Our investment teams discuss current market opportunities and risks.

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MACROECONOMIC OUTLOOK
Global Growth Increasingly Synchronized as Central Bank Stimulus Remains a Factor

GROWTH CONTINUES TO IMPROVE GLOBALY. We see signs of improving growth throughout the world, supported by central bank stimulus. However, Brexit- and U.K. election-related uncertainties still pose risks to U.K. and eurozone growth.

POLITICAL RISKS FADE IN CONTINENTAL EUROPE. France’s presidential election results preserved the status quo and removed a key element of European Union uncertainty, which is contributing to a more favorable growth outlook for the region.

EMERGING MARKETS (EM) SHOWING STRENGTH. According to the World Bank, manufacturing and trade gains, improving market confidence, and stabilizing commodity prices will push EM growth to 4.1% in 2017, compared with 1.9% for developed economies.

CONDITIONS ARE EXPECTED TO SUPPORT MODEST GROWTH. We believe economic fundamentals continue to support moderate economic growth, with gross domestic product (GDP) between 2% and 3%.

SIGNS SUGGEST GROWTH RATE MAY INCH HIGHER. Our economic forecasting model, which showed growth of approximately 2% for 2015 and 2016, is signaling a potential uptick from higher employment and inflation indicators.

OPTIMISM MAY HAVE PEAKED. Economic expectations remain elevated but optimism may be waning, as President Trump’s plans for tax cuts, fiscal spending, and reduced regulations remain stalled. We’ll be monitoring these soft data/hard data trends closely.

GLOBAL INFLATION REMAINS MUTED. Despite significant monetary stimulus and a first-quarter uptick, global inflation generally remains contained. However, in the U.K., year-over-year inflation recently hit its highest level since 2013 (+2.7%).

U.S. HEADLINE INFLATION WEAKER, BUT IT SURPASSES CORE INFLATION. Year-over-year U.S. headline inflation increased 1.9% in May, down from 2.2% in April, largely due to a slowdown in energy, shelter, transportation services, and medical services gains. However, the headline rate surpassed core inflation in May.

U.S. INFLATION EXPECTATIONS LOWER. Setbacks for President Trump’s pro-growth policy agenda have helped push long-term market-based inflation expectations to below-average levels.

NORMALIZATION EXTENDS TO THE FED’S BALANCE SHEET. In addition to another 25 basis point increase in short-term rates, the Fed announced a plan to gradually reduce its massive balance sheet. We believe the Fed’s next tightening move may include the launch of balance sheet normalization.

MONETARY STIMULUS STILL THE NORM GLOBALLY. Massive bond buying and low interest rates still dominate global policy and are contributing to global equity and fixed-income gains.

MODERATE GROWTH, POLITICAL STAGNATION KEEP A Lid ON RATES. Given modest economic growth and the uncertainty surrounding President Trump’s tax and fiscal agendas—and the resulting lower market-based inflation expectations—we expect interest rates to remain relatively low and rangebound. We look for a 10-year Treasury yield of 2.10% - 3.10% over the next 12 months. Meanwhile, Fed tightening likely will cause short-maturity yields to rise more than long-maturity yields, keeping the yield curve relatively flat.

GLOBAL CONDITIONS STILL FAVOR LOW RATES. Modest global growth, low inflation, and massive bond buying by central banks in Europe and Japan continue to limit upward rate moves.
**GLOBAL AND NON-U.S. EQUITY**

**Europe, EM Gaining as the U.S. Recovery Matures**

<table>
<thead>
<tr>
<th>UNITED STATES</th>
<th>Businesses and consumers remain confident. Investors believe the government maintains a pro-business and pro-growth bias despite questions about the timing of tax reform and infrastructure spending.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Macroeconomic conditions supportive of higher rates. The economy is close to full employment, wages are ticking up, and gross domestic product (GDP) growth is rebounding after Q1 weakness.</td>
</tr>
<tr>
<td></td>
<td>Corporate earnings growth is strengthening. S&amp;P 500 Index(^1) trailing Q1 2017 earnings are up 15% year-over-year, the strongest rate since 2011.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EUROPE</th>
<th>Earnings growth recovery driving improvement. Earnings growth, the strongest in six years and strengthening faster than the U.S., is driving the improved outlook for the region.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lessening political risks help improve outlook on the Continent. Pro-reform election results in France have helped take some of the pressure off eurozone equities.</td>
</tr>
<tr>
<td></td>
<td>Election results cloud U.K. outlook. The Tories’ failure to maintain a majority in the U.K. will heighten Brexit uncertainty, pressure the pound, and slow the U.K. economy. Domestically focused equities could suffer while globally focused companies could see earnings gains.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>JAPAN</th>
<th>Inflation remains elusive despite stimulus. Monetary and fiscal stimulus have helped spur growth, but inflation is likely to stay well below targets without meaningful structural reforms.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Export gains driving earnings growth. Despite a stronger yen, earnings continue to improve, driven by improved domestic capital spending and strength among exporters, who are benefiting from increasing demand from China and Asia.</td>
</tr>
<tr>
<td></td>
<td>Olympics spending should support growth. Large infrastructure projects tied to the 2020 Summer Olympics in Tokyo are expected to contribute to economic expansion for the next few years.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EMERGING MARKETS (EM)</th>
<th>EM delivered superior earnings growth. Higher earnings growth compared to developed markets and improving operating leverage make EM stocks compelling.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Relative valuations favor EM. Notwithstanding recent appreciation, we believe emerging equities remain attractively valued relative to developed markets.</td>
</tr>
<tr>
<td></td>
<td>EM should rally as outflows reverse. Less than 20% of recent outflows have returned to the asset class, suggesting investors remain underinvested.</td>
</tr>
<tr>
<td></td>
<td>Maturing reflation story favors stock selection. As the strength and stability of global reflation recedes, identifying individual earnings surprises gains in importance, especially as the pace of upgrades slows.</td>
</tr>
</tbody>
</table>

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The Global and Non-U.S. Equity Team’s view as of 6/8/2017.

International investing involves special risks, such as political instability and currency fluctuations. Investing in emerging markets may accentuate these risks.

\(^1\) The S&P 500\(^1\) Index is composed of 500 selected common stocks most of which are listed on the New York Stock Exchange.
## U.S. GROWTH EQUITY

**Solid Earnings Continue to Drive Growth Stocks**

### TECHNOLOGY

Higher-growth companies continue to benefit from enduring tech trends.

**Fundamentals diverge between high-growth and mature tech companies.** High-growth tech companies heavily skewed to online retail, digital advertising, cloud computing, and artificial intelligence are becoming more dominant. Mature tech companies are adapting their business models with varying levels of success. Opportunities for outperformance should continue on a select basis.

**More initial public offerings are anticipated.** Late-stage private companies may see increased enthusiasm for their public offerings given the strong performance in the sector. However, many may go public at valuations below recent private rounds. We will invest in new companies with ideas and innovations that fit our stock selection process.

### HEALTH CARE

Positives generally outweigh political rhetoric.

**Ongoing saga of Affordable Care Act creates volatility and opportunities.** Unknown outcomes of health care legislation cloud the overall picture, especially for hospitals and other service providers. Even so, generally strong balance sheets and rising demand are positives, although it may be a bumpy ride.

**Pharmaceuticals remain under pressure.** Harsh rhetoric from politicians has quieted somewhat between election cycles, but pricing is nonetheless under scrutiny. On the positive side, drug pipelines are robust, with ample clinical trial readouts. Upcoming launches of new drugs or new treatments could be materially additive.

**Medical devices exhibit stronger-than-expected earnings.** The emergence of artificial intelligence and robotics within the health care sector is in its early stages. Continued innovation and an aging population bode well for select medical device stocks.

### CONSUMER DISCRETIONARY

Restrained spending leads to mixed results for businesses catering to consumers.

**Positive factors for consumers are not moving the needle.** Lower unemployment, higher debt capacity, and low inflation are usually positive indicators, but they have not pushed consumer spending to expected levels. On the positive side, housing-related expenditures are expected to remain strong and restaurant sales are beginning to improve. Companies with structurally better business models and brands will be the winners.

**Headwinds may abate for auto parts retailers.** Stores offering accessories and maintenance items to “do-it-yourself” customers suffered from tax refund delays, bad weather, and concerns about online competition. We believe tax refund and weather headwinds will work out favorably over time. Further, brick-and-mortar stores offer advantages over online sellers for customers who have immediate needs for parts and advice.

### INDUSTRIALS

Industrials sector stocks have mostly stalled.

**Industrials lack fundamental support.** The severe cyclical downturns in mining, energy, and agriculture may persist, though conversations are turning to whether the bottom has been reached and when growth will return.

**Defense and infrastructure plans are in a holding pattern.** President Trump’s budget proposal and yet-to-be-unveiled infrastructure plan have pushed back the timing of anticipated fiscal stimulus. Many defense and infrastructure companies are poised to benefit from stimulus initiatives in whatever form they may take.

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The U.S. Growth Equity Team’s view as of 6/5/2017.
HEALTH CARE
Trends should bolster health care regardless of government policies.

Demographic trends and innovation trump government inaction. Political realities may continue to cloud “repeal and replace” legislation, while an aging population and advances in technology support select health care equities. Stocks linked to Medicaid remain vulnerable to potential regulatory-induced expansion or contraction.

Advances in technology and utilization trends support “medtech” stocks. Medical devices stocks are expected to perform well and we are finding positive risk-rewards in specific stocks.

Generic drug pricing is declining at an accelerated rate. Speedier approvals have facilitated more generic drug launches and amplified competitive pressures, leading to steeper price cuts. However, we believe pricing will eventually return to historical averages and generic drug providers and distributors will benefit from offering more products.

CONSUMER STAPLES & CONSUMER DISCRETIONARY
Innovation can help offset competitive headwinds and shifting consumer preferences.

Companies that innovate and reinvent themselves will be better positioned for success. Consumer staples companies are challenged to shift from historical legacy brands to healthier products that are growing in demand. Companies that can capably respond to the health-and-wellness movement should see stronger sales, margins, and stock appreciation.

The competitive environment and e-commerce are headwinds. Companies facing tough competition, slower sales growth, and slimmer margins are looking for smart ways to cut costs. Amazon and other online distributors present both challenges and opportunities. Acquisitions, divestitures, and strategic alliances may offer intelligent solutions.

ENERGY
Valuations are attractive and returns on capital are poised for improvement.

The energy sector is trading at attractive valuations. Regardless of oil and gas prices, energy sector companies can increase their earnings power by reducing costs. We believe the sector will benefit as returns on capital continue to normalize.

The path to normalized returns varies within the sector. Exploration and production companies can benefit from higher oil prices or from lower costs from more efficient operations. Meanwhile, oil service companies can benefit from higher services prices—associated with higher activity levels and rationalization of capacity—or through the reduction of fixed and variable costs.

REAL ESTATE
European property market presents compelling fundamentals.

Political pressures in continental Europe have eased. French election results and negative polling for German populist parties provides an improved business and political backdrop. These developments are positives for European property, particularly in Spain, France, and Germany.

U.S. housing demand remains strong. Housing demand has strengthened among millennials, who have a high propensity to rent rather than own. We favor residential real estate investment trusts (REITs) in regions with more affordable rental portfolios and less over-supply pressures.

E-commerce is disrupting retail properties. Increasing online spending is changing the way retailers think about their store-front strategies, resulting in lower overall demand for commodity-type retail real estate. We favor higher-quality REITs focused on reusing and repositioning vacant or under-used parcels in developed urban settings.

Key Asia/Pacific markets hold promise. Restrictive government policies are restraining demand, but developers are enjoying favorable conditions in key Asia/Pacific countries. Residential demand is greater than supply in Hong Kong and Singapore. Developers in China are benefiting from sharp price growth, which should lead to improved margins. We favor residential developers in these regions.
DISCIPLINED EQUITY
Favoring a Disciplined, Multi-Factor Approach Because Fundamentals Drive Long-Term Equity Returns

Value/growth disparity at historic highs. As of mid-June, growth stocks were outperforming value stocks by a wide margin year-to-date. While style indexes are not perfect proxies for our growth and valuation alpha factors, this disparity offers a glimpse of the divergence between them. With this spread at historically high levels, we would expect to see mean reversion to more typical levels, which suggests an opportunity for disciplined, fundamental investors when/if this relationship snaps back.

Correlation of value and growth factors at historic lows. Another way to look at the value/growth relationship is to look at the correlation between the two factors, which has reached historic lows. Said differently, the highest growth names score very poorly on valuation measures. Rather than chase the growth rally, we would argue for continued exposure to more reasonably priced growth companies over time.

Multiple factors over any single factor. A body of academic work and our own proprietary research argue for a multi-factor approach to factor investing. We see single-factor investing as essentially one bet expressed through many positions. A more diversified approach favors companies with attractive characteristics along multiple dimensions, thereby mitigating potential risk and volatility to a portfolio.

Measures of opportunity in valuation factors remain attractive. Valuation factors remain appealing even after the strong value rally for much of 2016. The outperformance by growth factors so far in 2017 improves the relative attractiveness of valuation factors and strengthens our belief that value may still have room to run in developed non-U.S. markets.

Changing relationship between valuation and sentiment/momentum factors for non-U.S. stocks benefits a multi-factor approach to stock selection. Valuation and momentum factors are often at odds with one another—stocks with high momentum tend not to be cheap, and stocks that are very cheap tend not to have positive momentum. In general, this negative correlation is desirable because there’s a diversification benefit to combining multiple factors with zero or negative correlations. Nevertheless, these two factors can complement one another well in individual security selection processes. First, stocks with positive momentum benefit from value discipline—and may help avoid “growth traps.” Second, holding attractively priced stocks with rising price momentum addresses the problem of owning value stocks that simply continue to get cheaper over time—“value traps.” As a result, when combining valuation and sentiment it can be beneficial to avoid the extremes. These are precisely the conditions we see at present in many developed and emerging markets.

The U.S. Disciplined Equity Team’s view as of 6/15/2017.
American Century Investments uses a multi-factor stock-ranking model incorporating a variety of stock attributes, which fall into four categories or factor families: valuation, growth, quality, and sentiment.
International investing involves special risks, such as political instability and currency fluctuations. Investing in emerging markets may accentuate these risks.
Diversification does not assure a profit nor does it protect against loss of principal.
### DEVELOPED MARKETS
Stubbornly muted inflation means accommodative policies will continue.

- **Policy delays help contain U.S. expansion.** Moderate growth and range-bound, longer-maturity interest rates are the most likely scenarios as changing expectations about U.S. tax, spending, and regulatory reforms cap upside potential.

- **Eurozone stabilizes as some political risks are removed.** Extremely accommodative monetary policy has helped deliver improved and more sustainable growth in the region. While growth is supported by pro-reform French election results, Brexit uncertainty continues to cloud the U.K. outlook.

- **Growth in Japan lackluster despite stimulus.** After years of ongoing monetary and fiscal stimulus from the Bank of Japan (BoJ), Japan’s economic growth remains moderate due to a lack of meaningful structural reforms.

- **Core inflation in developed markets remains muted, suggesting accommodative central bank policy and relatively low rates outside the U.S. will continue throughout the year and into 2018.**

- **We continue to take advantage of the spread differential between 10-year U.S. Treasuries and 10-year European and U.K. government bonds.**

### EMERGING MARKETS (EM)
Fundamentals improve, but growth may remain level in second half.

- **Delays in U.S. policies lessening pressure on EM.** Fears about protectionist policies and a faster pace of U.S. Fed hikes have eased.

- **EM growth broadens and continues to outpace developed markets.** EM fundamentals have recovered, and China has stabilized. All major EM countries are expected to show positive growth for full year 2017.

- **Developed markets’ economic recovery positive for EM.** Driven by economic improvement, growth in developed markets points to a pick-up in demand and trade volume for EM.

- **Geopolitical questions, commodities are concerns.** Despite the resolution of some issues, political tensions in the Middle East, South Africa, Brazil, and elsewhere are still concerns. Renewed weakness in commodities prices presents another risk.

### CURRENCIES
Delays in U.S. policy implementation driving currency fluctuations.

- **The “Trump Trade” is losing steam.** Delays in implementing the new administration’s pro-growth agenda and the retrenchment of oil prices pressure commodity-sensitive currencies (e.g., Norwegian krone, Canadian dollar, and Russian ruble).

- **Trade concerns suggest select hedges.** Ongoing concerns about NAFTA and other trade renegotiations favor hedges in select U.S. trade-sensitive currencies, such as the Canadian dollar and Chilean peso.

- **European currencies benefit from recovery and removal of uncertainty.** Economic recovery and post-election stability have lifted the euro significantly versus the U.S. dollar, and boosted other European currencies as well, including the Turkish lira and Polish zloty. Meanwhile, we continue to believe the British pound remains oversold from last year’s Brexit vote and is recovering to a higher fair value.

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Generally, as interest rates rise, bond values will decline. The opposite is true when interest rates decline. International investing involves special risks, such as political instability and currency fluctuations. Investing in emerging markets may accentuate these risks.
Investor Demand for Yield Drives Spread Sector Gains

**CORPORATE CREDIT**
Investment-Grade & High-Yield

Spreads grind tighter as demand for yield prevails.

**Fundamentals and yield advantages support corporate bonds.** With global interest rates remaining unusually low, investor demand for yield shows no signs of letting up. At the same time, generally healthy earnings and balance sheets are further fueling demand for corporate bonds. Spreads have continued to tighten, and prices have risen.

**Backdrop supportive of high-yield.** Despite its extended performance run, this sector has continued to generate robust returns. Yields still appear attractive compared with other bond sectors, and credit fundamentals remain decent.

**SECURITIZED**
MBS, CMBS, ABS, & CMOs

Federal Reserve (Fed) eyes balance sheet cuts.

**Reducing balance sheet could push mortgage rates higher.** The latest statements from the Fed indicate the central bank has crafted a strategy to reduce its $4.5 trillion balance sheet, which includes $1.75 trillion in MBS. Earlier this year, after the Fed announced it was considering balance sheet cuts, mortgage spreads widened modestly, suggesting mortgage rates could inch higher when the Fed actually starts exiting the mortgage market.

**Securitized issues remain attractive.** Although rates have been range-bound recently, we expect them to trend higher over time. When interest rates rise, mortgage refinancings and prepayments to MBS investors typically decline. This effectively extends the term of fixed-coupon agency MBS and increases their price exposure to rising rates. We continue to favor securitized holdings, including CMBS, CMOs, and ABS, which typically offer higher yields that may help offset this risk.

**GOVERNMENT**
Treasuries, Agencies, & TIPS

Falling breakeven rates boost relative value of TIPS.

**Treasuries still in favor on the global stage.** Despite recent declines in longer-maturity yields, U.S. Treasury yields still remain attractive compared with government bond yields in Europe and Japan. This dynamic is helping to support continued global demand for Treasuries.

**Current breakeven rate highlights TIPS’ value.** The 10-year breakeven inflation rate has remained below 2% since March. It’s ranged from 2.2%-2.7% in recent periods of stronger economic growth, so current levels represent relative value if U.S. economic growth and inflation strengthen.

**Muted rate backdrop warrants neutral yield curve positioning.** Future clarity regarding the pace and magnitude of Fed policy will determine the risks and rewards of making yield curve bets. Similarly, we’re maintaining neutral durations due to near-term uncertainty regarding President Trump’s policy proposals and their longer-term effects on interest rates.

**MUNICIPALS (MUNIS)**
Investment-Grade & High-Yield

Demand remains robust as tax-related concerns fade.

**Munis continue to rally.** Concerns about President Trump’s tax cut proposal have moderated, which has helped munis rally from their post-election sell-off. Attractive valuations and yields, relative to U.S. Treasuries and other high-quality securities, have fueled investor demand. Meanwhile, muni issuance has slowed, creating a favorable supply/demand backdrop.

**The search for yield lifts high-yield munis.** Similar to trends in the taxable bond market, high-yield munis have rallied on investor demand for yield and generally favorable muni credit fundamentals.

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1. High-yield corporate bonds are higher-risk, high-yielding taxable bonds comprised of debt instruments from corporations rated below BBB- by Standard & Poor’s.
2. Securitized debt results from aggregating debt instruments into a pool of similar debts, then issuing new securities backed by the pool. MBS: mortgage-backed securities, CMBS: commercial mortgage-backed securities, ABS: asset-backed securities, CMOs: collateralized mortgage obligations.
3. TIPS: treasury inflation-protected securities. See glossary for additional investment term definitions.
ALTERNATIVES
Opportunities for Active Managers

ALTERNATIVE INCOME
Demand for income-producing investments remains strong.

<table>
<thead>
<tr>
<th>STRATEGY RETURN DRIVERS</th>
<th>STRATEGY IMPACT</th>
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<tbody>
<tr>
<td>Global Fixed Income &amp; Credit</td>
<td>+</td>
</tr>
<tr>
<td>Income-Oriented Equities</td>
<td>+</td>
</tr>
<tr>
<td>Opportunistic Positions</td>
<td>+</td>
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<tr>
<td>Risk Outlook</td>
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Firm economic growth, subdued inflation, and low rates whet appetite for credits. The chase for yield has led to further spread compression. Recovering fundamentals, combined with low rates and a weaker U.S. dollar, have contributed to strong gains in emerging market debt. The backdrop for mortgage-backed securities (MBS) remains constructive amid strong housing and labor markets. However, the pending Fed balance sheet reduction and retail weakness have weighed on agency residential and commercial MBS, respectively.

Income-oriented equities seek a stable source of return with upside potential. Master limited partnerships (MLPs), real estate investment trusts (REITs), and preferred stocks remain attractive bond substitutes amid low rates. Though oil market volatility has been a headwind for MLPs, we expect oil prices to be range-bound this year, making MLPs an attractive yield play with some upside potential.

Niche opportunities available in ABS, CLOs. We continue to see opportunities in asset-backed securities (ABS) tied to shipping container and cell tower leases as well as consumer and auto loans. Favorable supply/demand and their floating-rate nature make collateralized loan obligations (CLOs) attractive. However, security and issuer selection have become paramount.

Earnings recovery offsets global uncertainties. Accommodative central banks and strong company fundamentals have driven up equity valuations and compressed credit spreads. However, there is no shortage of potential shock events that could cause volatility to spike in the second half of 2017. Maintaining a liquid and diversified portfolio with some dry powder should position investors well for downside volatility.

LONG/SHORT EQUITY & MARKET NEUTRAL¹
The low-volatility environment remains challenging though dispersion, correlation, and rate trends are positive.

<table>
<thead>
<tr>
<th>STRATEGY RETURN DRIVERS</th>
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</thead>
<tbody>
<tr>
<td>Volatility</td>
<td>-</td>
</tr>
<tr>
<td>Dispersion</td>
<td>+</td>
</tr>
<tr>
<td>Stock Correlation</td>
<td>+</td>
</tr>
<tr>
<td>Interest Rates</td>
<td>+</td>
</tr>
</tbody>
</table>

Depressed volatility continues. Against the backdrop of abundant liquidity and improved economic growth, volatility may remain at historically low levels. This is a challenge for active managers seeking to isolate price discrepancies among companies.

Stock correlation and dispersion trends remain favorable. Stock correlations remain low while stock dispersion is elevated. This suggests stock prices may begin to reflect fundamentals, which can benefit bottom-up long and short stock selection.

Higher short-term interest rates create opportunities for incremental income. Proceeds from selling stock short positions are generally invested in cash-like instruments, and can improve overall returns.

¹ Market-neutral strategies invest approximately equal dollar amounts in long positions (expected to increase in value) and short positions (expected to decrease). Short position refers to the sale of an asset borrowed, not owned, by the seller in anticipation of a price decline. If the seller can buy the asset later at a lower price, a profit results. If the price rises, the borrower/seller suffers a loss. A long position is the typical ownership of an investment; it gives the owner the right to transfer ownership, any income generated by the asset, and any profits or losses.

Generally, as interest rates rise, bond values will decline. The opposite is true when interest rates decline. International investing involves special risks, such as political instability and currency fluctuations. Investing in emerging markets may accentuate these risks. Diversification does not assure a profit nor does it protect against loss of principal. Diversification does not assure a profit nor does it protect against loss of principal.
MULTI-ASSET STRATEGIES
Macro Uncertainty; Micro Opportunity

ASSET CLASS
We’re waiting for a clearer economic picture to emerge.

EQUITY  FIXED INCOME

There’s no overwhelming argument in favor of stocks or bonds. The rally in stocks and sell-off in bonds since last November have been based on expectations for tax cuts, economic stimulus, less regulation, and ultimately, better economic growth. But so far, these conditions have not materialized. As a result, we are waiting for greater clarity on the economy and relative valuations before making a call on the broad asset classes.

REGION
Global and non-U.S. conditions make a great case for active management, as excellent individual opportunities must be weighed against uncertain macro factors.

U.S.  EAFE  U.S.  EM

Neutral on U.S. versus EAFE. Improving earnings growth at many companies argues for selective exposure to stocks of Europe and Japan. However, our model has a strong mean-reversion component, so it broadly favors U.S. stocks to rebound relative to developed markets after recent underperformance. Currency volatility (for unhedged strategies) also supports a neutral stance.

EM is a matter of bottom-up opportunity versus top-down uncertainty. We recognize that tremendous opportunities exist on an individual stock basis; indeed, the most positive indicator in our model is the bottom-up qualitative measure of fundamental opportunity. Thus, we believe active investment management is required to identify considerable opportunities and manage risks. The macro risks we see relate to Fed interest rate policy, with higher rates typically associated with a stronger dollar and challenges for EM stocks more broadly. The mean-reversion element of our model also suggests a rebound by U.S. stocks relative to EM.

STYLE AND CAPITALIZATION
Our models prefer growth to value and large to small stocks.

GROWTH  VALUE  LARGE  SMALL

Select economic and technical factors argue for growth over value. Our style measures have become increasingly positive on growth in recent months, as momentum and a number of economic factors suggest an environment favorable to growth-oriented equities.

Large preferable to small stocks, though we see opportunities in each. We continue to favor large over small stocks, primarily because of healthy consumer sentiment, which shows significant correlation with stocks’ relative performance by size. Nevertheless, small-cap stocks enjoy positive momentum and select companies have offered very attractive earnings growth.

BONDS
Outlook for higher rates and inflation argues for credit-sensitive and inflation-protected bonds.

TREASURIES  CREDIT  U.S.  NON-U.S.

Fundamental and technical factors argue for credit-sensitive bonds over Treasuries; U.S. over Europe. Strong demand for yield and continued improvement in corporate America argues for corporate credit over Treasuries. With respect to U.S. versus other developed market bonds, divergent monetary policies and yield differentials make U.S. bonds broadly more attractive than European debt.

REAL ASSETS
Adding inflation protection; neutral on REITs rates.

NOMINAL  TIPS  REAL ESTATE  CORE ASSETS

Favor TIPS with breakeven yields below 2%. TIPS breakeven yields (the difference in yield between nominal and inflation-linked Treasuries) remain below 2%, which is low relative to historical standards, even when measured just since the 2007–08 Financial Crisis.

In REITs we remain at our neutral, strategic allocation. We’re slightly more positive on real estate investment trusts (REITs) relative to bonds than stocks, but not enough to move away from our long-term weightings.

EAFE = Europe, Australasia and Far East; EM = Emerging Markets.

Generally, as interest rates rise, bond values will decline. The opposite is true when interest rates decline. International investing involves special risks, such as political instability and currency fluctuations. Investing in emerging markets may accentuate these risks.
Managing Money, Making An Impact

American Century Investments® is a leading asset manager focused on delivering investment results and building long-term client relationships while supporting research that can improve human health and save lives. It's how we and our clients together Prosper With Purpose™.

Every day people are increasingly focused on investing to make the world a better place for themselves, their families, their organizations and the world at large. It is possible to live a more meaningful and impactful life and give back something that's more valuable than money.

When you invest with us, you can also invest in the future of others and have the potential to impact the lives of millions. That's possible because of the distinct relationship with the Stowers Institute for Medical Research, which owns more than 40% of American Century. Our dividend payments provide ongoing financial support for the Institute's work of uncovering the causes, treatments and prevention of life-threatening diseases, like cancer.

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