# 2024 Fixed Income Outlook

*An Ameriprise Investment Research Group publication*

Fixed Income Research Team
December 15, 2023

### Lower yields likely ahead in 2024

We believe the bold inflation spike in 2022 carried through into both higher Fed policy, higher Treasury yields and wider spreads over the past two years. Going forward, Fed policy rates and long-term bond yields may be headed lower in 2024 as inflation grinds lower from COVID-19 supply chain distortions and ultra-tight labor markets.

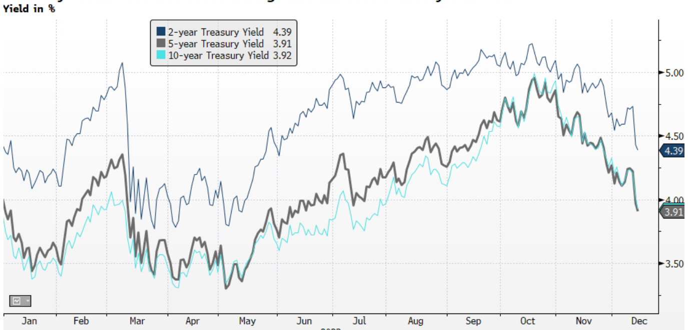
### A look back at 2023

Year-to-date, the Bloomberg US Universal Index posted a 4.75% total return through December 13, with fourth-quarter performance pushing the index back into positive territory for the year. The Bloomberg US Aggregate Index lagged the US Universal Index by half a percent year-to-date, largely attributable to Global High Yield performance.

The strongest total returns came from U.S. High Yield Corporates, followed closely by Europe as the market's risk-on tone swept credit spreads tighter on the year. Even in high-quality fixed income, the Bloomberg Investment Grade Corporate Index topped the performance of core Treasury rates, 4.01% versus 2.82%, respectively, year-to-date through December 14.

Treasury yields took the roller coaster route, with two-year Treasuries reaching 5.07% in the first quarter before dropping as concerns around the banking sector brought a flash-back to the Great Financial Crisis. Before March was over, 2-year Treasury yields set the 2023 low-water mark at 3.77%; a 130 basis point drop in just 13 trading sessions.

**Treasury Yields Provided Broad Swings and Elevated Volatility This Year**
Yield in %




Source: Bloomberg L.P.

## Key Takeaways

- The Fed's current rate stance remains solidly constrictive at 5.25%-5.50%, relative to neutral of around 2.50%, and may be lowered by the Fed late next year.
- Declining inflation and slower growth suggest the peak in Treasury yields for the cycle may have been in 2023.
- The Ameriprise Global Asset Allocation Committee forecasts a 3.50% 10-year Treasury yield and the potential for 75 basis points of Fed policy cuts at year-end 2024.
- We see compelling catalysts supporting free cash flow and ratings for select high-quality corporate bonds in each industry.

## Recommendations

- Focus on up in quality in U.S. Government Bonds and U.S. Corporate Bonds.
- 2% real yields on Treasuries signal it's the right time to shift cash into fixed-income, and the right phase of the rate cycle for total return opportunities.
- With peak 10-year Treasury yields likely behind us, we believe opportunities abound for investors seeking total return, income and capital preservation.

From their low yield of 3.30% on May 3, 10-year Treasuries soared 169 basis points closing at 4.99% on October 19. It seems that 10-year yields shed more than 100 basis points of yield in that short window of March, while the rise in yield took more than four months.

**NOTE: FOR IMPORTANT DISCLOSURES, INCLUDING POSSIBLE CONFLICTS OF INTEREST, PLEASE SEE THE DISCLOSURE PAGES AT THE END OF THIS DOCUMENT.** For further information on any of the topics mentioned, please contact your financial advisor.

## Inflation and bond market angst over U.S. Governance likely side-lined next year

While investor concerns over unanchored inflation appear to be largely set aside, we note how Treasury yields rose in June during Congressional debates over the debt ceiling. They rose again while the House failed to pass a continuing resolution to keep the government open through the tumultuous period of voting to remove Speaker McCarthy and replace him with Speaker Johnson. Effective budgeting begins with effective governance, which relies on effective leadership. Watching challenges in selecting a house speaker constrained by party line divisions and interparty agenda punctuated the investor hopes for addressing deficit spending.

We point to a buyers strike in Treasury markets as many investors stepped aside while headlines focused on political angst in Washington. Fitch Ratings lowered its credit rating from AAA to AA+ on August 5th, and Moody's investor service ultimately placed the U.S. Sovereign debt rating on Outlook Negative on November 10th, citing the impediments to governance that keep Congress focused away from its budget responsibilities.

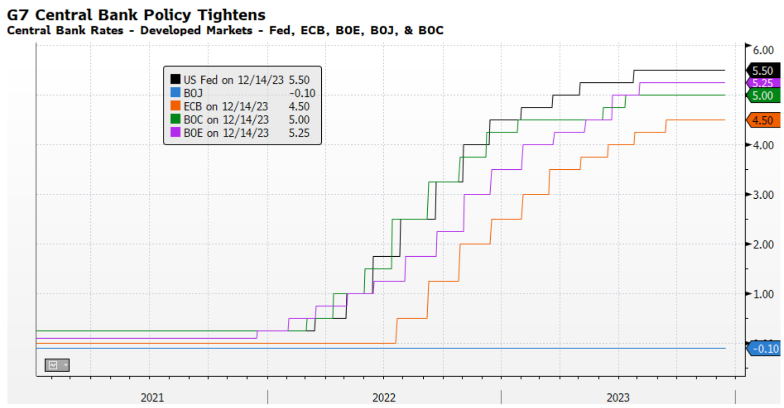
Over the long-term, Treasury markets remain concerned over fiscal prudence, but the next flare-up likely lies after the presidential election in 2025 when the debt ceiling deadline returns for Congress. Should geopolitical risk spur additional spending that would be prudent, we anticipate bond markets to give Congress a pass.

## An evolving Fed policy approach

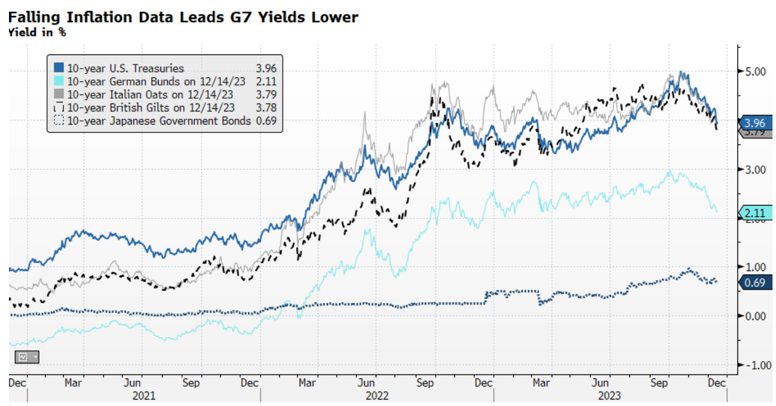
We believe Fed policy rates will likely remain elevated into the second half of 2024 as the Fed looks to confirm the embers of inflation have cooled. Once inflation data and market expectations re-anchor around the Fed's 2% long-term target, we could see the Fed trim policy rates to moderate its current, highly constrictive Fed policy range of 5.25% - 5.50%. Easier borrowing conditions could lie in our future, but first, we believe the Fed needs to gain confidence inflation is under control.

A Fed Put? Now that constrictive policy is in place, we believe the Fed approach has evolved away from supporting asset prices, as seen through the 2010s. We point to the prompt, targeted Fed response to the regional bank runs in March as a template for Fed policy response until inflation has been snuffed out. We have moved beyond the Fed's put, in our view, and likely see agile but highly targeted interventions in the current stage of the rate cycle.

We also highlight that the central banks in the seven largest developed economies (G7) raised policy rates to combat inflation, with the exception of Japan. And with inflation falling across all the G7 economies, we anticipate those that raised rates to solidly constrictive levels look to at least reduce the degree to which policy is restraining the economy to avoid an overshoot to the downside. Through the course of 2024, we likely see policy rates trimmed at a time and pace fitting for each nation. The biggest takeaway is that the U.S. and the Fed are only one pair contemplating a policy shift next year. Effects from other nations can ripple across global bond markets and economies. Transitions are nearly always difficult, and 2024 may be filled with them from a monetary policy perspective.



Source: Bloomberg L.P.



Source: Bloomberg, L.P.

### Targets for 2024

**Fed funds policy forecast:** We anticipate the Fed may begin to move away from its highly restrictive stance late next year, with 75 basis points of cuts in our Base Scenario. Our Favorable scenario captures a clearly soft landing, which allows the Fed to cut policy rates more quickly. Meanwhile, our Adverse Scenario accounts for potential softening in consumer and business demand that prompt the Fed to normalize policy rates more aggressively. Other facets of our Adverse Scenario would see stubborn inflation push potential rate cuts into 2025, in our view.

| Ameripriseo 2024 Year-End Forecasts (see our 2024 Investment Outlook & Themes report) | | |
|---|---|---|
| Favorable Scenario | Base Scenario | Adverse Scenario |
| Fed Funds Target Range 4.25% - 4.50% | Fed Funds Target Range 4.50% - 4.75% | Fed Funds Target Range 3.75% - 4.00% |
| 10-Year Treasury 4.00% | 10-Year Treasury 3.50% | 10-Year Treasury 3.00% |

Source: American Enterprise Investment Services, Inc.

The Fed's balance sheet run-off (quantitative tightening) will likely wind down next year after removing roughly $1.5 trillion of emergency liquidity injected into bond markets following the COVID-19 outbreak. Treasury markets already experienced nearly twice as much volatility since the start of 2022 compared to the prior decade based on the ICE BofA Treasury Volatility Index, a trend we see continuing.

**Ten-year Treasury yield forecast:** The Peak 10-year Treasury yield may lie behind us for the cycle as inflation fades. In our Base Scenario, we anticipate the 10-year Treasury yield could settle lower in 2024 as inflation moderates and the Fed softens its tight policy posture. In our Favorable Scenario, we see falling inflation unfolding against a solid growth backdrop, where a shrinking inflation premium makes way for a greater term premium due to growth. Our Adverse case may include a mild recession where long-term Treasuries rally significantly, anticipating aggressive rate cuts and prospects for deflationary pressure.

# Key Themes

## Remain up in Quality

We recommend investors remain up in quality in fixed income. The effects of Fed policy tightening left companies with higher leverage more vulnerable to shifts in consumer and business spending, and susceptible to refinancing risk. Meanwhile, high quality companies retain the financial flexibility to adapt, and the option to divert free cash flow to pay off debt maturities.

Heading into 2024, we are tactically overweight US Government and Investment Grade Corporate Bonds. We remain cautious toward both high yield and senior bank loan segments, given our view that defaults will rise further next year should yields remain high and economic growth slow, prompting lenders and investors to become increasingly fickle on who they lend to.

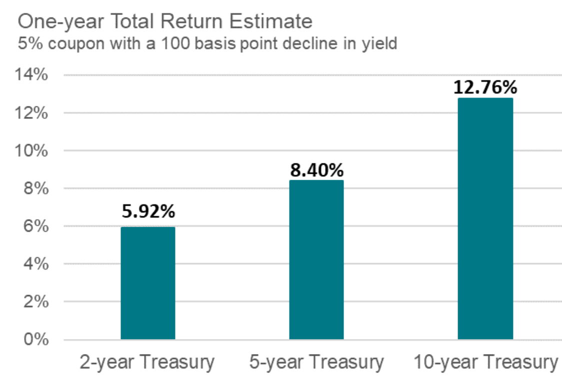
We recommend core bond funds and a measure of core plus or multi-sector in the mix. Core bond solutions, whether open-end funds or exchange-traded funds, primarily target US Government Bonds and Investment Grade Bonds, segments we recommend Tactically overweighting heading into 2024. Further, exposure to US High Yield would be highly selective to the extent it fits within an open-end fund's mandate. Similarly, the plus side of core-plus can be an actively allocated exposure that targets potential inefficiencies across markets. We also like the core and multi-sector strategies for exposure to mortgage-backed securities that have been under pressure as the Fed shrinks its exposure to the sector and as 30-year mortgage rates over 7% make both buyers and sellers pause. New buyers may have difficulty affording as much home when mortgage rates are elevated like today, while sellers may not want to swap from their current low-interest mortgage into a new home with high financing costs. There is a potential for mortgage rates to drift lower based on the lagging drop relative to 10-year Treasury yields and the historically high, three percentage point premium over 10-year Treasury yields, nearly double the average of +177 basis point premium since 2000.

Investors looking to build an individual bond portfolio that includes corporate bonds should reference our *Corporate Bond Recommended List,* which includes high-quality issuers that we believe will be able to repay their debt at maturity. The list contains over 600 individual bonds from 49 issuers that we actively recommend. See the table at the top of the next page for issuers we recommend.

# Fixed-income total returns ahead

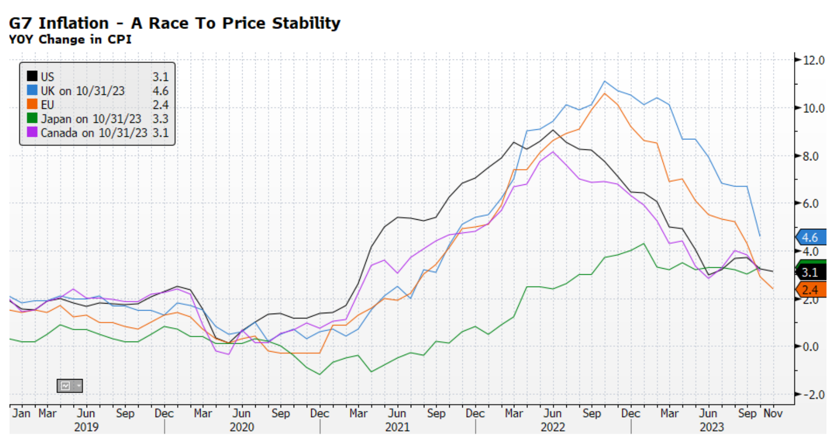
We enter 2024 looking at price sensitivity, or duration, as a potential tailwind as inflation settles lower. For bonds, lower rates and long-term yields suggest positive price returns on top of healthy coupons. Bond prices rise when yields fall, and longer maturities are more price sensitive to changes in yield. While credit valuations may be stretched, the Treasury component of yields may have room for returns. Plus, with geopolitical risk on the rise, we believe U.S. Treasuries likely contribute stability to blended portfolios once inflation fades from focus.

The chart at the right shows the total return for identical 5% bonds with different maturities, given a 100 basis point drop in yields across the curve. The longer the maturity, the more sensitive prices are to a change in yield. In 2022 when yields initially rose, prices were falling forming a headwind for total returns. In 2024 we believe yields likely settle lower leading to robust total returns next year.




Source: American Enterprise Investment Services, Inc.

Inflation is falling. Not just in the U.S. but around the globe in both Developed and Emerging nations. If inflation affected just one nation, it could take measures to pass it on to trading partners through higher prices or a weaker currency. Today, all developed market central banks (G7, except for Japan) are constraining their economies to combat inflation. The approach is working, leading to lower inflation both at home and abroad. We believe the alignment to slow developed nation growth and lower inflation can have greater impact and potentially more success because policies do not offset each other globally. On top of cooling core inflation in the U.S., this collective impact perspective is another reason we have conviction in our expectation for lower policy rates and government bond yields over time. While yields may shoot higher in the short-term, we see the fundamental backdrop as constructive for fixed-income returns.




Source: Bloomberg L.P.

Geopolitical risk seems to inch higher each month as frictions flare and pass. Frictions seem to arise on many fronts as well. On land in Eastern Europe when Russia invaded Ukraine, in the South China Sea when ships and planes from China poke at Taiwan, the Philippines, and the U.S., in space with the launch of satellites with potentially disruptive capabilities, and in cyberspace when China, Russia, Iran, North Korea (CRINk) probe and exploit U.S. vulnerabilities. The evolving alliance among the CRINk partners seems aimed at disrupting the norm and keeping Western nations alert. While we do not associate any potential event with our Scenario analysis (see our 2024 Investment Themes and Outlook report dated December 15, 2023, page 3), we see the chance of one or a combination of events as a risk that could alter the market trajectory.

A likely outcome of many geopolitical risks would be a flight-to-quality for investors around the globe that favor U.S. Government bonds, particularly more interest rate-sensitive segments, including the intermediate and long end of the Treasury curve. It's not a bad idea to have some ballast in your portfolio, in our view.

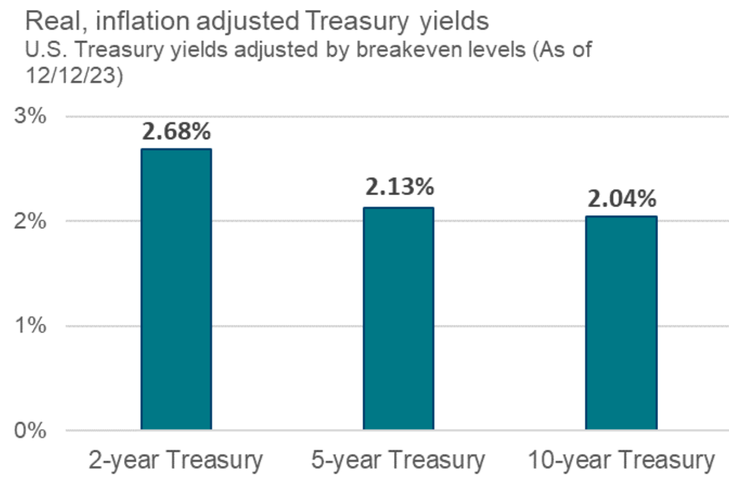
# Lock in attractive real yields

While the average real yield for 10-year Treasuries barely edged out an above-inflation yield through the decade beginning in 2011, today fixed income investors enjoy yields 2% above expected inflation. We view current real yields akin to S&P 500 multiples in the low teens: historically very attractive levels. We believe soundly positive real Treasury yields make Government Bonds, and fixed income, in general, the starting point for income, total return, and capital appreciation strategies. No need to reach for yield or take unnecessary risks for income.

## Lock in income long-term

High real yields are also a signal that Treasuries are at their cheapest relative to inflation, potentially an attractive time to buy assuming that real yields may revert to the mean as the rate cycle comes to an end. Here we look to the current level of Treasury yields relative to inflation breakevens of the same maturity. This provides an estimate of the incremental yield potential, or how much investors may be able to earn over inflation.

Over the past decade, Treasury investors were often forced to lose ground to inflation when buying Treasuries. It's hard to imagine that investors buying sovereign debt of the European Union or Japan actually had to pay for the privilege (receiving back less money than they lent – 1000 euros became 975 euros with no interest paid). No wonder investors who have only been investing since the Great Financial Crisis find it hard to wrap their minds around just how attractive a 2% real yield is. What interesting times we live in that investors have lived through negative yields, 10-year Treasury yields at 4.99%, and even healthy 2% real yields on largely risk-free Treasuries.




Source: American Enterprise Investment Services, Inc.

## Preserve capital and gain purchasing power over inflation

Another concept that is now back in vogue is protecting client investments by using an individual bond strategy. For investors more concerned about the return of, rather than return on their money, buying bonds at current levels preserves the principal when purchasing Treasuries, U.S. agency unsecured debt, ultra-high-quality corporates (rated A+ or higher), or municipal bonds (AAA or AA) and holding them to maturity. At maturity, the bonds pay off at par, providing access to principal without taking market risk by selling a position. With positive real yields, investors can more than keep up with inflation, they can even gain ground relative to inflation while taking little risk.

The standard structure we start with is a 5 year bond ladder containing bonds maturing every 6 months to a year. Investors can start with 100% Treasuries and adjust for the investor's view on risk. The ladder can be shortened to 3 years to increase the availability of funds or extended if long-term preservation is the goal. Why take more risk than necessary when an investor simply doesn't want to lose the value or purchasing power of what they have saved.

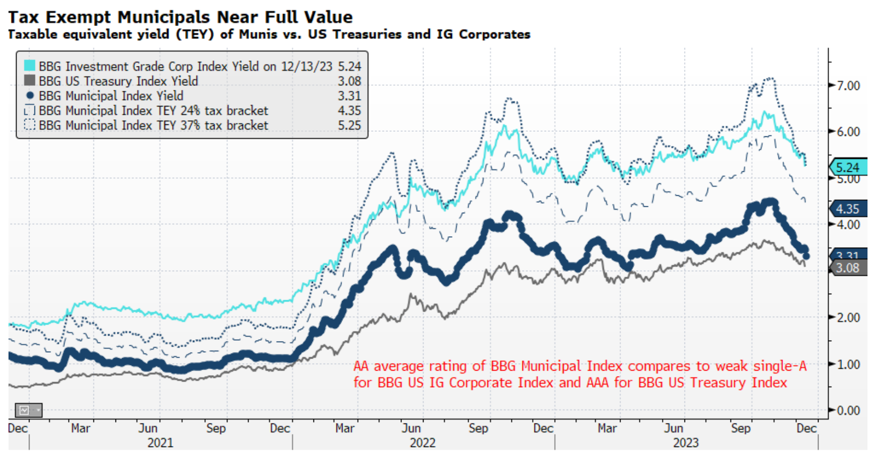
This Space Intentionally Left Blank

# Municipals are fundamentally attractive, yet fully valued

We believe municipal fundamentals remain well supported by strong GDP growth in 2023, and the afterglow of federal support through the pandemic. We see municipalities as a quality, defensive approach based on their resilience through periods of slowing growth.  Investors in high tax brackets should still consider municipals in qualified accounts.

Ten-year Municipal Market Advisors yield reached its richest point in a decade on December 8, relative to 10-year U.S. Treasury yields. Heading into December with light issuance is not likely to reset valuation in a meaningful way in our view.

We recommend investors who look between asset segments for where to put new money to work should consider Treasuries (taxable) at these levels and contemplate the impact of supply on levels relative to Treasuries in the new year.



Source: Bloomberg L.P.

Tax loss harvesting on fixed income holdings that declined in value can be valuable for investors with big gains in technology stocks. See our report, *Municipal Update – Why you should consider tax loss harvesting* dated September 10, for more information.

For investors in the market, we recommend purchasing higher coupon municipal bonds due to their price dynamics. While some investors prefer par bonds, the De Minimis Rule could more quickly come into play should yields happen to rise and prices fall to a moderate discount. We recommend premium bonds that offer greater protection from price weakness below par. When selecting AAA or AA municipals, premium bonds often offer a pick-up in yield relative to par alternatives and shouldn't be avoided. This thinking does not apply for BBB-rated municipals that come with more significant potential for default over the life of a bond, which puts the repayment of premium at greater risk. For more on this rule, see our report, *De Minimis Rule Risk from Higher Yields*, dated July 10.

This Space Intentionally Left Blank

# The Ameriprise Investment Research Group

With Ameriprise Financial, you can benefit from our dedicated team of experienced investment research and due diligence professionals. Our objective market insight, strategies and guidance are designed to provide you with investment strategies and solutions to help you feel more confident about your financial future. It's the higher level of sophistication and service you've come to expect from Ameriprise.

## RESEARCH & DUE DILIGENCE LEADER

*Lyle B. Schonberger - Vice President*

**Business Risk Manager**
*Jeff Carlson, CLU®, ChFC®, RICP® – Sr. Manager*

**Investment Research Coordinator**
*Kimberly K. Shores*

**Sr. Administrative Assistant**
*Jillian Willis*

## STRATEGISTS

**Chief Market Strategist**
*Anthony M. Saglimbene – Vice President*

*Thomas Crandall, CFA, CFP®, CMT, CAIA – Vice President, Asset Allocation*

*Jun Zhu, CFA, CAIA – Sr. Analyst – Quantitative, Asset Allocation*

*Sumit Chugh, CFA – Analyst II*

*Amit Tiwari, CFA – Sr. Associate I*

**Chief Economist**
*Russell T. Price, CFA – Vice President*

## EQUITY RESEARCH

**Equity Research Director**
*Justin H. Burgin – Vice President*

**Consumer Goods and Services**
*Patrick S. Diedrickson, CFA – Director*

**Energy/Utilities**
*William Foley, ASIP – Director*

**Financial Services/REITs**
*Lori Wilking-Przekop – Sr. Director*

**Health Care**
*Open – Director*

**Industrials/Materials**
*Frederick M. Schultz – Sr. Director*

**Technology/Telecommunication**
*Andrew R. Heaney, CFA – Director*

**Quantitative Strategies/International**
*Bishnu Dhar – Analyst II*

## MANAGER RESEARCH

*Michael V. Jastrow, CFA – Vice President*

**ETFs, CEFs, UITs**
*Jeffrey R. Lindell, CFA – Sr. Director*

*Alex Narum – Analyst II*

*Sagar Batra – Sr. Associate I*

**Alternatives**
*Justin E. Bell, CFA – Vice President – Head of Quantitative Research and Alternatives*

*Kay S. Nachampassak – Director - Alternatives*

**Quantitative Research**
*Kurt J. Merkle, CFA, CFP®, CAIA – Sr. Director*

*Peter W. LaFontaine – Sr. Analyst*

*Gaurav Sawhney – Analyst I*

*Ryan Elvidge – Analyst II*

*Matthew Burandt – Analyst II*

*Parveen Vedi – Sr. Associate I*

*Harish Chauhan – Sr. Associate I*

*Ankit Srivastav – Associate II*

*Pulkit Kumar – Associate II*

*Sameer Asif – Associate I*

**Equities**
*Benjamin L. Becker, CFA - Sr. Director – International/Global Equity*

*Cynthia Tupy, CFA – Director – Value and Equity Income Equity*

*Andrew S. Murphy, CFA – Analyst II – Core Equity*

*Teneshia Butler – Analyst II – Growth Equity*

**Multi-Asset and Fixed Income**
*Mark Phelps, CFA – Sr. Director – Multi-Asset Solutions*

*Josh Whitmore, CFA – Director – Fixed Income*

*Lukas Leijon – Sr. Associate II – Fixed Income*

## FIXED INCOME RESEARCH & STRATEGY

**Fixed Income Research**
*Brian M. Erickson, CFA – Vice President*

**High Yield and Investment Grade Credit**
*Jon Kyle Cartwright – Sr. Director*

*Stephen Tufo – Director*

## RETIREMENT RESEARCH

*Rohan Sharma – Vice President*

*Matt Morgan – Director*

*Will Ikola – Sr. Manager*

*Shringarika Saxena – Business Analyst*

The content in this report is authored by American Enterprise Investment Services Inc. ("AEIS") and distributed by Ameriprise Financial Services, LLC ("AFS") to financial advisors and clients of AFS. AEIS and AFS are affiliates and subsidiaries of Ameriprise Financial, Inc. Both AEIS and AFS are broker-dealer member firms registered with FINRA and are subject to the objectivity safeguards and disclosure requirements relating to research analysts and the publication and distribution of research reports. The "Important Disclosures" below relate to the AEIS research analyst(s) that prepared this publication. The "Disclosures of Possible Conflicts of Interest" section, where applicable, relates to the conflicts of interest of each of AEIS and AFS, their affiliates and their research analysts, as applicable, with respect to the subject companies mentioned in the report.

Each of AEIS and AFS have implemented policies and procedures reasonably designed to ensure that its employees involved in the preparation, content and distribution of research reports, including dually registered employees, do not influence the objectivity or timing of the publication of research report content. All research policies, coverage decisions, compensation, hiring and other personnel decisions with respect to research analysts are made by AEIS, which is operationally independent of AFS.

# Important disclosures

## As of September 30, 2023

The views expressed regarding the company(ies) and sector(s) featured in this publication reflect the personal views of the research analyst(s) authoring the publication. Further, no part of research analyst compensation is directly or indirectly related to the specific recommendations or views contained in this publication.

A part of a research analyst's compensation may be based upon overall firm revenue and profitability, of which investment banking, sales and trading, and principal trading are components. No part of a research analyst's compensation is based on a specific investment banking transaction, nor is it based on sales, trading, or principal trading. A research analyst may have visited the material operations of one or more of the subject companies mentioned in this research report. No payment was received for the related travel costs.

Additional information and current research disclosures on individual companies mentioned in this research report are available on our website at ameriprise.com/legal/disclosures in the **Additional Ameriprise research disclosures** section, or through your Ameriprise financial advisor. You may also submit a written request to Ameriprise Financial, Inc., 1441 West Long Lake Road, Troy MI, 48098.

To view related SEC filings, go to sec.gov.

The fixed income research area of the Investment Research Group within AEIS prepared this publication. Views, opinions, and strategies highlighted in this publication may differ materially from the views, opinions, and strategies published by other functional areas within the Investment Research Group. Further, this research report is created independently of actions taken or planned by the Fixed Income Clearing Desk (AEIS). The views, opinions, and strategies highlighted herein may not align with those expressed by our Fixed Income Clearing Desk or its day-to-day trading (clearing) operations.

Tactical asset class recommendations mentioned in this report reflect The Ameriprise Global Asset Allocation Committee's general view of the financial markets, as of publication, based on then-current conditions. Our tactical recommendations may differ materially from an individual investor's customized long-term financial plan or portfolio strategy. Individual investors should view our investment recommendations in conjunction with an investor's broader long-term portfolio strategy. Not all products, services, or asset classes mentioned in this report may be available for sale at Ameriprise Financial Services, LLC. Please consult with your financial advisor.

**Diversification** and **Asset Allocation** do not assure a profit or protect against loss.

**Approved third-party research** providers may offer relevant research, investment opinions, price targets, additional fundamental analysis, and provide credit surveillance on companies included on, or removed from, our Recommended List. Approved third-party research providers include CFRA Research, Morningstar, Reuters, among others. Additionally, approved third-party research providers may use a rating system disclosed and defined within their research reports.

Securities included on our Recommended Lists are part of the universe of companies covered by AEIS. Approved third-party research providers (e.g., CFRA powered by data from S&P Global, Morningstar, Reuters and Standard & Poor's) generally provide additional information on Recommended List companies. Recommended List selections reflect securities that our analysts believe represent good value based on current conditions. If a security is added to our Recommended List, we deem it to be appropriate for investment. If a security is removed from a Recommended List and you choose to hold the removed security in your investment portfolio, you should continue to review available third party research sources in order to obtain an investment opinion, price target, and additional fundamental analysis. For rating definition purposes, securities included on our Recommended Lists most closely correlate with an investment opinion of "Buy"; therefore, 100% of the securities on our Recommended Lists meet this definition. For purposes of constructing our Recommended List, a rating of "Buy" is defined as those securities that our research analysts believe represent good value based on current conditions. Additionally, we note that each of our respective approved third-party research providers utilizes a unique rating system, which is disclosed and defined in their research reports.

## Sector/Issuer ratings

The Investment Grade and High Yield Research Team employs a relative return-based rating system that, depending on the company under analysis, may be applied to some or all of the company's debt securities or other instruments. Please review our latest research report on a company to ascertain the application of the rating system.

Our Corporate Bond Recommended List includes issuers that we believe have solid credit fundamentals and are likely able to repay indebtedness beyond the intermediate term. Fixed-income securities included in our Recommended List are selected from the universe of companies covered by AEIS.

Approved third-party research providers (e.g., Standard & Poor's and Moody's Investor Service) generally provide additional information on companies included in our Recommended List.

If a security is added to our Recommended List, we believe the issuer to be appropriate for investment based on known credit fundamentals.

When investment securities are removed from our Corporate Bond Recommended List, we recommend reviewing our latest research report on the issuer for an explanation of the basis of the removal to determine if holding securities of the issuer remain appropriate. If you choose to hold removed positions in your portfolio, you should continue to review available third-party research sources to obtain an investment opinion and additional fundamental analysis.

Securities in our Corporate Bond Recommended List most closely correlate with an investment opinion of “Hold” or better; therefore, 100% of the issuers on our Corporate Bond Recommended List meet this definition. Additionally, we note that each of our respective approved third-party research providers utilizes its own unique rating system, which is disclosed and defined within their own research reports.

## Risk factors

Dividend and interest payments are not guaranteed. The amount of dividend payment, if any, can vary over time and issuers may reduce or eliminate dividends paid on securities in the event of a recession or adverse event affecting a specific industry or issuer. Should a company be unable to pay interest on a timely basis a default may occur and interruption or reduction of interest and principal occur.

Investments in a narrowly focused sector may exhibit higher volatility than investments with broader objectives and is subject to market risk and economic risk.

**Income Risk**: We note that dividends are declared solely at the discretion of the companies' boards of directors. Dividend cuts or eliminations will likely negatively impact underlying company valuations. Published dividend yields are calculated before fees and taxes. Dividends paid by foreign companies to ADR holders may be subject to a withholding tax which could adversely affect the realized dividend yield. In certain circumstances, investors in ADR shares have the option to receive dividends in the form of cash payments, rights, shares or ADR shares. Each form of dividend payment will have different tax consequences and therefore generate a different yield. In some instances, ADR holders are eligible to reclaim a portion of the withholding tax. Tax withholding may be used as an offset in the calculation of the holder's U.S. taxes but would not be useful if the ADR is held in an IRA or other qualified account.

**International investing** involves increased risk and volatility due to political and economic instability, currency fluctuations, and differences in financial reporting and accounting standards and oversight. Risks are enhanced for **emerging market** issuers.

## Product risk disclosures

There are risks associated with **fixed-income investments**, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities. Please review these risks with your financial advisor to better understand how these risks may affect your investment choices. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities. Bonds sold before the stated maturity risk losing principal due to changing interest rates or other market movements.

**Corporate Bonds** are debt instruments issued by private or quasi-government corporations.

**Discount Bonds** may be subject to capital gains.

**Environmental, social, and governance (ESG)** factors may cause the fund to forgo certain investment opportunities and/or exposures to certain industries, sectors or regions.

**Municipal Bonds** – Interest income from municipal bonds labeled "taxable" may be subject to federal income taxes. Income from tax-exempt municipal bonds or municipal bond funds may be subject to state and local taxes. A portion of income may be subject to the federal or state alternative minimum tax. Municipal securities subject to AMT assume a "nontaxable" status for yield calculations. Gains on sales/redemptions of municipal bonds may be taxable as capital gains. Federal income tax rules apply to any capital gains.

**Municipal Bond Insurance** – Bond insurance pertains to the timely payment of principal (at maturity) and interest by the insurer of the underlying securities, not the bond's market price, which may fluctuate. The strength of a guarantee reflects the claims-paying ability of the listed insurance company.

**Nationally Recognized Statistically Ratings Organizations (NRSROs)** are credit rating agencies that have been designated as NRSROs by the U.S. Securities & Exchange Commission (SEC). The list of NRSRO's currently includes S&P Global Ratings (SPC), Moody's Investors Service (MDY), Fitch Ratings (FTC), and the Dominion Bond Rating Service (DBRS). The SEC's list of NRSROs is subject to change by the SEC. Ratings are evaluations of a bond issuer's financial strength or its ability to pay a bond's principal and interest in a timely fashion. NRSRO rating categories ranging from AAA (highest) to D (lowest).

Moody's non-investment-grade ratings include Ba1, Ba2, Ba3, B1, B2, B3, BB+, BB. BB+, B+, B, B-, Caa, and C. S&P Global's non-investment-grade ratings include BB+, BB, BB-, B+, B, B-, CCC, and D. Ratings are subjective opinions, are not statements of fact, and are subject to change.

**New issue** bonds are sold only by the prospectus or offering circular of the individual issuer. An investor should read the prospectus or offering circular carefully before investing.

**Non-Investment grade** (high-yield or junk) securities present greater price volatility and more risk to principal and income than higher-rated securities.

Securities offered through AFS may not be appropriate for all investors. Consult with your financial advisor for more information regarding the appropriateness of a particular investment.

Any information relating to the income or capital gains tax treatment of financial instruments or strategies discussed herein is not intended to provide specific tax advice or be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

For further information on fixed income securities please refer to FINRA's Smart Bond Investing at FINRA.org, MSRB's Electronic Municipal Market Access at emma.msrb.org, or Investing in Bonds at investinginbonds.com.

## Definitions of terms

Definitions of terms mentioned in this report are available on our website at ameriprise.com/legal/disclosures/ in the Additional Ameriprise research disclosures section, or through your Ameriprise financial advisor.

## Index definitions

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.
Definitions of individual indices mentioned in this report are available on our website at ameriprise.com/legal/disclosures/ in **the Additional Ameriprise research disclosures** section, or through your Ameriprise financial advisor.

## Disclosures of possible conflicts of interest

One or more members of the research team who prepared this research report may have a financial interest in securities mentioned in this research report through investments in a discretionary separately managed account program.

## Disclaimer section

Except for the historical information contained herein, certain matters in this report are forward-looking statements or projections that are dependent upon certain risks and uncertainties, including but not limited to, such factors and considerations as general market volatility, global economic and geopolitical impacts, fiscal and monetary policy, liquidity, the level of interest rates, historical sector performance relationships as they relate to the business and economic cycle, consumer preferences, foreign currency exchange rates, litigation risk, competitive positioning, the ability to successfully integrate acquisitions, the ability to develop and commercialize new products and services, legislative risks, the pricing environment for products and services, and compliance with various local, state, and federal health care laws. See latest third-party research reports and updates for risks pertaining to a particular security.

This summary is based upon financial information and statistical data obtained from sources deemed reliable, but in no way is warranted by Ameriprise Financial, Inc. as to accuracy or completeness. This is not a solicitation by Ameriprise Financial Services, LLC of any order to buy or sell securities. This summary is based exclusively on an analysis of general current market conditions, rather than the appropriateness of a specific proposed securities transaction. We will not advise you as to any change in figures or our views.

***Past performance is not a guarantee of future results.***

**Investment products are not insured by the FDIC, NCUA or any federal agency, are not deposits or obligations of, or guaranteed by any financial institution, and involve investment risks including possible loss of principal and fluctuation in value.**

Third-party companies mentioned are not affiliated with Ameriprise Financial Services, LLC.

Ameriprise Financial, Inc. and its affiliates do not offer tax or legal advice. Consumers should consult with their tax advisor or attorney regarding their specific situation.

Ameriprise Financial Services, LLC. Member FINRA and SIPC.