

## Reams Asset Management

# Investment Outlook 2023

In September, Queen Elizabeth II passed away at the age of 96. The monarch of the United Kingdom had held the throne for a staggering 70 years. This record-setting reign encompassed the career span of 15 British prime ministers, as well as meetings with countless heads of state (including 14 U.S. presidents) and many international tours. Upon her death, the U.K. understandably went into deep mourning mixed with nostalgia for the remarkable career of its fallen queen.

While there were many highlights along the way, there were also occasional lowlights, hardships, and controversies surrounding the royal family. Memorably, 1992 was a particularly bad year for the monarchy. The queen watched as three of her four children either separated or divorced from their respective spouses, most notably the formal separation of the Prince and Princess of Wales (Charles, now King Charles III, and Diana, respectively). In addition to these personal hardships, the queen suffered the additional misfortune of a major fire engulfing her favored residence at Windsor Castle. In a year-end speech, she noted that “1992 is not a year on which I shall look back with undiluted pleasure” and later termed it an “*annus horribilis*,” Latin for “horrible year.”

The catchphrase subsequently entered the lexicon in the U.K. and elsewhere, frequently being deployed to explain away anything from a streak of personal misfortune to broader events at the national or global level. Many, including those of us at Reams, used this term to describe the calamitous events of 2020. The onset of the COVID-19 pandemic and the resulting casualties, illnesses, radical changes to our daily lives, and related economic disruptions made 2020 a difficult and, for many, a tragic year.

In purely investment terms, however, 2022, may take the crown as a truly horrible year, especially for fixed income investors. From January on, interest rates began to push higher as inflation data (by way of the Consumer Price Index, “CPI”) accelerated and remained persistently high through summer 2022. The U.S. Federal Reserve (“Fed”) belatedly set forth on an aggressive rate-hiking campaign and hawkish talk, reversing course from its 2021 “transitory inflation” rhetoric and its own (now laughable) expectations for just a single 25-basis point (bp) hike during 2022.

The damage was acute, with the Bloomberg U.S. Aggregate Bond Index down a staggering -13.0% for calendar 2022. So much for stable income! And the negative effects of the risk-off sentiment were pervasive, but hardly unique. Misery loves company, so let us survey the wreckage elsewhere. Stocks? A fourth-quarter rally helped mitigate some of the losses, but the S&P 500 Index finished the year down -18.1%. Foreign markets were no salve either, with the MSCI World Index off -17.7% for the year. Currencies? Nearly every major currency depreciated sharply against the U.S. dollar, with the Japanese yen touching multi-decade lows and the euro breaking through parity against the greenback. Bitcoin? Decimated to the tune of more than -60% lower from its 2021 year-end value. The spectacular demise of exchange operator FTX and the ensuing volatility also illuminated that some cryptocurrencies have about as much investment rationale as betting it all on the gray horse in the next race at Saratoga. Alternative assets, NFTs, meme stocks, SPACs ... the list goes on, all uniformly down, down, down, and down in 2022.

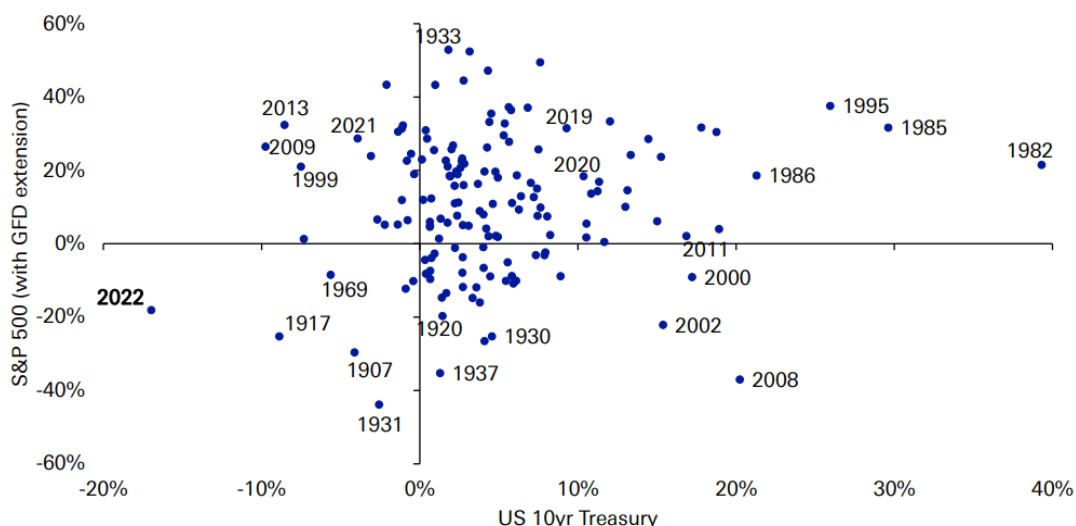
Of course, there were some isolated bright spots – oil and energy names for one, aided in part by global supply shortages stemming from the horrific Russia-Ukraine War. By and large, however, the negative tone of 2022 provided few places to hide. It is in that context that fixed income returns were particularly discouraging. Although fixed income broadly held up better than most risk assets, bonds did not perform their traditional role as ballast to a diversified portfolio in 2022. The 60/40 portfolio decidedly flopped in 2022, and in some respects performed even worse than in

2008, to the point where even the true proponents have begun to question its viability.

All of this leads us to an interesting fulcrum point in capital markets, a potential paradigm shift. The easy, free-money, central bank policies that have been a persistent feature of the post-2008 landscape have sharply reversed course. The era of zero interest rates is likely finished for the foreseeable future. For one, there will once again be a tangible income component in fixed income investing, a

painfully earned but ultimately welcome return to more “normalized” interest rate levels. Inflation has also awakened from a four-decade long slumber, and volatility has risen in response. Needless to say, there should be plenty to do in the year ahead. In the United States, the odds of an economic recession in 2023 appear to approximate that of a coin flip. There is tangible risk and heightened uncertainty, but for the nimble investor, this will likely be balanced by genuine opportunities.

### Annual performance of the S&P 500 and US 10yr Treasury since 1872



Global Financial Database (operated by the European University Institute), Deutsche Bank. As of December 31, 2022.

So 2022 leaves behind an ugly set of total returns for most fixed income strategies, albeit perhaps a necessary one in order to normalize valuations and wean the world off of the experimental monetary policies that have persisted since 2008. The *annus horribilis* of 2022 is over, thankfully. What remains in its wake is a wide range of potential outcomes, to be sure, but also a more favorable fixed income investment opportunity set than we have observed in recent years. At Reams, we welcome this new paradigm.

What follows is our attempt to lay out key economic data and issues we are tracking as well as to gauge where consensus estimates are, what tail risks exist to that consensus, and what opportunities may present themselves going forward.

### Reams' Key Areas of Focus for 2023

#### When does inflation abate? The Federal Reserve is in focus as the market awaits a “pause.”

- Inflation continues to track far above long-term Federal Reserve targets of 2%, reaching highs of more than 8% year-over-year (YoY) in the summer 2022. The Federal Reserve hiked the federal funds rate by 425 bps in calendar year 2022, after having previously forecast a single 25 bp hike for the year. Despite their predictive powers having been shown to be just as futile as our own, the tone and commentary from Fed Chair Jerome Powell and other members of the Board of Governors has elevated interest rate volatility and can move risk assets on a daily basis.

- Capital markets now await a “pause” in the rate-hiking campaign. As of year-end 2022, two 25 bp hikes are priced into current markets for 2023, implying a terminal rate with an upper bound of 5%. Dependent on CPI data, and core services ex-housing inflation data specifically, the Fed could stop on schedule or be forced into continuing to hike to see inflation moderate to “acceptable” levels. The Federal Reserve can rightly suggest that the true impacts of the hikes, coupled with quantitative tightening by way of a \$95B per month reduction in the balance sheet, may take many months if not a year to fully reflect in the data. Therefore, the central bank would likely pause well before 2% CPI prints. However, the fly in the ointment remains certain strong economic data, namely the labor report, which shows unemployment at less than 4% and wage growth still accelerating.

### **Brace for a bumpy economic landing. Could 2023 bring a U.S. recession?**

- The Federal Reserve is attempting to navigate a tough path to temper inflation, reduce its balance sheet, and effectively simmer consumer demand without crushing the underpinnings of the U.S. economy. This is a tough needle to thread. The experimental monetary policy in the U.S. since 2008 buoyed asset prices above all else, so it is hard to see the reverse of these activities not impacting asset valuation to the downside.
- As of December 2022, more than half of economists, per Bloomberg, forecast a recession in 2023. A deeply inverted current yield curve could also be a market signal portending the advent of a recession. While a modest recession is likely already priced into risk assets, a recession could range in outcomes from a short, two-quarter negative gross domestic product (GDP) path to a harsher situation of stagflation and more severe asset revaluation.
- Irrespective of the uncertain outcome of a recession, what is abundantly clear is that financial conditions are tightening both domestically and globally. Borrowing costs are rising, lending activity will be more muted, and some degree of opportunistic investment will be sacrificed at higher rates. Most acutely, more speculative areas such as real estate appear to already have ceased an endless appreciation, which makes intuitive sense.
- While a recession is likely bad for equity investments as well as speculative areas of fixed income, 10 year U.S.

Treasury yields rose more than 200 basis points in calendar 2022. Therefore, there is now once again an income component in fixed income assets – and thus the ability for investment grade fixed income to offset or withstand modestly higher rate expectations going forward, thanks to higher embedded yields.

### **Last year’s international headlines exasperated a negative backdrop. Is more investment pain in store?**

- The awful Russia-Ukraine War, now mired in conflict for nearly a year with no end in sight, sent commodities and energy prices soaring. Europe’s reliance on Russian natural resources has the continent tipping to recession as 2022 ends. A cold winter could further the misery for many in Western Europe as surging utility bills dampen consumer demand elsewhere.
- China’s self-inflicted COVID-19 related lockdowns depressed economic output both there and globally. In some instances, this backed up ports, delayed shipping, and furthered supply chain issues. China’s economic grounds are very shaky, particularly in their local real estate arena, but potential re-openings and softening COVID-related standards could help buoy some economic recovery.
- Global markets are similarly roiled by rampant inflation, though emerging market central banks are somewhat uniquely further along the rate hike cycle than developed markets. Foreign currencies in the Group of Ten (G10) markets sank versus the U.S. dollar in 2022, but some mean reversion may be in store if the U.S. Federal Reserve were to pause its rate-hiking campaign.

---

### **What is the consensus viewpoint?**

---

For 2023, economists surveyed by Bloomberg are collectively forecasting GDP growth of a barely above-water +0.4%, which marks a steep decline. Growth of +2.4% would represent the lowest global figure since 1993. Interestingly, 62% forecast a recession in the United States in 2023, and there is certainly a confluence of data suggesting that a recession may well be in the cards. Of course, recessions can be mild and short-lived or severe and impactful, so a mere two quarters, briefly at negative GDP growth, should not necessarily raise panic alarms. CPI is estimated to recede to a still high level of 4.3% YoY, more than twice the Federal Reserve’s stated 2% target. Unemployment is also forecasted

to go to 4.3%, up 0.6% from current levels, though, it should be noted, still quite low in historical terms. New home sale estimates are rather anemic at just +546K, levels last seen in 2016, no doubt a consequence of 30-year mortgage rates ballooning nearly 400 bps in the past 12 months.

As of December 2022, economists also forecast a peak fed funds rate of 4.65%, and a 10-year U.S. Treasury rate of 3.52%, suggesting that longer-term inflation (say, beyond five years) is still, at this juncture, expected to moderate heavily to more historical terms. Keep in mind much of this is embedded in current pricing: implied forwards suggest a 10-year note at 3.44% in one year's time. This is essentially not far off from where the 10-year is today, suggesting that long curve points are not anticipated to move much. For what it's worth, the front end is expected to fall more precipitously as the yield curve flattens from the current deeply inverted position. However, we are wary of predictions in this arena: 10-year yields nearly always move at least 100 bps in the course of a year from top tick to low water mark. With interest rate volatility currently elevated, even in the event the economists and current forwards markets are correct, things are not likely to move in a straight line.

---

### **What is the downside case (in interest rates) to consensus?**

---

This one is easy for the coming year: A downside rates scenario occurs if, and only if, inflation moderates, or at least moderates enough to give the Federal Reserve cover to (at minimum) pause the rate hike campaign. Absent this happening, it is difficult to see much sustained downward movement in rates, particularly those in the front end of the curve.

Now, how we would get there could involve a number of scenarios. The most benign is that inflation moderates naturally, due to lower consumer demand, the influx of previous rate hikes coming to bear, the impacts of the balance sheet reduction by the Federal Reserve, perhaps the cessation of hostilities between Russia and Ukraine, and a confluence of other factors. If these elements occur sooner than what the market is pricing in (in terms of future rate hikes), this would likely entail a downside rates scenario. The chance that risk assets would likely rise amid a "soft landing" is essentially even better than already anticipated.

Lower rates could also eventually come about in a much more draconian fashion by way of a very hard landing, so

much so that inflation remains stubbornly high, the Federal Reserve pushes rates initially higher, and then belatedly realizes too much damage has occurred. In this instance, the employment rate would likely balloon upwards, consumer demand would be crushed, corporate earnings would suffer, and risk assets would depreciate greatly. While rates would be higher for a period, they would likely ultimately decline due to either U.S. Treasuries being sought as a measure of safety amid a bear market, and/or the market anticipating that the Federal Reserve will have to reverse course and actually cut rates sharply to combat a budding recession. This is by no means our base case or even a particularly high-probability outcome, but it is also not impossible.

---

### **What is the upside case (in interest rates) to consensus?**

---

The past year showed all the hallmarks of an upside rates case. Interest rates moved up significantly during 2022, as CPI and other relevant economic data continued to show a too-hot economy with pent-up consumer demand not yet flinching despite higher input costs and supply shortages. Could the same factors occur again in 2023?

As always, the answer is not cut and dried, but definitely "maybe." That said, it wouldn't be an easy path to reproduce. For one, it will be harder to continue to see CPI reports producing monthly year-over-year gains simply due to the high baseline they would be compared to. Supply chain problems stemming from COVID-19 shutdowns have largely been addressed. Fiscal stimulus – at least in the U.S. – is over for the moment, and a divided government going forward lessens the likelihood of governmental overreach in any direction. Thus the excess savings working through the economy should be reduced. There is already mounting anecdotal evidence that the brightest embers of inflation are fading quickly. Some large technology companies have announced sizeable layoffs. The housing market and used car market – two of the most heated areas of price appreciation over the past two years – have stopped their ascent and even turned downward in the second half of 2022.

Still, there remains economic data that is not conforming to the Federal Reserve's unspoken but needed goal of (some) demand destruction. Employment reports continue to show a robust job market on the whole, with unemployment still well under 4% and wages continuing

to rise. Coupled with aging demographics in the U.S. and other developed nations, this augurs that some of the pricing pressure won't abate soon.

And while inflation is expected to eventually recede, near-term prints will continue to be well in excess of the Federal Reserve's stated 2% inflation target. Federal Reserve governors will be "data dependent" but may feel their already shaky credibility is on the line; the need to "be tough" on inflation may predispose them not to relent on hikes until inflation is well under the actual fed funds rate. Given that some of the impact of rate hikes (and ongoing balance sheet reductions each month) typically lags by at least six months in terms of showing up in some economic metrics, this could mislead the Fed into staying the course far too long. Rates are likely, at least in the short term, to take direction from whichever way the wind blows, and that is why uncertainty runs high.

---

## **Corporate Sector Outlook**

Given the challenging 2022 backdrop, investment grade corporate bonds performed reasonably well, all things considered. Spreads widened substantially in the first three quarters of the year, from a tight starting overall level of +92 bps to Treasurys to a mid-October wide mark of +165, before finding buyers late in the year to close 2022 at +130, or +38 wider for the full year. This translated to an excess return of -125 bps. A rough stretch to be sure, but better than most risk asset classes taken on the whole.

Investment grade new issuance was healthy throughout the year, though down modestly from prior year levels, and well off the record 2020 COVID-fueled debt binge. New supply ended the year at \$1.4T, down -20% YoY. High yield markets, under more severe pressure, were curtailed during much of the risk-off period, and new issue activity was just \$101.8B, the lowest full year total since 2008 and down sharply from 2021's \$469B in new issuance. Most forecasts are for similar levels of issuance in 2023. With significantly higher interest rates, the incentive to issue debt for endeavors such as share repurchases is far lower than was the case two years prior. A tougher and more activist U.S. Securities and Exchange Commission could also curtail some merger and acquisition activity that would otherwise boost supply.

Despite the hand-wringing over the 2023 economic backdrop, which might be fully justified, most U.S. investment grade issuers enter the year in reasonably good shape from a

balance sheet perspective. Overall leverage metrics have improved the past two years, and conservative use of the balance sheet in most instances has what seems to be a reasonable margin of safety for many firms. To be sure, it is not all smooth sailing: frequent headwinds include higher labor costs, negative impacts from currency effects of the strong U.S. dollar, some lingering supply chain issues, and unresolved geopolitical issues including the Russia-Ukraine War and China's self-imposed COVID lockdowns. Corporations have to navigate a myriad of issues at present, though thus far most of the inflationary impact has been passed through to consumers. Of course, should inflation persist, margin pressure could erode gains to EBITDA (earnings before interest, taxes, depreciation, and amortization) and reverse those improving credit metric trends.

At Reams, we have increased our corporate exposure throughout much of calendar 2022, though still maintain capacity to add on further weakness. We believe that spreads are priced relatively fairly to modestly cheap at current levels. Where available, high yield corporate derivatives have also been deployed tactically to gain diversified exposure to this asset class. In cash bonds, a longstanding preference for financials remains in place, with broad exposure to major U.S.-based banking centers. Elsewhere, defensive sectors such as utilities or hard asset sectors such as transports remain favored areas of investment. In terms of curve positioning, given the deeply inverted yield curve, overweight positions are maintained in both the front (2-5yr) and intermediate (5-7yr) parts of the curve for broader universe portfolios.

---

## **Securitized Sector Outlook**

2022 was undeniably one of the most challenging environments for securitized products since their creation and increased popularity beginning in the late 1980s. Specifically, Agency MBS underperformance versus Treasurys was similar to that of 2008 in the depths of the Global Financial Crisis. Agency MBS ended 2022 with its third consecutive negative excess return versus Treasurys, the first such occurrence in the history of the index. The reasons for this poor performance in 2022 are well known and well discussed. The rise in rates led to the 30-year mortgage rate climbing from 3% to start the year to over 7% in October. The reaction to this rate increase was predictable: home refinancing has plunged to 30-year lows, and home prices are beginning to decline but are still elevated, leading to home price affordability at historic lows. In addition, Fed uncertainty has led to increased rate



volatility and the continuous looming threat of the Fed unwinding its multi-trillion MBS portfolio, both of which put downward pressure on the securitized products market. The rest of the securitized market has not been immune from this risk-off sentiment, leading to negative returns, higher yields, and higher spreads for all sectors.

Going into 2023, securitized products are likely to have a more stable backdrop than during 2022. The extreme rise in rates of 2022 has led the market to trade at deeply discounted prices, which lends higher predictability to refinancing, prepayment, and callability. Net issuance will also likely fall as a result of higher rates and a slowing housing market, which would lend support to the market through lower available supply. Declining rate volatility may also be a theme, falling from elevated levels in 2022 that resulted from an aggressive Federal Reserve tightening policy. All of these themes suggest a market reverting to the mean in 2023. There are, however, a myriad of reasons that could prove this expectation wrong. Certainly smoldering inflation would disrupt markets once again if it were to re-ignite. The result of the increase in rates in 2022 could have a much more severe impact on the economy going forward than current pricing suggests. Unexpected Federal Reserve policy is always a cloud waiting to threaten any environment. And of course, geopolitical events can be a disrupter and are inherently unpredictable.

For the purposes of positioning portfolios, Reams is much more favorable to risk in securitized products going into 2023 than we have been in recent history. With rates dramatically higher, the risk-off environment of 2022 caused great damage in terms of negative total returns. Prospectively, however, this leaves yield and spread levels currently available in the securitized product market that are at least fair value and in many cases quite attractive from a valuation perspective. We believe that Agency MBS, CMBS (commercial mortgage-backed securities), and ABS (asset-backed securities) offer attractively priced, AAA opportunities with strong structural attributes that could help prevent permanent impairment risk while maintaining liquidity. Outside of these core opportunities, we are also expanding into non-agency residential mortgages, as these are also attractively priced versus their agency counterparts. Overall, we enter the year positioned to benefit from the potential of a reversion-to-mean market; however, in the case of greater opportunities in 2023, we will be eager and able to capitalize.

---

## FX Outlook

---

In 2022, the strength of the U.S. dollar benefitted from a more resilient U.S. economy and its safe haven appeal as the Federal Reserve tightened more aggressively, the global recovery from COVID-19 proceeded unevenly, and Europe was pushed to the brink of a recession by repercussions from the Russia-Ukraine War.

Heading into 2023, the markets remain focused on three themes.

First, monetary policy, particularly in the United States. The Fed has delivered the fastest hiking cycle since the 1980s and seems to be getting closer to a pause in 2023. This pivot should be a key determinant for the U.S. dollar.

Growth in China, a key determinant of global growth, will be another significant driver of currency returns. Growth will depend on economic reopening as China loosens COVID-19 controls and on the recovery of the nation's real estate sector. China's reopening may be gradual and could take longer than expected due to potential increases in infections. Additionally, China's real estate sector has been slow to react to current government stimulus packages to support it.

Finally, European growth in the shadow of the Russia-Ukraine War is another key theme. In Europe, the main vulnerability remains energy dependence. Supply constraints are still in focus with further uncertainty on supply from Russia, as well as limited liquified natural gas availability if demand in China recovers.

Valuation plays a key role in our determination of attractive opportunities at Reams, and this is no different in the foreign exchange (FX) markets. However, given that currencies can stay misvalued for long periods of time, we screen for positive momentum along with attractive valuation. The candidates that screen attractively are then assessed individually on a fundamental basis to inform portfolio actions.

The U.S. dollar remains at a multi-decade high on any metric considered. Additionally, a potential pause by the Fed could be the catalyst that causes the U.S. dollar over-valuation to correct. We stand ready to benefit from that correction but remain nimble given the uncertainty around the Fed's pause and growth differentials between the United States and the rest of the globe. As always, we believe there will be

individual currency stories that buck the general market trend and are on the lookout for those opportunities. For example, in emerging markets, the Mexican peso and the Brazilian real stand out as their central banks were early and aggressive in tackling inflation by boosting their policy rates. We believe the Brazilian real should continue to benefit from rising real policy rates as underlying inflation falls, but

domestic fiscal policy is a risk. Interest rates are not as high for the Mexican peso (relative to the Brazilian real), but the peso also has less volatility, providing attractive risk-adjusted carry.

For more information regarding Reams Asset Management, please contact us at 463.777.3900.

This material is provided for informational purposes only and contains no investment advice or recommendations to buy, sell, or hold any specific securities. You should not interpret the statements in this material as investment, tax, legal, or financial planning advice. All investments involve risk, including the possible loss of principal. Past performance does not guarantee or indicate future results. There is no assurance the investment strategy will meet its investment objective. Graphs or other illustrations, if included, are provided for illustrative purposes only and not intended as a recommendation to buy or sell securities displaying similar characteristics. Reams Asset Management is a division of Scout Investments, Inc. Scout Investments is a wholly owned subsidiary of Carillon Tower Advisers (doing business as Raymond James Investment Management), which in turn is a wholly owned subsidiary of Raymond James Financial, Inc. Neither Scout Investments, its affiliates, directors, officers, employees, nor agents accept any liability for any loss or damage arising out of your use of all or any part of this material.

\*The bond quality ratings indicated are assigned by credit rating agencies Standard & Poor's, Moody's, and Fitch as an indication of an issuer's creditworthiness. Unless specified by client investment guidelines, the middle of three or highest of two credit quality ratings available from these rating agencies is used. Credit quality is subject to change. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the appropriateness of securities or the appropriateness of securities for investment purposes, and should not be relied on as investment advice.

BLOOMBERG, BLOOMBERG INDICES and Bloomberg Fixed Income Indices (the "Indices") are trademarks or service marks of Bloomberg Finance L.P. Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited, the administrator of the Indices (collectively, "Bloomberg") or Bloomberg's licensors own all proprietary rights in the Indices. Bloomberg does not guarantee the timeliness, accuracy or completeness of any data or information relating to the Indices. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein

Reams Asset Management obtained some information used in this presentation from third party sources it believes to be reliable, but this information is not necessarily comprehensive and Reams Asset Management does not guarantee that it is accurate. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness, or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special, or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs or losses caused by negligence) in connection with any use of their content, including ratings.

### Definitions

The U.S. Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services. The U.S. Bureau of Labor Statistics bases the index on prices of food, clothing, shelter, fuels, transportation, doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living. Prices are collected each month in 75 urban areas across the country from about 6,000 households and 22,000 retailers.

Hawkish, dovish, and centrist are terms used to describe the monetary policy preferences of central bankers and others. Hawks prioritize controlling inflation and may favor raising interest rates to reduce it or keep it in check. Doves tend to support maintaining lower interest rates, often in support of stimulating job growth and the economy more generally. Centrists tend to occupy the middle of the continuum between tight (hawkish) and loose (dovish) monetary policy.

Basis points (bps) are measurements used in discussions of interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

An NFT, which is short for non-fungible token, is a unique cryptographic asset, including images, other works of art, or property rights, on a blockchain with unique identification codes and metadata that distinguishes it from any other asset and ensures that it cannot be replicated.

A meme stock refers to the shares of a company that has attained viral popularity or visibility as a result of attracting unusually high degrees of attention, often after becoming the focus of or being heavily discussed on social media or other online platforms.

A special purpose acquisition company (SPAC) is a "blank check" shell corporation designed to take companies public without going through the traditional IPO process. SPACs allow retail investors to invest in private equity type transactions, particularly leveraged buyouts.

A 60/40 portfolio is based on a widespread investment strategy calling for a portfolio allocation of 60% equities and 40% bonds or other fixed income securities.

Tail risk describes the probability that an investment will perform more than three standard deviations from the mean expected return.

The federal funds rate, known as the fed funds rate, is the target interest rate set by the Federal Open Market Committee of the U.S. Federal Reserve. The target is the Fed's suggested rate for commercial banks to borrow and lend their excess reserves to each other overnight.

The terminal rate is the rate at which the U.S. Federal Reserve stops raising the federal funds rate in an attempt to bring down inflation. The federal funds rate, known as the fed funds rate, is the target interest rate set by the Federal Open Market Committee of the Federal Reserve. The target is the Fed's suggested rate for commercial banks to borrow and lend their excess reserves to each other overnight.

Core inflation, as measured by the "Consumer Price Index for All Urban Consumers: All Items Less Food & Energy" is an aggregate of prices paid by urban consumers for a typical basket of goods, that does not include food and energy. Core CPI is widely used by economists because food and energy typically have very volatile prices.

Quantitative tightening refers to the attempt by central bankers to reverse the effects of quantitative easing (QE), which is a form of unconventional monetary policy in which a central bank purchases longer-term securities from the open market in order to increase the money supply and encourage lending and investment. In quantitative easing, buying securities adds new money to the economy, and also serves to lower interest rates by bidding up fixed income securities. It also expands the central bank's balance sheet. In quantitative tightening, reducing those purchases is a policy primarily aimed at interest rates and at influencing investor perceptions of the future direction of interest rates.

The Group of 10, also known as the G10, consists of 11 industrialized nations that meet at least annually to work together on matters of international finance. The member nations are Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States, with Switzerland playing a minor role.

Implied forwards are a measure of market volatility, as reflected by market expectations of future price movements, and are used in the pricing of derivatives across asset classes.

A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. Investors and market analysts watch certain yield curves for signs of inversion, when yields for longer-term debt instruments fall below yields on short-term debt with the same credit quality.

A credit spread is the difference in yield between a U.S. Treasury bond and another debt security with the same maturity but different credit quality. Also referred to as "bond spreads" or "default spreads," credit spreads are measured in basis points, with a 1% difference in yield equaling a spread of 100 basis points. Credit spreads reflect the risk of the debt security being compared with the Treasury bond, which is considered to be risk-free. Higher quality securities have a lower chance of the issuer defaulting. Lower quality securities have a higher chance of the issuer defaulting.

Investment grade refers to fixed income securities rated BBB or better by Standard & Poor's or Baa or better by Moody's.

High yield bonds have credit ratings below BBB- from Standard & Poor's or below Baa3 from Moody's.

Earnings before interest, taxes, depreciation, and amortization (EBITDA) is a measure of a company's overall financial performance.

Derivatives are financial contracts with values that depend on a specific underlying asset, groups of assets, commodity, or an indicator such as a benchmark, and through which specific financial risks can be traded in financial markets in their own right.

Total return, when measuring performance, is the actual rate of return of an investment or a pool of investments over a given period of time. Total return includes interest, capital gains, dividends, and distributions realized over the specified period. Total return accounts for two categories of return: income including interest paid by fixed income investments, distributions, or dividends and capital appreciation, representing the change in the market price of an asset.

### Indices

The Bloomberg U.S. Aggregate Bond Index is composed of the total U.S. investment-grade bond market. The market-weighted index includes Treasuries, agencies, commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) and investment-grade corporates.

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 75% of the investable U.S. equity market.

The MSCI World Index captures large and mid-cap representation across 23 Developed Markets (DM) countries and does not include emerging markets. With more than 1,600 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. DM countries include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the U.K., and the United States.

Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses, or sales charges.

The views and opinions expressed are not necessarily those of any broker/dealer or any affiliates. Nothing discussed or suggested should be construed as permission to supersede or circumvent any broker/dealer policies, procedures, rules, and guidelines.

Additional information is available at [www.reamsasset.com](http://www.reamsasset.com) or [www.scoutinv.com](http://www.scoutinv.com).

Copyright © 2023. All Rights Reserved.

SR22-0331 Exp.1/31/2024 WP-SR-2023OUTLOOK