After an Extraordinary March, We Round Up Our Experts' Top Views

Here, we present selected highlights of our investment experts strategic views on key asset classes, including stocks, fixed income, and municipal bonds.

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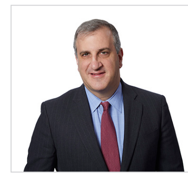

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Partner & Director

"March Madness" took on an entirely different meaning this year as the COVID-19 virus affected both lives and livelihoods around the globe, resulting in an economic shock that pushed financial markets, in some cases, to levels of volatility not seen before in financial market history.

Lord Abbett experts were quick to answer the questions of investors and financial advisors through conference calls, webinars, and timely commentaries, and they will continue to do so as the situation evolves. These included the perspective of **Giulio Martini**, Partner and Director of Strategic Asset Allocation, on U.S. fiscal policy developments; insights from a panel of experts on the U.S. Federal Reserve's (Fed) aggressive monetary support; and the views of **Jeffrey Herzog**, Ph.D., Portfolio Manager, on the eurozone's response to the economic shock brought on by the virus.

What about investment portfolios? In this *Market View*, we highlight some of the investment conversations around product strategies and asset classes during an extraordinary month.

EQUITIES

U.S. Equities

Overall, our equity experts are monitoring economic factors, with much of the discussion centered around the duration of the economic slowdown and its impact on corporate profits. Furthermore, they are considering the pace of the recovery after the period of social distancing has ended (or moderated).

Lord Abbett's dividend investment team assessed the extraordinary volatility in the equity market in March. As is typically seen in episodes like this, the team observed, there has been a quite significant and systematic variation in impact across different stocks. While value stocks weakened, other factors have had notably positive returns that, conversely, have offset some of the overall negative return of the broader market. The team singled out the stocks of large profitable firms, which saw a "flight to quality" typical of sharp selloffs. Over the period as a whole, these stocks have provided the relatively limited downside that the team expected. As for cyclical dividend stocks the team expects them to potentially perform well once there is greater visibility surrounding economic growth and cyclical stabilization.

"Not surprisingly," according to **Jeffrey Rabinowitz**, Portfolio Manager, Durable Growth Equity, "the greatest weakness in the drawdown has been in industries/companies with the highest impact from social distancing or those with high leverage"—travel-related companies being a primary example. "On the other hand, companies that help facilitate remote communications have performed better, as have staples retailers and the dollar stores that provide essential food and other goods." Rabinowitz believes "durable franchises will persevere through challenging environments like we are seeing today."

TAXABLE FIXED INCOME

Tom O'Halloran, Portfolio Manager, and Matthew DeCicco, Portfolio Manager, Innovation Growth Equity, noted that "innovation stocks have demonstrated some defensive qualities during this downturn, particularly relative to cyclical sectors and traditional defensive sectors. We think that innovation companies will lead the way out as the economy recovers."

DeCicco noted that recent technical market signals—the percent of stocks oversold, the elevated number of 90% down days1 and the elevated put/call ratio—"all indicate we are on the verge of pricing in Armageddon." Based on analysis from his team's technical specialists, "we believe we are probing an approximate bottom, and a rally from these levels once it is sparked could be sizable."

Taxable Fixed Income

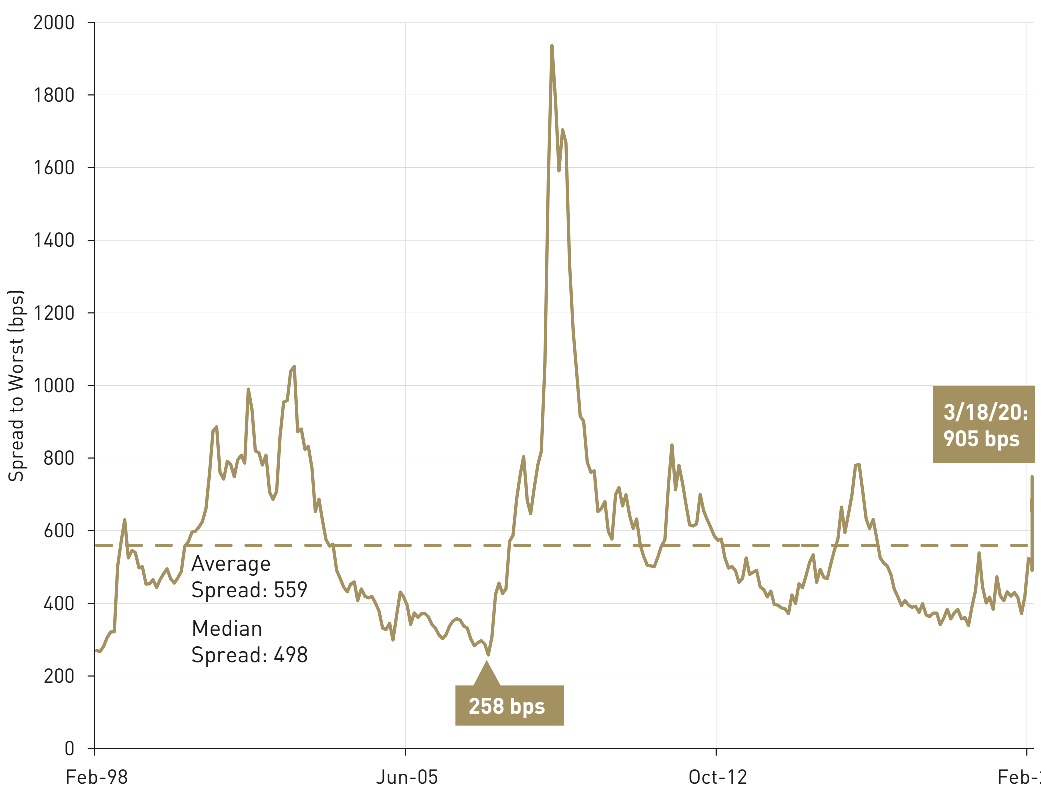
While once unthinkable, daily swings of 5-10% in the equity markets, either positive or negative, have been happening almost every day since the COVID-19 crisis began, and equally historic moves have been occurring in the credit markets.

In the U.S. high yield bond market, for example, of the 10 largest one-day spread widening moves that have occurred since the inception of the benchmark high yield index—the ICE BofA U.S. High Yield Constrained Index—three happened in a seven-day period ended March 16, 2020. As a result, the average index spread widened from a low of 338 basis points (bps) as of mid-January to over 900 bps (as of March 18)—a change of over 550 bps in just a few weeks. As of today (March 27), spreads remain well above long-term averages.

But as Director of Product Strategy Steve Hillebrecht has pointed out, those periods when spreads have remained above 800 bps have been relatively short-lived (see Chart1)

Chart 1. Historically, U.S. High Yield Spreads Have Rarely Remained Above 800 Basis Points

U.S. high yield spreads, February 28, 1997-March 18, 2020



Source: ICE Data Indices, LLC. Data as of March 16, 2020. Yield spreads represented by the ICE BofA U.S. High Yield Constrained Index. **Past performance is not a reliable indicator or guarantee of future results**. It is important to note that the high-yield market may not perform in a similar manner under similar conditions in the future. The historical data shown in the chart above are for illustrative purposes only and do 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. Bps represents a basis point. One basis point equals 0.01%.

Moreover, according to Hillebrecht, adding to high yield at elevated spread levels historically has led to strong returns for investors who can look out over longer holding periods. In short, if history is any guide, current valuations would suggest that taking a closer look at U.S. high yield could be worthwhile.

For investors in short duration and ultra-short bonds, Hillebrecht joined Portfolio Manager for Fixed Income **Andrew O'Brien**, and Investment Strategist Joseph Graham in a webinar to discuss events in those markets. Topics discussed included liquidity challenges visible in the commercial paper market, which the Fed has recently addressed with its reintroduction of the financial-crisis era (2008-09) Commercial Paper Funding Facility.

The participants agreed that the Fed "has gotten good at" servicing the kinds of problems that emerged in 2008 when the focus was on the financial sector. A lot of what the Fed has done thus far—two emergency rate cuts, opening up of the discount windows, and then opening up the dollar funding markets for overseas banks, they said, is right out of the playbook of 2008.

They noted that, historically, when there have been periods of volatility, different asset classes returned to normality at different paces—meaning some parts of the market may remain dislocated for longer. But they see that as a chance for multi-sector strategies to rotate in and out of particular opportunities. That is particularly compelling, they concluded, for managers who can look out across the high grade, high yield, commercial mortgage-backed securities (CMBS), asset-backed securities (ABS), and bank loan sectors.

Partner and Portfolio Manager for Fixed Income **Kewjin Yuoh** joined Graham and Hillebrecht in another webinar covering developments in the short duration credit space, with a special focus on the performance of—and potential opportunities in—liquid and securitized products such as CMBS and ABS.

Yuoh spoke of what the Fed did on March 23, when it opened a $300 billion exchange stabilization fund (ESF). In doing so, the Fed created a platform to purchase corporate securities in the primary and secondary markets. In terms of signaling, this was a first step in helping potentially turn the tide of investor sentiment," Yuoh said. [Since March 23, the Fed has taken significantly greater steps to boost liquidity in financial markets.] The Fed' also instituted the Term Asset Lending Facility, which is specifically focused on asset-backed securities. Higher quality securitized products, including ABS, are a very strong source of liquidity relative to other asset classes.

"In assessing the Fed's recent actions," Yuoh said, "it is clear to us that there is a lot of focus on the consumer. That is what's driving the CMBS and ABS markets right now, in our view... We expect office and industrial commercial properties to be relatively stable," Yuoh continued. "Multifamily housing, specifically apartment buildings, should benefit from the Fed's actions to purchase agency CMBS."

For the securitized products within Lord Abbett's short duration vehicles, Yuoh said the focus is on high-quality assets, where the investment team sees a spread premium for the complexity of the assets.

Municipal Bonds

On March 19, Lord Abbett held a phone call for professional investors on developments in the municipal bond space during which Partner and Portfolio Manager for Municipal Bonds, **Dan Solender**, tackled a few of the most frequently asked questions from our clients.

Among the issues discussed was the outlook for municipal bond credit. "Clearly," Solender said, "COVID-19 is having a significant impact on the U.S. economy with businesses shutting down and many people losing jobs. Convention centers and stadiums likely aren't going to be used for a while. Airlines are cutting back on flights. We can't deny the fact that sales revenues are going to be down. The real severity of this will depend on how long the economy will basically be shut down.

"What we do expect to see on the credit side," he continued, "is an increase in credit rating downgrades or negative outlooks. Not defaults, but rather downgrades. The airlines provide a perfect example of that possibility. And that's something we're preparing for. As of March 16, 2020, airlines comprise under 1% of our high yield portfolio. We were light on that sector going into this downturn because their bonds were trading so rich but the negative outlook for that sector has impacted our holdings."

Solender believes, however, that there are a lot of sectors that will hold up well during the crisis. New York City, for example, is a high grade credit because they have reserve funds, financial controls and diverse sources of revenues, including income and real estate taxes.

"The key point," Solender said, "is that we expect downgrades, not defaults and the market has already traded down in price considerably due to the costs of liquidity. When considering the impact of future downgrades on price valuations, in our opinion it is extremely likely that the negative market performance we have already had due to the liquidity costs of trading has already been greater than the potential impact would be from downgrades in the future."

"Right now," he concluded, "the market is functioning, and we see that there are opportunities there. Municipal bonds are available at yields that look attractive to us and that we feel typically provide good relative value compared to other investment alternatives such as U.S. Treasuries."

Convertible Securities

In a recent *Market View*, **Tarik Ancrum**, Product Consultant, discussed the historical resiliency of convertible securities during market sell-offs.

"Historically," Ancrum wrote, "convertible bonds have offered the opportunity to maintain exposure to the long-term potential of equities while better withstanding sharp sell-offs and offering the potential for higher yields than equities alone...And today (as of March 16), with a current yield that is more than double their underlying securities, U.S. convertible bonds provide an attractive source of potential income."

Ancrum summed up the investment team's view: "The unique risk-return profile and potential diversification benefits of convertible securities may be attractive to some investors in the midst of a highly volatile and uncertain market environment."

[1]That is, trading days in which 90% or more of volume on a stock exchange is in declining stocks.

Table 1. Historically, Convertible Bonds Have Outperformed in Market Declines

Max S&P 500 Drawdown Period	S&P 500 Index Return	U.S. Convertible Index Return	Convertibles[1] Downside Capture	
10/09/2007 - 3/09/2009	-55.2%	-42.8%	78%	
3/24/2000 - 10/09/2002	-47.4%	-38.5%	81%	
7/16/1990 - 10/11/1990	-19.2%	-16.8%	88%	
9/20/2018 - 12/24/2018	-19.4%	-12.2%	63%	
4/29/2011 - 10/03/2011	-18.6%	-16.8%	90%	
7/17/1998 - 8/31/1998	-19.2%	-15.0%	78%	Average Downside Capture for Converts 65%
04/23/2010 - 7/02/2010	-15.6%	-9.7%	62%	
11/27/2002 - 3/11/2003	-14.2%	0.2%	-2%	
11/03/2015 - 2/11/2016	-12.7%	-13.9%	110%	
5/21/2015 - 8/25/2015	-11.9%	-9.0%	76%	
7/16/1999 - 10/15/1999	-11.8%	-5.3%	45%	
10/07/1997 - 10/27/1997	-10.8%	-4.7%	44%	
1/02/1990 - 1/30/1990	-10.0%	-4.6%	46%	
1/26/2018 - 2/08/2018	-10.1%	-6.2%	61%	

Source: Bloomberg. Max intra-year declines, starting January 1, 1990. Start dates inclusive. U.S. Convertible Index = ICE BofA Merrill Lynch All Convertible, All Qualities Index. 1Downside capture: The downside capture ratio measures a manager's performance in down markets relative to a particular benchmark. 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.

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. 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. 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, interest-rate, 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. Lower-rated bonds may be subject to greater risk than higher-rated bonds. No investing strategy can overcome all market volatility or guarantee future results.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. High-yield, lower-rated securities involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. Lower-rated investments may be subject to greater price volatility than higher-rated investments. A portion of the income derived from a municipal bond may be subject to the alternative minimum tax. Any capital gains realized may be subject to taxation. Federal, state, and local taxes may apply. There is a risk that a bond issued as tax-exempt may be reclassified by the IRS as taxable, creating taxable rather than tax-exempt income. Bonds may also be subject to other types of risk, such as call, credit, liquidity, interest-rate, and general market risks.

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

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

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.

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Glossary of Terms

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

Put/call ratio is an indicator used in technical analysis (see below) demonstrating investors' sentiment. The ratio represents a proportion between all the put options and all the call options purchased on any given day. The put/call ratio can be calculated for any individual stock, as well as for any index, or can be aggregated.

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).

Spread-to-worst measures the dispersion of returns between the best and worst performing security in a given market, usually bond markets, or between returns from different markets.

Technical analysis is a trading discipline employed to evaluate investments and identify trading opportunities by analyzing statistical trends gathered from trading activity, such as price movement and volume.

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 **ICE BofAML 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 BofAML U.S. High Yield Constrained Index** is a rules-based index consisting of U.S. dollar-denominated, high yield corporate bonds for sale in the U.S. The index is designed to provide a broad representation of the U.S. dollar-denominated high yield corporate bond market. The index is a modified market value-weighted index with a cap on each issuer of 2%.

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