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MONTHLY MARKET COMMENTARY | AUGUST 2019

# Geopolitical Fireworks Spark Late-Summer Volatility

## Monthly Snapshot

- Equity markets sold off around the globe in early August as the U.S.-China trade war appeared to enter a new phase characterized by much broader tariffs.
- U.S. stocks vacillated throughout August—confined to a total range of about three percent—and finished the month toward the high end, partially recovering from the early-month selloff.
- We think there is still life in the global economic expansion. This may seem like a bold statement, but we would need to see a severe deterioration in financial and leading economic indicators before climbing onto the recession train.

Equity markets sold off around the globe at the start of August as the U.S.-China trade war appeared to enter a newly heightened phase. With the promise of U.S. tariffs extending to virtually all imports from China by September, China allowed the yuan (its currency) to depreciate against the U.S. dollar to levels not seen since the 2008 financial crisis. This compounded concerns that the trade war would spill into a currency war. Volatility settled somewhat after spiking in early August, but remained elevated throughout the month.

U.S. stocks vacillated throughout the month—confined to a total range of about three percent—and finished the period toward the high end, partially recovering from the early-month selloff. New tariffs went into effect on September 1, imposing a 15% levy on $112 billion of Chinese exports to the U.S. that were previously unaffected.

The U.S. Treasury yield curve reached full inversion in August: The yield on the 30-year Treasury fell below the 1-month Treasury yield, settling at its bottommost level. The low-rate environment for long-term government bonds prompted U.S. Treasury Secretary Steve Mnuchin to assert the possibility of issuing 50- and 100-year Treasurys. Long-term government bond yields decreased more than short-term yields in the U.K. and Europe as well.

U.K. stock prices failed to recover from the early-month selloff as prospects of a reworked Brexit deal remained elusive. Prime Minister Boris Johnson made an effort to suspend Parliament until mid-October, leaving only two weeks for opponents of a no-deal departure to attempt to stop the U.K. from crashing out of the EU upon the planned departure date at the end of October. Sterling tumbled to multi-year lows versus the U.S. dollar at the beginning of September after Prime Minister Johnson threatened to call an election in mid-October; his parliamentary majority appeared to slip away as the House of Commons voted to block a no-deal departure.

European equities partially rebounded in the second half of August. A late-month Group of Seven (G-7) meeting of world leaders in France featured a notable unscheduled visit by Iran's foreign minister; his invitation by French President Emmanuel Macron showcased the gulf between European and U.S. leaders in terms of how to proceed in the wake of President Donald Trump deciding to exit the multi-party Iran denuclearization agreement last year.

## Key Measures: August 2019

| Equity | |
|---|---|
| Dow Jones Industrial Average | -1.32% ↓ |
| S&P 500 Index | -1.58% ↓ |
| NASDAQ Composite Index | -2.46% ↓ |
| MSCI ACWI Index (Net) | -2.37% ↓ |
| **Bond** | |
| Bloomberg Barclays Global Aggregate Index | 2.03% ↑ |
| **Volatility** | |
| Chicago Board Options Exchange Volatility Index<br>PRIOR MONTH: 16.12 | 18.98 ↑ |
| **Oil** | |
| WTI Cushing crude oil prices<br>PRIOR MONTH: $58.58 | $55.10 ↓ |
| **Currencies** | |
| Sterling vs. U.S. dollar | $1.22 ↓ |
| Euro vs. U.S. dollar | $1.10 ↓ |
| U.S. dollar vs. yen | ¥106.15 ↓ |

Sources: Bloomberg, FactSet, Lipper

Italy's coalition government collapsed on the resignation of Prime Minister Giuseppe Conte, who stepped down in a move to block Deputy Prime Minister (and leader of the nativist League party) Matteo Salvini's attempt to seize control though a snap election. At the request of President Sergio Mattarella, Mr. Conte has since agreed to help form a new coalition comprising the euroskeptic 5-Star Movement (the League's former senior coalition partner) and the pro-EU Democratic Party.

Elsewhere, Argentina revealed plans at the end of August to skip payments on more than $100 billion of debt in favor of comprehensive restructuring, sending prices on Argentine bonds spiraling downward. The Argentine stock market dropped 48% on August 12—the largest single-day decline for a stock exchange since 1989[1]—as primary election results indicated that President Mauricio Macri, a conservative reformer, would likely face pressure from populists in the upcoming general election. The government announced controls to restrict foreign purchases of Argentine pesos at the beginning of September.

India launched a wide-ranging occupation of Kashmir (a Muslim-majority region in the western Himalayas claimed by both India and Pakistan) in early August, which involved an expanded military presence, the imposition of curfews, targeted arrests, and a shuttered communications infrastructure. India's Prime Minister Narendra Modi revoked Kashmir's constitutionally guaranteed right to territorial autonomy on August 5, raising the prospect of conflict between India and Pakistan—both of which possess nuclear arms.

Protests in Hong Kong that begin in early June continued to escalate incrementally throughout August, increasing the risk of a heavy-handed crackdown by the mainland Chinese government.

## Central Banks

- The Federal Open Market Committee (FOMC) did not meet in August, but communicated on July 31 its decisions to cut the federal-funds rate by 0.25% and conclude its balance-sheet reduction program sooner than expected.
- The Bank of England's Monetary Policy Committee announced on August 1 that it retained its preference for tighter monetary policy, contingent on Brexit and its impact on economic growth.
- Central Banks from New Zealand and a raft of emerging markets including India, Thailand, Mexico and Indonesia lowered their benchmark rates in August, collectively registering the greatest number of rate cuts in a single month since 2009.[2] There was increased pressure on policymakers to ease monetary conditions due to the FOMC's decision to cut the federal-funds rate and China's allowing the yuan to depreciate.
- The European Central Bank (ECB) and Bank of Japan had no meetings in August.

[1] "Argentina's Stock Market Decline Is Among the World's Worst Since 1950" Hickey, C.K. Foreign Policy. August 13, 2019.

[2] "Down, down they go: Emerging central banks deliver most rate cuts in a decade" Strohecker, K. and Carvalho, R. Reuters. September 2, 2019.

# Economic Data

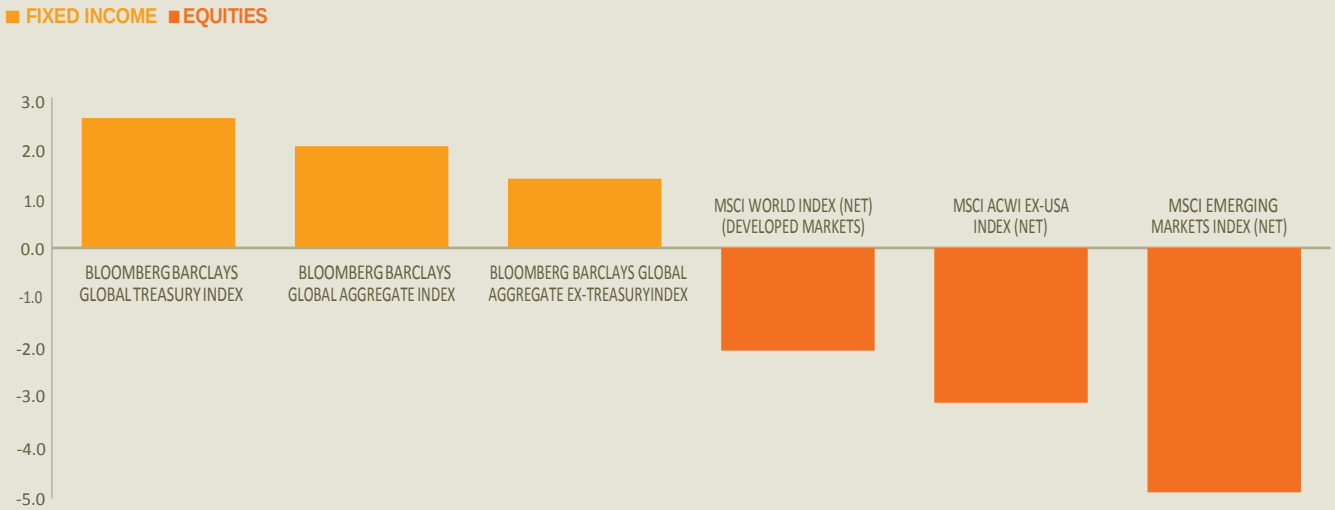
›› U.S. manufacturing activity slowed in August as export orders tumbled. Personal incomes gained 0.1% in July and consumer spending jumped by 0.6%, as prices for personal consumption expenditures increased at a 1.4% year-over-year pace (1.6% for core prices, which exclude food and energy products). Total economic growth was less than expected in the second quarter, but measured an annualized 2.0% on robust consumer spending.

›› A survey of U.K. retail sales conditions found that orders to suppliers dropped in August at the fastest rate since December 2008.[3] U.K. manufacturing activity continued to contract for the fourth consecutive month in August. The U.K. claimant count unemployment rate remained unchanged in July at 3.2%; the three-month average U.K. unemployment rate increased from 3.8% to 3.9% for the April-to-June period, while average year-over-year earnings growth jumped from 3.4% to 3.7%. The U.K. economy shrank by 0.2% during the second quarter, contracting for the first time since 2012, but expanded 1.2% year over year.

›› The eurozone services sector continued to grow at a healthy pace in August according to a preliminary report. However, manufacturing activity declined for the seventh straight month. The eurozone unemployment rate held at 7.5% in July for the third consecutive month. Overall economic growth registered 0.2% during the second quarter and 1.1% year over year, unchanged from an earlier report.

[3] Confederation of British Industry Distributive Trades Monthly Survey for August. Released August 22, 2019.

## Major Index Performance in August 2019 (Percent Return)



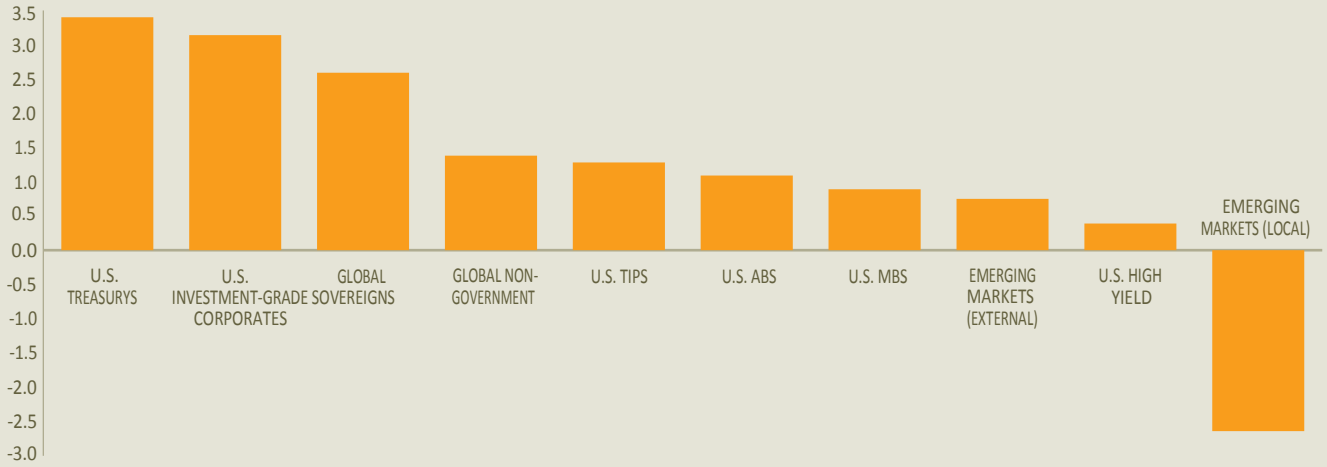

Sources: FactSet, Lipper

## Portfolio Review

In the fluctuating U.S. equity market this August, the largest-capitalization growth stocks fared better than their smaller and more value-oriented peers. Our U.S. large-cap strategy was hurt by the early-month selloff as a result of overweights to cyclical value sectors (energy, materials, financials and industrials) and underweights to utilities and mega-cap growth stocks. Our small-cap strategy performed relatively well in the hardest-hit part of U.S. markets due to an underweight to energy and strong selection in information technology and communication services. Overseas, our international developed-market equity strategy essentially matched the benchmark's decline. An underweight to and selection within materials was the greatest contributor from a sector standpoint, while overall positioning in consumer staples and selection in financials detracted. From a regional standpoint, underweights to Australia and Hong Kong were beneficial; selection in Japan overcame a detrimental underweight to the country. Selection in the U.K. and an overweight to Korea detracted. Our emerging-markets equity strategy declined amid the downturn, but performed well relative to its benchmark, due to overall positioning in financials and selection in information technology; it was only partially held back by selection in industrials. At the country level, selection in Brazil, Taiwan and overall positioning in South Africa contributed, while an allocation to North American stocks with emerging-market exposure detracted.

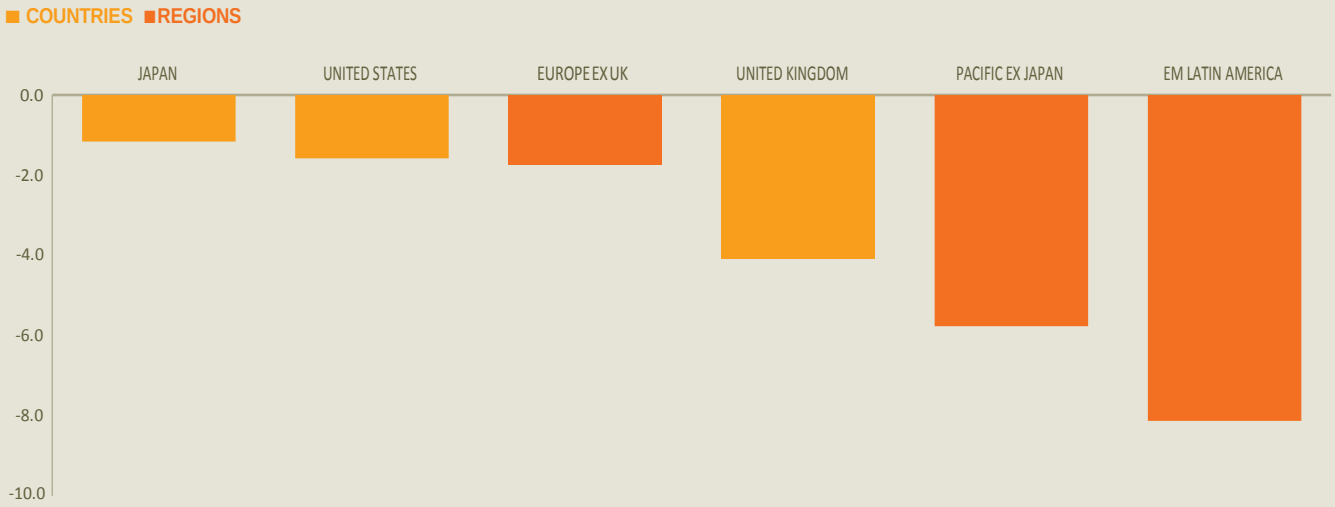
Our core fixed-income strategy performed in line with its benchmark during August despite U.S. investment-grade non-government fixed-income sectors trailing comparable U.S. Treasurys. An overweight to the long end of the yield curve was beneficial as the 30-year U.S. Treasury tumbled to a record low. A slight overweight to corporate credit detracted from performance amid modest spread widening, but a focus on financials (which outperformed

### Fixed-Income Performance in August 2019 (Percent Return)




Sources: FactSet, Lipper. See "Corresponding Indexes for Fixed-Income Performance Exhibit" in the Index Descriptions section for more information.

## Regional Equity Performance in August 2019 (Percent Return)




Sources: FactSet, Lipper. See "Corresponding Indexes for Regional Equity Performance Exhibit" in the Index Descriptions section for more information.

utilities and industrials) helped offset underperformance in this segment. An allocation to non-agency mortgage-backed securities (MBS) outperformed, while an overweight to agency MBS detracted; holdings in 15-year mortgages and collateralized mortgage obligations (CMOs) helped partially offset the underperformance. Performance within asset-backed securities (ABS) and commercial MBS (CMBS) was mixed given a continued emphasis on higher-quality holdings. An underweight to the non-corporate sector and taxable municipals added as both sectors underperformed. Our high-yield strategy delivered flat absolute performance for the full month, lagging its benchmark. An allocation to collateralized loan obligations (CLOs) along with selection in basic industry and telecommunications detracted. Selection in utilities, services and consumer goods partially offset the underperformance. Within emerging markets, foreign-currency bonds significantly outperformed local-currency bonds. Our emerging-market debt strategy struggled primarily as a result of an overweight to Argentina, although an overweight to Egypt contributed.

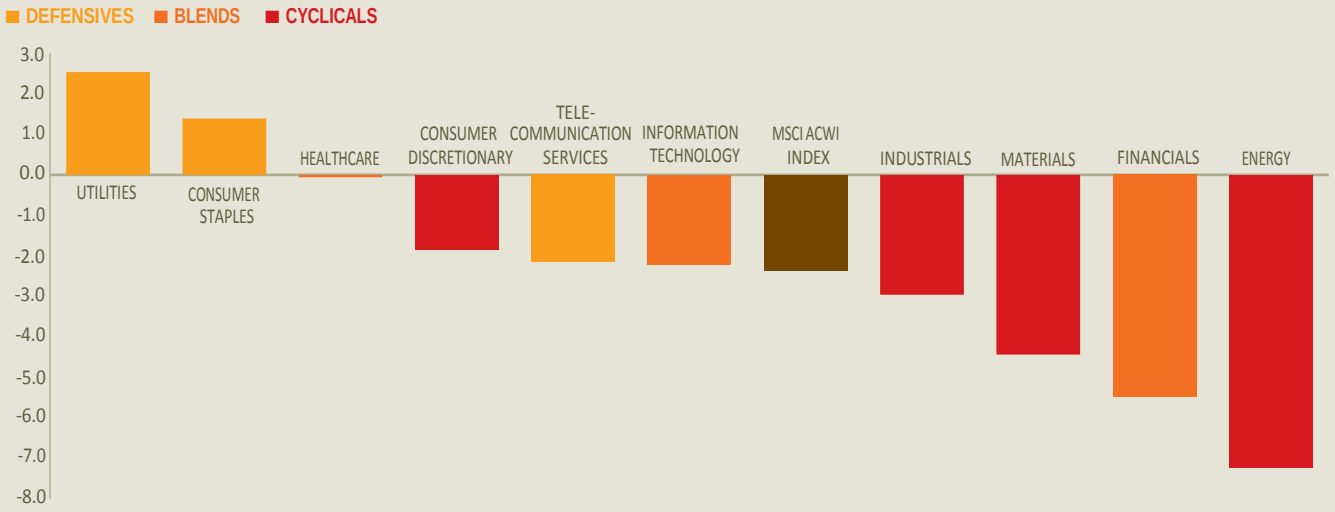
## Manager Positioning and Opportunities

We are cautious in the U.S. as valuations have been a bit elevated, earnings growth has been low, and volatility has once again become a more common phenomenon. Our U.S. large-cap strategy continued to underweight several of the largest-capitalization stocks in favor of opportunities further down the capitalization spectrum that were more attractively valued. The strategy was also underweight utilities due to their interest-rate sensitivity, high-debt balance sheets, and low returns on capital. Within small caps, we continued to prioritize cyclical value (despite the challenges it faced in August) as well as stability-oriented stocks. Our international developed-market equity strategy retained overweights to technology and communication services, driven by a preference for market themes with structural tailwinds, including the growth of the internet and digital services around the globe. The strategy

was also slightly overweight financials (specifically insurers), energy and healthcare, and underweight defensive sectors such as telecommunications and utilities. Our emerging-markets equity strategy retained exposure to technology hardware (such as semiconductors) due to rising internet usage. The strategy was overweight industrials, reflecting our view that the longer-term secular growth of emerging markets remains intact despite shorter-term headwinds from trade tariffs and a stronger U.S. dollar. Our largest underweight was to financials (primarily driven by avoidance of Chinese state-owned banks); we were also underweight real estate on China-related concerns. The strategy's largest regional overweight was to Latin America via Brazil, given the country's growth opportunities and a more stable outlook in the wake of pension-reform progress.

As the U.S. growth and inflation outlook has turned more cautious, and with the Fed's first rate reduction since December 2008, our core fixed-income strategy selectively added exposure to the front end of the yield curve and maintained an overweight to the long end of the curve. Duration drifted below neutral given the significant and rapid decline in interest rates during August. The strategy remained modestly overweight to the corporate sector, with a continued emphasis on banking, and added corporates exposure amid a high volume of new issuance. Overweights to ABS and CMBS remained given their historically competitive risk-adjusted yields, with a continued focus on the higher-quality parts of these markets. The strategy maintained an allocation to non-agency MBS and an overweight to agency MBS. Within high yield, our strategy retained an allocation to CLOs and overweights to the leisure and media sectors. The largest underweights were to energy, banking, telecommunications, capital goods and financial services. Our emerging-market debt strategy had an overweight to local-currency debt. Top country overweights were Egypt, Mexico and Ukraine, while top underweights were Philippines, Hungary and Peru.

## Global Equity Sector Performance in August 2019 (Percent Return)




Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

## SEI's View

July marked the tenth anniversary of the U.S. economic expansion. The bull market in the S&P 500 Index reached its tenth birthday in March, and appeared to celebrate these achievements by moving into new-high territory through late July. But there now seems to be anxiety that the bull market in equities is on its last legs, the victim of a slowing global economy, the lagged impact of last year's U.S. interest-rate increases and, perhaps most importantly, a worsening trade war between the U.S. and China.

To be sure, the U.S. economy is hardly firing on all cylinders. There's a good chance that capital spending will continue to ease in the months ahead, but we're not forecasting a major downturn. Corporate cash generation continued to run slightly ahead of capital expenditures. The main point to remember: It's not unusual for capital expenditures to run well in excess of cash flow, especially toward the end of the economic up-cycle. And that's not happening yet.

We need to see a severe deterioration in financial and leading economic indicators before climbing onto the recession train. Even after the past two years of multiple FOMC rate increases, there are still few signs of a build-up in financial stress.

The big unknown, of course, is how the evolving tariff war between China and the U.S. will affect U.S. economic growth and global trade in the months ahead. Tariff tensions and worries about global growth have put only a modest dent in the confidence of American businesses so far, but it certainly looks as if the U.S.-China trade relationship is getting frostier.

It is our view at SEI that the U.S. economy should be able to weather this storm. An all-out tariff war between the two largest economies in the world will certainly disrupt supply chains and likely lead to higher prices for a broad range of consumer goods. Still, we think it helps to keep the problem in perspective. Even if the U.S. imposes a 25% tariff on all Chinese imports, total duties will amount to roughly 0.5% of U.S. gross domestic product, according to our calculations of data provided by the U.S. International Trade Commission.

It is not our intention to minimize the importance of the shift in U.S. trade policy toward protectionism. The speed and ease with which supply chains can be relocated to other countries will be a critical factor, either exacerbating or tempering the tariff impact on consumers and companies in both the U.S. and China. An escalation of the trade wars by the U.S. against other countries would prove far more dangerous for the near-term growth prospects in the U.S. than if trade were disrupted only with China.

We have been thinking that the U.S. would avoid waging multiple tariff wars as it concentrated its firepower on China. But our persistent optimism may not hold. Tariffs on German and Japanese autos are still a possibility later this year.

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An aggressive easing of fiscal policy makes sense, but that strategy is a non-starter in the eurozone. Once again, the structural flaws of the eurozone are coming to the fore.

In all, we think the U.S. economy will show resiliency in the face of what is admittedly a stiff headwind. Household income growth has continued to advance at a good pace. The decline in U.S. interest rates that began late last year should certainly help consumers.

The market-implied U.S. federal-funds rate (based on federal-funds futures contracts as of August 30) is projected to be 1.6% by the close of 2019, according to the CME Group, consistent with two additional 25 basis-point cuts. Although the forecasts of FOMC members have been more cautious, they are moving in the direction of the markets. The recent decline in bond yields to levels last seen in 2016 ranks as one of the biggest surprises of the year. We find it hard to justify these moves. In our view, recession is not likely without a severe policy mistake, such as fighting a tariff war on multiple fronts.

When one considers all the headwinds facing emerging economies—a significant slowdown in Chinese economic growth, ongoing trade tensions between the U.S. and China, weak commodity pricing, and a still-resilient U.S. dollar—it's surprising that emerging stock markets have appreciated at all this year.

Europe currently faces a variety of idiosyncratic challenges, both economic and political, that makes it hard for even contrarian investors to get terribly enthusiastic about the near term. Economically, the downward trajectory is similar to that of the 2011-to-2012 period amid the region's periphery debt crisis. This time, however, Germany's industrial economy is fully participating in the slowdown.

It's not just the region's heavy exposure to manufacturing and international trade that makes German industrialists glum. There is also a worrisome vacuum of political leadership. Chancellor Angela Merkel is on her way out, and a politically distracted Germany is a concerning issue given the country's central importance in the eurozone and EU.

At the supra-national level, Christine Lagarde will succeed Mario Draghi as president of the ECB and is expected to maintain the dovish policies of her predecessor. But unconventional monetary policy in the form of negative European interest rates, quantitative easing and term lending facilities do not carry a lot of punch nowadays. An aggressive easing of fiscal policy makes sense, but that strategy is a non-starter in the eurozone. Once again, the structural flaws of the eurozone are coming to the fore.

And then there's the looming cloud of Brexit. Although it has been delayed until October 31, there is little sign that the breathing space will be put to good use. It's hard to see how Boris Johnson's ascension to the role of prime minister improves the chances of an orderly exit.

Although economic growth is sluggish, the U.K. economy is not exactly cratering as the deadline approaches. In fact, the U.K. unemployment rate fell to a multi-decade low. The eurozone also recorded steady labor-market improvement; yet the jobless rate itself remained far higher, owing to structural factors.

That said, we can't help but think Brexit (if it indeed occurs) will prove to be a highly disruptive event for the U.K. and the EU. Roughly half of the U.K.'s trade in goods, both imports and exports, are with the EU.

We think there is still life in the economic expansion, both in the U.S. and globally. If we're right, corporate profits should continue to expand and push global stock markets to higher levels in the months ahead. This may seem like a bold statement at a time when the world seems increasingly unpredictable and the economic data signal slowing growth. Yet we simply do not yet see the economic imbalances or nosebleed equity-market valuations that normally bring on recessions and an associated contraction in earnings and stock prices. It is also clear that central banks have investors' backs as monetary policymakers promise to (or already are) cutting interest rates in various parts of the world and providing additional liquidity to their banking systems in both developed and emerging countries.

## Glossary of Financial Terms

**Dovish:** Dovish refers to the views of a policy advisor (for example, at the Bank of England) that are positive on inflation and its economic impact, and thus tends to favor lower interest rates.

**Duration:** Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

**Federal-funds rate:** The federal-funds rate is the interest rate at which a depository institution lends immediately-available funds (balances at the U.S. Federal Reserve) to another depository institution overnight in the U.S.

**Quantitative easing:** Quantitative easing refers to expansionary efforts by a central bank to help increase the supply of money in the economy.

## Index and Benchmark Descriptions

**All indexes are quoted in gross performance unless otherwise indicated.**

**The Bloomberg Barclays 1-10 Year U.S. TIPS Index** measures the performance of inflation-protected public obligations of the U.S. Treasury that have a remaining maturity of 1 to 10 years.

**The Bloomberg Barclays U.S. Asset Backed Securities (ABS) Index** measures the performance of ABS with the following collateral types: credit and charge card, auto and utility loans. All securities have an average life of at least one year.

**The Bloomberg Barclays Global Aggregate Bond Index** (formerly Lehman Brothers Global Aggregate Index), an unmanaged market-capitalization-weighted benchmark, tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.

**The Bloomberg Barclays Global Aggregate ex-Treasury Index** is an unmanaged market index representative of the total-return performance of ex-Treasury major world bond markets.

**The Bloomberg Barclays Global Treasury Bond Index** is composed of those securities included in the Bloomberg Barclays Global Aggregate Bond Index that are Treasury securities.

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

**The Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index** measures the performance of investment-grade, fixed-rate, mortgage-backed, pass-through securities of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Freddie Mac (FHLMC).

**The Bloomberg Barclays U.S. Treasury Index** is an unmanaged index composed of U.S. Treasurys.

**The BofA Merrill Lynch U.S. High Yield Constrained Index** contains all securities in The BofA Merrill Lynch U.S. High Yield Index but caps exposure to individual issuers at 2%.

**The BofA Merrill Lynch U.S. High Yield Index** tracks the performance of below-investment-grade, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

**The Chicago Board Options Exchange Volatility Index (VIX)** tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

**The Dow Jones Industrial Average** is a widely followed market indicator based on a price-weighted average of 30 blue-chip New York Stock Exchange stocks that are selected by editors of *The Wall Street Journal.*

**The FTSE All-Share Index** represents 98% to 99% of U.K. equity market capitalization. The Index aggregates the FTSE 100, FTSE 250 and FTSE Small Cap Indexes.

**The ICE BofAML USD 3-Month Deposit Offered Rate Constant Maturity Index** is based on the assumed purchase of a synthetic instrument having three months to maturity and with a coupon equal to the closing quote for 3-month LIBOR. That issue is sold the following

day (priced at a yield equal to the current day closing 3-month LIBOR rate) and is rolled into a new 3-month instrument. The index, therefore, will always have a constant maturity equal to exactly three months.

**The JPMorgan EMBI Global Diversified Index** tracks the performance of external debt instruments (including U.S. dollar-denominated and other external-currency-denominated Brady bonds, loans, eurobonds and local-market instruments) in the emerging markets.

**JPMorgan GBI-EM Global Diversified Index** tracks the performance of debt instruments issued in domestic currencies by emerging-market governments.

**The MSCI ACWI Index** is a market-capitalization-weighted index composed of over 2,000 companies, representing the market structure of 48 developed- and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The Index is calculated with net dividends reinvested in U.S. dollars.

**The MSCI ACWI ex-USA Index** includes both developed- and emerging-market countries, excluding the U.S.

**The MSCI Emerging Markets Index** is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging-market equities.

**The MSCI Emerging Markets Latin America Index** captures large- and mid-cap representation across five emerging-market countries in Latin America.

**The MSCI EMU (European Economic and Monetary Union) Index** is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of countries within EMU. The Index consists of the following 10 developed-market country indexes: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal and Spain. The MSCI EMU Index captures large- and mid-cap representation across the developed-market countries in the EMU.

**The MSCI Europe ex-UK Index** is a free float-adjusted market-capitalization-weighted index that captures large- and mid-cap representation across 14 developed markets countries in Europe (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland). The Index covers approximately 85% of the free float-adjusted market capitalization across European developed markets, excluding the U.K.

**The MSCI Pacific ex Japan Index** captures large- and mid-cap representation across four of five developed-market countries in the Pacific region (excluding Japan).

**The MSCI Japan Index** is designed to measure the performance of the large- and mid-capitalization stocks in Japan.

**The MSCI World Index** is a free float-adjusted market-capitalization-weighted index designed to measure the equity market performance of developed markets. The Index consists of the following 23 developed-market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the U.K. and the U.S.

**The MSCI World ex-USA Index** is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S.

**The NASDAQ Composite Index** is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system.

**The Shenzhen Stock Exchange Composite Index** tracks performance of A share stocks (which are denominated in renminbi, the local currency) and B share stocks (which are denominated in Hong Kong dollars, an offshore currency) on China's Shenzhen Stock Exchange.

**The S&P 500 Index** is a capitalization-weighted index made up of 500 widely held U.S. large-cap companies. The S&P 500 Index is an unmanaged, market-capitalization-weighted index comprising 500 of the largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market.

**The TOPIX, also known as the Tokyo Stock Price Index,** is a capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange. The Index is supplemented by the subindexes of the 33 industry sectors. The Index calculation excludes temporary issues and preferred stocks, and has a base value of 100 as of January 4, 1968.

## Corresponding Indexes for Fixed-Income Performance Exhibit

| | |
|---|---|
| U.S. High Yield | BofA Merrill Lynch U.S. High Yield Master II Constrained Index |
| Global Sovereigns | Bloomberg Barclays Global Treasury Bond Index |
| Global Non-Government | Bloomberg Barclays Global Aggregate ex-Treasury Index |
| Emerging Markets (Local) | JPMorgan GBI-EM Global Diversified Index |
| Emerging Markets (External) | JPMorgan EMBI Global Diversified Index |
| U.S. Mortgage-Backed Securities (MBS) | Bloomberg Barclays U.S. Mortgage Backed Securities Index |
| U.S. Asset-Backed Securities (ABS) | Bloomberg Barclays U.S. Asset-Backed Securities Index |
| U.S. Treasurys | Bloomberg Barclays U.S. Treasury Index |
| U.S. Treasury Inflation-Protected Securities (TIPS) | Bloomberg Barclays 1-10 Year U.S. TIPS Index |
| U.S. Investment-Grade Corporates | Bloomberg Barclays U.S. Corporate Investment Grade Index |

## Corresponding Indexes for Regional Equity Performance Exhibit

| | |
|---|---|
| United States | S&P 500 Index |
| United Kingdom | FTSE All-Share Index |
| Pacific ex Japan | MSCI Pacific ex Japan Index (Net) |
| Japan | TOPIX, also known as the Tokyo Stock Price Index |
| Europe ex UK | MSCI Europe ex UK Index (Net) |
| EM Latin America | MSCI Emerging Markets Latin America Index (Net) |

## Disclosures

*This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the Funds or any stock in particular, nor should it be construed as a recommendation to purchase or sell a security, including futures contracts.*

*There are risks involved with investing, including loss of principal. Current and future portfolio holdings are subject to risks as well. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Narrowly focused investments and smaller companies typically exhibit higher volatility. Bonds and bond funds will decrease in value as interest rates rise. High-yield bonds involve greater risks of default or downgrade and are more volatile than investment-grade securities, due to the speculative nature of their investments. Mortgage-backed securities are affected by, among other things, interest rate changes and the possibility of prepayment of the underlying mortgage loans. Mortgage backed securities are also subject to the risk that underlying borrowers will be unable to meet their obligations.*

*Diversification may not protect against market risk. There is no assurance the objectives discussed will be met. Past performance does not guarantee future results. Index returns are for illustrative purposes only and do not represent actual portfolio performance. Index returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index.*

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