

The Magical Money Tree

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Discipline Drives Performance®

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In October, investors experienced a much-needed reprieve in the form of a bear market rally. Equity investors enjoyed a rebound as the DJIA showed the sharpest monthly gain since 1976 while many fixed income asset classes suffered the consequences of higher interest rates. However, one exception was the high yield bond market, which once again demonstrated a greater correlation to equities than the Treasury market. Federal Reserve Chairman Powell's war on inflation has been taking its toll on asset values. The October rally was sparked by expectations that the Fed may adjust the pace and scale of rate increases in the hopes of achieving a soft landing. Despite U.S. GDP growing at a 2.6% annualized rate in the third quarter, consumer spending, the housing sector, and business investment all showed deceleration. What is particularly challenging for the Fed is the continued strength of the labor market. Meanwhile, the Federal Reserve's balance sheet has grown from \$0.9 trillion in 2007 to more than \$8.8 trillion in 2022. During this era, the Fed's "Magical Money Tree" has created a once-in-a-generation wealth boom. Now that the leaves are falling from the tree, the repercussions are higher rates, slower growth, and financial instability.

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The ISM Manufacturing Index is a monthly gauge on the level of economic activity in the U.S. manufacturing sector versus the previous month.

The ICE BofA Current 10-Year U.S. Treasury Index (GA10) is a one security index comprised of the most recently issued 10-year U.S. Treasury Note.

The ICE BofA U.S. Corporate Index (COAO) has an inception date of December 31, 1972 and tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market.

The ICE BofA U.S. High Yield Index (HOAO) has an inception date of August 31, 1986 and tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

The Morningstar LSTA US Leveraged Loan Index is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market based upon weightings, spreads and interest payments.

The Refinitiv US All-Cap Focus Convertible Bond Index has an inception date of December 1993, is a subset of the Refinitiv US Convertible Bond Index and includes securities that have a price between 60 and 140 and a conversion premium of < 100%, among other criteria. The Refinitiv US Convertible Bond Index includes convertible securities that are denominated in USD, have a market value of over \$300mm, and have underlying stocks that trade on US equity markets.

The Dow Jones Industrial Average is a price-weighted average of thirty blue-chip stocks that are generally the leaders in their respective industries.

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The S&P 500 Index is designed to reflect the U.S. equity markets and focuses on the large-cap sector of the market, which includes the 500 leading companies in leading industries of the U.S. economy.

The NASDAQ composite index is a market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American Depositary Receipts, Common Stock, Limited Partnership Interests, Ordinary Shares, Real Estate Investment Trusts, Shares of Beneficial Interest, and Tracking Stocks. The index includes all Nasdaq listed stocks that are not Security types not included in the Index are closed-end funds, convertible debentures, exchange traded funds, preferred stocks, rights, warrants, units and other derivative securities.

The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets (EM) countries. With 1,398 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI World Index, which is part of The Modern Index Strategy, is a broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country and MSCI World Index does not offer exposure to emerging markets.

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