

Rising rates

What you need to know



Understanding the impact of rising rates

“An investment in knowledge pays the best interest.”

Benjamin Franklin

It's important to know that the primary reasons for owning fixed income investments don't change when market conditions, including interest rates, change. In addition to providing income, fixed income strategies are an important component of a well-diversified portfolio, often serving as a potentially less volatile option to offset equity market volatility.

The following pages will review how interest rate movements affect fixed income investments, the factors that can impact interest rates, and why certain fixed income strategies are typically less interest rate sensitive than others.

What drives interest rates?

To better understand the impact rising interest rates can have on your investments, you need to know the relationship between bond prices and interest rates, and the different factors that can influence short- and long-term rates. It is also worth noting that short- and long-term rates don't necessarily move in tandem.

When interest rates go up, prices go down (and vice versa)

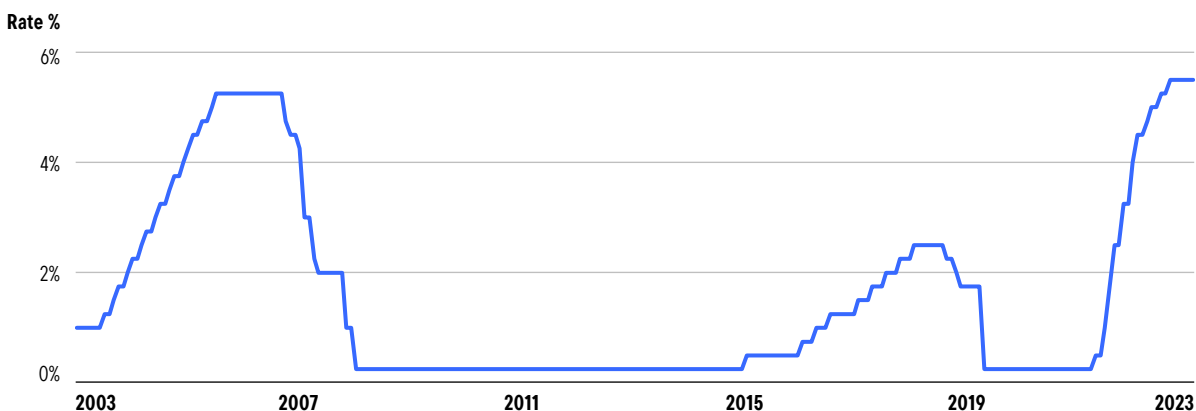
Typically, bond prices and interest rates move in opposite directions. That means when interest rates rise, bond prices tend to fall, and conversely, when interest rates decline, bond prices tend to increase. Likewise, the share price of a fixed income mutual fund or ETF may move up or down, depending on movements in interest rates and their effect on the value of the bonds held in the fund's portfolio.

What is the federal funds rate, and why is it important?

The central bank for the US, the Federal Reserve (Fed), controls the federal funds target rate. This is the rate commercial banks charge other banks for overnight loans, but it also strongly influences the rates of other short-term investments. Generally, the Fed reduces the federal funds target rate to try and stimulate a sluggish economy, and may raise rates when the economy is thriving to prevent inflation from getting too high.

The Federal Funds Target Rate¹

20-Year Period Ended December 31, 2023



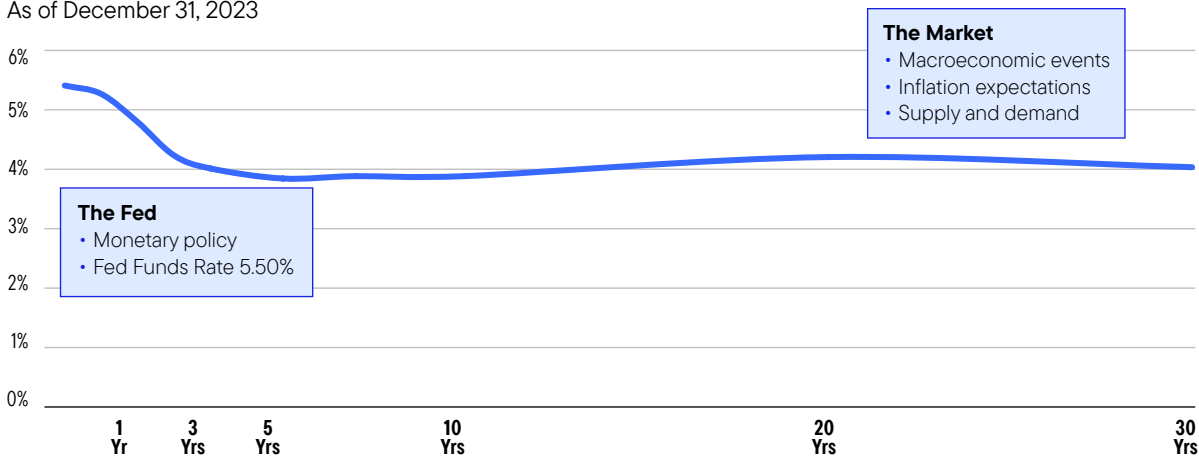
1. Source: © 2024 www.fedprimerate.com.

Factors that influence long-term rates

The illustration below shows the yields associated with bonds of different maturity lengths. While short-term rates are largely influenced by the Fed, long-term rates, as represented by yields of 10-year and 30-year Treasury bonds, are typically market-driven. Macroeconomic events influence long-term rates (such as economic expansions or contractions), inflation expectations, and supply and demand factors (including demand from foreign central banks).

Treasury Yield Curve²

As of December 31, 2023



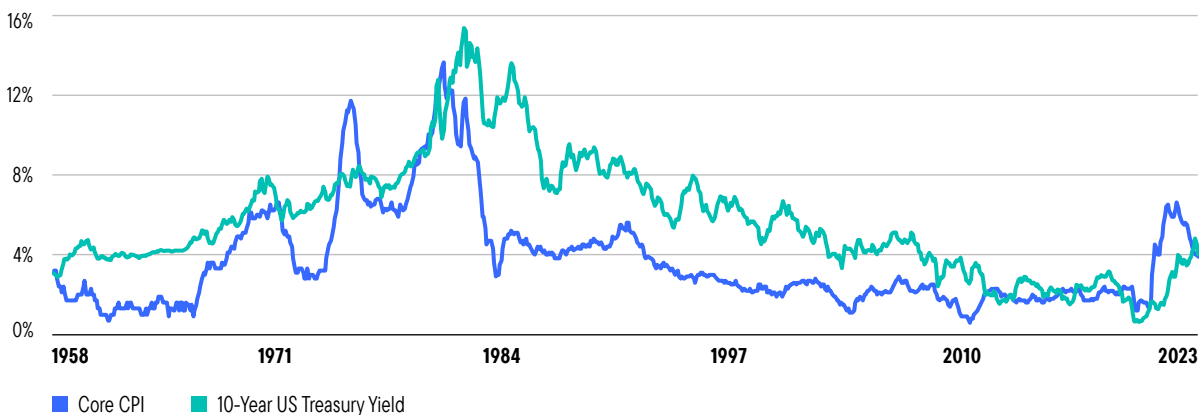
This chart is for illustrative purposes only and does not reflect the performance of any Franklin Templeton fund. **Past performance does not guarantee future results.**

Inflation has historically influenced long-term rates

While different factors may affect interest rates at any given time, over the long term, inflation (or the rate at which the prices of goods and services are rising) has been a key driver. Inflation is often a sign that the economy is expanding, and expectations of growing inflation by the market may cause long-term rates to move higher.

10-Year US Treasury Yield vs. Core CPI (Inflation) Year-over-Year³

January 31, 1958–December 31, 2023



2. Sources: Bloomberg, Federal Reserve. Important data provider notices and terms available at www.franklintempletondatasources.com.

3. Sources: Bloomberg, Federal Reserve H.15 Report, Bureau of Labor Statistics.

Rising rates don't impact all fixed income sectors equally

The size and scope of the fixed income market is much larger than the stock market. Within this large marketplace, different fixed income asset classes have their own unique characteristics and risks, including interest rate sensitivity.

This table shows the annual returns of key fixed income sectors from 1994-2023, ordered from high to low. The outlined columns denote years when the federal funds target rate and/or the 10-year Treasury bond yield increased.

Annual Total Returns of Key Fixed Income Sectors (1994-2023)⁴

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Floating-Rate Loans	10.32%	Emerging Markets Debt 26.38%	Emerging Markets Debt 35.23%	High-Yield Bonds 12.21%	International Bonds 17.79%	Emerging Markets Debt 24.18%	Preferreds 16.20%	Investment-Grade Corp. Bonds 10.31%	International Bonds 21.99%	High-Yield Bonds 27.94%	International Bonds 12.14%	Emerging Markets Debt 10.73%	High-Yield Bonds 11.92%	TIPS 11.64%	10-Year US Treasury Bonds 20.30%	High-Yield Bonds 54.22%	High-Yield Bonds 14.42%	10-Year US Treasury Bonds 16.99%	Emerging Markets Debt 18.54%	High-Yield Bonds 7.53%	Preferreds 15.44%	Preferreds 7.58%	High-Yield Bonds 18.26%	Preferreds 10.58%	Asset-Backed Securities 1.77%	Preferreds 17.71%	TIPS 10.99%	TIPS 5.96%	Floating-Rate Loans -1.06%	High-Yield Bonds 13.55%
International Bonds	5.99%	10-Year US Treasury Bonds 23.73%	High-Yield Bonds 13.03%	Emerging Markets Debt 11.95%	Global Bonds 15.30%	Floating-Rate Loans 4.69%	10-Year US Treasury Bonds 14.45%	Preferreds 9.84%	Global Bonds 19.49%	Emerging Markets Debt 25.66%	High-Yield Bonds 11.95%	Floating-Rate Loans 5.69%	Emerging Markets Debt 9.88%	International Bonds 11.45%	Global Bonds 10.89%	Floating-Rate Loans 44.87%	Preferreds 13.66%	TIPS 13.56%	High-Yield Bonds 14.71%	Floating-Rate Loans 6.15%	10-Year US Treasury Bonds 10.72%	Municipal Bonds 3.30%	Emerging Markets Debt 10.19%	International Bonds 10.33%	Short-Term Government Bonds 1.67%	Investment-Grade Corp. Bonds 14.54%	International Bonds 10.78%	High-Yield Bonds 5.49%	Short-Term Government Bonds -2.79%	Floating-Rate Loans 13.04%
Global Bonds	2.34%	Investment-Grade Corp. Bonds 22.25%	Floating-Rate Loans 7.48%	10-Year US Treasury Bonds 11.27%	10-Year US Treasury Bonds 12.88%	High-Yield Bonds 3.59%	Emerging Markets Debt 14.41%	Asset-Backed Securities 9.81%	TIPS 16.57%	International Bonds 18.52%	Emerging Markets Debt 11.73%	Municipal Bonds 3.51%	Preferreds 8.10%	Global Bonds 10.95%	International Bonds 10.11%	Emerging Markets Debt 28.18%	Emerging Markets Debt 12.04%	Municipal Bonds 10.70%	Preferreds 13.59%	Short-Term Government Bonds 0.39%	Municipal Bonds 9.05%	Mortgage-Backed Securities 1.51%	Floating-Rate Loans 9.88%	Emerging Markets Debt 9.32%	Agencies 1.34%	Emerging Markets Debt 14.42%	10-Year US Treasury Bonds 10.37%	Floating-Rate Loans 5.40%	Asset-Backed Securities -4.30%	Emerging Markets Debt 10.45%
Short-Term Government Bonds	1.39%	Preferreds 20.41%	Preferreds 7.44%	Investment-Grade Corp. Bonds 10.23%	Agencies 8.85%	Short-Term Government Bonds 3.41%	TIPS 13.18%	Agencies 8.31%	10-Year US Treasury Bonds 14.66%	Global Bonds 14.91%	Global Bonds 10.35%	TIPS 2.84%	Floating-Rate Loans 7.33%	10-Year US Treasury Bonds 9.77%	Agencies 9.26%	Asset-Backed Securities 24.71%	Floating-Rate Loans 9.98%	Emerging Markets Debt 8.46%	Investment-Grade Corp. Bonds 9.82%	Asset-Backed Securities -0.27%	Investment-Grade Corp. Bonds 7.46%	Asset-Backed Securities 1.25%	Investment-Grade Corp. Bonds 6.11%	Global Bonds 7.49%	Municipal Bonds 1.28%	High-Yield Bonds 14.00%	Global Bonds 10.11%	Preferreds 2.24%	Agencies -7.87%	Preferreds 10.21%
Asset-Backed Securities	0.13%	High-Yield Bonds 19.68%	Mortgage-Backed Securities 5.35%	Preferreds 9.99%	Investment-Grade Corp. Bonds 8.57%	TIPS 2.39%	Agencies 12.18%	Short-Term Government Bonds 8.23%	Emerging Markets Debt 13.11%	Floating-Rate Loans 11.01%	TIPS 8.46%	Mortgage-Backed Securities 2.61%	International Bonds 6.94%	Agencies 7.90%	Mortgage-Backed Securities 8.34%	Preferreds 20.07%	Investment-Grade Corp. Bonds 9.00%	Investment-Grade Corp. Bonds 8.15%	Floating-Rate Loans 9.43%	Agencies -1.38%	Mortgage-Backed Securities 6.08%	Emerging Markets Debt 1.23%	TIPS 4.68%	High-Yield Bonds 7.03%	Floating-Rate Loans 1.14%	10-Year US Treasury Bonds 8.85%	Investment-Grade Corp. Bonds 9.89%	Municipal Bonds 1.52%	Municipal Bonds -8.53%	Investment-Grade Corp. Bonds 8.52%
Mortgage-Backed Securities	-1.61%	International Bonds 19.55%	Short-Term Government Bonds 5.32%	Agencies 9.70%	Asset-Backed Securities 7.76%	Mortgage-Backed Securities 1.86%	Municipal Bonds 11.68%	Mortgage-Backed Securities 8.22%	Agencies 11.01%	Preferreds 9.43%	Floating-Rate Loans 5.60%	Agencies 2.33%	Global Bonds 6.12%	Mortgage-Backed Securities 6.90%	Short-Term Government Bonds 5.96%	Investment-Grade Corp. Bonds 18.68%	10-Year US Treasury Bonds 8.10%	Global Bonds 6.35%	TIPS 6.98%	Mortgage-Backed Securities -1.41%	Emerging Markets Debt 5.53%	Agencies 1.01%	Preferreds 2.32%	Investment-Grade Corp. Bonds 6.42%	Mortgage-Backed Securities 0.99%	TIPS 8.43%	Preferreds 6.95%	Short-Term Government Bonds -0.32%	High-Yield Bonds -10.55%	Municipal Bonds 6.40%
High-Yield Bonds	-2.04%	Global Bonds 19.04%	Asset-Backed Securities 5.05%	Mortgage-Backed Securities 9.49%	Mortgage-Backed Securities 6.96%	Asset-Backed Securities 1.82%	Mortgage-Backed Securities 11.16%	TIPS 7.90%	Investment-Grade Corp. Bonds 10.12%	TIPS 8.40%	Investment-Grade Corp. Bonds 5.39%	High-Yield Bonds 2.26%	Mortgage-Backed Securities 5.22%	Short-Term Government Bonds 6.64%	TIPS -2.35%	Municipal Bonds 12.91%	TIPS 6.31%	Mortgage-Backed Securities 6.23%	Municipal Bonds 6.78%	Investment-Grade Corp. Bonds -1.53%	TIPS 3.64%	10-Year US Treasury Bonds 0.90%	Asset-Backed Securities 2.03%	Municipal Bonds 5.45%	10-Year US Treasury Bonds -0.02%	Floating-Rate Loans 8.17%	Emerging Markets Debt 5.88%	Asset-Backed Securities -0.34%	Mortgage-Backed Securities -11.81%	International Bonds 5.83%
Agencies	-3.32%	Agencies 18.27%	Municipal Bonds 4.43%	Municipal Bonds 9.19%	Preferreds 6.72%	Agencies -0.94%	Asset-Backed Securities 10.84%	High-Yield Bonds 6.16%	Municipal Bonds 9.60%	Investment-Grade Corp. Bonds 8.24%	Preferreds 5.11%	Asset-Backed Securities 2.09%	Municipal Bonds 4.84%	Emerging Markets Debt 6.28%	Municipal Bonds -2.47%	TIPS 11.41%	Asset-Backed Securities 5.85%	High-Yield Bonds 5.47%	10-Year US Treasury Bonds 4.23%	Municipal Bonds -2.55%	Agencies 3.58%	Short-Term Government Bonds 0.31%	International Bonds 1.81%	Floating-Rate Loans 4.25%	Global Bonds -0.84%	Municipal Bonds 7.54%	Agencies 5.48%	Investment-Grade Corp. Bonds -1.04%	TIPS -11.85%	Asset-Backed Securities 5.54%
Investment-Grade Corp. Bonds	-3.93%	Municipal Bonds 17.45%	International Bonds 4.08%	Floating-Rate Loans 8.30%	Short-Term Government Bonds 6.59%	Investment-Grade Corp. Bonds -1.96%	Investment-Grade Corp. Bonds 9.08%	Municipal Bonds 5.13%	Mortgage-Backed Securities 8.75%	Municipal Bonds 5.31%	10-Year US Treasury Bonds 4.87%	10-Year US Treasury Bonds 2.04%	Asset-Backed Securities 4.70%	Investment-Grade Corp. Bonds 4.56%	Investment-Grade Corp. Bonds -4.94%	Mortgage-Backed Securities 5.89%	Mortgage-Backed Securities 5.37%	International Bonds 5.17%	Asset-Backed Securities 3.66%	Preferreds -3.65%	Floating-Rate Loans 2.06%	Floating-Rate Loans -0.38%	Mortgage-Backed Securities 1.67%	TIPS 3.01%	TIPS -1.26%	Mortgage-Backed Securities 6.35%	High-Yield Bonds 5.48%	Mortgage-Backed Securities -1.04%	Preferreds -14.60%	Global Bonds 5.19%
Municipal Bonds	-5.17%	Mortgage-Backed Securities 16.80%	Global Bonds 3.62%	Asset-Backed Securities 7.41%	Municipal Bonds 6.48%	Municipal Bonds -2.06%	Short-Term Government Bonds 7.66%	10-Year US Treasury Bonds 4.01%	Asset-Backed Securities 8.55%	Asset-Backed Securities 4.01%	Mortgage-Backed Securities 4.70%	Short-Term Government Bonds 1.93%	Agencies 4.37%	Municipal Bonds 3.36%	Emerging Markets Debt -10.91%	International Bonds 4.39%	International Bonds 5.21%	Asset-Backed Securities 5.14%	Mortgage-Backed Securities 2.59%	Global Bonds -4.00%	Asset-Backed Securities 1.88%	Investment-Grade Corp. Bonds -0.68%	Global Bonds 1.60%	Mortgage-Backed Securities 2.47%	International Bonds -1.82%	Global Bonds 5.90%	Municipal Bonds 5.21%	Agencies -1.32%	Investment-Grade Corp. Bonds -15.76%	Agencies 5.13%
Preferreds	-5.69%	Asset-Backed Securities 13.43%	Agencies 3.29%	Short-Term Government Bonds 6.40%	Floating-Rate Loans 5.31%	Global Bonds -4.27%	Floating-Rate Loans 4.94%	Floating-Rate Loans 2.65%	Preferreds 7.66%	Mortgage-Backed Securities 3.07%	Municipal Bonds 4.48%	Investment-Grade Corp. Bonds 1.68%	Investment-Grade Corp. Bonds 4.30%	High-Yield Bonds 2.65%	Asset-Backed Securities -12.72%	Global Bonds 2.55%	Global Bonds 5.17%	Agencies 4.82%	Agencies 2.16%	International Bonds -4.56%	High-Yield Bonds 1.86%	TIPS -1.44%	Agencies 1.39%	10-Year US Treasury Bonds 2.13%	High-Yield Bonds -2.37%	Agencies 5.89%	Asset-Backed Securities 4.52%	Emerging Markets Debt -1.51%	Emerging Markets Debt -16.45%	Mortgage-Backed Securities 5.05%
10-Year US Treasury Bonds	-7.85%	Short-Term Government Bonds 9.77%	Investment-Grade Corp. Bonds 3.28%	Global Bonds 0.23%	TIPS 3.95%	Preferreds -4.43%	Global Bonds 1.59%	Emerging Markets Debt 1.36%	Short-Term Government Bonds 5.13%	Agencies 2.59%	Agencies 3.33%	Preferreds 0.96%	Short-Term Government Bonds 4.18%	Asset-Backed Securities 2.21%	Preferreds -25.24%	Agencies 1.53%	Agencies 4.36%	Preferreds 4.11%	Global Bonds 1.65%	Emerging Markets Debt -6.58%	Short-Term Government Bonds 0.41%	Global Bonds -3.57%	Short-Term Government Bonds 0.83%	Agencies 2.06%	Investment-Grade Corp. Bonds -2.51%	International Bonds 5.32%	Mortgage-Backed Securities 3.87%	10-Year US Treasury Bonds -3.51%	10-Year US Treasury Bonds -16.65%	Short-Term Government Bonds 4.39%
Emerging Markets Debt	-18.35%	Floating-Rate Loans 8.91%	10-Year US Treasury Bonds 0.07%	International Bonds -4.26%	High-Yield Bonds 0.55%	International Bonds -5.07%	International Bonds -2.63%	Global Bonds -0.99%	High-Yield Bonds 3.10%	Short-Term Government Bonds 1.89%	Asset-Backed Securities 3.01%	Global Bonds -6.88%	10-Year US Treasury Bonds 1.38%	Floating-Rate Loans 1.88%	High-Yield Bonds -26.17%	Short-Term Government Bonds 1.28%	Municipal Bonds 2.38%	Floating-Rate Loans 1.82%	International Bonds 1.51%	10-Year US Treasury Bonds -7.85%	Global Bonds -0.48%	High-Yield Bonds -4.93%	Municipal Bonds 0.25%	Asset-Backed Securities 1.55%	Preferreds -4.34%	Asset-Backed Securities 4.53%	Floating-Rate Loans 2.78%	Global Bonds -6.97%	Global Bonds -18.26%	TIPS 3.90%
TIPS	N/A	TIPS N/A	TIPS N/A	TIPS N/A	Emerging Markets Debt -11.54%	10-Year US Treasury Bonds -8.41%	High-Yield Bonds -5.66%	International Bonds -3.54%	Floating-Rate Loans 1.12%	10-Year US Treasury Bonds 1.25%	Short-Term Government Bonds 0.92%	International Bonds -9.20%	TIPS 0.41%	Preferreds -11.31%	Floating-Rate Loans -28.75%	10-Year US Treasury Bonds -9.92%	Short-Term Government Bonds 1.65%	Short-Term Government Bonds 1.01%	Short-Term Government Bonds 0.37%	TIPS -8.61%	International Bonds -2.68%	International Bonds -5.54%	10-Year US Treasury Bonds -0.14%	Short-Term Government Bonds 0.41%	Emerging Markets Debt -4.61%	Short-Term Government Bonds 3.24%	Short-Term Government Bonds 2.54%	International Bonds -9.68%	International Bonds -22.07%	10-Year US Treasury Bonds 3.54%
Year-End Federal Funds Target Rate:	5.50%	5.50%	5.25%	5.50%	4.75%	5.50%	6.50%	1.75%	1.25%	1.00%	2.25%	4.25%	5.25%	4.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.75%	1.50%	2.50%	1.75%	0.25%	0.25%	4.50%	5.50%
Year-End 10-Year Treasury Bond Yield:	7.84%	5.58%	6.43%	5.75%	4.65%	6.45%	5.12%	5.07%	3.83%	4.27%	4.24%	4.39%	4.71%	4.04%	2.25%	3.85%	3.30%	1.89%	1.78%	3.04%	2.17%	2.27%	2.45%	2.40%	2.69%	1.92%	0.93%	1.52%	3.88%	3.88%
Year-End 6-Month CD Yield:	6.89%	5.37%	5.46%	5.74%	4.97%	6.08%	6.10%	1.92%	1.32%	1.16%	2.72%	4.65%	5.32%	4.62%	1.70%	0.28%	0.40%	0.64%	0.33%	0.33%	0.43%	0.85%	1.27%	1.82%	2.82%	1.79%	0.22%	0.31%	4.97%	5.29%

This chart is for illustrative purposes only and does not reflect the performance of any Franklin Templeton fund. **Past performance does not guarantee future results.** Fund performance can be obtained at franklintempleton.com.

Diversification does not guarantee a profit or protect against a loss. It's important to note that CDs are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 and offer a fixed rate of return. Treasuries, if held to maturity, offer a fixed rate of return and fixed principal value; their interest payments and principal are guaranteed.

4. Sources: Bloomberg, Credit Suisse, Federal Reserve H.15 Report and © 2024 Morningstar.

■ High-Yield Bonds are represented by Credit Suisse High Yield Index; ■ Emerging Markets Debt is represented by J.P. Morgan Emerging Market Bond Index Global; ■ Floating-Rate Loans are represented by Credit Suisse Leveraged Loan Index; ■ International Bonds are represented by FTSE World Government Bond Index Non-US; ■ Global Bonds are represented by FTSE World Government Bond Index; ■ TIPS are represented by Bloomberg US TIPS Index; ■ Municipal Bonds are represented by Bloomberg Municipal Bond Index; ■ Mortgage-Backed Securities are represented by Bloomberg US MBS Index; ■ Asset-Backed Securities are represented by Bloomberg Asset-Backed Securities Index; ■ Investment-Grade Corporate Bonds are represented by Bloomberg US Corporate Investment Grade Index; ■ Short-Term Government Bonds are represented by Bloomberg US Government 1-2 Year Index; ■ Agencies are represented by Bloomberg US Agency Index; ■ 10-Year US Treasury Bonds are represented by FTSE 10-Year US Treasury Index; ■ Preferreds are represented by ICE BofA Preferred Stock Fixed Rate Index.

Past performance is no guarantee of future results. Indexes are unmanaged and one cannot invest directly in an index. Index returns do not reflect any fees, expenses or sales charges. Please see page 8 for definitions of indexes shown here.

Strategies to consider during a rising rate environment

Interest rate sensitivity can vary across sectors within the fixed income universe. Generally speaking, higher quality sectors (such as US government bonds) and longer duration bonds have tended to be the most vulnerable to interest rate volatility. The following strategies have historically been less interest-rate sensitive though they may be subject to additional risks.

Consider credit-oriented strategies	Keep it short	Go global
<ul style="list-style-type: none">• High-yield bonds• Floating-rate loans <p>Credit-oriented sectors and, in particular, non-investment grade sectors such as high-yield corporate bonds and floating-rate bank loans, have historically been less correlated to US Treasuries as their performance is typically tied more to the overall economic outlook and corporate earnings landscape than interest rates.</p>	<ul style="list-style-type: none">• Adjustable-rate mortgages• Short-term government bonds• Floating-rate loans <p>Shorter duration securities are generally not as sensitive to long-term rate movements and can offer an attractive alternative to longer duration securities where rising rates typically have a greater effect on price and valuations.</p>	<ul style="list-style-type: none">• Global bonds• International bonds <p>International and global strategies can seek to capitalize on the differing business cycles and economic conditions present around the world, and thus are typically less impacted by rate changes in the US.</p>

The upside of rising rates

While there is often apprehension at the prospect of rates increasing, it's important to remember the potential upside as well. Rising rates may indicate economic expansion, which can lead to increased interest payments over time.

What about stocks?

Most people associate rising interest rates with bonds, but many investors may not consider the impact on equities. When rates are rising due to economic growth, it also tends to mean businesses and consumers are increasing their spending on goods and services—all of which can be good for the stock market.

And alternatives?

Alternative hedge strategies can offer additional diversification to traditional stock and bond portfolios. Hedge strategies have historically shown a negative correlation to 10-year Treasuries.⁵

How to prepare for rising rates

It's impossible to predict the exact timing and direction of interest rates changes. And, while rising interest rates will likely generate news headlines, investors should avoid overreacting. Instead, work with your financial professional to determine the best plan to keep your long-term investment strategy on track.

To learn more about Franklin Templeton products that might benefit your investment strategy, talk to your financial professional. They offer market knowledge, planning expertise and will consider your investment needs to create an investment strategy tailored to your specific goals and risk tolerance.

5. Source: © 2024 Morningstar Direct. Based on the 15-year period ended 12/31/23. Hedge strategies are represented by the HFRI Fund Weighted Composite Index, 10-Year US Treasuries are represented by the FTSE 10-Yr US Treasury Index. Indexes are unmanaged and one cannot invest directly in an index. Treasuries, if held to maturity, offer a fixed rate of return and fixed principal value; their interest payments and principal are backed by the full faith and credit of the US government. Past performance does not guarantee future results.

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Franklin Templeton brings together an unmatched collection of autonomous specialist investment managers to provide our clients deep expertise and specialization within and across asset classes, investment styles, and geographies. This combination of multiple investment groups in one company provides investment specialization with global scale. With roots that date back more than 75 years and \$1.6 trillion in assets under management, Franklin Templeton today is one of the largest global asset managers.⁶

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⁶. As of 12/31/2023. AUM is as of December 31, 2023 and has been restated to include proforma AUM from Putnam Investments at the same date. Franklin Templeton closed its acquisition of Putnam Investments on January 1, 2024.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. Bond prices generally move in the opposite direction of interest rates. As interest rates rise, bond prices typically fall. Changes in the credit rating of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. Floating-rate loans and high-yield corporate bonds are generally rated below investment grade and are subject to greater risk of default, which could result in loss of principal, a risk that may be heightened in a slowing economy. The risks of foreign securities include currency fluctuations and political uncertainty. Investments in developing markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity.

Alternatives: Hedge strategies are actively managed and could experience losses if an investment manager's judgment about markets, future volatility, interest rates, industries, sectors, and regions, or the attractiveness or the potential appreciation of particular investments prove to be incorrect. Short sales of securities involve the risk that losses may exceed the original amount invested. Merger arbitrage investments risk loss if a proposed organization in which the fund invests is renegotiated or terminated.

This communication is general in nature and intended for educational purposes only; it should not be considered tax, legal or investment advice, or an investment recommendation. Consult your financial professional for personalized advice that is tailored to your specific goals, individual situation and risk tolerance.

Index definitions

Credit Suisse High-Yield Index is designed to mirror the investible universe of the US dollar denominated high-yield debt market.

J.P. Morgan Emerging Markets Bond Index Global tracks total returns for US dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities.

Credit Suisse Leveraged Loan Index is designed to mirror the investible universe of the US dollar denominated leveraged loan market.

FTSE World Government Bond Index Non-US is a market capitalization weighted index consisting of investment-grade world government bonds (apart from US).

FTSE World Government Bond Index is a market capitalization weighted index consisting of investment-grade world government bonds.

Bloomberg US TIPS Index covers the universe of inflation-protected notes issued by the US Treasury that have at least one year to final maturity.

Bloomberg Municipal Bond Index is a market-value-weighted index engineered for the long-term tax-exempt bond market.

Bloomberg US MBS Index is the MBS component of the Bloomberg US Aggregate Index and covers agency mortgage-backed pass-through securities (both fixed rate and hybrid ARM) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Bloomberg Asset-Backed Securities (ABS) Index is the ABS component of the Bloomberg US Aggregate Index and includes credit and charge card, auto, and utility loans.

Bloomberg US Corporate Investment Grade Index is the US corporate component of the Bloomberg US Credit Index and covers USD-denominated, investment-grade, fixed-rate, taxable securities sold by industrial, utility, and financial institution issuers.

Bloomberg US Government Index: 1-2-Year Component is the 1-2-year component of the Bloomberg US Government Index.

Bloomberg US Government Index is the US Government component of the US Government/Credit index and includes public obligations of the US Treasury with at least one year to final maturity and publicly issued debt of US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government.

Bloomberg US Agency Index is the US agency component of the Bloomberg US Government/Credit Index and includes publicly issued debt of US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government.

FTSE 10-Year US Treasury Index is a total return index based on a constant maturity instrument.

BofA Preferred Stock Fixed Rate Index tracks the performance of fixed rate US dollar-denominated preferred securities issued in the US domestic market.

US Treasuries are direct debt obligations issued and backed by the "full faith and credit" of the US government. The US government guarantees the principal and interest payments on US Treasuries when the securities are held to maturity. Unlike US Treasuries, debt securities issued by the federal agencies and instrumentalities and related investments may or may not be backed by the full faith and credit of the US government. Even when the US government guarantees principal and interest payments on securities, this guarantee does not apply to losses resulting from declines in the market value of these securities.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

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