2022 Midyear Investment Outlook

Four Key Themes – Part 4. Geopolitical Shocks

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Gauging Geopolitical Risks and Market Impacts

How have investment markets weathered geopolitical shocks?

Researchers at the U.S. Federal Reserve (Fed) developed an index of geopolitical events (the Global Political Risk, or GPR, Index) from automated text-search results of 10 major newspapers.[1] The index provides a measure of geopolitical severity over the past few decades, on a daily basis. We paired these identified event dates with forward returns of two broad measures of the fixed-income and equity markets, the J.P. Morgan Treasury Index and the S&P 500® Index, respectively. **Most of the time, forward returns have been positive.**

				Forward Returns			
Asset Class	Date of Event	Event	Return	One Week	One Month	Three Months	One Year
JP Morgan Treasury Index	4/16/1986	U.S. Bombing of Libya	1.0%	-1.9%	-2.8%	-0.5%	2.2%
	1/15/1991	Gulf War - Operation Desert Storm	0.1%	0.7%	2.2%	2.4%	13.2%
	10/3/2001	U.S. Invades Afghanistan	0.1%	-0.2%	2.3%	-2.3%	9.8%
	9/13/2002	Bush Seeks UN Approval for Iraq War; Putin Threatens War with Georgia	0.4%	0.5%	0.6%	-0.1%	3.3%
	2/14/2003	War Fears U.S./Iraq; Terrorism in UK; Tension with North Korea	-0.4%	0.3%	1.5%	2.6%	3.9%
	3/21/2003	Beginning of the Iraq War	-0.5%	1.1%	1.2%	6.8%	6.1%
	8/3/2004	Terrorist Threats in New York and Washington	0.2%	0.8%	1.9%	3.1%	4.0%
	7/8/2005	London Bombings 7/7	-0.3%	-0.2%	-1.2%	-0.4%	-0.5%
	11/17/2015	Paris Terrorist Attacks	0.1%	0.1%	0.2%	3.5%	1.5%
	1/7/2020	U.S./Iran Tensions Escalate	-0.1%	0.1%	1.6%	8.1%	6.1%
	2/25/2022	Russia/Ukraine Tensions	0.0%	1.1%	-3.0%	-4.9%	–
S&P 500 Index	4/16/1986	U.S. Bombing of Libya	1.9%	-0.2%	-2.0%	0.0%	17.8%
	1/15/1991	Gulf War - Operation Desert Storm	0.4%	4.5%	15.3%	18.5%	26.5%
	10/3/2001	U.S. Invades Afghanistan	2.0%	0.8%	-1.2%	8.0%	-18.6%
	9/13/2002	Bush Seeks UN Approval for Iraq War; Putin Threatens War with Georgia	0.3%	-5.1%	-6.3%	0.2%	13.7%
	2/14/2003	War Fears U.S./Iraq; Terrorism in UK; Tension with North Korea	2.1%	-0.3%	3.3%	12.1%	32.6%
	3/21/2003	Beginning of the Iraq War	2.3%	-3.7%	-0.4%	12.2%	24.0%
	8/3/2004	Terrorist Threats in New York and Washington	-0.6%	-1.9%	0.4%	2.3%	10.4%
	7/8/2005	London Bombings 7/7	1.2%	1.3%	1.2%	1.2%	4.1%
	11/17/2015	Paris Terrorist Attacks	-0.1%	1.9%	1.1%	-7.9%	7.6%
	1/7/2020	U.S./Iran Tensions Escalate	-0.3%	1.4%	3.0%	-24.8%	17.3%
	2/25/2022	Russia/Ukraine Tensions	2.2%	-1.3%	3.5%	-9.8%	–

Source: https://www.matteoiacoviello.com/ and Bloomberg. The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Investors may experience different results. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. **Past performance is not a reliable indicator or guarantee of future results.**

Investment Implications

Geopolitical disruptions do not often significantly alter underlying market fundamentals. While ongoing shifts in relations among global superpowers have the potential to change this dynamic in the future, historically, financial markets have largely weathered these storms.

Market Performance Amid Geopolitical Shocks

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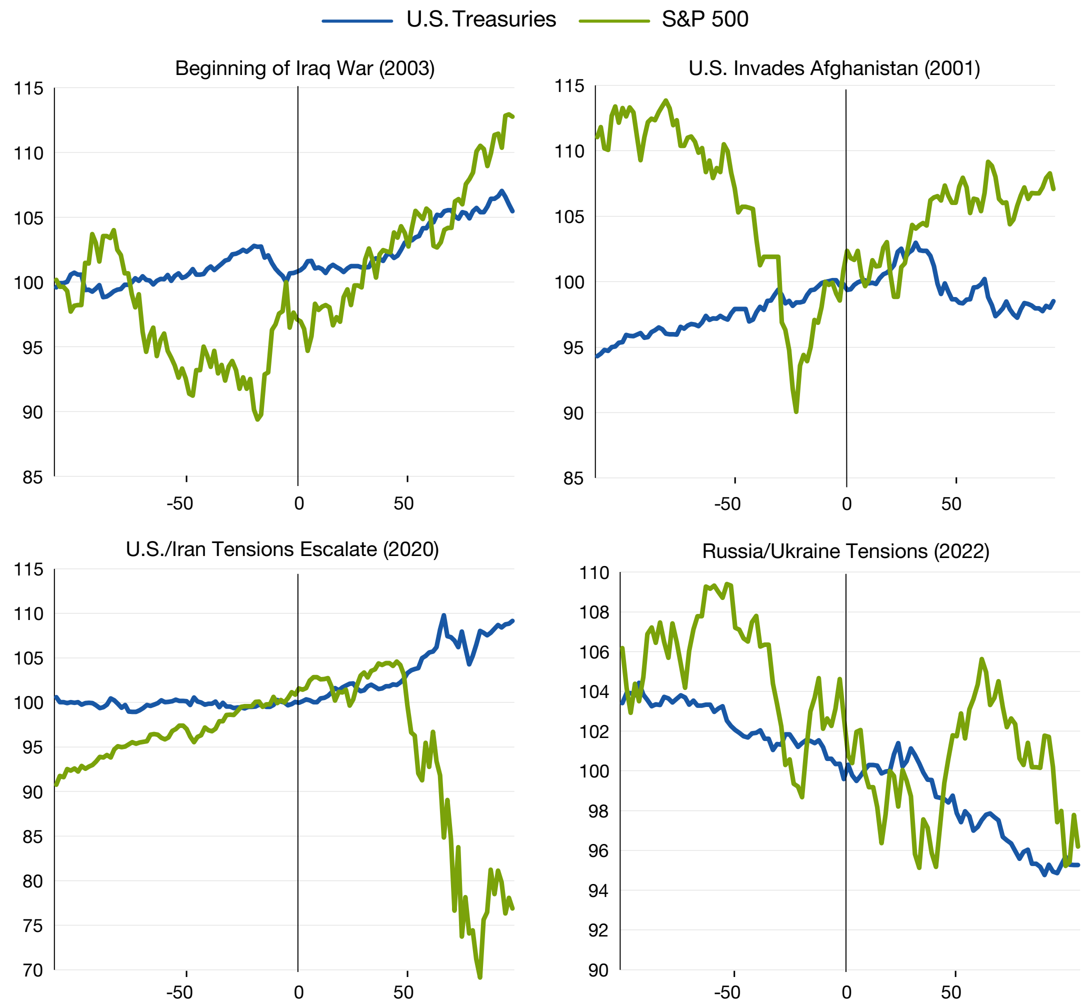
Below are normalized equity and bond index returns in periods leading up to, and after, the first day of a geopolitical event. **Takeaway: Markets generally are not influenced for long, following such events.**



Source: Morningstar. The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.
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Potential Investment Opportunities

Investors seeking potential opportunities amid volatility and who know their tolerance for risk may want to consider:

- Innovation growth stocks and small cap stocks to take advantage of lower equity valuations amid volatility
- Multi-sector fixed income to take advantage of wider credit spreads and flexibility among credit sectors
- Bank loans to take advantage of rising short-term rates and lower duration
- Short-term and ultra-short bonds to avoid equity gyrations and potential interest-rate volatility of longer-duration bonds

Potential Investment Risks

Geopolitical turmoil may persist as the war in Ukraine continues. Economic growth may potentially be hindered as central banks tighten policy. This may affect equity and credit fundamentals.

IMPORTANT INFORMATION

[1]Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225.

The **Caldara-Iacoviello GPR Index** is intended as a measure of real-time geopolitical tensions as perceived by the press, the public, global investors, and economic and monetary policymakers, and is constructed with an algorithm that computes the share of articles mentioning adverse geopolitical events in leading newspapers published in the United States, the United Kingdom, and Canada.

Unless otherwise noted, all discussions are based on U.S. markets and U.S. monetary and fiscal policies.

Asset allocation or diversification does not guarantee a profit or protect against loss in declining markets.

No investing strategy can overcome all market volatility or guarantee future results.

The value of investments and any income from them is not guaranteed and may fall as well as rise, and an investor may not get back the amount originally invested. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon, and risk tolerance.

Market forecasts and projections are based on current market conditions and are subject to change without notice. Projections should not be considered a guarantee.

Equity Investing Risks

The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of companies and/or sectors in the economy. While growth stocks are subject to the daily ups and downs of the stock market, their long-term potential as well as their volatility can be substantial. Value investing involves the risk that the market may not recognize that securities are undervalued, and they may not appreciate as anticipated. Smaller companies tend to be more volatile and less liquid than larger companies. Small cap companies may also have more limited product lines, markets, or financial resources and typically experience a higher risk of failure than large cap companies.

Fixed-Income Investing Risks

The value of investments in fixed-income securities will change as interest rates fluctuate and in response to market movements. Generally, when interest rates rise, the prices of debt securities fall, and when interest rates fall, prices generally rise. High yield securities, sometimes called junk bonds, carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal. Bonds may also be subject to other types of risk, such as call, credit, liquidity, and general market risks. Longer-term debt securities are usually more sensitive to interest-rate changes; the longer the maturity of a security, the greater the effect a change in interest rates is likely to have on its price.

The credit quality of fixed-income securities in a portfolio is assigned by a nationally recognized statistical rating organization (NRSRO), such as Standard & Poor's, Moody's, or Fitch, as an indication of an issuer's creditworthiness. Ratings range from 'AAA' (highest) to 'D' (lowest). Bonds rated 'BBB' or above are considered investment grade. Credit ratings 'BB' and below are lower-rated securities (junk bonds). High-yielding, non-investment-grade bonds (junk bonds) involve higher risks than investment-grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities.

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Glossary & Index Definitions

Treasuries are debt securities issued by the U.S. government and secured by its full faith and credit. Income from Treasury securities is exempt from state and local taxes.

The **J.P. Morgan Treasury Index** aims to track the performance of eligible fixed-rate, U.S. dollar-denominated, Treasury bonds issued by the United States Government.

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.

Growth/Value Investing: Growth stocks may be characterized as equities of companies that have demonstrated better-than-average gains in earnings in recent years and that are expected to continue delivering high levels of profit growth. Growth equities typically carry higher price-to-earnings multiples than the broader market, high earnings growth records, and greater volatility than broader market. Value stocks may be characterized as equities of companies that have fallen out of favor with investors but still have good fundamentals, or new companies that have yet to be recognized by investors. Value stocks typically feature lower price-to-earnings multiples than the broader market, and, often industry peers; and somewhat lower volatility than the overall equity market.

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