

Investment Perspectives

U.S. Inflation Risks and Their Investment Implications

Key Takeaways

- U.S. inflation has worsened over the past few months, as the Russia-Ukraine conflict and renewed lockdowns in China emerged as complicating factors. In turn, the Federal Reserve has accelerated monetary policy tightening, while supply chain disruptions and the labor market appear to be somewhat loosening.
- Our investment team assesses a range of macroeconomic outcomes that could impact the investments we are making on an individual, bottom-up basis. Rather than relying on a single point forecast, our process involves active debate and stress testing under a range of potential outcomes.
- In our base-case scenario, we expect U.S. inflation (as measured by personal consumption expenditures) to ultimately settle back into a range of 2.0% to 3.0% over our three- to five-year investment horizon. However, we draw wide error bands around our projections and contemplate alternative scenarios, including those in which inflation fails to decline convincingly.
- The Dodge & Cox Funds are broadly diversified, feature numerous investment drivers, and are well positioned, in our opinion, for a variety of macroeconomic outcomes.

Putting Inflation Dynamics In Context

U.S. inflation has risen to the highest level since the early 1980s. In fact, the spike since last summer is one of the fastest in recent history. As of May 2022, year-over-year headline personal consumption expenditures (PCE)¹ inflation stood at 6.3% and core PCE² at 4.7% (see Figure 1). In turn, as of June 2022, the same measures based on the Consumer Price Index (CPI)³ stood at 9.1% and 5.9%, respectively. The worsening of inflation dynamics over the past few months has surprised policy makers and analysts who expected a more tame and temporary overshoot relative to the Federal Reserve's 2% target. In addition, the near-term inflation picture remains mixed as complicating factors have emerged, some putting upward pressure on inflation (e.g., Russia's invasion of Ukraine and its impact on energy and food commodity prices, ongoing supply-chain disruptions) and others putting downward pressure (e.g., monetary policy tightening).

In evaluating these and other factors, we continue to think that U.S. inflation is likely to retreat to levels of around 2.0% to 3.0% over our extended investment horizon. However, we also continue to assess scenarios where inflation falls below or stays above that range. We are paying particular attention to the latter scenario, as inflation risks appear skewed to the upside for reasons discussed below. In line with our investment horizon, we take a long-term perspective on these issues, both when assessing the outlook and when making investment decisions. In the rest of this paper, we discuss the evolution of key drivers of the inflation outlook from a multi-year perspective, with an emphasis on drivers that have emerged

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more recently, but could have long-term consequences. We also lay out our latest views aligned with our base-case analysis and alternative scenarios. Finally, we walk through the implications for the Dodge & Cox Funds.

Persistently high inflation erodes the real value of investment capital, requiring a higher nominal return to maintain purchasing power. It also introduces distortions that may affect real economic outcomes, including policy implementation and planning by households and businesses. These are just some of the ways in which the inflation outlook matters from an investment standpoint, and they are reasons for taking inflation risks seriously.

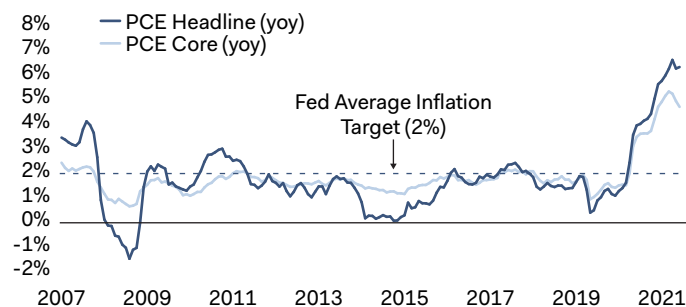
Assessing U.S. Inflation Drivers

At any point in time, various factors shape potential inflation scenarios. These can change over time—in magnitude, importance, and direction. Some of them are more cyclical (e.g., the economic recovery from the initial stages of the COVID-19 pandemic) and others are more structural (e.g., demographics). For analytical purposes, it is useful to divide these factors into two simple buckets: factors generally adding *upward* inflationary pressures and those adding *downward* inflationary pressures over our investment horizon of the next three to five years. The tug of war between these two will determine the overall inflation rate.

Factors Adding Upward Inflationary Pressures

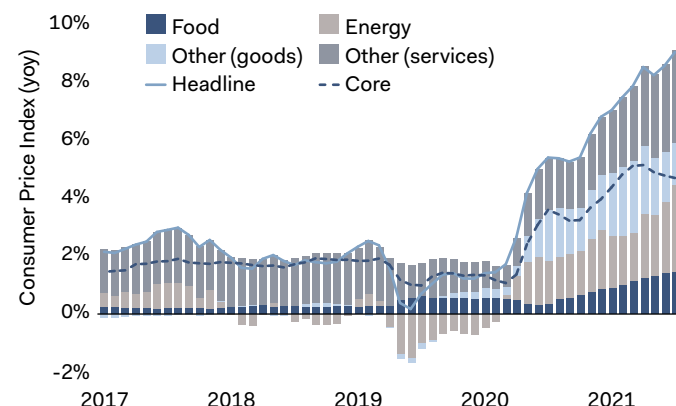
- **Post-pandemic aggregate demand recovery relative to supply:** Driven by an extraordinary amount of fiscal stimulus, easy monetary policy, and pent-up savings, aggregate demand continues to rise, outstripping supply as the economic impact of the pandemic has subsided, particularly in goods sectors impacted by supply chain disruptions. Since late 2020 and throughout 2021, the contribution of goods inflation rose strongly relative to services, reflecting changed consumption patterns from consumers. More recently, services inflation has risen alongside the broader opening of the U.S. economy, while goods inflation has moderated (see Figure 2).
- **Potential for wage-price spiral:** The unemployment rate has fallen from a peak of 14.7% in 2020 to 3.6% as of June 2022. The job vacancy and resignation rates are at record levels, indicating a tight labor market. However, job gains have moderated from earlier in the recovery. Wages are rising: average hourly earnings have exceeded 5% on a year-over-year basis for every month since January 2022. This pace is inconsistent with the Fed's 2% inflation target and risks an entrenchment of “cost push” inflation driven by future wage negotiations. In addition, the pandemic unleashed a trend of high quit and job-switching rates (so-called “Great Resignation”), which tends to add upward pressure on wages due to increased competition across employers.

Figure 1. Worsening Inflation Dynamics over the Past Few Months



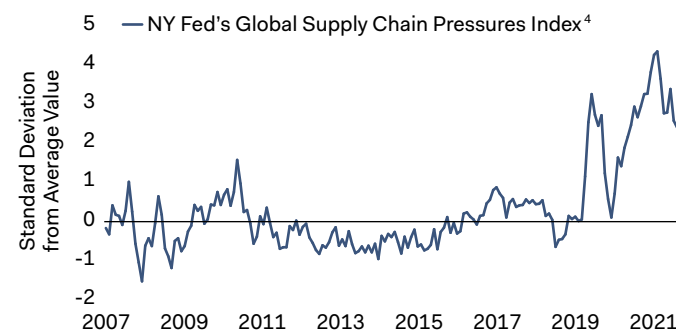
Source: Federal Reserve.

Figure 2. Disentangling the Impact of "Goods" vs. "Services" Inflation



Source: Bureau of Labor Statistics.

Figure 3. Moderating but Still High Levels of Supply Chain Disruption



Source: NY Federal Reserve. Standard Deviation measures the volatility of the Index's returns. Higher Standard Deviation represents higher volatility.

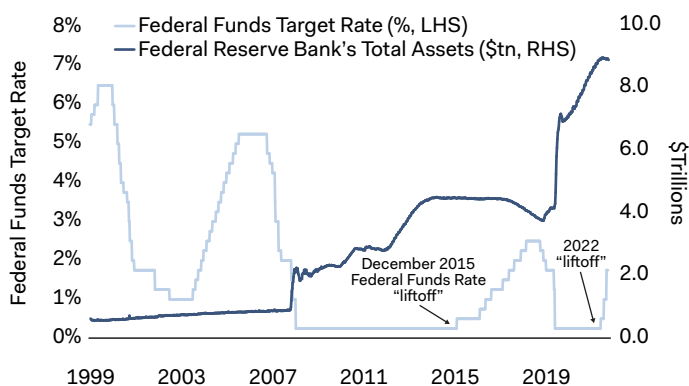
- **A persistent Russia-Ukraine conflict:** Continued or worsening disruptions of commodity markets due to the conflict are likely to lead to higher pass-through of rising costs to consumer prices. The two countries together supply over a quarter of the world's fertilizer and wheat supplies. The conflict has thus disrupted large segments of global food markets, with a concomitant upward pressure on prices. In addition, the invasion has disrupted energy markets in myriad ways, as many private and public organizations have either divested from Russian oil and gas supplies or have set plans to do so.

- **Supply-chain challenges persist:** While supply-chain bottlenecks have recently improved, various aggregate indexes, such as the NY Fed’s Global Supply Chain Pressures Index, still show highly elevated values (see Figure 3). COVID-related lockdowns in China are likely to continue as long as the Chinese government continues to pursue its zero-COVID strategy. These, in turn, put upward cost pressures on a variety of global supply chains.
- **Federal Reserve’s new policy framework:** In adopting an average inflation target of 2.0% over time, the Fed signaled that it would compensate for a prolonged period of low inflation by allowing moderate rises above the target in subsequent years. The new framework also reflected a change toward reducing shortfalls of employment relative to its maximum sustainable level, implying more tolerance for low unemployment rates. In practice, however, the threat of excessively high inflation has become a serious challenge to these principles.

Factors Adding Downward Inflationary Pressures

- **Tightening of fiscal and monetary policy:** Fiscal stimulus peaked in mid-2021 and the pullback has likely detracted from growth since then. That is, the so-called “fiscal impulse” has turned negative, which is unlikely to change in the current political context. In addition, since the end of 2021, the Fed has recognized that many inflationary factors are no longer “transitory” and has shifted its policy stance significantly to temper inflation:
 - First, it has already hiked the federal funds rate from an upper limit of 0.25% to 1.75% and substantially accelerated the pace (moving from a 25bp⁵ to a 50bp to a 75bp increment).
 - Second, it has projected a policy rate above 3% over the next few years. This implies a more restrictive monetary policy stance relative to neutral, which in turn should slow down economic activity and loosen the labor market.
 - Third, it announced that it would start reducing its balance sheet in June (the so-called “quantitative tightening” process), in a quicker and larger way than in the 2017-19 period (see Figure 4).

Figure 4. Monetary Policy Tightening from Historically Accommodative Conditions



Source: Federal Reserve.

The interest rate markets have priced in much of this monetary tightening, with the 2-year yield rising from 0.6% in early December 2021, to above 3% at present. Overall, these policy moves (and follow-on market moves) contribute to a tightening of financial conditions that aims to eventually slow down economic activity, re-equilibrate aggregate demand and supply, and generate downward pressure on inflation.⁶

- **Globalization:** The ability to source labor and inputs globally enables producers to reduce costs throughout supply chains. Over the past decade or so, the share of trade in global GDP has somewhat declined, and “peak” globalization may be behind us, but it remains high from a historical standpoint. In addition, within country blocs, flow of goods, services, and capital have intensified (e.g., North America, Eurozone). This leads to efficiencies of scale, comparative advantages, and increased competition, all of which contribute to lower costs.
- **Technology:** By increasing labor productivity, technological improvements can lower the cost of production and services. In addition, the rise of online shopping, enabled by technological advances, empowers consumers to compare prices across producers. The result is greater transparency, more competition, and lower prices.
- **Less bargaining power on wages:** With the reduced role of labor unions, workers lack bargaining power to push up wages. At the same time, the “gig” economy, which tends to increase labor competition and drive down wages, is a powerful and growing force.
- **Income inequality:** Higher income households historically save more than lower income households. As a greater percentage of society’s wealth resides with higher earners than in the past, a greater amount of funds flow into savings and investment versus demand for goods and services.
- **Anchoring effects:** After decades of low inflation, market participants may be less sensitive to data pointing toward a higher inflationary regime in the future. A greater degree of circumstantial evidence may be required to change expectations for higher prices going forward. For example, after spiking earlier this spring, long-term market-based inflation expectation measures (10-year “breakevens”) have declined from 3.0% to around 2.3%. Shorter-term measures (2-year “breakevens”) have declined significantly as well, but remain higher than long-term measures. Similar messages emerge from survey-based measures, where long-term inflation expectations have risen more moderately than short-term inflation expectations.

Our View

In line with our investment horizon, our economic forecasts are long term in nature and consider a range of environments. In accordance, we formulate a range of inflation scenarios, including a *baseline* that we think is most likely to materialize, a *down* alternative, and an *up* alternative. We build these models incorporating a wide range of inputs—including the inflation

drivers mentioned above—and active debate within our team. In our base (most likely) case, we do not believe the current high levels of inflation will persist beyond the short run. We currently expect that it will ultimately settle in a range of approximately 2.0% to 3.0% over our investment horizon. Our up case embeds a larger and more sustained overshoot of inflation (3.0% to 4.5%), while in our down case, inflation would return to very subdued levels (1.0% to 2.0%). These two cases represent plausible alternatives, not tail-risk extreme outcomes. At this point in time, we would assess a somewhat higher likelihood of the up case transpiring than the down case. This is because inflationary pressures are currently strong and tend to remain elevated for longer as consumers and businesses adjust to policy tightening. In addition, commodity price pressures stemming from the Russia-Ukraine conflict appear unlikely to abate in the near term.

The up inflation scenario may correlate with a significant slowdown of economic activity (often referred to as “stagflation”).⁷ This is a material risk to the economic outlook, and we have carefully assessed its possible investment implications. On the growth side, concerns center on the possible need for even more aggressive monetary tightening, lingering supply chain problems, low consumer confidence, internal and external (geo)political risks, and the historically low odds for the Federal Reserve to achieve reductions of inflation with only moderate costs on economic activity. That said, favorable economic momentum, strong balance sheets, improved monetary policy communication/transmission channels, and lack of major domestic/external imbalances, make it less likely to see stagflation dynamics like in the 1970s. Instead, we think that if a recession were to occur, it would most likely be a shallow one. And if it was driven by excessive monetary tightening, the latter would at least ultimately quench the inflation part of the stagflation equation. In sum, given the present context, we think there is only a low probability that we will see a deep or sustained period of stagflation over our investment horizon.

Building Our View Through Bottom-Up Research

We build our fixed income and equity portfolios based on our assessment of fundamentals and valuation for individual issuers and securities. Through this bottom-up process, our Global Industry, Fixed Income, and Macro Analysts incorporate a number of macroeconomic factors (including inflation) into their models. Our bottom-up research informs these inputs. For example, frequent conversations with company management teams enable us to benefit from their real-time observations on pricing, among other factors. In fact, conversations with company teams over the course of 2021 helped us gauge bottom-up inflationary pressures pointing to “this time is different” dynamics, which we incorporated in our macro discussions. Meanwhile, our Investment Committees review similar factors along with economic scenarios as they evaluate individual investments, broad portfolio positioning, and overall portfolio risk. In each case, our investment team seeks to assess a range of outcomes that could impact the investments we are making on a bottom-up basis.

Implications For The Dodge & Cox Funds

In the face of a challenging inflation outlook, our investment team has engaged companies and issuers to identify both areas of possible risk and opportunity in the markets. Our Global Industry Analysts have modeled a recession scenario characterized by high inflation, in addition to our customary three-scenario framework. Our goal is to think creatively about the possible range of outcomes ahead, assess the impact these alternative contexts may have in our portfolios, and determine what expectations are embedded in market prices. This analysis is highly granular, informed by our knowledge of each industry and its historical context. It is also consistent and centralized, as all analysts work with the same sets of baseline assumptions when looking at company-by-company results. Lastly, our Macro Analysts have also engaged in similar exercises to analyze the impact that the same assumptions for a U.S. recession with high inflation may have in other countries.

As we have done in the face of previous macro shocks, our Equity and Fixed Income investment team works in unison, leveraging our knowledge of industries and markets to both identify areas of vulnerability and opportunity. Informed by these analyses, below we highlight certain portfolio positions and sectors that historically have shown a greater sensitivity, both positive and negative, to inflationary environments.

Fixed Income

Defensive Duration⁸ Positioning

Inflation expectations are incorporated into long-term interest rates so that, all else being equal, an increase in market expectations for inflation would result in rising yields. In terms of portfolio impact, a further jump in inflation expectations would likely result in negative near-term total returns for fixed income investments as we saw in 2021 and have experienced so far in 2022. However, we believe the Dodge & Cox Income and Global Bond Funds are well positioned from a relative return standpoint because they have less exposure to the long end of the yield curve, where inflation-driven rate increases are most likely to occur. Of course, if market expectations for inflation decline and yields return to the levels of late 2021, the reverse would likely benefit broad fixed income returns, but could hamper the Funds’ relative performance.

We continue to believe it is prudent to position the fixed income Funds with a shorter-than-benchmark duration, and we shortened portfolio duration by approximately half of a year in the second half of 2021. We did so because we saw a greater chance of long-term interest rates exceeding expectations over our investment horizon. More recently, with interest rates and portfolio yields substantially higher, we have nudged duration longer in our portfolios, while retaining the shorter bias. Inflation could remain persistently high for a longer period of time, causing the Fed to respond more aggressively than the market is pricing. Additionally, fixed income benchmarks have lengthened duration over the past decade due to lower rates and issuance patterns. In our opinion, the embedded interest rate risk in broad fixed income benchmarks does not represent a favorable risk-reward tradeoff relative to the current level of income.

Significant Credit Sector Weighting

Though we have reduced the fixed income Funds' credit weighting from a high point two years ago, they still feature a meaningful weighting in credit securities. This is an important consideration because credit spreads generally are negatively correlated with rate increases during economic expansions. While far from a guarantee, excess returns from credit tend to be positive in rising-rate environments, which could benefit the portfolio if inflation rises even further and pushes rates higher. Moreover, within credit, these Funds currently hold issuers exposed to commodity prices, in particular oil and natural gas, which are likely to benefit from high inflation. The portfolios do not hold these issuers specifically as an inflation hedge, although it is a helpful secondary benefit.

However, inflation at the high end of our up case does present some risks to the portfolios' credit holdings. If inflation remains stubbornly high, it will add pressure on the Fed to raise rates more aggressively, potentially inducing a recession. If this plays out, we expect short-term rates to move significantly higher, which when combined with recession risk, may weigh on credit securities and other risk assets.

Yield Advantage

The fixed income Funds also have a higher yield than their performance benchmarks due to our emphasis on Agency⁹ MBS and Credit. A higher yield can be helpful in rising-rate environments as it mitigates price losses and allows for reinvestment of more income at higher rates. Across all environments, income—and the compounding of income—is an important component of total return. From these higher starting yields, we believe more attractive returns are available for fixed income.

Equity

We believe the Dodge & Cox Stock Fund and Global Stock Fund's outperformance during the first half of 2022 (see Appendix) illustrates that our value-oriented approach is well positioned for higher U.S. inflation, rising interest rates, and narrowing valuation disparities. These portfolios have significant exposure to U.S. Financials and the Energy sector,¹⁰ which are beneficiaries of an inflationary environment.

Key drivers of bank profitability—such as net interest margins and loan growth—generally benefit from higher levels of inflation, interest rates, and economic growth. Our U.S. financial services holdings offer inexpensive valuations and are geared toward a long-term economic recovery. Despite higher commodity prices and the risk of a U.S. recession in the near term, we believe the U.S. economy will expand over our three- to five-year investment horizon. Overall, consumer balance sheets are strong, and spending on gasoline is a lower share of disposable income than in the past. The fading impact from COVID-19 continues to provide a growth tailwind to many industries.

In addition, higher energy prices and increased energy demand have clearly benefited energy producers and servicers in past commodity cycles. With much higher oil and natural gas prices and companies restraining capital spending, the equity Funds' energy holdings now trade at very attractive free cash flow yields,¹¹ creating the conditions for potentially higher capital return. We expect energy prices will remain high over our investment horizon, despite intensifying efforts to decarbonize the global economy and the growing number of technological innovations in alternative energy sources.

While we are enthusiastic about these overweight positions, there are inherent risks. For example, the Fed may raise interest rates more aggressively in its attempt to combat higher than desired inflation, which could hurt credit costs and economic growth. Furthermore, our outlook for energy prices is constructive over our investment horizon, however efforts to decarbonize the global economy have intensified alongside technological innovations in alternative energy sources.

Conversely, the equity Funds remain underweight high-valuation growth stocks that we believe are more at risk due to lofty expectations for their future performance. Over the past decade, many high-growth technology companies with high valuations benefited from a declining interest rate environment, but they have underperformed in the first half of 2022 as interest rates have increased. Going forward, higher-than-expected inflation and interest rates may disproportionately impact companies with expensive valuations driven by high expectations for far-off cash flows. Given what we believe to be full valuations among many of these companies, the equity Funds, for example, remain underweight the Information Technology sector. Nevertheless, as valuations and prices change in this sector, we are actively analyzing potential investment opportunities on a selective basis.

We remain optimistic about the prospects for the Funds, which we actively manage for the long term and diversify across a range of sectors and investment themes. Beyond sector and geographic diversification, we evaluate other portfolio exposures and seek to mitigate the risks. We continually evaluate new risk/reward opportunities available in the market. Volatility can provide opportunities to add and trim various positions, so we stay nimble and seek to take advantage of dislocations when they present themselves.

Conclusion

Our goal at Dodge & Cox is to preserve and enhance the purchasing power of our Fund shareholders' investment dollars. With this in mind, we carefully consider the impact of numerous factors, including inflation, on an investment or portfolio. The Dodge & Cox Funds have exposure to areas of the market that are poised to benefit from higher inflation, but ultimately they are well positioned across a range of economic environments given their diversified portfolios and various investment drivers.

Appendix

Figure A1. Dodge & Cox Funds Performance Results

June 30, 2022

(Net of fees)

	Unannualized		Annualized				
	3 Months Ended	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
Stock Fund - Class I	-12.42%	-11.52%	-7.60%	11.28%	9.92%	13.09%	9.06%
S&P 500 Index	-16.10%	-19.96%	-10.62%	10.60%	11.31%	12.96%	9.08%
Russell 1000 Value Index	-12.21%	-12.86%	-6.82%	6.87%	7.17%	10.50%	7.86%
Global Stock Fund - Class I¹²	-9.75%	-7.69%	-7.86%	9.25%	6.97%	10.49%	N.A.
MSCI ACWI Index ¹²	-15.66%	-20.18%	-15.75%	6.21%	7.00%	8.76%	N.A.
MSCI World Index ¹²	-16.19%	-20.51%	-14.34%	7.00%	7.67%	9.51%	N.A.
International Stock Fund - Class I	-9.49%	-10.02%	-10.93%	3.52%	2.14%	6.11%	7.10%
MSCI EAFE Index	-14.51%	-19.57%	-17.77%	1.07%	2.20%	5.40%	5.27%
MSCI ACWI ex USA Index	-13.73%	-18.42%	-19.42%	1.35%	2.50%	4.83%	5.78%
Balanced Fund - Class I	-9.23%	-9.88%	-7.86%	7.80%	7.17%	9.91%	7.72%
Combined Index ¹³	-11.63%	-16.11%	-10.24%	6.23%	7.37%	8.50%	7.14%
Income Fund - Class I	-4.70%	-9.65%	-9.95%	0.29%	1.72%	2.58%	4.24%
Bloomberg U.S. Aggregate Bond Index	-4.69%	-10.35%	-10.29%	-0.93%	0.88%	1.54%	3.57%
Global Bond Fund - Class I^{14,15}	-6.60%	-11.29%	-12.03%	0.71%	2.18%	N.A.	N.A.
Bloomberg Global Aggregate Bond Index (USD Hedged) ¹⁵	-4.30%	-9.06%	-8.94%	-1.13%	1.16%	N.A.	N.A.
Emerging Markets Stock Fund¹⁶	-7.73%	-15.41%	-24.40%	N.A.	N.A.	N.A.	N.A.
MSCI Emerging Markets Index ¹⁶	-11.45%	-17.63%	-25.28%	N.A.	N.A.	N.A.	N.A.

The Fund returns shown are for the Class I shares of the Fund, except for Emerging Markets Stock Fund which has only one share class.

Returns represent past performance and do not guarantee future results. Investment return and share price will fluctuate with market conditions, and investors may have a gain or loss when shares are sold. Mutual fund performance changes over time and may be significantly lower than stated above. Performance is updated and published monthly. Current month-end performance can be obtained at dodgeandcox.com or call 800-621-3979.

Figure A2. Fund Expense Ratios

Stock Fund - Class I	Expense Ratio: 0.51%
Global Stock Fund - Class I	Expense Ratio: 0.62%
International Stock Fund - Class I	Expense Ratio: 0.62%
Balanced Fund - Class I	Expense Ratio: 0.51%
Income Fund - Class I	Expense Ratio: 0.41%
Global Bond Fund - Class I	Net Expense Ratio: 0.45% ¹⁷ Gross Expense Ratio: 0.54%
Emerging Markets Stock Fund	Net Expense Ratio: 0.70% ¹⁸ Gross Expense Ratio: 1.50%

Before investing in any Dodge & Cox Fund, you should carefully consider the Fund's investment objectives, risks, and charges and expenses. To obtain a Fund's prospectus and summary prospectus, which contain this and other important information, visit dodgeandcox.com or call 800-621-3979. Please read the prospectus and summary prospectus carefully before investing.

Investment prices may increase or decrease, sometimes suddenly and unpredictably, due to general market conditions. Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could also have a significant impact on a Fund and its investments. A Fund's performance could be hurt by equity risk, market risk, manager risk, liquidity risk, geographic risk and derivatives risk. Investments in foreign securities can involve political, economic and currency risks, greater volatility and differences in accounting methods. These risks are greater for emerging markets. In addition, fixed income performance could be hurt by interest rate risk, credit risk, below-investment grade securities risk, mortgage- and asset-backed securities risk, to-be-announced transaction risk, and call risk.

The above information is not a complete analysis of every material fact concerning any market, industry, or investment. Data has been obtained from sources considered reliable, but Dodge & Cox makes no representations as to the completeness or accuracy of such information. Opinions expressed are subject to change without notice. The information provided is historical and does not predict future results or profitability. This is not a recommendation to buy, sell, or hold any security and is not indicative of Dodge & Cox's current or future trading activity. Any securities identified are subject to change without notice and do not represent a Fund's entire holdings.

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The Russell 1000 Value Index is a broad-based, unmanaged equity market index composed of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. Russell 1000® is a trademark of the London Stock Exchange Group plc.

The MSCI ACWI (All Country World Index) Index is a broad-based, unmanaged equity market index aggregated from 50 developed and emerging market country indices. The MSCI World Index is a broad-based, unmanaged equity market index aggregated from 23 Developed Market country indices, including the United States. The MSCI EAFE (Europe, Australasia, Far East) Index is a broad-based, unmanaged equity market index aggregated from 21 developed market country indices, excluding the United States. The MSCI ACWI (All Country World Index) ex USA Index is a broad-based, unmanaged equity market index aggregated from 49 developed and emerging market country indices, excluding the United States. The MSCI Emerging Markets Index captures large and mid-cap representation across 27 Emerging Markets (EM) countries. MSCI ACWI, MSCI World, MSCI EAFE, MSCI ACWI ex USA, and MSCI Emerging Markets are service marks of MSCI Barra.

The Bloomberg U.S. Aggregate Bond Index is a widely recognized, unmanaged index of U.S. dollar-denominated, investment-grade, taxable fixed income securities. The Bloomberg Global Aggregate Bond Index is a widely recognized, unmanaged index of multi-currency, investment-grade fixed income securities. Bloomberg is a registered trademark of Bloomberg Finance L.P. and its affiliates.

For more information about these indices, visit dodgeandcox.com.

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- (1) Personal consumption expenditures (PCE) measure how much consumers spend on durable and non-durable goods and services. PCE is the Federal Reserve's preferred measure for inflation.
- (2) Core PCE prices exclude food and energy prices.
- (3) The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.
- (4) The NY Fed's Global Supply Chain Pressures Index tracks the state of global supply chains using data from the transportation and manufacturing sectors.
- (5) One basis point is equal to 1/100th of 1%.
- (6) Dudley, William. "The Importance of Financial Conditions in the Conduct of Monetary Policy." Federal Reserve Bank of New York, March 30, 2017. <https://www.newyorkfed.org/newsevents/speeches/2017/dud170330>
- (7) Stagflation occurs when the inflation rate is high, economic growth rate slows, and unemployment remains high.
- (8) Duration is a measure of a bond's (or a bond portfolio's) price sensitivity to changes in interest rates.
- (9) The U.S. Government does not guarantee the Fund's shares, yield, or net asset value. The agency guarantee (by, for example, Ginnie Mae, Fannie Mae, or Freddie Mac) does not eliminate market risk.
- (10) Unless otherwise specified, all weightings and characteristics are as of June 30, 2022.
- (11) Free cash flow is the cash a company generates after paying all expenses and loans. The free cash flow yield compares a company's free cash flow per share with its market price per share. A high free cash flow yield means a company is generating enough cash to satisfy its debt and other obligations.
- (12) Since Global Stock Fund's inception on May 1, 2008 through June 30, 2022: 6.15% compared to 5.29% for the MSCI ACWI Index and 5.83% for the MSCI World Index.
- (13) The Combined Index reflects an unmanaged portfolio (rebalanced monthly) of 60% of the S&P 500 Index, which is market capitalization-weighted index of 500 large-capitalization stocks commonly used to represent the U.S. equity market, and 40% of the Bloomberg U.S. Aggregate Bond Index, which is a widely recognized, unmanaged index of U.S. dollar-denominated, investment grade, taxable fixed income securities.
- (14) A private fund managed by Dodge & Cox with proprietary assets was reorganized into the Dodge & Cox Global Bond Fund on April 30, 2014. Any fund portfolio characteristics, performance, or attribution information for periods prior to May 1, 2014, are those of the private fund (inception date December 5, 2012).
- (15) Since Global Bond Fund's performance inception on December 5, 2012 through June 30, 2022: 2.41% compared to 2.04% for the Bloomberg Global Aggregate Bond Index (USD Hedged). Expense reimbursements have been in effect for the Fund since its inception. Without the expense reimbursements, returns for the Fund would have been lower.
- (16) Since Emerging Markets Stock Fund's inception on May 11, 2021 through June 30, 2022: -21.19% compared to -19.99% for the MSCI Emerging Markets Index. Expense reimbursements have been in effect for the Fund since its inception. Without the expense reimbursements, returns for the Fund would have been lower.
- (17) Dodge & Cox has contractually agreed to reimburse the Fund for all ordinary expenses to the extent necessary to maintain total annual fund operating expenses at 0.45% through April 30, 2023. The term of the agreement renews annually thereafter unless terminated with 30 days' written notice by either party prior to the end of the term.
- (18) Dodge & Cox has contractually agreed to reimburse the Fund for all ordinary expenses to the extent necessary to maintain total annual fund operating expenses at 0.70% through April 30, 2023. The term of the agreement renews annually thereafter unless terminated with 30 days' written notice by either party prior to the end of the term.