Staring at the ceiling.

Monthly snapshot

- Global equity markets overall experienced a modest downturn in May amid periods of volatility in response to the latest developments in the politically charged debt-ceiling standoff in the U.S., ongoing concerns about the stability of regional banks, as well as economic data. Both developed and emerging markets recorded negative returns for the month.
- Global fixed-income assets posted losses in May. U.S. Treasury yields rose across the curve, most notably for one-month bills.
- We remain cautious on equity markets from a top-down perspective. Within equities, we continue to focus on our core approach: favouring high-quality companies with positive earnings momentum at reasonable valuations.

Global equity markets overall experienced a modest downturn in May amid periods of volatility in response to the latest developments in the politically charged debt-ceiling standoff in the U.S., ongoing concerns about the stability of U.S. regional banks, as well as economic data. Developed markets slightly outperformed emerging markets. The Far East garnered a moderately positive return and was the top-performing region among developed markets in May attributable primarily to strength in Japan. Europe was the primary market laggard due to weakness in Belgium and Portugal. Despite posting a negative return, Latin America was the top performer within the emerging markets in May, buoyed by the relatively strong performance of Brazil. Conversely, the Europe, Middle East and Africa (EMEA) region saw a significant downturn and was the weakest performer among emerging markets as stock prices in South Africa fell sharply over the month.[1]

President Joe Biden and Kevin McCarthy, Speaker of the U.S. House of Representatives, reached an agreement on raising the $31.4 trillion debt ceiling during the last week of May. The debt ceiling is the total amount of money that the U.S. government is authorized to borrow to meet its existing legal obligations, including Social Security and Medicare benefits, military salaries, interest on the national debt, tax refunds, and other payments. Failing to increase the debt limit would cause the government to default on its legal obligations. Both the U.S. House of Representatives and the Senate passed the debt-ceiling legislation by wide margins, with strong support from Republicans and Democrats. The bill suspends the debt ceiling through 1 January 2025, maintains non-military spending close to current levels for the 2024 fiscal year, which begins in October, and implements a 1% cap on increases in non-military spending for the 2025 fiscal year. The fast-track approval of the legislation, which Biden subsequently signed into law, enabled the government to avoid a potential default on its debt on 5 June, the "X-date" on which Treasury Secretary Janet Yellen had warned that the U.S. would no longer be able to meet its financial obligations. During a nationally televised address following the vote in the Senate, Biden said, "No one gets everything they want in a negotiation, but make no mistake: This bipartisan agreement is a big win for our economy and the American people."

Shortly before the initial announcement of the debt-ceiling agreement, credit-rating agency Fitch placed the United States' AAA-rated debt on "Rating Watch Negative," citing "increased political partisanship that is hindering reaching a resolution to raise or suspend the debt limit." Similarly, another credit-rating agency, DBRS Morningstar, expressed concerns that "political polarization in the context of a divided congress poses some risk to the U.S. government's willingness to ensure all debts are paid on time and in full."

[1] All equity market performance statements are based on the MSCI All-Country World Index (ACWI).

Key measures: May 2023

Equity		
Dow Jones Industrial Average	-3.17%	↓
S&P 500 Index	0.43%	↑
NASDAQ Composite Index	5.93%	↑
MSCI ACWI Index (Net)	-1.07%	↓
Bond		
Bloomberg Global Aggregate Index	-1.95%	↓
Volatility		
Chicago Board Options Exchange Volatility Index **PRIOR MONTHLY: 15.78**	17.46	↑
Oil		
WTI Cushing crude oil prices **PRIOR MONTHLY: $76.78**	$68.09	↓
Currencies		
Sterling vs. U.S. dollar	$1.24	↓
Euro vs. U.S. dollar	$1.07	↓
U.S. dollar vs. yen	¥139.72	↑

Sources: Bloomberg, FactSet, Lipper

U.S. regional bank stocks encountered significant volatility again in May, and ended the month with notable losses. Early in the month, U.S. regulators took control of California-based First Republic Bank. The California Department of Financial Protection and Innovation–which oversees the operations of state-licensed financial institutions, including banks and credit unions–issued a statement announcing that it had taken over the bank and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. The FDIC subsequently accepted J.P. Morgan Chase Bank's bid "to assume all deposits, including all uninsured deposits, and substantially all assets of First Republic Bank." The KBW Regional Banking Index, which tracks the performance of publicly traded U.S. regional banks and thrifts, fell 9.2% in May, and was down nearly 29% for the year to date.

Global fixed-income assets lost ground in May. In the U.S. market, high-yield bonds recorded the smallest losses and were the top performers for the month, followed by mortgage-backed securities (MBS).[2] U.S. Treasurys and corporate bonds were the weakest performers.[3] U.S. Treasury yields moved sharply higher across the curve in May. Yields on 1-month U.S. Treasury bills (T-bills) with maturities close to the U.S. government's "X-date" of 5 June for the default on its financial obligations climbed 167 basis points (1.67%) to 6.02%–the highest level since the introduction of the 1-month T-bill in July 2001[4]–before tumbling to 5.28% over the last two days of the month following the announcement of a potential agreement on raising the debt ceiling. Investors demanded higher yields as compensation for the additional risk that the U.S. government could default on its debt in early June. The yields on 2-, 3-, 5-, and 10-year Treasury notes climbed 0.36%, 0.29%, 0.23%, and 0.20%, respectively, in May. The spread between 10- and 2-year notes widened from -0.60% to -0.76% during the month, further inverting the yield curve.

Global commodity prices moved lower during the month. The West Texas Intermediate (WTI) crude-oil spot price and the Brent crude oil price fell 11.3% and 9.6%, respectively, in U.S. dollar terms, hampered by the strong performance of the greenback in May, as well as investors' fears of waning demand for oil. The 12.1% decline in the New York Mercantile Exchange (NYMEX) natural gas price in May was attributable to concerns about lower demand, as well as an increase in supply. Wheat prices fell 6.3% in May after Ukraine and Russia renewed an agreement that allows the shipment of Ukrainian grain through the Black Sea.[5] The gold spot price dipped 0.9% during the month as progress in the debt-ceiling negotiations in the U.S. reduced the demand for the precious metal as a "safe-haven" asset.[6]

Geopolitical tensions rose in the Asia-Pacific region in late May. North Korea notified the International Maritime Organization, the United Nations' specialised agency with responsibility for the security of shipping and the prevention of marine and atmospheric pollution by ships, of its intention to launch its first military reconnaissance satellite between 31 May and 11 June. Japan's Ministry of Defense subsequently announced that it had placed its ballistic missile defenses on alert and vowed to shoot down any North Korean missile or debris if it entered Japan's territory. A reconnaissance satellite would enhance North Korea's capability to carry out a preemptive military strike and monitor potential incoming threats from the U.S. and South Korea. Japan, the U.S. and South Korea issued a joint statement warning that, if North Korea proceeds with the satellite launch, "there will be a stern, unified

[2] According to the ICE BofA U.S. High Yield Constrained and S&P U.S. Mortgage-Backed Securities indexes.

[3] According to the ICE BofA U.S. Treasury and ICE BofA U.S. Corporate indexes.

[4] Source: U.S. Department of the Treasury. 31 May 2023.

[5] According to market data from The Wall Street Journal.

[6] "Nvidia fuels Wall Street gains; gold falls to two-month low." Reuters. 25 May 2023.

All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.

response from the international community."[7]

Regarding the ongoing Russia-Ukraine conflict, the Wagner Group, a Russian paramilitary organization, began to retreat from the city of Bakhmut, Ukraine, in late May. The mercenaries were scheduled to complete their retreat by the beginning of June, and would be replaced by regular Russian troops. The Wagner Group had been fighting in Bakhmut since the summer of 2022. The withdrawal from the city occurred after the group's leader, Yevgeny Prigozhin, claimed that Russian Defense Minister Sergei Shoigu and Valery Gerasimov, Chief of the General Staff, had intentionally withheld ammunition from Wagner Group fighters.[8]

Economic data

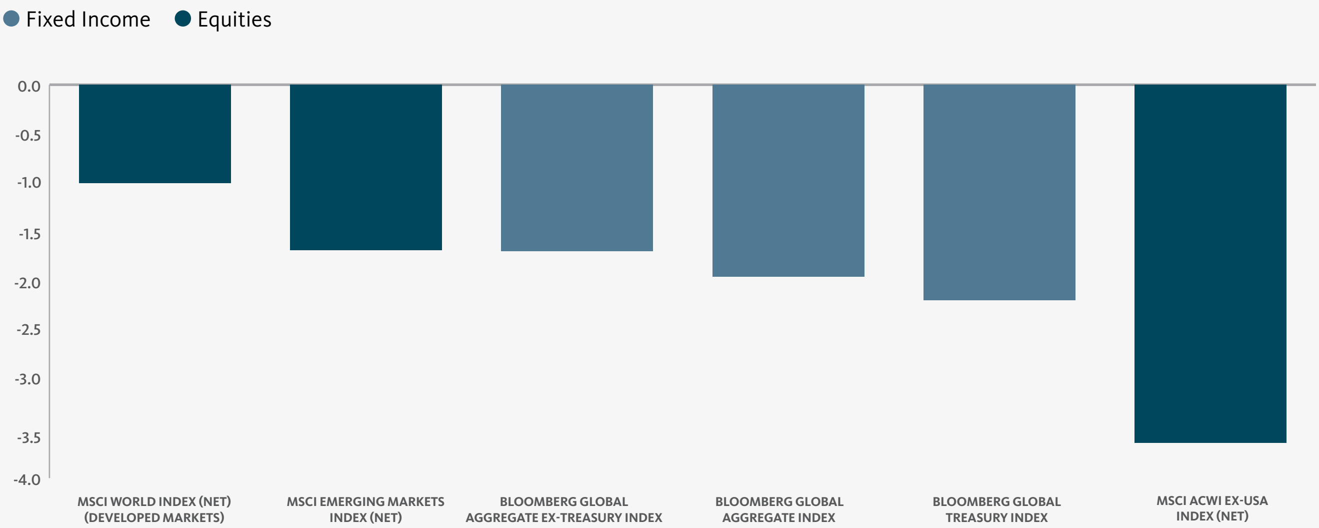
U.S.

- According to the U.S. Department of Commerce, the personal-consumption-expenditures (PCE) price index rose 0.4% in April and 4.4% over the previous 12-month period, fueling speculation over the possibility of further Fed rate hikes to combat inflation. Food prices dipped less than 0.1% during the month and were up 6.9% year-over-year. Energy prices increased 0.7% in April but fell 6.3% over the previous 12 months. The PCE price index is the Fed's preferred gauge of inflation, as it tracks the change in prices paid by or on behalf of consumers for a more comprehensive set of goods and services than that of the consumer-price index (CPI).

[7] "Japan threatens to shoot down any North Korean missile that enters its territory." Financial Times. 29 May 2023.

[8] "Ukrainian Forces Fire on Retreating Wagner Troops Leaving Bakhmut." Newsweek. 31 May 2023.

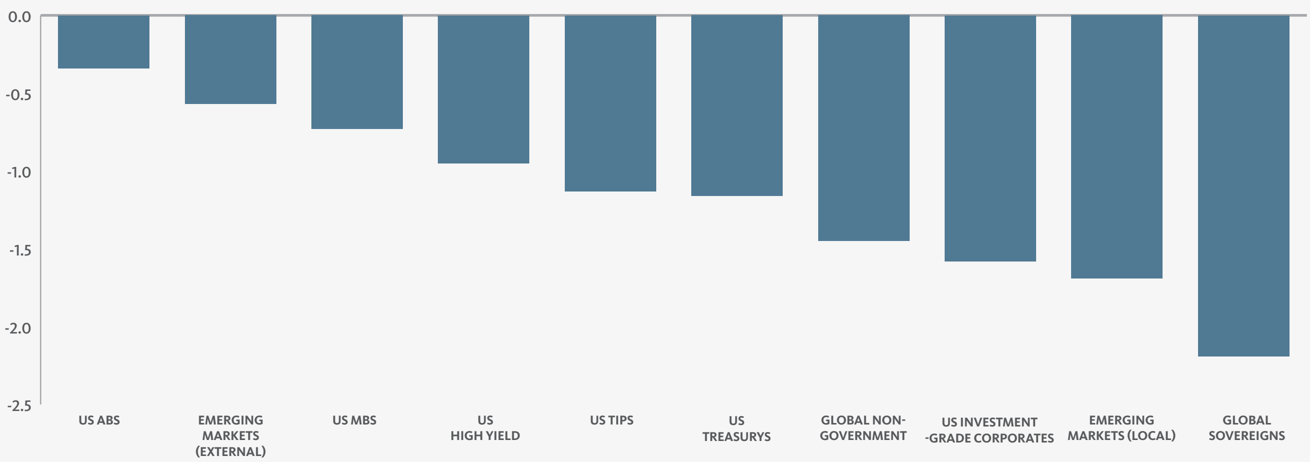
Major Index Performance in May 2023 (Percent Return)



Sources: FactSet, Lipper

- The Department of Labor also reported that U.S. payrolls expanded by 253,000 in April, up from 236,000 in March. The unemployment rate dipped 0.2% to 3.4%. The professional and business services, health care, and leisure and hospitality sectors saw the largest employment gains in April. Despite the greater-than-expected growth in payrolls during the month, the total lagged the 400,000 monthly average job gains for the 2022 calendar year. Average hourly earnings rose 0.5% In April and 4.4% year-over-year. The 12-month increase was modestly higher than the 4.2% annual rise in March.
- Higher mortgage rates continue to weigh on the U.S. housing market. The National Association of Realtors (NAR) reported that sales of existing homes fell 3.4% in April and plummeted 23.2% versus the same period in 2022. The median existing-home price was down 1.7% year-over-year to $388,000—the biggest 12-month decline since January 2012. The inventory of unsold existing homes increased 7.2% from the previous month to 1.04 million at the end of April, equivalent to 2.9 months' supply at the current monthly sales pace. According to the NAR, a six-month supply of homes historically has indicated a "balanced market," in which prices rise modestly. Inventories of greater than six months typically favour buyers; inventories of less than six months typically favour sellers.
- According to the second estimate of the Department of Commerce, U.S. gross domestic product (GDP) grew at an annualised rate of 1.3% in the first quarter of 2023, up modestly from the initial estimate of 1.1%, but down from the 2.6% rise in the fourth quarter of 2022. The largest increases for the first quarter of this year were in consumer spending, exports, and federal government spending. These gains offset reductions in private inventory investment (a measure of the changes in values of inventories from one time period to the next) and residential fixed investment (purchases of private residential structures and residential equipment that property owners use for rentals). The government attributed the slower GDP growth rate relative to the fourth quarter of 2022 to a downturn in private inventory investment and a decline in nonresidential fixed investment (purchases of both nonresidential structures and equipment and software).

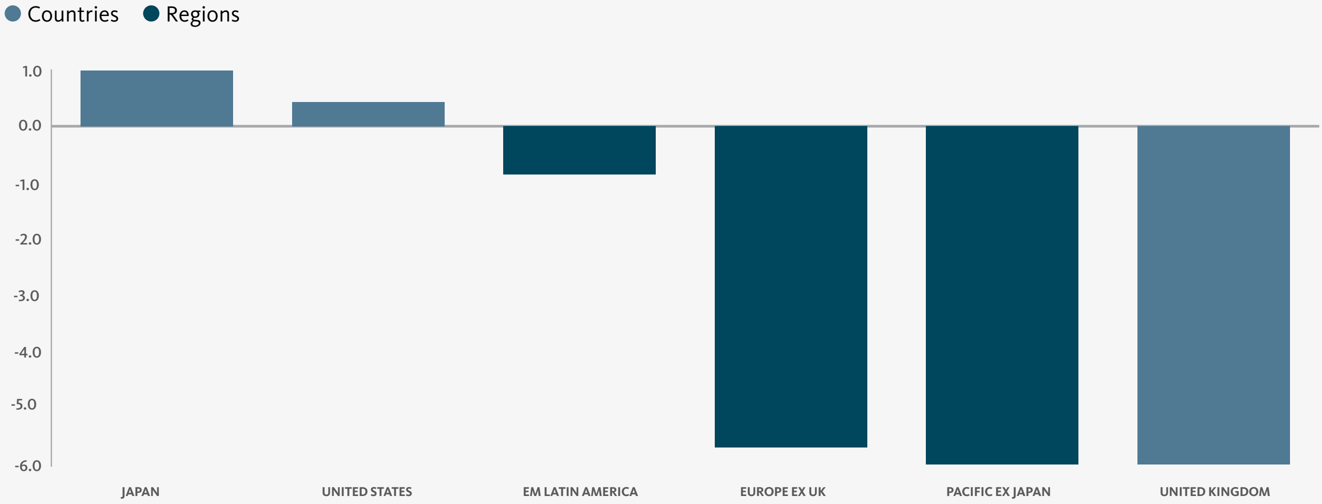
Fixed-Income Performance in May 2023 (Percent Return)



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

All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.

Regional Equity Performance in May 2023 (Percent Return)



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

U.K.

- According to the Office for National Statistics (ONS), consumer prices in the U.K. rose 1.2% month-over-month in April, up from the 0.8% increase in March. The inflation rate rose 7.8% over the previous 12-month period, but was significantly lower than the 8.9% year-over-year rise in March. Food and non-alcoholic beverages, as well as housing and household services (particularly electricity) were the most notable contributors to the annual increase in prices. Core inflation, which excludes volatile food and energy prices, rose at an annual rate of 6.2% in April, unchanged from the increase in March.
- The ONS also reported that U.K. GDP ticked up 0.1% in the first quarter of 2023, with a 0.5% expansion in January, flat growth in February, and a 0.3% decline in March. The services and production sectors recorded marginal growth rates for the quarter, while household consumption was flat.
- The S&P Global/CIPS Flash UK Manufacturing Output Index declined 1.9 to a four-month low of 47.4 in May due to a decrease in orders, along with customer destocking (a planned reduction in stock or inventory). A reading below 50 indicates contraction in the manufacturing sector.
- The S&P Global/CIPS Flash UK Services PMI Business Activity Index dipped 0.8 to 55.1 in May, but indicated expansion for the third consecutive month. The slowdown in the rate of growth relative to the previous month resulted mainly from budget pressures among corporate clients, rising economic uncertainty, and higher borrowing costs.

Eurozone

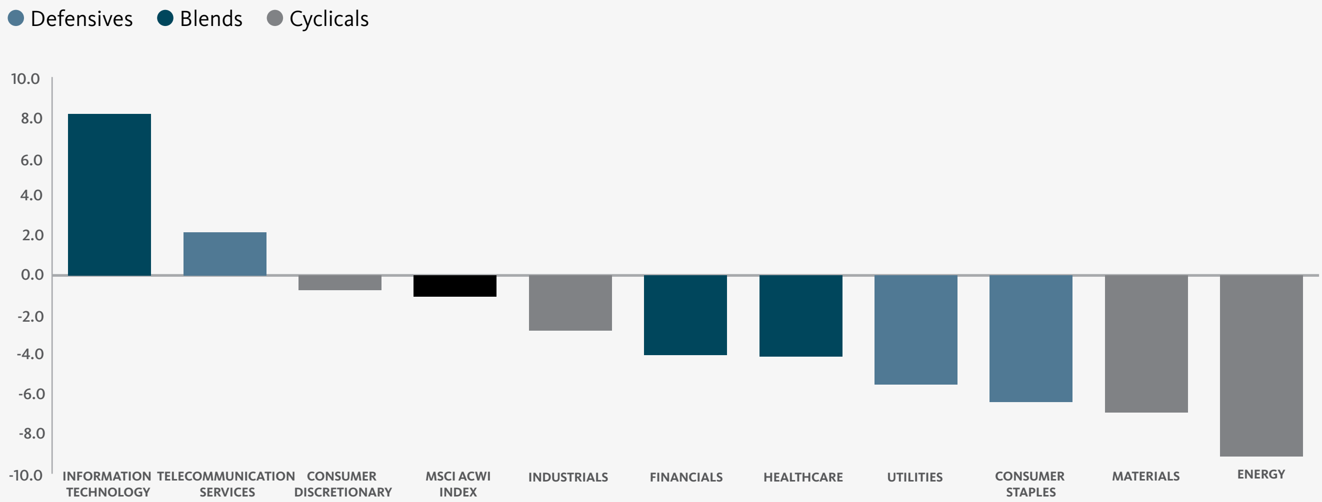
- Inflation in the eurozone ticked up 0.1% to 7.0% for the 12-month period ending in April. Prices for food, alcohol and tobacco, as well as non-energy industrial goods, led the upturn in the year-over-year inflation rate.[9]
- Eurozone manufacturing decreased in April, with the HCOB Flash Eurozone Manufacturing Output Index falling 2.2 to a six-month low of 46.3.
- Services activity in the eurozone expanded in April, but the HCOB Flash Eurozone Services PMI Activity Index dipped 0.3 to 55.9.
- According to Eurostat's second estimate, eurozone GDP increased 0.1% in the first quarter of 2023, unchanged from the initial estimate. The eurozone saw flat economic growth in the fourth quarter of 2022. GDP increased 1.3% over the previous 12 months. Poland's economy was the strongest performer, expanding 3.9% in the first quarter, while Lithuania's GDP decreased 3.0% during the period.

Central banks

- The U.S. Federal Reserve (Fed) raised the federal-funds rate by 25 basis points (0.25%) to a range of 5.00%-5.25% at its meeting in early May—the central bank's tenth increase since it began its rate-hiking cycle to combat inflation in March 2022. In a statement announcing the rate hike, the Federal Open Market Committee (FOMC) commented that "[we] will closely monitor incoming information and assess the implications for monetary policy. In determining the extent to which additional policy firming may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments." Regarding concerns about the stability of the banking sector, the Fed stated: "The extent of these effects remains uncertain."

9 According to Eurostat. May 2023.

Global Equity Sector Performance in May 2023 (Percent Return)



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

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- The minutes from the FOMC's meeting revealed that, "Participants generally expressed uncertainty about how much more policy tightening may be appropriate." While some investors believe that the Federal Reserve (Fed) is preparing to pause its rate-hiking cycle, the FOMC's meeting minutes stress that, "Many participants focused on the need to retain optionality," leaving the door open for further rate hikes. The next FOMC meeting is scheduled for 13-14 June.
- In a split 7-2 vote, the Bank of England (BOE) raised its benchmark rate by 0.25% to 4.50% on 11 May. The BOE's Monetary Policy Committee (MPC) expects U.K. GDP to be virtually flat over the first half of 2023; however, it anticipates that there will be a modest increase in underlying economic output. Additionally, the MPC projects that the UK's inflation rate, as measured by the consumer-price index, will drop below 2% within the next two to three years.
- The European Central Bank (ECB) increased its benchmark interest rate by 0.25% to 3.75% following its meeting on May 10. In a statement announcing the rate hike, the central bank noted, "The inflation outlook continues to be too high for too long...Headline inflation has declined over recent months, but underlying price pressures remain strong."
- The Bank of Japan's (BOJ) next monetary policy meeting is scheduled for June 15-16. The central bank left its benchmark interest rate unchanged at -0.1% on 28 April following the first monetary policy meeting under new BOJ Governor Kazuo Ueda. In its Outlook for Economic Activity and Prices for April, which was released in early May, the BOJ commented, "Japan's economy is likely to recover moderately toward around the middle of fiscal 2023, supported by factors such as the materialization of pent-up demand, although it is expected to be under downward pressure stemming from past high commodity prices and a slowdown in the pace of recovery in overseas economies."

SEI's view

Political brinksmanship is back in full force, thanks to the U.S. debt ceiling. If U.S. political dysfunction seemed high in the 2011 and 2013 debt-ceiling episodes, it's even worse today. Prior to the agreement between Biden and McCarthy and the subsequent vote in the U.S. Congress to suspend the debt ceiling until the beginning of 2025, yields on U.S. Treasury securities maturing this summer varied quite a bit by maturity, reflecting fluctuating degrees of confidence in whether holders will be made whole on schedule. There was near-universal acknowledgement that a default would have constituted a catastrophic policy error.

The tumult in the banking system isn't over yet. Although it appears that the crisis stage has eased, smaller banks are facing ongoing pressure to raise deposit rates to more competitive levels, while borrowing from the Fed and U.S. government agencies to improve their liquidity. Smaller banks are struggling financially after the Fed's rate hikes over the past 15 months have significantly reduced the value of their bond holdings, resulting in estimated unrealised losses totalling $1.8 trillion. SEI views the situation as a crisis of confidence, not the credit crunch that occurred during the Global Financial Crisis of 2007-2008. Between the asset/liability mismatch and the downstream effects from 5.25% of Fed rate hikes in an incredibly short period of time, we think that the market will continue to judge and punish the "weak hands."

Political brinksmanship is back in full force, thanks to the U.S. debt ceiling.

Regarding Fed monetary policy, some interpreted the language in the FOMC's statement following its 0.25% rate hike in early May as an indication that the central bank was giving itself the flexibility to pause its rate-hiking cycle at its June meeting. We're in the "pause" camp. We don't see a cut in 2023 unless we see a sudden extreme acceleration in the softening of prices and a dramatic deterioration in employment trends.

Labour input costs are one of the most prominent drivers of inflation and, with worker participation levels softening over time (particularly for the working-age male cohort) and the swift aging of populations in many major developed and emerging economies, we may see continued upward pressure on wages that help keep inflation higher for longer. The most recent reported unemployment rates are at or below long-term equilibrium levels for many countries. This implies that labour markets globally are extremely tight and wage growth is likely to remain higher-than-desired, putting continued upward pressure on inflation.

SEI has consistently predicted that inflation would be higher for longer since the spring of 2021. Our out-of-consensus call was based in part on the tight labour-market conditions that prevailed in the U.S., Canada, the U.K., and Europe.

"Labour pains" may persist until an economic recession fully takes root. Nonetheless, even the bitter pill of a recession won't alleviate all pressure from the labour market, as population aging can't be reversed by economic distress. While we believe that a recession is likely, we expect it will be relatively shallow and brief. Unfortunately, at least some labour pains may outlive a recession.

We remain cautious on equity markets from a top-down perspective. Within the equity asset class, we continue to focus on our core approach: favouring high-quality companies with positive earnings momentum at reasonable valuations.

Looking forward, we see opportunities and risks in both the resilient (equities, credit) and the divergent (value, rates) segments of the global financial markets. Specifically, we are fading the resilient and leaning into the divergent.

Standardised Performance

		1 year to 31-May-23	1 year to 31-May-22	1 year to 31-May-21	1 year to 31-May-20	1 year to 31-May-19
Key Measures						
Dow Jones Industrial Average		1.96%	-2.65%	38.79%	4.83%	4.05%
S&P 500 Index		2.92%	-0.30%	40.32%	12.84%	3.78%
NASDAQ Composite Index		8.04%	-11.53%	45.95%	28.66%	1.23%
MSCI ACWI Index (Net)		0.85%	-6.78%	41.85%	5.43%	-1.29%
Bloomberg Barclays Global Aggregate Index		-3.10%	-11.61%	6.19%	5.58%	3.82%
Major Index Performance						
Bloomberg Barclays Global Aggregate ex-Treasury Index		-3.10%	-11.61%	6.19%	5.58%	3.82%
Bloomberg Barclays Global Aggregate Index		-4.48%	-13.21%	4.47%	5.59%	3.09%
Bloomberg Barclays Global Treasury Index		-5.71%	-14.61%	2.95%	5.58%	2.48%
MSCI ACWI ex-USA (Net)		-1.41%	-12.41%	42.78%	-3.43%	-6.26%
MSCI Emerging Markets Index (Net)		-8.49%	-19.83%	51.00%	-4.39%	-8.70%
MSCI World Index (Net)		2.07%	-4.82%	40.63%	6.80%	-0.29%
Fixed-Income Performance						
US Treasury Inflation-Protected Securities (TIPS)	Bloomberg Barclays 1-10 Year U.S. TIPS Index	-2.89%	0.54%	7.65%	5.67%	3.94%
Global Non-Government	Bloomberg Barclays Global Aggregate ex-Treasury Index	-3.10%	-11.61%	6.19%	5.58%	3.82%
Global Sovereigns	Bloomberg Barclays Global Treasury Index	-5.71%	-14.61%	2.95%	5.58%	2.48%
US Investment-Grade Corporates	Bloomberg Barclays U.S. Corporate Investment Grade Index	-1.70%	-10.28%	3.64%	10.03%	7.45%
US Asset-Backed Securities (ABS)	Bloomberg Barclays U.S. Asset-Backed Securities Index	0.99%	-3.84%	2.44%	4.01%	4.58%
US Mortgage-Backed Securities (MBS)	Bloomberg Barclays U.S. Mortgage-Backed Securities Index	-2.68%	-7.59%	-0.47%	6.53%	5.51%
US Treasurys	Bloomberg Barclays U.S. Treasury Index	-2.26%	-7.50%	-3.75%	11.36%	6.28%
US High Yield	ICE BofAML US High Yield Constrained Index	-0.17%	-5.00%	15.13%	0.30%	5.36%
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index	-1.48%	-15.38%	10.50%	0.38%	7.46%
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index	3.06%	-16.36%	8.15%	2.05%	0.35%
Regional Equity Performance						
United Kingdom	FTSE All-Share Index	-1.23%	-3.76%	41.21%	-12.86%	-8.28%
EM Latin America	MSCI Emerging Markets Latin America Index (Net)	-3.80%	3.85%	48.52%	-31.88%	8.16%
Europe ex UK	MSCI Europe ex UK Index (Net)	6.26%	-13.20%	44.31%	-0.64%	-4.22%
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)	-6.91%	-8.59%	47.28%	-14.10%	-0.03%
United States	S&P 500 Index	2.92%	-0.30%	40.32%	12.84%	3.78%
Japan	TOPIX, also known as the Tokyo Stock Price Index	5.40%	-13.40%	23.70%	6.98%	-11.32%
Global Equity Sector Performance						
MSCI ACWI Index		0.85%	-6.78%	41.85%	5.43%	-1.29%
MSCI ACWI Consumer Discretionary Index		0.13%	-20.94%	50.12%	12.19%	-2.82%
MSCI ACWI Consumer Staples Index		0.76%	-1.75%	22.35%	3.05%	7.03%
MSCI ACWI Energy Index		-8.99%	46.19%	34.64%	-29.58%	-12.81%
MSCI ACWI Financials Index		-5.47%	-5.35%	58.84%	-15.50%	-4.67%
MSCI ACWI Healthcare Index		-0.45%	1.20%	19.14%	23.07%	4.03%
MSCI ACWI Industrials Index		5.67%	-12.31%	49.85%	-3.58%	-3.71%
MSCI ACWI Information Technology Index		13.78%	-5.93%	48.16%	33.11%	0.04%
MSCI ACWI Materials Index		-10.95%	-5.06%	61.35%	0.66%	-10.58%
MSCI ACWI Telecommunication Services Index		-0.54%	-22.87%	42.98%	10.90%	8.29%
MSCI ACWI Utilities Index		-8.52%	7.45%	16.75%	2.76%	10.95%

All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.

Glossary of Financial Terms

The **debt ceiling** is the total amount of money that the U.S. government is authorized to borrow to meet its existing legal obligations, including Social Security and Medicare benefits, military salaries, interest on the national debt, tax refunds, and other payments. Failing to increase the debt limit would cause the government to default on its legal obligations.

Credit ratings are an assessment of the risk of default of companies or countries. The higher the credit quality (or rating), the lower the perceived risk of default. The ratings for S&P Global Ratings and Fitch Ratings range from AAA (highest) to D (the lowest). Moody's Investors Service assigns credit ratings from Aaa to C. Ratings below BBB/Baa are classified as non-investment-grade, or "junk," and are considered to be riskier.

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value.\

Mortgage-backed securities (MBS) are pools of mortgage loans packaged together and sold to the public. They are usually structured in tranches (a slice or portion of a structured security) that vary by risk and expected return.

U.S. Treasury bills are short-term debt obligations backed by the U.S. Treasury Department with a maturity of one year or less.

Yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (are (which is used to assess the risk of default of companies or countries). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates the short- and long-term yields are closer together.

An **inverted yield curve** occurs when short-term yields exceed long-term yields. While an inverted yield curve historically has predicted economic recessions, it is an indicator—not a forecast.

The **federal-funds rate** is the interest rate charged to lending institutions on unsecured overnight loans. It is set by the U.S. Federal Reserve's Federal Open Market Committee. The rate is increased when the Federal Reserve wants to discourage borrowing and slow the economy and decreased when the Federal Reserve wants to spur economic growth.

Economic output comprises a quantity of goods or services produced in a specific time period.

Monetary policy refers to decisions by central banks to influence the amount of money and credit in the economy by managing the level of benchmark interest rates and the purchase or sale of securities. Central banks typically make policy decisions based on their mandates to target specific levels or ranges for inflation and employment.

A **recession** is a significant and prolonged downturn in economic activity.

Index Descriptions

The **MSCI All Country World Index (ACWI)** is a market capitalization-weighted index that tracks the performance of over 2,000 companies, and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa, and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

The **ICE BofA U.S. High Yield Constrained Index** is a market capitalization-weighted index which tracks the performance of U.S. dollar-denominated below-investment-grade (rated BB+ or lower by S&P Global Ratings and Fitch Ratings or Ba1 or lower by Moody's Investors Service) corporate debt publicly issued in the U.S. domestic market.

The **ICE BofA U.S. Corporate Inde**x includes publicly issued, fixed-rate, nonconvertible investment-grade (rated BBB- or higher by S&P Global Ratings and Fitch Ratings or Baa3 or higher by Moody's Investors Service) dollar-denominated, U.S. Securities and Exchange (SEC)-registered corporate debt having at least one year to maturity.

The **ICE BofA U.S. Treasury Index** tracks the performance of fixed-rate, nominal debt issued by the U.S. Treasury.

The **S&P U.S. Mortgage-Backed Securities Index** tracks the performance of U.S. dollar-denominated, fixed-rate and adjustable-rate/hybrid mortgage pass-through securities issued by Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC).

The **KBW Regional Banking Index** tracks the performance of U.S. regional banks and thrifts that are publicly traded in the U.S.

Consumer-price indexes measure changes in the price level of a weighted-average market basket of consumer goods and services purchased by households. A consumer price index is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

A **purchasing managers' index (PMI)** tracks the prevailing direction of economic trends in the manufacturing and service sectors.

The **S&P Global/CIPS Flash UK Manufacturing Output Index** measures the activity level of purchasing managers in the manufacturing sector of the U.K. A reading above 50 indicates expansion in the sector; below 50 indicates contraction.

The **S&P Global/CIPS Flash UK Services PMI Business Activity Index** measures the activity level of purchasing managers in the services sector. A reading above 50 indicates expansion in the sector; a reading below 50 indicates contraction.

The **HCOB Flash Eurozone Manufacturing Output Index** measures the activity level of purchasing managers in the manufacturing sector of the eurozone. A reading above 50 indicates expansion in the sector; below 50 indicates contraction.

The **HCOB Eurozone Services PMI Activity Index** measures the activity level of purchasing managers in the services sector of the eurozone. A reading above 50 indicates expansion in the sector; below 50 indicates contraction.

Corresponding Indexes for Key Measures Exhibit

Dow Jones Industrial Average	The Dow Jones Industrial Average is a widely followed market indicator based on a price-weighted average of 30 blue-chip New York Stock Exchange stocks that are selected by editors of The Wall Street Journal.
NASDAQ Composite Index	The NASDAQ Composite Index is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system, representing a subset of the US equity market.
MSCI ACWI Index	The MSCI ACWI Index is a market-capitalisation-weighted index composed of over 2,000 companies, and is representative of the market structure of 46 developed- and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The Index is calculated with net dividends reinvested in US dollars.
Bloomberg Global Aggregate Index	The Bloomberg Global Aggregate Index is an unmanaged market-capitalisation-weighted benchmark that tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.
Chicago Board Options Exchange Volatility Index (VIX)	The Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

Corresponding Indexes for Major Index Performance Exhibit

MSCI ACWI ex-USA Index	The MSCI ACWI ex-USA Index includes both developed- and emerging-market countries, excluding the US.
MSCI Emerging Markets Index	The MSCI Emerging Markets Index is a free float-adjusted market-capitalisation-weighted index designed to measure the performance of global emerging-market equities.
MSCI World Index	The MSCI World Index is a free float-adjusted market-capitalisation-weighted index that is designed to measure the equity market performance of developed markets.
Bloomberg Global Aggregate Index	The Bloomberg Global Aggregate Index is an unmanaged market-capitalisation-weighted benchmark that tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.
Bloomberg Global Aggregate ex-Treasury Index	The Bloomberg Global Aggregate ex-Treasury Index is an unmanaged market index representative of the total return performance of ex-Treasury major world bond markets.
Bloomberg Global Treasury Index	The Bloomberg Global Treasury Index is composed of those securities included in the Bloomberg Global Aggregate Index that are Treasury securities.

All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.

Corresponding Indexes for Fixed-Income Performance Exhibit	
US High Yield	ICE BofA U.S. High Yield Constrained Index
Global Sovereigns	Bloomberg Global Treasury Index
Global Non-Government	Bloomberg Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
US Mortgage-Backed Securities (MBS)	Bloomberg U.S. Mortgage Backed Securities Index
US Asset-Backed Securities (ABS)	Bloomberg U.S. Asset-Backed Securities Index
US Treasurys	Bloomberg U.S. Treasury Index
US Treasury Inflation-Protected Securities (TIPS)	Bloomberg 1-10 Year U.S. TIPS Index
US Investment-Grade Corporates	Bloomberg U.S. Corporate Bond Index

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

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