SPRING 2017

GLOBAL OUTLOOK

JANUS CAPITAL® Group

A Good Time to Play Defense

THOUGHTS AND BONDS: MACRO VIEWS FROM THE JANUS FUNDAMENTAL FIXED INCOME TEAM

Fundamental-Informed Macro Views

Fundamental, independent research has been at the core of the Janus Fixed Income process for more than 25 years. While many competitors rely on government statistics to form a top-down view, we focus first on company, issuer and security level fundamentals. We believe this approach differentiates us from our peers and other macroeconomic data providers. Our comprehensive, bottom-up view drives decision-making at the macro level, enabling us to make informed sector and risk allocation decisions.

Each quarter we share our global outlook and provide insights on emerging investment opportunities and risks.

ABOUT JANUS FUNDAMENTAL FIXED INCOME

- **Over 25 years of experience focused on risk-adjusted returns and capital preservation**
- **Integrated fixed income and equity research**
- **Quantum Global: proprietary investment research and risk management system**
- **Highly collaborative team based in Denver and London**
- **35 fixed income investment professionals**
- **$37.6 billion in assets under management as of 12/31/2016**

The opinions expressed are those of the authors as of March 2017 and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

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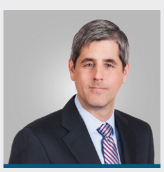
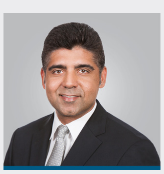
DARRELL WATTERS
HEAD OF U.S. FUNDAMENTAL FIXED INCOME



CHRIS DIAZ, CFA
HEAD OF GLOBAL FUNDAMENTAL FIXED INCOME



MAYUR SAIGAL
HEAD OF FUNDAMENTAL FIXED INCOME RISK

A Word from our Fundamental Fixed Income Team

Since the 2008 financial crisis, accommodative monetary policy has steered the U.S. economy, sustained the bull market and extended the U.S. credit cycle. Looking ahead, market participants are betting on fiscal policy to do the same. Still early in Donald Trump's presidency, his administration's proposals continue to fuel a "risk-on" mentality. The prospect of business-friendly initiatives has carried equity indices to new highs and driven corporate credit spreads tighter.

Our outlook is generally positive for the months ahead. We anticipate that credit opportunities will arise as more concrete plans for policy adjustments are announced. However, we remain concerned that investors are pricing in a level of U.S. economic expansion that may not be feasible while largely disregarding risk factors abroad, particularly those related to upcoming elections in Europe.

Valuations are generally rich, with investment-grade and high-yield corporate credit spreads well through their 10-year averages. While we recognize that spreads can continue to compress, particularly if the new U.S. administration successfully implements the right economic policies, caution remains warranted. The transition from monetary policy to fiscal policy may have further extended the credit cycle, but we are still in its later stages.

The persistent bid for corporate credit has driven yields lower, challenging fixed income's ability to provide a steady income stream for investors. Bond market participants also face an active Federal Reserve (Fed) and potential inflation on the horizon. In a market rife with challenges, this is a good time to play defense.

Identifying issuers with higher quality business models and strong fundamentals is of paramount importance. Avoiding issuers with significant downside risk and an unwillingness to take care of the balance sheet remains an equally crucial aspect of our investment approach. We believe our in-depth, fundamental research – in combination with our focus on risk management – can help us navigate the hazards littering the current market environment and aid us in delivering on our client commitment of strong risk-adjusted returns and capital preservation.

KEY TAKEAWAYS

- We believe economic growth and inflation may be tamer than expected, ultimately making it difficult for the Fed to raise interest rates three times in 2017.
- We believe inflationary pressures could push front-end nominal Treasury rates higher through the second quarter of 2017, while investor demand will keep yields range bound farther out on the curve.
- Investors are pricing in the expectation of stronger growth driven by fiscal stimulus, leaving fixed income risk assets priced for perfection.

United States

The new administration's ability to successfully implement policy remains in limbo. While markets are heavily betting on stronger gross domestic product (GDP) growth and fixed income risk assets are priced for perfection, we caution investors to be mindful of potential surprises to the downside.

TAKING THE UNDER ON FED HIKES

In anticipation of looser fiscal policy translating to stronger economic growth, Treasury yields marched steadily upward in the latter portion of 2016. However, early in 2017, the rate environment has been fairly benign outside of Fed-related volatility. The Trump administration's protectionist efforts, combined with unknown details of future fiscal policy adjustments have led to questions around the strength of growth and inflation we expect to see in the U.S. this year.

Despite the Fed's intent, we believe that realized economic expansion in 2017 will be muted compared with market expectations immediately following the election of President Trump, ultimately making it difficult for the central bank to raise interest rates three times over the course of the year. However, we believe gradual increases are likely in coming years, particularly if new fiscal policies succeed and inflation takes hold.

The Fed's focus on higher rates, rather than a change in balance sheet management, suggests that we will continue to see reinvestment of its maturing holdings in 2017. Within the next two years, however, we expect that the Fed will step away from reinvesting the $1.8 trillion mortgage-backed securities (MBS) portion of its portfolio. Once that occurs, a steady unwinding of the portfolio is likely to widen mortgage spreads, but by an absorbable amount. With Fed Chair Janet Yellen's term nearing its end, we are closely monitoring plans for leadership changes at the central bank to determine whether the next chairperson will accelerate the process of shrinking the balance sheet.

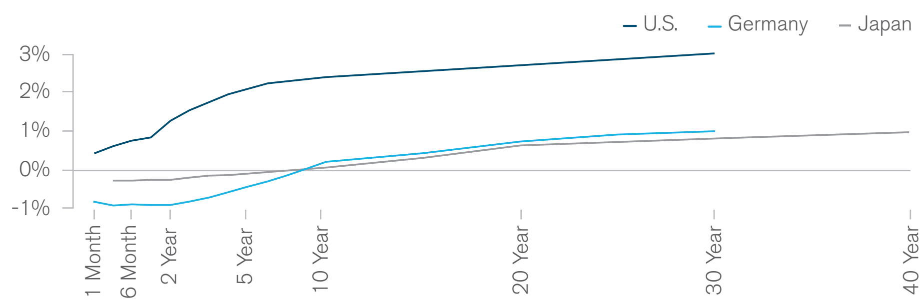
A FLATTER CURVE

Fed tightening will marginally pressure 10-year Treasury rates this year, although sustained elevation is unlikely in our view. Absent further inflation, it is difficult to see yields on the 10-year pushing much beyond 3%. As we move toward mid-year, we anticipate the curve to flatten with range-bound yields on the long end and greater volatility on the front end.

U.S. Treasury securities remain some of the most attractive safe-haven assets, which should keep the long end of the yield curve well bid. Political risk in Europe, including a hard Brexit and elections across the continent that could ultimately precipitate the breakup of the eurozone, has many non-U.S. investors seeking safety. If they are simultaneously searching for yield, foreign buyers have little alternative, as Treasurys offer some of the highest yields among developed market sovereign debt.

Safe-Haven Yield Curves

U.S. Treasurys offer some of the most attractive yields among developed market sovereign bonds. Investor demand for those higher yields is likely to keep U.S. rates range bound in the coming months.



Source: Bloomberg. As of 2/28/2017.

Further, a continued decline in the price of crude oil will weigh on year-over-year changes in both core and headline inflation. This will also complicate the outlook for sustainably higher U.S. Treasury rates.

On the front end, Fed-driven volatility in combination with near-term inflationary pressures – including sustained wage growth and a relatively weaker U.S. dollar – could push Treasury yields higher. While the dollar remains relatively strong, the president's support for a weaker greenback caused the currency to dip early in the year. A frail dollar could put upward pressure on short-term yields. If weakness persists for an extended period, the subsequent inflation without growth would be detrimental to the U.S. economy.

INFLATION ON THE HORIZON?

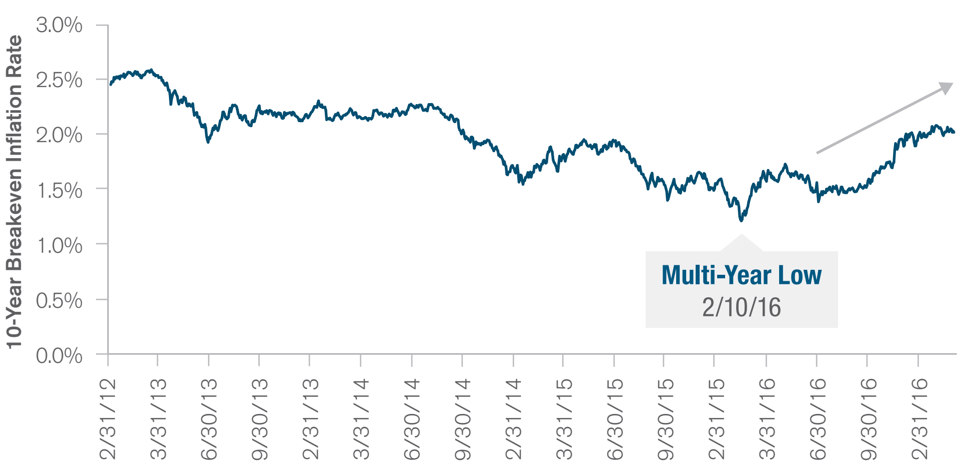
Reflation became a prominent market theme in the second half of 2016. Commodity prices had rebounded, U.S. economic data was moving in a positive direction and market participants began pricing in the potential for stronger growth and sustained inflation. The outcome of the U.S. election and President Trump's promises for growth-enhancing fiscal policies amplified this optimism.

Modestly positive trends have emerged in both U.S. employment data and wage growth, and the year's first Core CPI Inflation Rate print of 2.3% aligned with post financial crisis highs. Continued strength in the labor market coupled with the effective implementation of business-friendly initiatives from the new administration creates an opportunity for higher sustained inflation in the U.S. going forward. We believe inflation may remain elevated, but we do not expect hyperinflation, and without a pickup in wage pressures or a reacceleration of commodity prices, it is unlikely that inflation will accelerate at the same pace of recent months.

If history repeats itself, tighter monetary policy and looser fiscal policy should lead to a stronger dollar, which presents another headwind for U.S. inflation. However, the White House view that a stronger buck is bad for business opens the possibility to deviate from the norm.

U.S. Inflation Breakevens Rising

Inflation expectations hit a multi-year low in early 2016. Since recovering from the Brexit vote, investors have steadily priced in greater inflation expectations.



Source: Bloomberg. As of 2/28/2017.

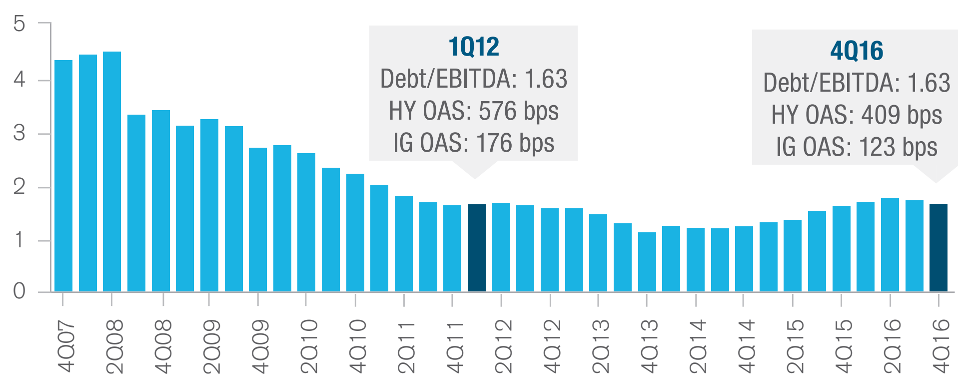
CORPORATE CREDIT PRICED FOR PERFECTION

This year, fiscal policy is expected to eclipse monetary policy as the driver of the U.S. economy. While few details have emerged, presidential promises fueled a "risk-on" mindset and steered corporate credit spreads tighter. Investors are generally pricing in the expectation of stronger growth driven by fiscal stimulus and leaving fixed income risk assets priced for perfection.

Corporations will undoubtedly benefit if the Republicans can successfully pass tax reforms, deregulation initiatives and infrastructure spending. Growth – achieved naturally, as opposed to by acquisition – and the accompanying rise in operating earnings would allow companies to grow into their highly levered balance sheets. This could contribute to improved corporate fundamentals and support spread tightening. Strong demand for U.S. corporate credit helps further mitigate credit risk and suppress defaults, while the potential for inflation and rising rates is also positive for spreads. However, we are mindful that leverage remains generally high and overall valuations look rich with investment-grade and high-yield corporate credit spreads already through their 10-year averages. We believe caution remains warranted in this extended credit cycle.

S&P 500 Index Net Debt-to-EBITDA

Although lower than historical averages, debt-to-EBITDA* ratios have trended higher in recent years. Meanwhile, investors are being compensated less for credit risk.



Source: Bloomberg.
*A measurement of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its earnings before interest depreciation and amortization (EBITDA).
Notes: OAS figures represent the option-adjusted spread of the Bloomberg Barclays U.S. Corporate High Yield Index and the Bloomberg Barclays U.S. Aggregate Corporate Index in basis points (bps).

Markets have been overly bullish in our view, and largely ignoring the possibility of a letdown by the new administration. We are particularly concerned with a disappointment on the tax reform front. To some extent, a reduction in the corporate tax rate is already priced into valuations. With Republicans controlling the White House and both chambers of Congress, failure to pass a tax reform initiative could cause markets to raise broader questions about the effectiveness of the U.S. government. Conversely, success on this front in 2017 could easily drive spreads tighter.

We also believe it is important to look holistically at the global economy and account for risk factors abroad. Market participants underappreciate the risks coming out of Europe, in our view, as the UK seeks to extricate itself from the European Union (EU) and elections are set to occur across the continent. Specifically, a win by Marine Le Pen, leader of the National Front in France and a proponent of France exiting the EU, could trigger the breakup of the EU and redenomination of the euro. Such events would result in downside pressure on U.S. growth, and likely swing markets into a "risk-off" trade.

A BOND PICKER'S MARKET

The U.S. economy continues to be the most robust of its global counterparts, and our analysts are identifying stronger top-line growth and margin expansion in U.S. issuers. Excitement over a perfect outcome, however, can be dangerous. While we intend to maintain our opportunistic approach to corporate credit, our bias toward shorter dated, low-beta defensive names remains intact. We favor issuers with higher quality business models, free-cash-flow generation potential and management teams committed to a sound balance sheet. We rely on our bottom-up, fundamental research to identify strong risk-adjusted opportunities while avoiding issuers with significant downside risk.

Corporate Credit Spreads Tighter than Long-Term Averages

With elevated leverage on corporate balance sheets and corporate credit spreads well through their 10-year averages, valuations generally appear rich.

Source: Bloomberg.

We are generally positive on U.S. corporate credit, especially the lower rated tiers of investment grade and shorter dated issues within high yield. High yield offers reasonable risk-adjusted returns in our view, but fundamentals are crucial to avoid significant downside events. Securities that can offer protection in a rising-rate environment, such as bank loans, are also attractive at this juncture. Bank loan coupons reset as interest rate increases occur. We expect loans, which benefit from a senior position in the capital structure, to offer stable and attractive risk-adjusted opportunities in the months ahead with lower volatility than the high-yield market.

On a credit sector basis, we are closely watching pharmaceuticals. Investors punished the industry throughout 2016 amid the perception of questionable drug-pricing practices. As the industry seeks to right its mistakes, valuations of certain issuers are beginning to look attractive again. We also appreciate the push from pharmacy benefit managers for their business partners to have investment grade ratings; given that these companies act as intermediaries between drug makers and pharmacies, we are optimistic that this will influence sound balance sheet decisions by drug manufacturers. Additionally, pharma companies may benefit if the new administration allows for the repatriation of foreign capital back to the U.S. Repatriated cash could mitigate the need for companies to borrow, and scarcity of issuance could positively impact spreads.

Within energy, we are still finding value in the asset-heavy, U.S.-facing issuers of the mid-stream sector. Companies that have repaired their balance sheets, or those looking to do so, are particularly attractive. We also appreciate issuers poised to succeed in varying oil price environments. Escalating U.S. shale production sets up the possibility for supply to outpace demand in the short term, as does the mid-year expiration of the Organization of the Petroleum Exporting Countries' recent agreement to cut production. Both create a modestly negative outlook for near-term crude prices.

KEY TAKEAWAYS

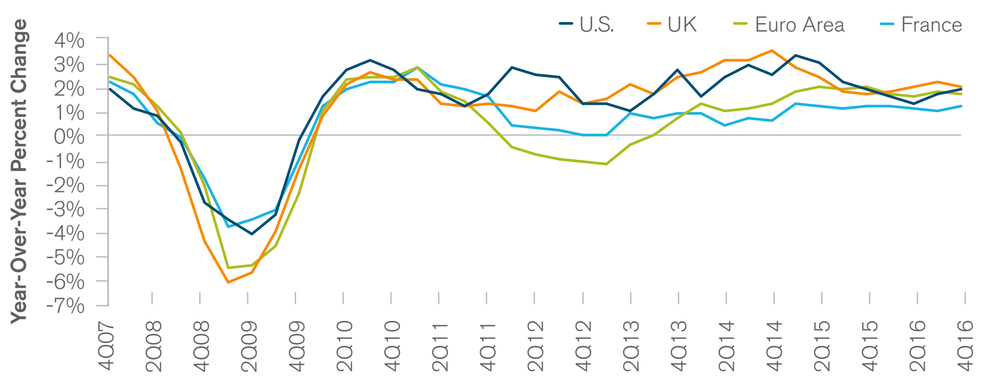
- We believe a win by Marine Le Pen in the upcoming French presidential election poses the largest threat to Europe's economic recovery.
- We expect continued uncertainty for UK assets, including gilts, corporate credit and the pound due to UK Prime Minister Theresa May's plans for a hard Brexit.
- As diverging monetary policies lead to interest rate differentials, we anticipate the U.S. dollar will benefit versus the euro and the yen.

Developed Markets

Economic data in the developed world continues to surprise to the upside, generating a stronger outlook for the global economy. Yet a number of risk factors on the horizon beg the question, is this growth sustainable? We are cautiously optimistic for the year ahead, but acknowledge that risk is skewed to the downside.

GDP Annual Growth Rates

The U.S. and the UK fared well in the economic recovery, yet their voters chose populist outcomes in recent months. We cannot rule out the possibility that less fortunate countries will do the same.



Source: Bloomberg.
Notes: U.S. and UK GDP data is seasonally adjusted. GDP data for France and the euro area is seasonally adjusted and workday adjusted. Based on quarterly data.

POLITICAL RISK AT THE FOREFRONT

Healthy U.S. economic growth could generate greater demand for global goods and propel growth in the rest of the developed world. In contrast, implementation of a U.S. border-adjustment tax could impede global growth, as could failure by the Republicans to pass growth-stimulating fiscal initiatives. In the Brexit process, the UK is set to trigger Article 50 by the end of March, which could also disrupt growth prospects in the developed world. European politics are emitting further risks, with upcoming elections in France, Germany and Italy that could result in the disintegration of the European project. Voters in both the U.S. and the UK, countries leading the economic recovery, chose populist outcomes in recent months; we cannot rule out the possibility that other countries that did not recover in stride will do the same.

BREXIT TROUBLES REMAIN

UK Prime Minister Theresa May plans to begin negotiations for the country's split from the EU as soon as possible, and has called for Article 50 to be triggered by the end of March. With her intent to carry out a hard Brexit and sever ties with the EU's single market, uncertainty continues for UK assets, including gilts, corporate credit and the pound.

The fall in the pound following the Brexit vote last June led to upward price pressures. In the 12 months to January 2017, the UK Consumer Prices Index rose 1.8%, the highest level of annualized inflation since June 2014. UK consumers and the country's growth outlook will suffer if inflation continues to creep upward while wage growth remains subdued.

A RECOVERY AT RISK

Euro area economic data has been encouraging of late. February's Markit Eurozone Composite PMI indicated a pace of output growth not seen in nearly six years. A 2% year-on-year increase in February puts headline inflation at its highest rate since January 2013, although this is largely due to rising food and energy prices. If core inflation begins to tick higher, the European Central Bank (ECB) could be compelled to begin unwinding monetary stimulus earlier than expected.

We anticipate continued improvement in the eurozone through the first half of the year. Upcoming French elections pose the largest threat to the region's recovery. While not our base case, the election of Marine Le Pen to the French presidency would create significant risk for Europe and have potentially broader implications for global collaboration efforts. If realized, Ms. Le Pen's aspiration to exit the euro would be detrimental to the bond market. A breakup of the euro could result in the conversion of euro-denominated bonds to currencies not currently in circulation, resulting in large losses. Yet there is no redenomination risk priced into markets at this time. While potential populist outcomes to elections in Germany and Italy are concerning, they pose less of a threat, in our view.

Once again, Greece is adding further complications to the euro area outlook. Maturing debt, coupled with significant redemptions by the ECB and the International Monetary Fund (IMF), promise to make July a challenging month for Athens if parties cannot agree on modified plans for repayment. Ultimately, we anticipate Greece and its creditors will reach a compromise. We view the situation largely as noise that provides added ammunition for the Eurosceptic parties gaining popularity across the region.

A CHALLENGING MARKET

While we continue to seek idiosyncratic opportunities in Europe and the UK, generally speaking, we do not believe that valuations sufficiently compensate investors for the excessive political risk. As it pertains to corporate credit, issuance has been limited year to date, and asset purchases by the ECB and the Bank of England continue to drive prices higher and spreads steadily tighter in their respective regions.

Accommodative monetary policy, now joined by the prospect of more robust economic expansion, has contributed to rich valuations globally and created a challenging investment environment. We are actively researching investment opportunities in countries where we expect interest rates to be held steady in the coming months, including Australia. And despite the potential for U.S. interest rate hikes, we believe that U.S. corporate credit presents some of the strongest investment prospects.

The interest rate differential caused by diverging monetary policy should support a stronger dollar versus the euro and the yen, as in our view, neither the ECB nor the Bank of Japan is in a position to raise interest rates in 2017. On a risk-adjusted basis, currencies such as the Swedish krona and the Norwegian krone also appear more attractive than the euro at this juncture. Although, if economic data remains positive and mainstream parties persevere over anti-EU movements, we could see the euro strengthen in the second half of the year.

KEY TAKEAWAYS

- Potential protectionist trade policies from the Trump administration represent our largest concern for emerging markets and the broader global economy.
- We believe a feud between the U.S. and China could have far-reaching effects on global growth.
- We continue to seek opportunistic investment in countries where a slowdown in inflationary pressures may create an opportunity to take interest rate risk in local currencies.

Emerging Markets

Given the large portion of emerging market economies reliant on commodities exports, the fortunes of the asset class are often tied to the strength of the commodities markets. An improving growth outlook in the developed world should translate to greater demand for commodities, a scenario that would benefit many emerging market countries. Despite the improving global outlook, we remain mindful of risks on the horizon. Our largest concern for the asset class stems from the impact of potential protectionist trade policies from the Trump administration. While certain initiatives could have a strictly targeted effect, a conflict between the U.S. and China could have broader implications.

PROTECTIONIST CONCERNS

A falling out between the U.S. and China over trade or geographic disputes could be the most significant risk factor emanating from emerging markets. Although current tensions are largely a result of rhetoric, if the Trump administration deems China a currency manipulator or implements tariffs on Chinese-made goods the impact could be substantial. A feud between the world's two largest economies could stem the flow of affordable goods to the U.S. and upset the global growth trajectory.

We are largely avoiding investment in Mexico due to the unknown outlook for the North American Free Trade Agreement (NAFTA). Whether the agreement will be completely unwound or renegotiated, we anticipate the economies of the U.S. and Mexico to bear the brunt of the consequences. Specifically, pointed action against Mexico could impact U.S. manufacturing processes – particularly in the automobile industry – as goods may cross the border multiple times before production is finalized. Due to the intertwined nature of certain fabrication processes, a change in trade policy would likely be damaging to both economies.

TARGETED EXPOSURE

We continue to seek opportunistic investment in the asset class, particularly in countries where a slowdown in inflationary pressures may create an opportunity to take interest rate risk in local currencies. In countries such as Brazil and Colombia, for example, inflation rates are declining and the respective central banks are working to stimulate their challenged economies by lowering interest rates. We are comfortable with duration and currency exposure in countries where we see a strong case for interest rate cuts by local central banks. The higher yields available from some of these emerging market currencies are also attractive.

PORTFOLIO POSITIONING: DEFENSIVE ON RATES, NEUTRAL ON CREDIT

- Following the U.S. presidential election, the prospect of fiscally driven pro-growth initiatives extended the credit cycle, and our view on credit turned modestly more opportunistic. However, we remain mindful of spread levels, which continue to compress on the specter of growth.
- We are incrementally adding to our credit allocation, seeking companies that exhibit solid fundamentals and attractive valuations. Our bias remains conservative and focused on companies with higher quality business models and U.S.-driven cash flows. Security avoidance remains a key tenet of our investment process.
- With numerous risk factors in the market, including an active Fed, a wavering U.S. dollar, continued lack of clarity on U.S. fiscal policy adjustments and European political concerns, we will continue to actively manage duration and yield curve positioning, with the expectation of maintaining a modestly underweight duration position.

U.S. CORPORATE CREDIT

- With the new administration focused on pro-growth initiatives, our concerns over lower GDP and the end of the credit cycle have moderated. Global demand for U.S. corporate credit – due to its comparatively higher yields versus other global fixed income asset classes – also contributes to our modestly improved outlook.
- We expect bank loans – which benefit from a senior position in the capital structure and can offer protection against rising rates – to offer stable and attractive risk-adjusted opportunities with lower volatility than the high-yield market.
- We are opportunistically adding to credit, including high yield. However, our allocation remains conservative as we seek to participate in spread tightening while keeping capital preservation at the forefront. Across the quality spectrum, our focus remains on shorter and intermediate dated issuers with ample liquidity, strong free-cash-flow generation potential and management teams committed to a sound balance sheet.

TREASURY

- We expect a flatter yield curve in coming months, with volatility in front-end nominal Treasury rates and range-bound yields farther out on the curve.
- We continue to reduce our Treasury allocation and diversify our duration profile. We have allocated to Treasury Inflation-Protected Securities (TIPS) in anticipation of higher inflation expectations and in line with our focus on capital preservation.
- We use long-end Treasurys to adjust our overall portfolio duration, as well as to hedge our underweight in long credit. Shorter dated Treasurys act as a source of liquidity, allowing us to potentially capitalize on attractive securities experiencing price dislocations.

SECURITIZED

- The Fed's emphasis on higher rates, as opposed to a change in balance sheet management, suggests that we will continue to see reinvestment of its maturing mortgage holdings in 2017. We are closely monitoring plans for leadership changes at the central bank to determine if a new chairperson would expedite this process. We view MBS as ballast for our core portfolios. Our exposure is concentrated in generic agency pass-throughs. We seek securities with high coupons, high loan-to-value and pre-payment resistant characteristics.
- We opportunistically invest in commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS), seeking those where our analysts can form a constructive fundamental view on the underlying assets. Within CMBS, we allocate to higher quality, shorter duration positions that we believe can offer cash flow stability. In our view, single-asset, single borrower deals offer better relative value than conduit, or multi-loan, deals. Within ABS, we are concerned with growing risks in auto securitizations while certain whole business securitizations including franchise revenue-backed securities continue to present unique opportunities.

DEVELOPED & EMERGING MARKETS

- The ECB's asset purchase program should effectively anchor short-term sovereign yields in Europe, while a stronger outlook for growth and inflation could push long-term yields higher. We intend to remain underweight duration in the region.
- While we continue to seek idiosyncratic opportunities in Europe, overall corporate credit appears relatively rich as a result of quantitative easing. Additionally, valuations are not sufficiently compensating investors for the abundant political risk in the region.
- In the UK, we expect continued uncertainty for gilts, corporate credit and the pound due to Prime Minister May's plans for a hard Brexit. In turn, we are defensively positioned.
- We are actively researching investment opportunities in countries where we expect interest rates to hold steady in the coming months, including Australia.
- We are evaluating whether easing inflationary pressures in certain emerging market economies could lead to interest rate cuts and therefore attractive risk-adjusted duration opportunities.

YIELD CURVE/DURATION

- As we move toward mid-year, we expect the U.S. Treasury yield curve to flatten, with inflationary pressures leading to volatility on the front end and investor demand keeping yields in check farther out on the curve.
- Longer dated maturities continue to serve as a hedge for our underweight allocation to long credit. Short-duration Treasurys act as a source of liquidity, allowing us to potentially capitalize on attractive securities experiencing price dislocations.
- Our corporate credit duration remains skewed to the front end and belly of the curve in issuers in which we believe we have a clearer insight on fundamentals and their ability to pay down debt.
- We intend to maintain an active approach to duration and yield curve positioning with a focus on capital preservation.

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