Market View

PERSPECTIVES ON WALL STREET FROM 90 HUDSON

Quarterly Outlook

October 2011

In mid-August 2011, the Thomson Reuters/University of Michigan's Index of Consumer Sentiment[1] plummeted nearly nine points, from 63.7 to 54.9, hitting the lowest level in 31 years. While the reading for the full month edged up a little, to 55.7, the index remained only slightly above the level reached immediately after the collapse of Lehman Brothers in November 2008.

In fact, consumers appear to be concerned about not only the economy but also, in particular, the government's attempts at fixing it. Sentiment has shifted from optimism about fiscal and monetary policies to "a sense of despair and pessimism about the role of the government," said Richard T. Curtin, economist in charge of the index.

The outlook remains downbeat as well among small-business owners, who generate most of the economy's new jobs. In September 2011, the Optimism Index,[2] published by the National Federation of Independent Business, fell for the sixth straight month. Respondents cited "poor sales" (25%), "government regulations" (19%), and "taxes" (18%) as their top three concerns.

Reasons for the gloom are plentiful, but surveys of consumers' and small-business owners' sentiment may be more accurate reflections of the recent past than predictors of the economy's future. And in reality, bright spots remain: bank lending is rising, retail sales continue to be healthy, and manufacturing continues to expand.

Still, economists have noted the dearth of "animal spirits"—the confidence that encourages people to start or expand businesses and take risks—but have disagreed on the remedy. While some believe only a more activist approach by government will stimulate confidence, others hold that confidence will return only if government's role in the economy is reduced. Taking up this and other topics this quarter are **Lord Abbett Partners Milton Ezrati, Senior Economist and Market Strategist; Zane Brown, Fixed Income Strategist;** and **Rick Ruvkun, Director of Domestic Equity Research.**

Q: THE ECONOMIC DATA THAT HAVE COME OUT OVER THE PAST FEW MONTHS HAVE BEEN WORSE THAN EXPECTED. HAVE THE ODDS OF RECESSION INCREASED?

Milton Ezrati: I beg to differ. Not all the data have been bad. If you look at factory orders, retail sales, and personal outlays, they show that although May and June were weak, July returned to the level we were experiencing earlier in the year, which was not robust, but was at least a measurable level of growth. The exception in July was the report from the ISM [Institute for Supply Management] Manufacturing Index,[3] which was weak. So the extremely weak numbers we were getting in the spring are probably misleading.

That's not to say the economy is strong. The GDP [gross domestic product] numbers show that the real weakness in the first quarter centered on government spending, which included a tremendous drop in defense spending. Now, defense spending is not going to grow rapidly, but it's also not going to fall like that again. And we saw something of a comeback in the second quarter.

In the second quarter, the economy would have grown by 0.7% more in real dollars if it weren't for autos and gasoline sales. The decline in autos resulted from the supply interruptions in Japan; gasoline sales fell because of the spike in oil prices and gasoline.

Again, this is not to say the economy is strong, but the numbers we've been seeing overstate the weakness.

Zane Brown: On the other hand, the question was, have the odds of a recession increased? I think we have to say that they have. Certainly, with slow growth in the first half, with Germany declining to almost no growth, with France at zero growth, and with little help likely to come from emerging markets, the odds have gone up.

There's also a slowdown in China, and some concern about India and other emerging countries, which will reduce demand for our exports. Maybe the economic data from first and second quarter overstate the weakness, but certainly the likelihood of recession must have increased, especially when the U.S. economy is so close to zero growth. Any small shock could slow the economy further.

Ezrati: I think the real question is, have the odds increased since the beginning of the year? In that case, I would say, Yes. But have they increased over the past two months? No.

China and India have slowed, but we're talking about slowing to still-robust levels of 7% and 9%, respectively. I agree with Zane relative to our last quarterly discussion—but not relative to the way things were a month or so ago.

Brown: Housing also hasn't shown any improvement. New home sales are down, existing home sales are down, and permits are down, so there's really no relief there. In fact, lower interest rates were supposed to boost housing, but that hasn't happened.

Now, as for employment, you could say we're stabilizing at a very low level of job growth, but that's about all you can say. And in terms of initial jobless claims, we're seeing ever so tiny improvement in the four-week moving average, but the kindest thing you can say about unemployment is that it's stabilizing.

Rick Ruvkun: A number of economists are talking about this concept of "stall speed." Basically, the idea is that if the economy slows too much, it's highly likely to enter recession. In fact, the number of times the economy has grown by less than 2% year over year without subsequently falling into recession is very small. When the economy falls below that 2% growth rate and doesn't fall into recession, that's the exception, not the rule.

On the other hand, the yield curve isn't inverted, so the most bullish investors are saying everything is hunky-dory. But others have noted that with a "balance sheet recession"—which is caused by deleveraging and by depressed asset prices—the yield curve doesn't always invert. In Japan, for example, a number of recessions have occurred without an inversion of the yield curve.

Some data support the idea that we're not headed into a recession, but if you consider the fact that real GDP growth has dropped below 2%, then the odds are high. We won't necessarily have a recession, but with growth falling below 2% year over year, it's now more likely.

But even if we avoid another recession, if the economy grows by only 1.5% to 2%, it will feel like one.

Ezrati: If you look at corporate profits, they're still okay, even though GDP was weak in the second quarter. Profit growth has slowed, but from a tremendous rate, so profits are still pretty strong. Also, manufacturing has been a bright spot, and in July, industrial production was very strong.

Again, I'm not saying the economy is robust. I'm saying that the pattern in the data suggests that the recent weakness is not a prelude to recession but merely an interruption in a period of slow growth. And that interruption is understandable: it was due to the disruption in supply chains resulting from the earthquake and tsunami in Japan and to a spike in oil prices.

Brown: It is true that we did just see auto sales bounce back as a component of personal consumption, which was surprisingly resilient. But consumer confidence hit a level that was the worst in 31 years.

Ezrati: I always consider consumer confidence numbers to be backward-looking; they respond to what happened in the previous months. Specifically, was there job growth, what did the stock market do, and what happened to gasoline prices?

Brown: I think the consumer confidence level also is influenced by Washington. There is a feeling that we don't have leadership that has inspired confidence, and, therefore, investors don't want to go out and take on any kind of risk. That becomes a downward spiral and a self-fulfilling prophecy.

Q: IF THE PRIMARY PROBLEM IN THE ECONOMY IS A LACK OF CONFIDENCE, IS THERE A POLICY THAT CAN ADDRESS THAT?

Ruvkun: The problem is far-reaching. We've got problems in terms of banks' willingness to lend because they're worried about financial contagion from Europe. There's a lack of confidence because the U.S. government appeared to be dysfunctional in resolving the debt crisis. There's also a lack of confidence because unemployment remains stubbornly high. And these things are all interrelated. This lack of confidence, along with the rise in credit spreads, is what makes the current environment different from a year ago.

Ezrati: The Europeans appear to be incapable of getting their act together, but there are things that could happen in Europe that would boost confidence. If the European Central Bank finally woke up to the fact that it needs to organize the euro rescue plan and be a participant in it, that would help.

Brown: Another thing that would restore confidence would be a serious proposal from the "Super Committee" appointed by Congress to address the deficit. If the committee came back with $4 trillion in spending cuts—not just the $1.2 trillion over 10 years that it's expected to cut—then people would say, "Ah, finally some leadership." That would be confidence-inspiring.

The proposal would really need to be something pretty significant. The biggest day on record in the Greek stock market was a rise of 8% on September 8, and that occurred because of a merger of two Greek banks. That merger created some hope among investors that Greece was taking some action to restore its financial system. That is the kind of action that can build investor confidence. Unfortunately, we probably won't see any significant surprises from the Super Committee.

Ruvkun: For Congress to focus on spending cuts is one-sided. There's also a revenue issue. What we need to do is have revenue enhancement at the same time as the budget cuts, and we need to implement progrowth policies as well. One side doesn't want tax increases, and the other side doesn't want to consider budget cuts, so the two sides are talking over each other.

The other problem is that neither side is doing anything about jobs. But in the short term, there seems to be little chance that Washington can come to any agreement on what to do. We need to take steps to encourage economic growth, including policies to stimulate business investment and R&D, job creation, and aggregate demand. Investments in infrastructure could help as well.

Ezrati: I think tax reform is one issue that both sides could agree on. Tax reform that lowered rates, but eliminated loopholes and deductions, would enable Republicans to sneak in a tax rate cut and allow the Democrats to sneak in a revenue increase. And it would make the tax system more efficient. This would also be a confidence builder.

What we've seen come out of the Simpson–Bowles Commission, what Obama actually hinted at in his State of Union address, and what Republicans have hinted at, is effectively a corporate flat tax. Congress could get rid of a lot of the loopholes for oil companies and others, and they could bring the statutory rate down.

Under the current system, some firms pay no tax because they have so many loopholes, while other firms pay a rate that is too high. Capital-intensive industries, for example, receive tremendous depreciation allowances, and they pay little tax. The United States has the second-highest statutory rate in the world, after Japan.

Brown: It's interesting that you asked what would increase confidence, and everything we've suggested is political. That hasn't been the case in the past. We all agree that fiscal policy is the problem but, given the the nation's conflicts in ideology, it seems unlikely that we'll come up with a fiscal fix that will boost confidence.

Q: ECONOMIST ROBERT SHILLER AGREES THAT THIS BROAD LACK OF CONFIDENCE IS A SIGNIFICANT PROBLEM, AND TO ADDRESS IT HE RECOMMENDS INFRASTRUCTURE SPENDING. TO AVOID ADDING TO THE NATIONAL DEBT, HOWEVER, HE SUGGESTS RAISING TAXES ENOUGH TO COVER THE COST. WOULD THIS SOLVE THE CONFIDENCE PROBLEM?

Ezrati: That could work if we did two things. You have to make the tax code broader and fairer, and on the spending, you have to spend it on things that produce an economic return. That is, you have to invest it, not just use it to cover expenses such as transfer payments like Social Security benefits.

Ruvkun: Michael Spence, a Nobel Prize–winning economist, also says we need more infrastructure spending, but he says it needs to be toll-enabled. In other words, if a road is built, it should be a toll road so that it pays for itself. That makes sense.

Ezrati: One problem with all infrastructure projects is that they are never really "shovel-ready." An environmental impact study has to be done, and if the study is more than six months old, it needs to be redone. That takes time.

There is also a problem with confidence in the government. Can we trust the government to resist building more projects like the infamous "bridge to nowhere"?

I also think raising taxes in the system we have now—whether on "fat cats" or across the board—would perpetuate inefficiency and inequity. And I think the public is on to it. So, even if the government could be trusted to pick the right projects, we would need tax reform.

Brown: In the past, Congress has passed highway bills that provide the funds to repair bridges and other infrastructure; those projects need a lot less in the way of new engineering and new environmental impact statements. So that money could be spent immediately, and it would create jobs, but it wouldn't generate the same kind of return that you would expect from new infrastructure. But a new highway bill would help the economy this year, and the new jobs would contribute to raising confidence. So, the confidence wouldn't result from passing legislation, but the resulting spending would work its way through the economy and produce confidence that way.

Ruvkun: The devil is in the details. If you raise taxes too high, then the economy would come to a screeching halt. But if you modify the tax code in a way that creates incentives for people to innovate and in a way that supports capital formation, then that would boost confidence. The issue is that the capital markets worry that these projects would not be shovel-ready or would not improve economic efficiency.

Q: WHAT ABOUT MONETARY POLICY? IS A THIRD ROUND OF QUANTITATIVE EASING [QE] BY THE FEDERAL RESERVE LIKELY?

Brown: Highly unlikely—and probably inappropriate because the FOMC [Federal Open Market Committee] can't point to any significant success from the second round of quantitative easing [QE2]. The members of the committee have admitted that the benefits of QE2 were less than those achieved with the initial round of quantitative easing.

On top of that, QE2 was launched nearly a year ago when core inflation was half of 1%. Now, inflation is above the upper bound of the core inflation rate [which excludes food and energy prices] that the Federal Reserve considers acceptable. Its upper bound is 1.5% to 1.7%. But core inflation is 1.8%. Some believe that quantitative easing is inflationary, so the Fed has to be careful not to endanger its credibility as an inflation fighter.

Ezrati: I would add that the money supply is growing rapidly. Banks are lending, not robustly, but they're beginning to lend. So, some of that liquidity injected by the Fed in previous QEs is getting into the economy—making another round even less likely.

Brown: If one of the purposes of a QE3 is to bring down rates on longer-term securities, then a twisting of the Fed's portfolio—rebalancing to buy longer-dated securities—could be a more efficient way to do that.

Rates, however, are already extremely low because the economy is growing so slowly, and people are fearful of another recession. By rebalancing its portfolio, the Fed provides investors some comfort that longer rates will stay low for a longer time, hopefully encouraging some risk taking and lowering rates on non-Treasury securities as well.

In reality, the Fed has used most of its ammunition. So what we can expect is some tweaking of the existing programs. That's probably why [Fed chairman Ben] Bernanke spent most of his Jackson Hole, Wyoming, speech talking instead about what the administration and Congress should be doing.

Ruvkun: There's also less consensus on QE on the FOMC than there was earlier. A significant amount of dissent on the FOMC will probably make Bernanke less willing to move ahead with another round of QE.

Bernanke's speech was like a Rorschach test. Investors heard what they wanted to hear. The bulls said, "He's opening the door to QE3," and the bears said, "Thank God, he's not going to do QE3 because that will lead to inflation."

Ezrati: And that's what he wanted. Bernanke has to leave all his options open. The Fed is hamstrung by the crisis of confidence, but it can't solve the problem.

Brown: Bernanke even said that policies that influence long-term economic growth are beyond the scope of the Fed.

That's another reason the Fed is unlikely to go ahead with QE3. It's been holding out hope that banks would start lending some of the money that has been injected into the system, and the banks are finally starting to lend.

Ezrati: Consumer credit has been growing recently as well. And although some have suggested this is a result of the expiration of unemployment benefits, those benefits ran out long ago, so this new rise in consumer credit is probably not due to that.

Q: HAS THIS PERIOD OF RECESSION AND RECOVERY BEEN DIFFERENT FROM THOSE IN THE PAST?

Ruvkun: Many believe this was not a normal recession and recovery. It was a balance sheet recession, which means that it was caused by a decline in asset prices—housing—followed by a reduction of debt among consumers and businesses. Often this type of recession follows a build-up of debt to excessive levels.

Brown: The process of deleveraging takes money that would have been spent and would have promoted growth and applies it instead to paying down debt. Also, deleveraging involves rebuilding the asset side of the balance sheet by increasing saving. So, it means that consumers and businesses will do less spending. It also means less risk-taking.

Ezrati: So consumers are no longer the engine of growth they once were. They can't take on more credit, and they're actually saving. Housing, which is very credit-sensitive, has not driven growth as it normally does in a recovery. Businesses can only do so much; they're too small a part of the total economy, compared with consumers, who account for 70% of GDP.

Ruvkun: Consumers probably took on more debt than they should have, but the real problem was the value of their assets. When consumers saw that their housing—the asset that secured much of their debt—had lost a large part of its value, they realized that affected their net worth and that relative to their assets, they were carrying even more debt than they thought.

Ezrati: Assuming that consumers want to get back to debt levels that existed prior to 1997, which was when the debt boom began, then at the current rate of savings, it's going to take until 2014 or 2015.

Brown: Consumers are no longer the engine of growth, and many are not buying houses; they're just renting. But even that isn't absorbing all the excess inventory. So there's little need for new homes, and we aren't seeing the construction jobs that have always been key in fueling past recoveries. In some recoveries, those jobs accounted for about 20% of the job creation. They were also relatively high-paying, and that led to additional spending and more job creation. So, without those construction jobs we don't have the normal springboard for economic recovery.

Ezrati: The IMF [International Monetary Fund] did a study in 2009 looking at financially induced recessions and found that the recoveries from those are much slower. And I've tracked our current recovery against their averages, and our economy is within those ranges. What they found is that, ultimately, the economy returns to normal, but it takes about a year longer to recover fully.

Brown: So the implications are less consumption, more unemployment, longer unemployment, and much slower growth. In the end, we could see economic leadership come from some place other than the United States.

Ruvkun: One question is, how should the U.S. government solve the whole structural, long-term unemployment issue? And this raises again the infrastructure issue. There is "good" infrastructure spending and "bad" infrastructure spending. So the policy implication is that monetary policy is not adequate, and the government has to spend, and that's why I believe infrastructure spending is necessary. And that's the lesson from Japan.

Ezrati: But there are potential political pitfalls. Japan's infrastructure spending was influenced by a corrupt process in which funds were channeled to political donors.

Q: THE EUROPEAN DEBT CRISIS APPEARS TO BE WORSENING. HOW MUCH OF A THREAT WOULD A MAJOR DEFAULT BE TO U.S. BANKS?

Ruvkun: The yield spread of U.S. bank debt over Treasury yields is widening because the market isn't sure how securely hedged U.S. banks are. The market is saying, "We're not sure that the European institutions that are providing these hedges are secure themselves."

U.S. banks disclose only their net exposures. Net exposure is the long position minus their short position. A bank's net exposure to European sovereign debt might be small, but the short position might be underwritten by a French bank, for example, that may have large holdings of European sovereign debt itself. This could mean that the French bank may not have the resources to make good on those hedges if a large sovereign default occurs in Europe.

Brown: But a sovereign default is not likely to have as large an impact as the collapse of Lehman Brothers did. Lehman was a surprise. But in the case of European debt, U.S. banks have probably been asking for a long time, "What is our counterparty risk?" So I think the risk is being much better managed this time around. A default by Greece, for example, wouldn't come as a surprise at this point. So I don't think we'll have the contagion among U.S. financial institutions that many fear.

Ruvkun: Spreads may also be rising because investors may be thinking there may be surprises out there, unforeseen consequences to a default.

Brown: Contagion, in some sense, exists right now. We have it in the form of fear and a lack of confidence, and it shows up in those bank yield spreads, raising their cost of borrowing. But are we going to wake up one day and have a much worse crisis than we had with Bear Stearns, Lehman Brothers, and AIG? Probably not.

Q: EUROBONDS ARE BEING MENTIONED AS ONE WAY TO SOLVE THE CRISIS. ARE EUROBONDS FEASIBLE?

Brown: I think a eurobond issue will be part of the ultimate solution to finance a stabilization fund up to $1 trillion.

That would be more substantial than the current size of $440 billion, and investors would have more confidence that there are adequate resources to provide sovereign financing when needed. A $1 trillion fund would give the rescue efforts more credibility. It's still not a permanent solution, but it is likely to provide some additional level of confidence.

But there are political questions. Can they get a eurobond issue done before the December 2011 election in Germany? Probably not. If [German chancellor Angela] Merkel survives the election, she may then be able to develop a more permanent solution.

Ezrati: But there's another real problem with eurobonds. Europe can use eurobonds to raise the funds they need, but they don't have the political institutions in place to decide how to apportion the proceeds. How will they decide how to apportion the money they raise?

But eurobonds would show a commitment on the part of the stronger nations of Europe to a unified Europe, which has been missing in this dithering that has gone on over who is going to pay for the rescues. Every time the Germans balk at helping, that says, "We're committed to Germany, not Europe."

Q: IN THIS TYPE OF ENVIRONMENT, WHAT OPTIONS SHOULD INVESTORS BE CONSIDERING?

Ruvkun: Many investors are overweighting defensive sectors such as healthcare and consumer staples. They're also looking to high-dividend-yielding sectors such as telecom and utilities.

Many are selectively moving into technology for the growth, but technology isn't the homogeneous sector it used to be.

I believe earnings estimates may be too high in industrials, materials, and financials. It doesn't mean those sectors won't do well, but some expectations may be too high right now.

I'm a little less cyclically bent than I was six months ago. But the question is, how procyclical does an investor want to be, given that the recovery is less robust than we had hoped and that, with the deleveraging, we're probably not going to get the kind of growth many had expected. So how much you want to overweight cyclicals depends on your view of the economy's direction and the magnitude of the growth.

Brown: In fixed income, the situation is a bit different. The defensive segments of the market are so overbid. The 10-year Treasury is now below 2%, and there is just not any value left there. So there is real significant risk there if the economy shows greater-than-expected growth.

On the other hand, we've seen a huge risk-off trade, so that anything that appears to have any risk has been sold almost without regard to price.

Floating-rate loans, for example, are unbelievably cheap. In fact, in some cases, prices on these loans have fallen more than those on longer-dated securities from the same issuer, which has produced an unusual opportunity. That is, in some cases, by buying a loan, it's been possible to pick up yield versus a high-yield bond. So even though these loans are higher in the capital structure, have minimal interest-rate risk, and can have very short maturities, investors have been able to pick up yield, which is not rational.

Longer term, high-yield bonds also look attractive, as long as the issuer appears able to survive a slow-growth environment. Investors could achieve equity-like returns from the interest payments, not to mention that some price appreciation is possible. In a slow-growth environment, strong returns in equities are more difficult to achieve, so the high-yield sector looks attractive, especially since it appears that we'll be in a yield-starved environment for a long period.

If you can find credits that can do well in a slow-growth environment, and there are a lot of them, all you're really concerned about is whether they have enough money to service their debt. They don't have to have ever-improving earnings. They just have to maintain existing earnings levels in order to service their debt.

In this environment, short-duration securities also make sense. With a steep yield curve, a small extension on the curve will go a long way to capture additional yield.

So some credit risk and a little interest-rate risk may make a lot of sense, but investors may want to avoid higher-quality issues that have been bid up to unattractive prices, and very low yields. ■

[1] The Index of Consumer Sentiment is based on a semimonthly survey that gauges the mood of consumers. A survey around the middle of the month provides a preliminary reading, and another survey around the last business day of the month provides a final reading.

[2] The NFIB Small Business Optimism Index is compiled from a monthly survey of NFIB members. The index is a composite of 10 components, including such topics as hiring plans, capital spending, expectations for the economy, expected credit conditions, and earnings trends.

[3] The ISM Manufacturing Index is based on a survey of purchasing managers in the manufacturing sector. The survey addresses employment, production, new orders, supplier deliveries, and inventories. The index measures national manufacturing conditions; a reading above 50% indicates an expansion in the manufacturing sector, and a reading below 50% indicates contraction.

A Note about Risk: The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy. The value of an investment in fixed-income securities will change as interest rates fluctuate and in response to market movements. As interest rates fall, the prices of debt securities tend to rise. As rates rise, prices tend to fall. Bonds are also subject to other risks, such as call, credit, liquidity, interest-rate, and general market risks. Moreover, the specific collateral used to secure a loan may decline in value or become illiquid, which would adversely affect the loan's value. Longer-term debt securities are usually more sensitive to interest-rate changes; the longer the maturity of a security, the greater the effect a change in interest rates is likely to have on its price. High-yield securities, sometimes called junk bonds, carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal. Investing in international securities generally poses greater risk than investing in domestic securities, including greater price fluctuations and higher transaction costs. Special risks are inherent to international investing, including those related to currency fluctuations and foreign, political, and economic events. These risks can be greater in the case of emerging country securities. No investing strategy can overcome all market volatility or guarantee future results.

Treasuries are debt securities issued by the U.S. government and secured by its full faith and credit. Income from Treasury securities is exempt from state and local taxes.

Gross domestic product (GDP) refers to the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments, and exports less imports that occur within a defined territory.

A yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates.

Dividends are not guaranteed and may be increased, decreased, or suspended altogether at the discretion of the issuing company.

Bonds are categorized by quality, and bond quality is related to the return investors expect to receive on a bond. In general, the lower the quality of the bond, the higher the return an investor expects to compensate for the risk of the bond defaulting.

The opinions in the preceding commentary are as of the date of publication and subject to change based on subsequent developments and may not reflect the views of the firm as a whole. This material is not intended to be legal or tax advice and is not to be relied upon as a forecast, or research or investment advice regarding a particular investment or the markets in general, nor is it intended to predict or depict performance of any investment. Investors should not assume that investments in the securities and/or sectors described were or will be profitable. This document is prepared based on information Lord Abbett deems reliable; however, Lord Abbett does not warrant the accuracy or completeness of the information. Investors should consult with a financial advisor prior to making an investment decision.

Investors should carefully consider the investment objectives, risks, charges, and expenses of the Lord Abbett funds. This and other important information is contained in a 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 www.lordabbett.com. Read the prospectus carefully before you invest.

Shares of Lord Abbett mutual funds are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including the possible loss of the principal amount invested.

FOR MORE INFORMATION

Lord Abbett Client Service
888-522-2388

Visit us at:
www.lordabbett.com

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

NOT FDIC INSURED—NO BANK GUARANTEE—MAY LOSE VALUE

(10/11)