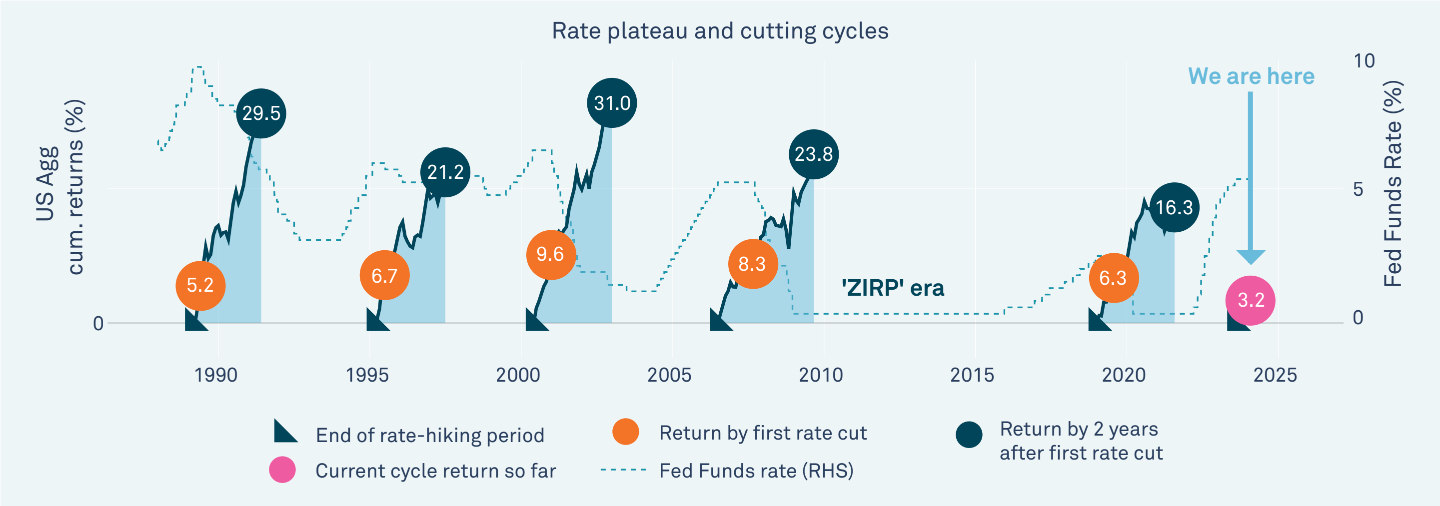
COULD A SHIFT INTO BONDS BE UPON US?

Rate cuts are on the agenda and yields are near post-pandemic highs. We believe a shift into bond markets is potentially getting started. We see this as a potential opportunity to take advantage.

The first rate cutting cycle in 15 years (apart from during the pandemic) is potentially on the horizon, in our view.

The last five Federal Reserve (the "Fed") easing cycles were advantageous periods for bond markets, with the Bloomberg US Aggregate Bond Index (US Agg) returning between 16% and 31% (see chart below) and the Bloomberg US Corporate Investment Grade Index (US credit)[1] between 21% and 32%[2] in the two years following the last rate hike. Those cycles may have particularly benefited those that invested early, locking in fixed rate coupons at the top of the rate cycle and achieving price appreciation as rates fell.

The latest bond market shift could be underway[3]



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ZIRP = Zero Interest Rate Policy

So far this cycle, the US Agg has only returned 3% and the US credit has returned less than 5%.[4] This may imply that the latest shift is potentially just beginning. There could be more to come over the next few years if the Fed executes a steady stream of rate cuts from the second half of 2024, in line with its own projections.[4]

1. US Agg = Bloomberg US Aggregate Bond Index and US credit = Bloomberg US Corporate Investment Grade Index
2. Source: Bloomberg, February 2024. From the last rate hike to two years after the first rate cut.
3. Bloomberg, Insight. Bloomberg US Aggregate Bond index. February 2024. Please see index descriptions at the back of the document.
4. Federal Reserve, December 2023: https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20231213.htm.

Bond Income can be an important portfolio diversifier

Yield is the primary driver of returns for long-term investors. Since 2000, 102% of US investment grade total returns are attributable to yield.[5] For large-cap equities, over the same period, only 45% of returns are attributable to dividends.[5]

We believe even for short-term investors, bond yields may potentially help mitigate volatility in annual returns. In 2023, an unusual year in which bond prices were particularly volatile, coupon income still drove most return at 53%, whereas equity investors saw only 9% of their returns from dividend income.

Even in a volatile 2023, income has been the driver of fixed income returns[6]

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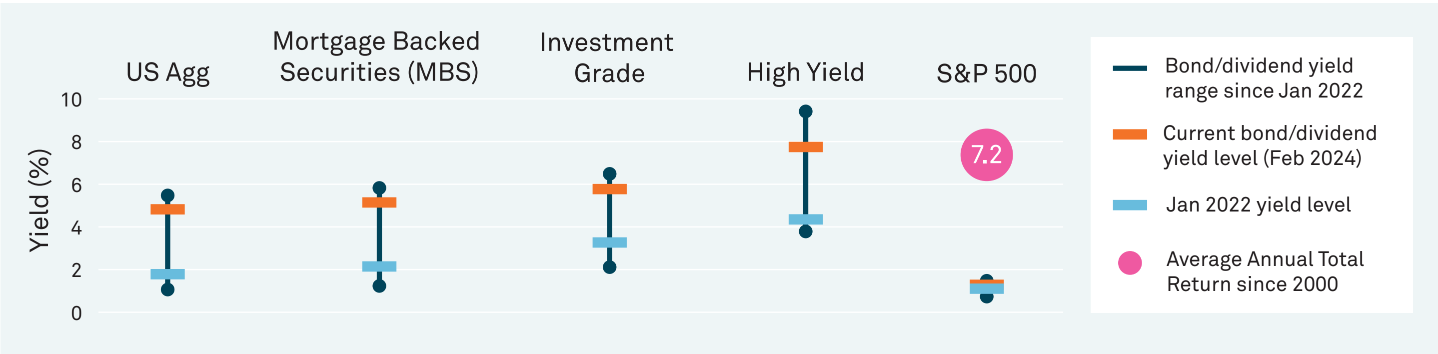
Yields remain near post-pandemic highs

Unlike cash investors, bond investors can potentially benefit from today's yields for years to come. We believe there is a potential opportunity to take advantage and move further out on the curve as Fed rate cuts may lower cash yields with limited accompanying diversification benefit.

Additionally, bonds may potentially benefit some who may want to consider to diversify their equity portfolios or crystallize their equity gains. Historically, low bond yields meant an expensive opportunity cost from switching any exposure into bonds. However, fixed income yields currently appear similar to long term equity returns, meaning some may have an opportunity to hold on to potential equity gains by allocating to fixed income. Additionally, moderating economic growth may be a headwind for equity markets.

Yields are still close to their post-pandemic highs[7]



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5. Bloomberg, Insight, February 2024
6. Bloomberg, Insight calculations, January 2024.
7. Bloomberg, Insight, January 2024. MBS = Bloomberg US Mortgage Backed Securities (MBS) Index, Investment grade = Bloomberg US corporate bond index, ABS = Bloomberg US Agg ABS Index, Emerging market hard currency = Bloomberg Emerging Markets Hard Currency Aggregate Index, High yield = Bloomberg US Corporate High Yield Bond Index, S&P 500 = S&P 500 Total Return Index. Please see index descriptions at the back of the document.

Consider "Buying the Dips" for smart dollar cost averaging

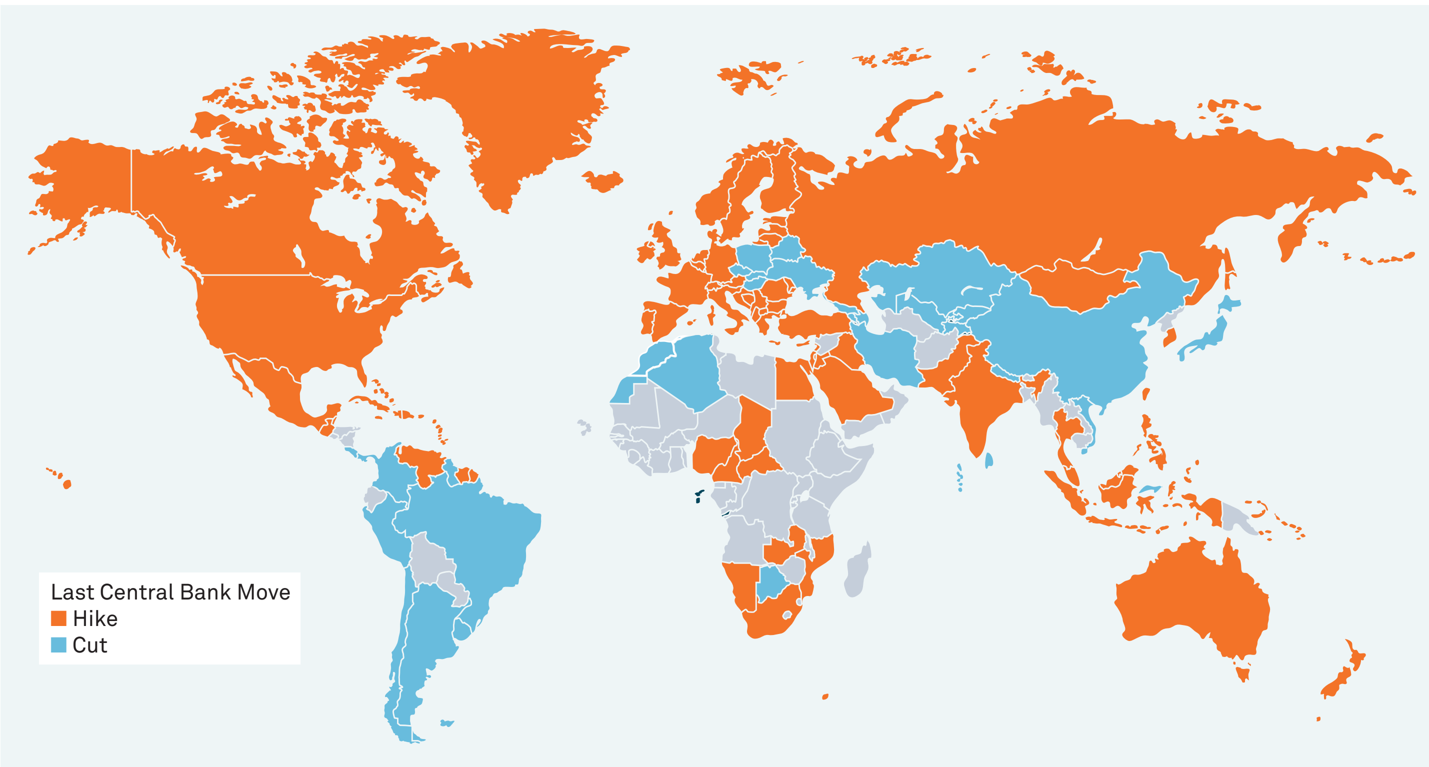
We believe in relocation of some cash and equity exposure to fixed income and potentially deploy dollar-cost averaging.

Market volatility is also worth monitoring as expectations have shifted over the last few months. Volatility may continue, which means some active investors may find opportunities to find more compelling entry points, or to essentially "buy the dips." Either way, we believe in considering completion of potential desired reallocations into bonds before the timing of the first rate cut becomes crystal clear.

Global approach to help capture fixed income's potential

Although we may have to wait a bit longer for rate cuts in the US than the market would prefer, rate cuts have already begun elsewhere:

The global rate cutting cycle has begun[8]



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The US was the worst performer out of the largest 20 countries in the Bloomberg Global Aggregate Index (Global Agg) in 2023. Whereas the US Agg returned 5.5%, the Global Agg (US dollar hedged) returned 7.2%.[9] As with most years, we believe that a globally diversified approach would have added value in 2023. As such, a diligent and fully global fixed income approach may be a way to benefit from the global rate cutting cycle.

We think a shift into fixed income has begun.

8. Macrobond, National Sources, Insight Investment, February 2024
9. Bloomberg Global Aggregate Bond Index (USD dollar hedged), Insight calculations, February 2024

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All investments involve risk, including the possible loss of principal. Certain investments involve greater or unique risks that should be considered along with the objectives, fees, and expenses before investing.

Bonds are subject generally to interest-rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. **High yield bonds** are subject to increased credit risk and are considered speculative in terms of the issuer's perceived ability to continue making interest payments on a timely basis and to repay principal upon maturity. The use of **derivatives** involves risks different from, or possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid, and difficult to value and there is the risk that changes in the value of a derivative held by the portfolio will not correlate with the underlying instruments or the portfolio's other investments. Investing in **foreign denominated and/or domiciled securities** involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries. **Dollar cost averaging**: regular investing does not guarantee a profit or protect against loss in declining markets. Regular investing plans involve continuous investment in securities regardless of fluctuating price levels, and the investor should consider his or her ability to continue making purchases through periods of low price levels.

Asset allocation and diversification cannot assure a profit or protect against loss.

The **Bloomberg US Aggregate Index** is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. **Bloomberg U.S. Corporate Bond Index** measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate bond market. **Bloomberg US Mortgage Backed Securities (MBS)** Index is an unmanaged index comprising 15- and 30-year fixed-rate securities backed by mortgage pools of Ginnie Mae, Freddie Mac and Fannie Mae. **Bloomberg US Asset-Backed Security (ABS)Index** is the ABS component of the Bloomberg US Aggregate Bond Index, a flagship measure of the U.S. investment grade, fixed-rate bond market. The ABS index has three subsectors: credit and credit cards, autos and utility. **Bloomberg Emerging Markets Hard Currency Aggregate Index** measures the performance of hard currency Emerging Markets (EM) debt, including fixed and floating-rate U.S. dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. **Bloomberg US Corporate High Yield Bond Index** measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. **S&P 500 Index** is wildly regarded as the best single gauge of large-cap US equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. An investor cannot invest directly in any index.

Rate cycles are the time between troughs in the federal funds effective rate. In other words, a rate cycle begins when the Federal Open Market Committee (FOMC) begins to raise rates and ends when the FOMC stops lowering rates. **Rate hike** is when the FOMC starts raising rates. **Rate cuts** is when the FOMC starts cutting rates. **Zero Interest Rate Policy (ZIRP)** is a method of stimulating growth while keeping interest rates close to zero. The governing central bank can no longer reduce interest rates under this policy, rendering conventional monetary policy ineffective.

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