



# STAYING GROUNDED in a Shifting Landscape

US economic resilience has been a multi-year theme, including 2025 when the economy kept growing amid the largest tariff implementation since the 1930s. Growth has aided corporate profitability, and that strong fundamental backdrop has buoyed markets, with equities trading around all-time highs and corporate bonds experiencing historically tight spread levels.

Strong fundamentals are expected by the market in 2026. Consumer spending, especially for higher-income earners, has remained healthy so far. Further, the capex boom underpinned by AI is propping up an economy that is experiencing some weakness from lower-income consumers and trade. Market participants can't help but opine on the multi-year outlook for AI and its potential ramifications for productivity, the workplace and our daily lives.

At PPM, while we don't lose sight of the long-term, our bottom-up focus behooves us to acknowledge already rich valuations and that 2026 could bring headwinds to market technicals. AI firms will likely issue in public investment grade, private investment grade, high yield, bank loan and private equity, with implications for other asset classes such as emerging market debt. We expect the largest deals could hit or surpass \$100B! Add in uncertainty around tariffs, the changing makeup of the Federal Reserve (Fed) and still sticky inflation, and we believe investors will benefit from a fundamental, research-focused approach.

This environment should provide attractive investment opportunities but with the potential for increased risk that will require managers to remain disciplined and tactical. In our view, understanding how each sector and individual names may react to various scenarios will be key to success in 2026.

# US Investment Grade 2026 Outlook



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## KEY TAKEAWAYS

- > With credit spreads near multi-decade tights, security selection and tactical reallocation will likely be paramount in 2026
- > We expect technicals to become less positive next year; inflows should continue but AI and M&A funding could significantly increase net issuance
- > Despite overall positive fundamentals, the underlying picture is likely to include slowing or declining job growth, sticky inflation and continued policy uncertainty (tariffs, Fed appointees, etc.)

The US investment grade market has enjoyed a positive 2025, returning around 8% through November.<sup>1</sup> Coupons (yields started the year above 5.25%), a rally in US Treasuries and around 100 bps in excess return have all contributed to the gain. For 2026, yields are lower around 4.75% but still elevated versus the pre-2022 period. Despite spreads starting a second straight year near multi-decade tights, there is the potential for modestly positive excess returns.

To generate alpha for investors, we believe security selection and the ability to be tactical will be paramount in 2026.

A very positive technical environment has driven the market, including inflows and lower net issuance this year. However, we expect net issuance to increase next year, perhaps

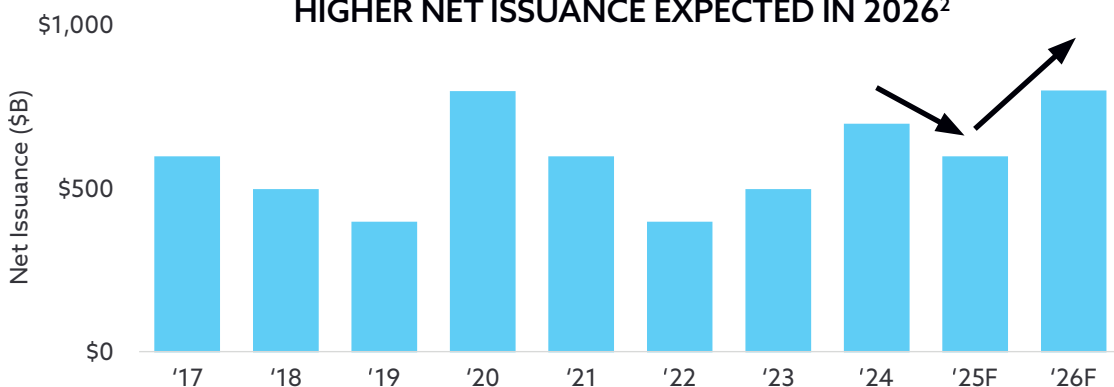
significantly. Given the capital expenditures technology companies are expecting to spend on data centers, AI issuance will likely increase. We expect M&A activity to continue with a more friendly regulatory environment and equities near all-time highs, which should lead to increased bond issuance to pay for acquisitions. While we expect inflows to continue, they will likely not be enough to offset increased supply.

Some of our preferred sectors are those expecting to see less growth in issuance, such as Banks. That sector is also currently benefitting from deregulation. Beyond corporates, we favor select areas of structured credit such as ABS that provide both yield pickup and shorter duration.

Fundamentals remain positive, with resilient macro growth and still strong corporate earnings. However, companies must continue to carefully navigate a changing tariff picture, especially as we await the Supreme Court's decision, and other policy uncertainty. An example of the latter is Fed nominations, including the new Chair. The Fed may also have to toe the line between sticky inflation and a slowing labor market. We would note that the central bank has already cut rates 175 bps since late 2024. Even if President Trump nominates a dovish Fed Chair, future rate cuts could be limited.

Despite our overall positive fundamental outlook, we are selectively investing in cyclical sectors. Our investment grade portfolios are currently neutral given valuations and the risks discussed above. We believe a better approach is remaining tactical. We would rather be patient and await bouts of volatility, allowing us to invest into weakness.

## AFTER 2025 REPRIEVE, HIGHER NET ISSUANCE EXPECTED IN 2026<sup>2</sup>



(1) Data in this paragraph sourced from Barclays. 1 December 2025. (2) J.P. Morgan. 14 November 2025. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed.



# Investment Grade Private Credit 2026 Outlook



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## KEY TAKEAWAYS

- > By adding IGPC to fixed income portfolios, an investor can reduce risk through diversification and covenants while picking up yield over public corporate bonds; we expect increasing institutional investor demand in 2026
- > We see demand being met by elevated supply, driven by infrastructure, asset-backed finance (ABF) and data centers, requiring a focus on risk-adjusted returns and expertise across asset classes
- > Investor discipline will likely be a theme, given data center supply, lower-quality direct lending and concerns over credit stress in one-off situations

We expect continued growth in the investment grade private credit (IGPC) market in 2026, driven by the overall positive momentum in the market, combined with decreasing interest rates, positive economic growth and continued corporate profits.

We expect issuance from digital and energy infrastructure along with ABF to drive growth and supply next year. We also expect issuance from financials to hold steady, remaining just under a quarter of the market. Investors continue to closely monitor the direct lending market (high yield loans to private equity-sponsored companies). For financials, we have put an increased emphasis on quality, limiting exposure to issuers who, in our view, are best-in-class. Finally, we have observed data center issuance flooding multiple asset classes, including CMBS, public investment

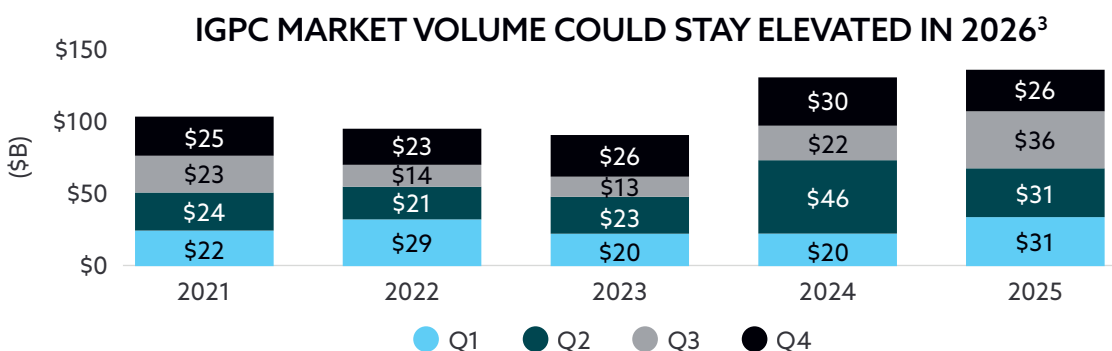
grade, private lending and ABS. We believe an investor with experience across all of these asset classes can evaluate and select the best expected returns based on value and risk.

On the demand side, we are seeing additional interest from non-traditional investors such as defined contribution sponsors, illustrating the gaining acceptance of IGPC into portfolios outside of the Insurance sector.

Relative value will remain stable in 2026, in our opinion, with additional compensation afforded investors in off-the-run and more complex structures. Structure will likely continue to provide value as 1) long-term investors have demonstrated discipline through cycles and 2) we do not expect to see an increase in "covenant lite" offerings. However, new entrants to the market may be more aggressive in order to grab market share. Separately, if the Fed continues to lower interest rates, we expect the imbalance between long duration supply and demand to become more balanced and for relative value across the curve to reflect historical norms.

Concerns over credit stress in one-off situations will continue to increase in 2026, in our opinion, especially in the ABF market. The structure of IGPC financing documents generally prohibit liability-management exercise (LME) activity, a welcome safe haven for investors. Institutional allocators will likely seek investors with long-term track records, stable teams of investment professionals and proven investment processes.

While credit spreads are off from their intra-year tights, we believe a cautious approach to the market is appropriate. While demand for the asset class is increasing, the market is adjusting appropriately by remaining disciplined and exploring new structures, which has historically allowed it to evolve.



(3) As of 30 November 2025. Figure shown for Q4 2025 is quarter-to-date through November. Private placement issuance amounts are aggregated and calculated by PPM America, Inc. (PPM) based on compilation of transactions PPM observes in the private placement market. Sources of PPM data may include, but are not limited to, the investment bank or agent sponsoring a transaction, SEC filings, or other third-party data sources obtained by PPM in good faith and believed to be reliable, including the Private Placement Monitor. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed.

# Emerging Markets Debt 2026 Outlook



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Co-Head of Emerging  
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Portfolio Manager

## KEY TAKEAWAYS

- > Despite US-induced policy volatility, EM debt outperformed in 2025 given positive developments at the country level, attractive carry and macroeconomic resilience
- > Our outlook for 2026 remains constructive as EM benefits from supportive financial conditions, while offering diversification from rich valuations and AI-related debt issuance in the US
- > Rather than taking a one-size-fits-all approach, we recommend total return investors focus on opportunities in EM Frontier, while EM Investment Grade offers a higher-quality allocation with both spread and diversification

2025 ended up being an exciting year for emerging markets (EM) fixed income. Returns dramatically outpaced US credit indices despite fears that US trade and fiscal policies would hurt much of the developing world. Strong starting points for many EM sovereign balance sheets, combined with idiosyncratic developments – which included favorable election outcomes – catalyzed EM debt returns in 2025.

Looking ahead to 2026, we expect EM momentum to continue, with “good enough” growth in the US, Europe and China underpinning a supportive growth backdrop for most EM economies. Supportive global financial conditions, a key impact of the current Fed cutting cycle, should aid EM currencies via more favorable interest rate differentials, while also preserving space for monetary accommodation.

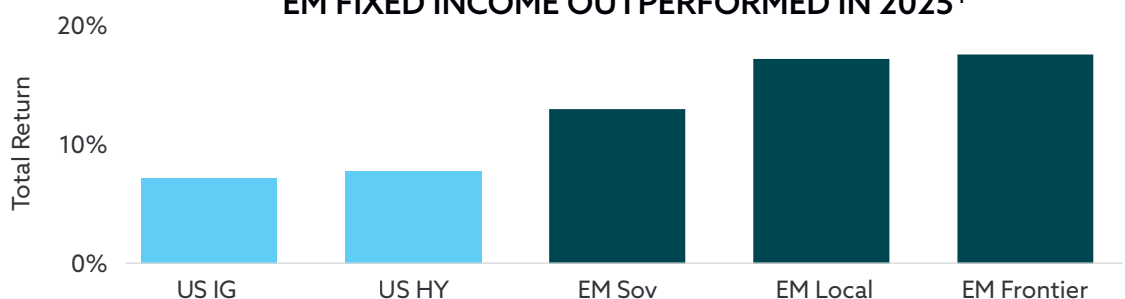
The 2026 calendar also contains important elections in countries such as Brazil, Peru and Colombia. We expect these events to drive temporary spikes in volatility, as has typically been the case. The potential for these events to catalyze performance in the same way EM elections did this year is less clear. Our outcome expectations range from neutral to supportive, implying any potential market dislocations may present opportunities.

As is often the case, we believe that 2026 risks to the EM outlook are generally external in nature. Concerns over Fed independence or the US fiscal trajectory could impact overall fixed income returns and EM debt with them. We also identify the current AI investment cycle as a potential source of risk if buyer fatigue in US credit markets pushes EM spreads wider. Additionally, a normalization of US equity valuations could impact overall risk sentiment in EM. The counter to this view is that EM debt could offer diversification away from US capex and M&A trends as well as the opportunity to invest in idiosyncratically improving countries and companies.

After several years of strong returns, EM spreads will begin 2026 at comparatively tight levels, something we also observe in US credit markets. Despite the compression, we continue to find EM debt attractive given ongoing inflows to the asset class as well as its diversifying benefits for portfolios.

Amid a favorable outlook for EM debt in 2026, we contend that the traditional “off-the-shelf” approach to EM benchmarks and mandates can serve investors poorly. Examples include owning US Treasury-like bonds from the Middle East in a total return-oriented mandate or defaulted securities in a high-quality portfolio. Instead, our discussions with clients and prospects revolve around custom approaches, matching investors’ goals and risk tolerances with opportunities we identify in the market.

## EM FIXED INCOME OUTPERFORMED IN 2025<sup>4</sup>



(4) Bloomberg. US IG, US HY, EM Sov, EM Local and EM Frontier as represented by the Bloomberg US Credit Index, Bloomberg US High Yield Index, J.P. Morgan EMBI Global Diversified Investment Grade Index, J.P. Morgan GBI EM Global Diversified Index and J.P. Morgan Next Generation Markets Index, respectively. Data through 5 December 2025. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed.

# US High Yield 2026 Outlook



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**JOHN BROZ**  
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## KEY TAKEAWAYS

- > In our view, a resilient US economy, healthy corporate profit growth and benign defaults underpin a supportive fundamental backdrop for high yield
- > Valuations are mixed with tight credit spreads but still attractive yields
- > Against this backdrop, we favor the Financial Services, Technology and Leisure sectors and are cautious on cyclical areas in Basic Industry and Capital Goods
- > Thematically, we expect increased M&A activity to benefit high yield companies

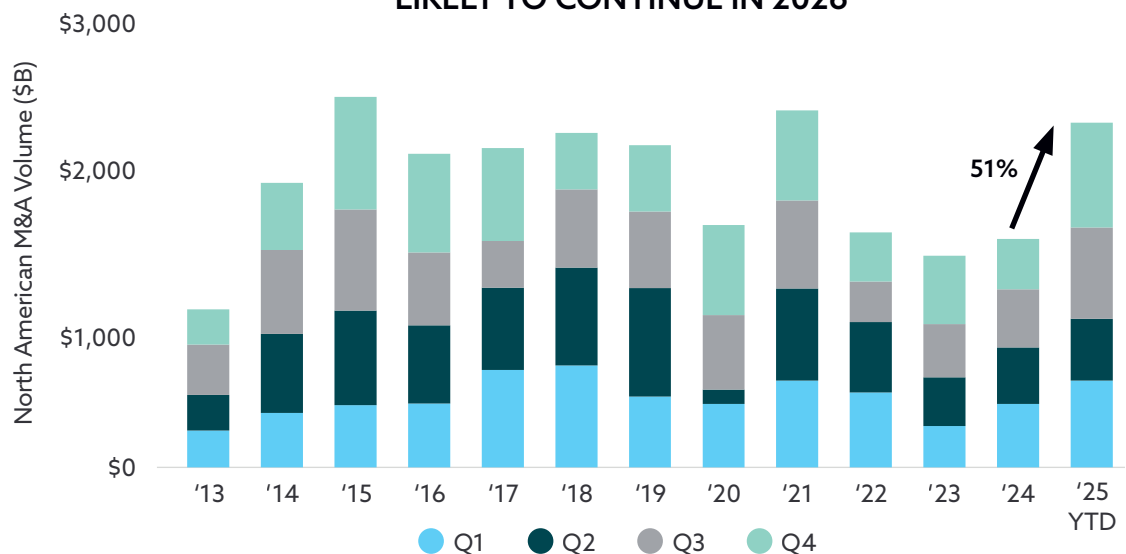
Our expectation is for a resilient US economy, healthy corporate profit growth and a benign default outlook to continue to underpin a supportive fundamental backdrop for high yield. Importantly, investors should note that the high yield market currently has a much better ratings composition than during past cycles. Valuations remain mixed with tight credit spreads, while yields are still attractive given the overall credit quality and below average default rates.<sup>5</sup> Additionally, the technical picture is positive with inflows to the asset class overall and moderate net supply.<sup>6</sup>

Against this backdrop, our focus in 2026 is on sector and security selection to take advantage of divergent fortunes among corporate sectors and consumer spending. We are favorable on Financial Services, Technology and Leisure. We believe Financial Services can perform well under a range of economic outcomes. Technology and Leisure tend to benefit from parts of the economy doing well – demand for technology products and robust consumer spending among middle- and upper-income cohorts for leisure activities. Cyclical areas in the Basic Industry and Capital Goods sectors require caution in our view, as price competition and weaker end-market demand have depressed profits without visibility into a recovery.

Our outlook within the Energy sector is mixed. We are overweight the fee-based Gas Distribution sub-sector and underweight the more commodity sensitive sub-sectors of Exploration & Production and Oilfield Services.

In terms of spread buckets, we favor core income names in the 200-400 bps range to provide attractive income with limited downside. Thematically, our expectation is for M&A activity to increase and to benefit high yield companies who are often the targets of higher quality acquirers or achieve greater scale or deleveraging. We seek pockets of capital appreciation 1) through sectors and names that participate in M&A activity and 2) from shorter-maturity bonds that could be refinanced ahead of market expectations.

## UPWARD TREND IN M&A ACTIVITY LIKELY TO CONTINUE IN 2026<sup>7</sup>



(5) Unless indicated, data sourced from BofA Global Research. 1 December 2025. (6) Flow data sourced from Morningstar and through 30 November 2025. (7) Bloomberg. Quarterly North American M&A volume including pending, completed, terminated, proposed and withdrawn deals. 10 December 2025. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed.

# US Bank Loan 2026 Outlook



**ADAM SPIELMAN**

Head of Leveraged Credit



**JOHN BROZ**

Portfolio Manager

## KEY TAKEAWAYS

- > We expect loan downgrades and elevated defaults to persist in 2026, even against a more supportive backdrop of easing monetary policy in the US
- > Current valuations screen tight on spreads, but better on a yield basis
- > Continued CLO creation should support loan demand in 2026, offset by elevated new issuance
- > We favor AI-exposed names in the Utilities sector, midstream credits in the Energy sector and Financial Services, but are underweight cyclically-exposed sectors such as Capital Goods and Materials

Economic data has been mixed with adequate GDP growth and spending trends set against a weaker labor market. Overall corporate profit growth also remains positive, but loan issuers continue to experience rating downgrades and an elevated default rate (when including LMEs). Conversely, the distress ratio remains below long-term averages.

We expect downgrades and elevated defaults to persist in 2026, even against a more supportive backdrop of easing monetary policy in the US. The overall elevated interest

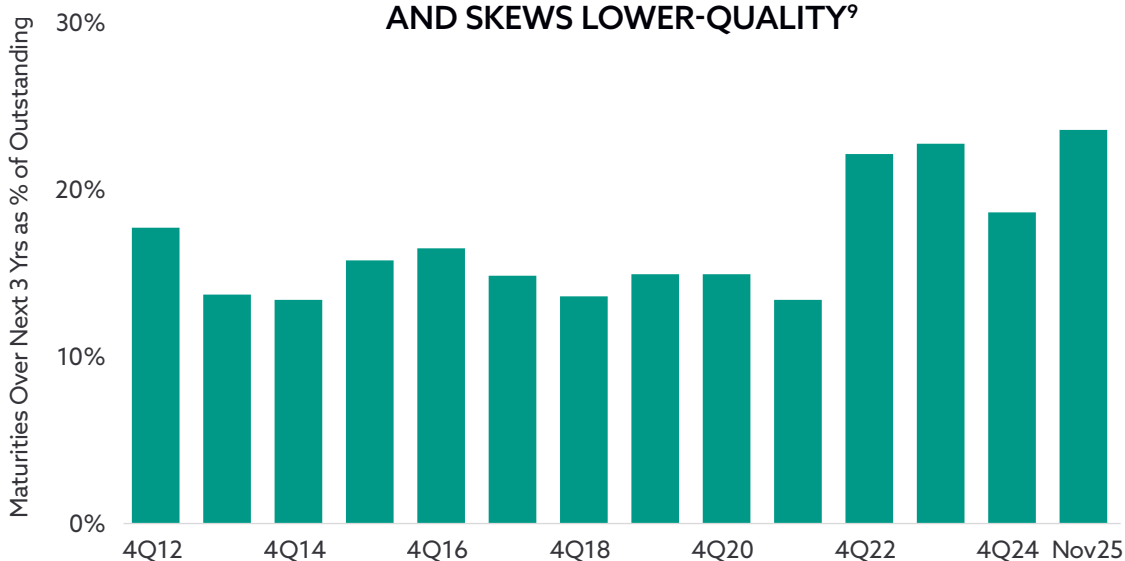
rate environment (versus pre-2022) continues to cause stress in the system. Loans are a lower-quality asset class with a higher interest cost burden than high yield given their primarily floating rate capital structures. Further, the percentage of loans maturing over the next three years is elevated and skews lower quality, supporting our view of elevated defaults.

Valuations are less compelling in loans, with approximately half of the market trading above par, but loans still offer attractive carry with yields over 7%.<sup>8</sup> At current valuations, we are looking to upgrade credit quality.

We expect continued strong CLO creation in 2026 that supports loan demand. Conversely, retail flows could be muted given investor preference for duration. We expect elevated new issuance for broadly-syndicated loans next year given increased M&A expectations, dividend recaps and the loan market winning private credit refinancings. Thematically, we expect M&A activity to increase and benefit leveraged credit companies who are 1) often the targets of higher-quality acquirers or 2) achieve greater scale or deleveraging through M&A.

Sector-wise, we favor AI demand-exposed names in the Utilities sector, midstream credits in the Energy sector and Financial Services. We are underweight Capital Goods and Materials, both cyclically-exposed sectors. For accounts with flexibility, we advocate for an increased high yield allocation versus loans.

## LOAN MATURITY WALL IS ELEVATED AND SKEWS LOWER-QUALITY<sup>9</sup>



(8) Unless indicated, data sourced from PitchBook Data, Inc. 1 and 8 December 2025. (9) J.P. Morgan. 25 November 2025. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed.



# US Private Equity 2026 Outlook



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**RAY ZHANG, CFA**  
Partner

## KEY TAKEAWAYS

- > 2026 is shaping up to be a good year for PE, in our view, as falling interest rates and M&A resurgence support overall activity
- > We believe deal flow will remain robust, while exits experience an uptick and fundraising improves, especially for GPs with healthy track records
- > One impediment to dealmaking is the potential of price misalignment between buyers and sellers to continue into the new year

With the Fed cutting interest rates and M&A activity surging, 2026 is shaping up to be a good year for US private equity (PE). However, understanding which parts of the market are poised to benefit more than others could be key to PE investor success.

From a macro perspective, falling interest rates are supportive of PE activity. Lower borrowing costs and improved valuations should be a boon to general partners (GPs), leading to the continuation of the robust deal flow seen in 2025. This should be especially true for co-investment and continuation vehicle (CV) deals – two areas of focus for PPM.

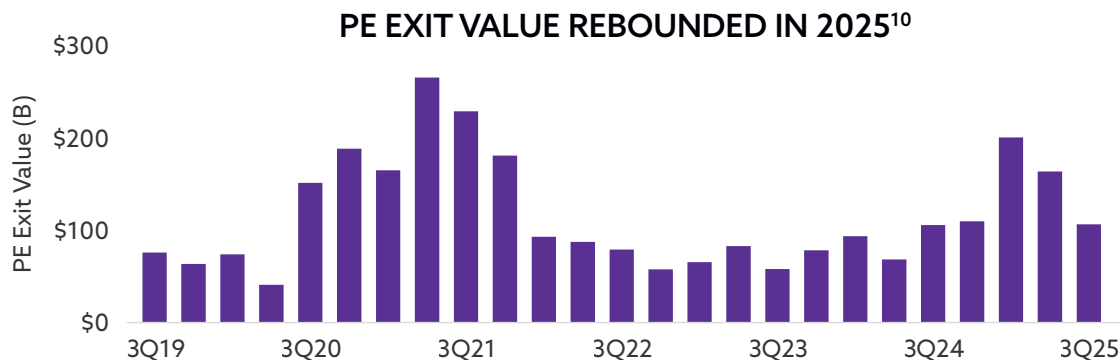
Speaking of CVs, PE exit value picked up in 2025, a trend we anticipate continuing in 2026 led by three main drivers. First, GPs have solidified CVs as one of the four main paths of exit (including IPOs, strategic and financial) and their use will likely increase in the coming year. Second, the uptick in M&A activity (which has been aided by lower rates) should help not only performance but also spur additional exits. Third, the IPO market

is showing signs of life, providing an exit pathway for larger companies.

As for fundraising, we observe that GPs with healthy track records and clean histories are hitting their target goals and time frames. (Others are taking longer to raise money and close their funds.) Additionally, we believe public stocks and bonds seem overvalued to many investors, which could lead to more money flowing into PE. An uptick in exit activity would only enhance this as limited partners could then redeploy that money back into PE, especially into safer, high-quality investments. Lastly, larger firms gaining traction offering PE funds to retail investors could provide another avenue for fundraising.

After sterling returns in 2025, the Technology sector should remain a focal point for PE investors next year. AI investments including data centers will most likely continue at a historic pace, offering ample opportunities for PE investors. However, caution is in order as any potential AI bubble could have massive repercussions and lead to losses.

Although optimism reigns for PE heading into the new year, a few other areas of concern are worth noting. At a macro level, a softening job market could impede economic growth. From a policy perspective, federal regulatory scrutiny may continue to impact certain sectors adversely, especially Healthcare. Tariffs have mostly been managed by portfolio companies, but pockets, namely Industrial, may remain challenged. Rate uncertainty also lingers. The Fed may take a pause on further cuts, although a change in Fed leadership or political pressure could impact that decision, which will in turn impact LBO debt costs and M&A activity. When it comes to dealmaking, one hindrance to both flow and exit activity may be continued price misalignment between buyers and sellers.



(10) Source: PitchBook Data, Inc. "Q3 2025 US PE Breakdown." 24 October 2025. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed.

# US Commercial Real Estate 2026 Outlook



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Mortgage Loan Production

## KEY TAKEAWAYS

- > In our view, now may be a good time to invest in CRE debt amid macro uncertainty given its higher income potential and diversification compared to public fixed income
- > Investor interest could rise in select property types, as multifamily continues to work through its supply glut and there is more visibility around a bottom in office
- > Investing is more thematic in retail and industrial, where upgraded tenant bases (retail) and higher-quality properties (industrial) draw demand

In our view, now may be a good time to invest in commercial real estate (CRE) debt. Macro uncertainty remains, including potential economic weakness, tariffs and other policies out of Washington (e.g., immigration). Debt markets bring income potential, and CRE debt in particular can offer both higher yields and diversification compared to public fixed income. Further, we believe quality CRE opportunities will dwindle over the next year as negative headlines become less frequent (e.g., in office) and more capital returns to the asset class.

We are witnessing more clarity in the office segment following the correction, though individual properties are still due corrections

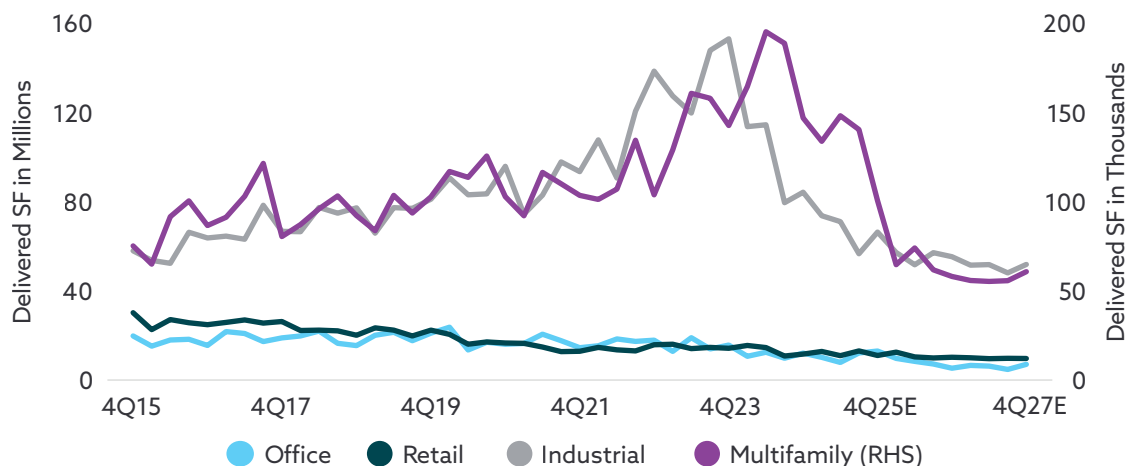
in value as maturities approach and/or rents readjust down due to tenant rollovers. We are also witnessing more interest from investors on the debt side, though not all lenders are willing to look at office right now. If there is a bounce, investment opportunities may arise for willing lenders. Office currently offers yields above, and sometimes well above, the other major property types.

Supply should be a theme for 2026. New industrial and multifamily supply is expected to be much lower than recent levels, due to a lack of available financing, high build costs and soft market conditions. Multifamily rents are also likely to increase, albeit at a slower rate than in recent years. This rent growth should bode well for net operating income. We observe that industrial buyers and lenders continue to look for higher-quality properties in both major and secondary markets. Investors appear comfortable owning exposure to port markets, which have been negatively impacted by tariffs, as part of a diversified industrial portfolio.

We expect retail construction to remain subdued for another year, buoying occupancy and rental rates. Themes remain among retail locations. Malls that have adjusted their tenant bases to increase the amounts of experiences, restaurants and gyms have tended to separate themselves. In neighborhood centers, a successful trend is swapping in fast casual dining.

The Fed's rate cutting cycle will reduce floating rate CRE interest rates. We believe short-term rates coming down could have a positive impact on core plus lending.

## WE EXPECT LOWER NEW CONSTRUCTION STARTS IN 2026<sup>12</sup>



(11) Julian Foster will retire in April 2026. (12) CoStar. As generated on 8 December 2025. Actual deliveries through 3Q25 and estimated deliveries from 4Q25. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed.



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