As commodity-related sectors (energy and metals) make up over 14% of the U.S. high yield market, they have created a similar sell-off in non-commodity sectors as investors have pressured more liquid names to generate cash for redemptions. This also comes at a time when leverage is increasing on corporate balance sheets and commodity-related restructurings are expected to rise. Because of this, we’ve seen decreased liquidity, pressure on valuations and increased volatility in the high yield market.

**THE U.S. REPRESENTS only about 40% of the global fixed-income market.**

As adviser Murphy notes, as we live in a world with predominantly low interest rates, the historical policy of setting and forgetting your fixed-income strategy has changed. Markets have become more volatile, regulations have increased, liquidity has decreased and yield has become more difficult to find.

The goal of fixed income in a diversified portfolio has traditionally been income and stability. As interest rates have decreased, maintaining that income requires increasing either the portfolio yield or the total return in the fixed-income portion of a portfolio. Once one begins to increase the yield in the portfolio, however, the overall risk, and the correlation to equities, begins to pick up.

In addition to yield, investors have been concerned about U.S. interest rates rising. The combination of a hunt for yield and desire for protection against rising rates has led many adviser to high yield or floating-rate loan mutual funds. While these funds certainly serve a purpose, the correlation of their returns with equities historically has been close to 70%. This means these funds are likely to move with the equity portion of the diversified portfolio and offer less protection against volatility, illiquidity or rising interest rates.

**VOLATILITY ORIGINS**

Reducing the volatility in the fixed-income portion of a diversified portfolio, therefore, means understanding where that volatility is coming from. Interest rate volatility in the form of duration or credit risk, volatility through higher yielding securities can leave a portfolio susceptible to unexpected moves.

As advisers watch the Federal Reserve (the Fed) and commodities, other fixed income markets are benefitting from the global slowdown, which has been met with unprecedented central bank easing overseas. This divergence between the U.S. central bank’s tightening bias versus other major foreign banks’ easing bias creates an opportunity for a globally diversified fixed income portfolio to generate substantial returns from areas outside the U.S.

In our opinion, a global fixed income portfolio can diversify the interest rate/duration risk away from the Fed and rising rates and allocate duration to other areas of the world so that it will benefit from their local central bank lowering rates. The stability from an investment in a global fixed-income portfolio can be further enhanced through the implementation of a currency hedge back to the U.S. dollar. Through a hedge, the portfolio is able to reduce the volatility from interest rate moves, which can impact the valuations of the underlying currencies.

In a low-yielding environment, advisers will need to educate clients on the offset of yield and stability in their fixed-income portfolio. Along with a lower yield, they can come greater diversification, lower correlation with equities and improved liquidity. A globally diversified fixed-income portfolio allows a manager to invest in high-quality, investment grade, developed-market sovereign debt, lowering the susceptibility to moves by any specific central bank.

As the U.S. represents only about 40% of the global fixed-income market, by utilizing all markets, the manager can invest in those areas in rates and credit where the opportunity to outperform is potentially greater. Finally, as liquidity decreases across markets in fixed income, especially in those areas that have seen higher volatility, it is prudent to diversify a fixed income portfolio across high-quality liquid securities that may benefit from a flight to quality. Areas such as developed-market sovereign debt, which has historically had a low correlation to equity and high-yield markets, can maintain the stability clients are looking for.

We believe that by including a global fixed income portfolio with a diversified duration structure in an overall allocation, the adviser may be able to protect against higher volatility and default risk, while potentially shielding the portfolio from decreasing market liquidity.

1 5 year correlation of percentage returns for HYG (High yield ETF) vs. the S&P 500. Bloomberg, 9/30/15
2 ML High Yield Master II Index, 9/30/15
3 FactSet, based on total market capitalization across the foreign and U.S. fixed income markets as tracked by the Barclays Indices as of 12/31/15
Dreyfus/Standish Global Fixed Income Fund

Class A DHGAX  Class C DHGCX  Class I SDGIX  Class Y DSDYX

Investors should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. To obtain a prospectus, or a summary prospectus, if available, that contains this and other information about a Dreyfus fund, contact your financial advisor or visit dreyfus.com. You should read the prospectus carefully before investing. Class I and Y shares are only available to certain eligible investors.

Diversification and asset allocation cannot ensure a profit or protect against loss of principal. There can be no guarantee that the fund’s investment approach will be successful or that any particular level of return will be achieved for the fund. Portfolio composition is subject to change at any time.

Correlation is a statistical measure (between 1 and -1) that describes the relationship between two variables. The closer a correlation coefficient is to 1 indicates the likelihood that each variable will move in tandem. A negative correlation indicates that each variable will move in the opposite direction.

Duration is a measure of interest rate sensitivity. The higher the duration, the more sensitive a fund/portfolio is to the interest rate movements.

MAIN RISKS

Bond funds are generally subject to interest rate, credit, liquidity and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest rate changes, and rate increases can produce price declines. To the extent the fund invests in foreign securities, its performance will be influenced by political, social and economic factors affecting investments in foreign companies. These special risks include exposure to currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political instability, and differing auditing and legal standards. Investments in foreign currencies are subject to the risk that those currencies will decline in value relative to the U.S. dollar or, in the case of hedged positions, that the U.S. dollar will decline relative to the currency being hedged. Currency exchange rates may fluctuate significantly over short periods of time. Foreign currencies are also subject to risks caused by inflation, interest rates, budget deficits and low savings rates, political factors and government intervention and controls. The use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in the underlying assets. A small investment in derivatives could have a potentially large impact on the fund’s performance.

The Dreyfus Corporation is the fund’s investment adviser. Standish Mellon Asset Management Company LLC (Standish) is the fund’s sub-adviser. Each is a subsidiary of The Bank of New York Mellon Corporation. BNY Mellon Investment Management is one of the world’s leading investment management organizations and one of the top U.S. wealth managers, encompassing BNY Mellon’s affiliated investment management firms, wealth management services and global distribution companies.

Standish’s comments are provided as a general market overview and should not be considered investment advice or predictive of any future market performance. These views are current as of the date of this communication and are subject to change rapidly as economic and market conditions dictate.

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