



LORD ABBETT®

## FIXED INCOME INSIGHTS

*PAPERS Conference*

MAY 2016

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LORD ABBETT

*A singular focus since 1929*

## Investment-Led

- Active management characterized by a deliberate process, teamwork, and collaboration
- Rigorous research that challenges consensus and identifies opportunities
- Comprehensive risk management that enhances investment decisions

## Investor-Focused

- Perspectives shaped and decisions sharpened by our independence
- Resources dedicated to the markets we serve
- Strategies intelligently designed to meet client needs



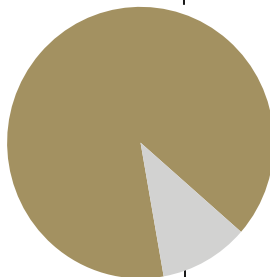
## \$126.9 BILLION IN ASSETS UNDER MANAGEMENT

Including over \$800 million from current and former partners, employees and their families

### EQUITY

#### U.S. Equity: \$28.4 billion

- Large to Micro Value
- Large Cap Core
- Large to Micro Growth
- Dividend Growth
- Equity Income



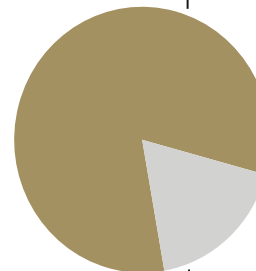
#### International: \$2.3 billion

- Core Equity
- Dividend Income
- Small Cap Core

### MULTI-ASSET CLASS

#### Equity & Fixed Income: \$5.3 billion

- Income
- Balanced Opportunity
- Growth
- Global Opportunity



### FIXED INCOME

#### Fixed Income: \$72.5 billion

- Short Credit
- Government
- Core & Core Plus
- Inflation Focused
- Corporate Credit
- Bank Loan
- Multi-Sector
- Emerging Markets Corporate Debt
- Emerging Markets Currency
- Long Duration
- High Yield
- Convertible
- Emerging Markets Local Bond

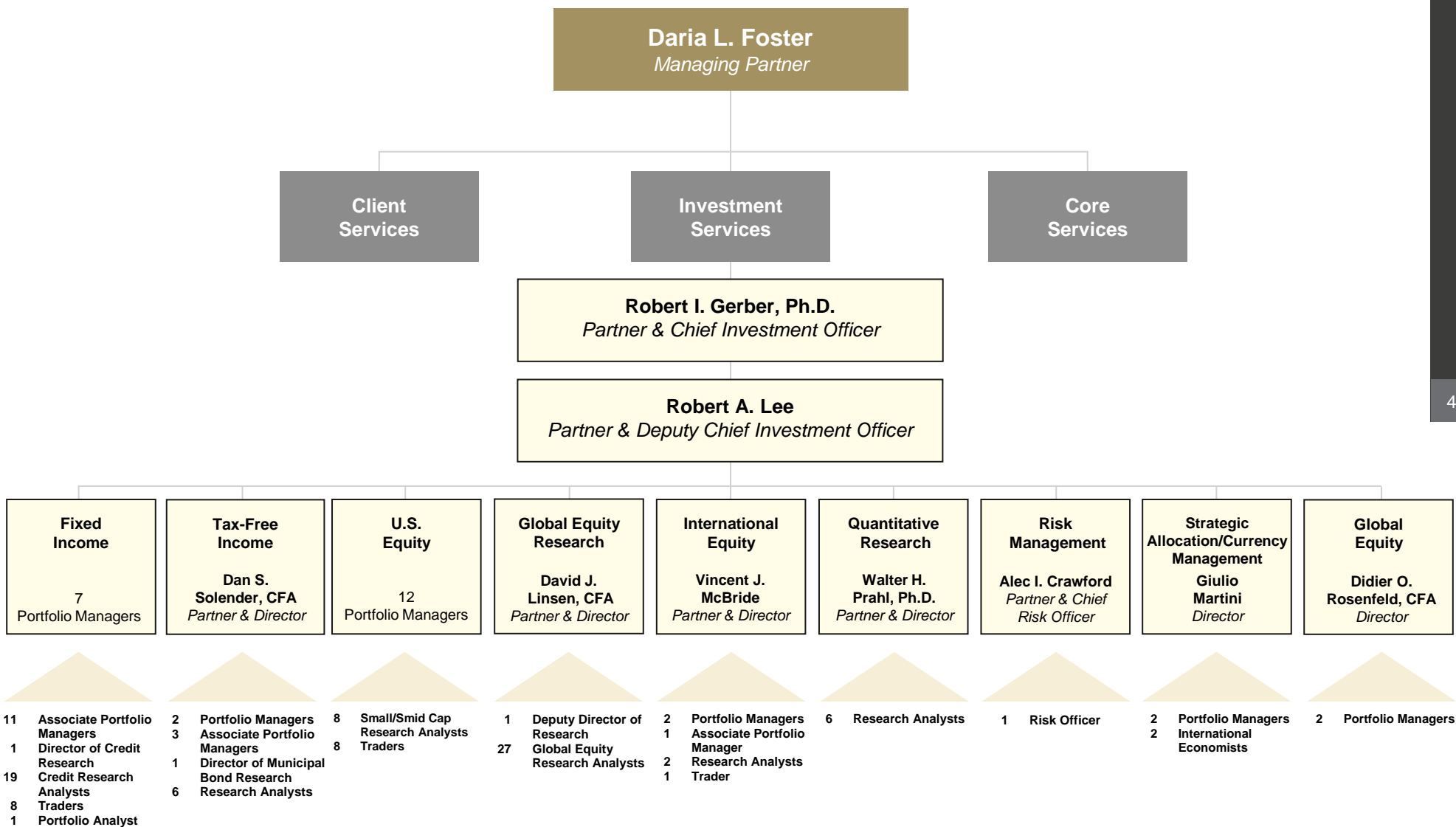
#### Tax-Free Income: \$18.4 billion

- Short, Intermediate, & Long
- Short Duration High Yield
- AMT Free
- State Specific
- High Yield

Note: Assets under management data is as of 03/31/2016 unless noted and includes approximately \$1.5 billion for which Lord Abbett provides investment models to managed account sponsors. This material is for informational purposes only. It is not intended to be an offer or solicitation with respect to the purchase or sale of any security or other financial instrument or any investment management services. These materials do not constitute investment advice and should not be used as the basis for any investment decision.



# ORGANIZATIONAL STRUCTURE & INVESTMENT TEAMS



143 Investment Professionals with an average of 17 years industry experience

As of 03/31/2016.



## MACRO VIEW

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# VALUATIONS

		March 31, 2015	December 31, 2015	March 31, 2016
<b>S&amp;P 500</b>		2067	2043	2066
<b>MSCI ACWI</b>		60.02	55.82	56.06
<b>U.S. High Yield Spreads</b> (Barclays Corporate Index OAS)		466	660	656
<b>U.S. IG Spreads</b> (Barclays Corporate Index OAS)		130	165	163
<b>VIX</b>		15.29	18.21	13.95
<b>10-Year Rate</b>	<b>U.S.</b>	1.94%	2.27%	1.77%
	<b>Germany</b>	0.18%	0.63%	0.15%
	<b>Japan</b>	0.39%	0.25%	-0.10%

Source: Bloomberg. **Past performance is no guarantee of future results.** For illustrative purposes only, and does not represent the performance of any Lord Abbett product or any particular investment.



# GLOBAL TRENDS AND THEMES 2015 VS. 2016

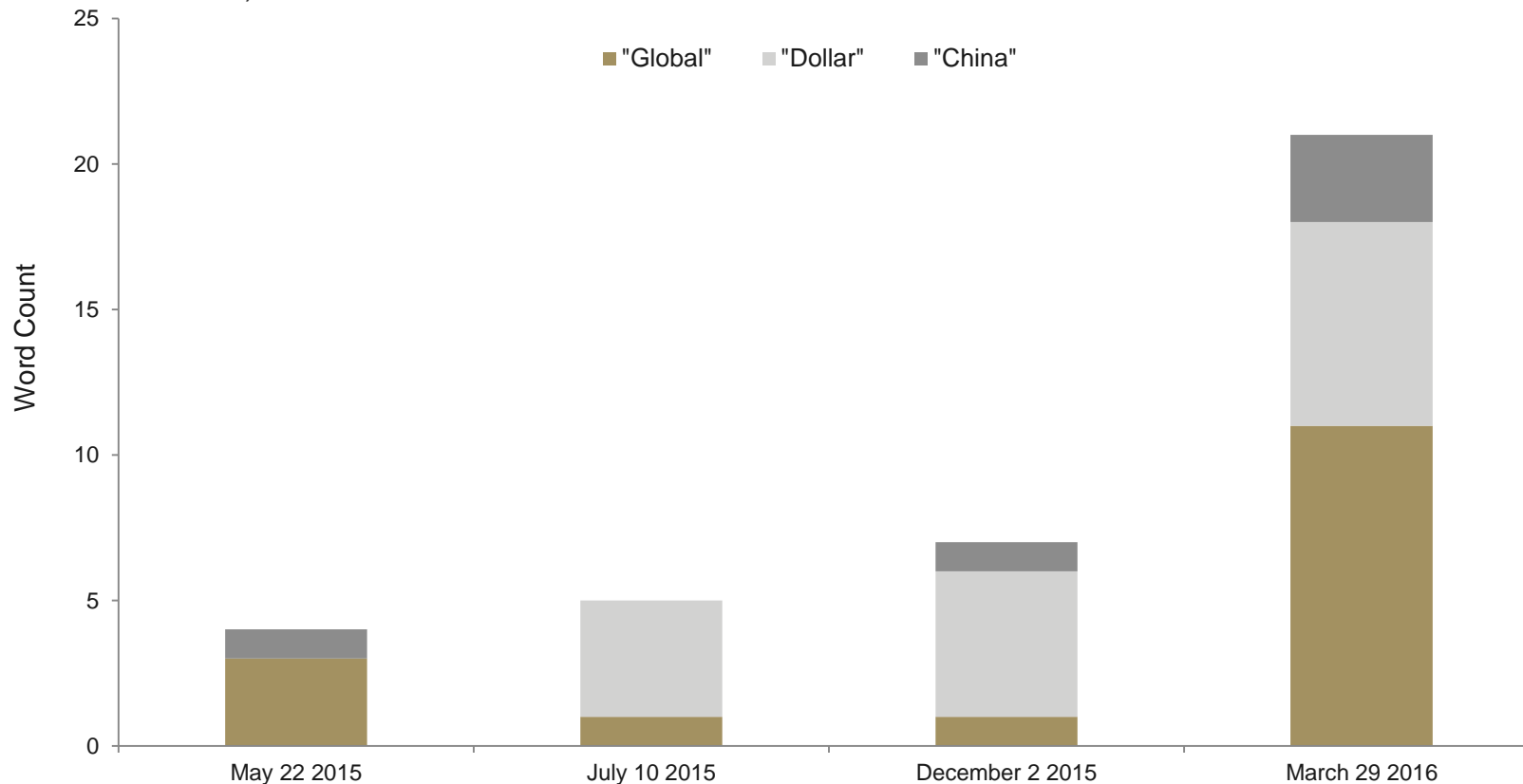
	03/31/2015	03/31/2016
<b>European Concerns</b>	Grexit	Brexit / Refugee Crisis
<b>Oil (WTI)</b>	\$57.32 Vol: 47.5	\$35.72 Vol: 42.8
<b>U.S. IG Corporate Balance Sheet Leverage</b>	2.4x	2.7x
<b>Fed</b>	Uncertainty around first hike timing and implications	Dovish Fed moving in line with market expectations
<b>Global Central Banks</b>	Policy Divergence	Easy monetary policy and possible coordination?



# FED SHIFTS FOCUS OVERSEAS

## NUMBER OF TIMES SPECIFIC WORDS WERE MENTIONED BY JANET YELLEN IN HER ECONOMIC OUTLOOK SPEECHES

(AS OF 03/29/2016)

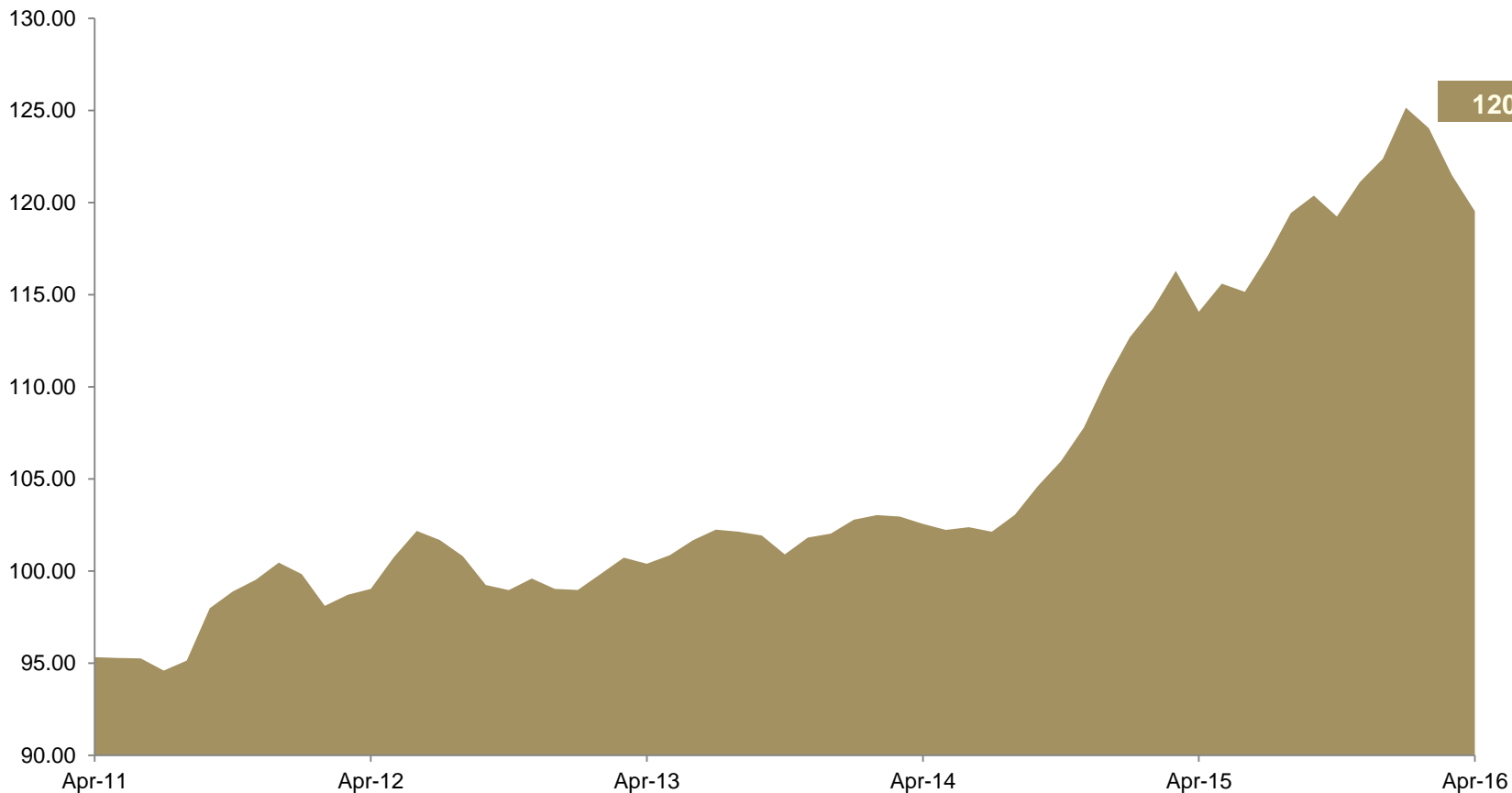






# DIVERGENT MONETARY POLICIES DRIVING DOLLAR STRENGTH

## U.S. TRADE WEIGHTED DOLLAR INDEX (AS OF 04/30/2016)



Source: Bloomberg.

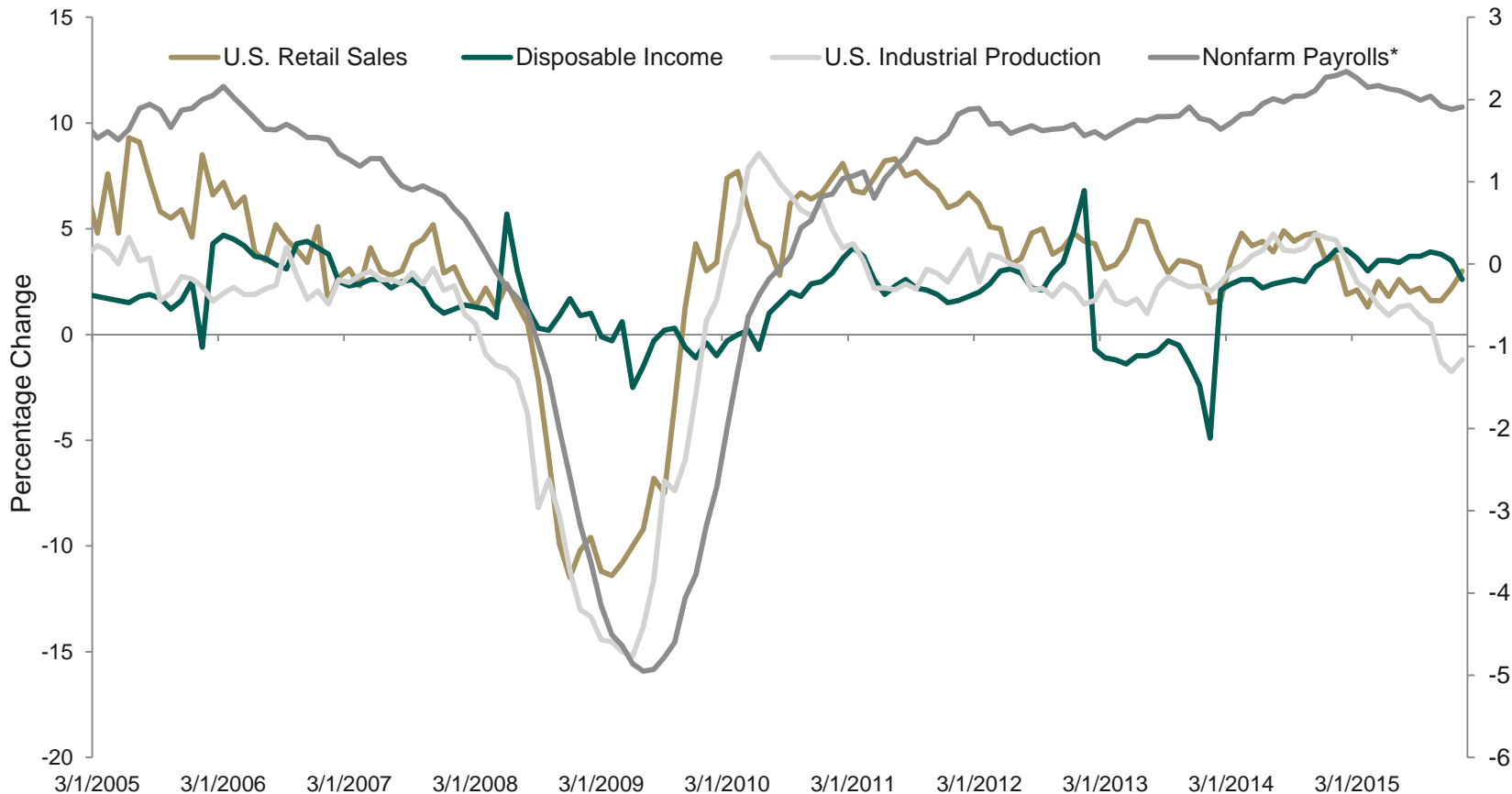
**Past performance is no guarantee of future results.** For illustrative purposes only, and does not represent the performance of any Lord Abbett product or any particular investment.



# INDUSTRIAL SLOWDOWN

## PRIMARY INDICATORS OF A U.S. RECESSION

(AS OF 2/29/2016)



\*Nonfarm Payrolls data as of 03/31/2016.

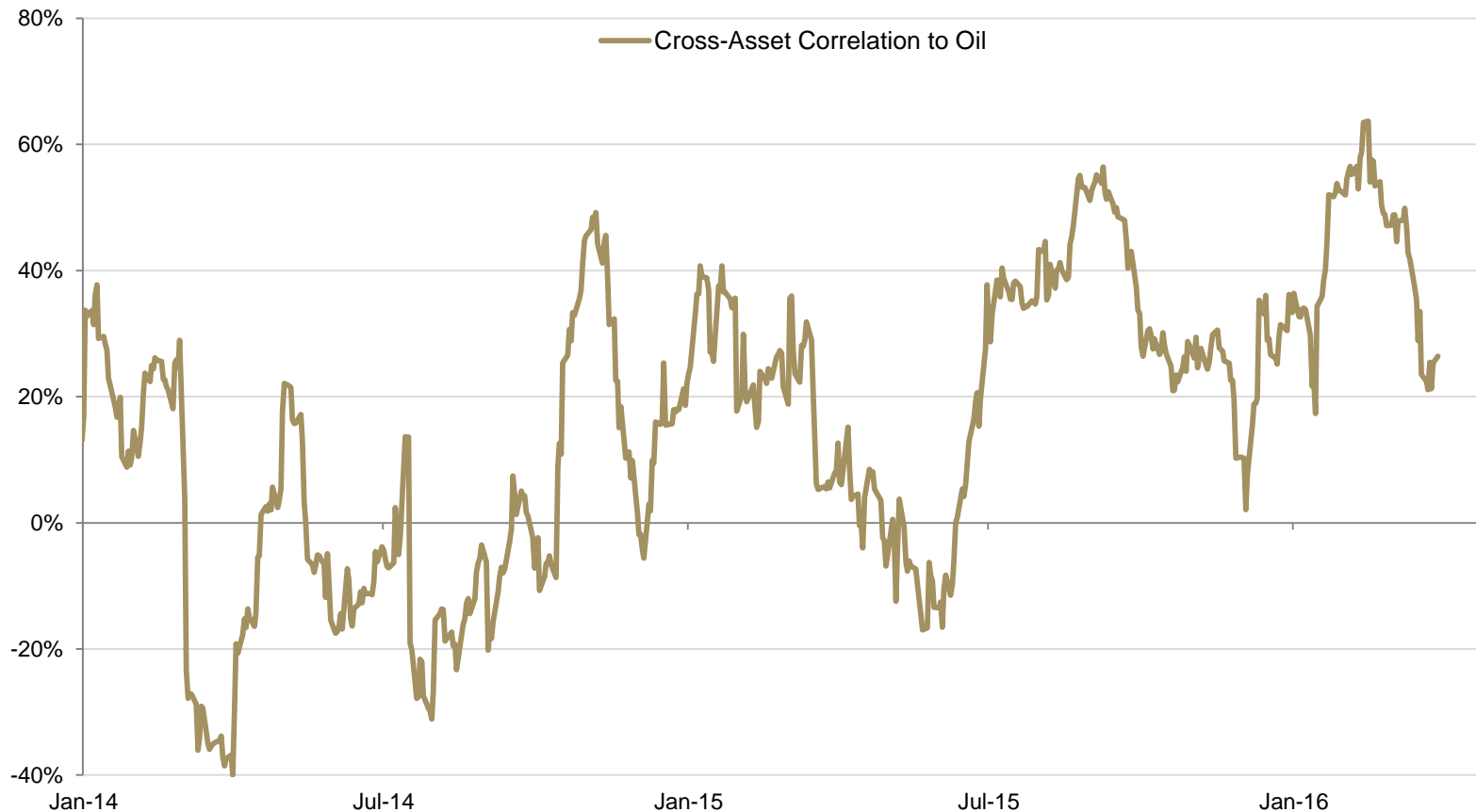
Source: Bloomberg



# ASSET SENSITIVITY TO OIL ON THE DECLINE

## CROSS-ASSET CORRELATION TO OIL

(AS OF 03/28/2016)



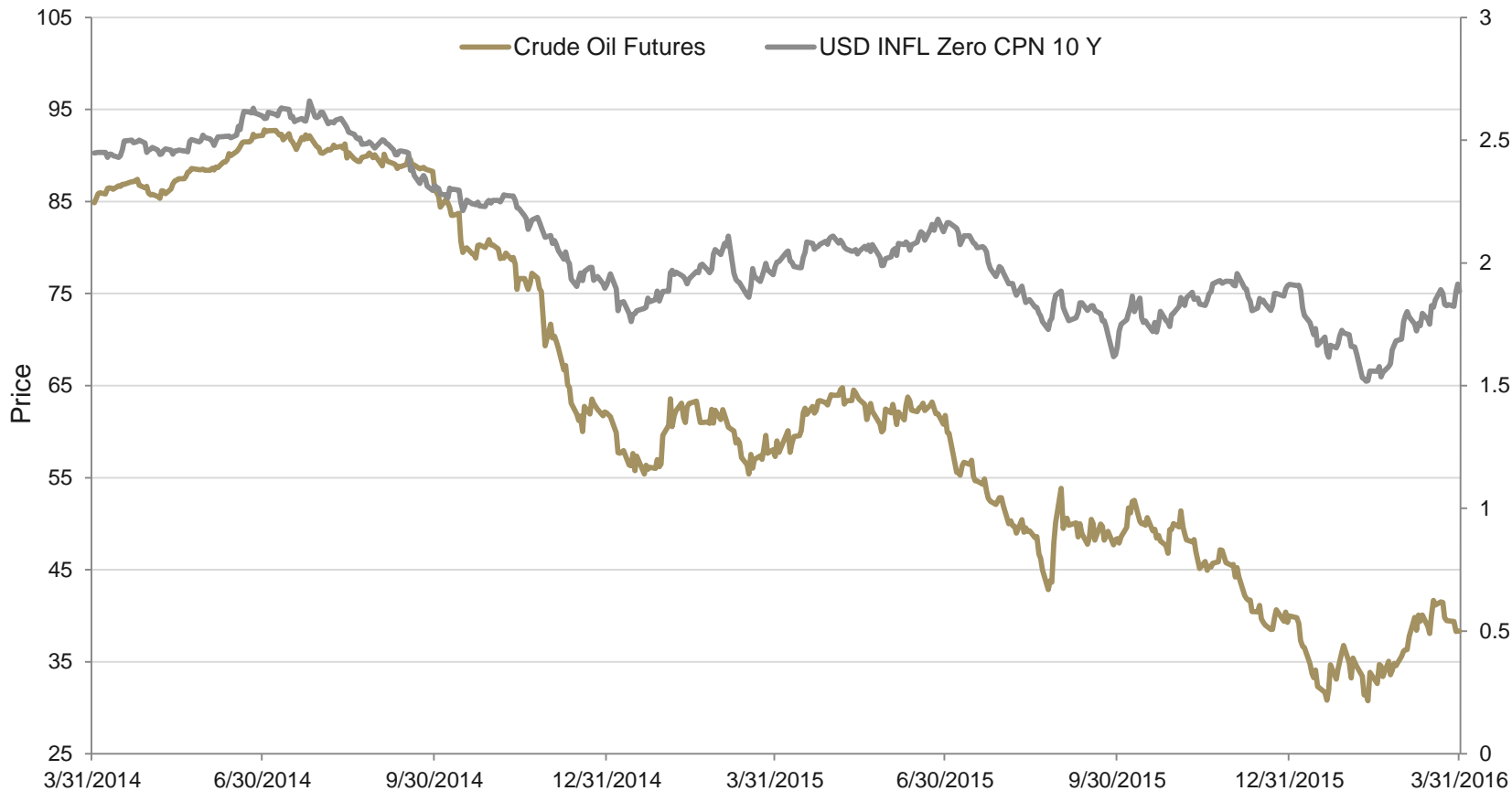
Source: Morgan Stanley Research, Bloomberg. **Past performance is no guarantee of future results.** For illustrative purposes only, and does not represent the performance of any Lord Abbett product or any particular investment.



# INFLATION EXPECTATIONS ALSO LESS SENSITIVE TO OIL

## INFLATION VS. OIL

(AS OF 03/31/2016)



Source: Bloomberg. **Past performance is no guarantee of future results.** For illustrative purposes only, and does not represent the performance of any Lord Abbett product or any particular investment.



## POSITIVE

- IG Corporates
  - BBB vs. A and AA credit still looks compelling
  
- CMBS
  - Valuations reflect stalling real estate market
  - Shifting fundamentals means more differentiation
    - Favor class A retail, multifamily, industrial
    - Avoid suburban office, certain strip malls and hotels
  
- ABS
  - Consumer still in good shape, ABS structure offers value
  - Negative headlines may offer compelling opportunities

## NEGATIVE

- MBS
  - GSE MBS are particularly sensitive to volatility
  - A further move lower in rates could be highly disruptive



## KEY INDICATORS TO WATCH

- Currencies, particularly JPY/USD and EUR/USD
  - Currency moves will transmit important information about changes in central bank expectations, as well as economic stress
- Oil
  - Is the market overly complacent? Will cross-asset correlations spike again in another downturn?
- Inflation
  - With labor markets continuing to tighten, will stickier forms of inflation, such as wage inflation, continue to rise?
- Chinese economic data
  - As goes China, so goes the global economy. Today's benign outlook can be upset by market fears of large Yuan devaluations and a possible currency war.
- Negative yields
  - Negative yields distort efficient capital allocation, even while they boost asset prices.
  - Unchartered territory for monetary policy challenges historical comparisons.
  - Negative yields change investor behavior and impact asset valuations and risk premia.



## LEVERAGED CREDIT

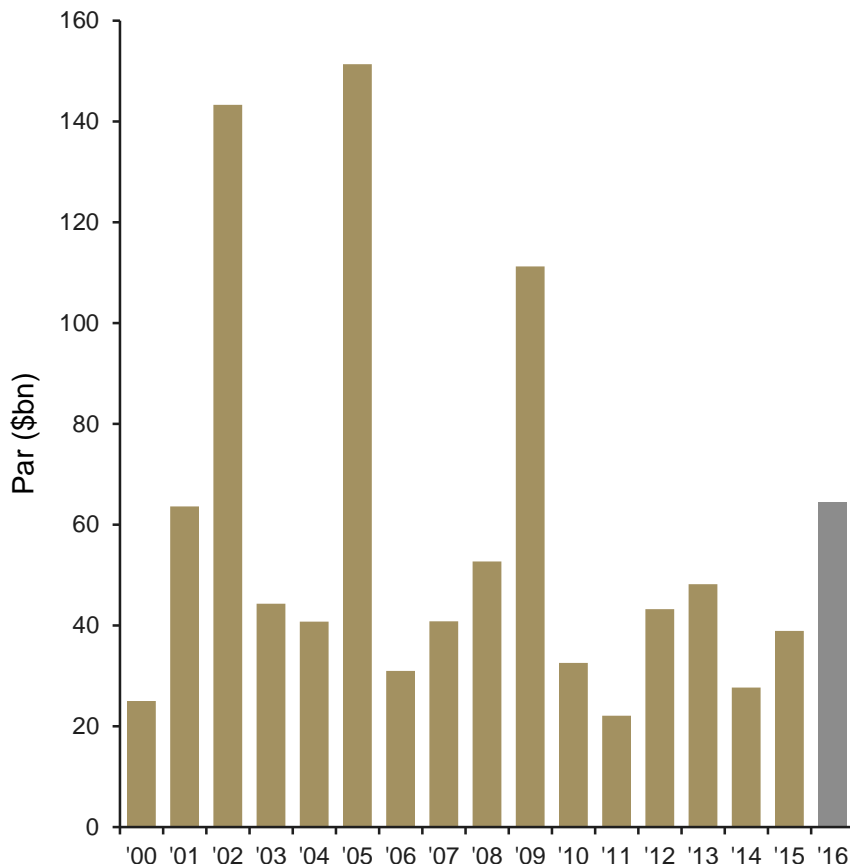
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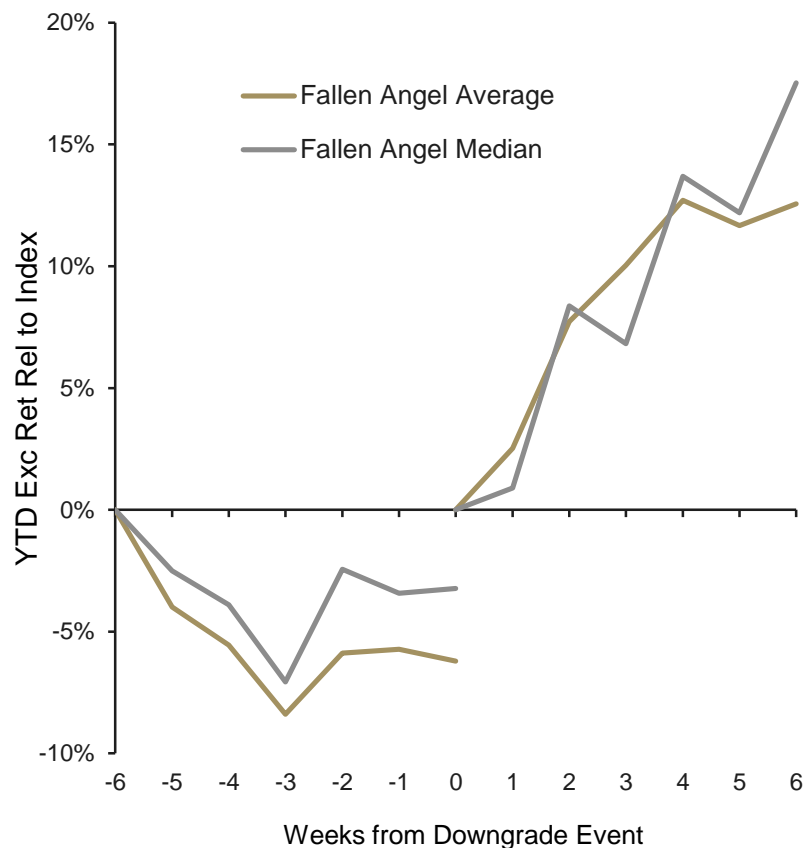
# FALLEN ANGELS AS AN OPPORTUNITY SET

- Most of the pain is taken pre-downgrade. In 2016, and historically, investment grade credits tended to trade well after falling into the high yield market.

### VOLUMES ACCELERATED IN 1Q16\*



### PERFORMANCE AROUND DOWNGRADE DATE FOR ISSUERS THAT HAVE BEEN DOWNGRADED THIS YEAR\*\*



\*As of 03/16/2016. \*\*As of 03/14/2016.

Source: Barclays Research. **Past performance is no guarantee of future results.** For illustrative purposes only, and does not represent the performance of any Lord Abbett product or any particular investment.

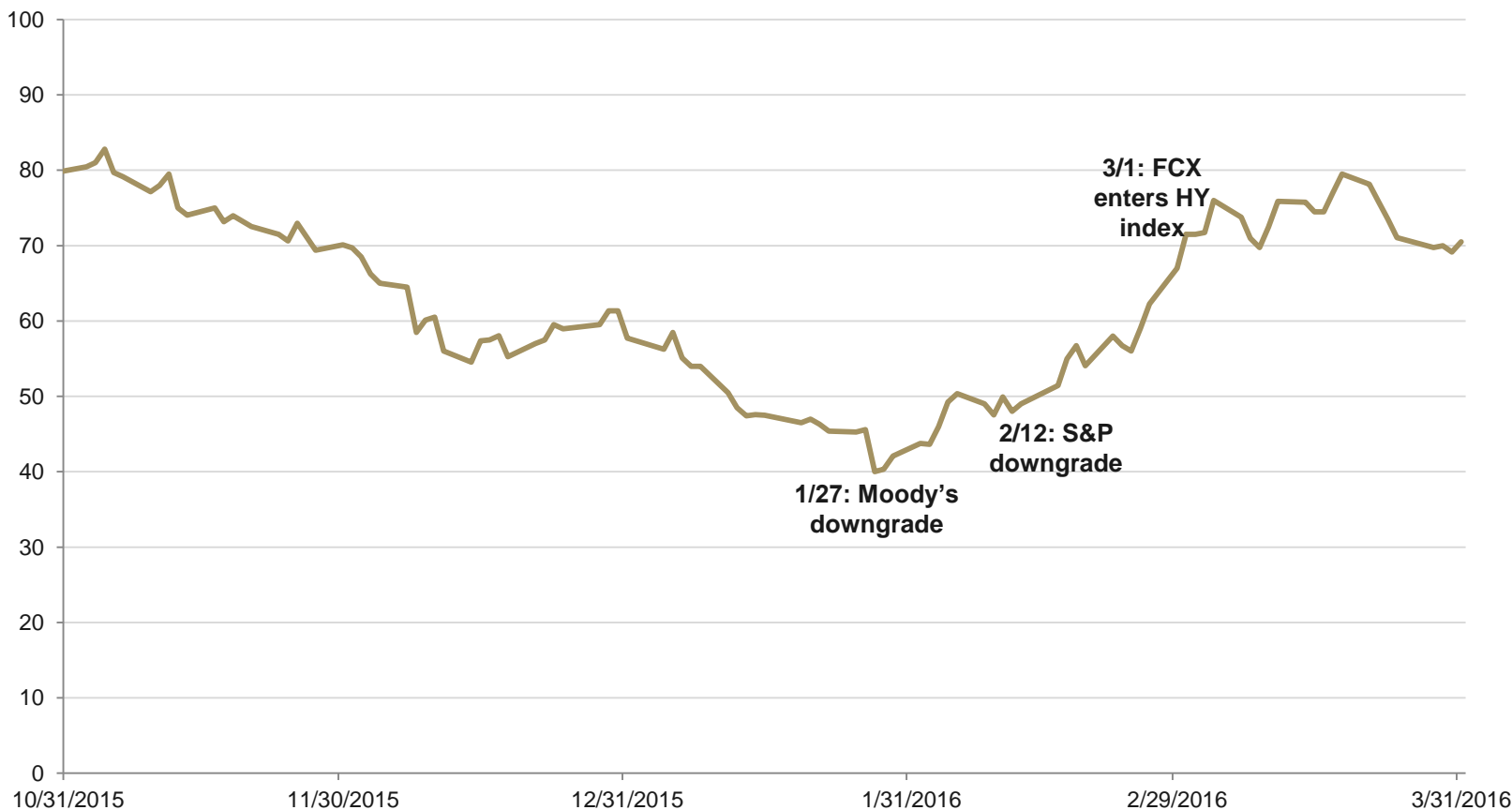




# CASE STUDY – FREEPORT- MCMORAN, INC

- Credit rallied significantly post S&P downgrade, thanks to strong HY market and announcement of asset sales to improve balance sheet liquidity.

## FCX 3.55% DUE 3/1/22



As of 03/31/2016.

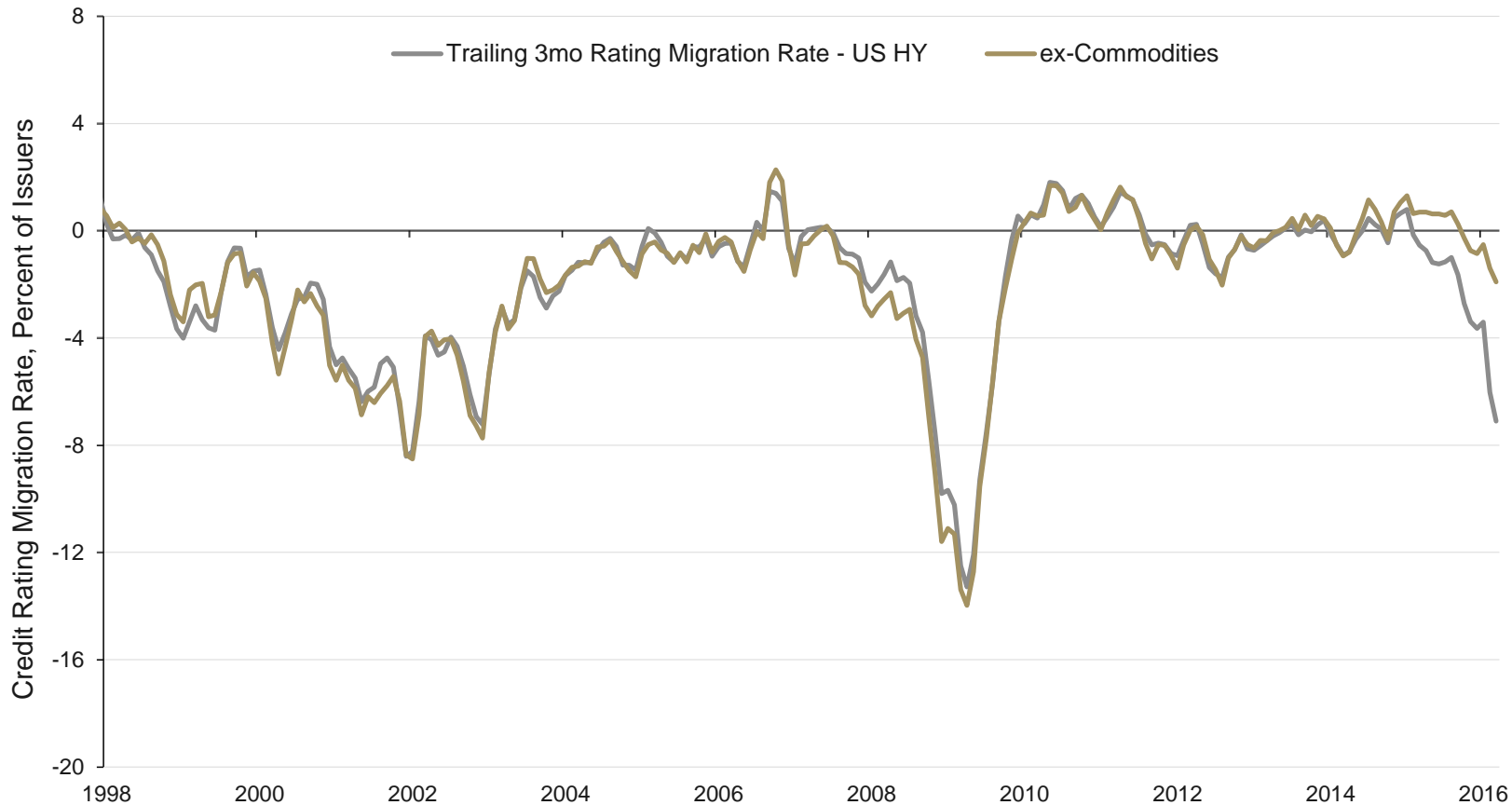
Source: Bloomberg. Provided for illustrative purposes only. The information shown does not constitute a recommendation nor investment advice, and should not be used as the basis for any investment decision. This is not a representation of any securities Lord Abbett purchased or would have purchased or that an investment in any securities of such issuers would be profitable.



# CREDIT QUALITY BETTER OUTSIDE COMMODITIES

## EX-COMMODITIES RATING MIGRATIONS REMAIN LOW

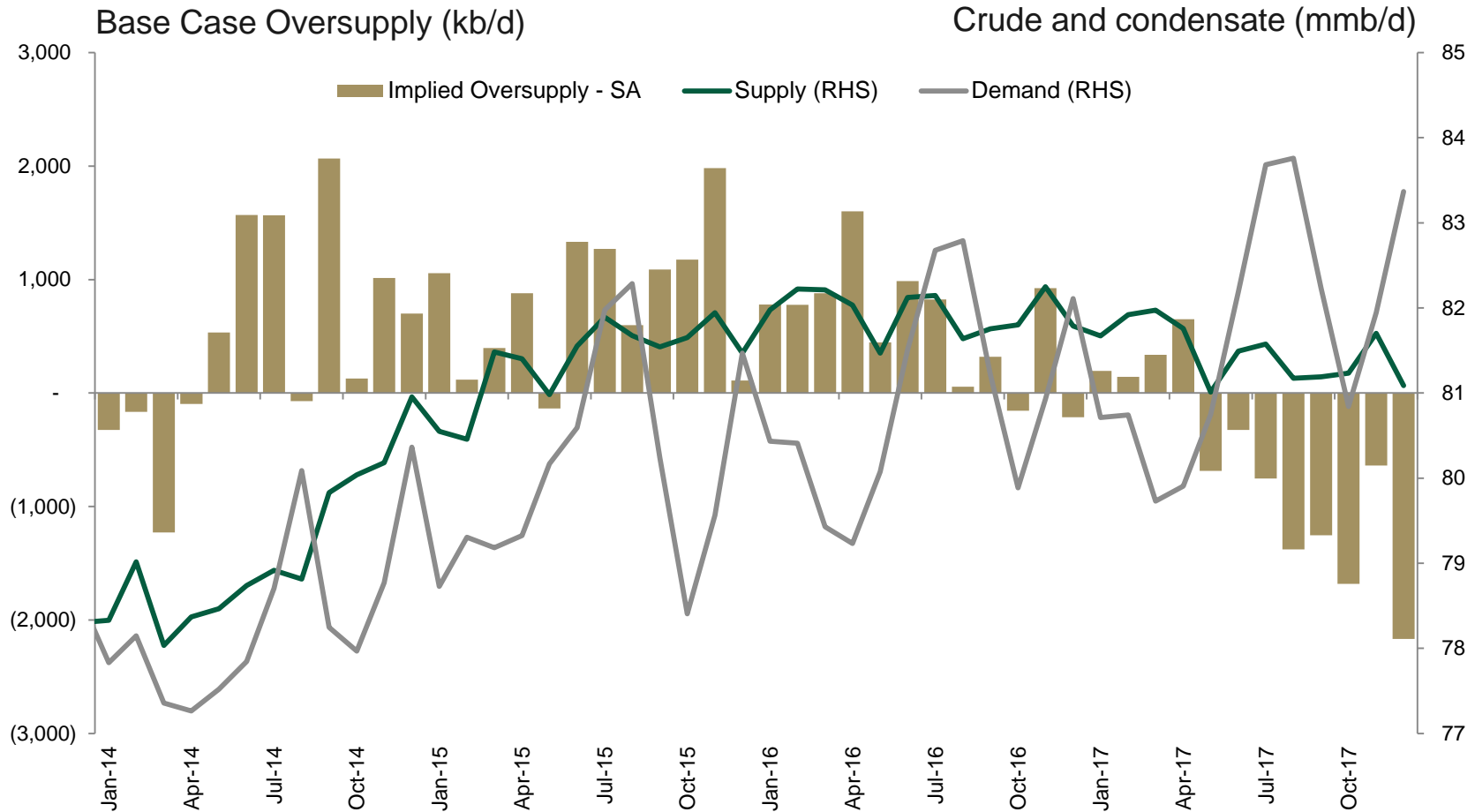
(AS OF 03/31/2016)



Source: BofA Merrill Lynch Global Research. For illustrative purposes only, and does not represent any Lord Abbett product or any particular investment.



## OIL SUPPLY/DEMAND EQUATION

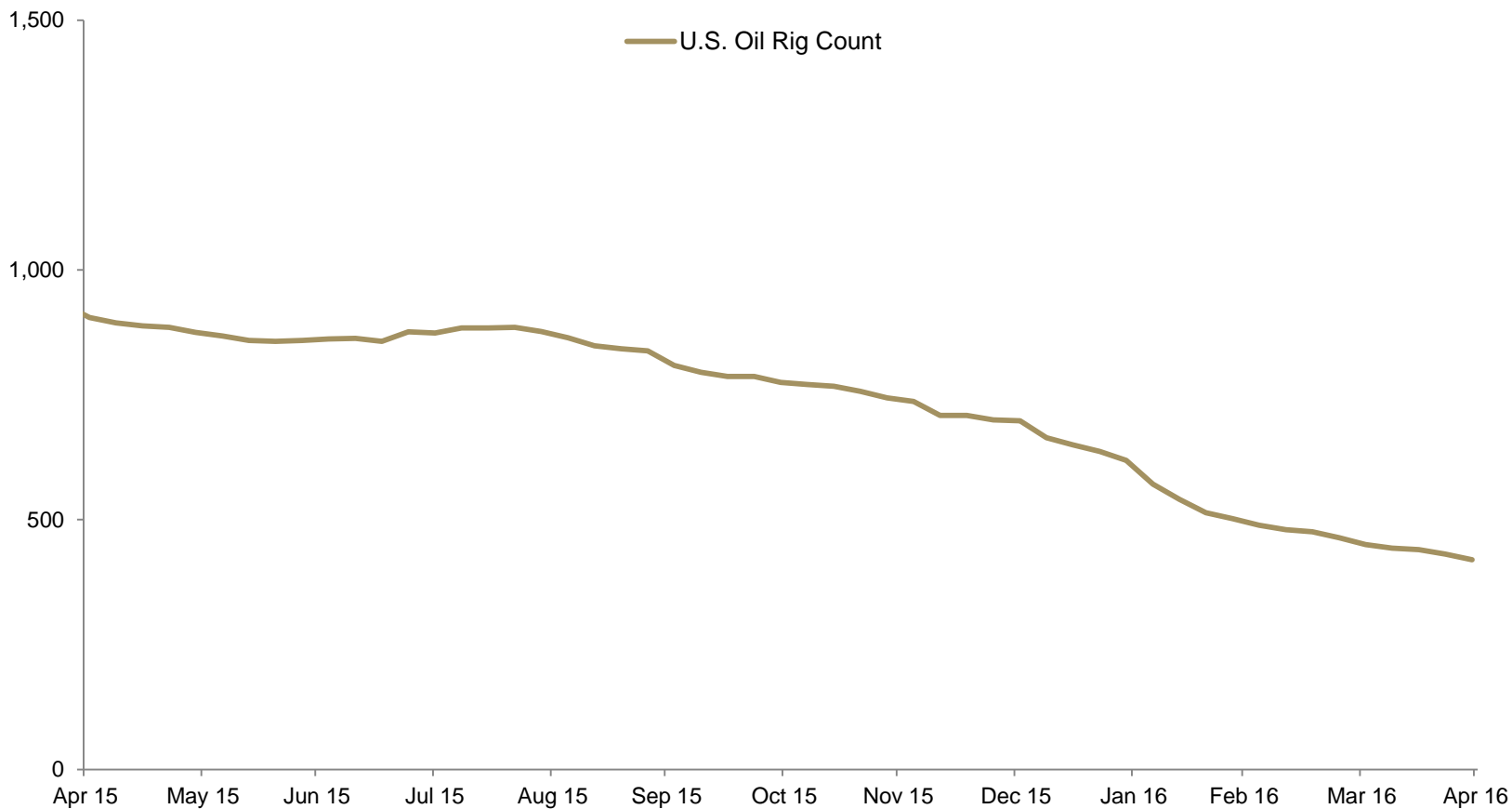


Source: IEA, JODI, HPDI, EIA, Rystad, WoodMac, Morgan Stanley Equity Research, and Morgan Stanley Commodity Research forecasts.



## U.S. RIG COUNT DECLINING

(AS OF 04/30/2016)



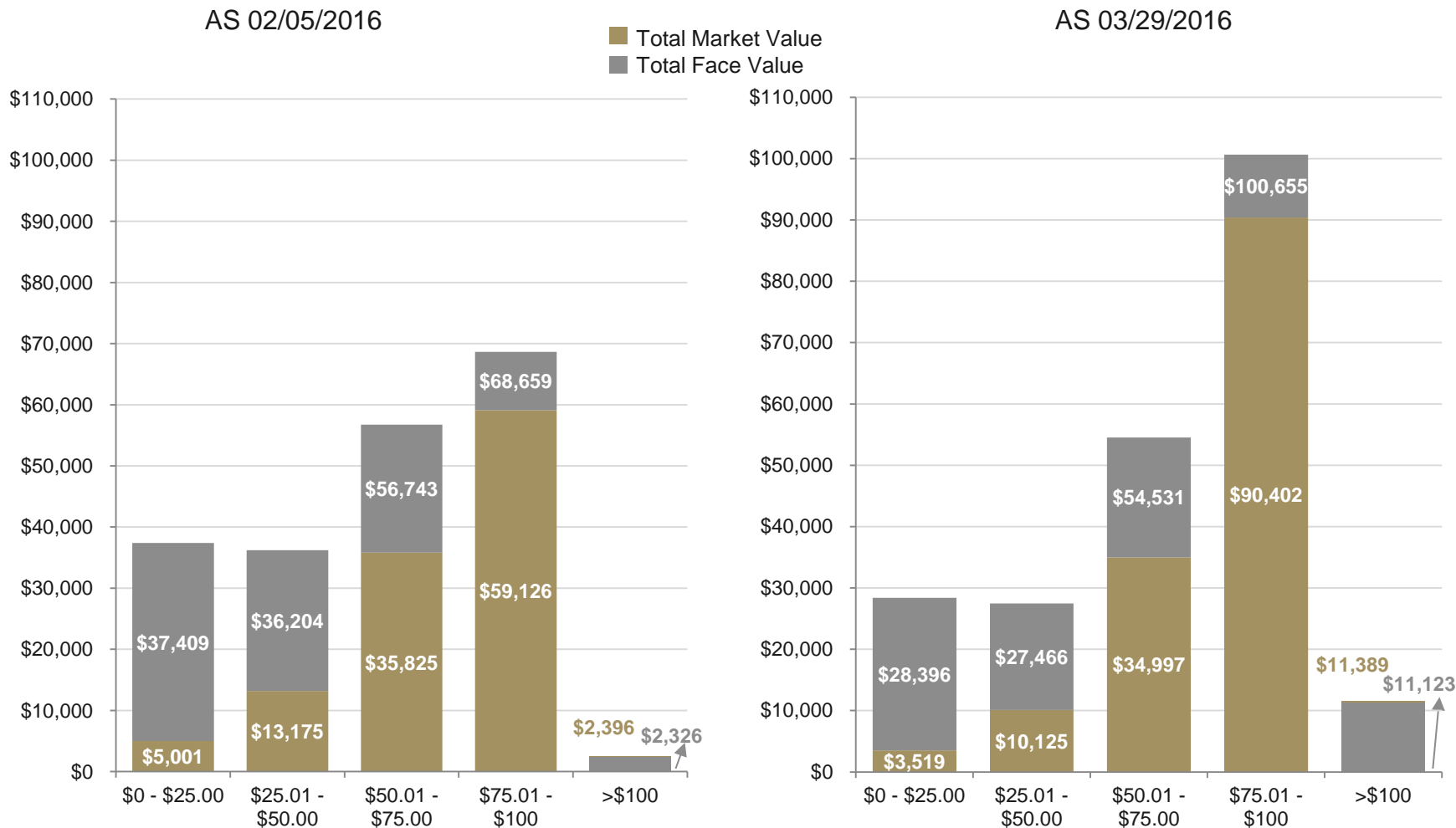
**U.S. oil rig count down by over 1400 since the end of 2014.  
Supply/demand balance should stabilize towards end of 2016.**



# ENERGY BONDS ARE IN THE DISCOUNT AISLE

- The sector has rallied since early February, but there are still opportunities for selective credit investors.

## HIGH YIELD ENERGY SECTOR PRICE BUCKETS



Source: Lord Abbett and BofA Merrill Lynch. **Past performance is no guarantee of future results.** For illustrative purposes only, and does not represent the performance of any Lord Abbett product or any particular investment.

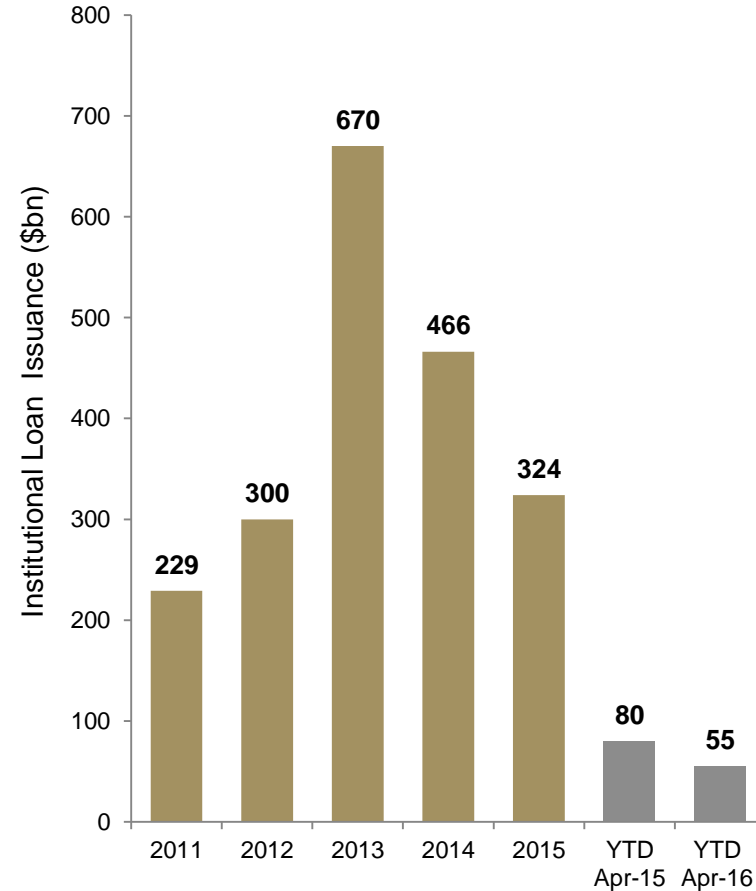
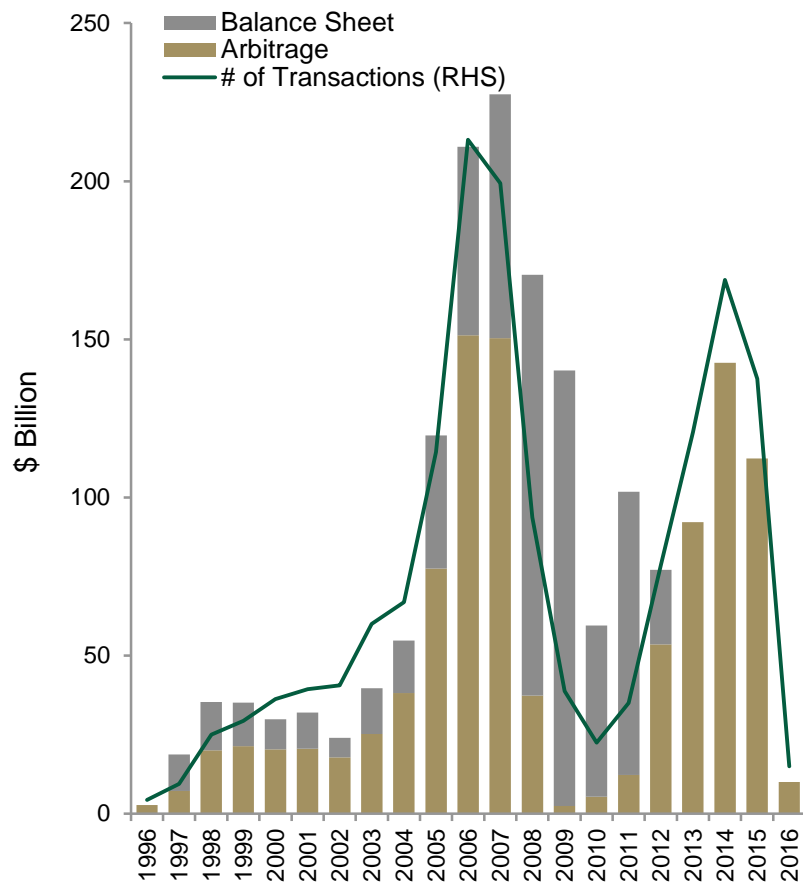


# CLO DEMAND IS DOWN, BUT SO IS LOAN ISSUANCE

- Challenges in the CLO market may not be as bad for the leveraged loan market as some investors fear.

YTD CLO ISSUANCE RUNNING AT LOWER PACE  
(AS OF 03/11/2016)

U.S. INSTITUTIONAL LOAN ISSUANCE  
(AS OF 04/30/2016)



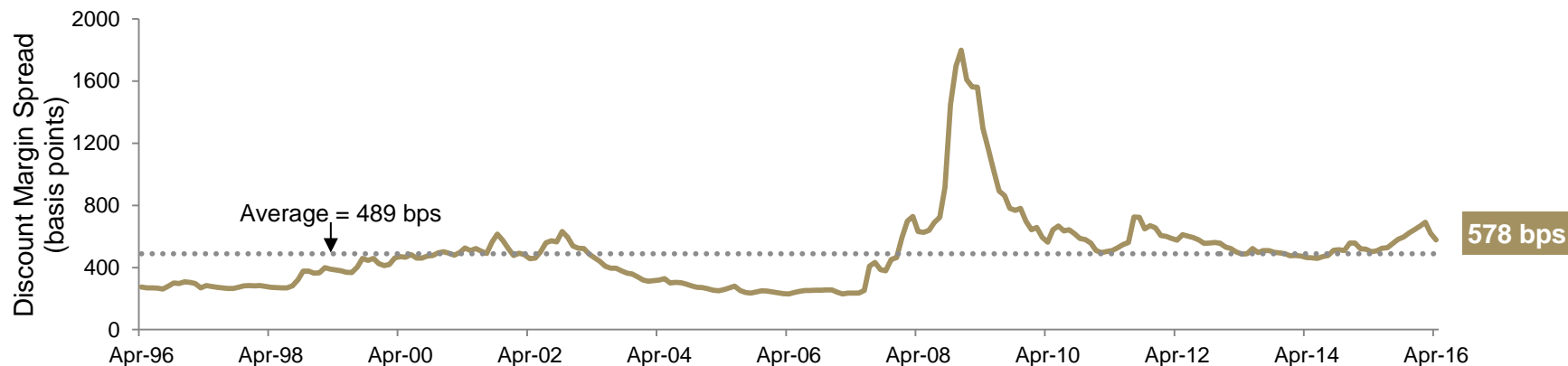
Source: S&P LCD, Morgan Stanley Research, J.P. Morgan.



# U.S. LEVERAGED LOANS: WIDE SPREADS AND LOW PRICES

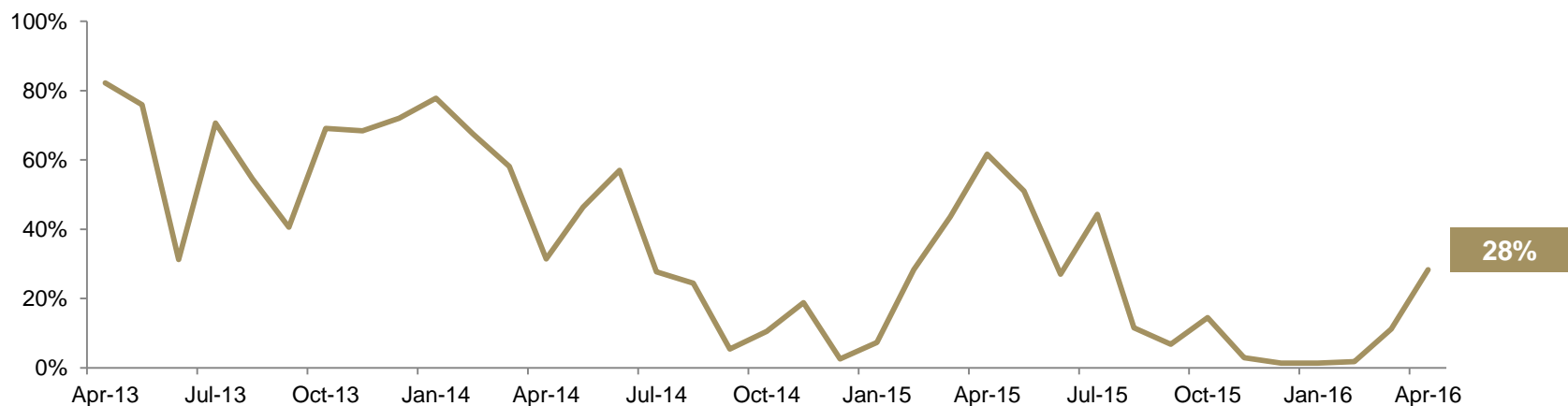
## U.S. LEVERAGED LOAN SPREADS

(AS OF 04/30/2016)



## PERCENTAGE OF U.S. LEVERAGED LOANS TRADING ABOVE PAR

(AS OF 04/30/2016)



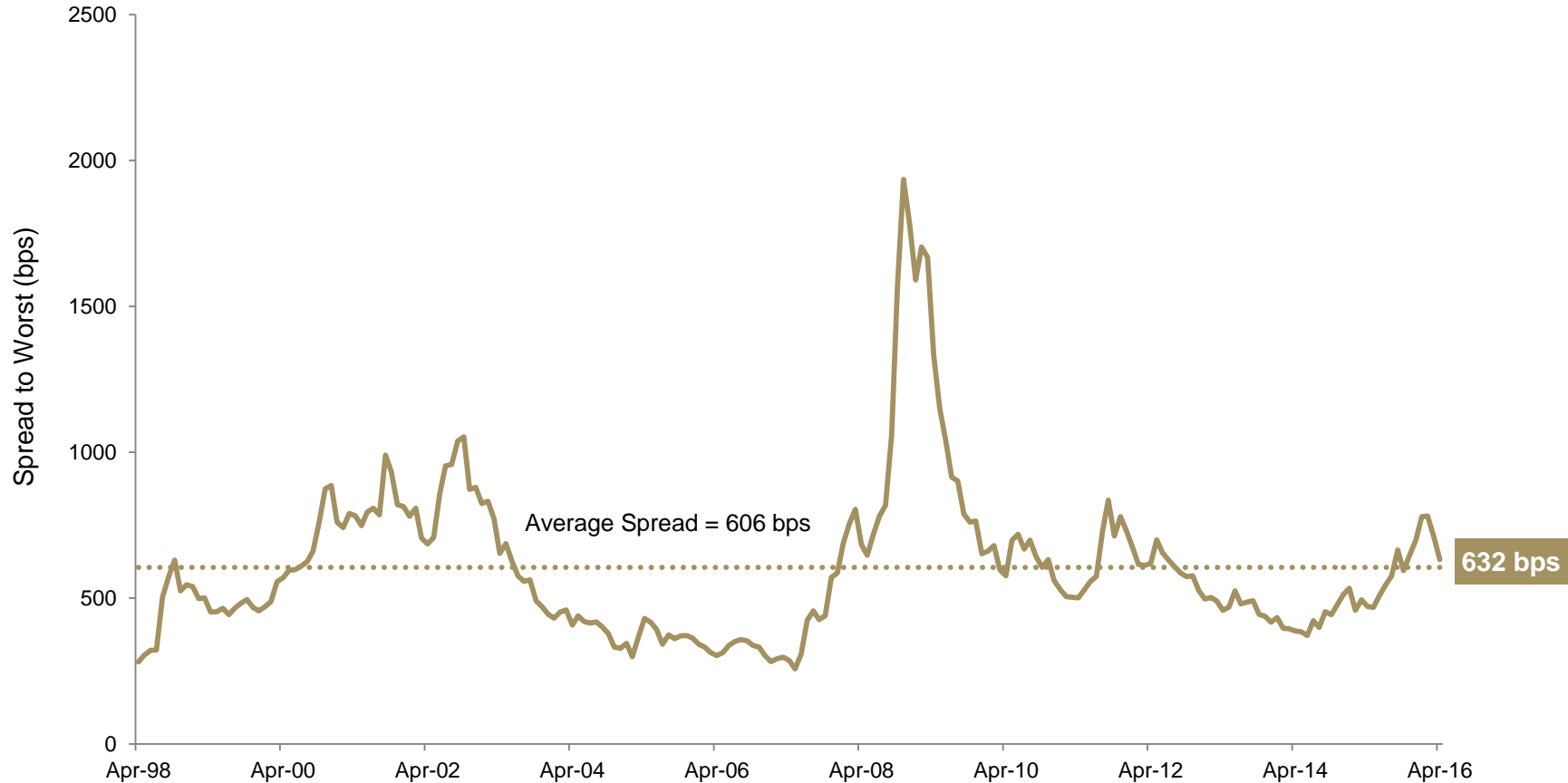
Source: Credit Suisse. **Past performance is no guarantee of future results.** Bps represents a basis point. One basis point equals 0.01%. For illustrative purposes only and does not represent any specific Lord Abbett product or any particular investment.



# U.S. HIGH YIELD SPREADS WELL ABOVE LONG-TERM AVERAGE

## U.S. HIGH YIELD SPREADS

(AS OF 04/30/2016)



Source: Bank of America/Merrill Lynch. Yield spreads represented by the BofA Merrill Lynch U.S. High Yield Constrained Index. The spread to worst measures the difference from the worst performing security to the best, and can be seen as a measure of dispersion of returns within a given market or between markets.

**Past performance is no 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 Lord Abbett product or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

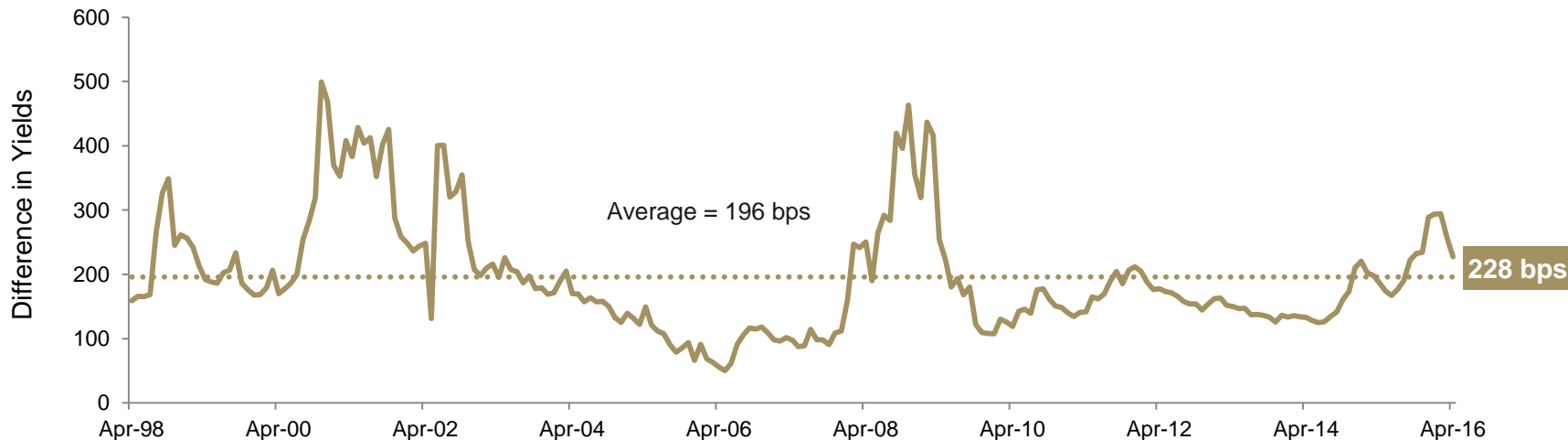




# U.S. HIGH YIELD VALUATIONS BY RATING

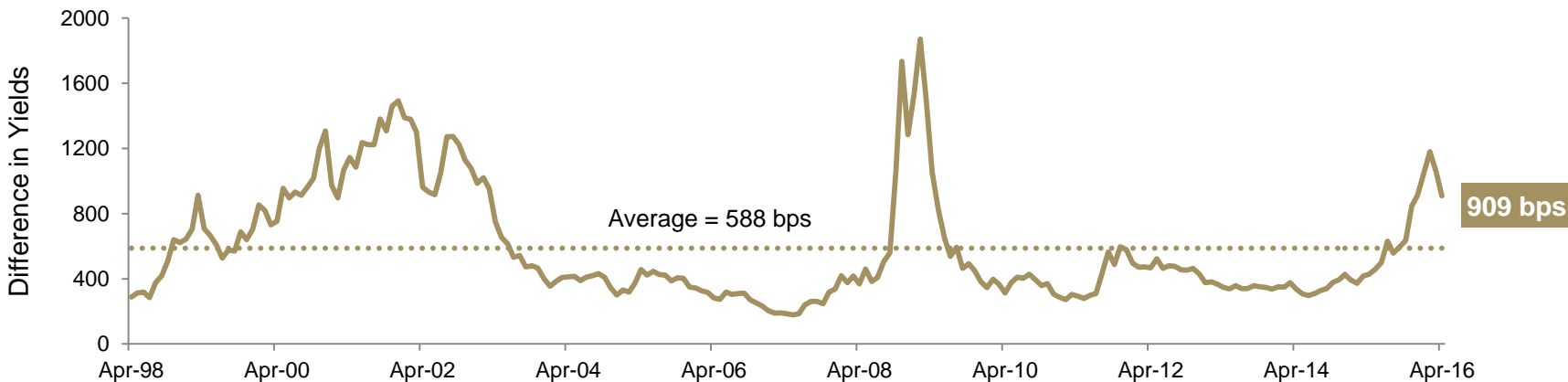
## SPREADS BETWEEN B AND BB

(AS OF 04/30/2016)



## SPREADS BETWEEN CCC AND B

(AS OF 04/30/2016)



Source: Bank of America/Merrill Lynch. **Past performance is no guarantee of future results.** For illustrative purposes only, and does not represent the performance of any Lord Abbett product or any particular investment.



# IMPORTANT INFORMATION

*This information in this presentation is only for illustrative purposes and is intended to provide general investment education and is not intended to provide legal, tax or investment advice. It is not intended to be relied upon as a forecast or research regarding a particular investment or the markets in general, nor is it intended to predict or depict performance of any investment or serve as a recommendation or offer to buy or sell securities. All economic and performance information is historical and does not guarantee future results. The views and opinions expressed are those of Lord Abbett, are subject to change with market conditions, and are not meant as investment advice.*

## **A Few Words about Risk**

Bonds are affected by interest rate movements. Bond prices and, likewise, a bond fund's share price, generally move in the opposite direction of interest rates. As the prices of bonds in a fund adjust to a rise in interest rates, a fund's share price may decline. In addition, bonds are subject to call, credit, liquidity, interest rate, and general market risks. Investors should be aware of the special risks involved with investments in high-yield bonds. High-yield bonds invest in lower-rated, higher-yielding instruments, which are subject to increased risk of default and can potentially result in loss of principal. Higher-yielding, lower-rated corporate bonds entail a greater degree of credit risk than investment-grade securities. Adverse conditions may affect the issuer's ability to pay interest and principal on the securities. Lower-rated bonds may carry greater risks than higher-rated bonds. Mortgage-backed securities are susceptible to prepayment.

**Please note:** 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.

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



NEXT FIXED INCOME WEBINAR:

JULY 20, 2016

4:15 PM