# MULTI-ASSET DIRECTIONS

*Perspectives on Multi-Asset Class Funds*

Giulio Martini
**Director of Strategic Asset Allocation**

Robert A. Lee
**Partner, Chief Investment Officer**

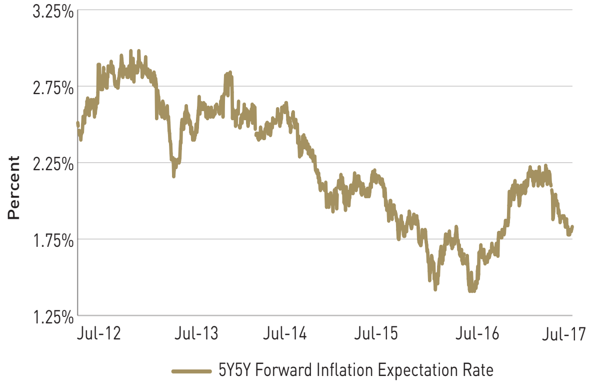
A surprisingly robust global earnings recovery and receding inflation risk propelled global equities, and risk assets more broadly, higher in the first half of 2017. Thus, investors who looked past potential political threats – Tweetstorms, Brexit uncertainties, and populist revivals – were rewarded with a near double-digit increase in global equity prices and a continued narrowing of credit spreads. Moreover, in another "surprising" development, the U.S. Federal Reserve (Fed) was able to execute two more interest rate increases, bringing the total to four in the current tightening cycle, while also sketching out a plan to transfer some of the risk it took onto its own balance sheet during the financial crisis back to the markets without shaking investor confidence.

Investors may be giving asset prices the benefit of the doubt because they believe that, ultimately, if further support is required central banks are prepared to maintain monetary accommodation for as long as necessary. Thus, while the Fed has asserted that if its expectations for economic growth and inflation are met, it will likely tighten by another 100 basis points by the end of 2018, markets are pricing in far less. The divergence in rate views is a consequence of investors forecasting inflation below the Fed's 2% target over the next five years, despite the economy having grown enough to be very close to full employment. If economic growth remains moderate and inflation below 2%, then bond yields could continue shading lower, supporting current market valuations and opening up more upside as earnings improve.

In a switch from 2016, non-U.S. developed equity markets outgained the U.S. in the first half of 2017. The success of mainstream political parties in Holland and France increased confidence in Euro Area stability, and hints of improving corporate governance bolstered equities in Japan. Meanwhile, emerging market equities outpaced most developed markets in the first half of 2017, fueled by the announcement that Chinese A-shares would be included in the most widely followed benchmark indexes for the first time. But, more importantly, a sharp improvement in global trade volumes and falling commodity prices delivered large benefits to emerging market exporters, especially in Asia. This went hand in hand with the turnaround in market leadership from commodity producers and financials in 2016 to technology companies in 2017.

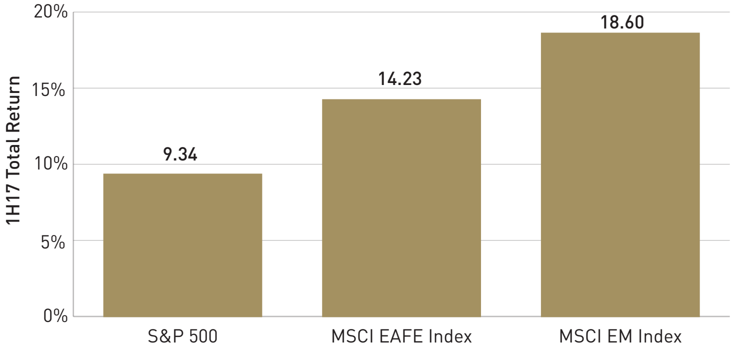
## Economic and Market Indicators

### INFLATION EXPECTATIONS REMAIN SUBDUED




Source: FRED, Federal Reserve Bank of St. Louis. Data as of 06/30/2017.

### INTERNATIONAL STOCKS LED IN THE FIRST HALF OF 2017



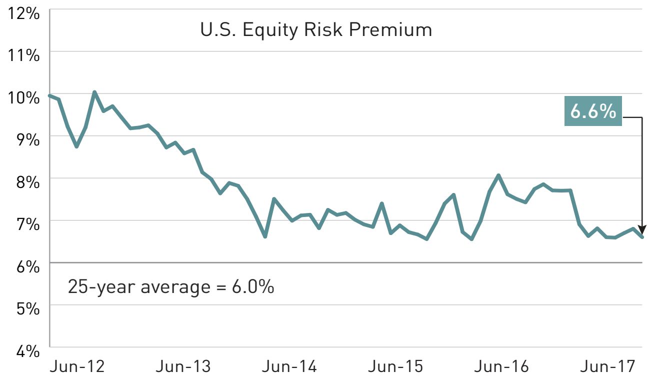

Source: Morningstar. Data as of 06/30/2017.

**Past Performance is not a reliable indicator or guarantee of future results.** The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Indexes are unmanaged, do not reflect deduction of fees and expenses and are not available for direct investment.

# ALLOCATION STRATEGY

The outlook for the second half of 2017 will continue to be conditioned by global growth, inflation, and the response of economic policy to the evolving key fundamentals. If central banks are truly data dependent, then monetary policy should continue to be supportive of asset prices. With inflation pressure surprisingly subdued throughout the developed world – with the exception of the U.K. – policymakers can afford to tap on the monetary brakes lightly, if at all. Meanwhile, with the crucial five year Communist Party congress in China in late 2017, the Chinese government has placed a premium on maintaining economic stability until it adjourns, at a minimum. Thus, many of the key Euro Area and China based risk factors that bedeviled the markets at various times in recent years are currently in abeyance. Thus, it appears likely that the current environment of low volatility and positive sentiment towards risk assets is likely to endure.

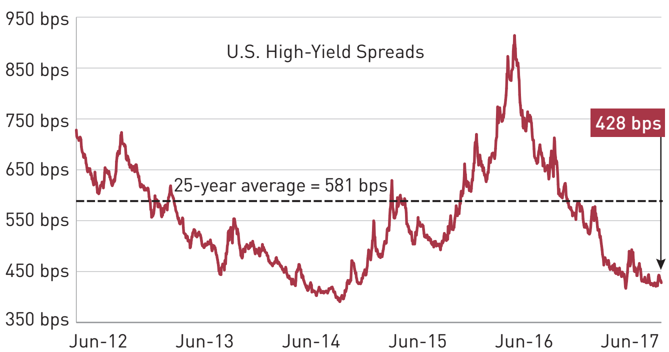
## Increased Exposure to International Equities




Source: Lord Abbett. Data as of 06/30/2017.

While we expect U.S. equities to continue to benefit from low inflation and moderate GDP growth, we believe the current environment favors overseas markets. The Euro Zone has now definitively overcome both the Global Financial Crisis of 2008-2009 and the sovereign debt crisis that followed in its wake. Business and consumer confidence have returned to levels reached only during the heady period in the early 2000's following the creation of the Euro. Meanwhile, a global export recovery has been gaining strength, with benefits spilling over most powerfully to emerging market economies. While Brexit-related uncertainty is a potential negative for the U.K. market, the upshot of these unexpectedly positive developments has been a strong earnings recovery, including strong upward revisions to earnings forecasts in 2018 and beyond.

## Maintained Favorable Outlook on Credit




Source: Credit Suisse. Data as of 06/30/2017.

High yield continued outperforming core bonds in the first half of 2017. The outperformance was particularly notable as energy prices dropped and energy companies faced renewed pressure meeting obligations. We continue to favor high yield securities as we expect defaults to remain low overall and for the yield advantage over Treasuries and investment grade bonds to provide a sufficient cushion against a potential modest widening in spreads if the economy slows. However, if U.S. GDP growth accelerates from 1.4% in the first quarter to 2-3% for the rest of 2017, spreads should continue to tighten. With no significant downturn on the horizon, high yield remains attractively priced relative to core bonds.

## Retained Long U.S. Dollar Exposure

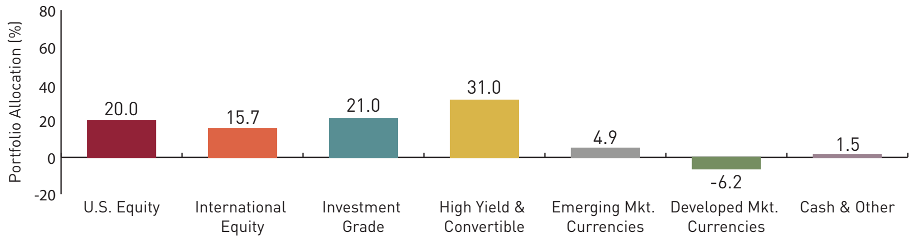

Source: Bloomberg. Data as of 06/30/2017.

The U.S dollar has weakened since last December despite three increases in short-term interest rates by the Fed, due to forecasts that U.S. monetary tightening would soon be forced to pause and a growing conviction that the European Central Bank and Bank of Japan would soon signal a shift towards somewhat tighter policies. These views have been supported by shortfalls in GDP growth and inflation in the U.S. compared to the rest of the world in the first half of 2017. We suspect, however, that this dynamic will start to unwind in the second half as robust consumer and capital spending drive U.S. growth higher and inflation overshoots expectations modestly. The U.S. is much closer to "full" employment than most other countries, allowing the Fed to continue along the path of earlier monetary normalization. This should eventually spill over to exchange rates, encouraging the dollar to rise.

# PORTFOLIO POSITIONING

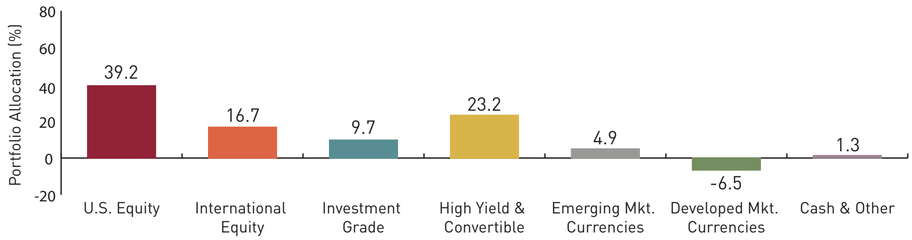
## Multi-Asset Income Fund

The Fund seeks to capture income and return opportunities across a wide investment universe, including traditional and nontraditional asset classes.



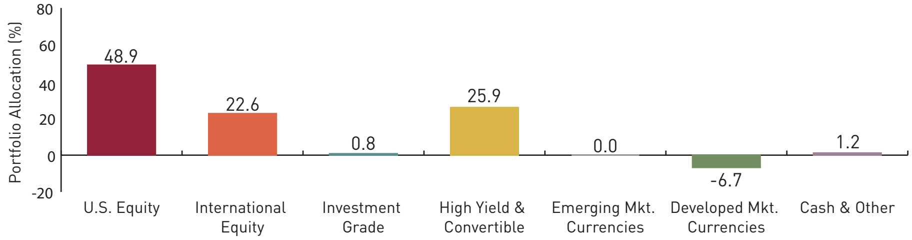

## Multi-Asset Balanced Opportunity Fund

The Fund seeks to balance long-term growth of capital and attractive income by capturing return opportunities across a wide variety of asset classes.



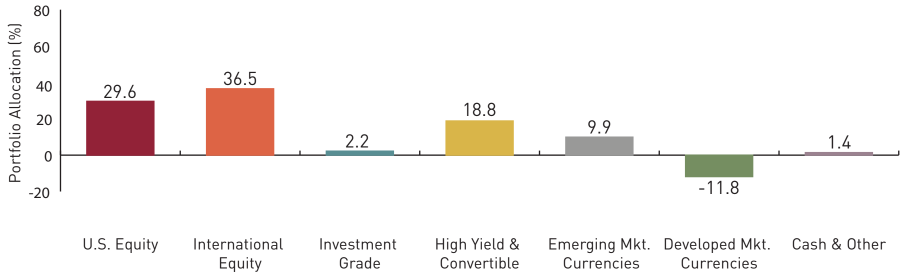

## Multi-Asset Growth Fund

The Fund seeks to deliver long-term growth of capital by capturing return opportunities across a wide variety of asset classes.



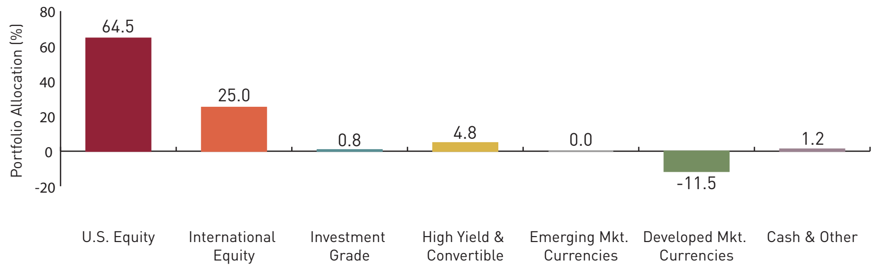

## Multi-Asset Global Opportunity Fund

The Fund seeks to deliver long-term growth of capital by capturing return opportunities across a wide variety of asset classes, both within and outside the United States.




## Multi-Asset Focused Growth Fund

The Fund seeks to deliver long-term growth of capital by investing primarily in Lord Abbett Funds that invest in a wide variety of U.S. and international stocks along with select bonds.




The percentages shown are based on individual securities owned in one or more of the underlying funds as well as derivatives held directly by the Fund or in underlying funds. The percentages shown may not directly correspond with calculations utilized to meet prospectus requirements. Derivatives are valued at their net notional value and are included in the allocation to the asset class that they synthetically replicate. Long and short positions are netted. The Fund's portfolio is actively managed and therefore, its percentage allocations may change from time to time. Holdings are for informational purposes only and are not a recommendation to buy, sell, or hold any security.

| MULTI-ASSET INCOME | |
|---|---|
| CLASS | SYMBOL |
| CLASS A: | ISFAX |
| CLASS C: | ISFCX |
| CLASS F: | LIGFX |
| CLASS I: | ISFYX |
| CLASS R2: | LIGQX |
| CLASS R3: | LIXRX |
| CLASS R4: | LIXSX |
| CLASS R5: | LIXTX |
| CLASS R6: | LIXVX |

| MULTI-ASSET BALANCED OPPORTUNITY | |
|---|---|
| CLASS | SYMBOL |
| CLASS A: | LABFX |
| CLASS C: | BFLAX |
| CLASS F: | BLAFX |
| CLASS I: | LABYX |
| CLASS R2: | BLAQX |
| CLASS R3: | BLARX |
| CLASS R4: | BLASX |
| CLASS R5: | BLATX |
| CLASS R6: | BLAVX |

| MULTI-ASSET GROWTH | |
|---|---|
| CLASS | SYMBOL |
| CLASS A: | LWSAX |
| CLASS C: | LWSCX |
| CLASS F: | LGXFX |
| CLASS I: | LWSYX |
| CLASS R2: | LGIQX |
| CLASS R3: | LGIRX |
| CLASS R4: | LGIKX |
| CLASS R5: | LGITX |
| CLASS R6: | LGIVX |

| MULTI-ASSET GLOBAL OPPORTUNITY | |
|---|---|
| CLASS | SYMBOL |
| CLASS A: | LAGEX |
| CLASS C: | LAGCX |
| CLASS F: | LAGFX |
| CLASS I: | LGEYX |
| CLASS R2: | LAGQX |
| CLASS R3: | LARRX |
| CLASS R4: | LARSX |
| CLASS R5: | LARTX |
| CLASS R6: | LARVX |

| MULTI-ASSET FOCUSED GROWTH | |
|---|---|
| CLASS | SYMBOL |
| CLASS A: | LDSAX |
| CLASS C: | LDSCX |
| CLASS F: | LDSFX |
| CLASS I: | LDSYX |
| CLASS R2: | LDSQX |
| CLASS R3: | LDSRX |
| CLASS R4: | LDSSX |
| CLASS R5: | LDSTX |
| CLASS R6: | LDSVX |

*The views and information discussed in this commentary are as of 06/30/2017, are subject to change, and may not reflect the views of the firm as a whole. The views expressed in market commentaries are at a specific point in time and are opinions only and should not be relied upon as a forecast, or research or investment advice regarding a particular investment or the markets in general. Information discussed should not be considered a recommendation to purchase or sell securities.*

**Investors should carefully consider the investment objectives, risks, charges, and expenses of the Lord Abbett funds. This and other important information is contained in each fund's summary prospectus and/or prospectus. To obtain a prospectus or summary prospectus on any Lord Abbett mutual fund, contact your investment professional or Lord Abbett Distributor LLC at 888-522-2388, or visit us at lordabbett.com. Read the prospectus carefully before investing.**

**Past performance is not indicative of future results.**

Effective May 1, 2017, the Lord Abbett Diversified Equity Strategy Fund changed its name to Multi-Asset Focused Growth Fund.

**A Note about Risk:** Each fund of funds invests in underlying funds that may engage in a variety of investment strategies involving certain risks; these funds of funds may be subject to the particular risks of the underlying funds in the proportion to which each Fund invests in them. Performance may be lower than the performance of the asset class that they were selected to represent. Because the Multi-Asset Income Fund will be more heavily invested in fixed-income funds than equity funds, it will be more affected by the risks associated with debt securities. Similarly, since the Multi-Asset Focused Growth Fund, Multi-Asset Growth Fund and the Multi-Asset Global Opportunity Fund will be more heavily invested in equity funds than fixed-income funds, they will be more affected by the risks associated with stocks and other equity investments. Given the Multi-Asset Balanced Opportunity Fund's more balanced allocation among fixed-income funds and equity funds, it will be affected by risks associated with equity and fixed-income investments. Since the Multi-Asset Global Opportunity Fund will invest significantly in international securities, it will be more affected by the risks associated with international securities, including greater price fluctuations, less governmental regulation, and higher transaction costs, and may also be affected by changes in currency rates or currency controls. The value of the underlying funds' investments and the net asset values of the shares of both the fund of funds and the underlying funds will fluctuate in response to various market and economic factors related to the equity and fixed-income markets, as well as to the financial condition and prospects of issuers in which the underlying funds invest. Some of the underlying funds can invest in either high-yield securities, sometimes called junk bonds, or small/emerging growth companies. Investments in these types of securities are subject to greater volatility than either higher-grade securities or more established companies, respectively. Bonds may be subject to credit risk, which is the risk that the issuer will fail to make timely payments of interest and principal, and also may be subject to call, liquidity, interest-rate, and general market risks. Stocks and bonds can decline due to adverse issuer, market, regulatory, or economic developments. International markets may be less liquid and can be more volatile than U.S. markets. Foreign currency exchange rates may fluctuate significantly over short periods of time. They are generally determined by supply and demand in the foreign exchange markets and relative merits of investments in different countries, actual or perceived changes in interest rates, and other complex factors. Currency exchange rates also can be affected unpredictably by intervention (or the failure to intervene) by U.S. or foreign governments or central banks, or by currency controls or political developments. These factors can affect funds of funds' performance.

There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market. Market forecasts and projections are based on current market conditions and are subject to change without notice. Projections should not be considered a guarantee.

The information provided is not directed at any investor or category of investors and is provided solely as general information about Lord Abbett's products and services and to otherwise provide general investment education. None of the information provided should be regarded as a suggestion to engage in or refrain from any investment-related course of action as neither Lord Abbett nor its affiliates are undertaking to provide impartial investment advice, act as an impartial adviser, or give advice in a fiduciary capacity. If you are an individual retirement investor, contact your financial advisor or other fiduciary about whether any given investment idea, strategy, product or service may be appropriate for your circumstances.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity and involve investment risks, including possible loss of principal amount invested.

Asset allocation cannot guarantee a profit or protect against loss in declining markets.

FOR MORE INFORMATION:
Lord Abbett Client Service **888-522-2388** | Visit us at: **lordabbett.com**

Lord Abbett mutual fund shares are distributed by LORD ABBETT DISTRIBUTOR LLC
90 Hudson Street, Jersey City, NJ 07302-3973

ALLOSTRAT-COMM
(07/17)