Our Experts' Five Crucial Charts for 2020

Recently, Lord Abbett investment experts offered insights on the global economy, currencies, and major asset classes to an audience of investment professionals. Here are selected highlights.

On January 8, 2020, Lord Abbett hosted a webinar on the investment outlook for 2020, featuring investment experts in macroeconomics, equities, U.S. fixed income, municipal bonds, currencies and emerging markets. Because of the relatively strong turnout for the event from investment professionals, this week's *Market View* presents selected highlights from the discussion. We encourage you to listen to a full replay of the event.

On the Economic Outlook

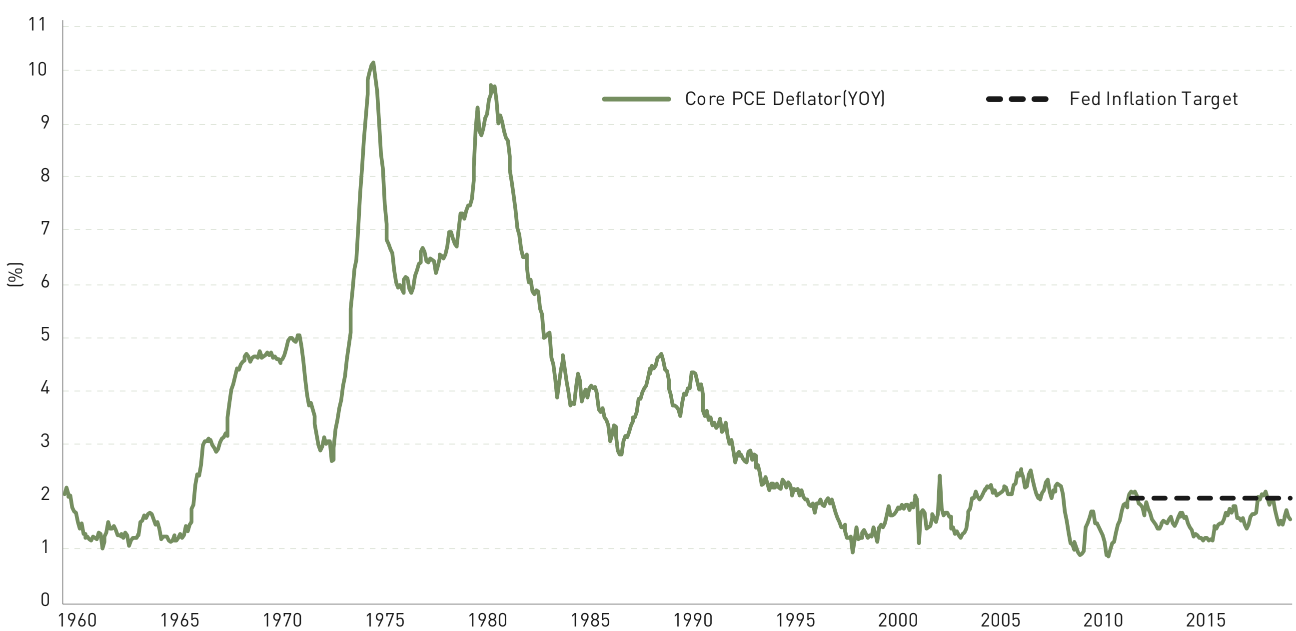
Giulio Martini, Partner and Director of Global Asset Allocation and Head of Multi-Asset Strategies

"U.S. inflation has not only been very low, from a long-term historical perspective, but it also has been extremely stable. And that stability dates back to the mid-1990s. If we get to the point where this economic expansion lasts for long enough and is strong enough to cause inflation to accelerate and increase its volatility, such a scenario would force a correction in asset prices. But we don't think that is a concern for 2020.

"But the equity risk premium is still very positive and the equity earnings yield compares very favorably to the 10-year bond yield. *So, in our view, 2020 remains a year where a position of taking exposure to risk assets: stocks, both U.S. and non-U.S., and credit, could continue to be very rewarding to investors*."

Chart 1. Inflation Has Remained Remarkably Low and Stable for the Past Quarter Century

Core PCE Deflator, year over year (1960-December 17, 2019)



Source: Bloomberg. Data as of December 17, 2019. The dotted line represents the 2% inflation target of the U.S. Federal Reserve.

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. **Past performance is no guarantee of future results.**

On Currencies and Emerging Markets

Leah G. Traub, Ph.D., Partner and Taxable Fixed Income Portfolio Manager

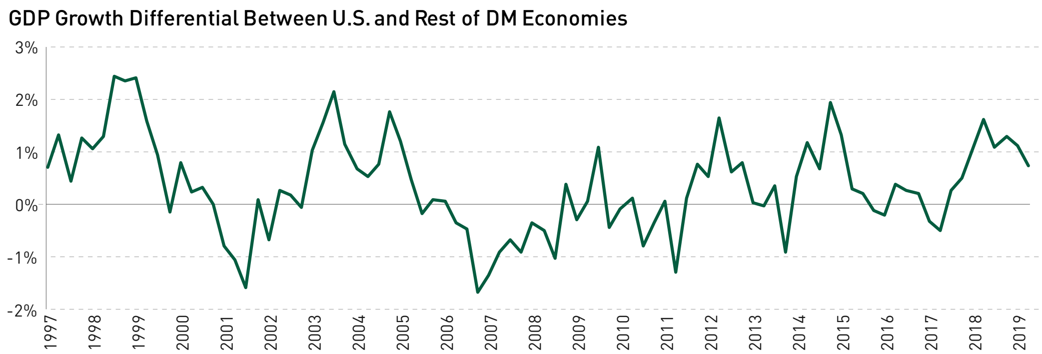
"The U.S. economy was growing faster than the rest of the developed market [DM] economies in 2019, but the gap is starting to shrink. Continuing to close that gap will be essential to those currencies starting to outperform the U.S. dollar.

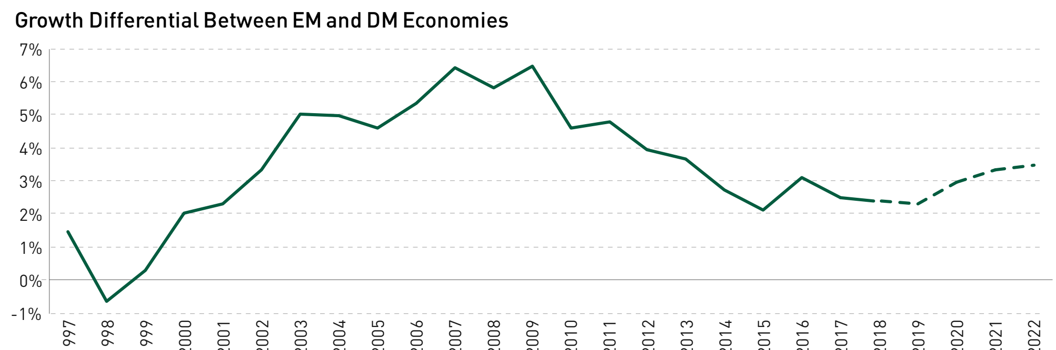
"The differential between the emerging markets [EM] and developed market economies has also been narrowing from a peak gap in 2009 to an estimated 2% differential in 2019. *The IMF [International Monetary Fund] is now estimating that this differential will start widening in 2020, which we believe would be very beneficial to flows into the emerging markets and appreciation in their currencies*."

"We believe 2020 will remain a year where a position of taking exposure to risk assets, to U.S. as well as non-U.S. stocks, and to credit, offers the potential to reward investors."

Chart 2. Europe and Emerging Markets Should be the Major Beneficiaries of a Pause in Trade Tensions

GDP growth differential for both charts uses data available as of September 9, 2019 (dotted line in second chart represents estimates beyond that date.)





Source: IMF World Economic Outlook. GDP growth differential between U.S. and developed markets as of September 9, 2019. Dotted line signifies estimated numbers. 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. **Past performance is no guarantee of future results.**

"A rebound in trade following the easing of trade tensions is likely to be very beneficial to Europe and emerging markets, in our view."

On U.S. Fixed Income

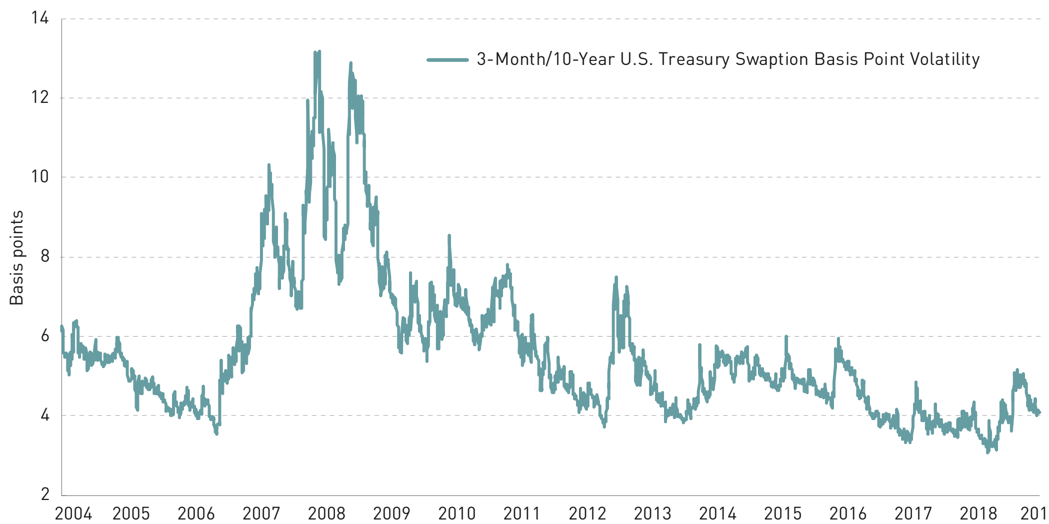
Kewjin Yuoh, Partner and U.S. Taxable Fixed Income Portfolio Manager

"The Fed [U.S. Federal Reserve] has provided the fuel for the U.S. economic expansion via accommodative monetary policy, which has created immense liquidity in the marketplace, through quantitative easing, increased transparency, and with significant forward guidance. In fact, the Fed has made it very clear that it would take a very high bar to move interest rates one way or the other in 2020. All of this has worked to reduce interest rate volatility in the marketplace.

"The default rate in the high yield market remains low, and there has been a material move up in quality in the high yield index [i.e. the Bloomberg Barclays U.S. Corporate High Yield Index]. Given this benign credit environment and our expectation that strong economic fundamentals can continue in 2020, we anticipate interest rate volatility to remain or decline to lower levels in 2020. As a result, our positions are long in risk. *In our opinion, it is too costly not to be long risk*."

Chart 3. With the U.S. Federal Reserve on Pause, Interest Rate Volatility Has Declined

3-month/10-year U.S. Treasury swaption basis point volatility (2004-December 13, 2019)



Source: Bloomberg. Data as of December 13, 2019.

A swaption is the option to enter into an interest rate swap. In exchange for an option premium, the buyer gains the right but not the obligation to enter into a specific swap agreement with the issuer on a specified future date. 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. **Past performance is no guarantee of future results.**

On Municipal Bonds

Daniel S. Solender, CFA, Partner and Director of Tax-Free Fixed Income

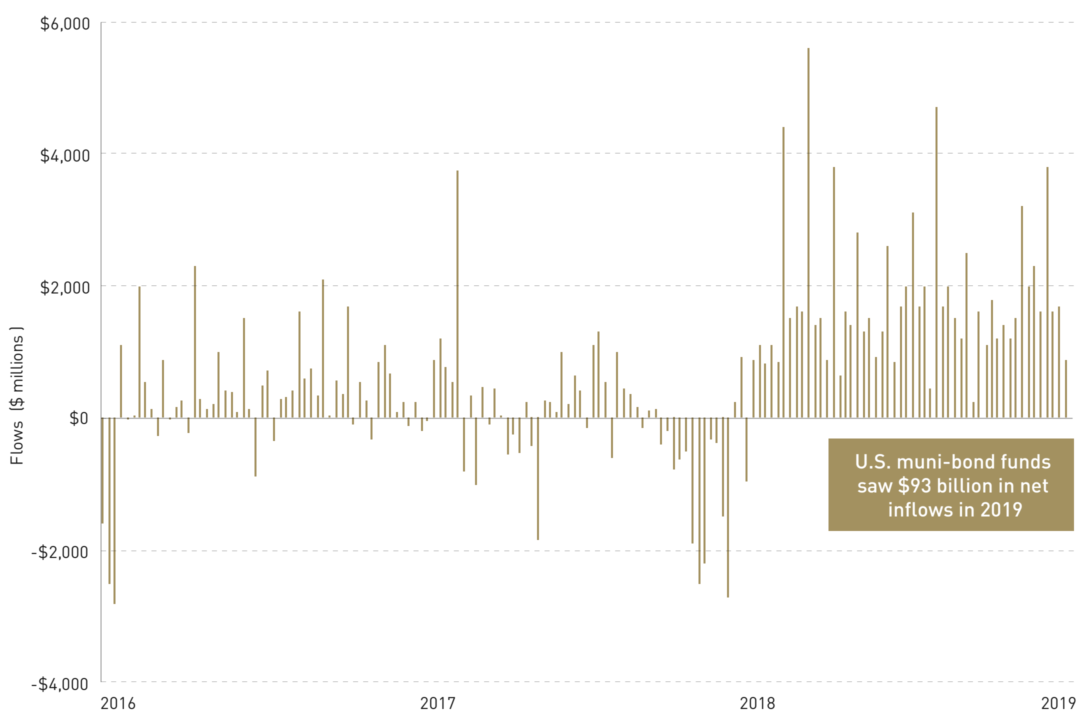
"Coming out of the fourth quarter of 2018, when $12 billion flowed out of muni bond mutual funds [see Chart 4], and the benchmark Bloomberg Barclays Municipal Bond Index had been negative for most of the year, we were uncertain about the outlook for 2019. The Fed [U.S. Federal Reserve] had been raising rates, the muni bond yield curve was steepening, and supply was down as a result of the 2017 tax bill.

"All of that changed in 2019 when the Fed monetary policy once again became accommodative and rates declined. Credit quality improved; there were more upgrades than downgrades in every quarter. States saw revenues coming in above the projections for the year, reaching surplus levels. *Retail investors became more comfortable taking risk, and moved out on the maturity curve to reach the extra tax-free income available. Supply picked up. We believe all of those trends remain in place for 2020*. The wild card here will be the U.S. federal deficit and the global economy and their respective impacts on the U.S. outlook."

"We believe the Fed's actions have created a benign and attractive environment for risk assets."

Chart 4. Every Single Week of 2019 Had Positive Flows Into Muni Bond Mutual Funds

Municipal weekly fund flows (2016-December 31, 2019)



Source: Bloomberg. Data as of December 13, 2019.

Source: Lipper and MMD. Data as of December 31, 2019. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. **Past performance is not a reliable indicator or guarantee of future results.**

On Equities

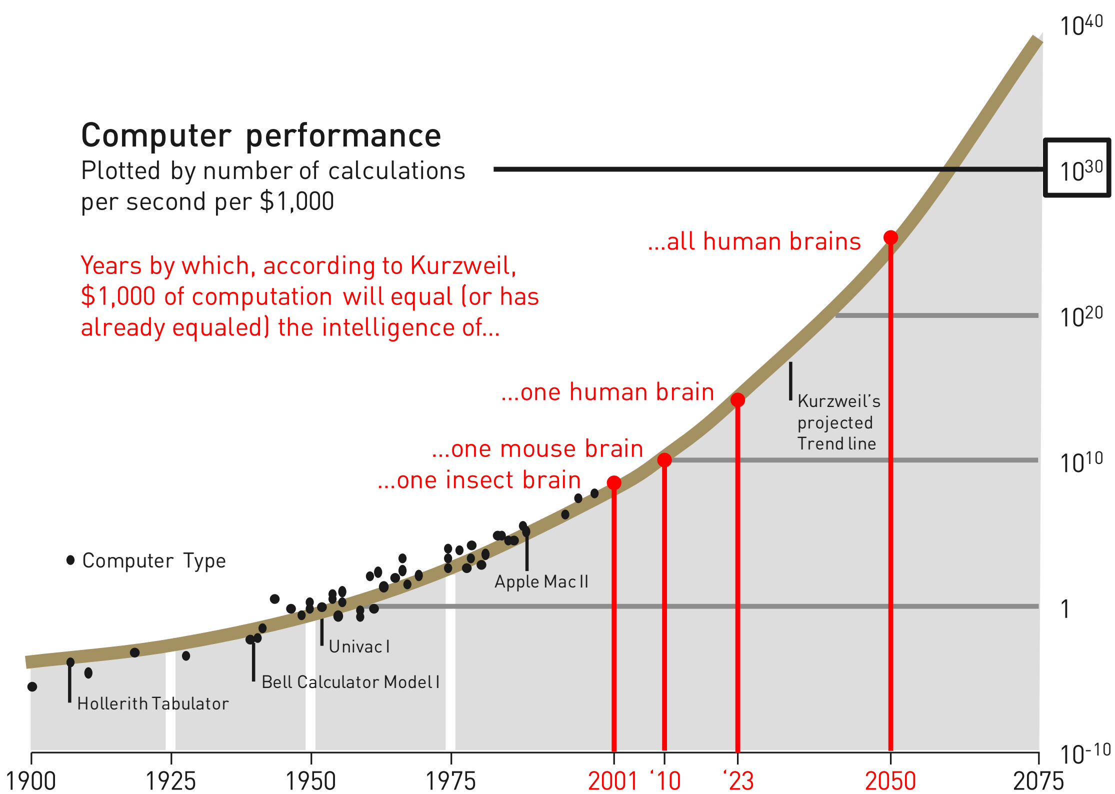
F. Thomas O'Halloran, J.D., CFA, Partner and Innovation Growth Strategies Portfolio Manager

"I'm bullish on equities for two reasons: First, inflation is dormant, and that scenario is a friend of equities. Second, the growth side of the equation is extremely powerful, reflecting the tech revolution. Technology is the new raw material. It is as if a "new oil" has been found. But this resource is not scarce. It's abundant and available to all businesses. It's enabling innovation 'on steroids' – in healthcare, cloud computing, artificial intelligence, and many other areas, enabling so many of us to live better lives.

"The S&P 500® Index is trading at 18 times forward estimates. That's not cheap but, relative to inflation, it's not expensive either, in my view. I actually think the S&P 500 multiple is going to make its way to 25 at some point over the next three to five years. In the meantime, I think we're going to have 7-10% earnings growth because of the tech revolution. In 2020, however, equity investors may be risk averse as the political landscape heats up and if tension in the Mideast increases; that may support the more stable growers."

Chart 5. The Power of Technology is Growing Exponentially

The Kurzweil Curve below shows that the power of technology will keep growing exponentially.
By 2050, you may be able to buy a device with the computational capacity of all mankind for the price of a nice refrigerator today.



Source: Ray Kurzweil, "The Singularity is Near" (2005). For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any investment.

Summing Up

Overall, our investment experts anticipate a wide assortment of opportunities in 2020, given what they believe will be an environment of dormant inflation, unlikely recession, and reduced trade tensions. Geopolitical tensions and a U.S. election year may present some challenges, but are likely to be the outliers in an otherwise improving economic scenario globally. We invite you to listen to the full reply of the Webinar at the link provided above.

A Note about Risk: 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. Fixed-income investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Lower-rated securities are subject to greater credit risk, default risk, and liquidity risk. Credit risk is the risk that debt issuers will become unable to make timely interest payments, and at worst will fail to repay the principal amount. 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. Although U.S. government securities are guaranteed as to payments of interest and principal, their market prices are not guaranteed and will fluctuate in response to market movements. The municipal bond market may be impacted by unfavorable legislative or political developments and adverse changes 1 5 in the financial conditions of state and municipal issuers or the federal government in case it provides financial support to the municipality. Income from the municipal bonds held could be declared taxable because of changes in tax laws. Certain sectors of the municipal bond market have special risks that can affect them more significantly than the market as a whole. Because many municipal instruments are issued to finance similar projects, conditions in these industries can significantly affect an investment. Income from municipal bonds may be subject to the alternative minimum tax. Federal, state and local taxes may apply. Investments in Puerto Rico and other U.S. territories, commonwealths, and possessions may be affected by local, state, and regional factors. These may include, for example, economic or political developments, erosion of the tax base, and the possibility of credit problems. 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.

There is no guarantee that the investment strategies discussed in this article will work under all market conditions or are suitable for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market.

Statements concerning financial market trends are based on current market conditions, which will fluctuate. All investments involve risks, including the loss of principal invested.

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Glossary

The **personal consumption expenditure (PCE) deflator index** measures the prices paid by consumers for goods and services. The "core" PCE deflator index is defined as PCE prices excluding food and energy.

GDP is the gross domestic product which is defined as the the total value of goods produced and services provided in a country during one year.

Risk asset describes any financial security or instrument that is not a risk-free asset (i.e. a high-quality government bond). Risk assets generally encompass equities, commodities, property, and all areas of fixed income apart from high-quality sovereign bonds.

The **risk premium** is the rate of return on an investment over and above the risk-free or guaranteed rate of return.

Spread is the percentage difference in current yields of various classes of fixed-income securities versus Treasury bonds or another benchmark bond measure. A bond spread is often expressed as a difference in percentage points or basis points (which equal one-one hundredth of a percentage point).

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 **Bloomberg Barclays U.S. Corporate High Yield Index** measures the USD-denominated, high yield, fixed-rate corporate bond market.

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.

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