OPPENHEIMERFUNDS™
THE RIGHT WAY TO INVEST

2014 MID-YEAR OUTLOOK

WHERE OUR PORTFOLIO MANAGERS SEE OPPORTUNITY NOW

JERRY WEBMAN, CHIEF ECONOMIST
KRISHNA MEMANI, CHIEF INVESTMENT OFFICER

Since the beginning of the year, we've characterized 2014 as a trip down the NILE—Non-Inflationary, Lackluster Expansion. Major economic blocks around the world may continue to grow (some, such as Europe, even accelerate a bit), but hiring, capital investment and price increases would remain subdued. We didn't anticipate (or enjoy) the harsh North American winter, which dimmed even our modest expectations, nor did we anticipate the reemergence of Cold War tensions in Eastern Europe, which may have inhibited risk taken in financial markets and among households and businesses. Most major equity markets—Japan being the downside exception and the UK the upside—showed little return or modest improvement. Interest rates on government bonds have fallen almost everywhere.

LOW FOR LONG

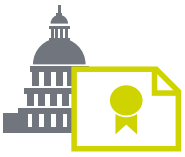
If the U.S. economic expansion bears out our expectations for modest increases in inflation, and improved hiring and business investment, we would expect the Fed to end quantitative easing in the fall of this year and to begin normalizing interest rates in the spring of 2015. Consequently, long-term interest rates may rise above 3% as the economy strengthens, but the lackluster expansion won't tolerate borrowing costs substantially higher than the mid-3s for some time to come. We may not see a 4% Federal Funds Rate again in our lifetime.

During the financial crisis commentators noted the "decoupling" of emerging markets from the troubled developed economies. Today decoupling works in the opposite direction, with major emerging economies having slowed even as the U.S., Europe and maybe Japan recover or expand. With deflation continuing to threaten Europe, the European Central Bank (ECB) has restarted stimulative policy. Though a decelerating China may slow other emerging economies, China will continue as the largest contributor to global economic growth, but the beneficiaries will likely differ from those who have profited historically.

BULL MARKET ISN'T OVER

In this environment, we expect equity markets to improve through 2014. As you'll read on the following pages, our portfolio managers have found companies around the globe that offer the technological advances, logistical solutions and productivity enhancements that can produce sustainable earnings growth,[1] while they have avoided stocks that are driven merely by short-term market enthusiasm. With improved corporate and (selectively) sovereign balance sheets, our fixed income managers continue to favor credit risk over interest rate risk wherever around the globe they invest.[2]

1. For details, see "The Bull Market Isn't Over. It's Changing," **oppenheimerfunds.com.**
2. For details, see "Low Rates for a Long Time," **oppenheimerfunds.com.**



Core Fixed Income

KRISHNA MEMANI, CHIEF INVESTMENT OFFICER

The two biggest surprises (not for me—I've been the "low for long" guy for years) for the core fixed income markets thus far in 2014 have been the rally in U.S. interest rates and the extraordinarily robust performance of fixed income assets that take credit risk. The solid year-to-date performance[3] of Oppenheimer Corporate Bond Fund (on a gross basis) illustrates those surprises in spades, with the Fund having benefitted from exposure to long-dated investment-grade credit assets.

Despite recently improving jobs data, we expect rates to remain low for quite some time. Supporting that thesis: Good (not to say very rapid) growth in the U.S.; potential quantitative easing in the Eurozone; the likelihood of increased accommodation in Japan; and slowing growth in China.

We expect credit to continue to do well. Due to its strong year-to-date performance and low levels of implied volatility however, for the first time since the beginning of the rally for credit in 2009 we are trying to mitigate downside risk by hedging some of our high grade credit positions while maintaining our existing credit exposures.

Municipal Bonds

DAN LOUGHRAN, ROCHESTER INVESTMENT TEAM LEADER

The municipal bond market hiccupped during the second half of 2013, thanks to negative headlines regarding Fed tapering, Detroit and the potential for other municipal bankruptcies. Munis have rallied year-to-date, however, with reduced headline risk, an improving macro picture, and generally increased state and municipal tax revenues leading to a flatter yield curve.

Across the curve, munis have moved largely in line with treasuries, with the exception of bonds maturing in 25 years and longer, which have outperformed them. Attractive valuations still exist long and deep into the credit tranches, but careful credit evaluation remains mandatory.

Focusing on such extensive credit analysis and long-term, yield-driven total return, we see further opportunity. We maintain our Puerto Rico exposure and applaud efforts by the Padilla administration to address many of the Commonwealth's economic issues. Puerto Rico's return to the bond market was heavily oversubscribed, and May's pronouncement of a 2015 balanced budget strongly indicates that Puerto Rico is on the right track.

Market inefficiencies are ever-present in this $3.7 trillion asset class. With a thoughtful mix of sectors, maturities and credit ratings, our funds are designed specifically to meet investors' varied objectives, while also seeking tax-free income.

Global Fixed Income

SARA ZERVOS, HEAD OF GLOBAL DEBT

The outlook for international bonds centers on three key themes:

1) Not all emerging market (EM) countries are created equal.

For select EM countries, the mid-2013 to early-2014 sell-off in local currency bonds should be viewed as a value-creation event. We believe that active management will be more important than ever. The market will likely reward those countries whose policymakers take necessary steps to stay ahead of the U.S. interest rate cycle by offering attractive real yields (like Brazil) or strong structural stories (like South Korea). Volatility is likely to persist in weaker fundamental countries and those suffering through political strife.

2) U.S. economic activity is likely to turn higher.

After sloughing off weather-related winter doldrums, we expect U.S. economic activity to turn higher, which may cause interest rates to rise. This dynamic will likely maintain a strong dollar against all but a select few currencies. We therefore have lower foreign currency and shorter duration exposures.

3) Environment still favors credit.

EM sovereign U.S. dollar-denominated high grade bonds appear cheap, while the fundamentals (excluding Russia) remain constant. An improving European macro environment and ongoing corporate deleveraging is likely to remain supportive for higher yielding European credit.

Senior Floating Rate Bank Loans

JOSEPH WELSH, HEAD OF HIGH YIELD CORPORATE DEBT

Senior loans saw their streak of investor inflows end at 95 consecutive weeks as longer term treasury rates moved lower during the first half of 2014, but we still believe loans are well-positioned going forward. Senior loans' high relative income potential (with greater credit risk) and very low duration should serve investors well if interest rates remain range-bound or increase. However, it is important to note that, as a team, we are less concerned with interest rate movements, and instead are focused on seeking value in the senior loan market by studying credit risk at the individual issuer level.

With the fundamentals of many companies being fairly strong, we have found attractive opportunities in B-rated names that offer higher yields given their risks relative to those in the BB-rated space. From an industry perspective, this approach has led us to identify attractive opportunities in paper/packaging and energy relative to those in utilities and cable/satellite. While the market-wide default scenario is relatively benign, the team has also been analyzing the bankruptcy filing of TXU and all of the many financing opportunities that situation offers.

3. As of 5/22/14.

Master Limited Partnerships

BRIAN WATSON, DIRECTOR OF MLP RESEARCH AND SENIOR PORTFOLIO MANAGER

Master Limited Partnerships (MLPs) have generally outperformed the broader equity market during the first half of 2014. Midstream throughput volumes and, as a result, earnings, were spurred by a cold U.S. winter and a supportive commodity price outlook. Within the MLP subgroups, upstream names underperformed during the first part of the year, while midstream was one of the best performing subsectors.[4]

We continue to see value in the midstream MLP space despite modestly stretched valuations relative to historical averages. We think that the energy infrastructure build-out clearly is still not complete and that substantial investment remains necessary, justifying a premium valuation relative to history. This rising tide isn't likely to lift all boats, however. Within the midstream space, there has been a bifurcation in performance between higher quality MLP names (which already have assets or projects identified that should benefit from future volume growth, with only minimal capital investments), and lower quality names that require higher capital expenditures. While we believe this market trend may continue, some equity market valuations have more than accounted for faster or more efficient growth expectations, and some partnerships have been overly penalized for their lower growth potential.

Global Equities

GEORGE EVANS, CHIEF INVESTMENT OFFICER, EQUITIES

Our team's diverse strategies for finding businesses with sustainable wealth-creation advantages don't depend on business- or market-cycle forecasts. Nevertheless, in today's slow-growth environment, certain of our MANTRA®[5]-based themes take on particular importance. For example, we like firms that sell productivity enhancements to others, and firms that exploit superior logistics to deliver products more efficiently than competitors. Many of these productivity winners depend on storing and processing reams of data, so we seek innovators that can manage the 183 billion DVDs' worth (and rising) of data generated annually.[6] We've also looked for businesses that can grow revenues organically, without huge investment or hiring.

We avoid so-called "deep value" companies that depend on a rising economic tide for earnings growth, but we do carefully consider the price we pay for an investment. We've therefore focused on strong companies, in Europe for example, that happen to be headquartered in countries facing political or fiscal difficulties—a discipline that's also kept us away from many headline-grabbing but overpriced names.

Emerging Market Equities

JUSTIN LEVERENZ, HEAD OF EMERGING MARKETS EQUITIES

We are long-term investors in what we believe are extraordinary companies. Our challenge is that extraordinary companies rarely trade at appropriate prices, unless controversy emerges. Much of what we do involves lengthy due diligence to capture the essence of a firm's structural advantage and understand the durability of such competitive attributes. The uncontrollable element in this effort is waiting patiently for an appropriate entry point.

A pattern has developed in emerging markets where the markets experience declines as investors focus on macroeconomic concerns, only to rebound when valuations are perceived as attractive. This may persist, but over the past few months the controversy in the Ukraine, for example, has handed us a unique opportunity to expand our investments in what we believe are three extraordinary Russian-headquartered businesses: Yandex (Internet search), Magnit (food retail) and Novatek (gas). While the region may be troubled, each of these has the economic characteristics that are central to our philosophy—long tailed, durable growth and a massive advantage that we believe to be sustainable. What has threaded together the opportunity over the past few months is an exogenous shock that has delivered unusually attractive prices on what we believe to be great companies.

Multi Asset Strategies

MARK HAMILTON, CHIEF INVESTMENT OFFICER, ASSET ALLOCATION

MICHELLE BORRÉ, PORTFOLIO MANAGER, GLOBAL MULTI-ASSET GROUP

Volatility, interest rates, and inflation were all unusually low in 2013, rewarding concentrated risk and higher beta exposure.[7] 2014 has proven more challenging. We've shifted toward a more "normal" market environment, with volatility still low, but cross-asset correlations narrower. Security selection will play an increasingly important role, and we favor strategies that help diversify risks, dampen volatility, and seek to provide downside protection.

Absolute valuations for most risk assets are neither excessive nor cheap by historical standards. Relative (inter-asset class) valuation differences have diminished and are now near long-term averages. Certain fixed income categories appear more richly valued, but opportunity still remains in senior loans and in taking advantage of decent yields while waiting for discounted higher quality bonds to mature at par. Within equities, we favor companies undergoing meaningful structural changes in earnings potential, rather than high beta, high volatility plays. We also see opportunities to potentially capitalize on China's changing growth profile through strategic positions in various asset classes.

4. Source: OppenheimerFunds research, as of 5/23/14. **Past performance does not guarantee future results.**
5. In our Global and International strategies, we have long focused on companies that may benefit from powerful, long-term, global themes that collectively we call MANTRA®: Mass Affluence, New Technology, Restructuring, and Aging.
6. Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update 2012–2017, February 6, 2013. Estimates may not be achieved.
7. Beta is a measure of the risk of a security or portfolio in relation to an independent variable (i.e., the general market or other specified benchmark). The independent variable has a beta of 1.00 by definition.

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Visit **oppenheimerfunds.com** to learn more about our equity and fixed income market outlooks.

Read:

- *The Bull Market Isn't Over. It's Changing,* by Chief Economist Jerry Webman
- *Low Rates for a Long Time,* by Chief Investment Officer Krishna Memani

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Fixed income investing entails credit risks and interest rate risks. When interest rates rise, bond prices generally fall, and a Fund's share prices can fall. Further, a portion of some funds' distributions may be taxable and may increase alternative minimum tax (AMT) for investors subject to that tax; distributions from net realized capital gains are taxable as capital gains. Below-investment-grade ("high yield" or "junk") bonds are more at risk of default and are subject to liquidity risk. Senior loans are typically lower rated (more at risk of default) and may be illiquid investments (which may not have a ready market).

Foreign investments may be volatile and involve additional expenses and special risks, including currency fluctuations, foreign taxes and geopolitical risks. Emerging and developing market investments may be especially volatile. Due to the recent global economic crisis that caused financial difficulties for many European Union countries, Eurozone investments may be subject to volatility and liquidity issues. Investments in securities of growth companies may be especially volatile. Small and mid-sized company stock is typically more volatile than that of larger, more established businesses, as these stocks tend to be more sensitive to changes in earnings expectations and tend to have lower trading volumes than large-cap securities, creating potential for more erratic price movements. It may take a substantial period of time to realize a gain on an investment in a small or mid-sized company, if any gain is realized at all.

Investing in MLPs involves additional risks as compared to the risks of investing in common stock, including risks related to cash flow, dilution and voting rights. Each fund's investments are concentrated in the energy infrastructure industry with an emphasis on securities issued by MLPs, which may increase volatility. Energy infrastructure companies are subject to risks specific to the industry such as fluctuations in commodity prices, reduced volumes of natural gas or other energy commodities, environmental hazards, changes in the macroeconomic or the regulatory environment or extreme weather. MLPs may trade less frequently than larger companies due to their smaller capitalizations which may result in erratic price movement or difficulty in buying or selling. Additional management fees and other expenses are associated with investing in MLP funds. The Oppenheimer SteelPath MLP Funds are subject to certain MLP tax risks. An investment in an Oppenheimer SteelPath MLP Fund does not offer the same tax benefits of a direct investment in an MLP. The Funds are organized as Subchapter "C" Corporations and are subject to U.S. federal income tax on taxable income at the corporate tax rate (currently as high as 35%) as well as state and local income taxes. The potential tax benefit of investing in MLPs depend on them being treated as partnerships for federal income tax purposes. If the MLP is deemed to be a corporation, its income would be subject to federal taxation at the entity level, reducing the amount of cash available for distribution which could result in a reduction of the fund's value. MLP funds accrue deferred income taxes for future tax liabilities associated with the portion of MLP distributions considered to be a tax-deferred return of capital and for any net operating gains as well as capital appreciation of its investments. This deferred tax liability is reflected in the daily NAV and as a result a MLP fund's after-tax performance could differ significantly from the underlying assets even if the pre-tax performance is closely tracked. Diversification does not guarantee profit or protect against loss.

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