

Thematic Insights

An In-depth Look at Tactical Investment Opportunities



May 2011

Continue to Overweight High-Yield Bonds

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Highlights

LPL Financial Research continues to favor high-yield bonds within the fixed income allocation of our recommended portfolios. We feel this asset class remains appealing for the following reasons:

- Attractive valuations and solid yield
- Strong fundamentals
- Continued investor demand
- Potential cushion to rising rates

For the past two years and running, LPL Financial Research has favored high-yield bonds within the fixed-income allocation of our recommended portfolios. Since 2009, the high-yield bond asset class, as measured by the Barclays Capital High Yield Index, has not disappointed.

Despite strong relative performance, we continue to believe that an allocation to high-yield bonds remains appealing. In addition to offering attractive valuations and a solid yield, high-yield bonds have continued to benefit from the economic recovery, the ongoing improvement of financial conditions of underlying issuers, strong demand as evidenced by mutual fund inflows, and the ability to offer some possible portfolio protection in the event of rising interest rates.

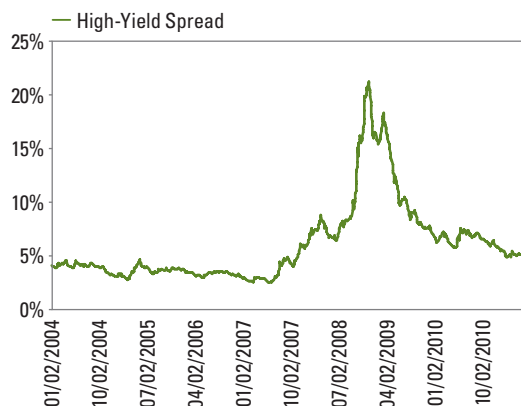
Key Reasons for Investing in High-Yield Bonds

There are several reasons why we continue to believe opportunities remain in high-yield bonds:

- **Attractive Valuations and Yield.** Attractive valuations are a primary reason why we remain optimistic toward this asset class. The average yield advantage, or spread, of high-yield bonds over comparable maturity Treasuries stood at 5.2% on May 18, 2011, well above the 3% to 4% yield spread that was common prior to the 2008 financial crisis [Chart 1]. Furthermore, the average 6.9% yield of the high-yield bond market, as of May 18, 2011, is attractive when compared to the average yield of high-quality fixed-income alternatives such as 5-year U.S. Treasuries and investment-grade corporate bonds, which yielded 1.84% and 3.75% on that day, respectively.
- **Economic Sensitivity and Strong Underlying Fundamentals.** While high-yield bond performance has been very good over the past two years, strong fundamentals suggest that valuations may further improve. High-yield bonds are highly sensitive to the economy and historically perform well during recoveries. Their issuers tend to benefit from an improving economy as corporate earnings rise in tandem, benefiting balance sheets and increasing the likelihood that interest and debt service obligations will be met. Today, corporate profits are expected to hit an all-time high in 2012 [Chart 2].

Rating agencies have also taken note of this earnings strength and corporations' increased ability to service debt obligations, as Moody's

1 High-Yield Bond Valuations Remain Attractive



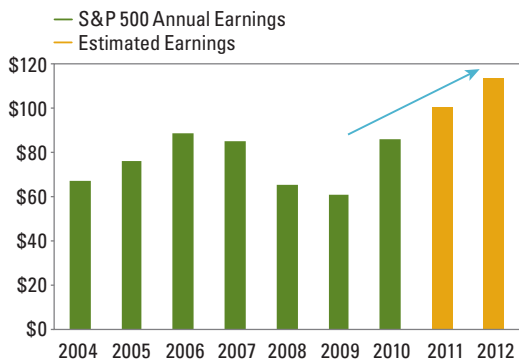
Source: Barclays, LPL Financial 05/18/2011

High-Yield Spread is the yield differential between the average yield of high-yield bonds and the average yield of comparable maturity U.S. Treasury bonds.

High-Yield Bond Characteristics

A high-yield bond (non-investment grade bond, speculative grade bond or junk bond) is a bond that is rated below investment grade by a major ratings agency such as Moody's or Standard & Poor's (S&P). These bonds have a higher risk of default or other adverse credit events, but typically pay higher yields than better quality bonds in order to make them attractive to investors.

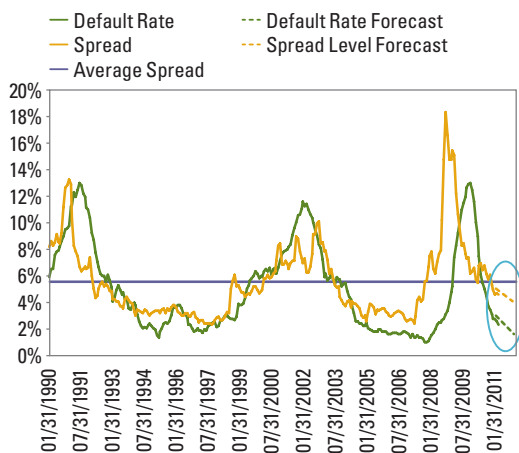
2 S&P 500 Annual Earnings



Source: Thomson One, LPL Financial 05/20/2011

Past performance is no guarantee of future results.

3 Barclays High-Yield Spread Versus Moody's 12-Month Trailing Default Rate



Source: LPL Financial, Moody's, Barclays 05/19/2011; Data as of 04/30/2011

High-Yield Spread is the difference between high-yield bonds and comparable U.S. Treasuries.

expects a decline in default rates to 2.3% in April 2011 from 2.6% in March 2011. It also forecasts a 1.5% year-end default rate. Keep in mind that at its peak in February 2009, Moody's predicted a default rate of 16.4% by the end of 2009. This news is positive for high-yield bonds as default rates and high-yield bond spreads are highly correlated [Chart 3]. A decline in the default rate bodes well for further yield spread contraction, which benefits price, and higher valuations relative to Treasuries.

While corporate profits continue to benefit from the economic recovery, higher input costs, such as rising energy prices and higher labor and health care costs, suggest that corporate margins may slow. Furthermore, aggressive cost cutting in response to the financial crisis may have run its course and this boost to profitability may have been exhausted. Despite our anticipation of lower margins, we expect reduced profits will still be strong enough to more than adequately service debt obligations.

On a related note, rising new issuance is often cited as a threat to high-yield bond performance, but composition of new issuance is most important to focus on. The majority of high-yield new issuance continues to be for refinancing purposes. Over 60% of new issuance continues to be used to refinance existing debt, according to S&P, compared to roughly 30% during the pre-crisis period of 2006 and 2007, when more speculative issuance dominated the marketplace. We view refinancing-oriented new issuance as healthy, and an extension of the ongoing trend to push out debt maturities and lock in attractive financing rates.

- Solid Demand.** Since the beginning of 2009, the combination of a recovering economy and improving issuer fundamentals have helped to drive strong demand for high-yield bonds. For example, with the exception of a few months, mutual fund inflows into the high-yield bond asset class have been positive [Chart 4]. We expect this demand to continue, providing a favorable supply/demand backdrop for the foreseeable future.
- Potential Cushion to Rising Interest Rates.** As the global economy continues its path to recovery and the Federal Reserve (the Fed) follows its plan of weakening the US dollar, inflation will likely rise. The Fed also takes an active role in trying to prevent inflation from rising too fast. When the Fed gets concerned that inflation is trending higher too fast, one tool in its arsenal is its ability to raise target interest rates. When the Fed raises its target interest rate, bond yields typically rise as well. This is because bond issuers must pay a competitive interest rate for investors to purchase their bonds. Consequently, new bonds paying higher interest rates mean existing bonds with lower rates are less valuable. As a result, in keeping with the inverse relationship of bond yields and prices, the prices of existing bonds will likely suffer. The high-yield bond asset class is not spared this relationship. However, its greater yield offers some cushion to falling prices and, as shown in the table on page 3, has generally outperformed the broad bond market prior to, during and following a Fed decision to raise interest rates. The exception was the sharp sell-off in equities in the early 2000's that caused riskier assets to underperform more conservative ones.

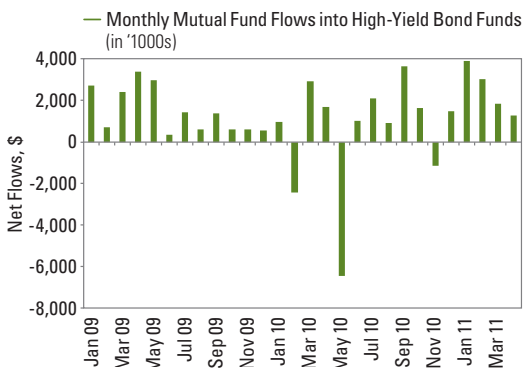
Performance of High-Yield Bonds and Broad Bond Market Before, During and After Most Recent Fed Interest Rate Tightenings

	1994			1999			2004		
	6 Months Prior (Jul 93–Jan 94)	Tightening (Jan 94–Jan 95)	6 Months After (Jan 95–Jul 95)	6 Months Prior (Dec 98–Jun 99)	Tightening (Jun 99–May 00)	6 Months After (May 00–Nov 00)	6 Months Prior (Dec 03–Jun 04)	Tightening (Jun 04–Jun 06)	6 Months After (Jun 06–Dec 06)
High-Yield Bonds	7.22	-1.82	12.31	2.20	-3.00	-4.61	1.36	7.79	8.44
Broad Bond Market	3.47	-2.31	9.04	-1.37	2.43	7.58	0.15	2.93	5.09

Source: Factset, LPL Financial Research 05/20/11

Returns are annualized

4 Mutual Fund Inflows Into the High-Yield Bond Asset Class Have Been Positive



Source: Morningstar, LPL Financial Research 05/20/2011

Therefore, if the Fed raises rates next year as we anticipate, and the equity markets do not hit a tailspin, high-yield bonds should outperform the broad bond market. Furthermore, as mentioned previously, high-yield bonds are sensitive to economic expansion and would likely offer some price support if strong economic growth was the key trigger behind rising interest rates.

Implementing the Opportunity

Our top recommendation in the high-yield bond asset class is the Pioneer Global High Yield Fund Y (GHYYX). Keep in mind that every investor situation is different and there are many factors you need to consider with your advisor before investing in a specific mutual fund.

Under the leadership of portfolio manager Andrew Feltus, this Fund seeks to maximize total return through a combination of income and capital appreciation. Drawing on the expertise of Pioneer’s global bond investment team, Feltus and his team utilize a three-legged approach: the first leg is traditional U.S. high-yield investing, which they feel offers the breadth and depth of the highly developed markets in the U.S. The second leg is emerging markets investing, which provides them with the flexibility to give the portfolio exposure to companies that are located in the fastest growing regions of the world. The third leg is international high-yield or non-dollar high yield investing. By investing in non-dollar-denominated high-yield assets, they believe they are able to reduce the portfolio’s overall volatility. In their opinion, when risky assets fall in value, the dollar falls, and holding non-dollar-denominated assets often serves to offset that effect.

While there are many reasons why this fund is our top recommendation in the high-yield bond asset class, the most notable ones lie in its value-oriented approach and global mandate:

- Management applies a consistent, value-oriented approach, investing in what they believe to be the 50–70 best global companies issuing high yield debt. Because of the sharp appreciation in high-yield bonds over the past two years, a value orientation may reduce poor performance in the event of a pullback in the sector.

Portfolio Allocation as of 03/31/2011

High-Yield Corporate Bonds	61.9%
Emerging Market Bonds	27.0%
International High-Yield Bonds	6.9%
Investment-Grade Corporates	4.2%
Total	100%

The fund allocation is subject to change at any time without notice.

- By adjusting and diversifying the portfolio's allocations at three distinct levels, country, sector and individual securities, they are able to help manage risk. Also, by having a sizeable allocation in foreign securities (see table), depreciation in the US dollar, which we believe will continue, may benefit returns.
- Management maintains a well-diversified portfolio to help minimize individual security risk. As of March 31, 2011, the fund held 590 securities.

Pioneer Global High Yield Fund Y Performance (as of 03/31/11)

Fund Name	Ticker	QTD	YTD	1-Yr	5-Yr	Since Incep. 12/27/05	Gross Expense Ratio
Pioneer Global High Yield Fund Y	GHYYX	4.62	4.62	16.13	8.06	8.02	0.73
Barclays Capital High Yield	N/A	3.88	3.88	14.25	9.09	N/A	N/A

Source: FactSet 03/31/11

The performance data quoted represents past performance.

Past performance does not guarantee future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance information quoted. To obtain current month-end performance information, please visit www.pioneerinvestments.com.

The performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and but does not reflect the maximum advisory fee of 3%. Such fee, if taken into consideration, will reduce the performance above.

High yield/junk bonds are not investment grade securities, involve substantial risks and generally should be part of the diversified portfolio of sophisticated investors.

An increase in interest rates will cause the price of corporate bonds to decline. Corporate bonds are not secured by collateral and are subject to credit risk and default risk.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.

Gross expense ratio is the total annual fund operating expense ratio and can be found in the most recent prospectus.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for any individual. To determine which investments may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus contains this and other information about the investment company. You can obtain a prospectus from your financial representative. Read carefully before investing.

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Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

An increase in interest rates will cause the price of corporate bonds to decline. Corporate bonds are not secured by collateral and are subject to credit risk and default risk.

International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

The Barclays Capital High Yield Index covers the universe of publicly issued debt obligations rated below investment grade. Bonds must be rated below investment-grade, or high-yield (Ba1/BB+ or lower), by at least two of the following ratings agencies: Moody's, S&P, Fitch. Bonds must also have at least one year to maturity, have at least \$150 million in par value outstanding, and must be U.S. dollar denominated and non-convertible. Bonds issued by countries designated as emerging markets are excluded.

This Barclays Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. 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

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