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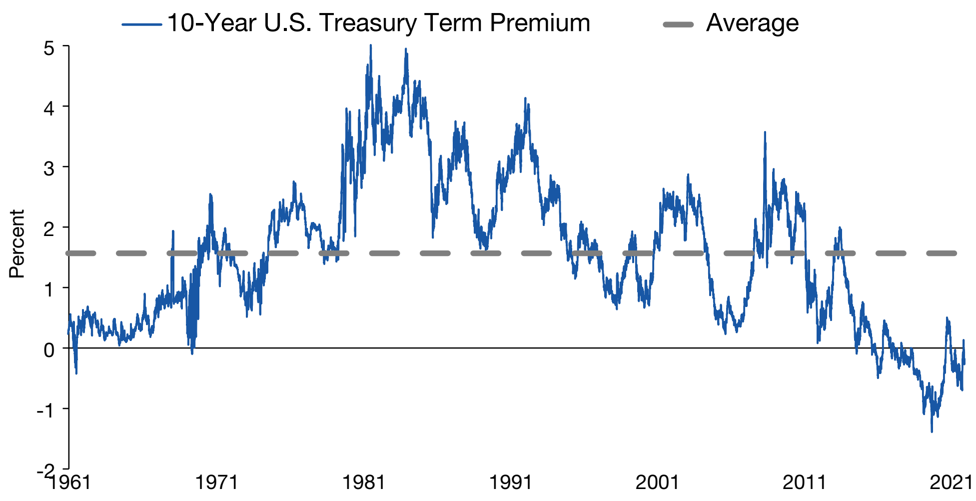
Navigating Rate-Risk in Fixed Income

U.S. interest-rate environment

Term premium—the amount investors expect to be compensated for lending for longer periods—remains far from typical levels. Investors are not being compensated for duration risk and potential inflation.

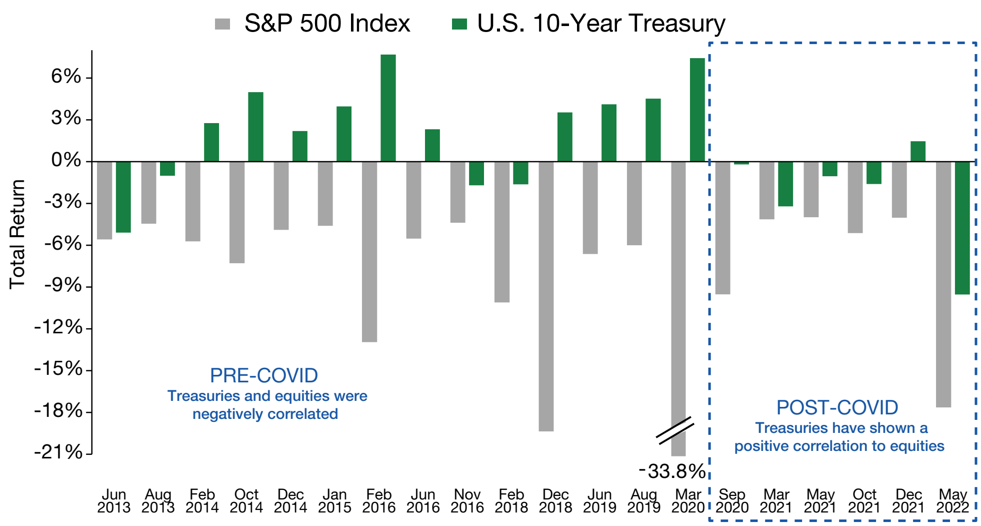


Source: Federal Reserve Bank of New York. As represented by ACMTP10. Data as of 05/31/2022. **Past performance is not a reliable indicator or guarantee of future results.** For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees and expenses, and are not available for direct investment.

U.S. interest rates still reflect negative stock and bond correlations…

Negative term premiums have been justified over the last two decades, as stock returns balanced out the exposure to duration in an environment of negative correlations.

…but there is a shifting trend in correlations



Source: Bloomberg and Lord Abbett. Treasuries as represented by the Bloomberg US Treasury Index. **Past performance is not a reliable indicator or 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.

Investment Implications

Historically, there have been lasting periods of significant positive correlation, and those periods tend to coincide with inflation. Investors may want to consider both protection from rising rates and other sources of diversification.

Credit Has Delivered Strong Performance During Periods Of Rising Rates

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Returns During Recent Periods of Greater Than 100 Basis-Points Rise in the 10-year U.S. Treasury Yield

Period	10-Year U.S. Treasury[1]	Bloomberg Aggregate[2]	U.S. TIPS Index[3]	Short-Term Corporates[4]	Floating Rate Loans[5]	High Yield Bonds[6]	Convertible Bonds[7]
09/30/1993 – 11/30/1994	-8.90%	-3.00%	-	2.10%	11.30%	1.20%	-2.70%
01/31/1996 – 08/31/1996	-6.00%	-1.80%	-	1.70%	4.80%	3.10%	5.40%
09/30/1998 – 01/31/2000	-7.70%	-0.60%	1.80%	4.20%	4.90%	3.70%	41.40%
06/30/2005 – 06/30/2006	-5.80%	-0.80%	-1.60%	2.30%	6.70%	4.70%	9.40%
12/31/2008 – 12/31/2009	-9.90%	5.90%	11.50%	21.30%	44.90%	57.50%	49.10%
08/31/2010 – 03/31/2011	-6.10%	-0.80%	2.00%	2.30%	7.40%	10.30%	19.20%
07/31/2012 – 12/31/2013	-6.20%	-1.10%	-5.60%	3.20%	7.00%	9.50%	22.90%
06/30/2016 – 12/31/2016	-7.50%	-2.50%	-1.50%	0.60%	5.40%	7.50%	8.30%
8/31/2017 – 10/31/2018	-5.30%	-2.10%	-1.40%	0.90%	5.10%	1.90%	5.80%
7/31/2020 – 03/31/2021	-9.90%	-3.60%	0.90%	1.70%	8.10%	7.40%	30.80%
Average	-7.30%	-1.00%	0.80%	4.00%	10.60%	10.70%	19.00%

[1]FTSE 10 Year Treasury Bond Index. [2]Bloomberg U.S. Aggregate Bond Index. [3]Bloomberg U.S. TIPS Index [4]ICE BofA U.S. Corporate BBB-Rated 1-3 Year Index. [5]CS Leveraged Loan Index. [6]ICE BofA U.S. High Yield Constrained Index. [7]ICE BofA Convertibles Index. **Performance data quoted reflect past performance and are no guarantee of future results.** Performance during other time periods may have been different or negative. Other indexes may not have performed in the same manner under similar conditions. Source: Morningstar. For illustrative purposes only. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. *Returns for periods of greater than one year have been annualized.

Potential Investment Opportunities

Investors who understand their tolerance for risk in an environment of high inflation, rising rates, and economic growth may want to consider:

- **Reducing exposure** to interest-rate-sensitive securities such as U.S. Treasury bonds
- **Maintaining or adding exposure** to
  - Securities with lower duration, such as **short-term credit and corporate bonds**
  - Credit, such as **high yield bonds or bank loans**

Potential Investment Risks

Central bank policy is not certain and overly aggressive tightening, due to persistently higher inflation, may potentially lead to a downturn in economic growth. This may impact credit fundamentals.

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IMPORTANT INFORMATION

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.

This material 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.

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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.

A **basis point** is one one-hundredth of a percentage point.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates.

The **federal funds (fed funds)** rate is the target interest rate set by the Fed at which commercial banks borrow and lend their excess reserves to each other overnight.

Correlation is a statistic that measures the degree to which two securities move in relation to each other. A perfect positive correlation means that the correlation coefficient is exactly 1. This implies that as one security moves, either up or down, the other security moves in lockstep, in the same direction. A perfect negative correlation means that two assets move in opposite directions, while a zero correlation implies no relationship at all.

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.

The **Bloomberg U.S. Aggregate Bond Index** represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade, fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. Total return comprises price appreciation/depreciation and income as a percentage of the original investment.

The **Bloomberg U.S. TIPS Index** is an unmanaged index comprised of U.S. Treasury Inflation Protected Securities with at least $1 billion in outstanding face value

Bloomberg Index Information

The **Credit Suisse Leveraged Loan Index** is designed to mirror the investable universe of the U.S. dollar-denominated, leveraged loan market.

The **FTSE 10 Year U.S. Treasury 10 Year Bond Index** is designed to measure the performance of U.S. Treasury securities with a maturity of 10 years.

The ICE BofA All Convertibles, All Qualities Index contains issues that have a greater than $50 million aggregate market value. The issues are U.S. dollar-denominated, sold into the U.S. market and publicly traded in the United States.

The **ICE BofA BBB-Rated 1-3 Year U.S. Corporate Index** is an unmanaged index comprised of U.S. dollar-denominated, investment- grade, BBB-rated, corporate debt securities publicly issued in the U.S. domestic market with between one and three years remaining to final maturity.

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