



# **Inflation and Rate Risk, a Changing Correlation Paradigm, and How to Position Portfolios in the New Regime**

October 2022

This presentation has been prepared exclusively for use by analysts, institutional investors and their consultants, registered investment advisors, broker-dealers, and sponsors of plans with a minimum of 100 participants. It is not intended for, and should not be used with, small plan sponsors, plan participants, or the public in written or oral form or for any other purpose.

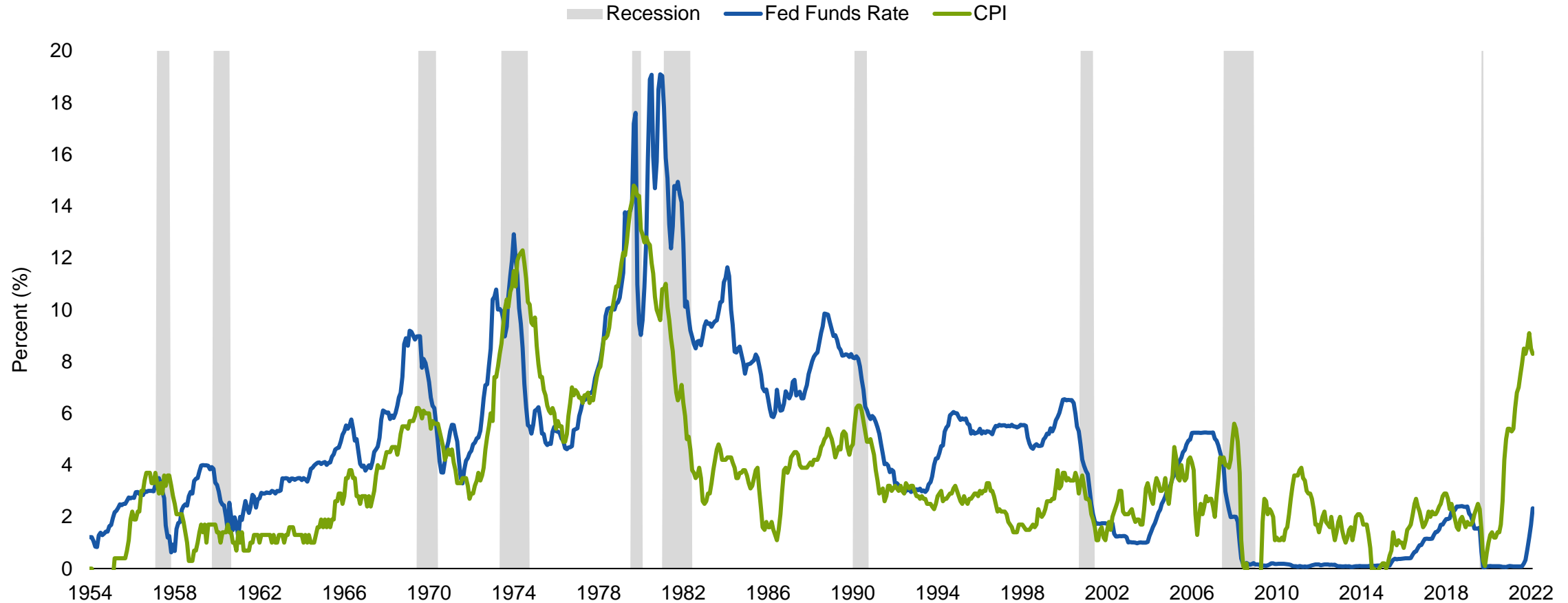


LORD ABBETT®



# History of Federal Funds Effective Rate and Inflation

The U.S. Federal Reserve is vowing to not repeat past mistakes of declaring victory on inflation too early

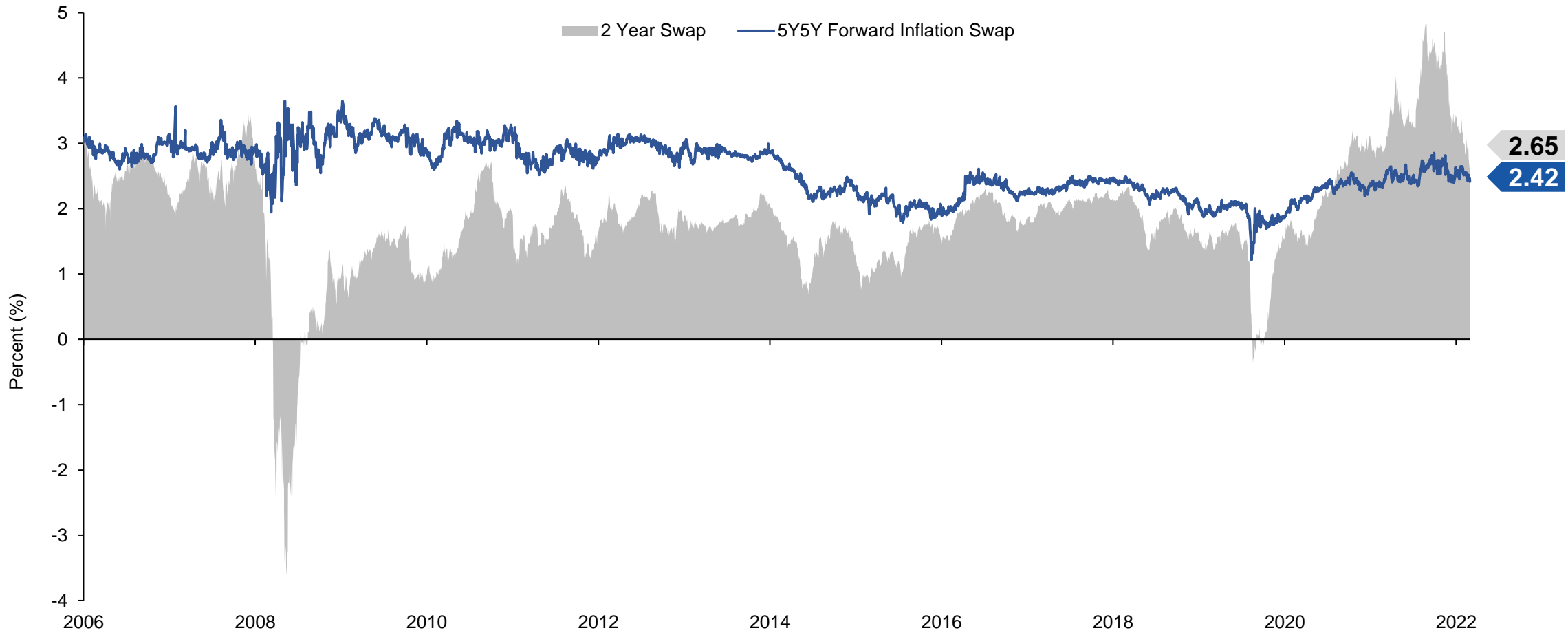


Source: Bloomberg. Data as of 08/31/2022. Inflation is represented by the year-over-year increase in the Consumer Price Index (CPI). The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett or any particular investment.



# Market Inflation Pricing Suggests that the Spike Over the Past Year Will Not Last

INFLATION SWAPS  
(AS OF 09/27/2022)



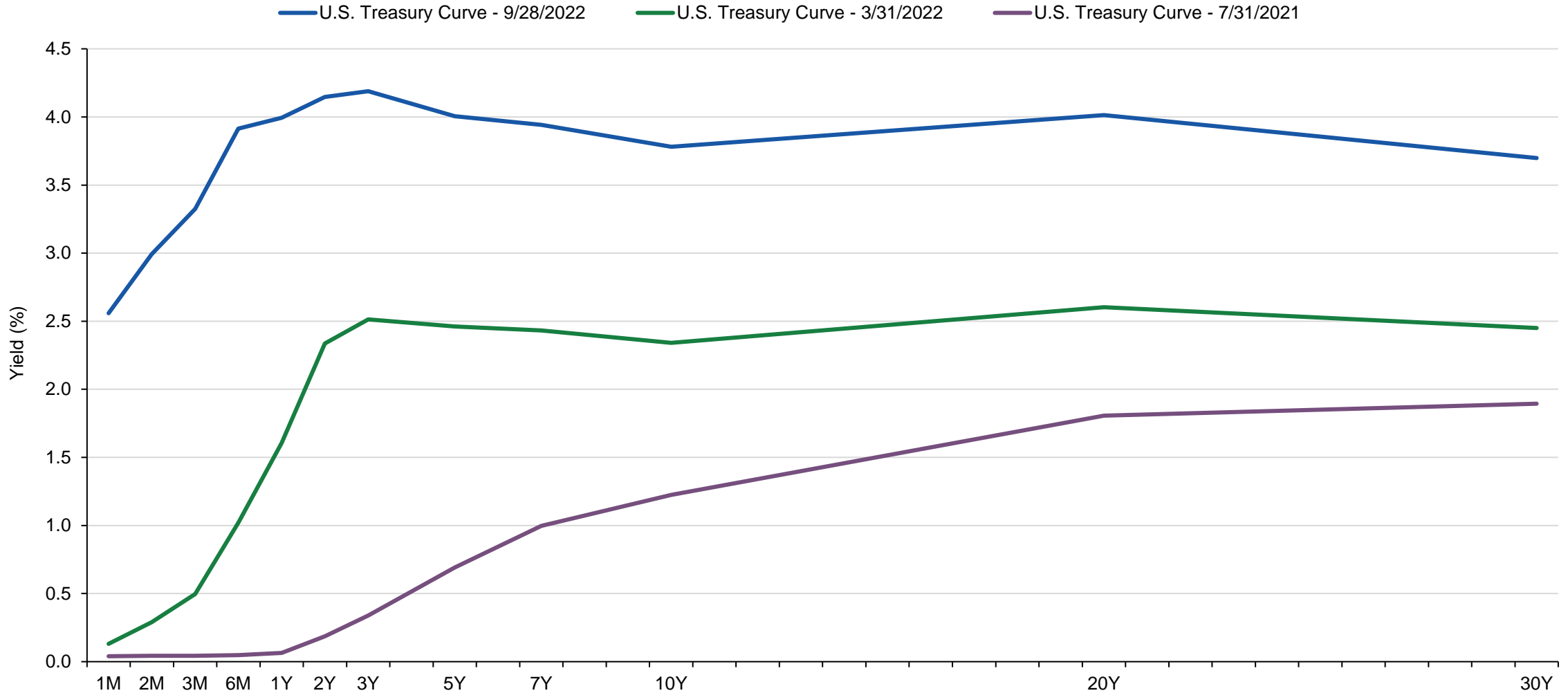
Source: Bloomberg. 5Y5Y Forward Inflation Swap is a common measure used by central banks and dealers to gauge the market's future inflation expectations. The historical data shown are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett.



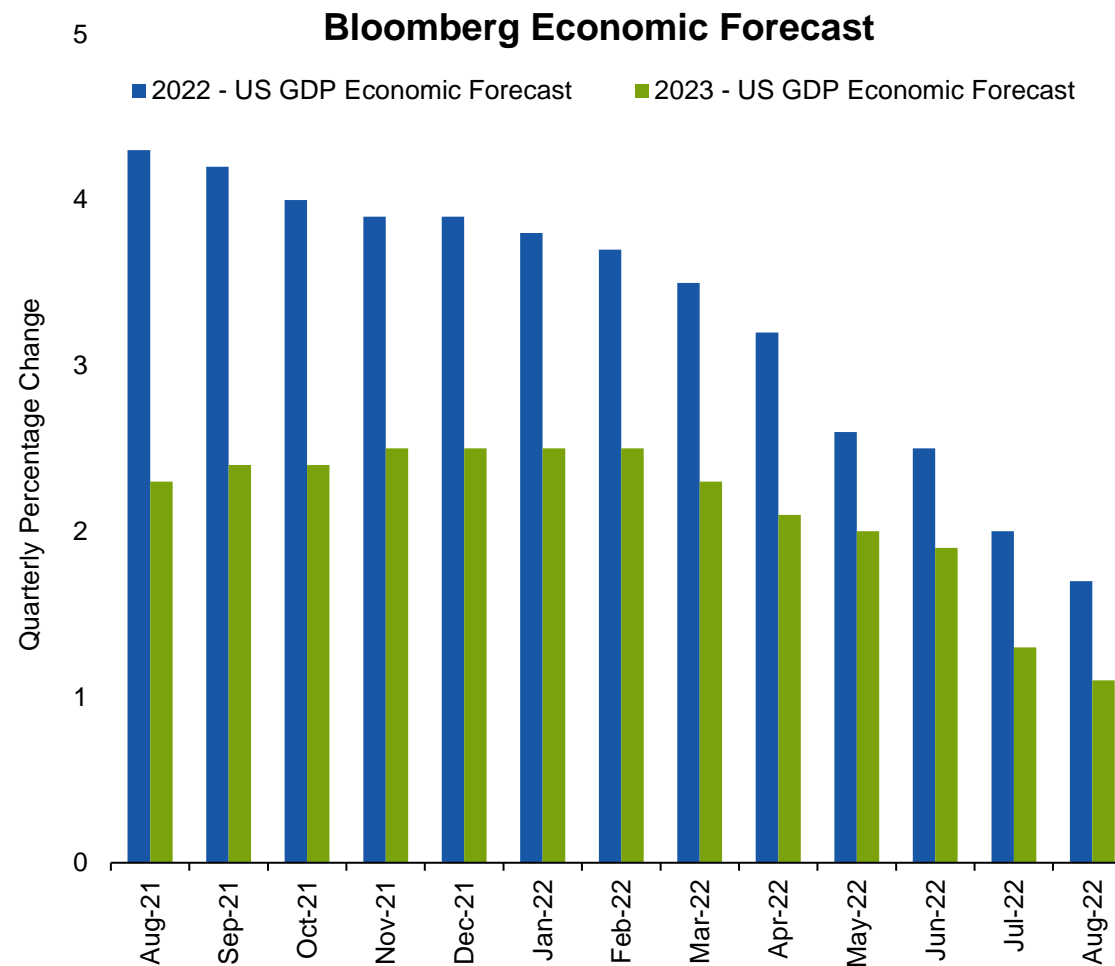
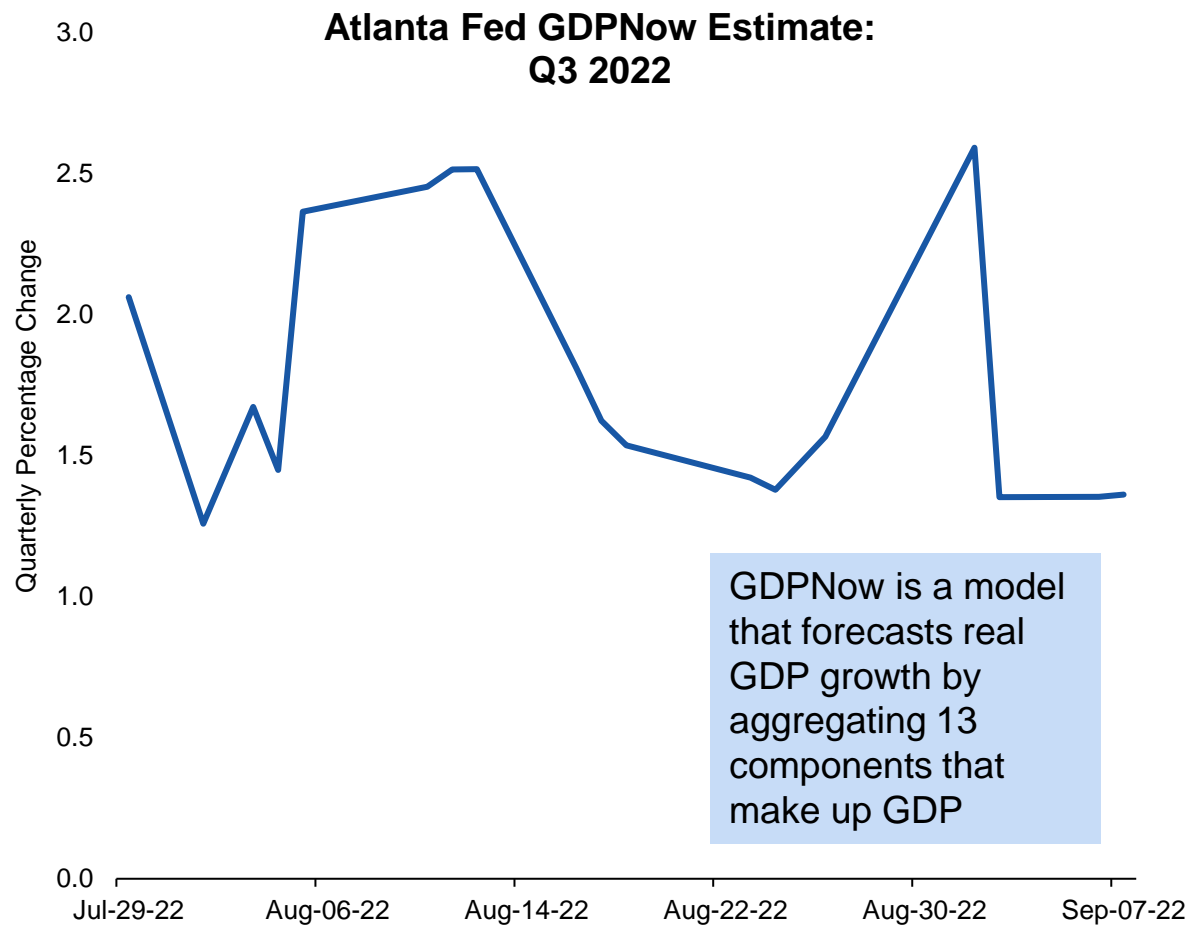
# Big Picture, What's Happened With Rates

Steepening on the short end of the curve may present opportunity

## CHANGE IN US TREASURY YIELD CURVE SHAPE



# GDP Expectations Have Come Down



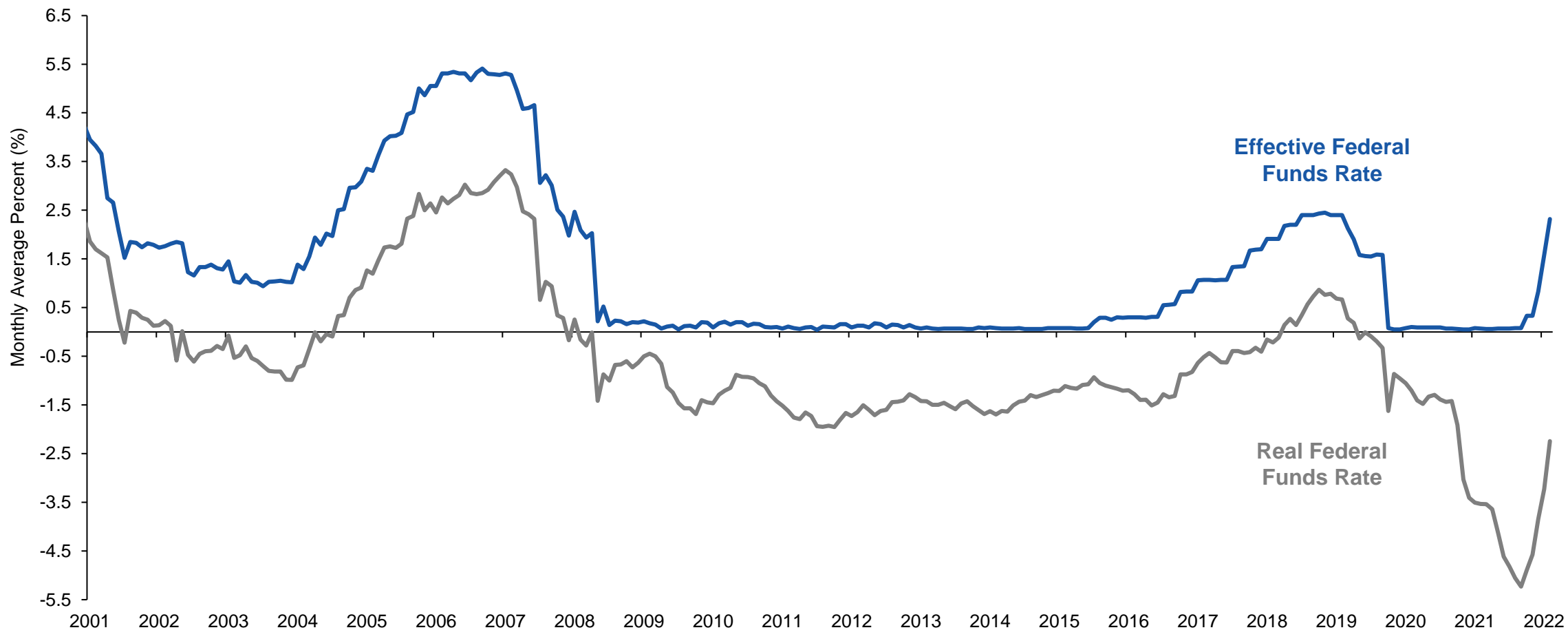
Source: Bloomberg. Data as of 08/31/2022. GDPNow is a nowcasting model created by the Federal reserve bank of Atlanta that forecasts real GDP growth by aggregating 13 components that make up GDP with the chain-weighting methodology used by the U.S. Bureau of Economic Analysis. The historical data shown are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett.



# Real Federal Funds Rate Remains Negative

Even if 2018-2019 was a sign of heightened rate sensitivity, a negative real fed funds rate is probably not restrictive enough to cause a significant slowdown

### Real Federal Funds Rate

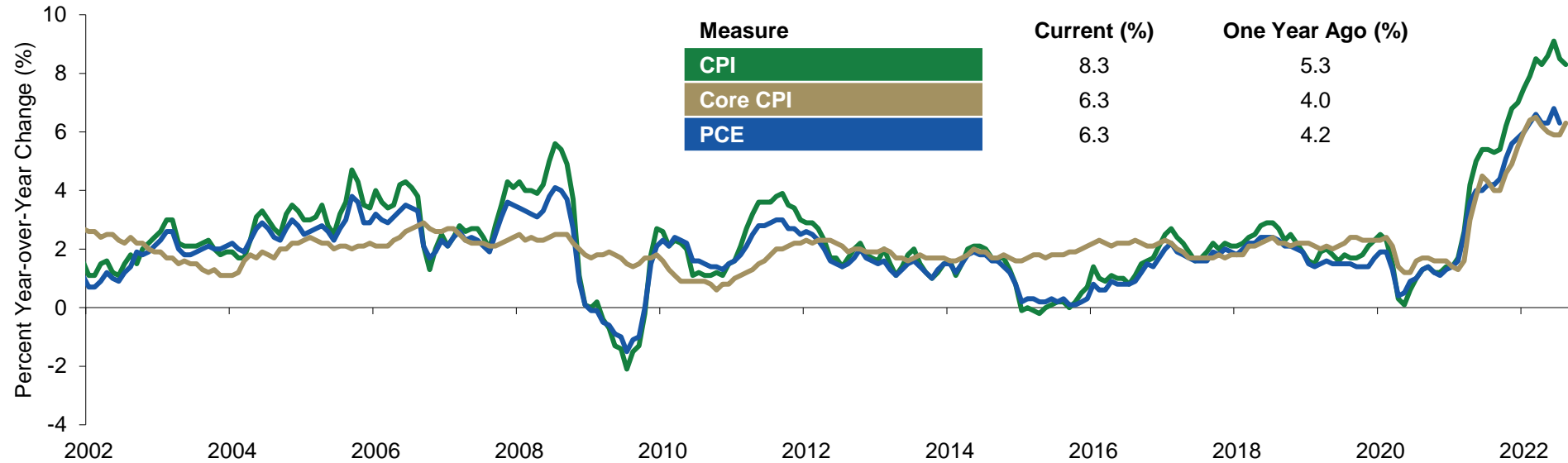


Source: Bloomberg. Effective federal funds rate as of 07/31/2022. Real federal funds rate as of 07/31/2022. The real federal funds rate is the effective rate minus 12-month core inflation according to the Price Index for Personal Consumption Expenditures (PCE). The historical data shown are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett.

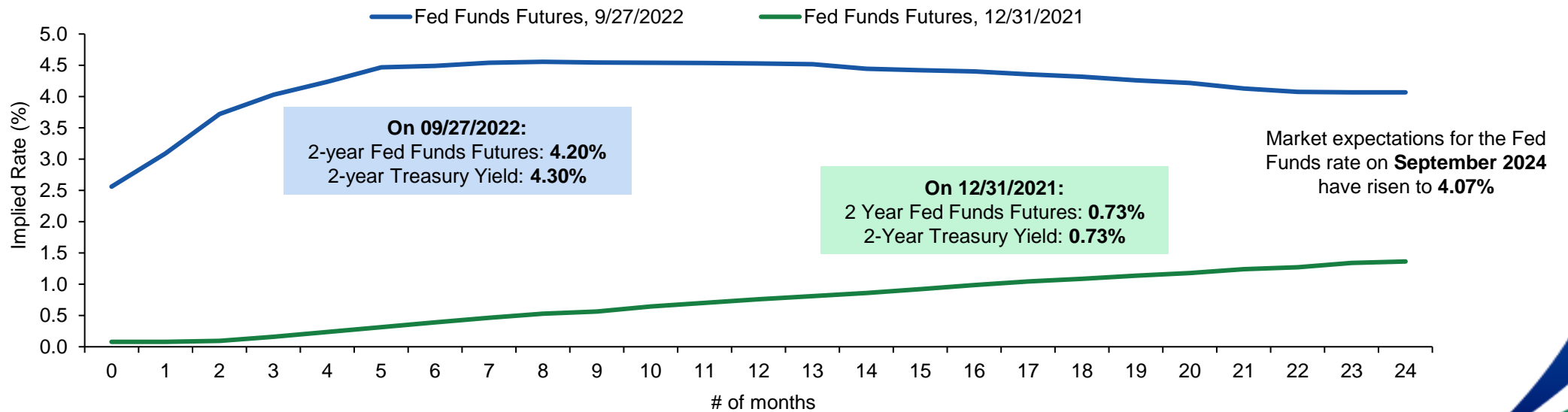


# Elevated Inflation Is Persisting; The Fed Is Tightening

**Powerful Rise in Inflation**



**Fed rate hike expectations have surged since 12/31/2021**



Source: Top: Bloomberg, CPI data as of 08/31/2022 and PCE data as of 07/31/2022. Bottom: Bloomberg. For illustrative purposes only.



# Negative Real Rates Are Highly Unusual Historically

Higher nominal long-term rates would not be surprising, as real rates return to positive territory

10-YEAR U.S. TIPS YIELD  
(AS OF 09/08/2022)



Source: Bloomberg. Real yields on Treasury Inflation Protected Securities (TIPS) at "constant maturity" are interpolated by the U.S. Treasury from Treasury's daily real yield curve. A real interest rate is an interest rate that has been adjusted to remove the effects of inflation. 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. **Past performance is no guarantee of future results.**





# Term Premium Still a Long Way from Typical

Investors are not being compensated for duration risk and potential inflation

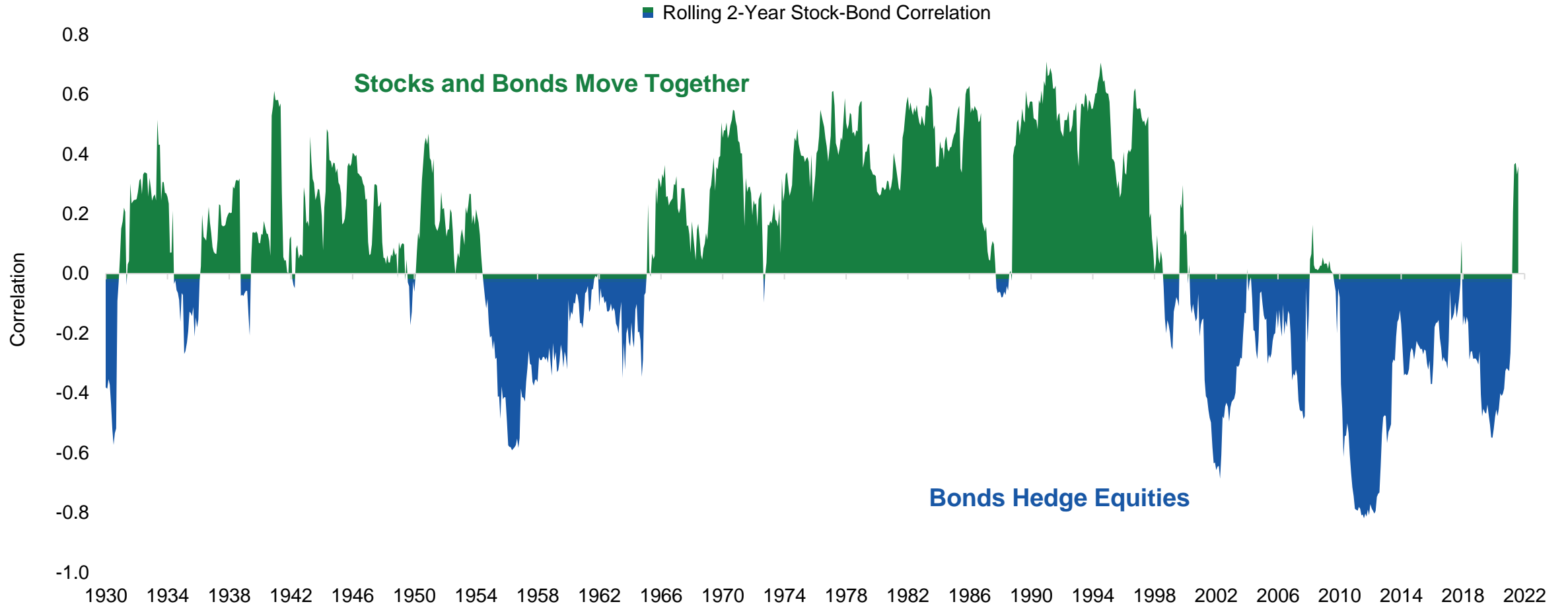


Source: Bloomberg and Federal Reserve Bank of New York. Term Premium as of 09/26/2022, as represented by ACMTP10. Inflation as of 08/31/2022, as represented by the year-over-year increase in the Consumer Price Index (CPI). **Past performance is not a reliable indicator or guarantee of future results.** For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees and expenses, and are not available for direct investment.



# Stock-Bond Correlation

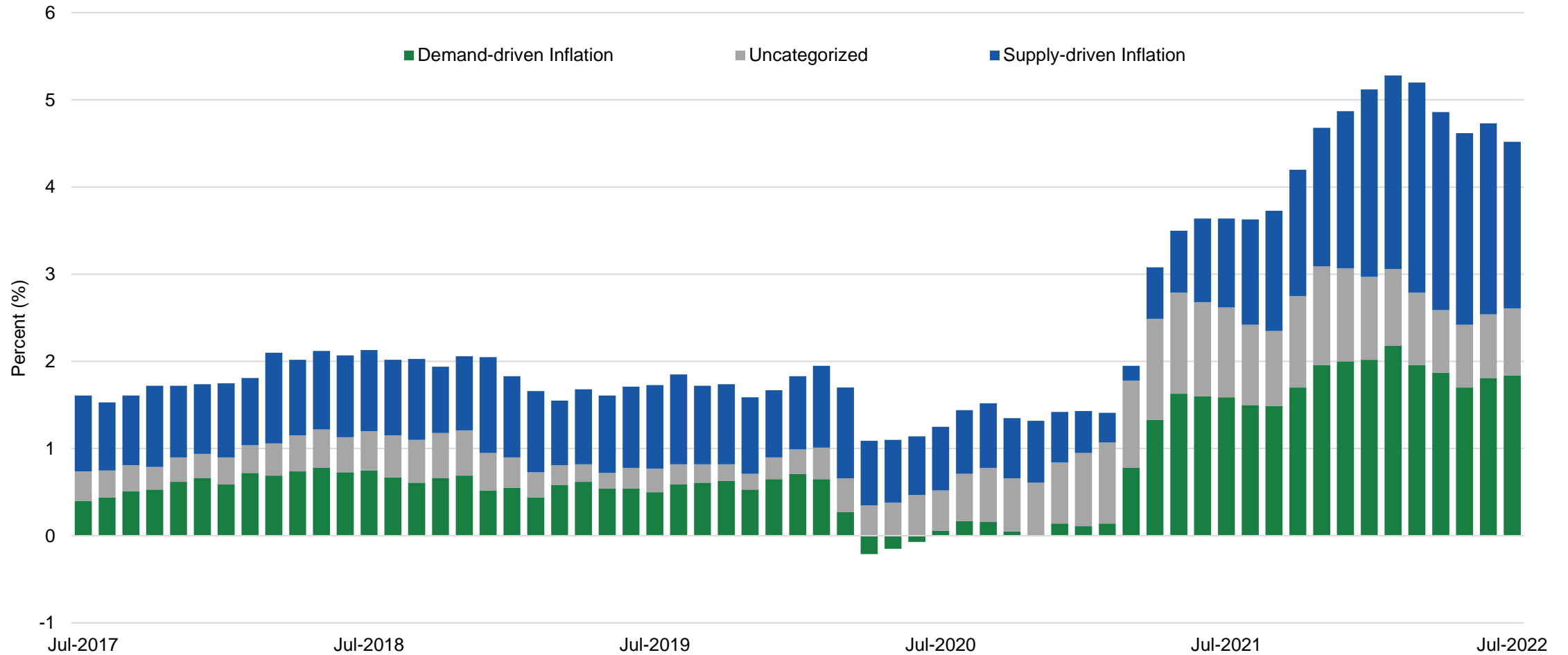
Positive correlation among stocks and bonds has been rare over the last two decades but not unusual over a longer history





# Supply-Driven vs Demand-Driven Inflation

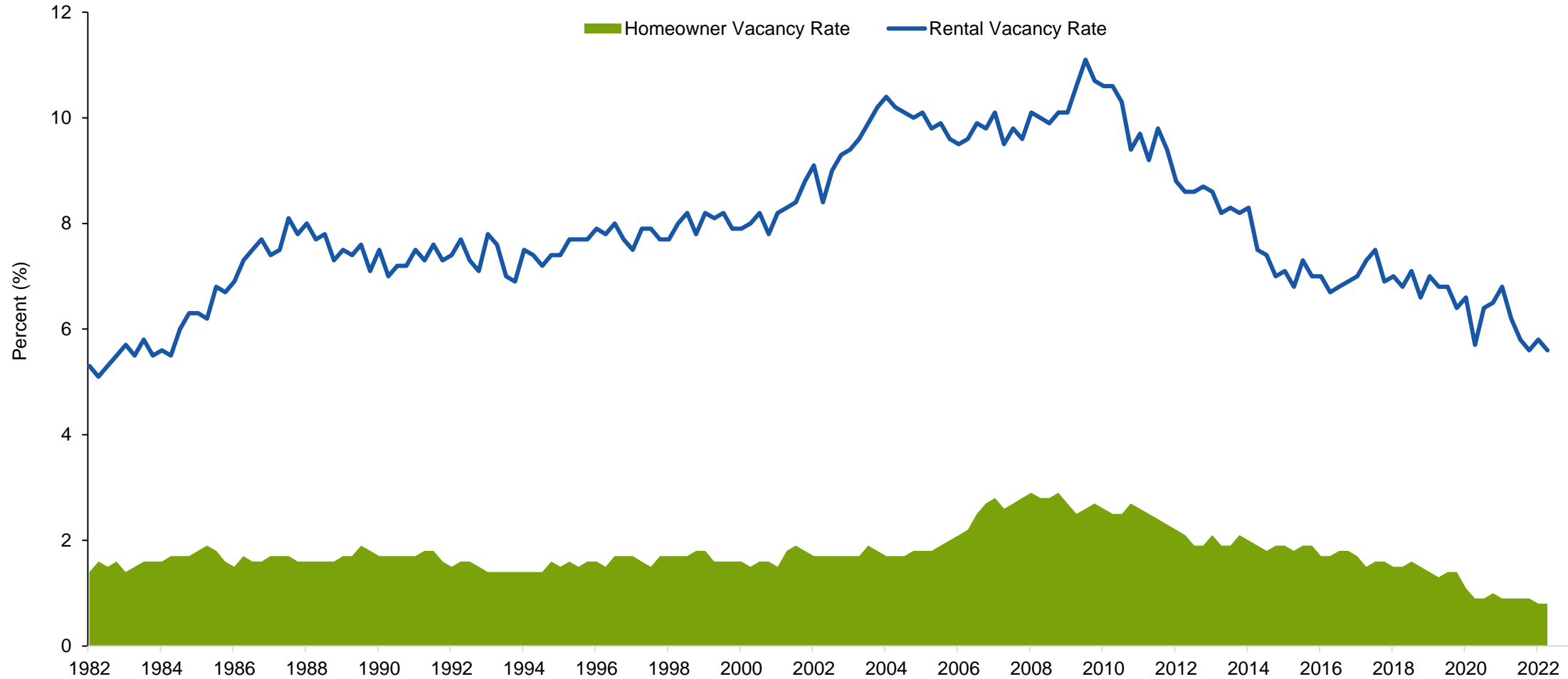
Fed hikes may have minimal, if any, impact on supply-driven inflation, and may even exacerbate shortages.





# U.S. Housing Vacancy Rates

Low vacancy rates may keep price pressures stubbornly high, as a supply correction can take years

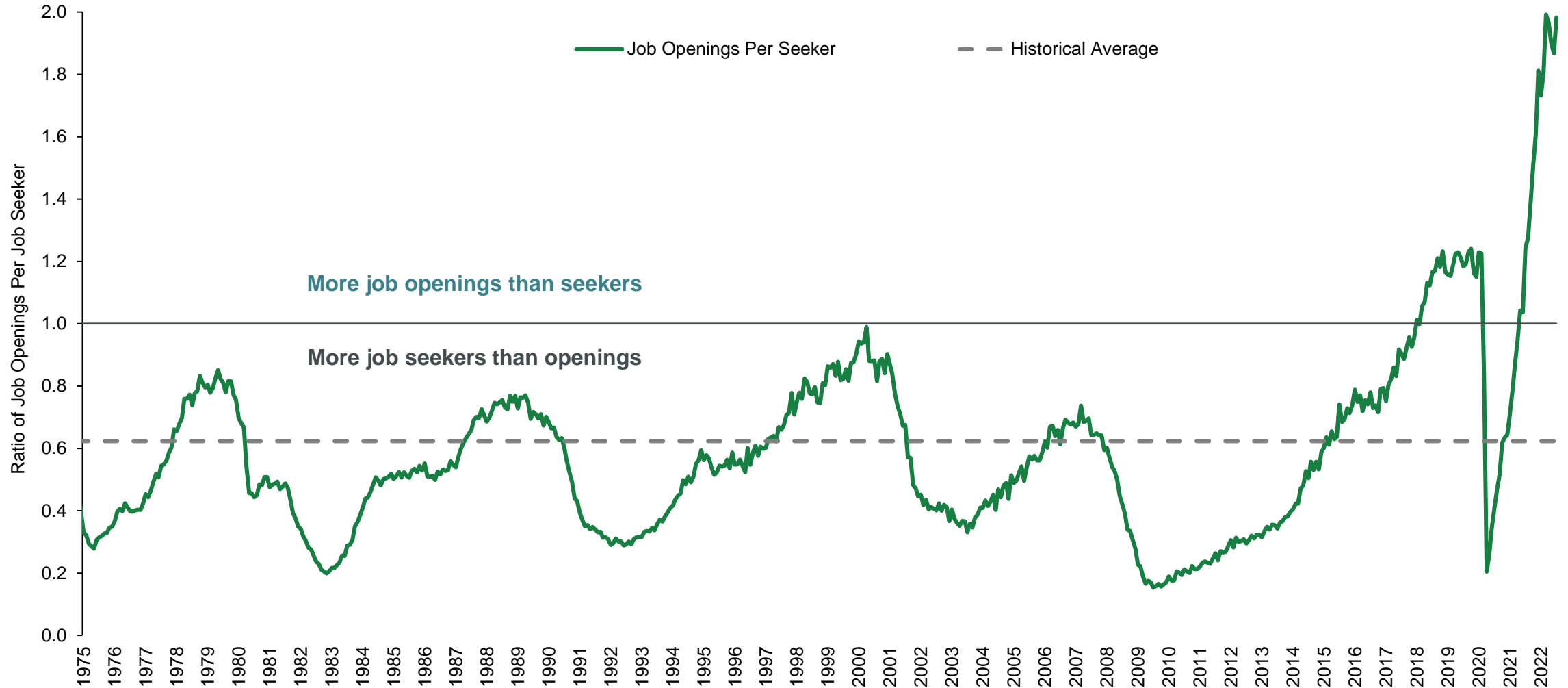


Source: Bloomberg and U.S. Census Bureau. Data as of 06/30/2022. The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett or any particular investment.



# Job Openings Outpace Job Seekers in the U.S.

In an extremely tight labor market there are twice as many job openings as the number of people looking for work

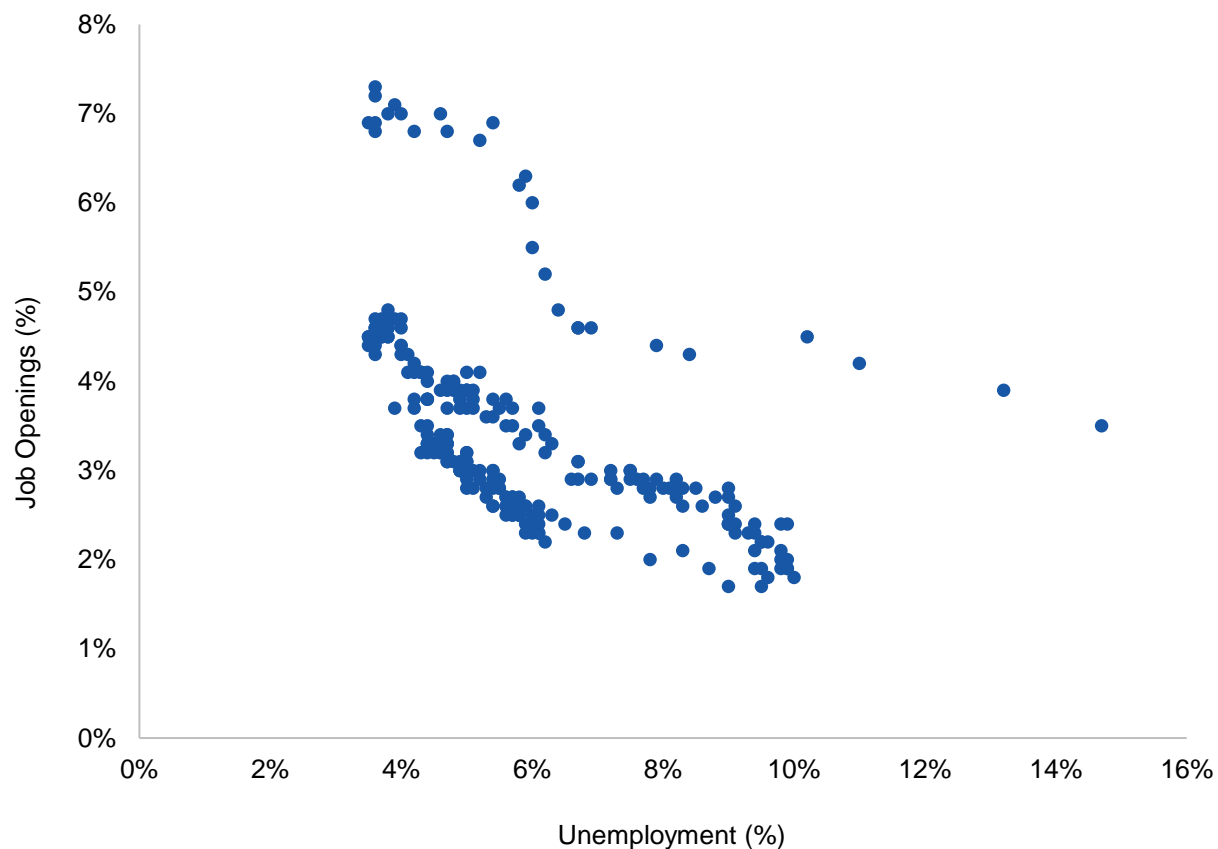


Source: Bloomberg and U.S. Bureau of Labor Statistics. Data as of 07/31/2022. The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett or any particular investment.



# Labor shortages are elevated across industries, but are particularly acute in rate-agnostic sectors

BEVERIDGE CURVE (JOB OPENINGS VS. UNEMPLOYMENT)



VACANCIES AS A PERCENT OF TOTAL JOBS

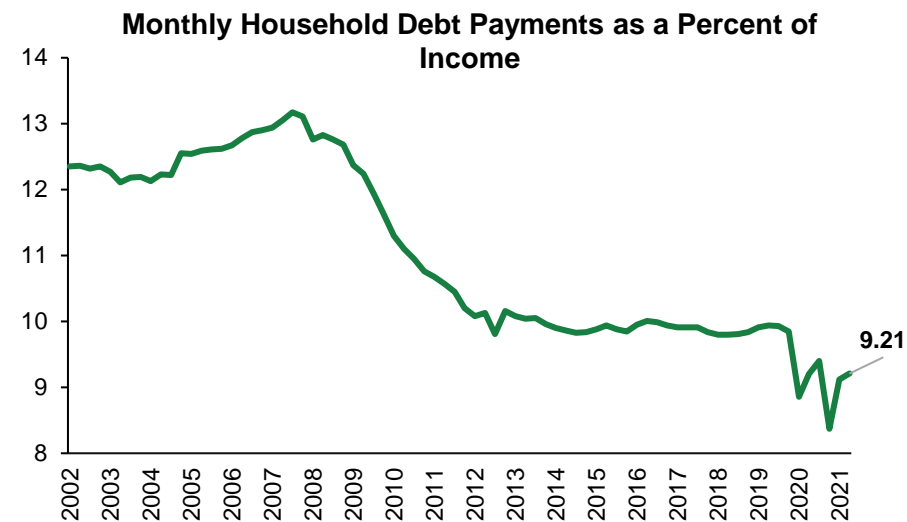
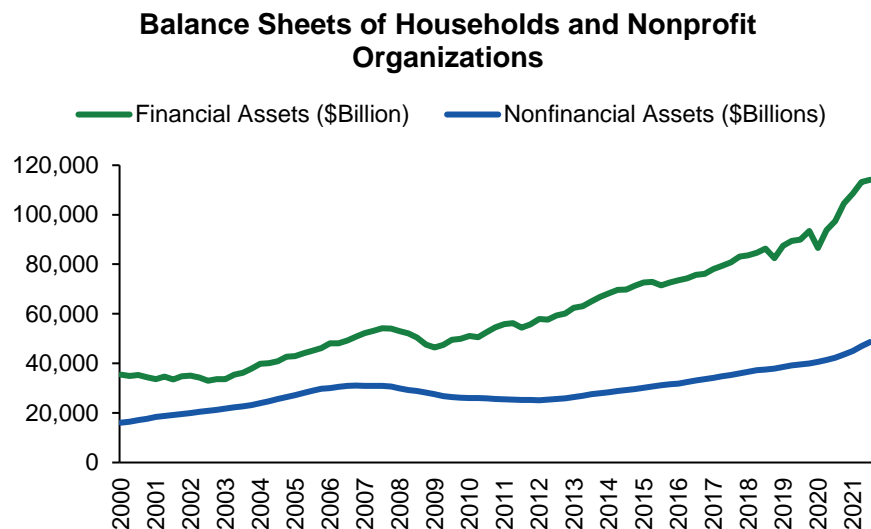
|                                              | Pre-Covid<br>(2001-2019)<br>Median | Peak:<br>Feb 2020 | Latest:<br>Jul 2022 |
|----------------------------------------------|------------------------------------|-------------------|---------------------|
| <b>Total Private</b>                         | 3.2                                | 4.6               | 7.2                 |
| <b>Construction</b>                          | 2.0                                | 3.8               | 4.6                 |
| <b>Manufacturing</b>                         | 2.1                                | 3.0               | 6.1                 |
| <b>Wholesale</b>                             | 2.4                                | 3.0               | 4.6                 |
| <b>Retail</b>                                | 2.9                                | 4.4               | 5.8                 |
| <b>Transport &amp; Utilities</b>             | 2.4                                | 4.4               | 7.5                 |
| <b>Information</b>                           | 3.2                                | 4.6               | 6.7                 |
| <b>Financial</b>                             | 3.2                                | 4.5               | 6.6                 |
| <b>Professional &amp; Business Services</b>  | 4.2                                | 5.7               | 8.5                 |
| <b>Education Services</b>                    | 2.2                                | 3.1               | 4.8                 |
| <b>Health Services</b>                       | 4.0                                | 5.2               | 8.8                 |
| <b>Arts, Entertainment, &amp; Recreation</b> | 3.3                                | 5.3               | 8.1                 |
| <b>Accommodation &amp; Food Services</b>     | 3.8                                | 5.4               | 8.9                 |
| <b>Other Services*</b>                       | 2.9                                | 3.3               | 7.3                 |
| <b>Total Government</b>                      | 1.9                                | 3.4               | 4.6                 |
| <b>Federal</b>                               | 2.1                                | 4.0               | 5.3                 |
| <b>State &amp; Local</b>                     | 1.9                                | 3.4               | 4.5                 |
| <b>Local Education</b>                       | 1.6                                | 3.6               | 3.4                 |

Source: Bloomberg and Lord Abbett. As of 07/31/2022. \*Other services include: repair and maintenance, personal care, and membership associations.

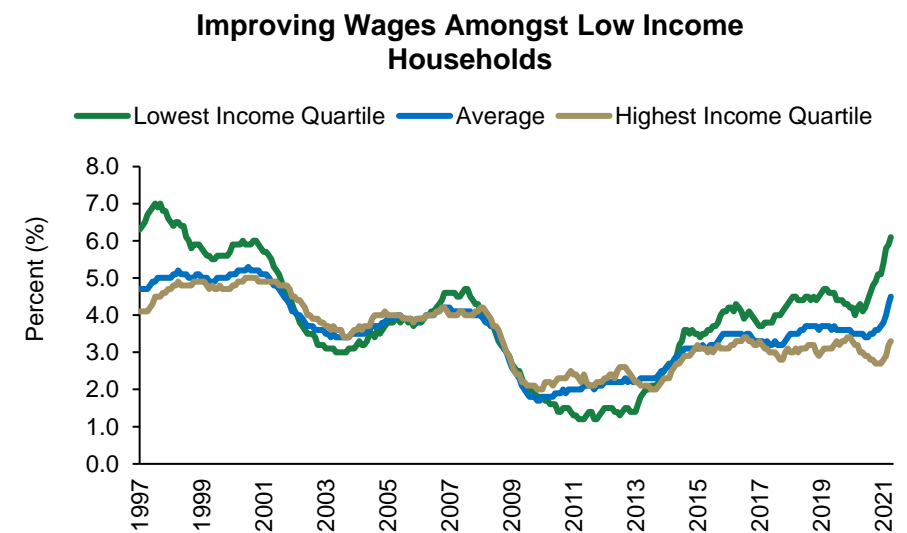
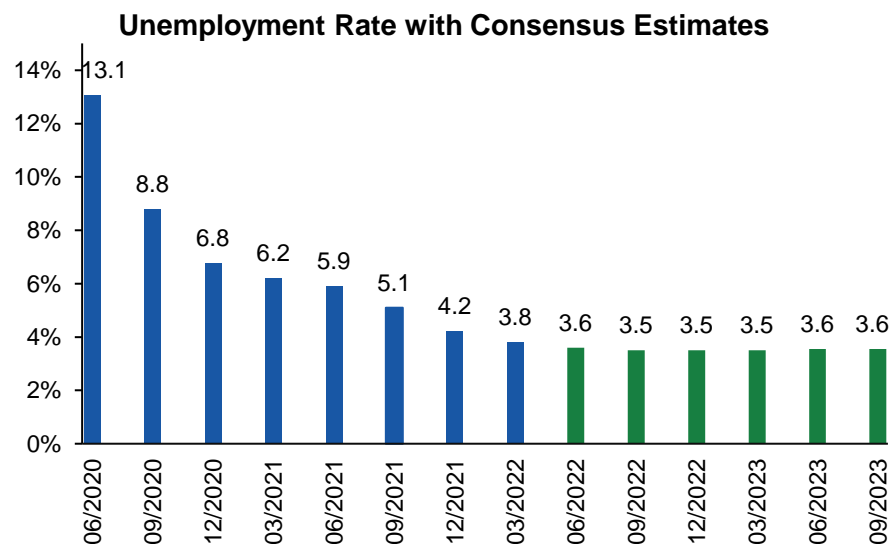


# The Consumer Remains Healthy

**Strong Consumer Balance Sheets**



**Jobs for Those Who Want Them, Improving Wages**

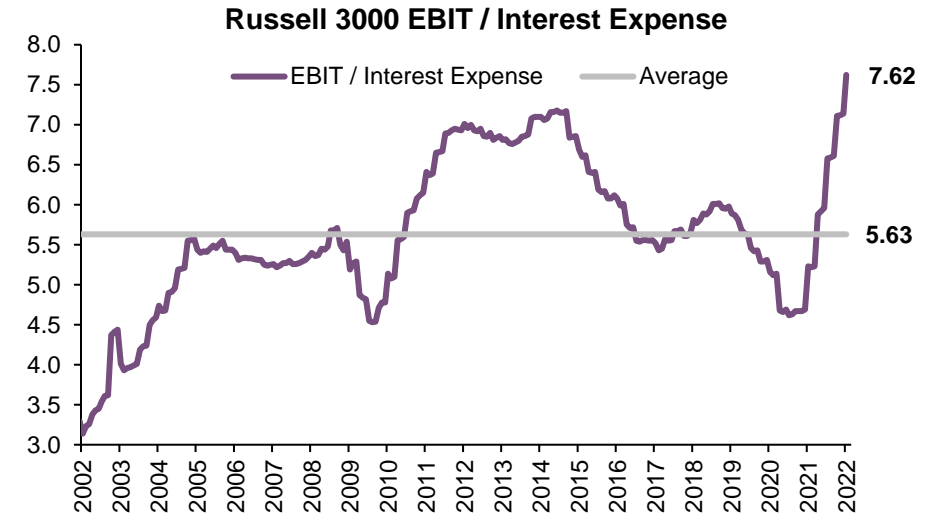
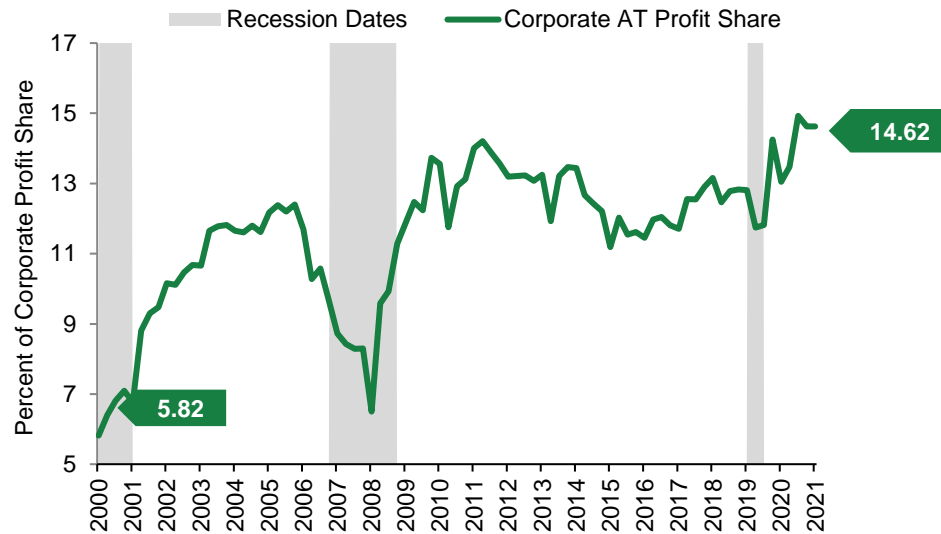


Source: Top Left: Federal Reserve, as of 05/31/2022. Top Right: FactSet, as of 05/31/2022. Bottom Left: FactSet, as of 05/31/2022. Bottom Right: Atlanta Federal Reserve, as of 05/31/2022. For illustrative purposes only.

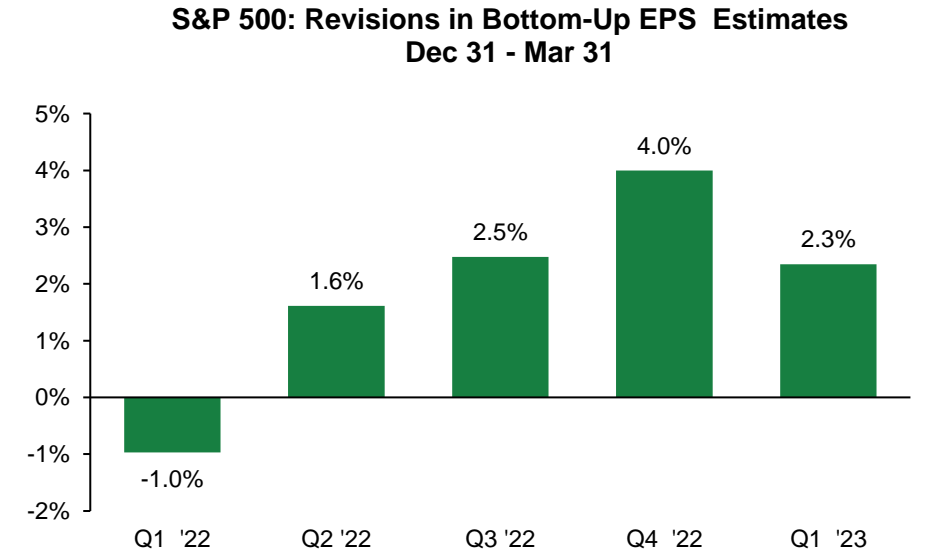
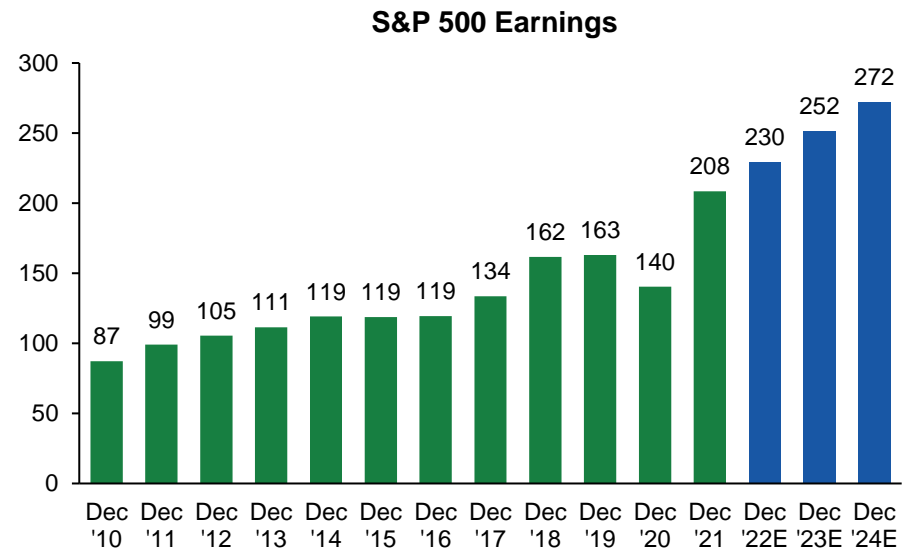


# Corporations Remain Healthy

**Elevated Margins, Robust Coverage Ratios**



**Persistently Strong Earnings Growth**



Source: Top Left: Bloomberg, as of 04/30/2022. Top Right: FactSet, as of 05/31/2022. Bottom Left: FactSet, as of 05/31/2022. Bottom Right: FactSet, as of 05/31/2022. For illustrative purposes only.





# Lord Abbett Short Duration Income I (dis) USD

(AS OF 31/08/2022)

|                             |                                |                                         |                                 |                                          |                                       |
|-----------------------------|--------------------------------|-----------------------------------------|---------------------------------|------------------------------------------|---------------------------------------|
| <b>IE00BFNWY382</b><br>ISIN | <b>5.30%</b><br>Yield to Worst | <b>2.16 Years</b><br>Effective Duration | <b>\$97.55</b><br>Average Price | <b>Single A</b><br>Average Credit Rating | <b>\$4.81 Billion</b><br>Total Assets |
|-----------------------------|--------------------------------|-----------------------------------------|---------------------------------|------------------------------------------|---------------------------------------|

## HERITAGE OF MULTI-SECTOR FIXED INCOME INVESTING

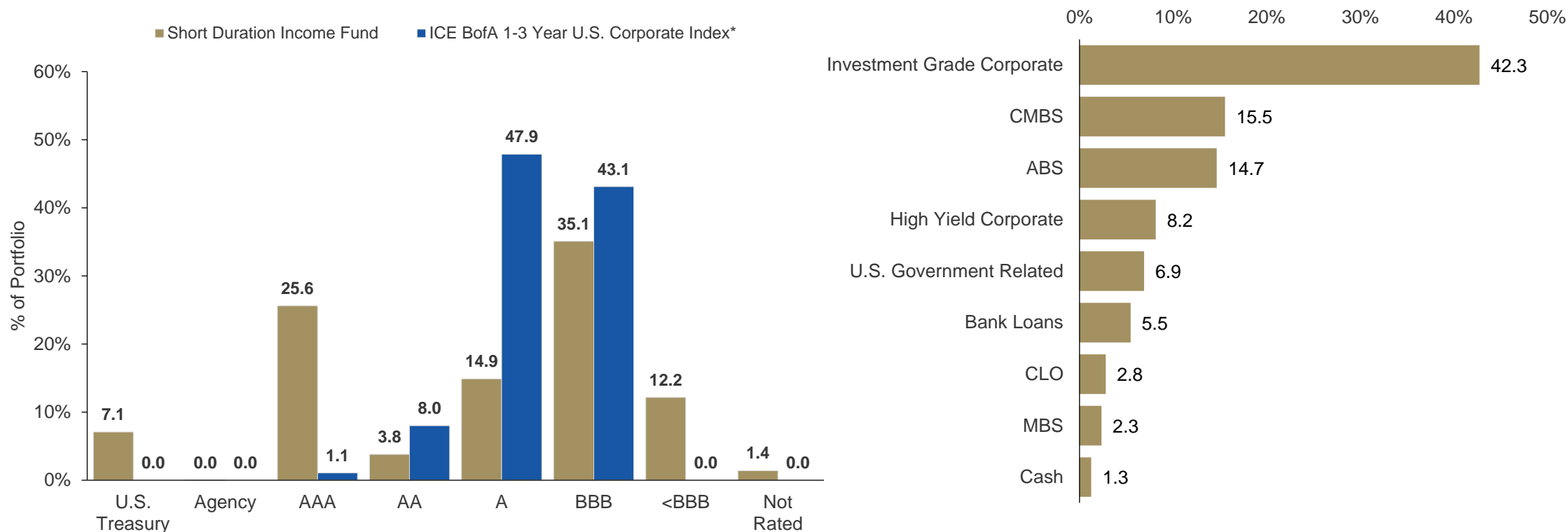
Lord Abbett pioneered multi-sector fixed income investing dating back to 1971 with the inception of the industries first multi-sector bond fund

## HIGH QUALITY, ATTRACTIVE INCOME, LOW DURATION,

Designed to provide an attractive yield while limiting duration and credit risk

## STRONG PERFORMANCE

Incepted in 2007, has offered a track record of strong performance through various market environments



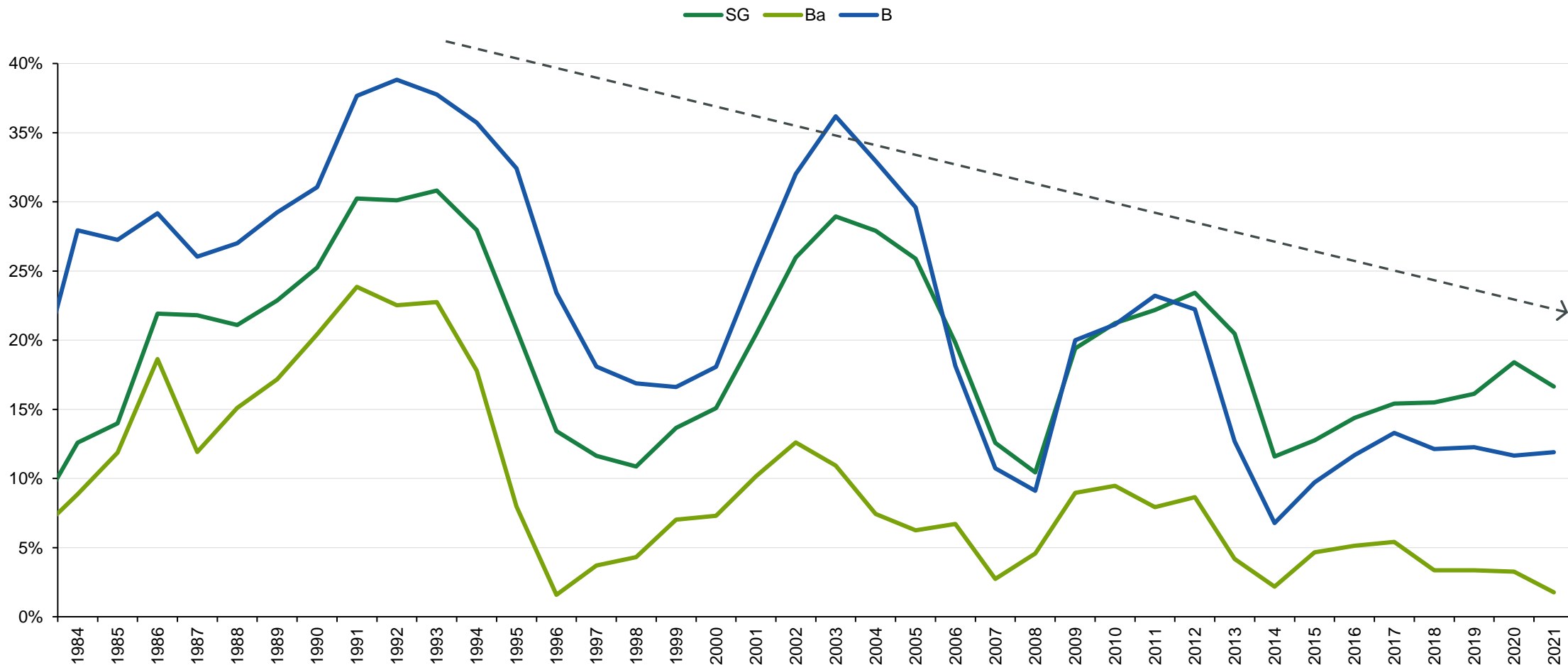
The portfolio is actively managed and credit quality distribution may change significantly over time. Totals may not equal 100% due to rounding. Ratings (other than US Treasury securities or securities issued or backed by US agencies) provided by Standard & Poor's, Moody's, and Fitch. For certain securities that are not rated by any of these three agencies, credit ratings from other agencies may be used. Where the rating agencies rate a security differently, Lord Abbett uses the average rating based on numeric values assigned to each rating. A portion of the portfolio's securities may not be rated. Breakdown is not an S&P credit rating or an opinion of S&P as to the creditworthiness of such portfolio. Ratings apply to the credit worthiness of the issuers of the underlying securities and not the fund or its shares. Ratings may be subject to change. \*Source: ICE Data Indices, LLC.



# Default Cycles Peaking at Lower Levels from One to the Next

Increasingly efficient capital markets, better capital allocation, less frictional costs, and growth of rescue/private capital all support the shrinking intensity of default cycles over the last 40 years

CUMULATIVE 5-YEAR DEFAULT EXPERIENCE BY RATINGS COHORT  
(AS OF 12/31/2021)



Source: Moody's Annual Default Study 2021. Most recent full year data available. Subject to change based on changes in the market. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.

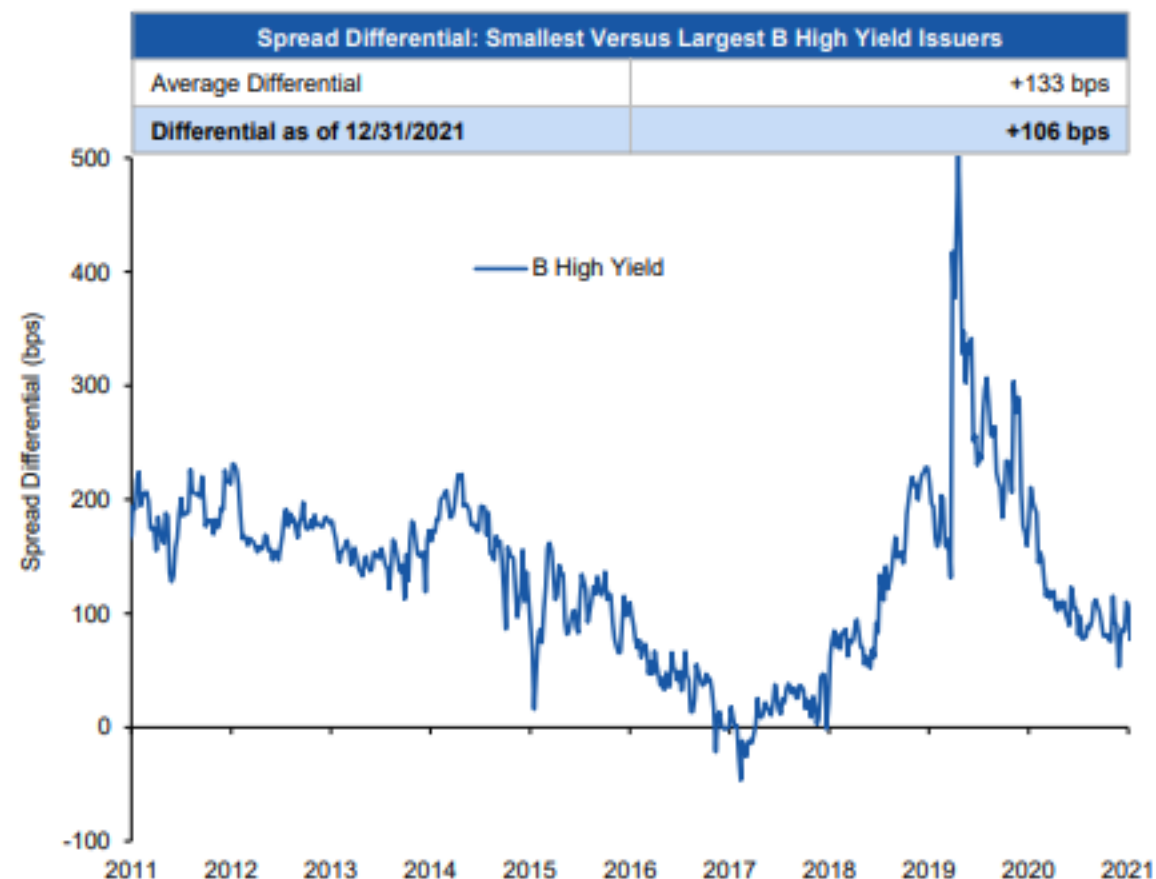
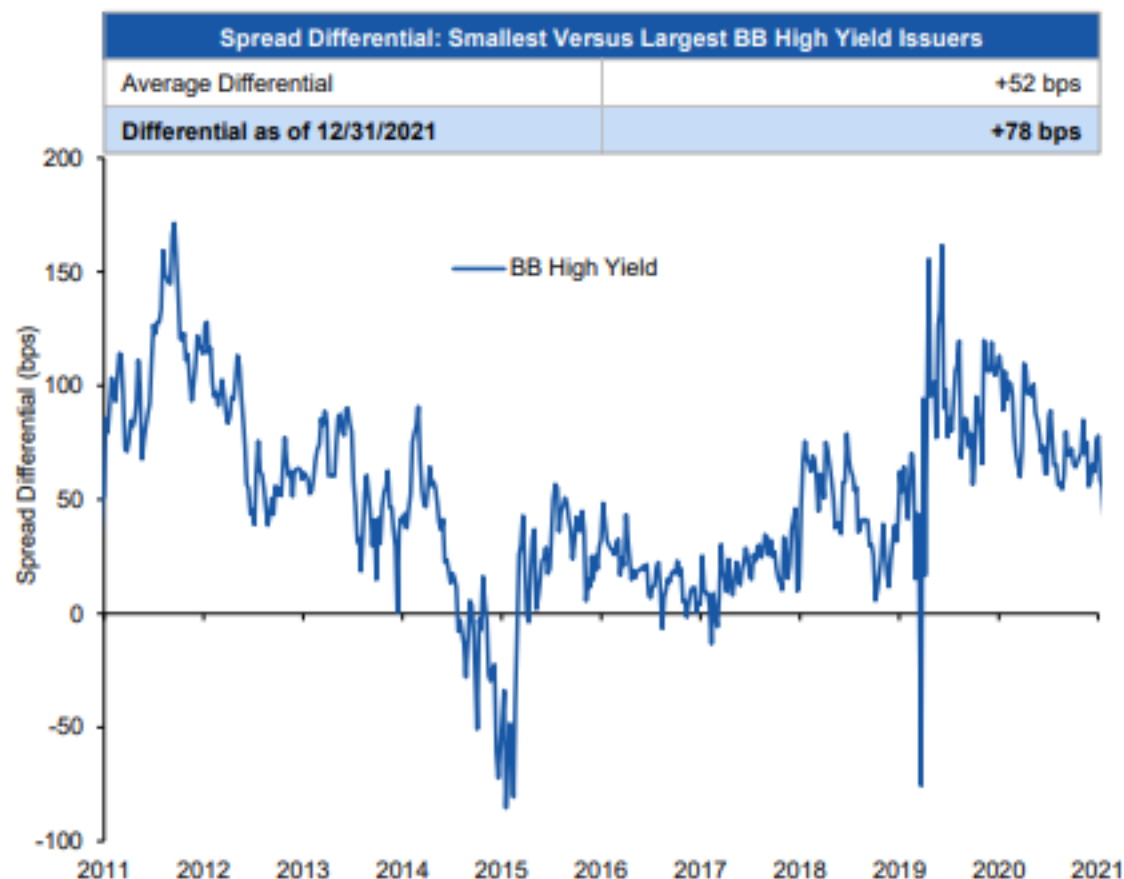


# Liquidity Differences May Create Opportunities Within The Market

Additional spread on smaller issues not widely held by daily liquidity funds and ETFs

- ETFs primarily invest in top quartile size capital structures (~\$1.2B+ bonds outstanding)
- This liquidity premium changes over time

## SPREAD DIFFERENTIAL BETWEEN SMALLEST QUARTILE AND LARGEST QUARTILE ISSUERS



Source: ICE BofA Index Data as of 12/31/2021. Spread differential indicates the difference between the smallest quartile and largest quartile of issuers in the ICE BofA U.S. High Yield Index. 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.



# Expanded Opportunity Set

Providing access to opportunities not available in daily liquidity funds or ETFs

| As of 06/30/2022  | Credit Opportunities Fund (Class I) | ICE BofA High Yield Index | Largest High Yield ETF | Largest Bank Loan ETF |
|-------------------|-------------------------------------|---------------------------|------------------------|-----------------------|
| Average Coupon    | 6.66%                               | 5.72%                     | 5.47%                  | 4.79%                 |
| Average Price     | \$84.1                              | \$85.6                    | -                      | \$95.8                |
| Yield to Worst    | 12.10%                              | 8.95%                     | -                      | -                     |
| Yield to Maturity | 12.20%                              | 8.97%                     | 7.45%                  | -                     |
| # of Holdings     | 141                                 | 1,996                     | 1,227                  | 141                   |

| As of 06/30/2022 | Credit Opportunities Fund | ICE BofA High Yield Index | Largest High Yield ETF | Largest Bank Loan ETF |
|------------------|---------------------------|---------------------------|------------------------|-----------------------|
| BBB and above    | 6.3%*                     | -                         | 1.1%                   | 11.4%                 |
| BB               | 7.3%                      | 52.6%                     | 55.2%                  | 24.2%                 |
| B                | 38.4%                     | 36.4%                     | 33.5%                  | 61.1%                 |
| CCC              | 30.5%                     | 10.8%                     | 10.2%                  | 3.3%                  |
| NR               | 17.3%                     | -                         | 0.0%                   | -                     |

\* Includes allocations to commercial paper and other short-term investments

Performance data quoted reflect past performance and are no guarantee of future results. Current performance may be higher or lower than the performance data quoted. The investment return and principal value of an investment in the Fund will fluctuate so that shares, on any given day or when redeemed, may be worth more or less than their original cost. You can obtain performance data current to the most recent month end by calling Lord Abbett at (888) 522-2388 or referring to our website at lordabbett.com. Source: Lord, Abbett and ICE BofA U.S. High Yield Index data. High Yield ETF data is based on the ishares iboxx high yield corporate bond ETF. Bank Loan ETF data is based on the Invesco Senior Loan ETF. The Credit Opportunities Class I Share 1 Year and Since Inception (02/21/2019) returns as of 06/30/2022 were -7.64%, and 6.21% respectively. The Credit Opportunities Fund Unsubsidized Distribution and SEC Yield as of 06/30/2022 were 8.41% and 9.03% respectively. The above does not constitute a recommendation nor investment advice and should not be used as the basis for any investment decision. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. This material must be accompanied by or preceded by the Fund's prospectus.