Global Credit Perspectives
4Q 2019

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Overview

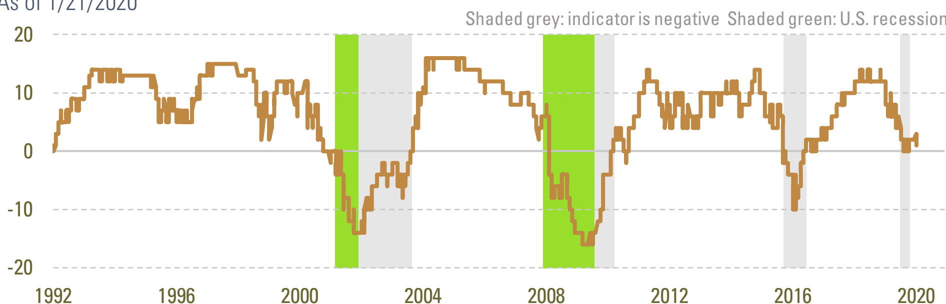
HINDSIGHT IS 2020

As we look ahead to 2020, the view forward seems strangely similar to a look back at 2019. The U.K. may be nearer to Brexit or maybe not. The U.S. and China could be headed toward a trade agreement or negotiations could again fall short. Global growth may be poised for a recovery or a decline, depending on whom you ask. To see more clearly through these macro challenges, investors must continue to monitor key economic indicators for signs of a material shift.

THE BIGGEST RISK

While the fourth quarter's risk-on about-face helped dispel investors' worries, it was only the quarter before when recession indicators, including an inverted Treasury yield curve, were flashing warning signals (see Figure 1). The phase one U.S.-China trade deal announcement marked a step forward, but economic indicators remain fragile (see Figure 2). One of the biggest risks facing our outlook is the risk that growth outside of the U.S. turns weaker, particularly in commodity-sensitive Latin America countries, like Mexico. We are watching carefully for signs that Chinese growth is bottoming, which could lend support to emerging economies.

Figure 1 Brandywine Global: Proprietary U.S. Recession Indicator*
As of 1/21/2020



*Based on 16 components, including interest rates, high yield spreads, business confidence and activity, corporate profits, equity, and lumber price. Source: Brandywine Global

Figure 2 Conference Board Leading Economic Index for the U.S. 10 Economic Indicators
As of 11/30/2019

Source: Bloomberg (© 2019, Bloomberg Finance LP)

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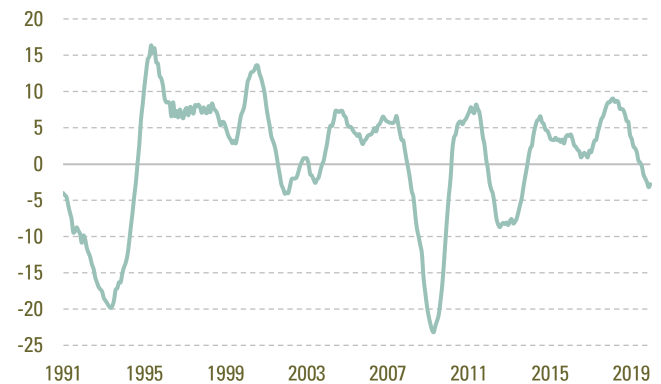
European growth is also at a critical juncture (see Figure 3). It remains to be seen whether new European Central Bank (ECB) President Christine Lagarde will succeed in her noble causes of unifying the eurozone banking system and convincing reluctant member governments to loosen their fiscal purse strings, potentially reviving the region's moribund economy.

Figure 3 Conference Board Leading Economic Index for the Euro Area 10 Economic Indicators As of 12/31/2019

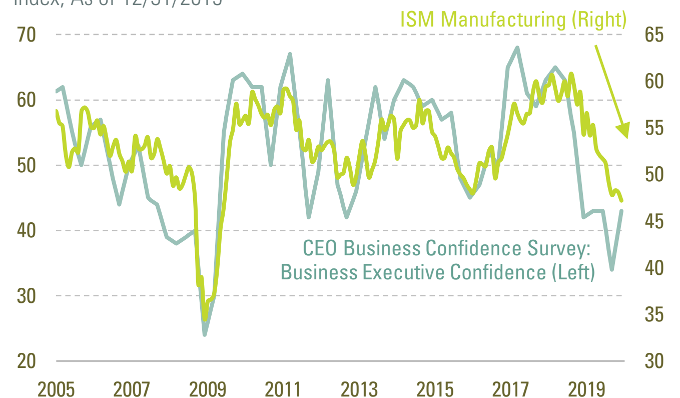


Source: Bloomberg (© 2019, Bloomberg Finance LP)

BUSINESS CONFIDENCE AND HIRING

Business confidence is another indicator at a crossroads (see Figure 4). Uncertainty, primarily from the trade war, has weighed on business sentiment even as the U.S. consumer and labor market have remained relatively robust. The hope is for consumer optimism to spill over to businesses, invigorating capital investment and creating a virtuous cycle. However, the fear is that CEO confidence declines further, particularly if meaningful progress on trade relations fails to materialize. Increased pessimism could create a vicious, downward spiral characterized by further capital spending declines, decreases in hiring, and even layoffs, undermining consumer confidence and spending.

Figure 4 Business Confidence vs. ISM
Index; As of 12/31/2019



Source: The Conference Board, ISM, Haver Analytics, DB Global Research

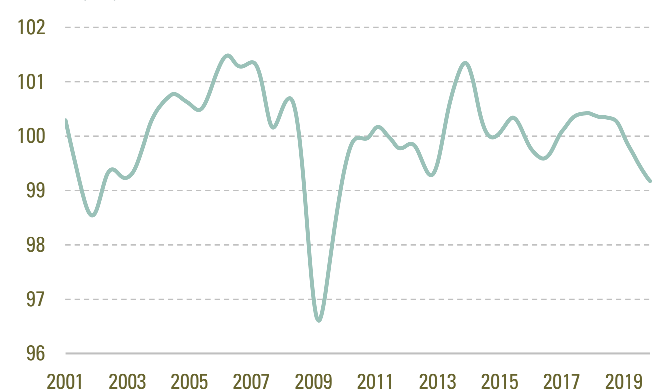
DIM OUTLOOK FOR ENERGY

The energy sector received a boost from the fourth quarter's uptick in oil prices and rally in lower-rated corporate debt, which led to a surge in issuance and allowed some at-risk issuers to refinance and push out repayment dates. The euphoria could be short-lived, however. Looking at distress ratios, the energy sector could be a harbinger for increased defaults in 2020. Other sectors, like healthcare and retail, also are showing signs of stress.

MONETARY POLICY: SILVER BULLET?

The Federal Reserve's (Fed) rate accommodation and liquidity dalliance in the overnight and short-term repo market operations were both much needed and welcomed by the market. The Fed has called its actions an insurance policy, not to be confused with quantitative easing. The Fed also has demonstrated its data dependence and commitment to reading the economic tea leaves carefully. Regardless, central banks have failed to deliver on growth or inflation targets. Developed markets are at risk of "Japanification" where rates remain stuck at zero for a prolonged period, yet higher growth remains stubbornly elusive (see Figure 5). If a pronounced deceleration occurs, monetary policy would need to respond aggressively to avert widening risk premia. However, the Fed, which typically may ease several times during a recession, has few arrows left in its quiver given the current level of interest rates.

Figure 5 Japan OECD Leading Indicators
As of 11/30/2019



Source: Bloomberg (© 2019, Bloomberg Finance LP)

A FEW BRIGHT SPOTS

While other challenges remain that suggest increased volatility ahead, like rising Mideast tensions and the U.S. election cycle, we would be remiss if we did not highlight a few potential bright spots. As we mentioned, the consumer has remained resilient and low rates have propped up housing markets. Most notable, expectations for the Fed remaining on hold or even lowering rates and the possibility of stabilizing or improving global growth would likely send the U.S. dollar lower to the benefit of the commodity complex and emerging markets and their currencies. We will be watching economic indicators and activity closely; any sharp deceleration in growth should be monitored for a recessionary impulse. Conversely, any improvement in the macroeconomic environment may support risk assets, although current valuations across various segments of the global bond market warrant caution and a selective approach.

Index Summary AS OF DECEMBER 31, 2019

INVESTMENT GRADE

- Quality within the investment grade universe continues to deteriorate and 2020 issuance is expected to decline to multi-year lows, which should be supportive given the global search for yield.
- Improved balance sheets, stronger underwriting, and shorter duration should support the bank sector in 2020; European financials may surprise to the upside if progress is made on banking system integration and increased fiscal spending.

	12/31/2018		10/31/2019		11/30/2019		12/31/2019	
SPREAD/YIELD SUMMARY (bps/%)	SPREAD	YIELD	SPREAD	YIELD	SPREAD	YIELD	SPREAD	YIELD
ICE BAML Global Corporate Index	158	3.39	115	2.22	112	2.27	102	2.24
ICE BAML AA Global Corporate Index	86	2.53	62	1.58	60	1.62	55	1.63
ICE BAML A Global Corporate Index	125	3.03	91	1.97	88	2.02	80	2.01
ICE BAML BBB Global Corporate Index	202	3.87	146	2.56	142	2.59	130	2.54
ICE BAML U.S. Corporate Index	159	4.25	117	2.90	111	2.93	101	2.90

PERFORMANCE SUMMARY (%)	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
ICE BAML Global Corporate Index	1.75	11.44	11.44	5.53	3.35	4.12
ICE BAML AA Global Corporate Index	1.16	8.02	8.02	4.36	2.41	2.91
ICE BAML A Global Corporate Index	1.36	10.19	10.19	5.07	3.03	3.68
ICE BAML BBB Global Corporate Index	2.23	13.12	13.12	6.16	3.85	5.10
ICE BAML U.S. Corporate Index	1.15	14.23	14.23	5.94	4.60	5.60

STRUCTURED CREDIT

- Structured credit generally underperformed corporate credit and equities in 2019, implying historical relative cheapness. We see the potential for stable returns with solid carry and higher margin of safety in non-agency mortgage-backed securities (MBS), European residential MBS, credit risk transfer (CRT) MBS, select commercial MBS, and certain asset-backed securities (ABS) sectors.

	12/31/2018		10/31/2019		11/30/2019		12/31/2019	
SPREAD/YIELD SUMMARY (bps/%)	SPREAD	YIELD	SPREAD	YIELD	SPREAD	YIELD	SPREAD	YIELD
ICE BAML U.S. Mortgage-Backed Securities Index	45	3.38	56	2.54	49	2.57	42	2.55
ICE BAML U.S. Fixed Rate CMBS Index	101	3.58	87	2.45	85	2.54	91	2.64

PERFORMANCE SUMMARY (%)	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
ICE BAML U.S. Mortgage-Backed Securities Index	0.66	6.51	6.51	3.29	2.60	3.18
ICE BAML U.S. Fixed Rate CMBS Index	-0.32	8.02	8.02	4.17	3.37	5.42

GLOBAL HIGH YIELD & LEVERAGED LOANS

- 2019 returns were driven by the BB- and B-rated segments of the index, which outperformed CCC and below.
- Given tight spreads, the challenging global growth outlook, and potential for a pickup in defaults, we are positioned in telecom and technology and the shorter-dated portion of capital structures while assessing more pro-cyclical sectors.

	12/31/2018		10/31/2019		11/30/2019		12/31/2019	
SPREAD/YIELD SUMMARY (bps/%)	SPREAD	YIELD	SPREAD	YIELD	SPREAD	YIELD	SPREAD	YIELD
ICE BAML Global High Yield Index	540	7.50	426	5.59	413	5.53	375	5.15
ICE BAML BB Global High Yield Index	378	5.75	265	3.89	252	3.84	232	3.64
ICE BAML B Global High Yield Index	627	8.51	489	6.33	464	6.17	414	5.65
ICE BAML CCC & Lower Global High Yield Index	1176	13.99	1143	12.81	1178	13.23	1050	11.98
ICE BAML U.S. High Yield Index	533	7.95	415	5.89	402	5.84	360	5.41
ICE BAML European High Yield Index	506	4.73	372	3.17	348	2.99	308	2.62
Credit Suisse Leveraged Loan Index	550	8.09	512	6.61	498	6.55	461	6.27

PERFORMANCE SUMMARY (%)	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
ICE BAML Global High Yield Index	3.40	13.73	13.73	6.60	5.91	7.20
ICE BAML BB Global High Yield Index	3.14	14.23	14.23	6.89	5.74	7.24
ICE BAML B Global High Yield Index	3.55	13.42	13.42	6.37	5.89	6.87
ICE BAML CCC & Lower Global High Yield Index	4.41	11.79	11.79	5.47	6.61	7.76
ICE BAML U.S. High Yield Index	2.61	14.41	14.41	6.32	6.13	7.50
ICE BAML European High Yield Index	5.00	9.28	9.28	6.81	3.14	4.94
Credit Suisse Leveraged Loan Index	1.68	8.17	8.17	4.48	4.54	5.18

EMERGING MARKETS

- Despite the potential for economic improvements, we do not see significant opportunity given tight valuations among emerging market corporate and hard-currency sovereign bonds.
- Our focus generally has been to maintain shorter duration while evaluating some select idiosyncratic opportunities in these markets.

	12/31/2018		10/31/2019		11/30/2019		12/31/2019	
SPREAD/YIELD SUMMARY (bps/%)	SPREAD	YIELD	SPREAD	YIELD	SPREAD	YIELD	SPREAD	YIELD
JP Morgan (JPM) CEMBI Broad	345	6.19	268	4.83	259	4.83	238	4.76
JPM EM Bond Index Global Diversified	433	7.05	321	5.03	307	4.96	275	4.78
JPM GBI-EM Broad Diversified	-	6.79	-	5.27	-	5.31	-	5.25

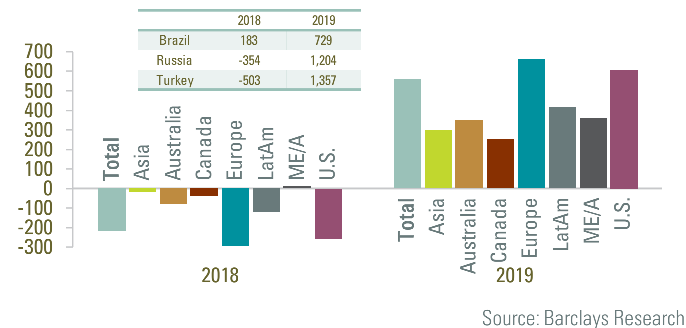
PERFORMANCE SUMMARY (%)	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
JPM CEMBI Broad	2.09	13.55	13.55	6.39	6.11	6.71
JPM EM Bond Index Global Diversified	2.09	14.42	14.42	6.06	5.88	6.57
JPM GBI-EM Broad Diversified	5.36	11.83	11.83	5.94	2.67	2.70

Investment Grade

The ICE BAML Global Corporate Index returned 1.75% in the fourth quarter while its yield tightened to 2.2% and closed the quarter with a spread of 102 basis points (bps). For the trailing 12 months, the index returned 11.44% (see Figure 6). Lower-quality investment grade bonds (BBB) returned 2.23% for the quarter and 13.12% for the trailing 12 months, better than AA- and A-rated corporate bonds, which returned 1.16% and 1.36% for the quarter and 8.02% and 10.19% for the year, respectively.

Overall global corporate bond issuance for the fourth quarter came in at $609 billion among 2,627 issues, according to Bloomberg data. Meanwhile, $1,150 billion of global loans and $157.7 billion of corporate high yield debt were issued during the same time period. This strong issuance trend is expected to continue as corporations take advantage of the favorable rate environment.

Figure 6 Excess Return by Region



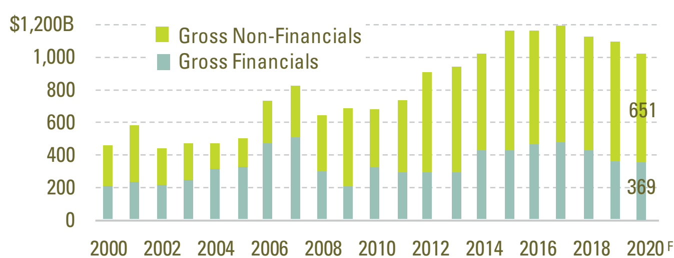
Source: Barclays Research

Investment grade credit spreads widened in the fourth quarter following three quarters of strong performance from developed market sovereign bonds, which were responding to several economic and geopolitical factors. The scramble for high-quality liquid assets that appeared in the third quarter did not recur at the end of the year as the Fed provided ample liquidity through overnight and short-term repo market operations and committed to supporting markets with asset purchases through the second quarter of 2020 at a pace of up to $60 billion per month. The Fed remains data dependent and continues to assess the economic reality to determine its path of monetary policy. Expectations remain elevated for interest rate cuts through the end of 2020.

Challenging global trade, geopolitical issues, and shifting monetary policy frameworks formed the backdrop for 2019 and appear to be the issues investors will face in 2020. Although banks underperformed industrials, looking forward to 2020, the strength of balance sheets, stronger underwriting, and shorter duration should lead to continued strong performance for the sector. European financials may surprise to the upside should Lagarde have any success in her push for both a more integrated European banking system and increased fiscal spending from eurozone governments. European banks and corporations had faced a slowing global economy—the key will be understanding whether the economies are bottoming or will contract further. As we have discussed in the past, growth continues to be elusive for Europe as it remains directly in the middle of the tension between the U.S. and China, which will most likely unfold in an uneven pattern over 2020.

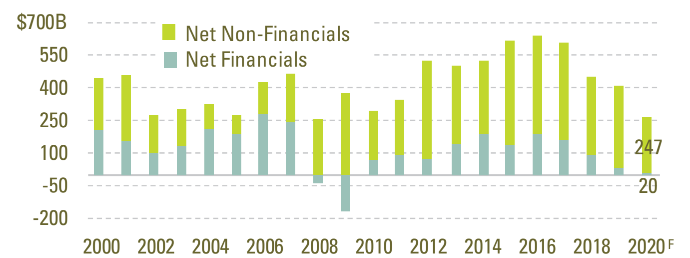
As the risks we have identified previously continue to grow, and the quality within the investment grade universe continues to deteriorate with no signs of abating, gross higher-grade issuance in 2020 is anticipated to be the lowest since 2013 and net issuance the lowest since 2009, although these levels still remain relatively high on a historical basis (see Figures 7 and 8). Interest rates are expected to remain low; one should anticipate that this supply would be supportive to the asset class given the strong demand, with new issuance absorbed by the market as investors continue to seek yield across global assets. The caveats continue to be around valuation, including where we are starting 2020, and risks, specifically shifting monetary policy and geopolitical turmoil. We do not anticipate any dramatic shifts in the former, however, it is difficult to predict the latter. With that in mind, a patient investor with an active approach to credit management focusing on fundamentals and macroeconomic data should be rewarded.

Figure 7 2020 Gross Issuance May Be the Lowest Since 2013



Source: J.P. Morgan, Dealogic

Figure 8 2020 Net Issuance May Be the Lowest Since 2009



Source: J.P. Morgan, Dealogic

Structured Credit

OVERVIEW

The highlight of the fourth quarter was the phase one deal between the U.S. and China, which avoided further escalation of the trade war. China's economic growth continued its very nascent bottoming process. Global central bank easing should be positive, especially with the Fed's accommodative stance in adding liquidity to the money market and expansion of the balance sheet. Structured credit posted solid positive total returns for the fourth quarter but underperformed corporate credit overall in 2019. As a result, structured credits exhibit relative cheapness compared to corporate bonds in various sectors. Lower mortgage rates should continue to support housing fundamentals, combined with healthy household balance sheets, relatively cheaper valuations, less net supply, and shorter duration. Strong fundamentals and performance also continued for European RMBS, non-agency reperforming loan (RPL) bonds, non-qualified mortgage (non-QM) bonds, Freddie K mezzanine bonds, and non-agency CMBS. We remain constructive on structured credit due to reduced macro uncertainty and relatively cheaper valuations.

U.S. RMBS

Robust mortgage credit fundamentals continue to be supported by ongoing deleveraging in mortgage borrower credit profiles and pristine new mortgage origination resulting from restrictive underwriting standards. We remain constructive on the non-agency MBS market and the CRT MBS market due to solid fundamental performance and attractive carry. In addition, helped by good performance and bond deleveraging, CRT bonds have seen frequent rating upgrades, which could further tighten spreads. Agency MBS new issuance amounted to $1,518 billion in 2019, compared to $1,174 billion in 2018. Non-agency MBS new issuance was flat at $118 billion in 2019 compared to $124 billion in 2018. Issuance was split mostly equally among RPL, non-QM, prime, CRT, and NPL (non-performing loan). The upcoming government-sponsored enterprise (GSE) reform might portend further shrinking of the GSE footprint and benefit the scaling-up of the private label market.

CMBS

CMBS issuance reached $273 billion in 2019 versus $246 billion in 2018, with agency issuance outpacing non-agency. The Fed's rate cuts and less uncertainty on interest rates should drive the growing appetite for fixed-rate bonds with decent yields, benefiting CMBS performance. We believe the mezzanine tranches of the Freddie Mac multi-family K program, with high-quality collateral, and conduit CMBS AAA, single-A, and BBB- of 2012-2016 vintage, with embedded property value appreciation and operating income growth, currently offer attractive opportunities.

ABS

Total issuance exceeded $241 billion in 2019 compared to $244 billion in 2018. Short-duration ABS offer a decent yield pickup and relative stability versus comparable corporate credits. We see some opportunities in private student loan, auto rental, and whole business securitization ABS.

CLO

U.S. collateralized loan obligation (CLO) supply totaled $114 billion in 2019, down from the $121 billion in 2018. CLO yields look attractive relative to the low and negative yields in the global fixed income market. There are some pockets of value in AAA and AA tranches, but the market faces headwinds of deteriorating corporate credit fundamentals, challenging liquidity, the potential for more interest rate cuts, and negative sentiment against leveraged loans and corporate credit.

INTERNATIONAL RMBS

Both Spanish and U.K. RMBS performed well, driven by solid fundamentals, borrower deleveraging, rating upgrades, clean-up call upside, increasing demand from buyers with reinvestment needs, and lack of new issue supply. The ECB's rate cuts and further QE purchases should continue to benefit these markets. Distributed European ABS issuance totaled $70 billion in 2019. We expect the uncertainty around the implementation of the Securitisation Regulation and Brexit may continue to slow the pace of issuance.

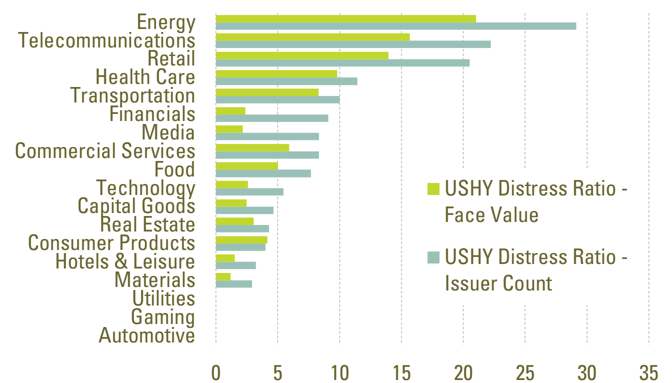
Global High Yield & Leveraged Loans

The BAML ICE U.S. High Yield Index returned 14.4% for the year in contrast to a down year in 2018. Returns in 2019 were driven by the BB- and B-rated segments of the index, which outperformed CCC-and-below-rated bonds by approximately 660 and 525 bps, respectively. European high yield produced a double-digit return, excluding any currency impact, but underperformed relative to U.S. high yield. In contrast to U.S. high yield, lower-quality issuers drove the performance of the European index. A change in policy stance by the Fed and a trade détente between the U.S. and China supported returns in the fourth quarter, particularly in December.

Distress ratios (see Figure 9) suggest a pickup in defaults of energy sector issuers; the sector has a distress ratio of over 20% by face value—nearly 30% by issuer count—versus just over 10% for the overall index. Retail continues to trade with a higher distress ratio along with healthcare, likely due to a continued shift in consumer behavior combined with disruption from Amazon and ongoing opioid litigation in the healthcare sector.

The Euro High Yield index option-adjusted spread (OAS) trades tight relative to the U.S. index by 52 bps despite the 279-bp pickup in yield in the U.S. Even adjusting for FX hedging costs, the U.S. index offers a nearly 55 bp yield-to-worst advantage with a Fed that is continuing balance sheet expansion and no longer hiking rates. Continued support of the ECB should lead to a reach for yield within Europe despite weak economic data and growth prospects. As a result, we continue to favor exposure to U.S. issuers over European issuers.

Figure 9 Distress Ratios by Sector
US HY Distress Ratio, As of 12/31/2019

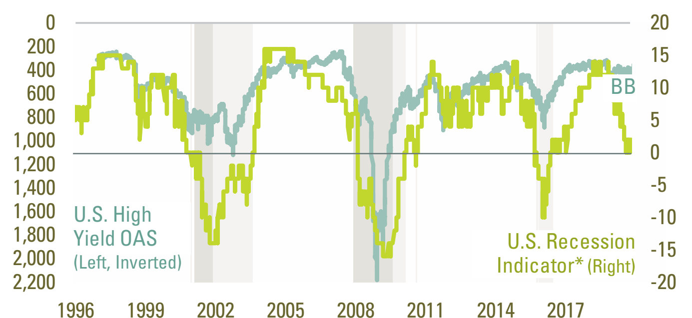


Source: Bank of America Merrill Lynch

Leveraged loans returned 1.68% in the fourth quarter, underperforming the U.S. High Yield Index for both the final quarter and full-year 2019. Loan leverage continues to increase despite a record 36% of loan deals with adjustments to EBITDA. Leveraged loan fund flows indicated a $26 billion outflow compared to a $27 billion inflow for high yield bond funds, according to Morgan Stanley. Due to deteriorating fundamentals and weak covenants, we have minimal exposure to leveraged loans.

We anticipate an increase in U.S. high yield issuer defaults in 2020, likely driven by the energy sector. In the short term, production data appears to favor higher oil prices in the U.S., but this trend may be short-lived given the short-cycle nature of U.S. shale. We continue to favor the telecom and technology sectors. We continue to assess opportunities in more pro-cyclical sectors, especially opportunities within the basic industries sector, which may benefit from an increase in global trade given the phase one U.S.-China deal. We favor telecom exposure as the 5G buildout in the U.S. continues to evolve, and we expect capital spending to increase to fund infrastructure. Portfolios are also positioned in the shorter-dated portion of capital structures given the tight spread environment and a challenging global growth outlook in 2020. Our credit work continues apace to identify those capital structures and credit instruments that will provide the most upside in the event of an improvement in the global growth backdrop, a more coherent Fed easing program, and potential monetary policy easing by the People's Bank of China, with a focus on cyclical sectors in metals & mining, oil & gas, and select retail (see Figure 10).

Figure 10 U.S. High Yield OAS & Recession Indicator
As of 12/31/2019



*Based on 16 components, including interest rates, high yield spreads, business confidence and activity, corporate profits, equity, and lumber price. Shaded light gray: indicator is negative. Shaded dark gray: U.S. recessions.

Source: Bank of America Merrill Lynch, Macrobond

Emerging Markets

Emerging markets rallied in the fourth quarter and finished the year up double digits across local- and hard-currency markets. The news of a phase one U.S.-China trade deal, improving Chinese growth, and the recovery in commodity prices buoyed emerging market bonds and currencies during the quarter. However, the other big—and probably more important—drivers of risk sentiment were actions taken by the Fed during the quarter. The Fed injected almost $400 billion of liquidity into the repo markets in order to avoid repeating the late 2018 market sell-off as banks reduced balance sheet risk in advance of their annual G-SIB measurements. In only three months, the Fed's balance sheet recovered almost 60% of the contraction that occurred from its high watermark; the balance sheet will near its previous maximum by the end of March 2020. From a macro perspective, a more sanguine outlook for the global economy should remain in place to start the new year, marked by low inflation and improving growth. While this environment is certainly positive for emerging markets, one should consider the starting point for valuations with yields on the three J.P. Morgan emerging market indices sitting at close to all-time lows (see Figure 11).

Figure 11 Emerging Market Yields are Historically Low

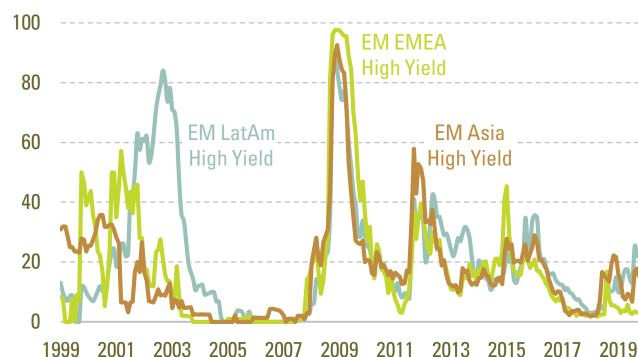
	YTW	PERCENTILE RANKING	
	12/31/2019	12/31/2019	12/31/2018
JPM GBI-EM	5.2%	0.6%	29.0%
JPM EMBI Global Diversfied	4.9%	5.4%	72.0%
EMBI IG	3.5%	2.8%	50.8%
EMBI HY	6.8%	13.1%	84.2%
JPM CEMBI Diversified	4.5%	0.3%	64.1%
CEMBI IG	3.5%	0.2%	51.5%
CEMBI HY	6.6%	4.1%	61.6%

Source: J.P. Morgan

CORPORATE

The JP Morgan CEMBI Broad Diversified Index returned 2.21% for the quarter and 13.09% for the year. On a quality basis, investment grade and high yield returned 12.64% and 13.66% for 2019, respectively. The yield-to-worst on the index finished the quarter at 4.51% with spread of 267 bps. High yield default rates were benign with the year-to-date rate at a low 0.35%, the lowest level since 2011. Total issuance for the year was $461 billion with 65% out of Asia, 20% in EEMEA, and 15% in LatAm. Despite the positive backdrop, we do not see significant opportunity given tight valuations. Instead, our focus in select strategies has been to maintain shorter duration. However, with the uptick in the distressed ratio, driven mostly by Argentina and Chinese property, we are evaluating some select idiosyncratic opportunities in these markets (see Figure 12). In Argentina, the pace of debt renegotiations will be pivotal to the country's economic recovery. In China, some of the story will be the ability of companies to roll existing debt. At the start of 2020, we have already seen almost $21 billion of issuance out of Asia with $9 billion coming from China property alone.

Figure 12 Emerging Markets Distressed Ratio
%, As of 12/31/2019



Source: Bank of America Merrill Lynch

SOVEREIGN

Local-currency sovereign bonds, measured by the JPM GBI-EM Global Diversified Index and the hard currency JP Morgan EMBI Global Diversified Index, returned 5.20% and 1.81% during the quarter and 13.47% and 15.04% for 2019, respectively. Similar to corporate bonds, the hard-currency sovereign market appears broadly tight at this point with some idiosyncratic opportunities. Local bond market duration performed well in 2019; however, we believe we need to see an improvement in economic growth for their respective currencies to rally. The Fed's expected pause on rate actions for 2020, coupled with a recovery—albeit moderate—in global growth, could be enough to stabilize or weaken the U.S. dollar, enabling positive performance from some emerging market currencies on carry basis. The reduction in global short rates and rapprochement between the U.S. and China are two catalysts we are watching for global growth to pick up.

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Qualifying securities must have an 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, at least one year remaining term to final maturity as of the rebalancing date, and a fixed coupon schedule. The ICE BAML AA Global Corporate Index is a subset of the ICE BAML Global Corporate Index, including all securities rated AA1 through AA3, inclusive. The ICE BAML Single-A Global Corporate Index is a subset of the ICE BAML Global Corporate Index, including all securities rated A1 through A3, inclusive. The ICE BAML BBB Global Corporate Index is a subset of The ICE BAML Global Corporate Index, including all securities rated BBB1 through BBB3, inclusive. The ICE BAML U.S. Corporate Index tracks the performance of U.S. dollar-denominated investment grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have an 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, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule, and a minimum amount outstanding of $250 million. The ICE BAML Global High Yield Index tracks the performance of USD-, CAD-, GBP-, and EUR-denominated below investment grade corporate debt publicly issued in the major domestic or eurobond markets. The ICE BAML BB Global High Yield Index is a subset of the ICE BAML Global High Yield Index, including all securities rated BB1 through BB3, inclusive. The ICE BAML Single-B Global High Yield Index is a subset of The ICE BAML Global High Yield Index, including all securities rated B1 through B3, inclusive. The ICE BAML CCC & Lower Global High Yield Index is a subset of The ICE BAML Global High Yield Index, including all securities rated CCC1 or lower. The ICE BAML U.S. High Yield Index tracks the performance of USD-denominated below investment grade corporate debt publicly issued in the major U.S. markets. The ICE BAML European High Yield index tracks the performance of below-investment grade corporate bonds publicly issued in Europe. The Credit Suisse Leveraged Loan Index tracks the investable market of the U.S. dollar-denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest-rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries. The ICE BAML U.S. Mortgage-Backed Securities Index tracks the performance of U.S. dollar-denominated fixed rate and hybrid residential mortgage pass-through securities publicly issued by U.S. agencies in the U.S. domestic market. The ICE BAML U.S. Fixed Rate CMBS Index tracks the performance of U.S. dollar-denominated investment grade fixed rate commercial mortgage-backed securities publicly issued in the U.S. domestic market. The JP Morgan Corporate Emerging Market Bond Index (CEMBI) Broad is a global, liquid corporate emerging markets benchmark that tracks U.S. denominated corporate bonds issued by emerging markets entities. The JPM EM Bond Index Global Diversified is composed of U.S. dollar-denominated Brady bonds, eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities. The JPM Government Bond Index-Emerging Markets (GBI-EM) Broad Diversified is a comprehensive emerging market debt benchmark that tracks local currency bonds issued by emerging market governments. The unique diversification scheme ensures that weights among the index countries are more evenly distributed by reducing the weight of large countries and redistributing the excess to the smaller-weighted countries with a maximum weight per country of 10%. All data current as of the date at the top of the page unless otherwise noted. This information should not be considered a solicitation or an offer to provide any Brandywine Global service in any jurisdiction where it would be unlawful to do so under the laws of that jurisdiction. Past performance is no guarantee of future results.

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