A Six Point Response to Market Volatility

Selling winners and adding to assets at more depressed valuations may lead to portfolios that are positioned for a better outcome once this storm passes.

Stephen Hillebrecht
Director, Product Strategy

Table 1. A Multi-Sector Approach Offers the Flexibility to Rotate Among Sectors
Credit spreads (as of March 2, 2020)

	Latest	1-Year Low	1-Year High	YTD Change
IG Corporates	122	93	130	**29**
HY Corporates	500	315	500	**164**
EM Aggregate	365	278	365	**64**
CMBS	73	60	74	**1**
ABS	37	27	44	**-7**

Source: Bloomberg Barclays indices. Data as of March 2, 2020. Credit spreads shown are for Bloomberg Barclays US Aggregate Corporate Average **option-adjusted spread (OAS)**, Bloomberg Barclays US Corporate High Yield Average OAS, Bloomberg Barclays EM USD Aggregate Average OAS, Bloomberg Barclays US Aggregate CMBS Average OAS, Bloomberg Barclays US MBS Fixed Rate Average OAS, and Bloomberg Barclays US Aggregate ABS Average OAS. The **option-adjusted spread (OAS)** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. IG=investment grade. HY= high yield. EM=emerging market.

In Brief

- Innovation and secular growth companies may provide exposure to the most resilient area of the equity market.
- Dividend growth companies have had limited downside capture during difficult markets, and over time have delivered returns similar to the broad equity market, but with lower volatility.
- Shorter duration bond strategies may offer a source of income and stability in volatile markets.
- High yield bonds may provide a more attractive entry point for an asset class that, over the long term, has delivered returns that are competitive with the equity market, with almost half of the volatility.
- A multi-sector bond strategy provides the flexibility to rotate from sectors that have held up well and add to sectors that have seen weakness, finding the most compelling relative value.
- Municipal bonds offer U.S. investors a domestic asset class that is less exposed to some of the factors impacting the global economy.

While market volatility is not pleasant to live through, history informs us that it is normal. Recent volatility largely reflects the high level of uncertainty about the impact of the coronavirus. Because the range of potential outcomes is wide, we may be dealing with volatility for some time. There is simply no way to tell when there will be an "all clear" signal for risk assets.

Some investors may be tempted to exit the market and return at a later date. But trying to time the market is extremely difficult – and can be costly. In our opinion, the best strategy may sound basic, but it's been tried and tested over time: a disciplined approach to diversification and rebalancing.

Rebalancing forces you to sell your winners and add to assets now trading at more depressed levels. If you had a target asset allocation that is appropriate for your time horizon and risk tolerance, we believe now could be the time to take gains from your winners (longer duration assets / core bonds) and get your portfolio back to your target allocation.

Rebalance toward equities?

The biggest beneficiary in the current flight to quality has been U.S. Treasuries. The previous low point in yield on the 10-year Treasury bond had been 1.35% (reached in July 2016). Yields breached that low amid the equity market volatility in the last week of February, and then accelerated lower last week, closing at 0.70% on March 6 leading to sharp gains in high-quality long-duration fixed income. As of March 6, the 30-year U.S. Treasury bond had returned 19.6% year-to-date.

Point

Chart 1. Treasury Yields Reached All-Time Lows

10-year U.S. Treasury yield (%) (2018-2020)*

Source: Bloomberg. *All data as of March 6, 2020. 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. **Past performance is not a reliable indicator or guarantee of future results**.

So depending on your objectives, it may be time to consider rebalancing your portfolio toward equities. Here are two ways to potentially achieve that goal:

1. Innovative Growth Companies

Economically sensitive or "cyclical" stocks are most at risk in an environment of slowing economic growth, when tourism and travel in general decline and consumer spending slows. Limiting cyclicality and focusing instead on innovation and secular-growth companies may not only provide upside potential but also may provide exposure to potentially the most resilient area of the equity market.

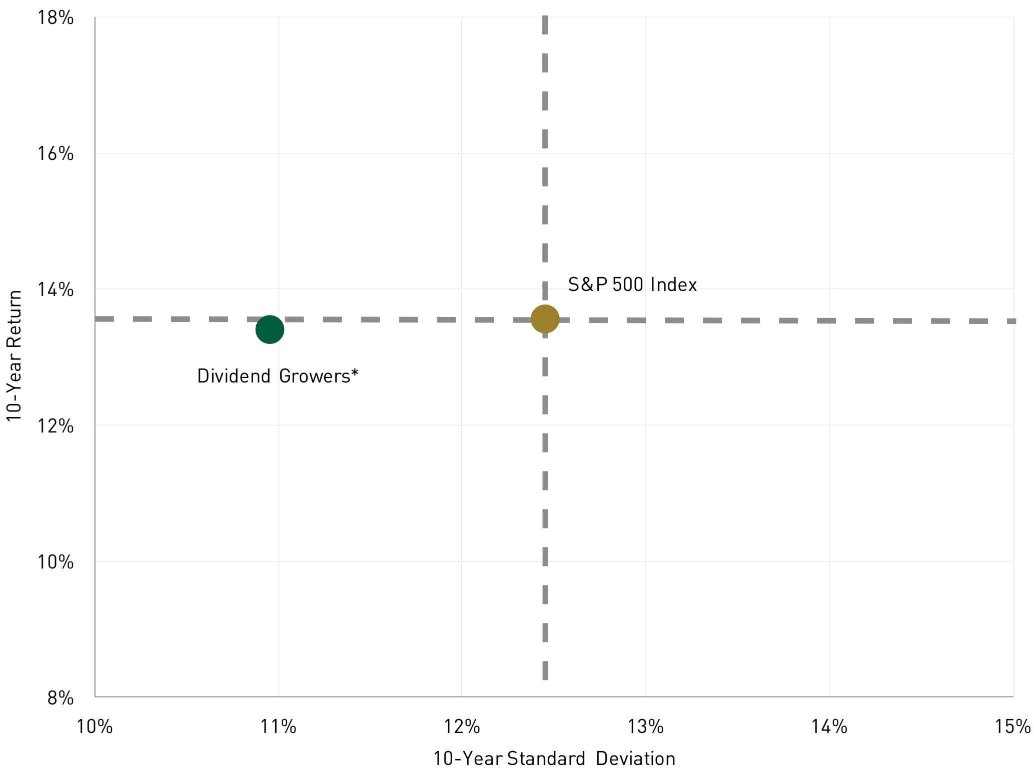
For example, it might be fair to say that biotech companies are still going to be discovering drugs and cures for diseases. Cloud services, artificial intelligence, and e-commerce have displacement characteristics that are favorable in weak growth environments. These companies might be able to take market share with lower cost and more efficient substitutes than older business models and technologies may be capable of doing. In this area, we believe an active management approach is crucial to identifying true innovative companies with operating momentum and whose stocks demonstrate price momentum.

2. Dividend Growers

If you want to add to your equity allocation, but perhaps want to limit the volatility of the equity market you may want to consider dividend growth companies. Companies with a history of consistently growing their dividends are often market leaders with stable business models, strong balance sheets, and management teams committed to shareholders. This high quality universe of stocks has tended to have limited downside capture during difficult markets, and over time has delivered returns similar to the broad equity market, but with lower volatility.

Chart 2. High-Quality Dividend Growers* May Offer Downside Protection

Long-term return of dividend growers vs. risk (10 years as of December 31, 2019)



Source: Bloomberg. *Dividend Growers are defined as companies in the S&P 500 Index or S&P 400 Index that paid a dividend and increased their yearly dividend payout for 10 consecutive years. **Past performance is not a reliable indicator or guarantee of future results**. 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. Dividends are not guaranteed and may be increased, decreased, or suspended altogether at the discretion of the issuing company.

Reallocate within fixed income?

The huge rally in U.S. Treasuries has led to significant duration risk in high-quality core bond allocations in a scenario where yields reverse their recent collapse. With this flight to quality, the Bloomberg Barclays U.S. Aggregate Bond Index is left with an average yield of 1.5% for a duration of 5.9 years (as of March 6, 2020). For global investors the situation is even more dire, as the Bloomberg Barclays Global Bond index now (as of March 6, 2020) offers a yield of 0.98% for a duration of 7.3 years.

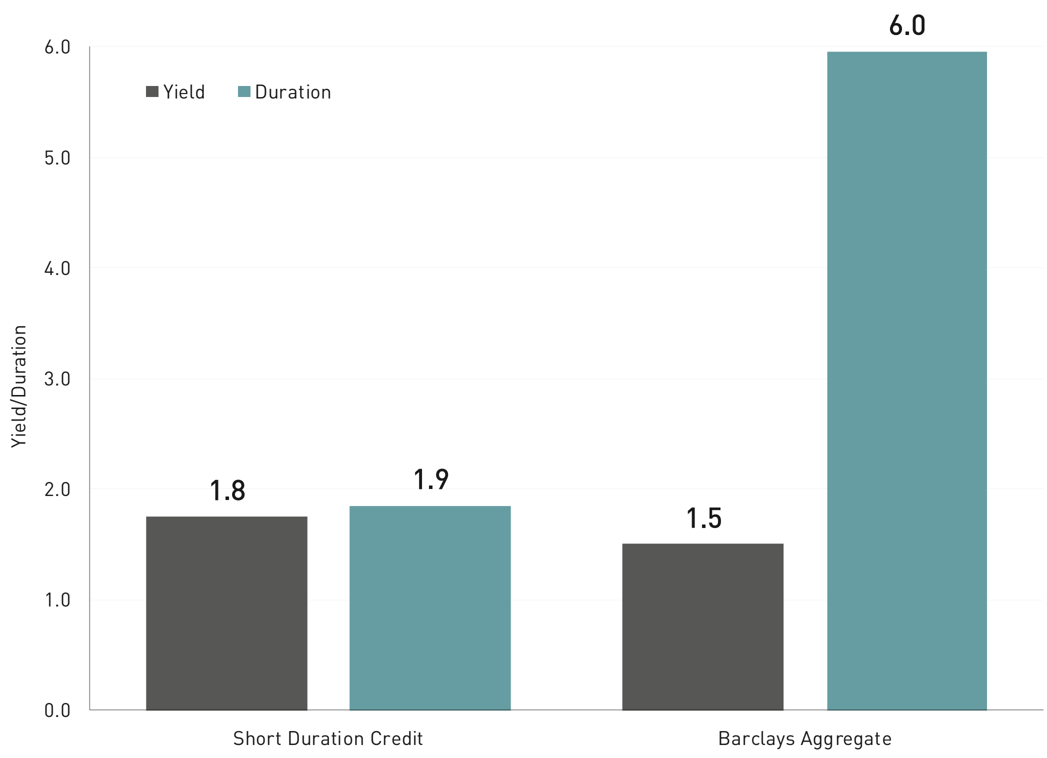
Here are some potential approaches within fixed income.

3. Reduce Duration

Investors may want to reallocate to shorter duration strategies that can still offer a source of income and stability in volatile markets, and a much lower duration exposure in case rates unwind this recent historic rally. While short-term corporate bonds did not rally to the same degree as longer duration assets, over the past month they were positive during this period of volatility (BAML 1-3 year BBB Corporate Index +1.0%), while the S&P 500 declined nearly 10%. With a yield of 1.75% and effective duration of 1.85 years, short corporates provide higher yield with one third of the duration exposure of core bonds.

Chart 3. Shorter Duration Strategies May Offer a Source of Income and Stability

Yield versus duration of selected indexes (as of March 3, 2020)



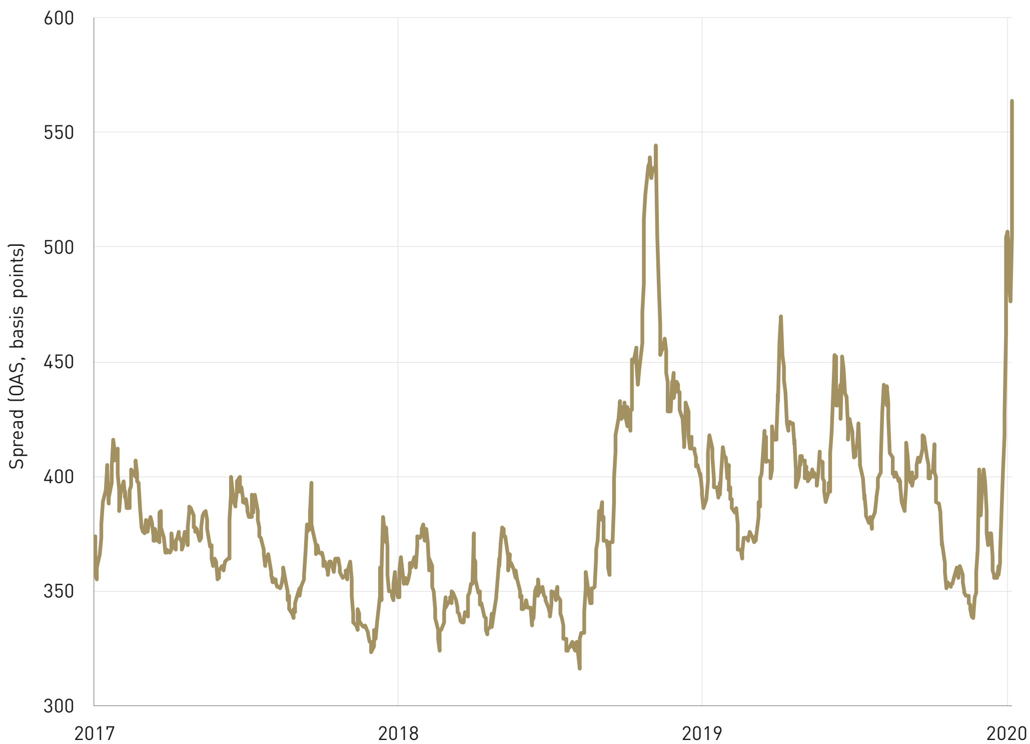
Source: Bloomberg. All data as of March 3, 2020. Short duration credit represented by the ICE BAML 1-3 Year BBB US Corporate Index. The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and 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. **Past performance is not a reliable indicator or guarantee of future results**.

4. Add Credit

Credit spreads on high yield bonds have widened by approximately 170 basis points from the lows reached in January, to above 500 basis points as of March 6. While spreads can widen further from here amid the uncertainty, we believe this weakness creates a more attractive entry point for an asset class that, over the long term, has delivered returns that are competitive with the equity market, with almost half of the volatility.

Chart 4. Credit Spreads on High-Yield Bonds Have Widened

High yield index spreads, basis points (as of March 2, 2020)



Source: Bloomberg. All data as of March 2, 2020. 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. **Past performance is not a reliable indicator or guarantee of future results**.

5. Take a Multi-sector Approach

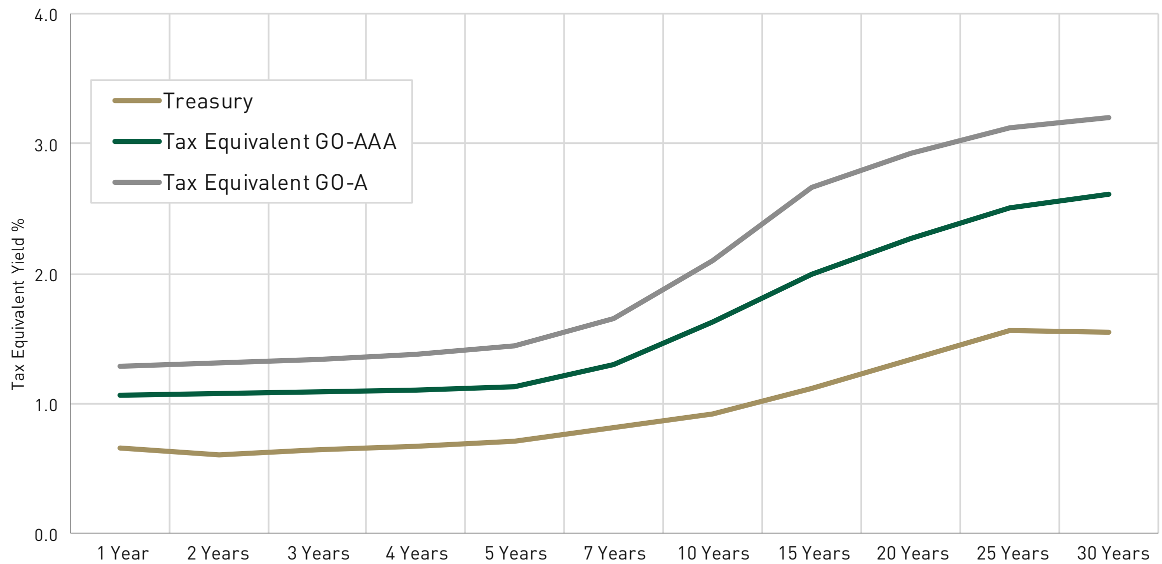
Not all credit sectors react in the same way. While corporate credit spreads have widened sharply this year, securitized product sectors such as asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) have held up relatively well. A multi-sector bond strategy allows a portfolio manager the flexibility to rotate from sectors that have held up well and add to sectors that have seen weakness, finding the best relative value (See Table 1 on first page).

6. Consider Tax-Free Income

For high-quality fixed income, municipal bonds offer U.S. investors a domestic asset class that is less exposed to some of the factors impacting the global economy, has historically had negative correlation with U.S. equity markets, and provided much higher after-tax income than U.S. Treasuries.

Chart 6. Munis Offer Higher Tax-Equivalent Yields Relative to U.S. Treasuries Across the Yield Curve

Relative value, U.S. Treasuries vs. select municipal bonds (as of December, 31, 2019)



Term	AAA %	AAA TEY %	TSY %	Yield Ratio
5 Years	0.67	1.13	0.71	158%
10 Years	0.96	1.63	0.92	177%
20 Years	1.35	2.27	1.34	170%
30 Years	1.55	2.61	1.55	169%

Term	A %	A TEY %	TSY %	Yield Ratio
5 Years	0.85	1.44	0.71	202%
10 Years	1.25	2.10	0.92	228%
20 Years	1.74	2.67	1.34	218%
30 Years	1.90	3.20	1.55	207%

Source: Bloomberg. As of March 5, 2020. Based on Bloomberg Barclays Municipal Bond Indexes. GO= general obligation bonds. 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. TSY = U.S. Treasury. Tax-equivalent yield (TEY) calculation for the municipal indexes above assumes the top marginal tax bracket of 40.8% on investment income, which includes the 37.0% income tax rate and the 3.8% in Medicare tax. This tax rate does not factor in the effect of AMT (alternative minimum tax) or taxes in your individual state. Tax-equivalent yield will vary based on an investor's tax bracket. Income from municipal bonds may be subject to the alternative minimum tax. Federal, state and local taxes may apply.

Summary

Over the past few weeks, the daily moves in the markets have been extreme. This level of volatility may cause some to exit the market, or add to those safe assets that have rallied the most. Investors may be well served to stay disciplined and use these periods of volatility to rebalance their portfolios. Selling winners and adding to assets at more depressed valuations may lead to portfolios that are positioned for a better outcome once this latest storm passes.

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. 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. All investments involve risks, including the loss of principal invested. The value of an investment in **fixed-income securities** will change as interest rates fluctuate and in response to market movements. As interest rates fall, the prices of debt securities tend to rise. As rates rise, prices tend to fall. Investing in the bond market is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The **municipal bond** market may be impacted by unfavorable legislative or political developments and adverse changes 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.

This ***Market View*** 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.

Glossary of Terms

A **basis point (bp)** is one hundredth of one percent.

Downside capture ratios are calculated by taking a fund's monthly return during the periods of negative benchmark performance and dividing it by the benchmark return.

Duration is an approximate measure of a bond's price sensitivity to changes in interest rates.

A **general obligation) bond (GO)** is a municipal bond backed by the credit and taxing power of the issuing jurisdiction rather than the revenue from a given project.

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). The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return (typically that of U.S. Treasury securities), which is adjusted to take into account an embedded option. The spread is added to the fixed-income security price to make the risk-free bond price the same as the bond.

The **standard deviation** is a statistic that measures the dispersion of a dataset relative to its mean and is calculated as the square root of the variance. If the data points are further from the mean, there is a higher deviation within the data set; thus, the more spread out the data, the higher the standard deviation.

U.S. Treasuries are government debt instruments issued by the United States Department of the Treasury to finance government spending as an alternative to taxation.

Yield refers to the earnings generated and realized on an investment over a particular period of time. It's expressed as a percentage based on the invested amount, current market value, or face value of the security. It includes the interest earned or dividends received from holding a particular security.

The **Bloomberg Barclays 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.

The **Bloomberg Barclays Global Aggregate Bond Index** is a broad-based measure of the global investment-grade, fixed-income markets.

The **Bloomberg Barclays U.S. Corporate High Yield Index** covers the universe of fixed rate, non-investment grade debt.

The **Bloomberg Barclays Emerging Market USD Bond Index** tracks total returns for external currency-denominated debt instruments of the emerging markets.

The **Bloomberg Barclays U.S. Commercial Mortgage-Backed Securities Index** measures the market of conduit and fusion CMBS deals with a minimum current deal size of $300mn.

The **Bloomberg Barclays U.S. Mortgage-Backed Securities Fixed Rate Index** is the **U.S. MBS** component of the U.S. Aggregate index.

The **Bloomberg Barclays U.S. Asset-Backed Securities Index** is the **U.S. ABS** component of the U.S. Aggregate index.

The **Bloomberg Barclays Municipal Bond Index** a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. Bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two ratings agencies.

Bloomberg Barclays Index Information:
Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

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.

The **ICE BofAML 1-3 Year BBB US Corporate Index** is a subset of The ICE BofAML US Corporate Index including all securities with a remaining term to final maturity less than 3 years and rated BBB1 through BBB3, inclusive.

ICE BofAML Index Information:
Source: ICE Data Indices, LLC ("ICE"), used with permission. ICE PERMITS USE OF THE ICE BofAML INDICES AND RELATED DATA ON AN "AS IS" BASIS, MAKES NO WARRANTIES REGARDING SAME, DOES NOT GUARANTEE THE SUITABILITY, QUALITY, ACCURACY, TIMELINESS, AND/OR COMPLETENESS OF THE ICE BofAML INDICES OR ANY DATA INCLUDED IN, RELATED TO, OR DERIVED THEREFROM, ASSUMES NO LIABILITY IN CONNECTION WITH THE USE OF THE FOREGOING, AND DOES NOT SPONSOR, ENDORSE, OR RECOMMEND LORD ABBETT, OR ANY OF ITS PRODUCTS OR SERVICES.

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

The credit quality of the securities in a portfolio are 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.

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

The information provided is not directed at any investor or category of investors and is provided solely as general information about Lord Abbett's products and services and to otherwise provide general investment education. None of the information provided should be regarded as a suggestion to engage in or refrain from any investment-related course of action as neither Lord Abbett nor its affiliates are undertaking to provide impartial investment advice, act as an impartial adviser, or give advice in a fiduciary capacity. If you are an individual retirement investor, contact your financial advisor or other fiduciary about whether any given investment idea, strategy, product or service may be appropriate for your circumstances.

The opinions in this Market View are as of the date of publication, are subject to change based on subsequent developments, and may not reflect the views of the firm as a whole. The material is not intended to be relied upon as a forecast, research, or investment advice, is not a recommendation or offer to buy or sell any securities or to adopt any investment strategy, and is not intended to predict or depict the performance of any investment. Readers should not assume that investments in companies, securities, sectors, and/or markets described were or will be profitable. Investing involves risk, including possible loss of principal. This document is prepared based on the information Lord Abbett deems reliable; however, Lord Abbett does not warrant the accuracy and completeness of the information. Investors should consult with a financial advisor prior to making an investment decision.

Investors should carefully consider the investment objectives, risks, charges, and expenses of the Lord Abbett funds. This and other important information is 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.