A BIG MOMENT FOR U.S. SMALL CAPS

Their domestic focus, a strong U.S. dollar, and tax cuts have all combined to give an edge to U.S. small-cap companies.

For much of 2017, large-cap stocks (as represented by the Russell 1000® Index) outperformed their small-cap peers (as represented by the Russell 2000® Index) with the gap between large- and small-cap stock performance widening to nearly 11% by January 30, 2018. Since February 2018, however, small caps have returned 10.5%, outperforming large caps by more than 6% and narrowing the gap since the start of 2017 to less than 2%. Why has this turnaround occurred?

Despite a gap in returns, small-cap fundamentals have remained as strong as, if not stronger than, their large-cap peers. With 97.4% of companies reporting to FactSet as of August 28, 2018, 90% of companies within the Russell 2000 Index had reported second-quarter 2018 earnings and revenue numbers, revealing blended growth rates of 46.13% and 9.69%, respectively. Compare those figures to those of the S&P 500® Index, which reported a blended earnings growth rate of 24.97% and revenue growth of 10.06%.

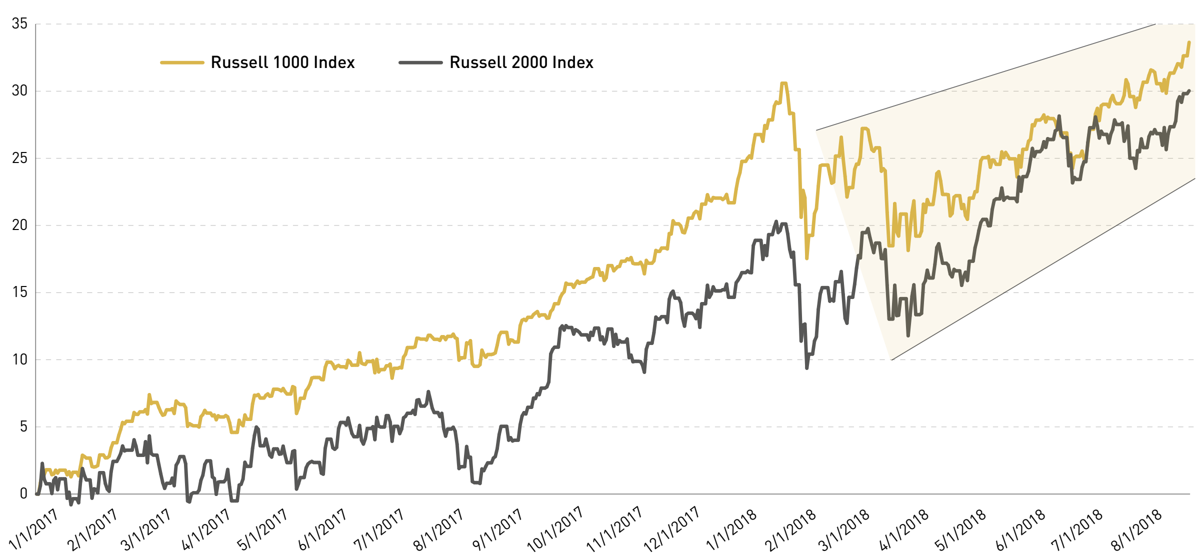
This fundamental strength, coupled with lagging returns during much of the previous two years, led the small-cap P/E premium (positive earnings per share (EPS) only) to reach its lowest level since 2009 as of August 30, 2018, suggesting that small caps still look very attractive from a relative value perspective.

What might continue to drive this turnaround?

- For one thing, there is the *stronger U.S. dollar*. Small caps are more levered to the domestic economy than are larger companies. They also are more likely to sell products domestically, insulat-

CHART 1. THE GAP BETWEEN LARGE-CAP AND SMALL-CAP PERFORMANCE HAS NARROWED SINCE FEBRUARY 2018

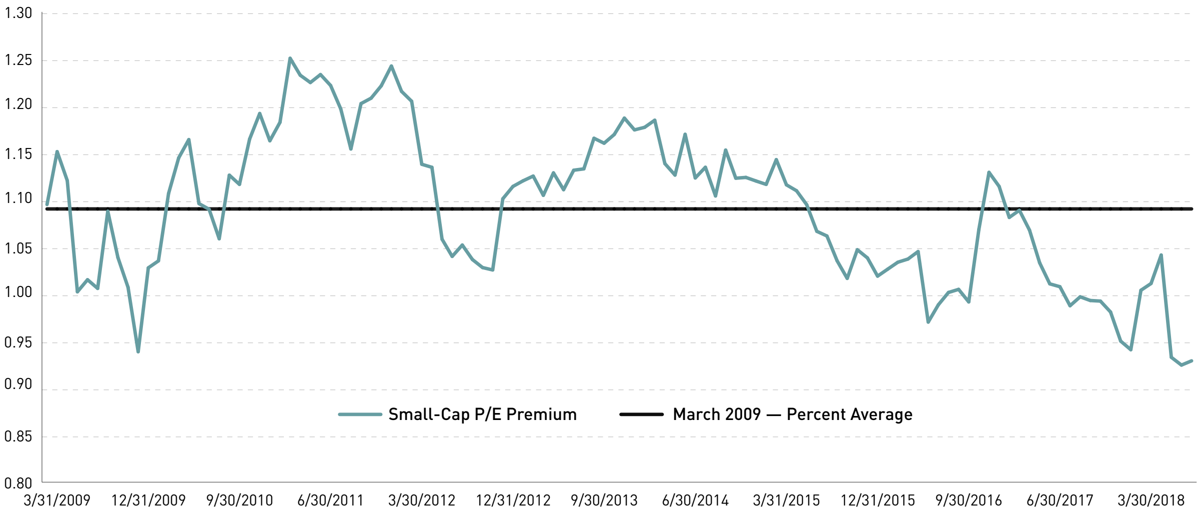
RUSSELL 1000® INDEX AND RUSSELL 2000® INDEX PERFORMANCE, JANUARY 1, 2017–AUGUST 27, 2018



Source: Morningstar. Large-cap stocks represented by the Russell 1000® Index. Small-cap stocks represented by the Russell 2000® Index. **Past performance is not a reliable indicator or a guarantee of future results.** For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. Small cap company stocks tend to be more volatile and may be less liquid than large cap company stocks. Due to market volatility, the market may not perform in a similar manner in the future.

CHART 2. SMALL-CAP RELATIVE VALUATIONS ARE AT THEIR LOWEST LEVEL SINCE 2009

RUSSELL 2000 PRICE-TO-EARNINGS (P/E) RATIO (POSITIVE EPS ONLY) RELATIVE TO RUSSELL 1000 P/E RATIO (POSITIVE EPS ONLY), FOR THE PERIOD MARCH 9, 2009–AUGUST 31, 2018



Source: Bloomberg. Small-cap stocks represented by the Russell 2000® Index. Large-cap stocks represented by the Russell 1000® Index. Past performance is not a reliable indicator or a guarantee of future results. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

ing them from the currency translation impact of a stronger U.S. dollar and the resultant loss of competitiveness that their larger peers typically endure when the U.S. economy is strong.

- In addition, their *domestic focus* largely insulates them from the trade uncertainties created by a U.S. administration determined to renegotiate global trade agreements—an environment that has added significant volatility to the large-cap market.
- Small companies also are benefiting, in part, from the December 2017 *tax cut*, which slashed their average tax rate, from 35% to 21%. This compares with the effective tax rate for large-cap companies, which has fallen, from roughly 27.5% to 22.5%, according to estimates from Credit Suisse.

Conclusion

While there, of course, remain stock-specific opportunities across all market-cap segments, the burgeoning outperformance of small-cap stocks in recent months is in line with the "small-cap" premium that has been observed historically over longer-term periods.

It's worth mentioning as well that the global economy is beginning to exit the liquidity-driven, quantitative-easing environment of 2009–15 that has been the chief catalyst for large-cap and mega-cap outperformance. In the current market environment, with earnings and revenue growth, rather than liquidity, driving equity returns, investors may be wise to consider small-cap stocks and, perhaps more important, to identify fund managers who have the flexibility to capitalize on opportunities across all market-cap segments, as fundamental strength begins to be recognized across the capitalization spectrum. ■

A Note about Risk: The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy. Small cap company stocks tend to be more volatile and may be less liquid than large cap company stocks. Small cap companies also may have more limited product lines, markets, or financial resources and typically experience a higher risk of failure than large cap companies. No investing strategy can overcome all market volatility or guarantee future results.

Diversification does not guarantee a profit or protect against loss in declining markets.

This article may contain assumptions that are "forward-looking statements," which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual returns or results will not be materially different from those described here.

Statements concerning financial market trends are based on current market conditions, which will fluctuate. There is no guarantee that markets will perform in a similar manner under similar conditions in the future. Past performance is not a guarantee or a reliable indicator of future results.

Glossary of Terms

The **price to earnings ratio (P/E ratio)** is the ratio for valuing a company that measures the current share price relative to its per-share earnings.

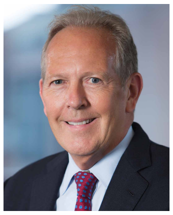
The **Russell 1000® Index** measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

The **Russell 2000® Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The **S&P 500® Index** is widely regarded as the standard for measuring large cap U.S. stock market performance and includes a representative sample of leading companies in leading industries.

Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

FUND INSIGHTS



Thomas O'Halloran

A FOCUS ON GROWTH

The Lord Abbett Growth Leaders Fund seeks to identify U.S. growth companies whose innovation has the power to transform industries and the potential to provide high returns over time. **Lord Abbett Partner and Director Thomas O'Halloran**, who was featured in a recent *Wall Street Journal* report on top-performing actively managed funds, discusses his outlook for U.S. growth equities and describes the Fund's guiding philosophy and investment process.

Q. Are you bullish on U.S. equities?

A. Yes, we are. Lower corporate taxes and deregulation have had a positive impact overall on U.S. company earnings and profitability. And underlying the market's strength is the technology revolution that is creating tremendous growth opportunities for companies across many different industries that potentially could last for years. Today, we are witnessing broad leadership in the U.S. equity markets, which is now spreading to small-cap stocks,* particularly in the biotechnology sector.

Q. Where does the Growth Leaders Fund see investment opportunity?

A. The technology revolution, which is in full bloom, is providing tremendous growth opportunities, not only within tech itself (such as cloud computing, mobility, and artificial intelligence) but also in consumer (e-commerce), health care (biotech), and manufacturing (robotics) areas.

Q. What is the Fund's investment philosophy?

A. Our philosophy rests on three pillars of conviction. The first is that companies that are growth leaders have substantial earnings growth potential. Second, that these special companies can deliver potentially attractive returns per unit of risk—when that view is supported by macroeconomic and technical analysis at the company and portfolio level. Third, that an experienced team, using a disciplined fundamental research process, can identify such companies.

Q. How does that translate into practice?

A. We start by using fundamental analysis to identify the best businesses. The identified companies possess inherently good business models (such as those capable of annuity-like revenue streams and above-average levels of profitability), are managed by competent and credible people, and are leading or gaining market share in healthy industry environments. We believe companies that score well on these attributes have the potential to compound wealth over time, much more so than average companies.

Q. How flexible is this strategy?

A. We believe that this process is flexible enough to adapt to different market environments by incrementally moving among our preferred secular growth names and cyclical, defensive, and stable growth stocks. We take into account the economic cycle, as well as the stock market environment, when determining how the different companies in different industries and/or market capitalization segments will likely perform. This may prompt us to over- or underweight certain stocks and/or sectors, as well as market capitalization segments. The market is a discounting mechanism that looks forward, so we will always attempt to forecast which way it is going next.

Q. How do you manage risk?

A. We manage risk in three ways. First, our fundamental process is designed to lead us to companies that have much lower company risk. Second, the portfolio is diversified by company and sector. Third, we have a rigorous sell discipline. One of the most important things we do is take a loss as quickly as possibly when we are wrong. ■

*As of July 31, 2018, small-cap stocks accounted for 3.1% of the Lord Abbett Growth Leaders Fund's portfolio.

A Note about Risk: The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies, including market, liquidity, currency, and political risks. Mid and small cap company stocks tend to be more volatile and may be less liquid than large cap company stocks. Mid and small cap companies also may have more limited product lines, markets, or financial resources and typically experience a higher risk of failure than large companies. However, larger companies may have slower rates of growth than smaller successful companies.

Investments in growth companies can be more sensitive to the company's earnings and more volatile than the stock market in general.

The Fund engages in active and frequent trading of its securities, which may result in increased transaction fees, reduced investment performance, and higher taxes. These factors can adversely affect Fund performance. The Fund's portfolio is actively managed and portfolio characteristics may change significantly over time.

No investing strategy can overcome all market volatility or guarantee future results. Past performance is not a reliable indicator or a guarantee of future results.

Investors should carefully consider the investment objectives, risks, charges, and expenses of the Lord Abbett funds. This and other important information are contained in each fund's summary prospectus and/or prospectus. To obtain a prospectus or summary prospectus on any Lord Abbett mutual fund, contact your investment professional or Lord Abbett Distributor LLC at 888-522-2388 or visit us at lordabbett.com. Read the prospectus carefully before you invest.

INVESTOR INSIGHTS

PLANNING FOR RETIREMENT? DON'T OVERLOOK THESE MILESTONES

Lord Abbett retirement expert Brian Dobbis offers a timeline for building, and preserving, a nest egg.

With millions of Americans owning tax-advantaged retirement assets in many types of accounts it's little surprise that slip-ups and or oversights occur all too frequently. To help you, earn, save, and accumulate as much as you can, while keeping more of your hard-earned nest egg (and precious time), let's cover some of the retirement-account milestones.

Age 50—In the calendar year in which an individual reaches age 50, he or she is eligible for a "catch-up" contribution. For those age 50 or older, the catch-up contribution for this year (2018) is $6,000 for a 401(k), 403(b), or governmental 457(b); $2,500 for a SIMPLE IRA; and $1,000 for a traditional or Roth IRA.

Age 55—Employees who separate from service in the year they turn age 55 or later can take distributions from their employer's retirement plan (e.g., 401(k)) without being assessed the 10% early distribution penalty (although they still may be subject to income taxes).

Age 59½—Upon reaching 59½, investors generally can take distributions from their IRAs at any time, and for any reason, without incurring an early-distribution penalty, although distributions generally are subject to income tax.

Age 59½ also is when you may (while employed) be allowed to take a distribution from your 401(k) or 403(b), referred to as an "in-service" distribution, and, subsequently, roll over the funds into an IRA.

Age 62—This is the earliest age at which you can claim Social Security benefits.

Age 65—There are several times when a retiree can enroll in Medicare, and each of those times has certain rules around applying and when your coverage will begin. The first time you can sign up for Medicare is called the initial enrollment period (IEP). You may enroll in Medicare parts A, B, C, and D as follows: three months before your 65th birthday; the month of your birthday; or three months after your birthday.

Ages 66 and 67—This is the full retirement age (FRA) for claiming Social Security benefits, depending on the year you were born.

Age 69½—The year in which you turn 69½ is the last year to:

- Contribute to a traditional IRA.
- Convert to a Roth IRA without having to first take a required minimum distribution (RMD).
- Roll over Roth 401(k) or 403(b) funds to a Roth IRA without having to first take an RMD.

Age 70—This is when an individual can claim the maximum Social Security benefit.

Age 70½—This is the age when individuals must begin taking RMDs from all of their IRAs, except for Roth IRAs. ■

The information is being provided for general educational purposes only and is not intended to provide legal or tax advice. You should consult your own legal or tax advisor for guidance on regulatory compliance matters. Any examples provided are for informational purposes only and are not intended to be reflective of actual results and are not indicative of any particular client situation.

Traditional IRA contributions plus earnings, interest, dividends, and capital gains may compound tax-deferred until you withdraw them as retirement income. Amounts withdrawn from traditional IRA plans are generally included as taxable income in the year received and may be subject to 10% federal tax penalties if withdrawn prior to age 59½, unless an exception applies.

A **Roth IRA i**s a tax-deferred and potentially tax-free savings plan available to all working individuals and their spouses who meet the IRS income requirements. Distributions, including accumulated earnings, may be made tax-free if the account has been held at least five years and the individual is at least 59½, or if any of the IRS exceptions apply. Contributions to a Roth IRA are not tax deductible, but withdrawals during retirement are generally tax-free.

A **SIMPLE IRA** plan is an IRA-based plan that gives small-business employers a simplified method to make contributions toward their employees' retirement and their own retirement. Under a SIMPLE IRA plan, employees may choose to make salary reduction contributions and the employer makes matching or nonelective contributions. All contributions are made directly to an individual retirement account (IRA) set up for each employee (a SIMPLE IRA) SIMPLE IRA plans are maintained on a calendar-year basis.

A **401(k)** is a qualified plan established by employers to which eligible employees may make salary deferral (salary reduction) contributions on an aftertax and/or pretax basis. Employers offering a 401(k) plan may make matching or nonelective contributions to the plan on behalf of eligible employees and may also add a profit-sharing feature to the plan. Earnings accrue on a tax-deferred basis.

A **403(b) plan** is a retirement savings plan that allows employees of public schools, nonprofit, and 501(c)(3) taxexempt organizations to invest on a pretax and or Roth aftertax basis. Contributions to a 403(b) plan are conveniently deducted directly from your paycheck. In addition, your employer may elect to make a contribution on your behalf .

For more information, visit us at lordabbett.com.

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