FIXED INCOME ASSET ALLOCATION INSIGHTS FEB: 2018

RELATIVE VALUE REMAINS DESPITE RECENT VOLATILITY

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Credit spreads performed well through most of January, with solid equity market gains and higher oil prices. Increased global growth expectations and GOP tax reform boosted corporate fundamentals. However, that optimism waned toward the end of the month, as US Treasury yields surged 30+ basis points (based on 10-year rates) to reach the highest levels since 2014. Negative investor sentiment translated into outflows from mutual funds and ETFs. Despite recent volatility and stretched valuations, our target allocations remain unchanged. We remain constructive on credit-related asset classes, as we believe improving consumer and corporate confidence should buttress expectations for economic growth and earnings. We still find reasonable relative value among investment grade credit, high yield, and emerging markets debt as low defaults continue.

ABOUT THIS REPORT

Fixed Income Asset Allocation Insights is a monthly publication that brings together the cross-sector fixed income views of PineBridge Investments. Our global team of investment professionals convenes 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 take the pulse of each segment of the global fixed income market.

US Macro View

Markus Schomer, CFA, Chief Economist

Central case

We expect moderate 1% to 3% gross domestic product (GDP) growth and inflation, with headline and core inflation trending around Fed targets. Robust consumption and housing, modestly positive fiscal spending, and a moderate business investment rebound are likely, as are a labor market at or below full employment and gradually increasing wage growth. We expect two to three rate hikes in each of next few years, alongside a gradual balance sheet tapering.

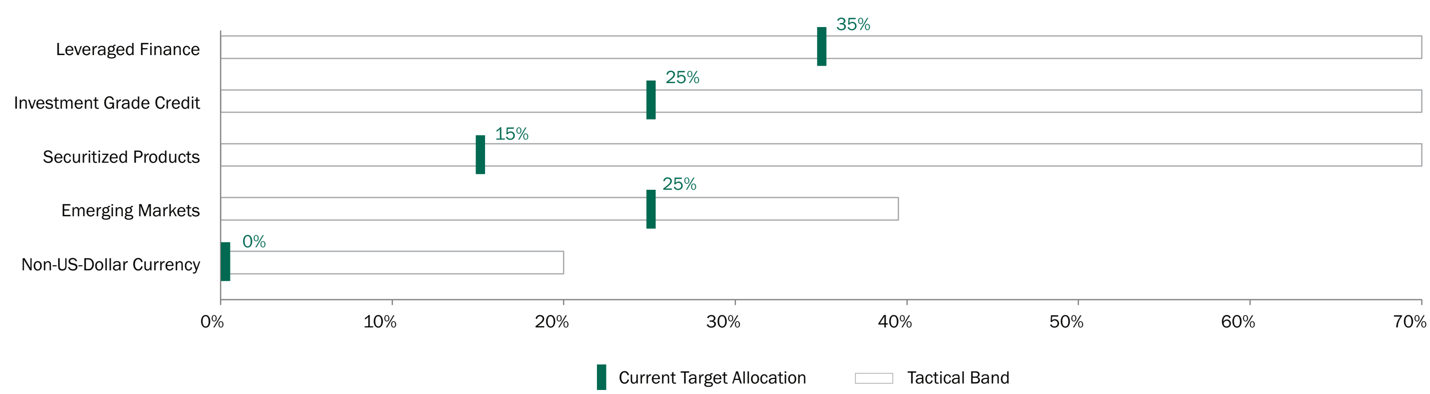
Market movers

Consumers face higher energy costs. Oil prices rose above $65 (WTI) – almost 25% higher than a year ago. Will rising oil prices lead to slowdown in US consumer spending? Faster inflation could accelerate rate hikes and reduce purchasing power.

Wage growth remains slow. Despite US tax cuts, the Atlanta Fed Wage Growth Tracker fell to the slowest pace in three years in December – not a great sign for the US consumer. Bonus payments are nice, but will wage growth pick up?

The fate of NAFTA is uncertain. Trade negotiations are entering round six. The Trump administration now seems more focused on revising NAFTA than on scrapping it. But a

Target Portfolio Allocations (as of 29 January 2018)



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withdrawal would be consistent with the "America First" tone the administration struck with the Asian tariff increase announced in January.

Leveraged Finance

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

Fundamentals
The fundamental trend remains marginally positive overall, though forward estimates show more dispersion among sectors. Macro conditions remain favorable. Technicals are creating space for quality deterioration, which is something to watch.

Valuations
We expect high yield (HY) option-adjusted spreads to continue to trade through fair value. There is potential for additional repricing of outstanding loans in first-half 2018 and little room for price appreciation. Collateralized-loan obligations (CLOs) rated BBB/BB are rich to HY and loans on a z-score basis (standard deviations from the mean). Spreads softened and now look attractive on a relative value basis for HY and loans.

Technicals
HY technicals are neutral with lower primary issuance and neutral-to-negative fund flows. Leveraged loans are generally positive, as normal issuance sees continued strong institutional and CLO demand. CLOs have been positive across the board, especially investment grade (IG).

Allocation Decision
We are maintaining our 35% allocation. Valuations are trading toward the rich end of what we would consider fair value, but they are likely to remain stable to tighter as corporate fundamentals continue to improve along with risk sentiment.

Investment Grade Credit

US Dollar Investment Grade Credit

Dana Burns, Portfolio Manager
US Dollar Investment Grade Fixed Income

Fundamentals
Corporate fundamentals will benefit from reduced corporate tax rates, cash repatriation, and reduced regulation (financials). Corporate leverage has declined, and a stable economic backdrop should favor earnings over the first half of 2018. Furthermore, the relatively low interest rate environment should continue to provide support.

Valuations
Select credits remain attractive on a relative value basis. An anticipated uptick in mergers and acquisitions (M&A) in 2018 should present attractive investment opportunities.

Technicals
Reduced issuance in 2018 and continued demand for US dollar credit from traditional buyers (pensions and insurance) should continue to support spreads.

Non-US-Dollar Investment Grade Credit

Roberto Coronado, Portfolio Manager, Non-Dollar Credit

Fundamentals
We don't expect any major changes in credit metrics in Europe, because leverage has not increased, while M&A activity and shareholder friendly policies remain under control. Banks continue to have a strong capital base and have been reporting, on average, stable results.

Valuations
Credit spreads at index level continue to go tighter and provide even less upside as the index reaches historical levels.
We continue to prefer the banking sector due to improving fundamentals, potential for deregulation, and attractive yields in subordinated paper.

Technicals
Central bank purchases continue to support the market in euros, and political risk has diminished. Investors have healthy cash levels, and primary supply in 2018 has surprised to the downside.

Allocation Decision
We are maintaining our 25% allocation. Fundamentals have improved and, despite fuller valuations, the technical backdrop remains firm.

Emerging Markets

Sovereigns

Anders Faergemann, Portfolio Manager
Emerging Markets Fixed Income

Fundamentals
Emerging market (EM) fundamentals remain strong. Chinese growth will likely slow but in a controlled way, and the rest of Asia is doing well, with GDP in several countries growing by around 5%. Latin America continues to recover, and Europe, the Middle East, and Africa (excluding-South Africa) shows solid growth.

Valuations
Spreads have continued their downtrend, now at +264 versus US Treasuries (UST) and slowly approaching the historical lows of 2013 (+240 bps). Spread tightening in 2017 was 60 bps, pretty much undisturbed with the exception of a small hiccup in November.

Technicals
Technicals look positive into February and for the first quarter because benchmark countries have relatively little issuance left to do. Inflows are likely to continue, with record allocations.

Corporates

Steven Cook, Portfolio Manager, Emerging Markets Fixed Income

Fundamentals
The outlook remains positive, with growth expectations improving for EM countries and the credit cycle starting to follow as capital expenditures trend upwards, although leverage

remains in check due to EBITDA growth. We remain constructive on commodities, with Chinese supply-side reforms a key part of the move to quality growth.

Valuations
Spreads continue to tighten this year (–16 bps), again led by HY (–22 bps), offsetting the move in US Treasuries. We consider the overall EM corporate market to have limited tightening potential over the longer term, but in the near term it could continue to grind marginally tighter. Pockets of opportunity remain within both IG and HY on a security selection basis.

Technicals
While we expect gross supply of $440 million this year (versus $480 million for 2017), net financing is negative for Latin America and EM Europe and marginal (+$14 billion in Middle East and Africa) in other regions compared with Asia (+$109 billion).

Allocation Decision
We are maintaining our allocation of 25%. We expect the asset class to remain relatively attractive compared with other fixed income alternatives, amid improving fundamentals, range-bound spreads, and a continuation of inflows.

Securitized Products

Andrew Budres, Portfolio Manager, Securitized Products

Fundamentals
Fundamentals for mortgages are still solid, except for the duration extension that occurs into selloffs, which we just saw.

Valuations
Spreads are wider than post-crisis tights but not as wide as when the Fed wasn't reinvesting in 2010. However, the mortgage market is much different now.

Technicals
The second tranche of taper cap reduction is set to begin. Now $8 billion of $22 billion per month will not be reinvested. Higher rates will slow the entire amortization impact.

Allocation Decision
We are maintaining our 15% allocation. The Fed runoff will create additional supply that private investors will need to absorb. However, we expect this will come from money managers and robust bank demand.

Non-US-Dollar Currency

Dmitri Savin, Senior Vice President,
EM Fixed Income Portfolio Strategy/Risks

Fundamentals
Despite strong economic data and tax reform, the US dollar continues to weaken versus major currencies. Improving inflation and economic data elsewhere and more hawkish stances from the European Central Bank and Bank of Japan more than offset positive US developments.

Valuations
Based on purchasing power parity, the Euro is ~3% overvalued. Last year at this time, the Euro was ~12% undervalued and seven group of 10 currencies were considered undervalued relative to the dollar.

Technicals
The US Dollar Index has been threatening to take out significant technical support between the 88-89.5 levels. Trading through this level on the downside would affirm a downward trend.

Allocation Decision
We maintain our 0% non-dollar allocation. The recent dollar weakness makes the greenback attractive as investors look at growth and interest rate differentials compared with other developed economies.

Our Recession Case Scenario Probability Decreased While Our High Growth Case Scenario Probability Increased During the Month
Fixed Income Scenario Probabilities – Next 12 Months (as of 29 January 2018)

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	**11%**	10%	15%	10%	5%	15%
Central Case	1-3%	1-3%	Maintains -5% to +5% band	**68%**	80%	65%	70%	55%	70%
High Growth; Inflation	> 3%	> 3%	Breaks 5% band on the upside	**21%**	10%	20%	20%	40%	15%

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.