Private Bank

EMEA Corporate Sector Views

Global Fixed Income Strategy | 2Q 2020

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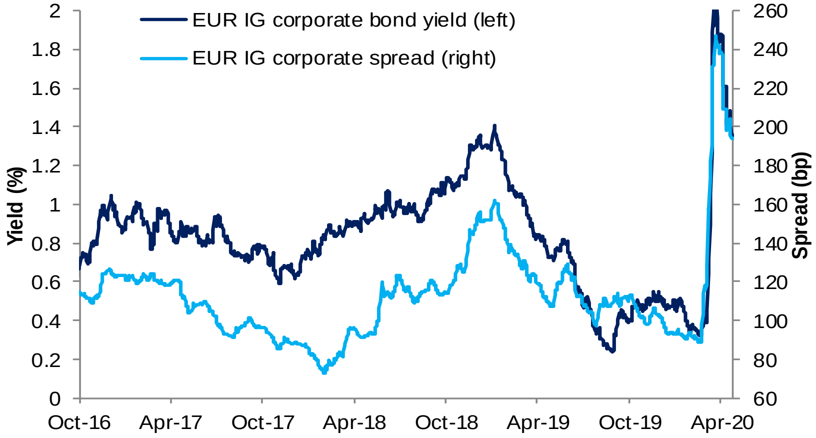
European Corporate Credit – Strategy View

European Investment Grade: Similar to most high quality bond markets, IG corporates also indiscriminately sold off in March, down 8.5% on March 23rd. Since then, IG has rallied 4% and now yields 1.4%, supported also by the European Central Bank active again in the corporate bond market. As economic uncertainty continues, we advocate keeping portfolio quality high, especially given nearly 50% of IG issues are rated BBB (with 8% rated BBB-), with downgrade risks high. Over-leveraged issuers in cyclical sectors are likely to face on-going revenue pressure.

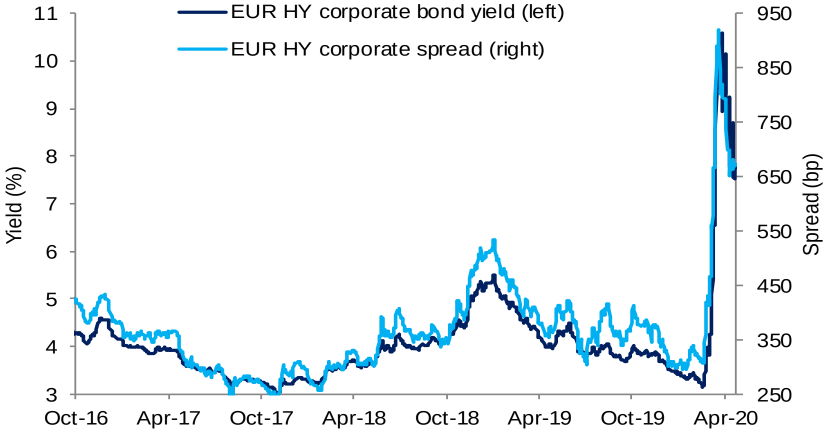
European High Yield: Early March saw European HY sell-off nearly 20%, with the fastest spread widening in history. Since then the index has rebounded 11%, with Euro HY now offering average yields of 7.5%. As balance sheet pressure grow, the default rate (currently 2.5%) is likely to rise (S&P rating agency forecast a rise to 8% in 2020) and so we favour defensive quality. On the positive side, a small energy weight (1.5% v 16% in US HY) and possible ECB intervention in the HY market are positives (the ECB have already committed to purchasing fallen angels).

EUR IG corporate bond yields and spreads



Sources: Bloomberg as of April 27th 2020

EUR HY corporate bond yields and spreads



Sources: Bloomberg as of April 27th 2020

EMEA Investment Grade Corporates Summary of sector views

Arrows imply our expectations of sector performance versus the Bloomberg Barclays Euro Aggregate Corporate Bond Index
Up arrow = outperform, Sideways arrow = market perform, Down arrow = underperform

Outperform

⬆

Consumer – Non-cyclical
Consumer Products, Food-Beverage, Healthcare, Pharmaceuticals, Supermarkets, Tobacco

Communications
Cable-Satellite, Media, Wireless, Wirelines

Neutral

⬌

Utilities
Electric, Natural Gas, Other Utility

Capital Goods
Aerospace & Defense, Building Materials, Machinery, Diversified Manufacturing

Financials – Banks
Banks

Financials –Non-banks
Brokerage, finance companies, insurance, REITS, other financials

Underperform

⬇

Energy
Independent, Integrated, Midstream, Oil Fields, Refining

Transportation
Airlines, Transportation Services

Consumer - Cyclical
Automotive, Services, Construction, Leisure, Lodging, Restaurants, Retailers

Basic Industries
Chemicals, Metals & Mining, Pulp-Paper

Source: Citi Private Bank, Bloomberg Barclays Euro Aggregate Corporate Bond Index as of October 2019. The expressions of opinion are not intended to be a forecast of future events or a guarantee of future results. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. For illustrative purposes only. Past performance is no guarantee of future results. Real Results may Vary.

EMEA Investment Grade Corporates Valuations & Performance

	Valuations			*Last 3-mo. total return (%)*			*YTD total return (%)*			*Last 12-mo. total return (%)*		
Sector[1]	**Spread vs. Treasury (bp)**	**Spread vs. Index (bp)[2]**	**Yield to worst (%)**	**Total return**	**vs. Index[2]**	**Excess return[3]**	**Total return**	**vs. Index[2]**	**Excess return[3]**	**Total return**	**vs. Index[2]**	**Excess return[3]**
Basic Industries	205	11	1.4	(4.8)	(0.4)	(6.1)	(4.0)	(0.4)	(6.5)	(2.6)	(1.3)	(6.4)
Capital Goods	194	(0)	1.3	(4.7)	(0.4)	(6.0)	(3.7)	(0.1)	(6.2)	(1.3)	0.0	(5.1)
Communications	173	(21)	1.1	(3.2)	1.2	(4.5)	(2.1)	1.5	(4.5)	0.6	2.0	(3.2)
Consumer - Cyclical	258	64	1.9	(6.7)	(2.3)	(8.0)	(5.9)	(2.4)	(8.4)	(3.6)	(2.3)	(7.4)
Consumer - Non Cyclical	160	(34)	1.0	(3.1)	1.2	(4.5)	(2.1)	1.5	(4.6)	0.3	1.6	(3.5)
Energy	205	11	1.4	(5.9)	(1.6)	(7.3)	(5.2)	(1.6)	(7.7)	(3.5)	(2.2)	(7.3)
Financials - banks	193	(1)	1.3	(3.6)	0.7	(5.0)	(3.2)	0.4	(5.7)	(1.5)	(0.1)	(5.2)
Financial sector - non-banks	270	76	2.1	(6.2)	(1.8)	(7.5)	(5.3)	(1.8)	(7.8)	(1.6)	(0.3)	(5.4)
Transportation Sector	246	52	1.8	(6.3)	(2.0)	(7.7)	(5.7)	(2.1)	(8.2)	(4.0)	(2.7)	(7.8)
Utilities Sector	164	(30)	1.0	(3.2)	1.2	(4.5)	(2.2)	1.3	(4.7)	0.0	1.4	(3.7)
Investment Grade Corp Index	**194**	**N/A**	**1.4**	**(4.3)**	**N/A**	**-5.7**	**(3.6)**	**N/A**	**(6.1)**	**(1.4)**	**N/A**	**(5.1)**

Source: Bloomberg as of April 27th 2020. 1) Sectors are derived from the Barclays Euro-Aggregate Corporate Statistics Index , 2) Spread or return difference vs. Bloomberg Barclays Euro-Aggregate Corporate Bond Total Return, 3) Excess return is difference in return vs. the Bloomberg Barclays Germany Govt All Bonds Total Return
(*) Bloomberg Barclays Euro-Aggregate Corporate Index is a rules based benchmark measuring investment grade, EUR denominated, fixed rate and corporate only bonds with a maturity of 1 year and above.

Key sector views

- **Maintain consumer non-cyclicals and communications as outperform.** With rising demand for consumer staples items and significant proportion of the population remotely working, we believe outperformance will likely continue. Areas such as healthcare / pharma offer also a more defensive bias.
- **Hold financials (banks and non-banks at neutral).** Despite selling off last month, opportunities in subordinated bank debt exist. While the banks have improving credit metrics and balance sheets, weak profitability and lower rates may weigh on the sector. We favour banks with more resilient balance sheets, while insurers have higher average ratings versus equivalent banks.
- Underperform rating on **transportation, consumer cyclicals, basic industries and energy.** We continue to hold the most Covid exposed sectors as underperform given business closures, factory shutdowns, collapsed consumer demand and a falling oil price.

EMEA Investment Grade Corporates Sector views

Arrows imply our expectations of sector performance versus the Bloomberg Barclays Euro Aggregate Corporate Bond Index

Up arrow = outperform, Sideways arrow = market perform, Down arrow = underperform

Basic Industries Chemicals, Metals & Mining, Paper	⬇	**YTD return: -4.0%** **12M return: -2.6%**	• Sharp fall in global growth (manufacturing in particular) and on-going trade concerns will weigh on chemicals, which accounts for two-thirds of the sector. Weakness in global autos will also have a negative knock-on effect, given their significant end-market presence for chemical producers. • BBG base metals index is also down 17% YTD, with commodity prices likely to stay lower for longer. While metals & mining have a more neutral outlook (with compelling yields of 2.5%), the chemical dominance in basic industries keep us u/w overall.
Capital Goods Aerospace & Defense, Building Materials, Construction Machinery, Diversified Manufacturing, Packaging	⬌	**YTD return: -3.7%** **12M return : -1.3%**	• Euro-area manufacturing has collapsed in April falling to 33.6 (lowest in history). Export orientated economies like Germany and CEEMEA remain highly vulnerable. Construction machinery is the hardest hit sub-sector year to date, down 6.7%. We shift to neutral as the sector trades in line with the benchmark and industrial activity is likely to resume shortly.
Communications Cable-Satellite, Media Entertainment, Wireless, Wirelines	⬆	**YTD return : -2.1%** **12M return : +0.6%**	• Defensive characteristics have helped relative outperformance YTD (down only 2.1%), which we expect to continue. Long term sector focus continues to be need for infrastructure and 5G spend (which has driven higher capex spend). Longer term sector view is driven by differing catalysts in technological growth, regulation and competition. The sector has actually been the best performer on a 12month basis.
Consumer - Cyclical Automotive, Services, Leisure, Lodging, Restaurants, Retailers	⬇	**YTD return : -5.9%** **12M return : -3.6%**	• Cyclicals remain the most exposed to the negative implications from Covid, as consumer demand collapses and businesses face on-going closures. Autos (responsible for 76% of the sector) have seen a collapse in sales (with EU-US tariff tensions an on-going risk), while hotels and restaurants remain closed. Supply chains continue to stay disrupted. We consider spreads 64bps wider than the benchmark insufficient from a risk reward perspective.
Consumer – Non-cyclical Consumer Products, Food & Beverage, Healthcare, Pharmaceutical, Supermarkets, Tobacco	⬆	**YTD return : -2.1%** **12M return : +0.3%**	• Most resilient sector year-to-date, driven by healthcare and pharma. Healthcare/pharma companies are more defensive in nature and have united in fighting the Covid crisis, also benefitting from compelling demographic improvements and stable earning profiles. Supermarkets have also seen rising sales. We expect non-cyclicals to continue their defensive outperformance through the Covid crisis.

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Source: Citi Private Bank, Bloomberg Barclays Euro Aggregate Corporate Bond Index as of October 2019. Note: YTD = year-to-date total return, 12m = total return over the last 12 months. The expressions of opinion are not intended to be a forecast of future events or a guarantee of future results. For illustrative purposes only. **Past performance is no guarantee of future returns. Real results may vary.**

EMEA Investment Grade Corporates Sector views cont.

Arrows imply our expectations of sector performance versus the Bloomberg Barclays Euro Aggregate Corporate Bond Index
Up arrow = outperform, Sideways arrow = market perform, Down arrow = underperform

Energy Integrated, Midstream, Oil Field Services, Refining	↓	**YTD return : -5.2%** **12M return : -3.5%**	• Oil prices have collapsed in the last month on the back of weak demand and excess supply. Citi Research are forecasting Brent prices to average $17/barrel in Q2. While the sector has benefitted from stronger balance sheets and restructurings in recent years, on-going pressure within the sector keeps us cautious. Spreads 11bps wider than the benchmark offers us insufficient value from a risk reward perspective.
Financials - banks Banking	↔	**YTD return : -3.2%** **12M return : -1.5%**	• While the banks were down 15% at the peak last month, opportunities in subordinated bank debt exist. Profitability remains the biggest headwind, exacerbated by falling global yields and likely rising corporate credit pressure. Concerns over ability to pay AT1 coupons have also risen. However, European balance sheets are starting from a position of significant strength. While risks remain and weakness may continue, levels being offered in the AT1 space are historically attractive and offer long-term value.
Financials – non-banks Brokerage, Finance Companies, Insurance, Other Financial, REITs	↔	**YTD return : -5.3%** **12M return : -1.6%**	• Insurers are the third worst performing sector YTD, down 6.3%. Following the fall, insurers now offer the highest yield of all sectors at 2.1%. Insurers remain well capitalised with stable solvency II ratios (**), despite greater regulation. Insurers account for 44% the non-banks sub-sector and have shown higher average credit ratings and resilience versus the banks. However we stay neutral as on-going pressures and rising claims are likely provide some sector headwinds.
Transportation Airlines, Transportation Services	↓	**YTD return : -5.7%** **12M return : -4.0%**	• We stick with our underperform call as transportation remains highly exposed to Covid. The sector is the second worst performer YTD, down 6.3%. Longer term we remain stay cautious as the US is increasingly likely to turn its attention towards the EU.
Utilities Electric, Natural Gas, Other Utility	↔	**YTD return : -2.2%** **12M return : 0.0%**	• Following a difficult few years given a competitive landscape and challenged profitability, balance sheets have improved with more stable credit metrics. While we favour the more defensive nature of utilities, we move to neutral as spreads are now significantly tighter than the index with the lowest sector yield at 1%.

(*) CET1 ratio: Common Equity Tier 1 ratio is a measure of a banks capital. (**) Solvency II ratio: amount of funds that insurance and reinsurance undertakings are required to hold in the European Union

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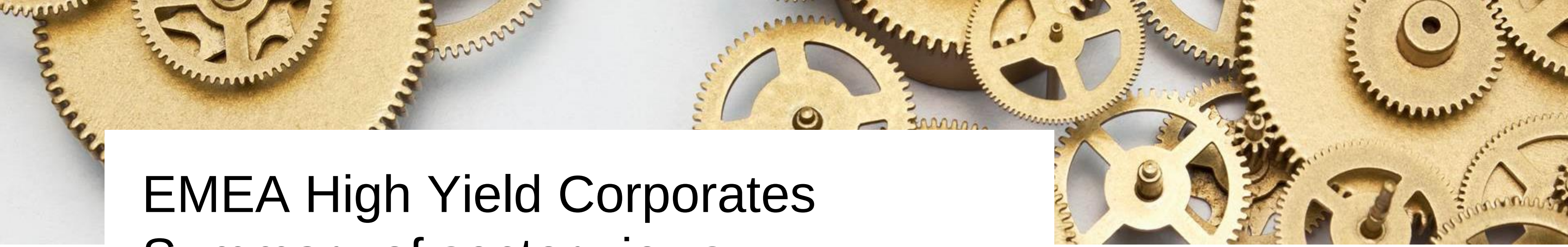


EMEA High Yield Corporates
Summary of sector views

Arrows imply our expectations of sector performance versus the Bloomberg Barclays Euro High Yield Corporate Bond Index

Up arrow = outperform, Sideways arrow = market perform, Down arrow = underperform

Outperform

⬆

Communications
Cable-Satellite, Media, Wireless, Wirelines

Consumer – Non-cyclical
Consumer Products, Food-Beverage, Healthcare, Pharmaceuticals, Supermarkets, Tobacco

Neutral

↔

Capital Goods
Aerospace & Defense, Building Materials, Machinery, Diversified Manufacturing

Financials – non-banks
Brokerage, Finance companies, Insurance, REITs

Financials – banks
Banking

Utilities
Electric, Natural Gas

Underperform

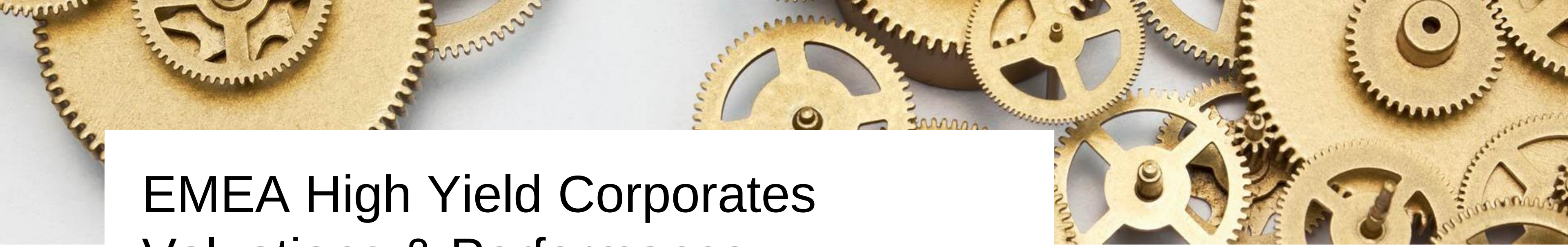
⬇

Energy
Independent, Integrated, Midstream, Oil Fields, Refining

Basic Industries
Chemicals, Metals & Mining, Pulp-Paper

Consumer - Cyclical
Automotive, Services, Construction, Leisure, Lodging, Restaurants, Retailers

Source: Citi Private Bank, Bloomberg Barclays Euro High Yield Bond Index as of October 2019. The expressions of opinion are not intended to be a forecast of future events or a guarantee of future results. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. For illustrative purposes only. **Past performance is no guarantee of future results. Real Results may Vary.**



EMEA High Yield Corporates Valuations & Performance

	Valuations			*Last 3-mo. total return (%)*			*YTD total return (%)*			*Last 12-mo. total return (%)*		
Sector[1]	**Spread vs. Treasury (bp)**	**Spread vs. Index (bp)[2]**	**Yield to worst (%)**	**Total return**	**vs. Index[2]**	**Excess return[3]**	**Total return**	**vs. Index[2]**	**Excess return[3]**	**Total return**	**vs. Index[2]**	**Excess return[3]**
Basic Industries	744	94	6.6	(9.0)	1.6	(10.3)	(8.9)	1.3	(11.4)	(6.6)	(0.1)	(10.3)
Capital Goods	741	91	6.4	(9.3)	1.4	(10.6)	(9.2)	1.0	(11.7)	(6.5)	(0.1)	(10.3)
Communications	487	(163)	4.2	(5.7)	4.9	(7.1)	(5.4)	4.8	(7.8)	0.9	7.3	(2.9)
Consumer - Cyclical	900	250	8.0	(14.0)	(3.3)	(15.3)	(13.8)	(3.6)	(16.3)	(11.2)	(4.8)	(14.9)
Consumer - Non Cyclical	604	(46)	5.3	(5.3)	5.3	(6.6)	(4.9)	5.3	(7.4)	(1.1)	5.4	(4.8)
Energy	689	39	6.1	(10.3)	0.3	(11.6)	(10.3)	(0.1)	(12.8)	(6.0)	0.4	(9.8)
Financials - banks	732	82	6.6	(12.9)	(2.2)	(14.2)	(11.5)	(1.3)	(13.9)	(5.7)	0.7	(9.5)
Financial sector - non-banks	791	141	7.0	(12.8)	(2.2)	(14.1)	(12.0)	(1.8)	(14.4)	(6.8)	(0.4)	(10.6)
Utilities Sector	407	(243)	3.4	(5.8)	4.8	(7.2)	(5.8)	4.4	(8.2)	(2.2)	4.2	(5.9)
HY Pan-European Index	**650**	**N/A**	**7.5**	**(10.6)**	**N/A**	**(12.0)**	**(10.2)**	**N/A**	**(12.7)**	**(6.4)**	**N/A**	**(10.2)**

Source: Bloomberg as of April 27th 2020. 1) Sectors are derived from the Bloomberg Barclays Euro High Yield Corporate Bond Index, 2) Spread or return difference vs. Bloomberg Barclays Euro High Yield Total Return, 3) Excess return is difference in return vs. the Bloomberg Barclays Germany Govt All Bonds Total Return

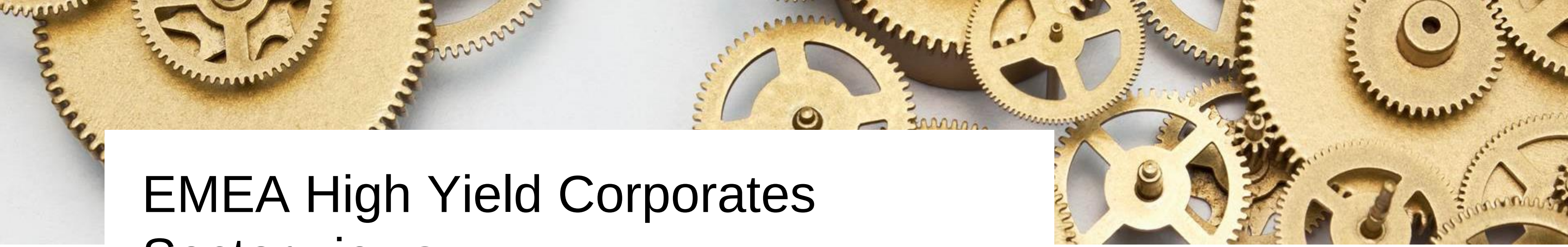
(*) Bloomberg Barclays Euro High Yield Index measures the market of non-investment grade, fixed rate corporate bonds denominated in Euros.

Key sector views

- **Maintain consumer cyclicals as underperform.** Consumer cyclicals are the biggest loser from Covid, as retail, restaurants and hotels face widespread closures. Leisure is the worst performing sub-sector with related activity unlikely to return to normality as social distance measures continue.

- **Shift energy to underperform.** Collapsing oil prices and weak end demand will likely lead to balance sheet pressures, especially in those with high break-evens and elevated leverage levels.

- **Similar to IG, hold consumer non-cyclicals and communications as outperform.** We continue to favour more defensive sectors, with consumer non-cyclicals and communications likely to continue their relative outperformance. We favour healthcare in particular.

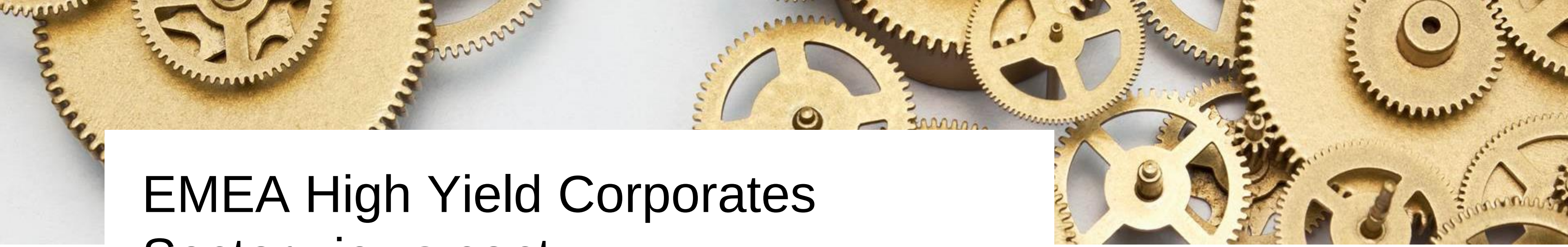


EMEA High Yield Corporates Sector views

Arrows imply our expectations of sector performance versus the Euro High Yield Corporate Bond Index
Up arrow = outperform, Sideways arrow = market perform, Down arrow = underperform

Basic Industries Chemicals, Metals & Mining, Pulp-Paper	↓	**YTD return : -8.9%** **12M return : -6.6%**	• Similar to IG, recent weakness across the metals complex makes us stay cautious. While the sector still trades wider than the benchmark, we stay underweight given the weak economic outlook and our more cautious view on chemicals (which accounts for 65% of the broader sector).
Capital Goods Aerospace & Defense, Building Materials, Machinery, Diversified Manufacturing	↔	**YTD return : -9.2%** **12M return : -6.5%**	• The slowing global backdrop and manufacturing weakness across Europe will weigh on capital goods, despite the sector actually marginally outperforming YTD. While many sub-sectors have held up well, construction machinery is down over 20%. Factory shutdowns and a likely slow return to business activity keeps us cautious, but we maintain a neutral allocation.
Communications Cable-Satellite, Media, Wireless, Wirelines	↑	**YTD return : -5.4%** **12M return : +0.9%**	• Second best performing sector YTD. Sub-sectors such as media entertainment and cable & satellite have benefitted from people working from home. Medium term, the sector benefits from various structural shifts including greater digitalization, revenue growth and rising data demands, while on-going competition and sector consolidation remain headwinds. Investment in 5G will keep capex levels high.
Consumer - Cyclical Automotive, Services, Construction, Leisure, Lodging, Restaurants, Retailers	↓	**YTD return : -13.8%** **12M return : -11.2%**	• Consumer cyclicals are the biggest loser from Covid, as retail, restaurants and hotels face widespread closures. Rising unemployment and furloughed workers will put increased medium term pressure on consumer demand. • Leisure is the worst performing sub-sector YTD, down 18%, while autos (which account for 55% of the sector) struggles with falling global auto demand and medium term US trade risks.
Consumer – Non-cyclical Consumer Products, Food-Beverage, Healthcare, Pharmaceuticals, Supermarkets, Tobacco	↑	**YTD return : -4.9%** **12M return : -1.1%**	• Non-cyclicals are the best performer year to date. Rising demand for supermarkets and food & beverage will likely continue throughout Q2 as much of Europe faces lock-down and on-going social distancing measures. Healthcare/pharma are key beneficiaries of Covid, are defensive in nature and benefit from longer term demographic trends • While the sector trades more expensive than the index, we maintain our overweight.

Source: Citi Private Bank, Bloomberg Barclays Euro Aggregate Corporate Bond Index as of October 2019. Note: YTD = year-to-date total return, 12m = total return over the last 12 months. The expressions of opinion are not intended to be a forecast of future events or a guarantee of future results. For illustrative purposes only. **Past performance is no guarantee of future returns. Real results may vary.**



EMEA High Yield Corporates
Sector views cont.

Arrows imply our expectations of sector performance versus the Euro High Yield Corporate Bond Index
Up arrow = outperform, Sideways arrow = market perform, Down arrow = underperform

Energy Independent, Integrated, Midstream, Oil Fields, Refining	↓	**YTD return : -10.3%** **12M return : -6.0%**	• We stay cautious in energy HY as companies are likely to struggle with collapsing oil prices and higher leverage, despite balance sheets improving in recent years. Citi Research forecast Q2 Brent prices to average $17/barrel from Citi Research. We don't believe yields in excess of 6% and spreads 39bps wider than the benchmark offer adequate risk-reward given the associate risks and corporate pressures ahead.
Financials – banks Banking	↔	**YTD return : -11.5%** **12M return : -5.7%**	• Despite attractive levels and the banking sector being much better capitalized, rising non-performing loans and corporate defaults on the back of Covid will lead to increased profitability challenges. Banks have also suspended equity dividend payments until October 2020 to help alleviate balance sheet pressure. • While opportunities exist, we advocate a selective approach at the issuer level avoiding more vulnerable periphery credits. Italian risk remains prominent as Covid exacerbates economic risks.
Financials – non-banks Brokerage, Finance Cos, Insurance, REITs	↔	**YTD return : -12.0%** **12M return : -6.8%**	• Non-banks have suffered YTD, down nearly 13%. Following such moves, the sector now offers spreads 141bps wider than the benchmark and yields in excess of 7%. • While insurers have seen structural improvements with better capital and liquidity positions, Covid could highlight profitability risks from increased payouts.
Utilities Electric, Natural Gas	↔	**YTD return : -5.8%** **12M return : -2.2%**	• Cash flow stability and defensive characteristics support utilities throughout the Covid crisis. Utilities have also outperformed the benchmark by 4.4% this year. However despite this outperformance, we avoid chasing the rally and stay neutral. The sector now trades 243bps tighter than the benchmark, while only offering yields of 3.4% (less than half that of the benchmark).

(*) Great Financial Crisis
(**) Source: Citi Research Commodities Forecast

Source: Citi Private Bank, Bloomberg Barclays Euro Aggregate Corporate Bond Index as of October 2019. Note: YTD = year-to-date total return, 12m = total return over the last 12 months. The expressions of opinion are not intended to be a forecast of future events or a guarantee of future results. For illustrative purposes only. **Past performance is no guarantee of future returns. Real results may vary.**

Bond Rating Equivalence

Alpha and/or numeric symbols used to give indications of relative credit quality. In the municipal market, these designations are published by the rating services. Internal ratings are also used by other market participants to indicate credit quality

Bond Credit Quality Ratings

	Rating Agencies		
Credit Risk	Moody's[1]	Standard and Poor's[2]	Fitch Ratings[2]
Investment Grade			
Highest Quality	Aaa	AAA	AAA
High Quality (Very Strong)	Aa	AA	AA
Upper medium Grade (Strong)	A	A	A
Medium Grade	Baa	BBB	BBB
Not Investment Grade			
Lower Medium Grade (Somewhat Speculative)	Ba	BB	BB
Low Grade (Speculative)	B	B	B
Poor Quality (May Default)	Caa	CCC	CCC
Most Speculative	Ca	CC	CC
No Interest Being Paid or Bankruptcy Petition Filed	C	D	C
In Default	C	D	D

Source: investinginbonds.com.

1. The ratings from Aa to Ca by Moody's may be modified by the additions of a 1, 2 or 3 to show relative standing within the category.
2. The ratings from AA to CC by Standard and Poor's and Fitch Ratings may be modified by the addition of a plus or minus to show relative standing within the category.

Glossary

The Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

The US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

The Pan-European Aggregate Index tracks fixed-rate, investment-grade securities issued in the following European currencies: Euro, British pounds, Norwegian krone, Danish krone, Swedish krona, Czech koruna, Hungarian forint, Polish zloty, and Slovakian koruna. Inclusion is based on the currency of the issue, and not the domicile of the issuer. The principal asset classes in the index are Treasuries, Government-Related, Corporate and Securitised, which include Pfandbriefe, other covered bonds and asset-backed securities.

Developed sovereign is measured against the Citi World Government Bond Index (WGBI), which consists of the major global investment grade government bond markets and is composed of sovereign debt, denominated in the domestic currency. To join the WGBI, the market must satisfy size, credit and barriers-to-entry requirements. In order to ensure that the WGBI remains an investment grade benchmark, a minimum credit quality of BBB–/Baa3 by either S&P or Moody's is imposed. The index is rebalanced monthly.

Emerging sovereign is measured against the Citi Emerging Market Sovereign Bond Index (ESBI). This index includes Brady bonds and US dollar-denominated emerging market sovereign debt issued in the global, Yankee and Eurodollar markets, excluding loans. It is composed of debt in Africa, Asia, Europe and Latin America. We classify an emerging market as a sovereign with a maximum foreign debt rating of BBB+/Baa1 by S&P or Moody's. Defaulted issues are excluded.

The Global Inflation-Linked Index includes securities which offer the potential for protection against inflation as their cash flows are linked to an underlying inflation index. All securities included in the index have to be issued by an investment-grade rated sovereign in its local currency. The list of eligible currencies is the same set of currencies eligible for inclusion in the Global Aggregate Index.

The US Mortgage Backed Securities (MBS) Index tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Securitized: Citi World Broad Investment Grade Index (WBIG) – Securitized is a subsector of the WBIG. This index includes global investment grade collateralized debt denominated in the domestic currency, including mortgage-backed securities, covered bonds (Pfandbriefe) and asset-backed securities. The index is rebalanced monthly.

Corporate investment grade is measured against the Citi World Broad Investment Grade Index (WBIG) – Corporate, a subsector of the WBIG. This index includes fixed rate global investment grade corporate debt within the finance, industrial and utility sectors, denominated in the domestic currency. The index is rebalanced monthly.

Corporate high yield is measured against the Citigroup US High Yield Market Index, which includes all issues rated between CCC and BB+. The minimum issue size is $50 million. All issues are individually trader priced monthly.

The US Municipal Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed tax exempt bond market. The index includes state and local general obligation, revenue, insured, and pre-refunded bonds.

Wells Fargo Hybrid & Preferred Securities Financial Index is a modified market-capitalization weighted index composed of preferred stock and securities that are functionally equivalent to preferred stock including, but not limited to, depositary preferred securities, perpetual subordinated debt and certain securities issued by banks and other financial institutions that are eligible for capital treatment with respect to such instruments akin to that received for issuance of straight preferred stock.

The BofA Merrill Lynch Fixed Rate Preferred Securities Index tracks the performance of fixed rate US dollar denominated preferred securities issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch) and must have an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings).

Credit Suisse European Contingent Convertible Index tracks bonds known as "CoCos". The term CoCo is used to describe a new type of convertible bond that is automatically converted into a predetermined amount of shares when a predefined trigger is breached. Since this type of bond is transformed into equity upon conversion, it would be available for further loss absorption and therefore satisfies the new regulatory requirements of hybrid capital instruments.

US Dollar Index (DXY) indicates the general international value of the USD. The USDX does this by averaging the exchange rates between the USD and six major world currencies. The ICE US computes this by using the rates supplied by some 500 banks.

Glossary

The Merrill lynch Option Volatility Estimate (**MOVE**) **Index** is a yield curve weighted index of the normalized implied volatility on Treasury options which are weighted on the 2, 5, 10, and 30 year contracts.

Commodities are measured against the Dow Jones-UBS Commodity Index, which is composed of futures contracts on physical commodities traded on exchanges, with the exception of aluminium, nickel and zinc, which trade on the London Metal Exchange (LME). The major commodity sectors are represented, including energy, petroleum, precious metals, industrial metals, grains, livestock, softs, agriculture and ex. Energy.

Bear flattener is a yield-rate environment in which short-term interest rates are increasing at a faster rate than long-term interest rates. This causes the yield curve to flatten as short-term and long-term rates start to converge.

European Additional Tier 1 capital (or Contingent Convertibles or CoCo's) are subordinated securities that qualify as Tier 1 capital under Basel III capital requirements

The London Inter bank Offered Rate (LIBOR) is the average of interest rates estimated by each of the leading banks in London that it would be charged were it to borrow from other banks. Libor rates are calculated for 5 currencies and 7 borrowing periods ranging from overnight to one year and are published each business day

The Euro Interbank Offered Rate (Euribor) is a daily reference rate, published by the European Money Markets Institute, based on the averaged interest rates at which Eurozone banks offer to lend unsecured funds to other banks in the euro wholesale money market (or interbank market).

Bloomberg Barclays Euro Aggregate Corporate Bond Index: Rules based benchmark measuring investment grade, EUR denominated, fixed rate, and corporate only. Only bonds with a maturity of 1 year and above are eligible.

Bloomberg Barclays Euro High Yield Corporate Bond Index: The Bloomberg Barclays Euro High Yield Index measures the market of non-investment grade, fixed-rate corporate bonds denominated in Euro. Inclusion is based on the currency of issue, and not the domicile of the issuer. The index excludes emerging market debt.

Bloomberg Barclays Germany Govt All Bonds Total Return Index: Bloomberg Barclays index which measures the total return of German sovereign bonds.

BBG Base Metals Index: All Bloomberg Commodity Indexes use January 2, 1996 as the index base date. Bloomberg Base Metals Spot Price Commodity Index is calculated with the following weightings. LME Aluminum LMAHDY 45%, LME Copper LMCADY 25%, LME Nickel LMNIDY 2%, LME Lead LMPBDY 12%, LME Zinc LMZSDY 15%, LME Tin LMSNDY 1%.

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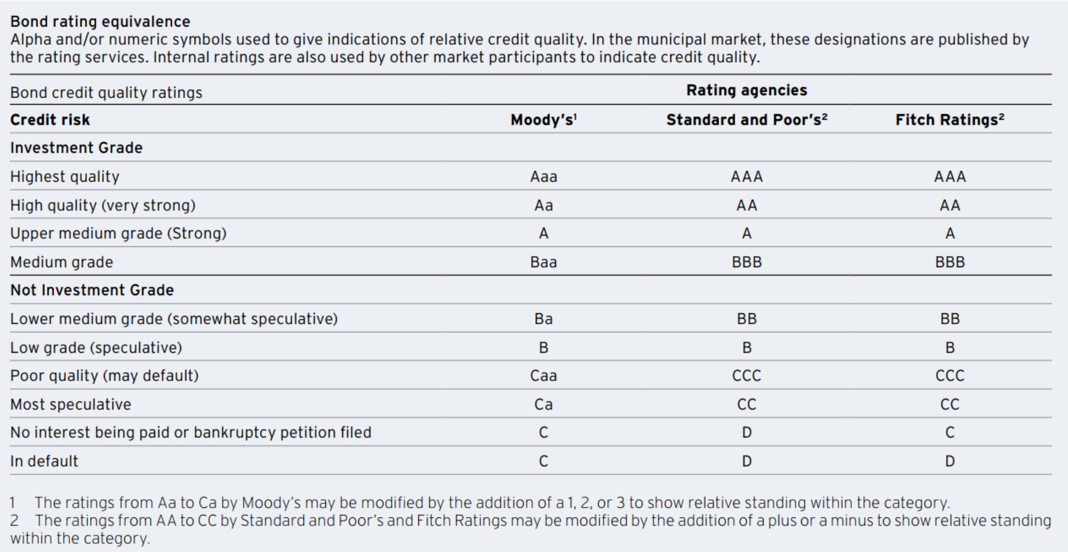
Important Information



Bond rating equivalence
Alpha and/or numeric symbols used to give indications of relative credit quality. In the municipal market, these designations are published by the rating services. Internal ratings are also used by other market participants to indicate credit quality.

Bond credit quality ratings		**Rating agencies**	
Credit risk	**Moody's**[1]	**Standard and Poor's**[2]	**Fitch Ratings**[2]
Investment Grade			
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not Investment Grade			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

[1] The ratings from Aa to Ca by Moody's may be modified by the addition of a 1, 2, or 3 to show relative standing within the category.
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