PGIM FIXED INCOME

Q1 22 QUARTERLY OUTLOOK

Published January 2022

WHATS INSIDE?

	Total Returns (%)				
Individual FI Sectors	Q4	2021	2020	2019	2018
U.S. Long IG Corporates	3.08	-4.65	13.94	23.9	-7.24
Long U.S. Treasuries	1.47	-1.13	17.7	14.8	-1.84
European Leveraged Loans	0.79	4.87	2.4	4.38	1.25
U.S. Leveraged Loans	0.72	5.40	2.8	8.17	1.14
Municipal Bonds	0.72	1.52	5.21	7.54	1.28
U.S. High Yield Bonds	0.66	5.36	6.2	14.4	-2.26
U.S. IG Corporate Bonds	0.23	-1.04	9.89	14.5	-2.51
U.S. Treasuries	0.18	-2.32	8.00	6.86	0.86
European High Yield Bonds	-0.37	3.32	2.9	11.4	-3.35
Mortgage-Backed (Agency)	-0.37	-1.04	3.87	6.35	0.99
EM Debt Hard Currency	-0.44	-1.80	5.26	15.04	-4.26
European IG Corporate	-0.66	-0.97	2.77	6.24	-1.25
EM Currencies	-0.95	-3.09	1.73	5.2	-3.33
CMBS	-1.16	-0.64	8.11	8.29	0.78
EM Local (Hedged)	-1.78	-5.52	6.07	9.14	0.75
Multi-Sector					
U.S. Aggregate	0.04	-1.39	7.51	8.72	0.01
Global Agg. (Unhedged)	0.01	-1.54	9.2	6.84	-1.2
Global Agg. Hedged	-0.09	-0.15	5.58	8.22	1.76
Yen Aggregate	-0.58	-2.85	-0.8	1.64	0.93
Euro Aggregate (Unhedged)	-0.67	-4.71	4.05	5.98	0.41
Other Sectors					
S&P 500 Index	11.03	28.71	18.4	32.6	-4.4
U.S. Dollar	1.53	6.37	-6.69	1.35	4.9
3-Month LIBOR	0.03	0.18	0.74	2.4	2.23

Past performance is not a guarantee or a reliable indicator of future results. See Notice for important disclosures and full index names. All investments involve risk, including possible loss of capital. Sources: Bloomberg except EMD (J.P. Morgan), HY (ICE BofA), Bank Loans (Credit Suisse). European returns are unhedged in euros unless otherwise indicated. Performance is for representative indices as of December 31, 2021. An investment cannot be made directly in an index.

PGIM FIXED INCOME

SECTION 1

KEY CONVICTIONS & INVESTMENT THEMES

01

KEY CONVICTIONS & INVESTMENT THEMES

1. **Alpha Rides Again.** Beta performed well in the early stages of the COVID recovery—but it will be far more challenging to simply track the market when facing mounting uncertainties, wide dispersions in potential outcomes, and moderating global growth.

2. **Emphasis on Relative-Value Analysis.** The wide dispersions throughout economies and fixed income sectors underscore the importance of the relative-value analysis needed to capitalize on alpha opportunities.

3. **Mind the Seams.** Playing the seams across asset classes (e.g., crossover credit, loans vs. bonds, DM vs. EM) and reopening sectors if/when the effects from COVID create value.

4. **Risks in Three Cs.** Central bank errors, China's economic moderation, and COVID's unfolding contours are three key risks that could determine global economic and market dispersions in 2022 and beyond.

PGIM FIXED INCOME

SECTION 2

BOND MARKET OUTLOOK

By Robert Tipp, CFA, Chief Investment Strategist and Head of Global Bonds

Against the consensus, we expect a bit of economic market moderation in 2022 to go a long way toward soothing the bond market in 2022. After last year's volatility, we see strong relative-value opportunities across the fixed income sectors, including corporate credit, structured products, and emerging markets.

02

SIMMER DOWN NOW

Despite the epic nature of the COVID backdrop to date, we expect an easing in growth and inflation from their recent heights, in concert with roll backs in fiscal and monetary stimulus, to result in a low- to mid-single digit return environment across most fixed-income markets, with higher returns in the higher-risk sectors. This moderate-return environment will place a premium on the value added through bottom-up alpha generation.

Economic Backdrop: A Bit of Moderation?

We expect the growth and inflation fireworks of recent quarters to begin moderating as the same underlying fundamentals that existed prior to COVID—such as aging demographics and high debt burdens—begin their return to the fore as economic drivers, taking the edge off of 2022's growth compared to last year. In the U.S., 2021's high single-digit nominal GDP growth was boosted by one-time factors, including re-openings and COVID shortages. ***Forecasters are looking for another high-single digit outcome in 2022 (Figure 1), which, although possible, seems aggressive.*** After all, will there be another broad reopening to power a surge in growth? Couldn't we see an abatement in the supply-chain frictions currently boosting inflation? ***Relative to those high expectations, we'd bet on some moderation.***

DM Rates: The markets seem to agree with the moderation thesis and are pricing for central bank success in curbing the economic excesses. After the bear steepening in Q1 2021, many DM rates markets, including the U.S. Treasury market, have seen long yields level off as central banks have signaled a willingness—if not eagerness—to withdraw accommodation to regain control of inflation (Figure 2). Against the consensus, we suspect that the peak in rates in many DM markets is either behind us or is quickly approaching, giving way in the quarters ahead to a lower, range bound rate environment across DM (see Green Light Central Banks, Green Light Bonds for more on that perspective).

Eurozone Rates: After residing in the same zip code as U.S. rates for decades, European yields diverged from the U.S. following the Eurozone crisis, dropping towards levels more familiar in the JGB market (Figure 4). Rather than a temporary deviation, this drop looked to us like an apt reflection of Europe's fundamentals and would thus be long lived (click here to read 2014's "Europe into the Void").

Global Credit: Credit spreads should benefit from the ongoing economic expansion and its positive impact on fundamentals with two caveats: 1. the bulk of the spread narrowing during the COVID recovery—and the

Figure 1
The consensus seems to be looking for another banner high single-digit year once again in 2022, which seems like a big ask.

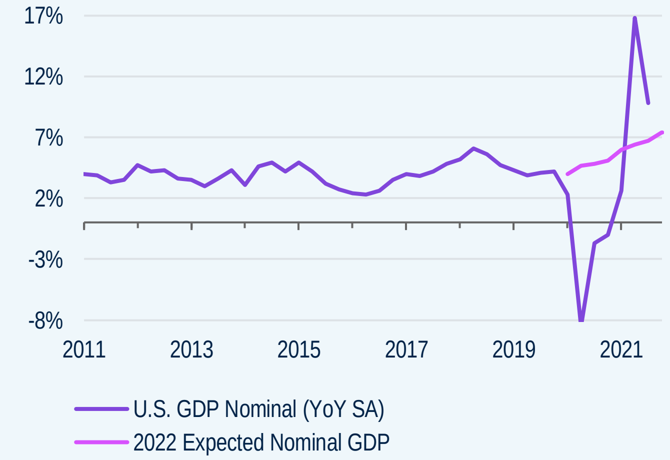
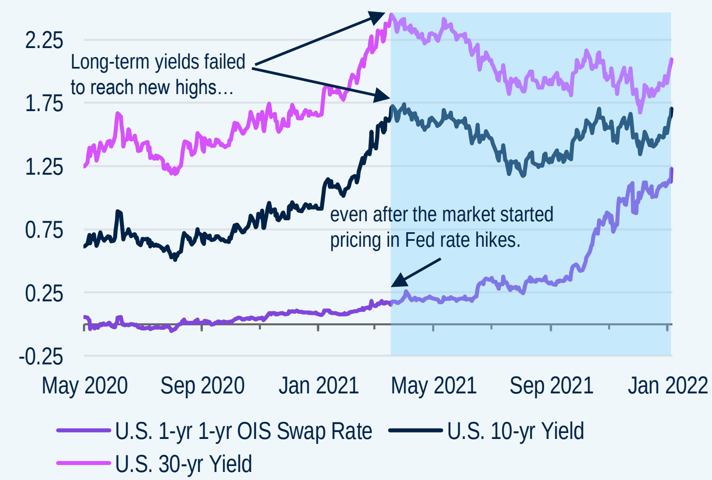


Figure 2
As the market priced-in the Fed's telegraphed rate hikes (see the 1y1y OIS swap rate), particularly after the March 2021 FOMC meeting, long-term yields leveled off. (%)



gangbuster returns—are behind us, leaving the future returns from spread product likely to be much more modest; and 2. caution will be required as narrower spreads offer far less cushion against credit potholes. There is a positive note, however (see Figure 5).

Last year brought more than its fair share of dramatic outcomes. While we've focused on the theme of moderation, a few areas, including ESG and the emerging markets, look set to continue to buck the moderation trend.

1. ESG-related issuance and assets under management: Issuance has ballooned (Figure 6) with ESG assets on track to exceed $50 trillion by 2025, or one-third of the total assets under management globally .

2. If you thought the shift to renewables was going to be clean and easy, 2021's **"greenflation"** suggests that while the eventual outcome may be clean energy, the path may be more complicated than not.

   While the objective of the shift to renewables is to create a better world over time, a confluence of factors in 2021 created a surge in energy prices, boosting inflation as well as the bond returns from the still slated-for-the-dust-bin fossil fuel energy sector (Figures 7 & 8). The energy supply side was crimped by: 1. reduced exploration investment for the presumed to be sunsetting carbon fuels, 2. snags from climate itself, such as droughts crimping hydroelectric power generation, and weather-related disruptions in fossil fuel transport as well as 3. transportation worker shortages amid COVID and Brexit. Meanwhile, demand was boosted by: 1. the reopening's unusually strong economic growth, and 2. climate change driving higher demand for energy to heat and cool.

Figure 4
We see the recent rise in European rates as reflecting unrealistic expectations for an eventual "normalization" by the ECB. We expect a reversion to sub-target inflation to limit, if not squash, prospects for rate hikes. (%)

Figure 5
EM and high yield corporate spreads have room to run relative to their historical tights, suggesting better bottom-up security selection opportunities in those sectors. (bps)

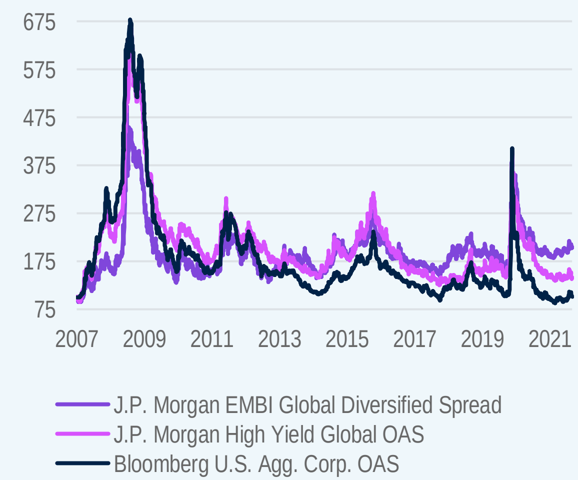


Figure 6
Global ESG issuance set to buck the moderation trend. ($ in billions)

3. Nor is there any ho-hum in emerging market local rates. In contrast to the muted rate cycles in the DM markets, EM local markets were pounded in 2021 as fundamental challenges and inflation mushroomed. While the outcomes across countries are likely to be as varied as the individual country situations themselves, the large selloffs in these markets may create some of the more noteworthy opportunities in fixed income over the quarters ahead (Figure 8).

Bottom Line: The crash and surge of the COVID cycle is largely behind us. As the upside impact of reopening fades, a more moderate expansion will emerge. The rising trend in long rates is, therefore, shifting more to a range bound environment as are credit spreads. While less exciting than the post-COVID credit recovery, the results for fixed income are nonetheless likely to remain modestly positive with government bonds positioned to outperform cash and credit products set to outperform governments. Additionally, the uneven recovery across the credit and issuer spectrum as well as the EM/DM divide has left plenty of opportunities to add value through active management.

Figure 7
Booming energy prices have not only boosted headline inflation, but have also indirectly contributed to the rise in core inflation measures. (%)

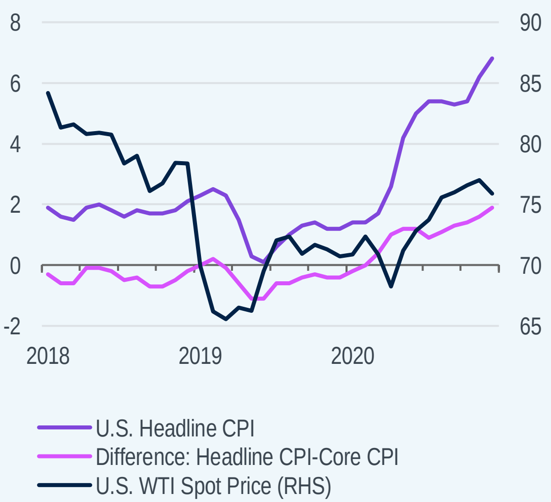


Figure 8
U.S. high yield energy stood out in 2021

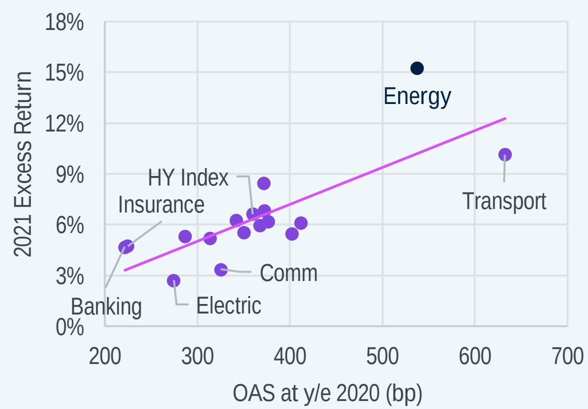
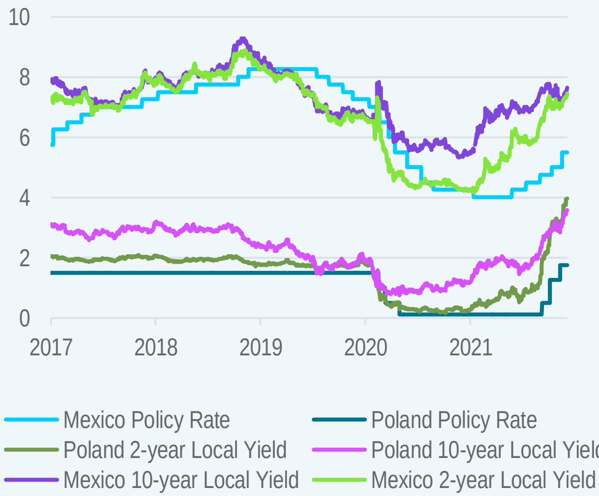


Figure 9
EM central banks have jumped into action to stem the tide of rising inflation. While most rate-hike cycles are mid-way, markets have moved to a late-cycle posture, bear flattening to multi-year highs, signaling that a peak in rates could be in the offing.



Sources for Figures 1-5, 7, 9: PGIM Fixed Income and Bloomberg; 6: PGIM Fixed Income and Bloomberg Intelligence; 7: PGIM Fixed Income and Barclays

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WHITE PAPER

GREEN LIGHT CENTRAL BANKS, GREEN LIGHT BONDS

Each economic recovery has one thing in common: a buying opportunity in bonds, with a hawkish turn in monetary policy serving as the catalyst. Many of the world's bond markets look like they hit their peak in yields at the end of the first quarter of 2021.

BLOG POST

RISKS FOR 2022 AND BEYOND: CENTRAL BANKS, CHINA, AND COVID

We remain in a world that is ripe with the potential to create a sea change in market dynamics. This post highlights three key macroeconomic risks that we are focusing on this year and beyond.

WEBINAR

OPTIMISM AMID UNCERTAINTY: PGIM FIXED INCOME'S 2022 EU MARKET OUTLOOK

This webinar highlights the drivers of our positive outlook, discusses the implications from a strategy and asset allocation perspective, and provides an assessment of the global high yield backdrop.

PGIM FIXED INCOME

SECTION 3

GLOBAL MACROECONOMIC OUTLOOK

By Katharine Neiss, PhD, European Chief Economist, Global Macroeconomics Team

The long-term impact of the pandemic remains uncertain, but early policy retrenchment risks permanent scarring that could affect the potential growth trajectory beyond the near term. Our view remains that, as growth moderates, central banks will yet again grapple with secular factors, including elevated debt levels, deteriorating demographics, and technological advances, that collectively restrain inflation as in the previous decade.

03

A MODERATE GLOBAL OUTLOOK **MARKS THE PANDEMIC'S NEXT PHASE**

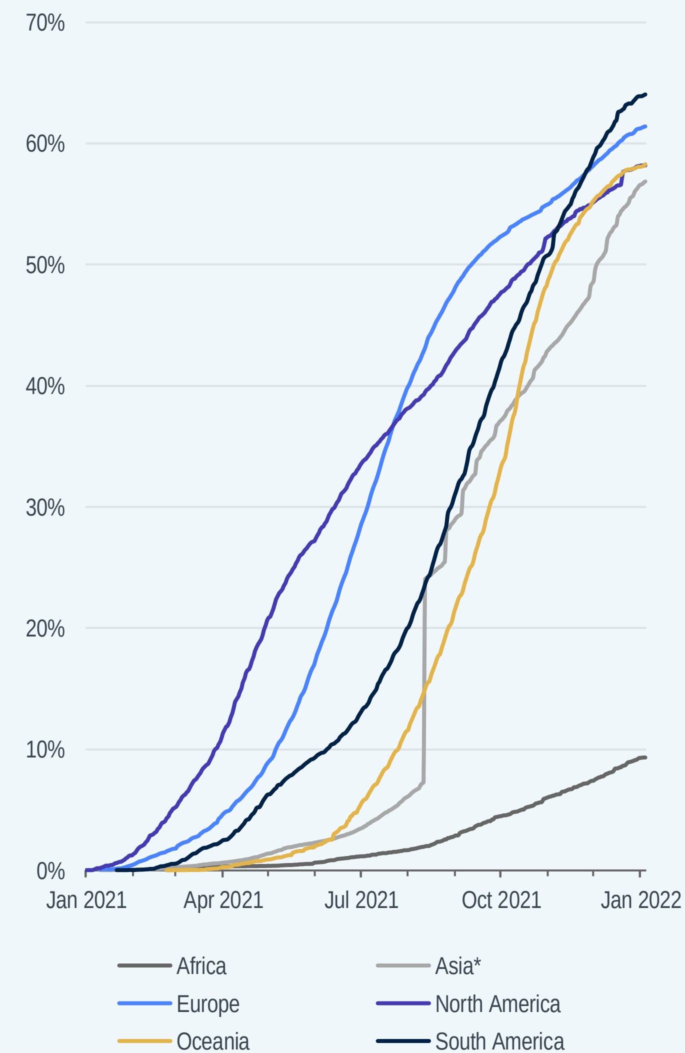
Following 2021's spectacular surge in growth and inflation, we continue to expect the global outlook to moderate over the course of 2022 with some notable regional differentiations. Reflecting the success of robust policy action **through the pandemic's most acute phase, a** large swathe of global economies, such as those in the U.S. and Europe, as well as emerging markets saddled with large output gaps, such as Indonesia, will likely see continued above-trend growth.

For most countries, we expect inflation to remain above target for most of 2022 amidst persistent supply chain issues, higher goods demand, and elevated energy prices. In DMs, strong demand momentum has enabled a recovery in the respective labour markets following a series of lockdowns and social distancing restrictions. This repair should continue supporting household and business confidence.

In Japan, a reacceleration of activity is expected as aggressive fiscal stimulus to revive the post-pandemic recovery commences. But elsewhere, growth is expected to slow markedly and fall below potential in some cases. In China, the moderation of global growth will act as a drag on its external demand, while the country's continued strict virus containment measures impart a critical downside risk. Long-standing concerns around China's high debt levels, particularly given the weaknesses in the real-estate sector, will remain major economic headwinds against a backdrop of demographic deterioration. That said, we expect Chinese policymakers to adopt a more growth friendly stance relative to 2021. Other emerging economies, such as Brazil and South Africa, are expected to slow markedly this year given their structural issues.

That moderating and differentiated outlook reflects the path of the virus and our collective management of it, marking a new phase in the pandemic. In some ways, the beginning of 2021 offered greater clarity considering the optimism surrounding the arrival of effective vaccines and continued ample policy support. While several successful mass vaccination programmes—including those in EM, such as Argentina and Malaysia—suggest the pandemic's most acute phase may be behind us, the emergence of Omicron poses downside risk to growth via restrictions, fear, and public backlash as well as upside risks to inflation through prolonged supply-chain disruptions. Uncertainty around the path of the virus and uneven vaccination coverage, particularly in Africa, will continue to cast a shadow over the global recovery. But as these uncertainties begin to resolve themselves, we see the balance of risks to the upside as economies continue to reopen and adapt, which serves as a partial offset to the various forms of policy stimulus withdrawal.

Figure 1
Share of Population Fully Vaccinated Against COVID-19 (%)



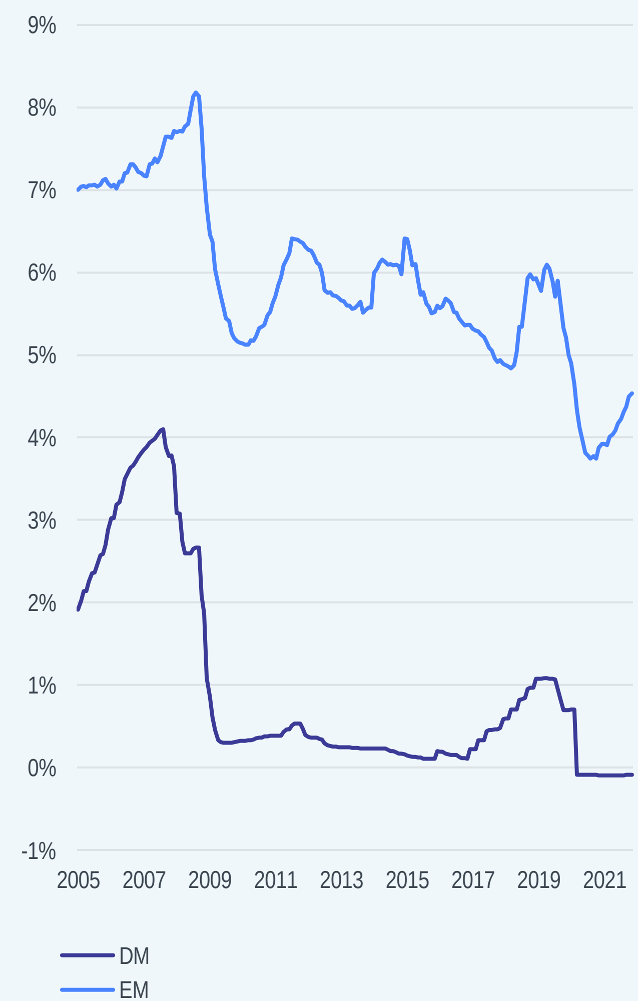
*Data for China reported irregularly.
Source: Our World in Data.

As we advance towards a new paradigm, monetary and fiscal policy will enter a new phase as well. Governments and central banks have started scaling back the extraordinary support offered over the last 18 months. Fiscal stimulus on net is unwinding, though not everywhere. In the U.S., the relief package of March 2021 could be the last of its large pandemic-related packages. In the EU, and amidst Germany's new leadership, the focus is shifting towards renewed fiscal discipline in 2023. Disbursement of centralised Next Generation EU funds are expected to peak in 2022/2023, but political momentum to extend the programme seems unlikely. China's stimulus measures should support domestic growth, but the associated global impulse may be limited relative to past precedence.

The withdrawal of monetary policy support is another global trend that is expected to accelerate over the course of 2022. The surge in demand, particularly in DM economies amidst supply-chain disruptions, has led to a sharp, longer-than-expected increase in inflation. Moreover, continued tensions between Russia and Ukraine could trigger further energy price shocks over the winter. Small, open, DM economies, such as Norway, New Zealand and the UK, have led the way with recent interest-rate hikes, but the U.S. Federal Reserve has accelerated its asset purchase tapering and is expected to begin rate lift-off this year with at least two rate hikes as a base case, but possibly three hikes as the Fed's updated projections suggest. Emerging markets, e.g., those in Central and Eastern Europe and Latin America, have begun to tighten policy too, reflecting broader inflation concerns. The euro area, Japan, and China remain notable exceptions as they deal with legacy issues, such as below-target inflation, and are expected to maintain relatively accommodative monetary policies for the foreseeable future

The shift towards monetary tightening, particularly in the U.S., creates a challenging backdrop for EM economies. While this "push factor" from tighter global financial conditions will, to varying degrees, offset domestic conditions that affect the relative attractiveness of investing in an individual economy, it will likely be nuanced as DM tightening partially reflects continued growth momentum, a factor supportive of EM. Any assessment will need to differentiate between those economies with robust institutions, reputations for fiscal discipline, and resilience to the pandemic. And although the global trend is for a withdrawal of policy support, it remains accommodative in the U.S. and the euro area in an absolute sense, creating a constructive environment for credit and pockets of value in high-yielding investments. The long-term impact of the pandemic remains uncertain, but early policy retrenchment risks permanent scarring that could affect the potential growth trajectory beyond the near term. Our view remains that, as growth moderates, central banks will yet again grapple with secular factors, including elevated debt levels, deteriorating demographics, and technological advances, that collectively restrain inflation as in the previous decade.

Figure 2
The Weighted Average of DM and EM Central Bank Policy Rates



*GDP in USD, at market prices.
Source: BIS; PGIM Fixed Income.

PGIM FIXED INCOME

SECTION 4

GLOBAL SECTOR OUTLOOKS

04

DEVELOPED MARKET RATES

Outlook: In a departure from 2021's heightened volatility, DM rates should be much calmer in 2022 as market pricings of central bank rate hikes are realized. Low volatility is conducive to relative-value opportunities, and we expect the significant dislocations across global rates to normalize.

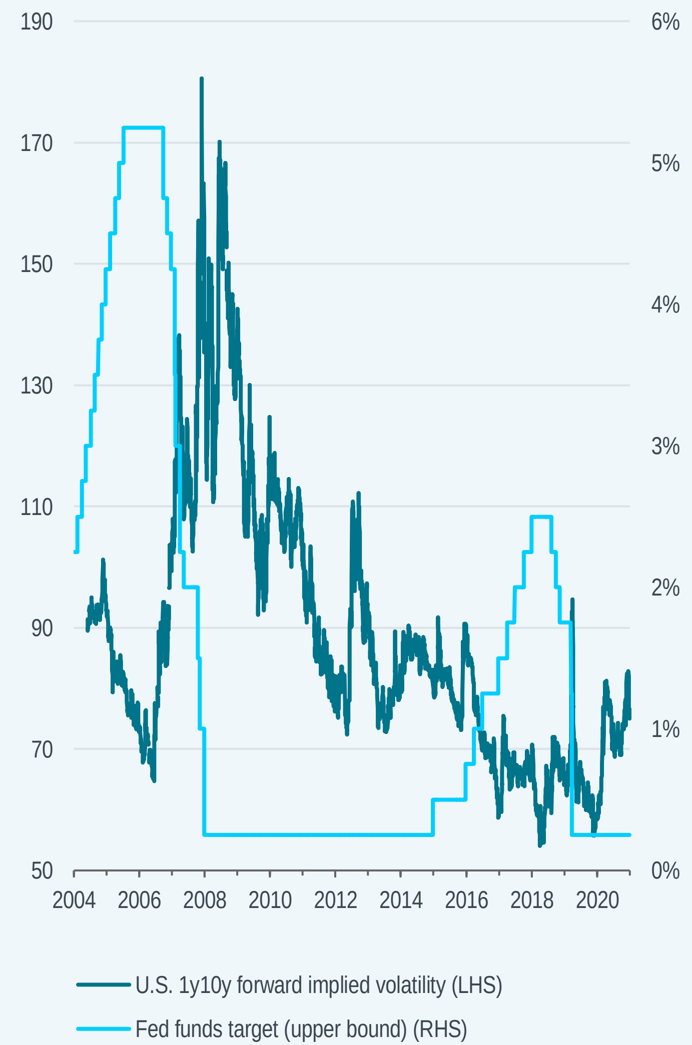
■ While the factors that drove 2021's DM rate volatility—i.e., global inflation surprises and the consequent repricing of rate-hike expectations—will likely dictate rate movement in 2022, we are positioned for much lower volatility going forward in both implied and realized terms. Our outlook is grounded in an expectation that COVID waves and inflation pressure will moderate, with the latter view shared by Fed officials despite their recent, hawkish pivot to tackle rising prices.

■ Our expectation for low volatility is based on historical patterns during past Fed hiking cycles. Forward implied volatility consistently declined during the past two hiking cycles in 2004-06 and 2015-19 as forward pricings were realized (Figure 1). We think this time is no different—the market has already heeded the Fed's projection for three hikes this year, so the spot curve should adjust to meet forward pricings, leading to a generally low-volatility environment.

■ The significant market volatility experienced last year prompted a breakdown in the normal relationships of highly-correlated bonds and drove dislocations in fixed-income relative value to extreme levels that were only seen during acute systemic crises, such as the Global Financial Crisis of 2008 and COVID's early days. As market swings subside, we expect the historic dislocations we witnessed in the U.S., the U.K., Canada, and Australia to revert to more normal relationships. Also, capital should return to relative-value strategies in a low-volatility environment, which will add momentum to the mean reversion.

■ In U.S. Treasuries, we expect the persistent undervaluation of the on-the-run 20-year bond and the seven-year note to improve. We maintain long positions in the 20-year against US and WN futures contracts. We're encouraged by the Treasury's plans to substantially cut issuance in the sector as well as the Fed's continued sponsorship even in the face of tapering. Also, the Chicago Mercantile Exchange's recently unveiled plans to issue new futures contracts, with the 20-year as the deliverable asset, should increase investor demand for the sector.

Figure 1
Implied Volatility Declines During Previous Fed Hiking Cycles
(LHS: bps per annum; RHS: %)



Source: PGIM Fixed Income, Bloomberg.

AGENCY MBS

Outlook: Still underweight vs. rates. While valuations remain rich, some spread widening is emerging in anticipation of the Fed's withdrawal, which will shrink TBA demand, lead to a decline in dollar rolls, and pose a headwind for basis performance.

■ The sector entered 2022 facing multiple headwinds, the foremost being the Fed's QE tapering, which set a $10 billion reduction in MBS purchases beginning in January. The demand reduction arrives amid expectations for positive net supply (but below 2021's levels), and option-adjusted spreads generally remain tight, underscoring the uncertainty regarding buying demand beyond the Fed.

■ With fewer to-be-announced issues absorbed by the Fed, convexity is set to deteriorate (particularly with 2022's increase in conforming limits) with less dollar roll specialness.

■ While that backdrop supports our underweight positioning vs. rates, the outlook could potentially worsen. Our base case does not anticipate a reduction in the Fed's MBS reinvestments in 2022, but if inflation pressures continue to mount and warrant a reduction in the holdings on the Fed's balance sheet, this potential scenario could emerge as a highly negative development for the sector.

■ Policy risk remains as well with the Biden Administration looking towards the FHFA and GNMA/FHA to assist underserved borrowers.

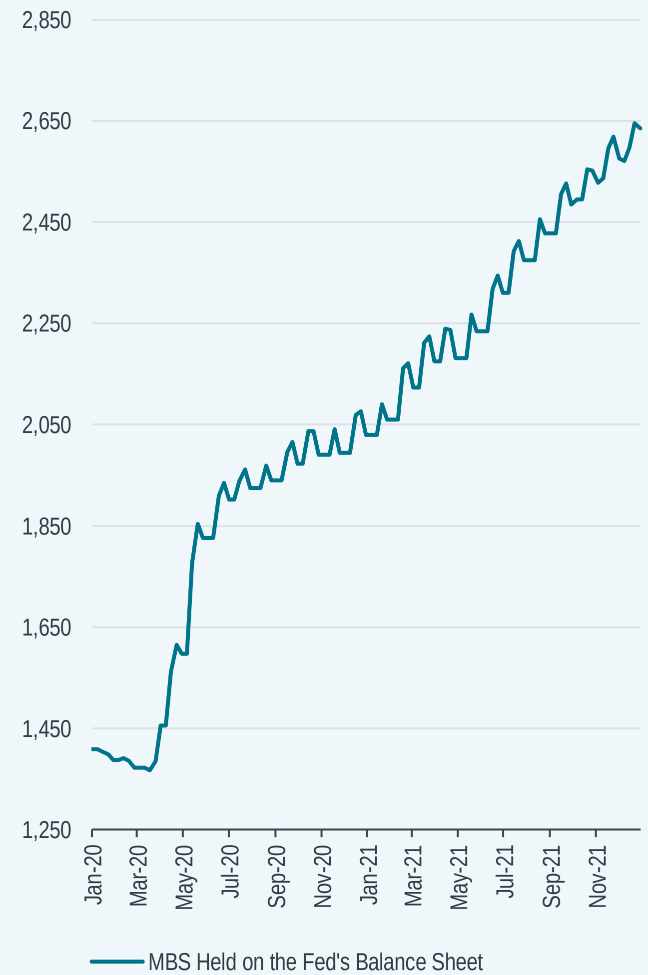
■ The positives within the sector marginally offset the negative factors. After underperforming other significant asset classes within the Aggregate index to end 2021, the large short base of active investors in the sector may look to cover their positions into any material cheapening, hence limiting the spread widening.

■ With a potential Fed policy error looming as a significant risk this year, in a scenario where the Fed takes a more aggressive approach on its hiking path that negatively affects broad risk sentiment, MBS may outperform other spread sectors given its lower-beta profile.

■ Prepayment speeds should continue declining from 2021, and higher 30-year coupons may continue to draw some interest amid the prepayment burnout and the diminished float after 18 months of elevated prepayments.

■ We remain underweight MBS vs. rates as 2022 commences, and we continue to prefer the 20-year sector vs. the 30- and 15-year segments. We also favor a barbell theme of long positioning in the wing coupons vs. underweight exposure to primary production coupons. Elsewhere, we remain underweight GNMAs, prefer specified pools, and aim for limited TBA exposure.

Figure 1
The Steady Expansion of MBS Holdings on the Fed's Balance Sheet ($ in billions)



Source: Bloomberg as of October 2021

SECURITIZED CREDIT

Outlook: Constructive Stability. High-quality CLO spreads should return their generous carry, CMBS spreads will likely take their cue from IG corporates, housing values appear supportable, and we remain constructive on ABS spreads.

- **CLOs**: U.S. and European supply should remain heavy in 2022, but partially offset by strong demand across the capital structure tranches. While we don't expect a record in gross issuance, a record in net issuance is likely in 2022. U.S. and Euro CLO markets continue to represent ~ 62% of the respective bank loan markets.

- While spreads are biased to tighten, incoming supply and potential widening in other spread sectors could stymie the compression. Debt tranches should earn their carry, and equity is estimated to continue "yielding" around 13%. The benign credit environment in bank loans supports overall CLO credit as well.

- The SOFR transition in the primary market will likely come and go as a news story, while the focus on ESG will sharpen with standardized documentation set to improve transparency.

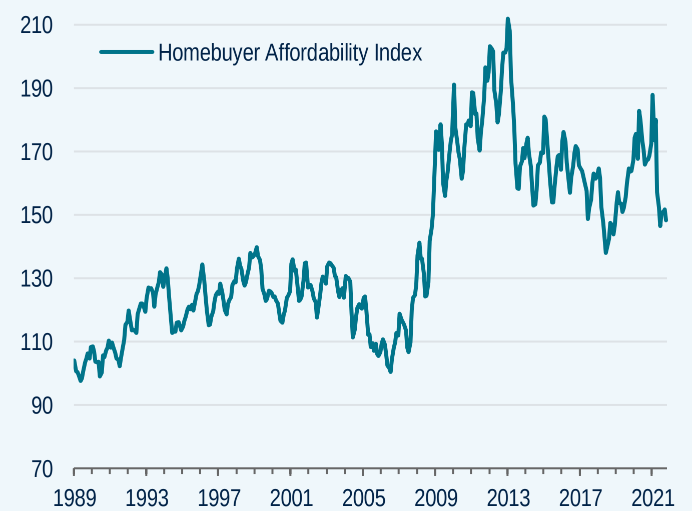
- **CMBS**: Spreads and risks within the asset class appear balanced. Supply will be heavy—particularly for Single Asset/Single Borrower (SASB) and CRE CLOs—yet manageable, and spreads will likely remain rangebound, while taking their cue from investment-grade corporates.

Figure 1
Summary of Q4 Market Performance

Sector		Subsector	Spread Change (bps) Q4	LIBOR OAS 12/31/21
CMBS	CMBS: Conduit AAA	First-pay 10-year	+5	68
	CMBS: Conduit BBB-	BBB-	+25	350
	CMBS: SASB – Senior	AAA	+10	80
	CMBS: SASB - Mezz	BBB-	+50	225
	CMBS: Agency Multifamily	Senior	+9	26
Non-Agency RMBS	Legacy	RPL Senior	+10	70
	Legacy	'06/'07 Alt-A	0	120
	GSE Risk-Sharing	M2	-11	150
CLOs	CLO 2.0	AAA	+3	116
	CLO 2.0	AA	+10	170
	CLO 2.0	BBB	+35	315
ABS	Unsecured Consumer Loan ABS	Seniors	+5	60
	Unsecured Consumer Loan ABS	Class B	+10	85
	Refi Private Student Loan	Seniors	+15	65
	Credit Card ABS	AAA	+5	7

Past performance is not a guarantee or a reliable indicator of future results. See Notice for important disclosures. All investments involve risk, including possible loss of capital. Source: PGIM Fixed Income as of December 31, 2021.

Figure 2
Low Mortgage Rates Have Supported Affordability



Source: National Association of Realtors; PGIM Fixed Income as of December 2021.

■ Although delinquencies remain elevated for hotel and retail properties, they continue to improve, and problem properties have largely been identified. Office leasing activity has picked up, and availability rates have stabilized or even marginally declined, but we still would not be surprised if there is a fundamental shift in square-footage use due to protracted work-from-home arrangements, which will play out over time given the length of CMBS lease terms.

■ CRE capitalization rate spreads generally remain above long-term averages (except for multi-family, which is at the long-term average, and industrial, which is inside the long-term average). Overall, property fundamentals have improved, and CRE valuations appear reasonable.

■ **RMBS**: While we expect home-price appreciation to moderate in 2022, we expect it will remain healthy in the 6-8% range. Home prices don't appear to be in a bubble as low mortgage rates have supported affordability, which remains above, but trending toward, the long-term average, while new and existing supply is constrained.

■ Furthermore, conservative mortgage underwriting and origination standards have prevented pervasive speculative buying, and distressed supply does not appear to be on the horizon as generous anti-foreclosure policies have prevented waves of defaults. Demographically, the large millennials cohort has reached its peak years in household formation, which should provide a bulwark for future demand.

■ As to the investable RMBS bond universe, we think jumbo, non-qualified mortgage, reperforming loans, and European RMBS securities are uncompelling at current, tight spread levels. Outstanding credit risk transfer (CRT) bonds should continue to benefit from conservative underwriting and strong HPA over the coming quarters, yet uncertainty clouds the quality of yet-to-be originated mortgage cohorts. CRT spreads are expected to remain rangebound and take their direction from high yield corporates. We continue to favor higher spread bespoke investments in RMBS, such as mortgage origination warehouse facilities.

■ **ABS**: Technicals appear favorable with manageable new issue supply and consistent demand set to support spreads in 2022. We expect gross issuance next year to be in a similar context to 2021 at about $260 billion, which would constitute $30-40 billion in net supply. Further, we think favorable liquidity positions by most major issuers will allow for a reduction in issuance in the case of a market back-up.

■ Although consumer credit performance remains favorable even as we transition away from pandemic-related federal support programs, we expect some modest deterioration to historical norms, which, while not troubling, bears watching. Structural protections in ABS remain robust and more than sufficient to counter increased loss expectations. Regulatory headwinds persist as the current administration empowers agencies, such as the CFPB, to heighten scrutiny over providers of consumer credit.

■ We remain constructive on higher value ABS, such as select issuers of unsecured consumer loans, subprime auto, and global prime auto credit risk transfer issues.

Home prices don't appear to be in a bubble as low mortgage rates have supported affordability, while new and existing supply is constrained.

INVESTMENT GRADE CORPORATE BONDS

Outlook: Selectively Opportunistic. We continue to favor certain BBB issues for carry and spread compression in deleveraging names. Value remains in select sectors, e.g., U.S. money center banks, and we're mindful of the sector's event risk as well as the mounting macro uncertainties.

■ The widening of **U.S. spreads** in late 2021 could lead to some retracement in the first half of 2022, yet views around spread levels by the end of 2022 are more disperse than in prior years, which may lead to alpha opportunities in individual names. In terms of resistance levels, we expect demand in the secondary market may start to moderate if spreads re-tighten into the low 80 bps range.

■ Leverage of around 3x is slightly lower than pre-COVID levels and should continue to decline with additional EBITDA growth, and we see earnings growth moderating to about 10%. The rating agencies tend to lag credit fundamentals, thus the positive ratings trend should continue with rising stars potentially reaching more than $100 billion over the next 12-18 months.

■ In terms of technicals, issuance will likely be similar to 2021 with supply from the banks posing the greatest uncertainty. As 2022 starts, dealer balance sheets appear to have more flexibility than in October/November 2021.

The institutional demand picture is mixed as FX hedging costs may increase and curtail overseas demand with the divergence in monetary policy rates. Conversely, a flatter Treasuries curve could steepen credit curves and lead to an increase in pension demand for long-dated issues given the improvement in funded status.

■ From a positioning perspective, we're moving towards neutral spread duration and adding AAA CLOs where permissible. We continue to favor crossover credits and those with BB ratings that could see upgrades. We're generally positioned in shorter-maturity BBBs, but are overweight long-maturity BBBs that have specific catalysts, such as deleveraging commitments or potential rating upgrades. The broad 15- to 20-year segment of the market appears attractive for opportunities to roll down the curve. We're maintaining overweights to energy (deleveraging and upgrade potential), money center banks (cheap to industrials and less event risk), and utilities (somewhat cheap to industrials and less cyclical).

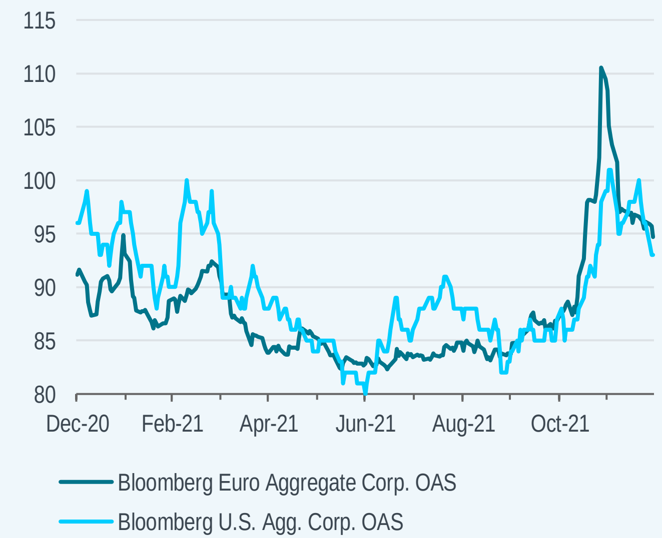
■ Risks in the sector include the potential for profit margin pressure and a shift in the use of free cash flow for stock buybacks, dividend increases, and capex expansion.

Figure 1
Summary of Q4 Market Performance

	Total Return (%)		Spread Change (bps)		OAS (bps)
	Q4	2021	Q4	2021	12/31/21
U.S. Corps.	0.23	-1.04	8	-4	92
European Corps	-0.66	-0.97	12	3	94

Past performance is not a guarantee or a reliable indicator of future results. See Notice for important disclosures. All investments involve risk, including possible loss of capital. Represents data for the Bloomberg U.S. Corporate Bond Index and the Bloomberg European Corporate Bond Index (unhedged). Source: Bloomberg as of December 31, 2021. An investment cannot be made directly in an index.

Figure 2
After U.S. Spreads Traded Wide for Most of 2021, Both Markets Ended the Year at Similar Levels (bps)



Source: PGIM Fixed Income; Bloomberg as of December 2021

■ Although record M&A activity in 2021 was relatively benign for the sector, we anticipate that it will remain brisk in 2022 with potentially negative event risk. We're contemplating whether a large LBO of an investment-grade name might even emerge. That said, we believe a Fed policy mistake, and the consequent possibility of a recession, poses the biggest risk to spreads.

■ While macro uncertainties and technical headwinds cloud the outlook for **European IG**, we'll look to add risk with any meaningful back up in spreads given the likelihood for generous primary concessions.

■ Above trend growth in the euro area in 2022 should support credit fundamentals, and we expect recovering credit metrics to lead to further rating upgrades. However, we anticipate greater credit dispersion among issuers, which should provide the potential for single-name alpha opportunities.

■ In an environment where spreads drift sideways at relatively tight levels, carry will be increasingly important—it's the impetus for our overweight to BBBs as opposed to the "beta" compression trade from the start of last year—and we'll seek to avoid overweight exposure to tight-trading, long-dated issues. We continue to see room for spread compression in financials, corporate hybrids, and in BB issues where applicable.

■ After recently reducing the spread duration European portfolios to a slight underweight, we will look to reduce the Euro spread duration slightly with a minor increase the dollar-denominated spread duration. We continue to prefer non-CSPP eligible paper as it generally carries more spread without additional credit risk. Hence, in European portfolios, we remain underweight CSPP-eligible names, which trade tight due to ECB demand, and overweight allocations to reverse-yankee issues.

■ **Global portfolios** are also slightly underweight spread duration, but overweight risk. We expect to bring spread duration down a little further in euros through a combination of primary market discipline (i.e., wanting to be active, but not adding risk in new issues) and index extension.

■ We are overweight BBBs and corporate hybrids, but expect this exposure to decline as we reduce euro spread duration with opportunities to rotate out of tight-trading, long corporate paper. We remain agnostic between euro and dollar-denominated issues with certain preferences (e.g., U.S. banks in dollars vs. euros) and remain nimble if compelling cross-currency opportunities emerge, particularly at the long end of the curve where there is more spread volatility.

■ Similar to the U.S., we see risks to earnings expansion if supply-chain bottlenecks depress volumes and / or input-cost inflation leads to margin erosion. We'll also monitor for shifts in capital allocation priorities from balance sheet repair to M&A and / or an enhanced focus on shareholder returns.

In an environment where spreads drift sideways at relatively tight levels, carry will be increasingly important.

GLOBAL LEVERAGED FINANCE

Outlook: Cautiously constructive. U.S. and European default rates should remain historically low, and B-rated bonds appear attractive in both asset classes. Ongoing CLO formation and investor concerns about rising interest rates should maintain a bid under leveraged loans. Accurate credit selection remains paramount.

■ Strong credit fundamentals should sustain low defaults for the next two years, and our base case is for the high yield default rate to end 2022 and 2023 at 0.9% and 1.0%, respectively. Balance sheet discipline, the relative absence of aggressively financed M&A transactions, and the continuation of credit rating upgrades underscore the fundamental stability. Meanwhile, expectations of a material number of rising stars over the next 12-18 months and the global search for yield should support technicals.

■ That said, the visible macro risks could lead to bouts of spread widening. We believe spreads are currently trading at fair value when weighing the fundamental strength against the various macro risks. In terms of positioning, we believe B-rated bonds currently appear attractive on a relative-value basis. We are maintaining an overweight to the independent power producer, housing, and gaming sectors.

■ In terms of U.S. leveraged loans, inflows into loan mutual funds will likely continue as investors seek floating-rate, short-duration assets to protect against rising policy or market rates. Meanwhile, CLO creation and refinancings remain robust, and we expect this momentum to continue. Our base case is for loans to deliver a coupon-type of return (~4.0%) and for defaults to remain below 1.0% in 2022.

■ Given the recent widening in **European high yield** spreads and the relative cheapness to U.S high yield, we remain cautiously constructive and expect European high yield spreads to tighten through 2022. Our base case is for defaults to remain low at 0.9% and 1.0% across bonds and loans, respectively, despite the prevailing macro risks. From a technical standpoint, another year of record or sizeable new issuance poses a risk of some market indigestion. That said, we believe the current benign environment should persist for some time with defaults remaining low and investors' reach-for-yield supporting valuations.

■ In terms of positioning, we are focused on solid carry opportunities in carefully selected B-rated and CCC-rated credits, with investments weighted towards the best relative-value opportunities given the evolving backdrop. Ultimately, we believe active management and accurate credit selection will be rewarded in the event that volatility picks up.

Figure 1
Summary of Q4 Market Performance

	Total Return (%)		Spread Change (bps)		OAS/DM (bps)
	Q4	YTD	Q4	YTD	12/31/21
U.S. High Yield	0.66	5.36	-5	-76	310
Euro High Yield	-0.37	3.32	28	-28	337
U.S. Leveraged Loans	0.72	5.40	1	-47	439
Euro Leveraged Loans	0.79	4.87	9	-44	415

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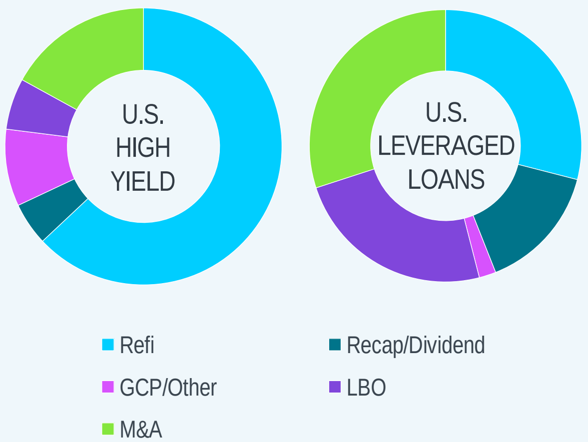
Figure 2
Use of Proceeds for U.S. HY and Leveraged Loans in 2021



Source: PGIM Fixed Income and J.P. Morgan

EMERGING MARKETS DEBT

Outlook: Attractive for active investors. The context of "good enough" growth with fading headwinds supports our continued preference for hard-currency bonds, increases our interest in EM local-currency issues, and keeps us cautious on EM currencies.

■ We see more supportive conditions across the emerging markets in 2022. While we expect EM GDP growth of 4.4%, which is lower than EM growth in 2021, it's on par with average EM growth in the five years prior to 2020.

■ Most EM governments have more fiscal headroom than those in the developed markets. Indeed, EM budget deficits are expected to improve in 2022, while elevated debt levels remain manageable, and issuance appears moderate in 2022. In addition, multilateral institutions and bilateral DM loans will continue supporting EM governments. Meanwhile, investors have already priced-in the most likely EM macro risks.

■ **EM hard-currency** spreads have priced in tighter U.S. liquidity by widening significantly since mid-2021. Room for further widening exists, especially among the most vulnerable issuers with the largest trade and budget deficits. These issuers, such as Ghana or El Salvador, are mostly rated single B and CCC. If inflation moderates in 2022, the Fed might tighten less than expected and EM spreads could narrow.

■ EM high-yield bonds yield more than 3.00 percentage points more than U.S. high-yield bonds, which is historically wide. If investors refocus on EMD, most would be significantly underweight.

■ Tail risks to our base case include a slowdown to less than 4% GDP growth in China as well as escalating geopolitical tensions in Eastern Europe, Iran or the South China Sea, none of which are priced in. Disappointing global growth over time may lead to more sovereign restructurings among the most vulnerable issuers. Any of these scenarios could present attractive entry opportunities.

■ We continue to favor hard-currency bonds with allocations consisting of short-dated, high-yielding issues and long-dated, high-quality issuers, which is a combination that should perform well in most scenarios.

■ Among high-quality issuers, we remain constructive on Central and Eastern Europe (improved consumption and available EU financing) as well as the Gulf Cooperation Council (higher oil prices and production on top of strong reserves as well as muted issuance), but underweight Latin America (fiscal pressures coupled with political risks).

Figure 1
Summary of Q4 Market Performance

	Total Return (%)		Spread / Yield Change (bps)		OAS (bps)/ Yield %
	Q4	2021	Q4	2021	12/31/21
EM Hard Currency	-0.44	-1.80	12	17	369
EM Local (Hedged)	-1.78	-5.52	42	150	5.72
EMFX	-0.95	-3.09	108	277	--
EM Corps.	-0.61	0.91	11	-16	312

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Figure 2
Evergrande Pulls China HY Spreads Wider; but Contagion Remains Limited (bps)

Source: PGIM Fixed Income and J.P. Morgan as of December 2021

■ Our short-dated holdings remain focused on countries with improving fundamentals and with manageable funding strategies, such as Angola and Ivory Coast. Ukraine continues to perform well fundamentally, but geopolitical risk muddies the near-term picture. Turkish spreads have also widened significantly amid its idiosyncrasies. At current prices, we remain overweight Ukrainian hard-currency bonds and underweight Turkey.

■ **EM corporate spreads** have lagged developed-market corporate spreads, despite strong fundamentals, .e.g., an expectation for high-yield defaults of just 1% (ex-China and Argentina) in 2022.

■ At more than 1.50%, the differential between EM Corporate BB issues (ex-China) over U.S. BB issuers is historically wide. Within that segment, we favor issuers from Brazil, Mexico, Peru, India and Thailand.

■ We also continue to find value in quasi-sovereign issues like those of state oil company Pemex, which benefit from government support and attractive spreads. The short-dated bonds of South Africa's Eskom also benefit from government support and attractive spreads, and we have added a small position in bonds issued by Colombia's Ecopetrol, which had underperformed.

■ Defaults among Chinese property developers will likely increase, but the market has already priced in a distressed scenario, and China's central bank has started to ease liquidity in an effort to achieve growth of about 5% in 2022.

■ Due to elevated amortizations, tenders, and buybacks, net EM corporate supply will likely be minimal in 2022 and provide solid technical support, while gross supply could ease from record levels.

■ As Q1 commences, we are less cautious on **EM local rates** as we expect some headwinds to fade and eventually become tailwinds that drive inflation lower, which would boost prices for EM local-currency bonds.

■ EM policy rates will likely peak in Q1 and remain on hold for an extended time, followed by cuts in countries where rate hikes started early (Russia, Brazil, and Czechia). If 1.5% is the medium-term terminal policy rate in the U.S., then the recent level on the benchmark index, at approximately 4.20% over 10-year U.S. Treasury yields, seems fair.

■ Our portfolios remain overweight to Asian and Latin American issues, with China, Russia and Indonesia the largest overweights by country. We view the Chinese local-currency bond market as a core holding. By contrast, we're underweight bonds from Central and Eastern Europe, Middle East and Africa, with underweights in Polish, Hungarian, and Colombian issues for country-specific reasons.

■ Our portfolios underweight local-currency bonds of up to five years' maturity and overweight those in the five- to 15-year segment.

■ In **EMFX**, we favor a long USD bias with a focus on relative value among EM currencies. Headwinds for the asset class include elusive stimulus from China that would support short-USD positioning, the Fed's shift to increased hawkishness, potential deterioration in current account balances, and local outflows combined with uninspiring equity flows.

■ We're underweight exposure to cyclically sensitive currencies where growth is disappointing or with unorthodox central bank policies. These include the South African rand, the Mexican peso, the Colombian peso, the Hungarian forint and the Singapore dollar. At the same time, we are overweight currencies from relatively high-growth markets with high ex-ante real yields and cheap valuations. These include the Polish zloty, the Indonesian rupiah, the Indian rupee and, for now, the Russian ruble. We see potential opportunities in select currencies: i.e., long the Turkish lira (if President Erdoğan's influence on monetary policy is reduced) and short the Russian ruble (if geopolitical friction increases).

■ Tailwinds that might unexpectedly boost some EM currencies include: high yields as many central banks hike interest rates, increasingly attractive valuations, and investors' relatively light exposure. An additional boost could come from an acceleration in economic growth or a dovish pivot by the Fed—neither of which is likely in Q1.

MUNICIPAL BONDS

Outlook: Positive amid strong technicals, resilient credit quality, and stable credit spreads, which are somewhat offset by limited opportunities in the secondary market.

■ Healthy demand and continued scarcity in the **tax-exempt municipal** market keep us optimistic about Q1. Gross supply this year is estimated to be in line with 2021, with net supply estimated to trail demand by around $15 billion for January and February. We expect inflows to continue apace, absent an acute back up in rates, and are watching for any favorable tax-related legislations for wealthy individuals as part of the Build Back Better plan.

■ Credit quality is expected to remain strong, as stimulus packages have infused an estimated $1.2 trillion into the municipal market since 2020. The Infrastructure Investment and Jobs Act, which was signed into law in November, is expected to provide an additional $550 billion to state and local governments for deferred maintenance and new infrastructure projects. Meanwhile, tax collections continue to recover, with state collections growing by around 14% since 2019.

■ Valuation-wise, given fundamental and technical tailwinds, we expect **taxable municipal** spreads to remain near historical tights. We prefer reputable university and healthcare issuers due to the essential services they provide. In contrast to general obligations from municipalities, these enterprises are run similar to businesses, in which mission and financial stability are prioritized over politics. That said, sourcing secondary opportunities has been challenging. Trading volumes were 30% lower in 2021 compared to the prior year, and we expect a similar trading environment over the coming quarters.

■ In taxables, manageable supply, wider spreads, and solid fundamentals should lead investors to refocus on the sector after lagging in Q4 due to thin liquidity.

.

Figure 1
Summary of Q4 Market Performance

	Total Return (%)	
	Q4	2021
High Grade Tax-exempt	0.7	1.52
High Yield Tax-exempt	1.16	7.77
Long Taxable Munis Agg Eligible	0.83	1.80

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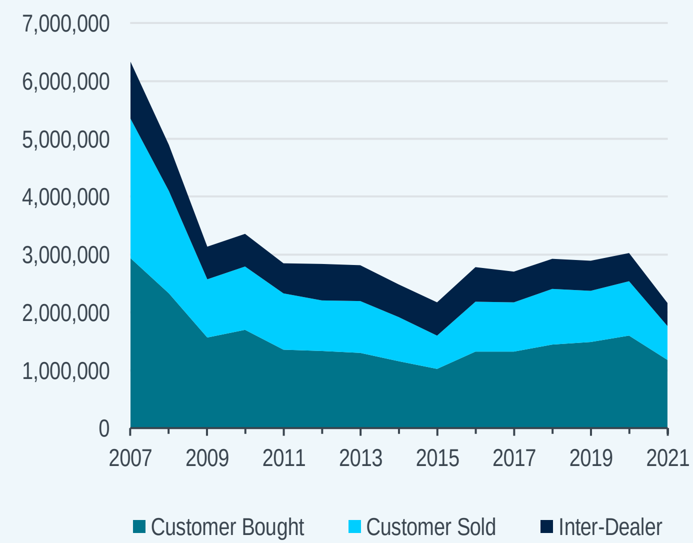
Figure 2
The Decline in Muni Trading Volume (par value; $ million)



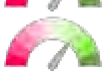
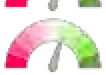
Source: PGIM Fixed Income, SIFMA.

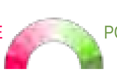
PGIM FIXED INCOME

SECTION 5

SUMMARY OF OUTLOOKS & ASSET CLASS VIEWS

05

SECTOR	OUTLOOK	ASSET CLASS VIEW			
DM Sovereign Rates	Less volatility, underscoring relative-value opportunities. DM rates should be much calmer in 2022 as market pricings of central bank rate hikes are realized. Low volatility is conducive to relative-value opportunities, and we expect the significant dislocations across global rates to normalize.	U.S. Germany Japan		UK Canada Australia	
Agency MBS	Still underweight vs. rates. While valuations remain rich, some spread widening is emerging in anticipation of the Fed's withdrawal, which will shrink TBA demand, lead to a decline in dollar rolls, and pose a headwind for basis performance.				
Securitized Credit	Constructively Stable. High-quality CLO spreads should return their generous carry, CMBS spreads will likely take their cue from IG corporates, housing values appear supportable, and we remain constructive on ABS spreads.	CMBS Non-Agency		CLOs ABS	
Global IG Corporates	Selectively Opportunistic. We continue to favor certain BBB issues for carry and spread compression in deleveraging names. Value remains in select sectors, e.g., U.S. money center banks, and we're mindful of the sector's event risk as well as the mounting macro uncertainties.	U.S. Corps.		European Corps.	
Global Leveraged Finance	Cautiously constructive. U.S. and European default rates should remain historically low, and B-rated bonds appear attractive in both asset classes. Ongoing CLO formation and investor concerns about rising interest rates should maintain a bid under leveraged loans. Accurate credit selection remains paramount.	U.S. High Yield U.S. Leveraged Loans		Euro High Yield Euro Leveraged Loans	
EM Debt	Attractive for active investors. The context of "good enough" growth with fading headwinds supports our continued preference for hard-currency bonds, increases our interest in EM local-currency issues, and keeps us cautious on EM currencies.	Sov. Hard Currency Corporates		Local Rates EMFX	
Municipal Bonds	Positive amid strong technicals, resilient credit quality, and stable credit spreads, which are somewhat offset by limited opportunities in the secondary market.	Tax-Exempt		Taxable	

NEGATIVE VIEW  POSITIVE VIEW

IMPORTANT INFORMATION

Source of data (unless otherwise noted): PGIM Fixed Income and Bloomberg as of January 2022.

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INDEX DESCRIPTIONS

U.S. INVESTMENT GRADE CORPORATE BONDS

Bloomberg U.S. Corporate Bond Index: The Bloomberg U.S. Investment Grade Corporate Bond Index covers U.S.D-denominated, investment-grade, fixed-rate or step up, taxable securities sold by industrial, utility and financial issuers. It includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. Securities included in the index must have at least 1 year until final maturity and be rated investment-grade (Baa3/ BBB-/BBB-) or better using the middle rating of Moody's, S&P, and Fitch.

EUROPEAN INVESTMENT GRADE CORPORATE BONDS

Bloomberg European Corporate Bond Index (unhedged): The Bloomberg Euro-Aggregate: Corporates bond Index is a rules-based benchmark measuring investment grade, EUR denominated, fixed rate, and corporate only. Only bonds with a maturity of 1 year and above are eligible.

U.S. HIGH YIELD BONDS

ICE BofAML U.S. High Yield Index: The ICE BofAML U.S. High Yield Index covers US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, and at least one year remaining term to final maturity as of the rebalancing date.

EUROPEAN HIGH YIELD BONDS

ICE BofA European Currency High Yield Index: This data represents the ICE BofA Euro High Yield Index value, which tracks the performance of Euro denominated below investment grade corporate debt publicly issued in the euro domestic or eurobond markets. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P, and Fitch). Qualifying securities must have at least one year remaining term to maturity, a fixed coupon schedule, and a minimum amount outstanding of €100 M. ICE Data Indices, LLC, used with permission. ICE DATA INDICES, LLC IS LICENSING THE ICE DATA INDICES AND RELATED DATA "AS IS," MAKES NO WARRANTIES REGARDING SAME, DOES NOT GUARANTEE THE SUITABILITY, QUALITY, ACCURACY, TIMELINESS, AND/OR COMPLETENESS OF THE ICE DATA INDICES OR ANY DATA INCLUDED IN, RELATED TO, OR DERIVED THEREFROM, ASSUMES NO LIABILITY IN CONNECTION WITH THEIR USE, AND DOES NOT SPONSOR, ENDORSE, OR RECOMMEND PGIM FIXED INCOME OR ANY OF ITS PRODUCTS OR SERVICES.

U.S. SENIOR SECURED LOANS

Credit Suisse Leveraged Loan Index: The Credit Suisse Leveraged Loan Index is a representative, unmanaged index of tradable, U.S. dollar denominated floating rate senior secured loans and is designed to mirror the investable universe of the U.S. dollar denominated leveraged loan market. The Index return does not reflect the impact of principal repayments in the current month.

EUROPEAN SENIOR SECURED LOANS

Credit Suisse Western European Leveraged Loan Index: All Denominations EUR hedged. The Index is a representative, unmanaged index of tradable, floating rate senior secured loans designed to mirror the investable universe of the European leveraged loan market. The Index return does not reflect the impact of principal repayments in the current month.

EMERGING MARKETS U.S.D SOVEREIGN DEBT:

J.P. Morgan Emerging Markets Bond Index Global Diversified: The Emerging Markets Bond Index Global Diversified (EMBI Global) tracks total returns for U.S.D-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts of debt outstanding. To be deemed an emerging market by the EMBI Global Diversified Index, a country must be rated Baa1/BBB+ or below by Moody's/S&P rating agencies. Information has been obtained from sources believed to be reliable, but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 2020, J.P. Morgan Chase & Co. All rights reserved.

EMERGING MARKETS LOCAL DEBT (UNHEDGED)

J.P. Morgan Government Bond Index-Emerging Markets Global Diversified Index: The Government Bond Index-Emerging Markets Global Diversified Index (GBI-EM Global) tracks total returns for local currency bonds issued by emerging market governments.

EMERGING MARKETS CORPORATE BONDS

J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified: The CEMBI tracks total returns of U.S. dollar-denominated debt instruments issued by corporate entities in Emerging Markets countries.

EMERGING MARKETS CURRENCIES

J.P. Morgan Emerging Local Markets Index Plus: The JP Morgan Emerging Local Markets Index Plus (JPM ELMI+) tracks total returns for local currency–denominated money market instruments.

MUNICIPAL BONDS

Bloomberg Municipal Bond Indices: The index covers the U.S.D-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The bonds must be fixed-rate or step ups, have a dated date after Dec. 13, 1990, and must be at least 1 year from their maturity date. Non-credit enhanced bonds (municipal debt without a guarantee) must be rated investment grade (Baa3/BBB-/BBB- or better) by the middle rating of Moody's, S&P, and Fitch.

U.S. TREASURY BONDS

Bloomberg U.S. Treasury Bond Index: The Bloomberg U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index.

MORTGAGE BACKED SECURITIES

Bloomberg U.S. MBS—Agency Fixed Rate Index: The Bloomberg U.S. 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.

COMMERCIAL MORTGAGE-BACKED SECURITIES

Bloomberg CMBS: ERISA Eligible Index: The index measures the performance of investment-grade commercial mortgage-backed securities, which are classes of securities that represent interests in pools of commercial mortgages. The index includes only CMBS that are Employee Retirement Income Security Act of 1974, which will deem ERISA eligible the certificates with the first priority of principal repayment, as long as certain conditions are met, including the requirement that the certificates be rated in one of the three highest rating categories by Fitch, Inc., Moody's Investors Services or Standard & Poor's.

U.S. AGGREGATE BOND INDEX

Bloomberg U.S. Aggregate Bond Index: The Bloomberg U.S. Aggregate Index covers the U.S.D-denominated, investment-grade, fixed-rate or step up, taxable bond market of SEC-registered securities and includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS sectors. Securities included in the index must have at least 1 year until final maturity and be rated investment-grade (Baa3/ BBB-/BBB-) or better using the middle rating of Moody's, S&P, and Fitch.

The **S&P 500®** is widely regarded as the best single gauge of large-cap U.S. equities. There is over U.S.D 9.9 trillion indexed or benchmarked to the index, with indexed assets comprising approximately U.S.D 3.4 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

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