1290 Diversified Bond Fund

Market Overview

Developed-Market Sovereign Debt

In a sharp reversal from the first half of the year, intractable inflationary pressures eluded the G3 (U.S., U.K, Japan) economies—as well as other developed markets—during the quarter, putting downward pressure on many high-quality bond yields. Although the core personal consumption expenditures index failed to register at the U.S. Federal Reserve's (Fed) 2% target rate, the central bank nevertheless raised rates for the fourth and final time in 2018. Despite the increase in short-term rates, Treasury yields fell; Fed officials have generally declined to address the flattening Treasury curve, though they have acknowledged that U.S. growth should retreat from the lofty levels seen in 2018. The European Central Bank (ECB) also cut the region's 2019 growth forecast but remained committed to ending its asset purchase program in December. Core and peripheral European bond yields fell to varying degrees, with notable moves in Italian government bonds, French government bonds, Spanish and Portuguese sovereign debt, and German bunds. A weaker inflation outlook plus the sharp selloff in global risk assets drove Japanese Government Bond yields lower, with the 10-year yield closing the year in negative territory. Longer-dated U.K. Gilt yields also retreated as Brexit-related uncertainty substantially increased toward the end of the quarter. The Banco de Mexico raised its benchmark rate twice at two consecutive meetings; the decade-high rate was implemented to keep up with the rising rate environment in the U.S. and address persistently high inflation.

Developed-Market Currencies

Weakness in commodity prices, inflation outlooks, and growth prospects drove developed market currency performance in the fourth quarter. The euro (down 1.4%) fell due to the combination of incipient inflationary pressures and a downturn in manufacturing. The British pound (down 2.3%) traded on the political volatility stemming from legislative setbacks to the Brexit negotiations and the challenge to Prime Minister Theresa May's leadership. The Norwegian krone (down 5.9%) experienced prolonged weakness resulting from the simultaneous decline in crude oil and industrial metal prices. The Japanese yen (up 3.5%) rallied versus most currencies globally given its preeminent status as a safe-haven asset. The Mexican peso (down 4.8%) fell as some investors unwound short-term trades, and President Andrés Manuel López Obrador officially took office, with investors worrying about the president's future policies that could have a long-term impact on foreign investment in the domestic energy industry.

Emerging Markets Currencies and Debt

Despite the fact that President-elect Jair Bolsonaro had yet to take office, his pro-market stance was warmly received by markets, causing the Brazilian real (up 4.5%) and sovereign bonds to rally throughout the quarter. The Indonesian rupiah (up 3.6%) produced strong returns versus a host of global currencies and the government bonds also rallied as Bank Indonesia continued to steadfastly raise rates to prevent a flight in foreign capital. Emerging markets were not necessarily immune to the weakness in commodity prices. The Colombian peso (down 6.6%) declined as oil prices plummeted.

Source: Brandywine Global

Credit and Securitized Markets

Irrespective of quality, sector, or region, global corporate credit spreads widened significantly during the quarter, mirroring the broad-based selloff in equity markets. Other headwinds to global corporate credit markets included the consequences of the ongoing trade dispute between the U.S. and China and the resultant fear of a large-scale economic slowdown.

Fund Overview

The 1290 Diversified Bond Fund seeks to maximize total return consisting of income and capital appreciation. Under normal circumstances, the Fund invests at least 80% of its net assets, plus borrowings for investment purposes, in a diversified portfolio of U.S. and foreign bonds or other debt securities of varying maturities and other instruments that provide investment exposure to such debt securities, including forwards or derivatives such as options, futures contracts or swap agreements.

Fund Highlights

What helped performance during the quarter?

- An overweight in US Treasuries.
- Exposure to South African and Italian bonds.
- Exposure to Brazilian Bonds.

What hurt performance during the quarter?

- Exposure to German government bonds.
- Exposure to US corporate debt.
- Exposure to US agency mortgage-backed securities.

2019 Outlook

Global markets spent the latter half of 2018 adjusting to several changes to the global macroeconomic backdrop: developed market tightening—either by way of rate or balance sheet normalization, softening growth save for the U.S., trade uncertainties, and a sharp decline in oil prices. Ultimately, the subadvisor believes global growth was temporarily derailed, and expect it to remain stable in 2019. A large part of stable global growth will depend on factors in the U.S., namely Fed policy, trade policy, the strength of the underlying economy, the directionality of the dollar, and the policy prospects of a divided government. They expect U.S. economic growth to come off its lofty levels and slow—but not experience a recession—paving the way for other economies to either stabilize or modestly expand.

Source: Brandywine Global

An investor should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. To obtain a prospectus containing this and other information, please call 1-888-310-0416 or download the file from www.1290funds.com. Read the prospectus carefully before you invest.

1290 Diversified Bond Fund seeks to maximize total return consisting of income and capital appreciation. Performance may be affected by one or more of the following risks.

Investment Grade Securities Risk: Debt securities are generally considered to be investment grade if they are rated BBB or Higher. Securities rated in the lower investment grade rating categories (e.g., BBB or Baa) are considered investment grade securities, but are somewhat riskier than higher rated obligations because they are regarded as having only an adequate capacity to pay principal and interest, are considered to lack outstanding investment characteristics, and may possess certain speculative characteristics.

Credit Risk: The Fund is subject to the risk that the issuer or the guarantor of a fixed income security is unable or unwilling to make timely principal and/or interest payments.

Foreign Securities Risk: Investments in foreign securities involve risks not associated with investments in U.S. securities. Foreign markets may be less liquid, more volatile and subject to less government supervision and regulation than U.S. markets. Security values, also may be negatively affected by changes in the exchange rates between the U.S. dollar and foreign currencies. There are greater risks involved in investing in emerging market countries and/or their securities markets, and investments in these countries and/or markets are more susceptible to loss than investments in developed countries and/or markets.

Past performance is no guarantee of future performance.

The Fund may not be successful in implementing its investment strategy or may not employ a successful investment strategy, and there can be no assurance that the Fund will grow to or maintain an economically viable size, which could result in the Fund being liquidated at any time without shareholder approval and at a time that may not be favorable for all shareholders. Until the Fund is fully capitalized it may not be pursuing its investment objective or executing its principal investment strategies.

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