American Century Investments®

EYEING A BOUNCE-BACK FOR BONDS

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We think the anomalies of 2022 have unleashed opportunities for fixed-income investors in 2023.

KEY TAKEAWAYS

What happened? An extraordinary combination of factors crushed global financial markets in 2022 and led to unusual losses for most asset classes.

Why does it matter? Historically, bonds bounced back relatively quickly following a down year. This was mean reversion at work—the theory that asset prices eventually revert to their long-term average level.

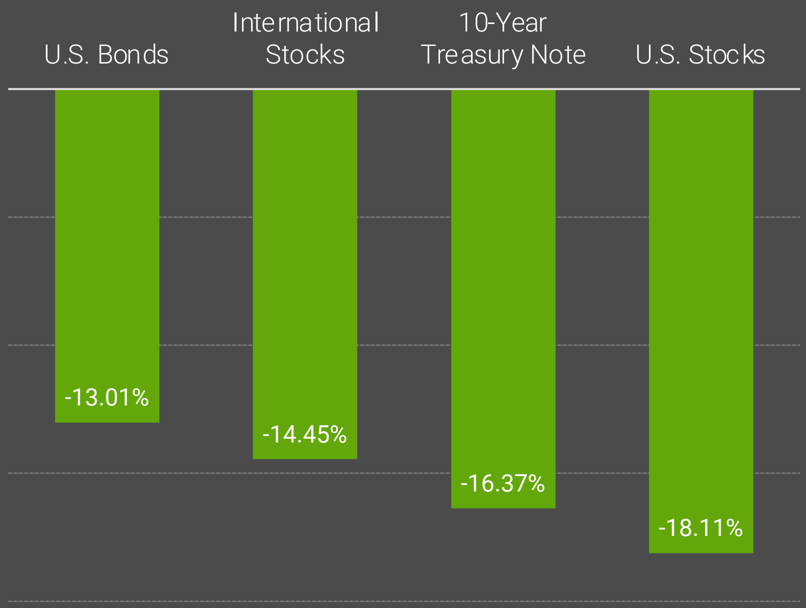
What's next? Given their recent higher yields and defensive traits in economic slowdowns, we think investors should take a new look at bonds in 2023.

WHAT HAPPENED?

- With inflation soaring to multidecade highs and the Federal Reserve (Fed) embarking on an aggressive rate-hike campaign to tame it, bond yields surged in 2022.
- Russia's invasion of Ukraine and the resulting energy sector uncertainty and geopolitical unrest agitated an already volatile market backdrop.
- Meanwhile, recession risk escalated as high inflation and rising rates worked their way through the economy.
- Financial markets struggled through most of the year. In an uncommon outcome, broad stock and bond indices ended 2022 with steep yearly losses.

Atypical Performance Patterns Characterized 2022

2022 Total Return for Stocks and Bonds



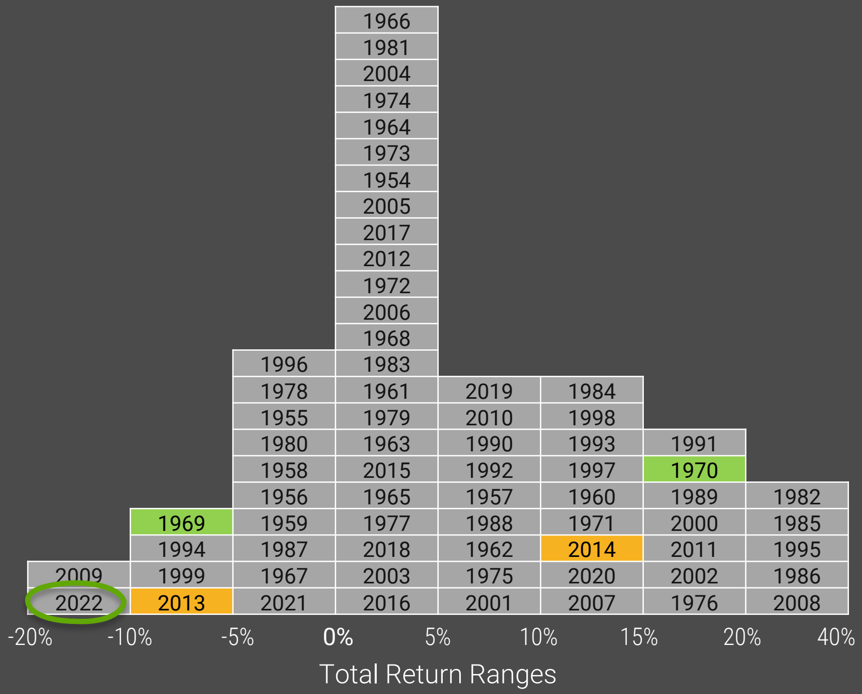
Data from 1/1/2022-12/31/2022. U.S. Bonds, International Stocks, and U.S. Stocks are represented by the following indices: Bloomberg U.S. Aggregate Bond, MSCI EAFE and S&P 500®. Source: Morningstar. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

A HISTORIC YEAR FOR BONDS

Data from 1/1/1954-12/31/2022. Source: Morningstar. **Past performance is no guarantee of future results.**

WHY DOES IT MATTER?

10-Year Treasury Total Return Ranges by Calendar Year



Data from 1/1/1954-12/31/2022. Source: Morningstar.

Historically, bonds bounced back relatively quickly following a down year.

- As the chart shows, since 1954, there were only 16 calendar years in which the benchmark 10-year Treasury note recorded a negative return.
- In several instances, the 10-year note rallied in periods following a down year.
- For example, after posting a one-year return of –8.50% in 2013, the 10-year Treasury gained 10.56% in 2014. A gain of 18.18% in 1970 followed a loss of -5.52% in 1969.
- These results highlight the historical pattern of fixed-income markets reverting to long-term performance trends.

WHAT'S NEXT?

We believe there are reasons to be optimistic about bonds.

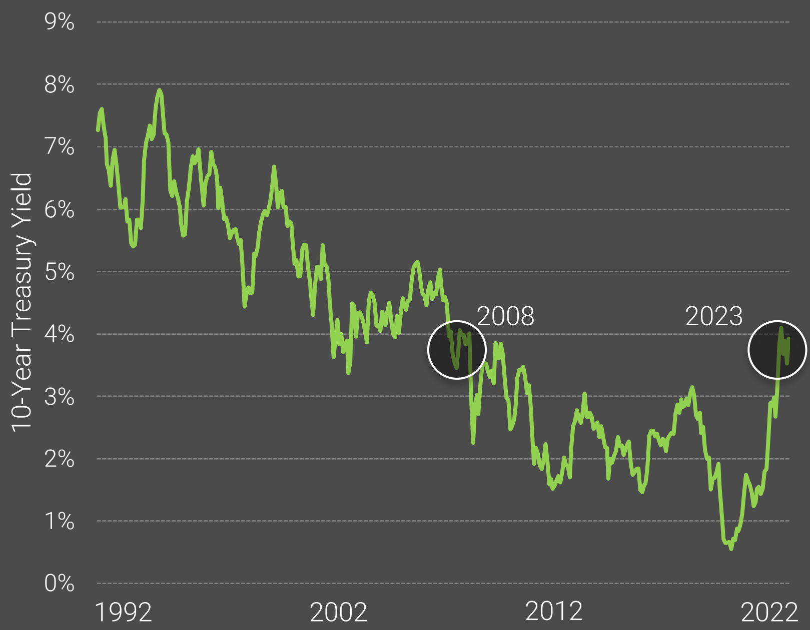
Yields are at their highest points in several years. In addition to boosting investment income, higher yields can provide a cushion against market volatility.

Inflation is moderating. While inflation likely will settle higher than pre-pandemic levels, it has eased significantly from recent multidecade highs.

Fed tightening may be nearing an end. The Fed's aggressive rate-hike cycle likely will conclude in the first half of 2023.

Recession risk raises bond market's profile. As the effects of slowing economic growth unfold, demand for higher-quality bonds likely will grow.

Yields Haven't Been This High in 15 Years



Data from 2/28/1992-2/28/2023. Source: Morningstar. **Past performance is no guarantee of future results.** Yield is the return an investor will realize on a bond or fixed income security. It is calculated by dividing a bond's face value by the amount of interest it pays.

ENDNOTES

10-Year Treasury Note: Debt securities issued by the U.S. Treasury and backed by the direct "full faith and credit" pledge of the U.S. government. Treasury securities include bills (maturing in one year or less), notes (maturing in two to 10 years) and bonds (maturing in more than 10 years). They are generally considered among the highest quality and most liquid securities in the world.

Bloomberg U.S. Aggregate Bond Index: The index covers the U.S. investment-grade fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

MSCI EAFE Index: The index is designed to measure developed market equity performance, excluding the U.S. and Canada.

S&P 500® Index: The index is composed of 500 leading U.S. publicly traded stocks and covers approximately 80% of available market capitalization. It is not an investment product available for purchase.

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Investment return and principal value of security investments will fluctuate. The value at the time of redemption may be more or less than the original cost. Past performance is no guarantee of future results.