FIXED INCOME ASSET ALLOCATION INSIGHTS APR: 2016

Portfolio Allocations

Robert Vanden Assem, CFA,
Head of Investment Grade Fixed Income and Chairman of Fixed Income Asset Allocation Team

Seeking a higher quality profile, we reduced our target allocations in investment grade credit and high yield by 5%, respectively, in favor of securitized products. Credit spreads continued to narrow due to a more dovish central bank narrative, a weaker US dollar, and a sharp recovery in oil and other commodities. But while record-setting inflows at high yield mutual funds and exchange-traded funds have created supportive technicals, divergent central bank policies likely will lead to volatility in coming months. Continued employment growth and higher inflation could prompt renewed hawkishness by the Federal Reserve — making a June rate hike a real possibility — which would likely strengthen the dollar and cool the economy. Other risks include the prospect of a significant yuan devaluation, slowing growth in emerging markets (EM), and a UK exit from the European Union as a result of the 23 June referendum. Overall, we are looking for opportunities to sell into strength in credit asset classes and move to more defensive positioning among mortgage-backed securities (MBS).

Macro View

Markus Schomer, CFA, Chief Economist

Central case

Based on continued developed market recovery and emerging-market stabilization, we see 2%-4% global GDP growth and a stronger US dollar. A commodity price rebound and base effects will push inflation higher, albeit below central bank targets. The Fed continues its moderate rate cycle, while the European Central Bank (ECB) and the Bank of Japan (BOJ) continue to ease.

Market movers

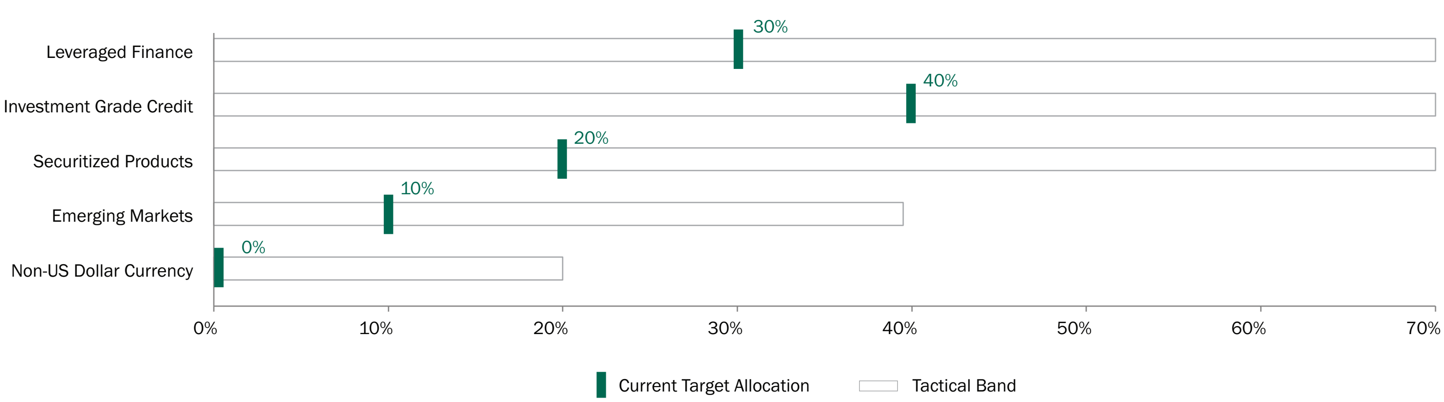
Political uncertainty. Contributing to the unsettled landscape were right-wing anti-migrant candidates who won votes in German state elections, the biggest-ever protests calling for the ouster of Brazil's President Dilma Rousseff, the "Brexit" referendum in June, Japan's Upper House elections in July, and US national elections in November.

Rising oil prices. Oil prices are up more than 30% since a trough in mid-February, helping to boost EM currencies and risk assets generally. Technicals and a weaker dollar after the March Federal Open Market Committee meeting suggest that oil prices can go higher, into the mid-40s.

ABOUT THIS REPORT

Fixed Income Asset Allocation Insights is a monthly publication which encapsulates the cross-sector fixed income views of PineBridge Investments. Our global team of investment professionals convene in a live forum to evaluate, debate and establish top-down guidance for the fixed income universe. Using our independent analysis and research, organized by our Fundamentals, Valuations and Technicals framework, we assess the pulse of each segment of the global fixed income market.

***Target Portfolio Allocations*[1]** (as of 21 March 2016)



[1]There can be no assurance that the target or range will be achieved. For illustrative purposes only.
This material must be read in conjunction with the disclosure statement.

"Old" and "new" economy still slow in China. Retail sales and industrial production both slowed more than expected in February, confirming weakness in the Purchasing Managers Index (PMI). We are still waiting for a positive reaction to the stimulus measures pursued so far. A strong positive fundamental sign from China could be catalyst for a risk-on rally.

Leveraged Finance

John Yovanovic, CFA, Portfolio Manager, High Yield Bonds
Julie Bothamley, Portfolio Manager, Leveraged Loans

Fundamentals
Fundamentals are slightly below average but stable. We expect first quarter 2016 earnings to be in line with analyst estimates with an improving trend throughout the year.

Valuations
The option-adjusted spread (OAS) of 646 implies a 6% default rate, which is in line with our estimate; an OAS target of around 575 is in line with current levels, which leads us to believe the market is approaching fair value.

Technicals
We saw positive technicals all month, although volatility is still elevated due to low dealer inventories. Inflows remain positive and technicals are particularly positive in energy and metals. The new-issue market is open for better quality issuers and sectors.

Allocation Decision
We reduced our target allocation to 30% from 35%. Current spreads imply a default rate of approximately 6%, which in our estimation seems plausible considering the relatively high concentration in energy and metals and mining, as well as the impact of certain larger capital structures.

Investment Grade Credit

US Dollar Investment Grade Credit

Dana Burns, Portfolio Manager
US Dollar Investment Grade Fixed Income

Fundamentals
Ratings downgrades are on the rise and concern over weak first-quarter earnings is mounting. The ECB's recent actions have provided a backstop for European banks, which has been positive for credit. Furthermore, a more dovish tone from the Fed signals lower finance costs for US corporations.

Valuations
On a relative-value basis, select sectors and credit spreads remain attractive. However, strong retracement of spread widening leads to a cautious approach. The primary market remains a good source for attractively priced bonds.

Technicals
We anticipate primary issuance to slow down from its robust pace as we enter the earnings blackout period, which should be a near-term positive for spreads.

Non-US Dollar Investment Grade Credit

Roberto Coronado, Portfolio Manager, Non-Dollar Credit

Fundamentals
We saw no major changes in corporate fundamentals; European companies have continued to report weak earnings but strong balance sheets. European financials continue to strengthen their capital base.

Valuations
Credit spreads in Europe rallied on the ECB announcement, bringing the Barclays Euro Corporate Index (OAS) to start-of-the-year levels, with corporates outperforming financials. We see value in banks and expect them to catch up to corporates.

Technicals
Technicals are strong, given the inclusion of European investment-grade bonds in the ECB's purchase list. Small outflows and a pickup in primary supply partially offset support from the ECB.

Allocation Decision
We reduced our allocation to 40% from 45%. We advocate maintaining an overweight to investment-grade credit given stable fundamentals and higher quality. Many sectors have retraced the widening experienced since the start of the year with the exception of financials, which we think offer value.

Emerging Markets

Sovereigns

Anders Faergemann, Portfolio Manager
Emerging Markets Fixed Income

Fundamentals
The growth outlook for emerging markets remains weak as China's economy has yet to show signs of a recovery and Brazil and Russia remain mired in recession. The healthy outlook for Central Eastern Europe, Middle East, and Africa appears to be an anomaly, as signs of an increase in Latin American export growth have yet to be confirmed.

Valuations
EM sovereign spreads are back to levels seen at the beginning of the year, erasing the nightmare scenario of January/February. However, spreads continue to widen; if they stay above 400 basis points (bps) that would warrant some caution for the second quarter. EM foreign exchange has finally pushed through resistance and offers short-term value. Yet currencies have come very far within a short space of time.

Technicals
In spite of the recent rally, cash levels remain elevated, suggesting that most investors are unconvinced about the rally's longevity. Supply has picked up but is still running low, providing technical support for the eurobond market.

Corporates

Steven Cook, Portfolio Manager, Emerging Markets Fixed Income

Fundamentals

Fourth-quarter results will be key for how the asset class navigated last year's global turmoil. Banks are particularly vulnerable in a lower growth environment, and we expect weakening risk profiles. Defaults are likely to trend higher this year – forecasts have settled at 3.5%, or slightly above the 2.5%-3% long-term run rate – but that is more in terms of issuer numbers (especially smaller entities) than in the percentage of high-yield debt outstanding.

Valuations

The extreme tightening in high-yield spreads in the last month – particularly in Brazil (-199 bps) and the metals and mining sector (-246 bps) – have resulted in major outperformance versus investment grade. The primary drivers have been a broad reduction in risk aversion and a realization that the Armageddon scenario previously priced in was less likely to occur. The reduction in liquidity warrants an additional premium over historical levels for EM corporates; investment grade valuations are compelling.

Technicals

Technicals remain supportive largely due to low issuance driven by lower growth, lower capital expenditures, and lower working capital needs. The recent strong return performance will alleviate some of the pressure on institutional allocations to EM debt.

Allocation Decision

We maintain our 10% allocation. Central bank action lifted market sentiment in February and March. However, the market rally has not been justified by an improvement in fundamentals. Without signs of stronger economic growth we are reluctant to increase our overall allocation despite continuing to find value in certain countries and regions.

Securitized Products

Andrew Budres, Portfolio Manager, Securitized Products

Fundamentals

Mortgage rates remain "sticky," with less movement than the 10-year Treasury.

Valuations

With some spikes in between, spreads appear to be stable, quickly adjusting back to the middle of the range.

Technicals

Negative interest rates are on people's minds, but at the same time investors are not fearing a huge amount of supply as drops in interest rates to start a refinance wave do not last long enough to have an effect.

Allocation Decision

We have increased our MBS allocation to 20% from 10%, based on the sharp rally in other spread segments of fixed income. MBS spreads should stay range-bound as interest rates and volatility likely remain at the lower range of forecasts. We expect this asset class to weather periods of heightened volatility in risk assets relatively well.

Non-US Dollar Currency

Anthony King, Portfolio Manager,
Non-US Dollar High Grade Fixed Income

Fundamentals

The reduced risk of recession in the US, higher inflation numbers, and stronger financial conditions all point to a better domestic story, which could allow for one or two Fed rate hikes in 2016.

Valuations

The US dollar index (DXY) has moved nearly 4% lower year-to-date. Given the still-favorable interest rate and growth differentials, US dollar valuation has improved.

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On Average, The Recession Scenario Probability Decreased During the Month

Fixed Income Scenario Probabilities – Next 12 Months (as of 21 March 2016)

Increase | Decrease | Unchanged

Scenario	US GDP Growth	Inflation	USD Basket	Avg. Scenario Probability	Scenario Probabilities: USD Inv. Grade	Securitized Products	Leveraged Finance	EMD	Non-USD IG
Recession; Deflation	< 1 %	< 1%	Breaks 5% band on the downside	**29%**	35%	25%	25%	40%	20%
Central Case	1-3%	1-3%	Maintains -5-0% band	**63%**	60%	65%	70%	50%	70%
High Growth; Inflation	> 3%	> 3%	Breaks 5-10% band on the upside	**8%**	5%	10%	5%	10%	10%

Source: PineBridge Investments. For illustrative purposes only. Any opinions, projections, forecasts and forward-looking statements are based on certain assumptions (which may differ materially from actual events and conditions) and are valid only as of the date presented and are subject to change.

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Technicals

International Monetary Market data suggest that euro shorts/ US dollar longs were near 21-month lows ahead of the ECB announcement. Technical conditions have not been as supportive for the dollar as they were in second-half 2014 or first-half 2015.

Allocation Decision

We maintain our 0% allocation. We continue to favor the US dollar over other major currencies given the recent move lower in the DXY, expanded stimulus measures from the ECB and BOJ, and the prospect of improved employment and inflation data dictating a hawkish Fed tone in the second half of 2016.