency MBS Index returning 1.22% and outperforming Treasuries on a duration-adjusted basis by 35 bps. Current coupon spreads tightened by 10 bps to +126 over comparable-duration Treasuries, though they remain wide relative to other core fixed income sectors and historical norms. The current yield on the index fell to 4.83%, and duration shortened slightly to 5.5 years. The Fed's MBS holdings declined by \$17 billion to \$2.078 trillion, continuing the unwind from its 2022 peak, while U.S. bank holdings rose by \$14 billion to \$2.695 trillion⁹—suggesting renewed interest amid SLR easing and falling short-term rates. Money managers remained the dominant buyers, attracted by compelling valuations. Mortgage fundamentals remained solid, supported by low delinquency rates, high homeowner equity, and limited refinancing activity due to the gap between prevailing mortgage rates (6.30%) and the average outstanding rate (~4.2%).

Securitized credit spreads tightened modestly but underperformed longer-duration sectors that benefited more from the rate rally. Issuance picked up post-summer, with \$37.5 billion in ABS, \$19.6 billion in non-agency CMBS, and \$18.0 billion in non-agency RMBS¹⁰—each exceeding August levels. ABS spreads narrowed by 0–10 bps, with consumer credit delinquencies rising among lower-income borrowers but remaining manageable. CMBS spreads tightened by 10–15 bps, with strength in high-end apartments, logistics, and luxury hotels offsetting continued weakness in Class B office. RMBS spreads tightened by 5–10 bps, supported by stable home prices and strong credit fundamentals, though origination volumes remain low due to limited mobility and elevated mortgage rates. Overall, technicals remained supportive, and fundamentals across securitized sectors continue to show resilience.

OUTLOOK

We expect agency MBS spreads to continue tightening through the remainder of the year, supported by inflows from relative value investors and banks. The sector's return profile remains compelling relative to other core fixed income segments and cash alternatives. While some tightening occurred in September, we believe the full extent

will materialize once the Federal Reserve resumes rate cuts in Q4. Agency MBS has performed in line with investment grade corporates year-to-date, and valuations remain attractive both historically and versus other spread sectors.

In securitized credit markets, we expect spreads to remain stable in the near term, pending greater clarity on the economic impact of tariff policies and further tightening in agency MBS. Performance has been broadly in line with other IG sectors, with higher carry offsetting the drag from shorter duration. We anticipate returns will be driven primarily by cashflow carry in the coming months, supported by attractive yields. However, elevated rate levels continue to pressure household balance sheets, particularly among lower-income borrowers, which could weigh on consumer ABS. Commercial real estate remains challenged, though falling rates may offer some relief. Residential mortgage credit remains our preferred sector, where we are comfortable extending down the credit spectrum. We remain selective in lower-rated ABS and CMBS, and continue to favor agency MBS given its relative value and strong technical support.

Taxable Municipals

MONTHLY REVIEW

Taxable municipal bonds delivered another month of positive returns in September, gaining +1.29% and extending their strong year-to-date performance to +6.43%. However, they underperformed their tax-exempt counterparts, which returned +2.32% for the month.¹¹ September's performance was driven by a combination of a more supportive macroeconomic backdrop, favorable technical conditions, and continued spread tightening. Issuance of taxable municipals remained light, totaling \$2.0 billion, which represented just 4% of overall municipal supply. Option-adjusted spreads (OAS) narrowed slightly, declining by 1 basis point month-over-month. Mirroring trends in the tax-exempt market, the long end of the curve was the strongest performer, returning +1.89% in September. Revenue bonds outpaced general obligation bonds, with top-performing sectors including Water & Sewer, Special Tax, and Education. Conversely, Lease, Transportation, and Education sectors lagged. As of September 30, 2025, the Bloomberg Taxable Municipal Bond Index yielded 4.84%, offering a 90 bp spread advantage over the Bloomberg US Treasury Index.

⁹ Source: Bloomberg, as of September 30, 2025

¹⁰ Source: Bloomberg, as of September 30, 2025

¹¹ Source: Bloomberg, as of September 30, 2025

OUTLOOK

With the Federal Open Market Committee (FOMC) projecting the possibility of two additional rate cuts before year-end, market attention is focused on upcoming employment data and the potential for a soft landing. Despite intermediate and long-term rates hovering near decade highs, the current environment presents attractive

yield opportunities along the curve and a robust income cushion against potential rate volatility. Strong technicals are expected to remain a tailwind through year-end, supported by limited taxable municipal issuance. Spreads for high-quality issuers should remain stable, underpinned by solid credit fundamentals and elevated state rainy day fund balances relative to historical norms.

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 (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

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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.

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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