AMERICAN BEACON

Managing Volatility:

Leveraging Alternatives to Reduce Risk

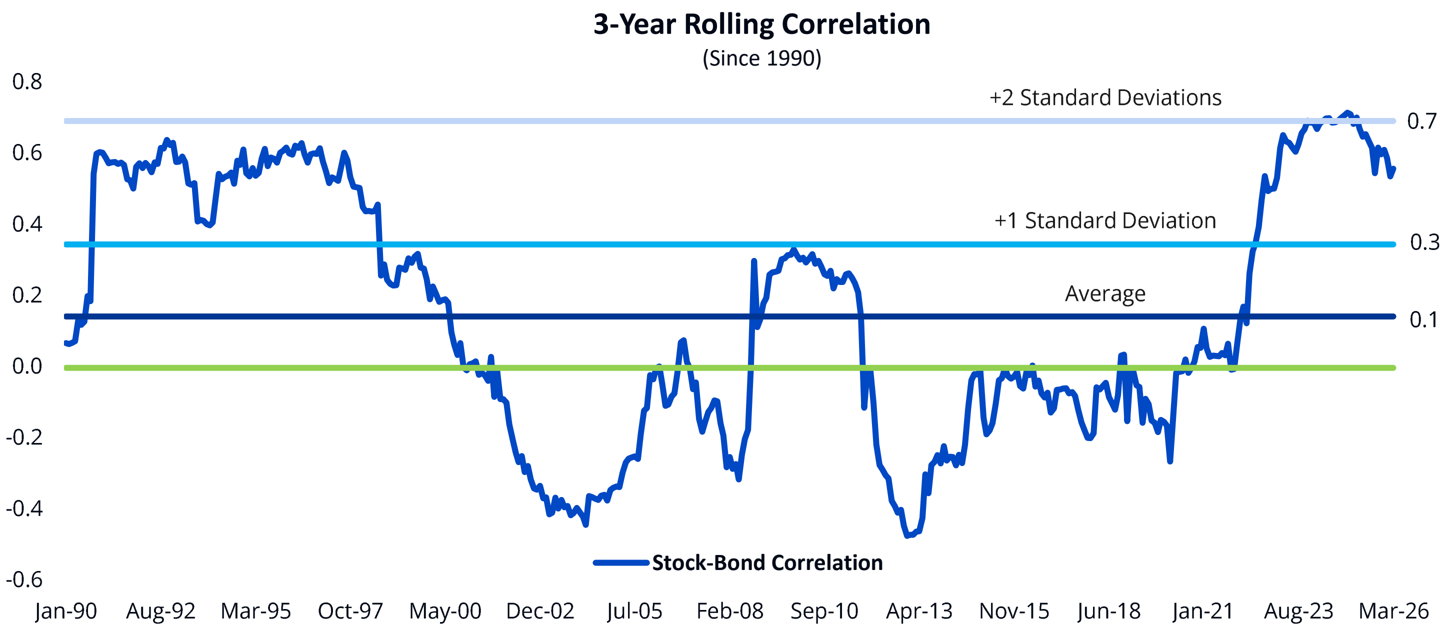
First Quarter 2026

"Rethinking the 60/40 Approach"

- While the 60/40 portfolio has historically performed well, current market conditions – **high asset correlations, elevated equity valuations, and low bond yields** – pose risks that may constrain future returns.
- **Maintaining investment discipline** through periods of market volatility is critical to achieving long-term goals. Several proven strategies can support investors staying the course.
- **Incorporating alternative investments** into traditional portfolios can enhance diversification, introduce differentiated return sources, and address risks that conventional allocations may be less equipped to manage in today's market environment.

Diversification Dilemma: Stock and Bond Correlation Hit 30-year High

Three-year rolling correlations between stocks and bonds have risen to levels near two standard deviations above the historical average. Historically, elevated correlations tend to persist, posing challenges for traditional diversification strategies.

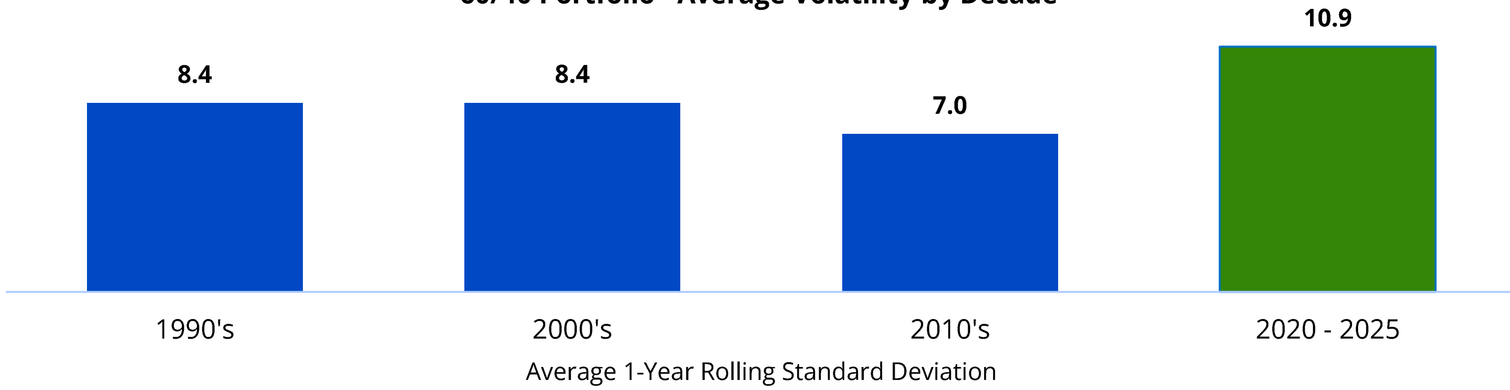


Sources: American Beacon Advisors; Morningstar. Chart represents the rolling 3-Year correlation between the S&P 500 Index (Stock) and Bloomberg U.S. Aggregate Bond Index (Bond), calculated with a monthly step.

Stock and Bond Volatility is Higher Than in Previous Decades

Increased portfolio volatility can make it more difficult for investors to generate consistent returns and stay on track toward long-term objectives.

60/40 Portfolio - Average Volatility by Decade



Source: Morningstar.
60/40 Portfolio = 60% S&P 500 Index; 40% Bloomberg U.S. Aggregate Bond Index.

Current Conditions and Risks

Stocks: High stock valuations increase the chance of weaker returns. Buying stocks when prices are high leaves less room for growth and makes portfolios more sensitive to disappointments like earnings misses, interest rate changes, or economic shifts.

	Price-to-Earnings Range	% of History (Jan 1976 – March 2026)	5-Year Forward Returns		
			Average	Minimum	Maximum
	0-10	15%	17.8	12.9	29.6
	10-20	26%	14.1	7.2	28.6
	20-30	44%	11.7	-6.6	27.9
Current >	**30+**	**15%**	**4.3**	**-3.8**	**17.6**

Source: American Beacon Advisors, Morningstar, and www.shillerdata.com. Note: The Price-to-Earnings multiple is represented by the Shiller P/E Ratio. The value of the Shiller P/E Ratio as of March 31, 2026 was 37.2x. Stock returns are represented by the S&P 500 Index. Forward returns represent the subsequent 5-year return of the S&P 500 Index at various valuation levels. Returns are annualized and include the reinvestment of dividends. Data show is historical and for illustrative purposes only.

Bonds: Low interest rates make it tough for bond investors, reducing income and long-term growth potential. Low interest rates also increase sensitivity to interest rate changes and leave less room for error.

	Yield-to-Worst Ranges	% of History (Jan 1976 – March 2026)	5-Year Forward Returns		
			Average	Minimum	Maximum
	0% - 4%	28%	2.2	-1.1	4.6
Current >	**4% - 6%**	**20%**	**5.7**	**3.5**	**7.3**
	6% - 8%	23%	6.9	2.1	9.9
	8%+	29%	11.6	3.8	20.3

Source: American Beacon Advisors and FactSet and Morningstar. Note: The Yield-to-Worst is represented by the Bloomberg U.S. Aggregate Bond Index. As of March 31, 2026 the yield-to-worst was 4.6%. Bond returns are represented by the Bloomberg US Aggregate Bond Index. Forward returns represent the subsequent 5-year return of the Bloomberg US Aggregate Bond Index at various valuation levels. Returns are annualized and include the reinvestment of dividends. Data show is historical and for illustrative purposes only.

Managed Futures

Managed futures offer crisis alpha, tend to have low or negative correlations to stocks and bonds, and may deliver attractive long-term risk-adjusted returns.

Features

1. **Can generate attractive returns in any market environment**
   – Portfolio can go long or short in hundreds of markets globally
2. **Uncorrelated to traditional assets**
3. **Adds Crisis Alpha (S&P 500 down 10% or more)**
   – 28.1% average outperformance

10-Year Correlation Matrix (April 2016 – March 2026)		1	2	3	4	5	6	7	8	9	10	11	12	13
1	**Managed Futures**	**1.00**												
2	S&P 500 Index	**0.01**	1.00											
3	Bloomberg U.S. Agg Bond Index	**-0.26**	0.41	1.00										
4	Equity Market Neutral	**0.23**	0.10	-0.11	1.00									
5	Event Driven	**-0.01**	0.74	0.32	0.06	1.00								
6	Long-Short Equity	**0.11**	0.96	0.36	0.22	0.76	1.00							
7	Derivative Income	**0.01**	0.97	0.36	0.13	0.76	0.95	1.00						
8	Energy Limited Partnership	**0.09**	0.66	0.14	0.15	0.75	0.68	0.69	1.00					
9	Natural Resources	**0.13**	0.80	0.29	0.11	0.75	0.85	0.80	0.77	1.00				
10	Nontraditional Bond	**-0.13**	0.75	0.53	0.05	0.81	0.76	0.77	0.68	0.73	1.00			
11	Real Estate	**0.01**	0.79	0.57	0.08	0.73	0.78	0.78	0.63	0.71	0.76	1.00		
12	Relative Value Arbitrage	**0.04**	0.72	0.39	-0.03	0.84	0.72	0.72	0.67	0.72	0.89	0.70	1.00	
13	60/40 Portfolio	**-0.04**	0.98	0.57	0.07	0.72	0.94	0.94	0.61	0.77	0.77	0.83	0.72	1.00

Sources: American Beacon Advisors; Morningstar. Managed Futures = Morningstar Systematic Trend category. 60/40 Portfolio = 60% S&P 500 Index; 40% Bloomberg U.S. Aggregate Bond Index. Equity Market Neutral = Morningstar Equity Market Neutral category. Event Driven = Morningstar Event Driven category. Long-Short Equity = Morningstar Long-Short Equity category. Derivative Income = Morningstar Derivative Income category. Energy Limited Partnership = Morningstar Energy Limited Partnership category. Natural Resources = Morningstar Natural Resources category. Real Estate = Morningstar Real Estate category. Relative Value Arbitrage = Morningstar Relative Value Arbitrage category.

Convertible Arbitrage

Convertible arbitrage offers a diversified source of alternative income, with returns that are less sensitive to interest rate changes and minimal correlation to stocks, bonds, and other alternatives.

Features

1. Differentiated income and return stream
- Income and returns generated by idiosyncratic convertible bond fundamentals

2. Diversification
- Low correlation to stocks, bonds, and alternatives

3. Benefits directly from volatility
- Equity hedging monetizes volatility

Purchase
Convertible bonds / Convertible preferred stocks

+

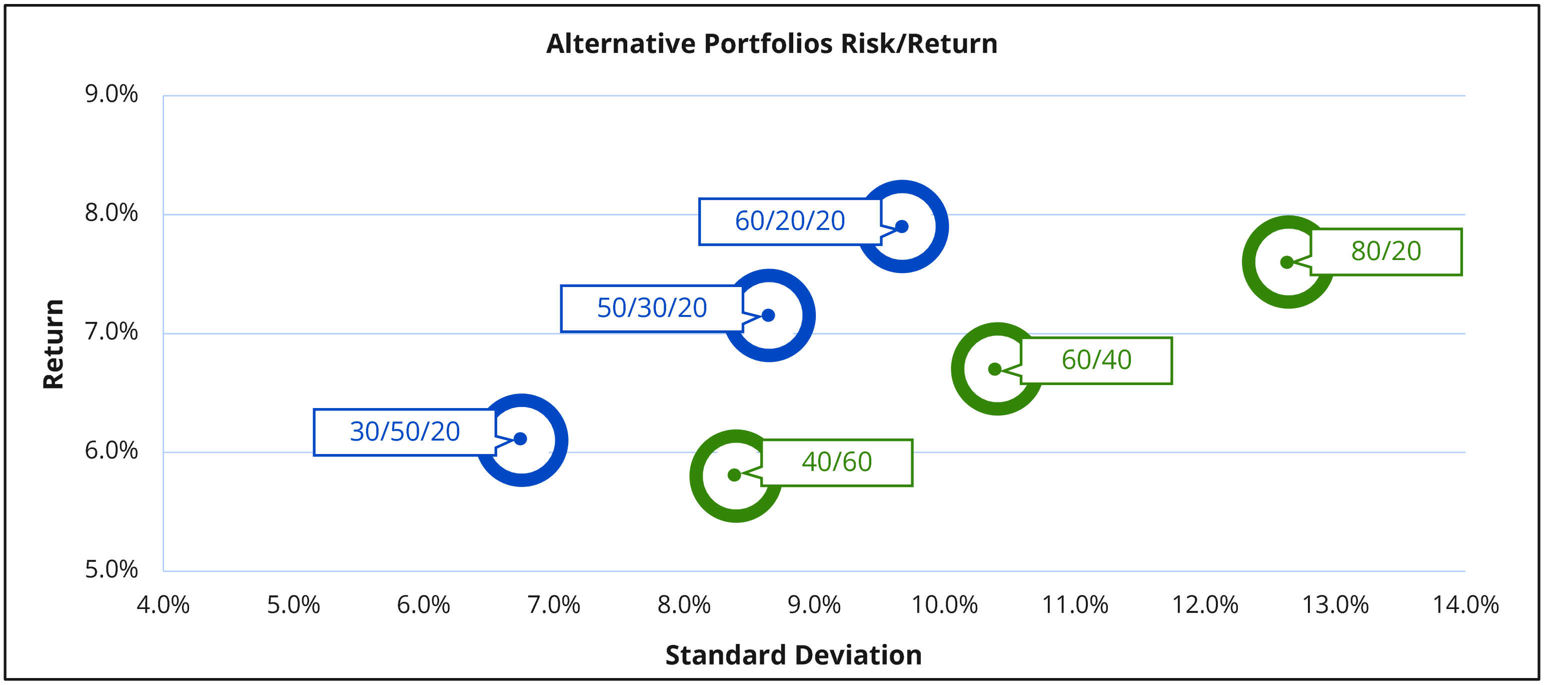
Sell Short
Underlying Common Stock

=

Enhanced income with substantial downside protection

Rebuilding the 60/40 Portfolio With Alternatives

Adding alternatives to traditional stock bond portfolios can meaningfully reduce portfolio volatility and increase potential for improved long-term returns.



Note: Chart is for Illustrative purposes only and uses capital market assumptions. Actual results may vary.

Model Assumptions

Portfolio Allocation	Annualized Return	Annualized Volatility
40 Equities/ 60 Bonds	5.6%	8.7%
60 Equities/ 40 Bonds	6.4%	10.8%
80 Equities/ 20 Bonds	7.2%	13.2%
30 Equities/ 50 Bonds/ 20 Alternatives	5.7%	7.2%
50 Equities/ 30 Bonds/ 20 Alternatives	6.7%	9.5%
60 Equities/ 20 Bonds/ 20 Alternatives	7.6%	11.0%

Source: Morningstar, Bloomberg, FactSet, American Beacon Advisors. *In its risk analysis, the firm used the model assumptions shown above. These assumptions were generated using historical and capital markets data. **Correlation relative to a global 60/40 benchmark, composed of 60% MSCI ACWI Index and 40% Bloomberg Global Aggregate Bond Index. Note: Global Equities represent the MSCI ACWI Index; Global Bonds represent the Bloomberg Global Aggregate Bond Index; Equity Alternatives represent a diversified mix of alternatives focused on capital appreciation. Bond Alternatives represent a diversified mix of alternatives focused on income generation. Volatility is calculated as the annualized standard deviation of annual returns. Past performance is not an indicator of current or future results.

Convertible arbitrage: An investment strategy that seeks to profit from pricing inefficiencies between a company's convertible bonds and its underlying common stock. **Correlation:** A statistical measure of how two securities move in relation to each other. **Crisis alpha:** Refers to the potential for positive investment returns, particularly in managed futures and other alternative investment strategies, during periods of market stress or crisis. **Managed futures:** A type of alternative investment strategy where professional managers, known as Commodity Trading Advisors (CTAs), actively manage portfolios of futures contracts. **Risk/Return:** The principle that an investment must offer higher potential returns as compensation for the likelihood of increased volatility. **Shiller P/E Ratio (CAPE ratio):** A valuation measure that uses real earnings per share (EPS) over a 10-year period to smooth out fluctuations in corporate profits that occur over different periods of a business cycle. **Standard Deviation:** Standard deviation of returns measures the average a return series deviates from its mean. It is often used as a measure of risk. When a fund has a high standard deviation, the predicted range of performance implies greater volatility. **Volatility:** A statistical measure of risk. Volatility can either be measured by using the standard deviation or variance between returns from that same security or market index. Commonly, the higher the volatility, the riskier the security. **Yield to Worst ("YTW"):** Lowest potential bond yield received without the issuer defaulting. It assumes the worst-case scenario, or earliest redemption possible under terms of the bond.

All investing involves risk, including possible loss of principal. Any opinions herein, including forecasts, reflect the opinions of the author at the time of writing and are subject to change. This is not a complete analysis of market conditions and, therefore, should not be relied upon as investment advice.